Report

Banco BPI 1st half 2014

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Index

Selected indicators

Consolidated figures in M.€, except where indicated otherwise

	30 Jun. 13	30 Jun. 14	Chg. %
Net total assets	43 167	41 287	-4,4%
Assets under management[1]	12 960	14 107	8.9%
Loans to Customers (gross) and guarantees	30 074	28 264	-6.0%
Customer deposits	24 387	24 380	0.0%
Total Customer resources	30 829	31 859	3.3%
Business turnover[2]	60 903	60 123	-1.3%
Business turnover[2] per Employee (thousands of euro)	6 957	6 976	0.3%
Loans to deposits ratio[3, 4]	101%	92%	
Net operating revenue	583.7	328.6	-43.7%
Net operating revenue per Employee (thousands of euro)	67	38	-43.5%
Operating costs / net operating revenue, excluding non-recurring impacts (last 12 months)[5, 6]	65.0%	68.3%	
Net profit	58.9	(106.6)	-281.0%
Return on average total assets (ROA)	0.4%	(0.0%)	
Return on Shareholders' equity (ROE)[7]	5.2%	(5.1%)	
Adjusted data per share (euro)			
Net profit per share	0,043	(0,077)	-279,9%
Book value	1.337	1.525	14,0%
Weighted average no. of shares (in millions)	1 383.7	1 392.7	0,7%
Loans in arrears for more than 90 days (balance sheet) / Loans to Customers	3.4%	3.7%	
Impairments cover of loans in arrears for more than 90 days[8]	100%	110%	
Credit at risk / Loans to Customers[4, 9]	4.9%	5.4%	
Impairments cover of credit at risk[8]	73%	83%	
Net credit loss[10]	1.04%	0.72%	
Pension liabilities to Employees	948	1 114	17.5%
Cover of pension obligations	110%	106%	
Shareholders' equity and minority interests	2 190	2 541	16.0%
Common Equity Tier I capital (CRD IV / CRR for 2014)[11]	-	2 512	
Common Equity Tier I ratio (CRD IV / CRR for 2014)[11]	-	12.5%	
Common Equity Tier I capital (CRD IV / CRR fully implemented)[11]	-	1 701	
Common Equity Tier I ratio (CRD IV / CRR fully implemented)[11]	-	8.6%	
Closing price (euro)	0.908	1.529	68.4%
Stock market capitalisation at the end of the 1st half	1 262	2 228	76.5%
Distribution network (no.)	888	847	-4.6%
BPI Group staff complement (no.)[12]	8 754	8 619	-1.5%

Note: amounts as reported. According to the rules laid down in IFRS 10, the BPI Group started in 2014 to fully consolidated the participating interests in the BPI Obrigações and Imfomento funds, and to recognise in liabilities the minority interests in the unit trust funds consolidated using the full consolidation method. The figures presented in the Directors' Report refer to amounts as reported except when they are expressly indicated to be Pro forms figures (considering the retrospective application of IFRS 10). The retrospective application of IFRS 10, as envisaged by IAS 8, has the following impacts: increase in net assets of 120 M.€ in Jun.13 and of 107 M.€ in Dec. 13, reducing shareholders' equity and minority interests by 10 M.€ in Jun.13 and by 19 M.€ in Dec.13 and reducing by 0.04 M.€ of the consolidated net profit for the 1st half of 2013.

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 as a percentage of net operating revenue.

6) Excluding non-recurring impacts both in costs and revenues. The ratio operating costs / operating income including non-recurring impacts (last 12 months) stood at 50.2% in Jun.13 and 81.7% in Jun. 14.

7) In calculating ROE, it was considered the Shareholders' equity prior to deduct the fair value reserve (negative) relating to the portfolio of available-for-sale financial assets.

8) Cover by accumulated impairment allowances in the balance sheet and without considering the effect of collaterals.

9) The credit at risk is the sum of: (1) the total amount outstanding on a loan in respect of which there are instalments of principal or interest in arrears for 90 days or more; (2) the total amount outstanding on loans which have been restructured, after having been in arrears for a period of 90 days or more, without adequate reinforcement of guarantees (these should be sufficient to cover the full amount of the outstanding principal and interest) or full payment of interest and other charges in arrears; (3) the total value of loans with instalments of principal and accrued interest in arrears for less than 90 days but in respect of which there is evidence to justify their classification as credit-at-risk, namely the debtor's bankruptcy or winding up.

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

11) According to the prudential framework defined by the Directive 2013/36/EU, the European Parliament and of the Council of 26 June and by the Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June (designated by Capital Requirements Directive IV / Capital Requirements Regulation or CRD IV / CRR), in force from January 1, 2014.

12) Excludes temporary workers.

Introduction

The background to banking activity in the 1st half of 2014 continued to be a challenging one for the banking business. The half year was, however, marked by Portugal's exit for the External Financial Assistance Programme and its return to the international primary market for medium and long-term public debt.

It is also worth noting the positive trend in certain indicators of economic activity in Portugal: GDP records a positive year-on-year performance for the 3rd consecutive quarter, notably the signs of stabilisation in private consumption and investment, the unemployment rate continues on a downward trajectory, the yields on Portuguese public debt register declines on the secondary market and there was a normalisation of access to financing, above all, on the part of large companies, which should contribute to boosting the business sector's confidence levels.

BPI concluded in June a public exchange offer (Portuguese initials OPT) of subordinated debt, participating securities and preference shares for new Banco BPI shares, attaining an acceptance rate of 91% of the securities which were the object of OPT (127 M.€). This operation led to an increase in Common Equity Tier 1 capital of 113 M.€.

Also in June, 3 years before the end of the legally set deadline, Banco BPI concluded the redemption of the total contingent convertible subordinated bonds (CoCo) subscribed by the Portuguese State in June 2012, in the amount of 1.5 th.M.€, within the framework of BPI's recapitalisation plan.

In parallel, BPI maintained adequate capitalisation levels in a scenario of balanced resources and liquidity levels and relatively good risk levels.

Capital. As concerns Capital, BPI had at the close of June 2014 a Common Equity Tier I ratio of 12.5%, which corresponds to a surplus capital of 793 M.€ relative to the benchmark ratio of 8% for the valuation of assets to be undertaken by the ECB.

The Common Equity Tier I ratio calculated according to the fully-implemented CRD IV / CRR rules (that is without benefiting from the phasing in envisaged in these rules) stood at 8.6%.

Liquidity. In the Liquidity domain, the Bank presents a balanced situation:

- The consolidated ratio for the transformation of deposits into loans was situated at 92% at the end of June 2014;
- BPI held at the end of June 2014 a portfolio of Portuguese short-term public debt (Treasury Bills) of 3.5 th.M.€;
- BPI repaid before due date in the 2nd quarter 1.0 th.M.€ of resources raised from the ECB, reducing the amount of funding to 3.0 th.M.€;
- BPI had at the close of June assets capable of transformation into immediate liquidity in operations with the ECB of 5.9 th.M.€;
- The medium and long-term debt refinancing needs up until the end of 2018 are minimal (1.3 th.M.€).

Risks. The consolidated ratio of loans in arrears for more than 90 days was situated at the end of June 2014 at 3.7%, and the credit-at-risk ratio - the indicator which takes into account the exposure to operations with instalments in arrears for more than 90 days - was situated at 5.4% on that date.

Accumulated impairments on the balance sheet for loans and guarantees total some 1.1 th.M.€, which corresponded to 110% of loans in arrears for more than 90 days (100% in June 2013) and to 83% of credit at risk (73% in June 2013);

The total exposure to loans with instalments in default (in arrears for more than 30 days), which includes associated loans falling due, was 89% covered by accumulated impairments on the balance sheet for these loans and collateral associated with these operations.

In the 1st half of 2014, the impairment charges reflected in the income statement, net of loan recoveries, represented 0.72% of the average loan portfolio in annualised terms.

The pension funds' net assets covered at the close of June 2014, the funding of 106% of the bank's pension liabilities.

Profitability. Consolidated net loss of 106.6 M.€ was particularly influenced by losses of 102 M.€ realised in domestic operations on the sale of medium and long-term Portuguese and Italian public debt.

The contribution from domestic operations was a negative 156.2 M.€ which, besides the abovementioned losses, was also affected by the cost of the CoCo, which in the meantime were fully repaid in June, by the maintenance of high term-deposit costs and by low Euribor rates.

International operations contributed 49.5 M.€ to consolidated earnings for the 1st half of 2014. BFA's contribution to consolidated earnings, which corresponds to the appropriation of 50.1% of the Bank's net profit was 46.8 M.€, while the contribution to net profit from the 30% equity interest in BCI (Mozambique) was 3.4 M.€.

In its individual accounts, BFA generated a ROE of 30.4% in the 1st half of 2014, while BCI achieved in the same period a ROE of 16.7% (individual accounts). The ROE on international operations to which on average 16% of the Group's shareholders' equity was allocated (after consolidation adjustments) was 27.7% in the first six months of 2014.

Governing bodies

At 30 June 2014

General Meeting Committee

Chairman
Miguel Luís Kolback da Veiga
Deputy-Chairman
Manuel Cavaleiro Brandão
Secretaries
Alexandra Magalhães
Luís Manuel Amorim

Remuneration Committee

CaixaBank, S.A.[6]
Arsopi-Holding, SGPS, S.A.[7]
Violas Ferreira Financial, S.A.[8]

Nominations, Evaluation and Remuneration Committee

Chairman
Marcelino Armenter Vidal
Members
António Lobo Xavier
Carlos Moreira da Silva

Corporate Governance Committee

Chairman
Artur Santos Silva
Members
Armando Leite de Pinho
Vicente Tardio Barutel
Tomaz Jervell

Financial Risks Commission

Chairman
Artur Santos Silva
Members
Marcelino Armenter Vidal
Herbert Walter

Board of Directors

Chairman
Artur Santos Silva
Deputy-Chairman
Fernando Ulrich
Members
Alfredo Rezende de Almeida
Allianz Europe, Ltd.[1]
António Domingues
António Lobo Xavier
Armando Leite de Pinho
Carlos Moreira da Silva
Edgar Alves Ferreira
Ignacio Alvarez-Rendueles
Isidro Fainé Casas
João Pedro Oliveira e Costa[2]
José Pena do Amaral
Juan Maria Nin Génova[3]
Manuel Ferreira da Silva
Marcelino Armenter Vidal
Maria Celeste Hagatong
Mário Leite da Silva
Pedro Barreto
Santoro Finance – Prestação de Serviços, S.A.
Tomaz Jervell
Vicente Tardio Barutel[2]

Executive Committee of Board of Directors

Chairman
Fernando Ulrich
Deputy-Chairman
António Domingues
Members
José Pena do Amaral
Maria Celeste Hagatong
Manuel Ferreira da Silva
Pedro Barreto
João Pedro Oliveira e Costa[2]

Supervisory Board

Chairman
Abel António Pinto dos Reis
Members
Jorge de Figueiredo Dias
Rui Campos Guimarães
Miguel Artiaga Barbosa[4]
Alternate Members
Francisco Javier Olazabal
Luis Pinho Patrício[2]

Portuguese Statutory Auditor

Member in office
Deloitte & Associados, SROC, S.A.[5]
Alternate
Carlos Luís Oliveira de Melo Loureiro

Audit and Internal Control Committee

Chairman
Ruy Octávio Matos de Carvalho
Members
Alfredo Rezende de Almeida
Edgar Alves Ferreira
Ignacio Alvarez-Rendueles
Mário Leite da Silva

Company Secretary

Member in office
João Avides Moreira
Alternate
Fernando Leite da Silva

1) Allianz Europe, Ltd. has appointed Mr. Herbert Walter, under the terms of Article 390 (4) of the Companies Act (CA), to hold this directorship.
2) Pending entry in the register at Banco de Portugal, under the terms of Article 69 of the Credit Institutions and Financial Companies - Legal Framework.
3) He submitted resignation from his office on 1 July, which, under the terms of Article 404 (2) of the CA will take effect on 31 August, unless a substitute is appointed or elected in the meantime.
4) Appointed by Dispatch of the Minister of State and Finance published in the Republic's Official Journal of 2 December 2012 and exonerated from his role as State Representative by Dispatch published in 16 July 2014, with effect from 25 June 2014.
5) Deloitte & Associados, SROC, S.A. nominated António Marques Dias to represent it in the exercise of this office.
6) CaixaBank, S.A. designated Isidro Fainé Casas to represent it in this position.
7) Arsopi-Holding, SGPS, S.A. nominated Armando Leite de Pinho to represent it in the exercise of this office.
8) Violas Ferreira Financial, S.A. nominated Edgar Alves Ferreira to represent it in the exercise of this office.

Shareholders

Shareholders structure

At 30 June 2014 Banco BPI's capital was held by 22 166 Shareholders, of whom 21 645 were Individuals owning 12.4% of the capital, while 521 institutional investors and companies owned the remaining 87.6% of the capital.

Shareholders owning more than 2% of Banco BPI's capital[1]

Shareholders	No. of shares held	% of capital held	% of voting rights[1]
La Caixa Group[2]	642 462 536	44.1 %	44.1%
Santoro[3]	270 643 372	18.6%	18.6%
Allianz Group[4]	122 744 370	8.4%	8.4%

Note: Shareholder positions recorded at 30 June 2014 at the securities clearing house (Central de Valores Mobiliários - CVM), based on the information received from the Central de Valores Mobiliários. As of 30 June 2014, BPI Group had 2 284 118 own shares corresponding to 0.16% of Banco BPI share capital.

1) According to a statutory provision, the voting rights for purposes of their exercise are limited to 20%.
2) Through Caixabank, S.A., which, as of 30 June 2014, is 58.9% held by the parent company of the La Caixa Group, Caixa d'Estalvis i Pensions de Barcelona ("La Caixa"), entity to which whom is attributed the referred participation in Banco BPI, under the article 20 (1)(b) of the Securities Code.
3) Directly held by Santoro Finance - Prestação de Serviços, SA ("Santoro Finance"), and, under the article 20 (1)(b) of the Securities Code, 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.
4) Through the subsidiaries controlled by Allianz SE and attributable to this entity under the article 20(1)(b) of the Securities Code: direct shareholding of 8.27% held by Allianz Europe Ltd. (100% held by the Allianz Group) and a direct shareholding of 0.15% held by Companhia de Seguros Allianz Portugal (65% held by the Allianz Group).

Beyond the holdings exceeding 2% previously mentioned, there is a group of reference shareholders that hold positions higher than 1% in the company's capital. As of 30 June 2014, a group of shareholders who jointly are here designated as Arsopi[5], held stakes that, when aggregated, amounted to 2.1% of the share capital of Banco BPI. At the same date, HVF SGPS[6] had a stake of 1.96% and Auto-Sueco had 1.5% of the Bank's capital.

5) At 30 June 2014, companies controlled by the director Armando Leite de Pinho held 7 856 695 shares representing 0.5% of BPI's capital. Persons related by family ties and companies linked to them owned holdings which, added to the abovementioned, totalled 30 109 237 shares representing 2.1% 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 of the Securities Code.
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 227 273 shares held by Edgar Alves Ferreira (0.02% of Banco BPI's capital), member of the Board of Directors of HVF - SGPS.

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.

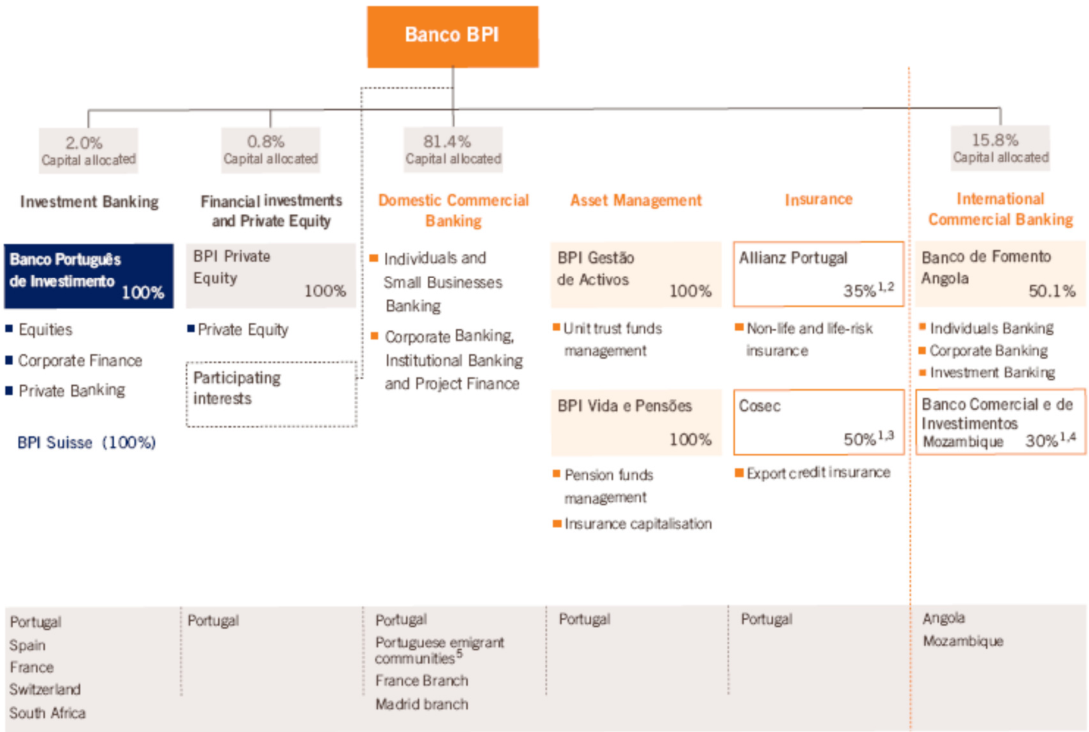
The two main markets of operations are Portugal, a developed and competitive market where BPI has a strong competitive position, and Angola, an emerging economy which has recorded robust and sustained growth in recent years, where BPI, through its equity interest in BFA, has leading positions in the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

At 30 June 2014, 84.2% of the Group's Shareholders' equity was allocated to domestic operations[1], and the remaining 15.8% to international activity.

Leading indicators by business segment

At 30 June 2014 — Amounts in M.€

	Domestic activity	International activity	Consolidated
Net total assets[2]	34 440	6847	41 287
Loans to Customers[3] and guarantees	26 730	1 534	28 264
Total Customers resources	25 876	5 984	31 859
Business turnover[4]	52 606	7 517	60 123
No. of Customers (th.)	1 723	1 250	2 973
No. of Employees	6 166	2 453	8 619
Distribution network (no.)	668	179	847



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, it was considered the accounting capital (shareholders' equity) excluding the fair value reserve (net of deferred taxes) relative to the portfolio of financial assets available for sale. 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 fair value reserve which was 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 and Municipalities Companies, and the State Business Sector, Foundations and Associations.

BPI also makes available a broad range of life and non-life insurances 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 June 2014, BPI Gestão de Activos was the third biggest fund manager in Portugal, with a market share of 14.2%, BPI Vida e Pensões was the third largest pension fund manager with a market share close to 16% and had a market share close to 15% in the segment of capitalisation and PPR products in the form of insurance.

Private equity invests essentially through the venture capital funds, mainly 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 15% and 12% in deposits and loans, respectively, 17% in the distribution network, 22% in cards and 25% in payment terminals.

BFA is a retail bank with 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 serves 1.3 million Customers, through a distribution network with a strong presence in Luanda and wide coverage throughout of the whole territory, comprising 154 branches, 9 investment centres and 16 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 29%. BCI serves 893 thousand Clients via a branch network of 139 units, which represents 26% of the total branches in the Mozambican banking system.

Human resources

At 30 June 2014, the BPI Group's workforce numbered 8 619, which represents an yoy decrease of 1.5%

The workforce allocated to the domestic operations fell 3.1%, numbering 6 166 employees at the end of June 2014.

In international operations, in Angola, the workforce grew by 2.3% (+55 employees) relative to June 2013. At the end of June 2014, Banco de Fomento Angola's workforce stood at 2 453 employees, representing around 28% of the total employees of BPI Group.

BPI Group Employees

		End of period figures				Average figures		
		Jun.13	Dec.13	Jun.14	Δ% Jun.13 / Jun. 14	1st half 13	1st half 14	Δ% Jun.13 / Jun. 14
Domestic activity								
Banco BPI	1	5 967	5 858	5 754	(3.6%)	5 982	5 828	(2.6%)
Banco Português de Investimento	2	135	145	142	5.2%	137	143	4.4%
Other subsidiary companies	3	65	65	65	0.0%	64	65	1.6%
Subtotal – activity in Portugal [1] [= Σ1 to 3]	4	**6 167**	**6 068**	**5 961**	**(3.3%)**	**6 183**	**6 036**	**(2.4%)**
Overseas branches and representative offices	5	196	206	205	4.6%	198	205	3.5%
Subtotal – Domestic activity [= Σ4 + 5]	6	**6 363**	**6 274**	**6 166**	**(3.1%)**	**6 381**	**6 241**	**(2.2%)**
International activity								
Banco de Fomento Angola	7	2 380	2 428	2 435	2.3%	2 337	2 438	4.3%
BPI Capital Africa		11	14	14	-	11	14	-
Subtotal – International activity [1] [= 7]		0	4	4		0	4	
Total [1] [= 6 + 8]	8	**2 391**	**2 446**	**2 453**	**2.6%**	**2 348**	**2 456**	**4.6%**
Domestic activity	9	**8 754**	**8 720**	**8 619**	**(1.5%)**	**8 729**	**8 697**	**(0.4%)**

1) Includes fixed-term contracts and excludes temporary employment of persons with no binding work contracts with BPI. At 30 June 2014, the number of Employees with fixed-term contracts in Portugal stood at 36 and in overseas operations was situated at 5. In average terms, in the first half 2014, the number of Employees with fixed-term contracts in Portugal reached 41 and in overseas operations amounted to 9.

Distribution channels

In Portugal and Europe

Banco BPI

592
TRADITIONAL BRANCHES

39
INVESTMENT CENTRES

53
CORPORATE CENTRES

1 430
ATM (AUTOMATIC BANK)

31 882
POINTS OF SALE (ACTIVE)

28 726
COMMERCIAL PARTNERS

12
BRANCHES
(PARIS BRANCH)

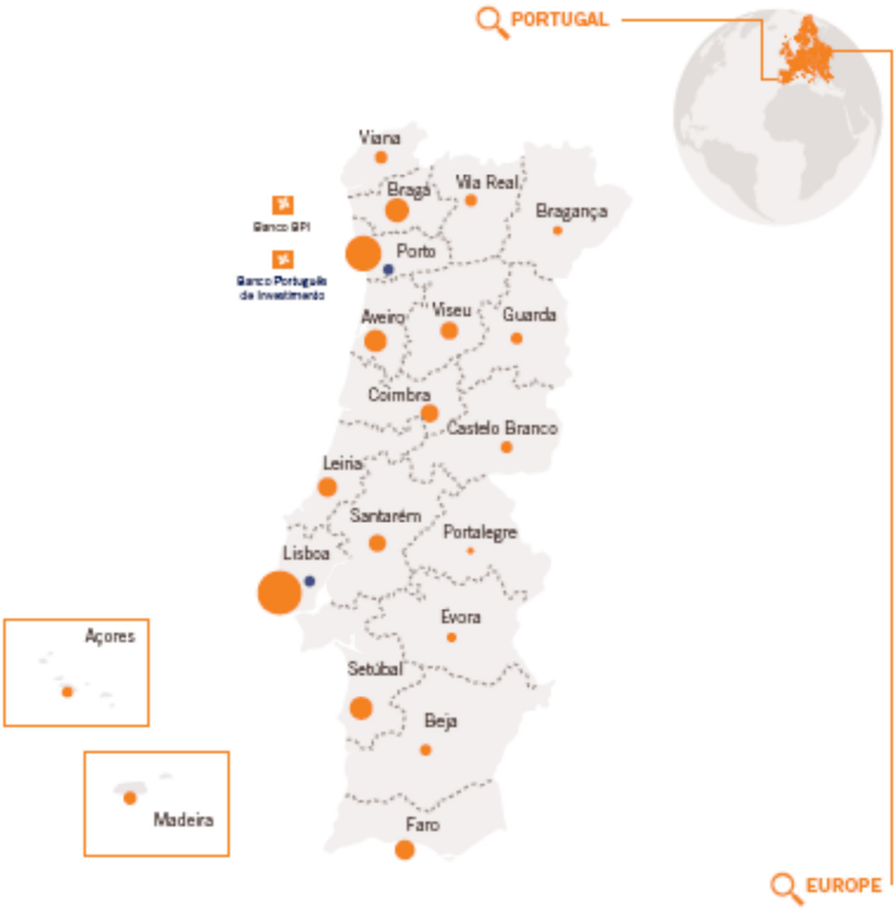
INTERNET BANKING
(active users)

738 344
BPI NET

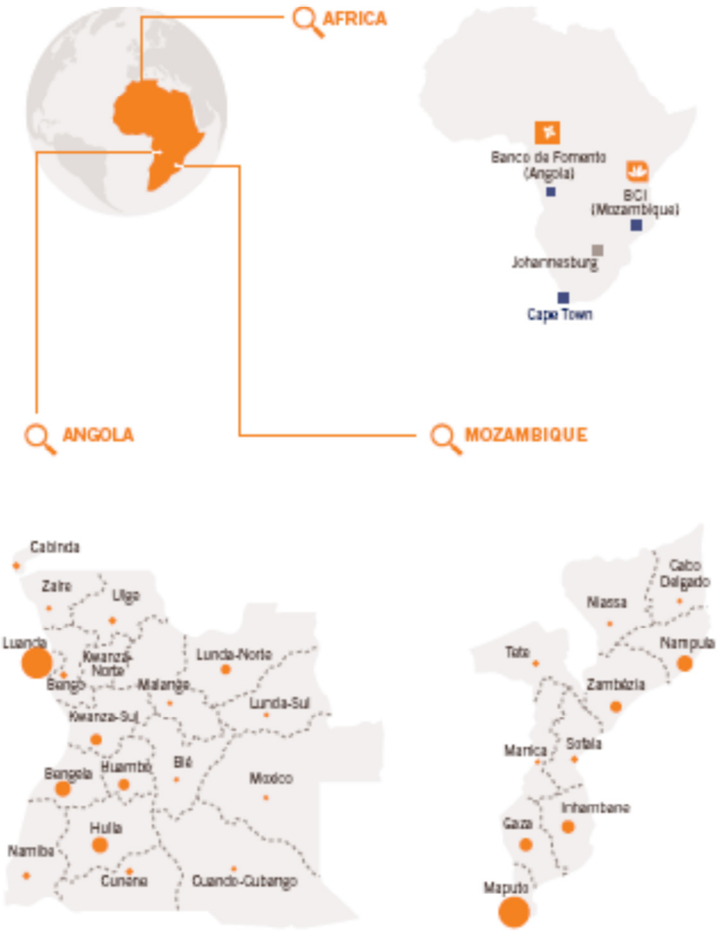
89 901
BPI NET EMPRESAS

TELEPHONE BANKING
(active users)

421 359
BPI DIRECTO



In Africa



Banco de Fomento (Angola)	BCI (Mozambique)	
151	118	TRADITIONAL BRANCHES
8	7	INVESTMENT CENTRES / EXCELLENCE CENTRES
16	7	CORPORATE CENTRES
347	329	ATM (AUTOMATIC BANK)
4 842	4 694	POINTS OF SALE (ACTIVE)

INTERNET BANKING (active users)

393 502 BFA NET PARTICULARES	34 247 E-BANKING PARTICULARES
9 152 BFA NET EMPRESAS	6 795 E-BANKING EMPRESAS

Around the world

Commercial Banking
- Banks
- Branches
- Overseas branches
- Representative offices
- Information office
- Money remitter

Investment Banking
- Bank
- Offices
- Overseas units

SFE – Sucursal Financeira Exterior (off-shore financial branch).

Background to operations

WORLD AND EUROPEAN ECONOMY

In July, the International Monetary Fund revised downwards its forecast for global economic growth for 2014 to 3.4%, down 0.3 percentage points relative to its projection in April. This revision primarily reflects the slowdown registered in the first half of the year, with the IMF estimating that global economic growth had fallen to 2.75% vis-à-vis the 3.75% observed in the previous six months. It is believed that the factors underlying this behaviour were largely of an economic cycle nature, related to stockpile adjustments and the exceptionally adverse climate in the USA, the deceleration in domestic demand in China and the impact of the geopolitical tensions between the Ukraine and Russia. However, in spite of economic activity being expected to accelerate by the end of the year, it is unlikely to compensate for the cooling down recorded in the first six months of the year. It should also be noted that negative risks for activity persist, associated with geopolitical factors that could trigger a rise in the prices of energy products; risks of a financial nature including a higher-than-expected climb in long-term interest rates, increased volatility and a diminished appetite for risk; finally, in certain emerging economies the impact of structural restrictions on the supply side and the tighter financing conditions in 2013 could become more prolonged and have more protracted effects than anticipated. In general terms, growth should remain moderate.

Fears of deflation in developed economies

The early months of the year were characterised by the downward movements in inflation rates in the developed economies, approximating in some cases stagnation or even declining prices, stoking fears of deflation. In part this trend is due to the persistence of the significant hiatus in gross domestic product, associated with the resolution of imbalances whose roots originate in the period preceding the outbreak of the international credit crisis in 2007-2008. Hence, in the United States the inflation rate was close to the 1% mark in the early months of 2014, while the underlying inflation rate[1] also sank to below the historical average mark. But this trend was particularly marked in the countries of the euro zone, with the inflation rate being situated at 0.5% year-on-year in March and May, well below the key 2% rate considered to the desirable level by the European Central Bank. In this context, it is worth underlining the economies which suffered the biggest adjustments in recent years, such as the cases of Greece, Ireland, Spain and Portugal, where consumer prices posted appreciable falls (Greece in particular). The euro's appreciation throughout the period, with repercussions on the prices of imported goods, also played a key role in this domain. The European Central Bank estimates that the euro's 9% appreciation against the dollar since the middle of 2012 entails a 0.4 percentage point drop in the annual inflation rate. In a climate of still weak economic growth and the spectre of deflation, the adoption of additional measures by the monetary authorities was justified.

[1] Excluding foodstuffs and energy, more volatile components.

ECB surprises again

At the Board of Governors meeting in June, the European Central Bank once again sprang a welcome surprise by announcing several monetary policy measures in an attempt to approximate inflation to the 2% target rate and rekindle the mechanism for transmitting monetary policy to the real economy. Besides cutting the key interest rates, long-term refinancing operations directed at boosting lending to companies were also announced, as was the intensification of preparatory work for the purchase of securities from the private sector, the period in which banks can access unlimited funding from the central bank was extended and the sterilisation operations for liquidity injected were suspended with the purchase of public debt under the SMP programme initiated in 2010.

The region's key interest rates were cut, with the benchmark dropping to 0.15% (-10 basis points), the rate charged on overnight loans was reduced to 0.40% (-35 bp), while the rate applied to deposits at the central bank were fixed at -0.10% (-10 bp). Despite the minimal potential impact of the cut in the key refinancing rate – given that it was already languishing at close to zero and the change is merely residual – this measure has reinforced the scenario of maintaining interest rates at historically low levels and at the same time permits anchoring household's and companies' borrowing costs at low levels. On the other hand, the decline in deposit rates (constituting a penalisation) could discourage the parking of surplus resources at the ECB and so channel surplus reserves to the real economy.

In parallel, the new long-term financing operations (TLTRO), with a maximum maturity of 4 years (with early repayment option after 2 years), subject the amounts that the banking sector can raise to the balance of loans to the non-financial private sector. In particular, banks can obtain 7% of their loan stock to the private sector (not considering home loans) at 30 April 2014 through two auctions to be held in September and December of the current year (provided that the total value of the loans obtained does not exceed EUR 400 billion). Between March and June 2016, banks may obtain funding under this programme on a quarterly basis, in the amount up to 3 times the net loans to the non-financial sector (new loans – repayments). In order to calculate the amount that the banks can raise at each one of the auctions in 2015 and 2016, the ECB distinguishes between the situation of banks still obliged to deleverage their portfolios from those which have already started to increase their portfolio of loans advanced, so that the first-mentioned are not penalised, According to the ECB's calculations, these operations should in aggregate total 1 billion euro so as to boost the amount of credit granted by 200 thousand million euro, contributing to attaining an inflation rate in the order of 2%.

The implementation of the TLTRO primarily aims to unblock the monetary-policy transmission mechanism so that surplus liquidity is channelled for lending to the real sector. The efficiency of this measure could, however, be compromised by factors related to the private sector's solvency, to the extent that indebtedness levels still hover at high levels. Nonetheless, these loans could help to channel banking resources to the most dynamic sectors of activity, conducive to a more robust recovery of the economy.

PORTUGUESE ECONOMY

Activity in the first quarter affected by ad hoc factors

Gross Domestic Product retreated 0.6% in the first three months of 2014[1]. Contributing to this performance were the drops in public consumption (-0.6%) and exports (-1.9%) and the higher imports, while private consumption (+0.2%) and investment (+1.3%) registered positive chain-linked changes. This was a period greatly influenced by factors of a sporadic nature, related to the technical stoppage for maintenance at one of the largest national export companies (GALP) and to the transfer of the strategic fuel reserves to national territory, with an impact on exports, imports and stockpiling. The significant drop-off in activity in the construction sector constitutes an additional factor explaining the Portuguese economy's weak performance at the start of 2014. On the positive side, the first signs appeared of stabilisation or even a slight expansion in private consumption (+0.2% quarterly, 1.5% year-on-year) and in the investment in machinery and equipment (+10% year-on-year).

External accounts deteriorate but exports maintain positive behaviour, although in deceleration

Information relating to external trade evidenced a deterioration in the initial months of the year, reflecting also the aforementioned temporary factors. Nevertheless, it is important to underline that the exports of goods, excluding fuel, continued to perform well, registering a positive change of 3.6% in the first five months of the year whereas the export of services also posted considerable gains: +5.7% up till April, highlighting the 9.4% expansion in Tourism.

In the early months of the year, the Portuguese economy's financing capacity shrank, translating in part the exceptional factors already referred to and the shrinking of the external balance. According to the INE (statistics institute), in the 1st quarter of 2014 the Portuguese economy's financing capacity decreased to 1-7% of the GDP (1.9% of GDP in 2013), with the increase in Gross Fixed Capital Formation (2,5% change) more than compensating for the improvement in current savings. The household savings rate remained on the downward trajectory, standing at 11,9%, due above all to the increase in final consumer spending. Families' financing capacity declined, sinking to 6.1% of GDP in the 1st quarter of 2014 (6.8% in the preceding quarter). Public

1) Source: National Statistics Institute.

Administrations' financing requirements declined, falling from 5.0% in the 4th quarter of 2013 to 4.0% of GDP. This trend can be primarily ascribed to the decrease in capital transfers and, to a lesser degree, the drop in personnel costs.

Consumer prices and labour market support private consumption

The annual average inflation rate decelerated appreciably in the early months of 2014, to be situated at 0% in June. Indeed in year-on-year terms consumer prices posted negative changes between February and June. Contributing to this scenario was not only the weak dynamism of domestic demand, but also the trend in the foreign exchange rate and the favourable behaviour of crude-oil prices on the international market.

The unemployment rate maintained its slightly downward movement in the first three years of the year, easing to 15.1% in the first quarter of 2014. Despite the fall in the activity rate and the decrease in the resident population (fact partially explained by the phenomenon of net emigration), this trend translates into an improvement in the labour market, as reflected in the higher working population (in year-on-year terms). In fact, employment rose for the second consecutive quarter (1.7% y/y), interrupting successive falls which have been recorded since mid-2008.

Public finances reflect consolidation drive

The budget deficit closed 2013 at 4.9% of GDP, 6 decimal points below the target figure under the agreement with the Troika (5.5%). This figure encompasses various extraordinary or non-recurring effects, namely on the revenue side, the extraordinary receipts from the Exceptional Regime for the Settlement of Tax and Social Security Debts (Regime Excepcional de Regularização de Dívidas Fiscais e à Segurança Social - RERD), in force at the end of 2013, which amounted to 1 280 million euro; it also includes the costs associated with BANIF's capital increase of 700 million euros. Excluding these two effects, the deficit would have been situated at 5.3%, even so below the benchmark level. For purposes of the Economic and Financial Programme (Programa de Ajustamento Económico e Financeiro - PAEF), the budget balance was situated at -4.5% of GDP, given that it excludes the expenditure on the capitalisation of BANIF, 0.4%. The budget deficit excluding public-debt interest (primary deficit) decreased by around 2.4 billion euro, moving from -2.1% to -0.7% of GDP. Nevertheless, the primary balance was negative in 2013. This year, the State Budget projects that the primary balance will attain positive figures of 0.5% of GDP, implying an additional effort in the order of 1.7 billion euro.

In the first quarter of 2014, the balance on the Public Administrations' accounts was situated at -6% of GDP, surpassing the limit laid down for the year, -4%, a fact that reinforces the need to maintain the budgetary consolidation drive. It is also worth mentioning that notwithstanding the improvement in the macroeconomic scenario when compared with that implicit in the SB2014 and the good performance in the execution of tax receipts, the execution risks increased in the wake of the decision taken in May by the Constitutional Court to rule out certain measures introduced within the ambit of the 2014 State Budget. The measures concerned are related to the salary cuts applied to civil servants earning a monthly salary of more than 675 euro, the change to the calculation of survivor's pensions and the application of rates of 5% on the sickness subsidy and 6% on the unemployment subsidy. It is expected that in the next few months a new Correctional Budget will be presented, as soon as the Constitutional Court pronounces itself on the measures relating to the calculation of pensions - measures which are still under consideration.

Public Debt ended 2013 at 129% of GDP, while its implicit cost dropped from 3.8% to 3.4%, a historical low.

Portugal successfully closes the Economic and Financial Adjustment Programme

The External Financial Assistance Programme for Portugal came to an end in May following the successful finalisation of the 12th and final evaluation mission under the Economic Adjustment Programme by the European Commission, the European Central Bank and the International Monetary Fund, with the Portuguese government having opted for not receiving the last scheduled tranche which amounted to some EUR 2.6 billion. This decision was based on various factors related to the results achieved in terms of the consolidation of public finances, the successful return to the international primary debt market and the constitution of a sufficient liquidity buffer to meet the public financing requirements projected up until the middle of 2015. On the other hand, the government's option also reflects the Constitutional Court's aforesaid ruling, since it would be necessary to present measures to compensate for those ruled out in a short period of time. It is also worth noting that in the ruling account was also taken of the fact that at the time there were still other measures awaiting the CC's appraisal and the need for the subsequent presentation of a new corrective Budget.

First post-Troika debt auction

Portugal returned in full to the international primary public-debt market in April by staging the first public-debt auction since the start of the PAEF, via the reopening of the T-Bonds Feb. 2024, having placed EUR 750 million at the average rate of 3.59%. Indeed, in 2013 long-term debt issues had taken place under the syndicated placing format, this being the first regular auction operation after the start of the programme. Besides maintaining a regular presence on the short-term debt market (T-Bills), the Portuguese Republic returned to the international long-term market with the syndicated issue of USD 4.5 billion under the Euro MTN programme, with maturity on 15 October 2024.

Scenario for 2014-15

The economic growth forecasts of the vast majority of observers – IMF, European Commission, Bank of Portugal, OECD – point to growth in economic activity in Portugal of around 1%. Indeed, the range of forecasts oscillate between +0.8% by the OECD and +1.1% by the Bank of Portugal, with the most recent revisions recognising the increase in negative risks. On the domestic front, besides the constraints already known, involving transversally high indebtedness levels and weak productivity levels, one must also highlight the recent developments concerning one of the largest Portuguese financial groups, with a potential impact on confidence levels and even on activity. It must also be noted that lower-than-expected growth in the principal world economies also underpins the more pessimistic sentiment for the economic landscape.

Nonetheless, over the medium term, a gradual consolidation of a slightly accelerating trajectory is expected to occur in the pace of growth, underpinned by the gradual recovery in domestic demand and the favourable performance of exports in a context in which the need to consolidate the public finances and the correction to household and corporate balance sheets will continue to constitute the chief overriding factors.

Financial System

The financial sector's deleveraging process continued during 2013, with the loans/deposits ratio descending to 117.4% in December 2013, continuing to mirror primarily the decrease in customer loans (including securitised loans) and the stabilisation of the resources base (measured on a consolidated base for the financial system). In the first quarter the transformation ratio remained stabilised. The financial sector activity continues to be influenced by the high level of indebtedness on individuals' and companies' balance sheets, although these register a progressive decreasing trend: individuals' debt fell to 96% of GDP at the end of 2013, retreating vis-à-vis the 102% mark in 2010; as regards the non-financial sector, borrowing levels were situated close to their peak, at 141% of GDP at the end of 2013 relative to a high of 143% in 2012.

In this context, the Portuguese banking system's total assets in the first quarter of 2014 maintained the gently descending trajectory which has been observed since the end of 2010. This trend can essentially be ascribed to the decrease in customer loans and placements at credit institutions. In light of the progressive opening up of the markets for the funding of Portuguese issuers, we witnessed a slight increase in the weight of market funding sources. On the other hand, recourse to the Eurosystem retreated to values only recorded at the close of 2010, 38.4 billion euro.

There continued to be a deterioration in banks' loan books (credit-at-risk ratio stood at 10.8% in March 2014, which compares with 10.6% at the end of 2013), a trajectory that is mainly due to the deterioration in the quality of loans advanced to non-financial companies. At the end of the first quarter of 2014, the CET 1 ratio – Common Equity Tier 1, in the English acronym, the principal ratio of level 1 own funds- was situated at 11%, comfortably above the regulatory minimum of 7%[1].

1) It should be noted that, according to the Bank of Portugal, its Notice no. 6/2013 - which has been in force since 1 January 2014 – establishes a new, transitional regime governing the adequacy of own funds. The new regime requires, namely, that credit institution and investment companies maintain a principal level 1 own funds ratio (CET 1 ratio in the English abbreviation) of not less than 7%, until the Directive 2013/36/UE (or CRD IV – Capital Requirements Directive) is transposed into the Portuguese statute book.

Loans

In the first quarter of 2014, loans to residents maintained the declining trend seen since at least the closing stages of 2011, although the contraction rate has been less pronounced. Indeed, the stock of financing to residents suffered a decrease of around 5.6% in average terms, which compares with -6.7% for 2013 as a whole. In the individuals' segment, the stabilisation trend is very apparent, since the financing for home loans posted a 3.9% drop when compared to the same period the previous year, in line with that registered in the closing months of 2013. As concerns the corporate segment, the stock of financing still continues to contract at a significant pace, around -6.7% in the opening months of the year. It must be noted however that this behaviour did not extend to all sectors of activity. Indeed, according to Bank of Portugal information based on the Central Credit Register, financing extended to export companies continues to expand, with the year-on-year rate standing at 3.7% in May.

Deposits

Non-financial private sector deposits rose (+1.3%) in the first quarter when compared with the same period a year earlier, with the behaviour extending to the individuals' (+0.8%) and non-financial companies' segments (+3.8%). However, there was a meaningful expansion in sight deposits at the expense of term deposits, a trend covering the two segments. The minimal average interest rates on traditional deposit investments and the slight increase in private consumption to the detriment of households' savings levels explain this behaviour. By way of reference, the interest rates on individuals' new deposits for maturities of less than 1 year were situated in May at 1.71%, according to the Bank of Portugal.

Financial markets

The comfortable liquidity levels, economic growth at below the historical average but positive and the absence of inflation were favourable to virtually all asset classes throughout the first six months of the year, with the exception of certain commodities, more affected by the deceleration of the Chinese economy, as is the case of metals and foodstuffs. The measures advanced by the ECB contributed to strengthening this trend given their reach and the prospect that they may contribute to reducing the level of financial fragmentation which still persists amongst the euro-region economies.

Global monetary policy remained expansionist, with short-term interest rates in the major international markets continuing to be situated at close to zero, fuelled by the signalling of the forward guidance provided by the key benchmark rates. Meanwhile, the first signs of divergence in this domain start to appear amongst the major world economies. On the one hand, the Federal Reserve pursues the progressive tapering of financial asset purchases, while the main concerns begin to revolve around the discussion of normalising monetary policy. The Bank of England is also faced with a more positive macroeconomic landscape, with the prospect of the first upward movement in interest rates occurring still this year. Conversely, the European Central Bank announced in June new monetary-policy relaxation measures, creating the perception that it may reinforce its expansionist stance by ramping up measures of an unconventional character should the need arise. For its part, the Bank of Japan has been maintaining the bearing of its intervention, endeavouring to boost the money supply and attain a sustained 2% inflation rate. It is important to mention that even in cases where a change in posture is expected, this should always be clearly transmitted and founded on a tangible improvement in each region's economic and financial situation, so that in general, one expects that monetary policy should maintain its significantly accommodative bias and underpin growth during the second half of and even into 2015.

In the first six months of 2014, the European currency remained relatively strong vis-à-vis the principal currencies on the international exchange markets, although the situation has changed in the last few months. Indeed, the euro posted an average appreciation of about 4% against those of its chief trading partners. In relation to the US dollar, the European currency climbed to more than 1.39, to close the half year at around the 1.35 mark in the wake of the ECB's decision to relax monetary policy. The funnelling of financial flows to euro-based investments has remained significant in a context of the return of confidence in the Monetary Union's future and in its architecture, the stronger appetite for investments in euro-periphery countries' assets - whose adjustment process has been regarded as being successful - and also due to the less favourable background in certain emerging currencies. With evidence showing that the USA already finds itself in a cycle of consolidating growth, given the prospect of a change in monetary policy - factors which are coupled with the more deceptive scenario in the Eurozone, where the central bank still resorts to economic bolstering measures -, the clarity of the paths followed will tend to boost the value of the dollar. However, in order to construct a meaningful downward trend, the EUR/USD rate will have to break through important support barriers.

The yields on the public debt securities on the principal developed markets once again reached lows in the first six months of the year, a trend that gained momentum in the last quarter. Thus, interest rates on 10-year public debt in US dollars fell below the 2.5% level at the end of the half-year, while the trend in the euro region has been more pronounced, with 10-year Bunds yielding around 1.15%. The behaviour observed reflects expectations that monetary policies will continue to be accommodative, with low inflation levels and the prospects that the neutral levels of interest rates will be lower in this cycle when compared with previous ones. In the short term, yields will remain minimal, but in the medium and long term, the fundamental information continues to point to the rise in long-term interest rates. In the euro-zone periphery countries, the contracting movement in the risk premium demanded by investors continued, motived by the increased confidence in these economies but also explained by the demand for returns at a time when the yields on low-risk securities remain close to their lows. This last factor continues to justify some caution given the possibility of witnessing a corrective movement.

Equities market

Global context

During the first six months of 2014, the major stock indices posted gains and climbed to new highs not seen in the last few years. Against the backdrop of the upturn in economic activity and expansionist monetary policies, the major stock market indices in Europe and the United States (EuroStoxx 600 and S&P500) terminated the half year with advances of 4% and 6%, respectively.

Portugal and Spain – secondary market

In Portugal, the benchmark PSI 20 index closed the first six months of the year 4% higher, while in Spain the IBEX 35 index posted a 10% gain. This movement tracked the generalised fall in public-debt yields and the widespread decrease in the risk premium of Europe's peripheral countries. There was also an increase in the volume of equities traded, with volume growing by a year-on-year 43% in Portugal (to 20 th.M.€) and 22% in Spain (to 362 th.M.€). This performance compares with a 14% increase in the trading volumes recorded under the EuroStoxx 600 and S&P 500 indices.

Portugal and Spain – primary market

Public Offers for Sale recorded a significant increase in Spain in the first half of the year, both in terms of volume (8 POSs) and value (3.7 th.M.€ in total), notably the cases of Applus, Hispania and Merlin Properties. In Portugal, there was only one IPO (ES Saúde) with a value of 0.1 th.M.€. On the other hand, there were several capital increases by quoted companies, in both Portugal and Spain, in particular in the banking sector with 3.9 th.M.€ (73% of the total capital increases realised on the Iberian market in the first six months of the year). In terms of the market for bonds convertible into shares, the highlight were the issues in Spain of Sacyr and Acciona, reaching a combined total of roughly 0.6 th.M.€ .

ANGOLAN ECONOMY

Economic activity

The International Monetary Fund's (IMF) current estimates point to a deceleration in the Angolan economy's growth rate from 4.1% in 2013 to 3.9%[1] in 2014. Angola is expected to benefit in the next few years from a period of comparatively more moderate growth than in the past decade, in the vicinity of 4%. This scenario also depicts a more sustainable background, founded upon the gradual development of activities outside the oil and gas sector and, simultaneously, taking advantage of the abundance of the labour factor (in need of training) and the existence of vast natural resources in addition to the hydrocarbons.

Despite some progress on the diversification of economic activity, with the weight of the oil and gas sector dropping from a peak of 49.7% of GVA in 2008 to 43% in 2012, Angolan growth continues to be extremely vulnerable to this sector's fortunes. In fact, the recent deceleration in economic activity essentially reflects crude-oil output's less favourable performance. In principle, the level of proven reserves is sufficient for guaranteeing a high level of output in the coming years, but oil output has been slowing down - due to the stoppage for the maintenance of certain oilfields and the drop in output caused by technical problems -, events which continue to alert to the existence of structural constraints and their potential impact on the economy's growth. According to Ministry of Finance data, revenue from oil and gas exports fell by 3% in 2013, while the trend in revenue during the early months of this year suggests that this decline will become more acute in 2014. It is worth noting that the Liquefied Natural Gas production plant in Soyo has also halted production for an unspecified period, thus impacting the growth scenario.

In parallel, the non-oil and gas sector should continue to benefit from new investments, namely in the construction of infrastructures by way of public investment projects, even though the low level of budget execution in this field has had an adverse impact on activity. Moreover, in the short term, it is expected that the policy of import substitution, as starkly evidenced by the introduction of the new customs tariffs (which came into force in March 2014), will contribute to protecting local industries and in this way stimulate the non-oil sector, even though at the moment this functions under some constraints related to the low execution of the public investment policy.

1) As part of the consultations pursuant to article IV of July 2014, the IMF revised the 2014 growth rate to 3.9%, against the 4.1% disclosed in the March report.

Economic indicators and forecasts

	2009	2010	2011	2012	2013E	2014F*
Real Gross Domestic Product growth (yoy, %)	2.4	3.4	3.9	5.2	4.1	5.3
Oil sector	-5.1	-3.0	-5.4	4.3	0.6	3.0
Non-oil sector	8.1	7.6	9.5	5.6	5.8	6.4
Oil production (millions of barrels/day)	1.81	1.76	1.66	1.73	1.74	1.79
Price of Angolan oil (average, USD/barrel)	60.8	76.5	110.3	110.9	107.3	104.7
Consumer Price Index (y-o-y change, end of period)	14.0	15.3	11.4	9.0	7.7	8.0
Fiscal balance (% of GDP)	-7.4	3.4	8.7	5.1	-1.5	-2.0
Non-oil primary fiscal balance (% of non-oil GDP)	-53.7	-47.4	-51.1	-52.6	-49.9	-49.8
Net foreign exchange reserves (in millions of USD, end of period)	12.6	17.3	26.1	30.6	30.9	32.0
Average exchange rate (AKZ/USD)	79.3	91.9	93.9	95.5	96.5	-

* Forecasts of Finance Min. and IMF.
Source: BNA, INE, Min. Finance Angola.

MOZAMBIQUE ECONOMY

External sector

In 2013, the trade balance surplus continues on a downward trajectory, as was the case observed in the previous year. Despite having noted a slight decline in the weight of imports, this was not sufficient to compensate for the steeper drop in oil exports. Accordingly, the trade surplus in 2013 was situated at around 40 th.M.US$, down on the 2012 figure of 42 th.M.US$ de 2012.

The Central Bank continued to pursue a conservative policy of accumulating foreign reserves. After having attained a peak of USD 34 thousand million, foreign exchange reserves fell slightly to 30 th.M.US$ in June of this year, but remain abundant, being sufficient to cover 7 months of imports according to the IMF's data, For its part and since the beginning of the year, the Kwanza has remained relatively stable against the dollar after having presented greater volatility following the introduction of new foreign exchange legislation.

Public accounts

The most recent data concerning 2013 budget execution (according to the IMF) suggest that the public sector registered a deficit for the first time since 2009, estimated at -1.5% of GDP, which is nevertheless below the budgeted deficit. According to those estimates, total receipts exceeded the budgeted figure of 37.4% of GDP by around 0.7 p.p.; at the same time, spending came in at 1.5 p.p. below the 41.1% of GDP envisaged in the budget due to the weak budget execution. It can be seen therefore that budget policy seeks to support activity, revealing the authorities' commitment to allocate public funds to ameliorate the problem of poor infrastructures; however, these plans have been constrained by the lacklustre capacity of the execution of public spending.

For 2014, the authorities project that the fiscal deficit will climb to 4.8% of GDP, assuming a substantial increase in capital expenditure to 13.1% of GDP so as to pursue the Public Investments Programme. In order to cover 2014 financing requirements, the State envisages budgetary policy interventions in the Treasury Bills and Bonds markets. Despite the deterioration in the fiscal balance , public debt should remain fairly stable, while according to the SGB total public debt should rise to 33.9% of GDP in 2014, remaining well below the limit prescribed by law of 60% of GDP.

Inflation and interest rates

Inflation continues to stand at historical lows, below the 7% mark (lower limit of the 7-9% band fixed as the objective for annual inflation). In July inflation was situated at 6.98%, interrupting the descending trend observed in the preceding six months, but remaining below the levels seen in recent years. Inflation's behaviour in July suggests that the impact of the new customs tariffs is still not noticeable in the behaviour of prices; however, it underlines the need to keep abreast of its potential effect bearing in mind that the legislation only came into force at the start of March.

In light of the falling inflation, Banco Nacional de Angola (BNA) maintained an expansionist policy, with the objective of boosting the quantity of financial resources available in the economy without compromising price stability. At the last meeting in July, the monetary authority decided to cut the rate by 50 basis points to 8.75%; this had been fixed at 9.25% since November 2013. Furthermore, it cut the liquidity-injection rate by 25 basis points to 9.75% and kept the liquidity absorption rate at 1.75%. In this context, on the interbank money market the LUIBOR rates continue to present a descending trend, more pronounced in the overnight facility, where the rate is situated close to 3%.

Banking sector

Domestic lending continued to grow at a good tempo, with a year-on-year rise to 26.9% in June, which compares with 12.4% at the end of 2013, with lending to the public sector outpacing that to the private sector. Likewise, deposits in the national banking sector expanded 19.3% y/y in May, registering larger growth when compared with the rate at the close of 2013 of 18.4% y/y.

The decrease in the use of the dollar in the economy continues in progress, some months after the final phase of the new foreign exchange law having entered into force with the kwanza gaining importance in local transactions. The ratio of loans granted in foreign currency (relative to total loans) fell appreciably, from 44% in December 2011 to just 28.4% in June this year, which means that loans granted in kwanzas now account for more than 70% of total loans. The trend was replicated in the case of deposits, with deposits in foreign currency (as a percentage of total deposits) declining from 50% to 35.7% in the same period.

Economic activity

Mozambique has continued to present high economic growth rates, standing out as one of the most dynamic economies in the global and in particular the emerging economies context. The most recent results of the National Statistics Institute (INE) indicate that 2013 GDP grew 7.4%, up on the 2012 figure of 7.1%. On the other hand, agricultural activity - which continues to constitute a large share of national output (representing roughly ¼ of GDP) -, ended up by presenting a growth rate of just 3.5%, bearing in mind that the sector was significantly affected by adverse climatic impacts at the start of the year. For its part, the extractive industry, fuelled by coal and gas exploitation, presented robust growth of 13.8%, which was only overtaken by the financial services sector which expanded 32.2%. Accordingly the economy's growth in 2013 outstripped the government's target, and we continued to witness a structural alteration in the manufacturing fabric, with the exploration of natural resources and activities associated with the megaprojects gaining weight in the local economy. In spite of this expansion rate, which should remain in the 7-8% band in the next few years, it is important to note that per capita GDP began from a relatively low base of around USD 600. Furthermore, despite the bright prospects, Mozambique will continue to be exposed to a number of risks, related namely to the possibility of the occurrence of climatic disasters , shocks in commodity prices and the trend in political tensions.

External sector

2013 saw a slight decrease in the current account deficit to 39.5% of GDP vis-à-vis 45.4% of GDP in 2012. In the next few years, a more significant deterioration in this imbalance is expected to occur, climbing to roughly 50% of GDP, given that imports related to the megaprojects should continue to rise. However it should be pointed out that this deficit should continue to be totally financed by foreign direct investment (which in 2013 amounted to USD 5.9 thousand million) directed at manufacturing activities, more specifically those related to the implementation of the natural-gas exploitation megaprojects. A correction is expected to occur from 2020 onwards when exports commence of liquefied natural gas.

Public accounts

In light of the adoption of an expansionist fiscal policy in 2014, a deterioration in the fiscal deficit is forecast to -9.2% of GDP in 2014, against a balance of -2.8% of GDP in 2013. Despite total receipts having remained relatively stable at around 27% of GDP, on the spending side an increase is anticipated to 41.6% of GDP compared with the 35.6% of GDP recorded in 2013, of which an increase of 2.5 percentage points corresponds to an increase in investment spending. The deficit continues to be funded by recourse to external finance, while donations continue to represent an important component (roughly 5.2% of GDP in 2014). As a result, according to the IMF, public debt should rise to a level that is regarded as being high for the country's size and degree of risk (around 57% of GDP), but which even so is considered to be sustainable assuming that as from 2015 the government adopts fiscal consolidation measures.

Financial sector, deposits and lending

Monetary policy maintains a balanced stance, seeking to support the economy's growth without compromising the stable inflation situation. Annual inflation levels remain under control at around 3% (2.8% in June 2014), which has partially benefited from the stability observed on the foreign exchange front since the beginning of the year.

After a period of progressive interest rate cuts in 2013, the Bank of Mozambique has kept its benchmark monetary policy rates stable, with the rate applicable to the Liquidity Injection Facility fixed at 8.25% and the rate applicable to the Permanent Deposit Facility at 1.5%. Lending to the economy climbed 25% in May when compared to the same period the previous year when monthly growth rates had attained 30% y/y. On the other side, the weight of lending in foreign currency fell slightly to 21% in May, which compares with a weighting of 25% at the end of 2012. Deposits also posted a positive change in May of roughly 19% y/y.

Domestic commercial banking

INDIVIDUALS AND SMALL BUSINESS BANKING

In the first half of 2014, Individuals and Small Business Banking looked after 1 646 thousand accounts, 2.2 % more than in June 2013, being responsible for the portfolio of Customer resources of 22 968 M€ and for the Loan and Guarantees portfolio of 13 531 M.€. During the period under review, 57 thousand new accounts were opened – much in line with the corresponding period last year.

CUSTOMER RESOURCES

At 30 June 2014, the resources of Individuals and Small Business Banking customers totalled 22 968 M.€, reflecting an increase of 1 014 M.€ (+4.6%) relative to June 2013. The increase in the first six months of 2014 was 652 M.€.

Individuals and Small Business Banking

Customer resources

Amounts in M.€

	30 Jun.13	31 Dec.13	30 Jun.14	Δ% Jun.13/ Jun.14
Sight deposits	3 591.2	3 547.8	3 804.9	5.9%
Term deposits	10 953.5	11 180.7	10 942.5	-0.1%
Bonds and structured products [1] placed in Customers	938.0	697.6	536.3	-42.8%
PPR [2]	1 073.7	1 089.9	1 139.5	6.1%
Insurance capitalisation [3]	1 422.3	1 696.5	2 231.0	56.9%
On-balance sheet resources	**17 978.8**	**18 212.4**	**18 654.2**	**3.8%**
Unit trust funds [3]	1 133.2	1 147.1	1 145.9	1.1%
PPR [4]	633.5	634.5	647.8	2.3%
Off-balance sheet resources	**1 766.6**	**1 781.6**	**1 793.6**	**1.5%**
Sub-Total	**19 745.4**	**19 994.0**	**20 447.8**	**3.6%**
Corporate bonds held by Customers	1 013.8	1 004.9	1 055.7	4.1%
Other Customer securities [5]	1 194.7	1 317.4	1 464.3	22.6%
Other Customer Resources	2 208.5	2 322.2	2 520.0	14.1%
Total Customer resources	**21 953.9**	**22 316.3**	**22 967.8**	**4.6%**

1) Guaranteed-capital and limited-risk bonds.
2) Retirement-savings plans (PPR) in the form of capitalisation insurance.
3) Excludes PPR.
4) Retirement-savings plans (PPR) in the form of unit trust funds.
5) Including third party unit trust funds and third party structured funds placed with Clients. Excludes BPI securities.

On-balance sheet Customer resources rose by +675 M.€ (+3.8%) relative to June 2013. Contributing to this trend were essentially Capitalisation Insurance (excluding PPR) with +809 M.€, and sight deposits with +214 M.€. This increase more than offset the 394 M.€ decrease (-50.0%) in the BPI Bonds portfolio due to maturities which occurred.

The Term Deposits portfolio remained stable relative to June 2013 (-0.1%). Noteworthy was the high Customer adherence to Savings Accounts, investments which permit additional placements and regular contribution plans. Compared with June 2013, there was an increase of 45 thousand in the number of Customers with this type of account.

The portfolio of retirement savings plans (Portuguese initials PPR), in the form of capitalisation insurance and unit trust funds, rose by 80 M.€ (+4.7%) relative to June 2013.

Capitalisation insurance (excluding PPR) reinforced the positive behaviour that began in the second quarter of 2013, with a 534 M.€ increase in the first half of 2014. This trend can be attributed to the demand on the part of Customers for alternative solutions to traditional investments with guaranteed capital.
Off-balance sheet resources were up 27.0 M.€ (+1.5%) relative to June 2013.

In other customer resources, it is worth mentioning the continuing rise in the portfolio of third-party funds and other securities, which totalled 1 464 M.€ at the end of June, influenced by the greater diversification registered in Investment Centre clients.

CUSTOMER LOANS

In June 2014 the Customer loan and guarantees portfolio of individuals and small businesses amounted to 13 531 M.€ which corresponded to a 574 M.€ (-4.1%) decrease relative to June 2013. Loans advanced to individuals decreased by 471 M.€ (-3.8%) while loans to small businesses were down 89.2 M.€ (-6.2%), although the decrease in the 1st half of 2014 (-20.9 M.€) was more moderate than in the previous six months.

Individuals and Small Business Banking

Customer loans and guarantees

Amounts in M.€

	30 Jun.13	31 Dec.13	30 Jun.14	∆% Jun.13/ Jun.14
Loans to individuals				
Mortgage loans [1]	11 584.0	11 386.5	11 227.6	-3.1%
Personal loans [2]	643.0	601.3	571.7	-11.1%
Credit cards [3]	148.0	163.6	149.3	0.8%
Car finance	155.5	129.8	111.3	-28.4%
Loans to individuals	**12 530.6**	**12 281.2**	**12 059.9**	**-3.8%**
Loans to small businesses				
Commercial loans [4]	1 086.9	1 050.7	1 050.4	-3.4%
Equipment leasing	47.2	40.7	36.9	-21.7%
Property leasing	305.7	280.2	264.9	-13.4%
Factoring	5.1	4.9	3.4	-32.7%
Loans to small businesses	**1 444.9**	**1 376.6**	**1 355.7**	**-6.2%**
Total loan portfolio	**13 975.5**	**13 657.8**	**13 415.6**	**-4.0%**
Guarantees and sureties	129.7	123.7	115.3	-11.1%
Total	**14 105.2**	**13 781.6**	**13 530.8**	**-4.1%**

1) Loans secured by fixed property. Corresponds primarily to home loans and loans for home alterations.
2) Includes consumer loans and credit lines made available for privatisations.
3) Includes outstanding credit of non-Bank Customers.
4) 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.

Mortgage loans, personal loans and motor car finance

In June 2014, the mortgage-loan portfolio totalled 11 228 M.€, which corresponds to a 3.1% decline relative to the same month a year earlier.

The personal loan portfolio was situated at 572 M.€ in June 2014, down 11.1% when compared to June 2013. However, it is worth referring to the positive behaviour of loans associated with non-financial products, with 5% growth in the invoicing of placed products. Contributing to this performance were the various campaigns implemented with prestigious brands.

The portfolio of motor car finance advanced to Individuals and Small Business Banking customers totalled 111.3 M.€ at the end of June 2014, 28,4% lower than the figure a year earlier. Also noteworthy was the fact that the light passenger vehicle market began to reveal some signs of an upswing.

Commercial loans, leasing and factoring

As part of the business strategy in the sole proprietors and small business segment, BPI continued to focus on customers with good risk indicators, the export sector and agricultural sector customers.

Certain major external initiatives were developed encompassing the priority segments and those directed at customers of the Individuals and Small Business network. Noteworthy events were 'BPI Iniciar Exportação', directed at companies embarking on internationalisation processes via exports and the workshops 'How to present projects to financiers?', as part of the support that Banco BPI has given to innovation and entrepreneurship issues.

During the first half of 2014, BPI maintained a prominent position in the principal programmes launched by the Government with the aim of supporting the financing needs of small and medium-sized companies under more competitive conditions.

Under the PME Crescimento (Growth) 2013 and PME Crescimento 2014 credit lines, BPI played an active role, as borne out by the contracting within the scope of the aforesaid credit lines of 1 945 operations worth more than 90 M.€ with customers of the individuals and small business network. In the general universe of the PME Investe / Crescimento credit lines, BPI was involved in 25 474 operations worth 2 274 M.€, which permitted it becoming the leader in market share with 18.9%.

As regards the PME Líder and PME Excelência classifications, BPI continued to assume a sustained leadership position, attaining at the end of the 1st half of 2014, a 41% share in the awarding of the PME Líder statute.

CREDIT AND DEBIT CARDS

In June 2014, Banco BPI had 531 thousand credit cards placed with customers, corresponding to a decrease of -1.8% in the past 12 months. Accumulated billing in the first half of 2014 reached 467 M.€, +2.2 % more than in the same period last year. The amount of outstanding credit (portfolio balance) presented a +0.8% increase, amounting to 149 M.€ at the end of June 2014.

Credit and debit cards
Selected indicators

	30 Jun.13	31 Dec.13	30 Jun.14	Δ% Jun.13/ Jun.14
Debit cards				
Number of debit cards at the end of the period (x th.)	1,082.0	1,093.5	1,095.1	1.2%
Billing (M.€)	2,731.0	5,795.7	2,831.3	3.7%
Credit cards				
Number of credit cards at the end of the period (x th.)	540.3	533.0	530.8	-1.8%
Billing (M.€)	456.7	966.0	466.6	2.2%
Loan portfolio (M.€) [1]	148.0	163.6	149.3	0.8%

1) Outstanding of Individuals and Small Business Banking customers and non-customers.

The placing of debit cards with BPI customers totalled 1 095 thousand cards at the end of June 2014, which corresponds to year-on-year growth of 1.2%. Accumulated billing in the first six months of 2014 totalled 2 831 M.€, representing 3.7% growth relative to the same period last year.

SALARY (PAY DAY) ACCOUNTS

The number of salary accounts with automatic salary domiciliation reached 357 thousand in June 2014, reflecting a rise of +4.5% relative to the same month last year and maintaining the growth trend of the past few years.

With the object of adapting the range of products to its customers' daily needs, the Bank extended the access to the Salary Account to non-resident customers and sole proprietors and self-employed professionals who earn a monthly income of a stable nature.

ISOLATED SALE INSURANCE

During the course of the 1st half of 2014, the range of isolated sale insurance was enlarged with the commercialisation of new insurance products targeted at the individual customers' segment: Allianz Caça e Armas (hunting and guns) and Allianz Embarcações (boats).

At the same time the focus remained trained on the sale of business insurance through training and the dynamic promotion of these products geared to the sole proprietors' and small business segment. The portfolio of these insurance products posted 35% growth relative to June 2013.

In global terms and considering all types of isolated sale insurance, the portfolio recorded 6% growth when compared with a year earlier.

Isolated sale insurance
Selected indicators — Amounts in thousand

	30 Jun.13	31 Dec.13	30 Jun.14	Δ% Jun.13/ Jun.14
Individuals	234.6	236.5	243.4	3.7%
Companies	20.8	24.6	27.9	34.5%
Total	**255.4**	**261.2**	**271.3**	**6.2%**

CORPORATE BANKING, INSTITUTIONAL BANKING AND PROJECT FINANCE

Against an economic backdrop which revealed some signs of recovery in recent months, BPI pursued and ramped up its strategy of seeking proximity to Portuguese companies with a view to supporting their investment requirements:

- It continued to assume a prominent position in the principal public programmes and statutes: PME Investe/Crescimento, Garantia Mútua and PME Líder.
- It maintained an active placing of the BPI-FEI Inovação Line, the first national credit line within the ambit of the "Risk Sharing Instrument" (guarantee of the European Investment Fundo - EIF) having placed more than 50% of the Line's overall amount of 160 M.€ by the end of June.
- It was particularly active in the placing of JESSICA Funds, which motivated an increase in the amounts initially attributed for BPI's management from 65 M.€ (earmarked for the North and Alentejo regions) to 72 M.€ (enlargement to the Central region, Jan/14).
- It supported international firms with Export Insurance destined to finance and cover risks.
- It maintained a leading role in the placing of credit insurance policies COSEC, a product which permits mitigating credit risk in commercial operations with customers.
- It brought together 1 000 participants at events focused on priority Corporate business segments – Exports and Internationalisation, Agriculture, Urban Rehabilitation and Entrepreneurship.

As regards credit-risk analysis, the Bank maintained a policy of great rigour, as well as practices and processes that ensure a permanent accompaniment and monitoring of companies.

In June 2014, the Customer loan portfolio of Corporate Banking, Institutional Banking and Project Finance amounted to 7 976 M.€, which corresponded to a 16.1% decrease relative to the same month in 2013. Total resources excluding the Public Sector posted a 27% increase relative to June 2013.

Corporate Banking, Institutional Banking and Project Finance
Selected indicators

Amounts in M.€

	Jun 13	Dec 13	Jun 14	% Jun.13/ Jun.14
Loan portfolio				
Corporate loans	4 586.8	4 049.9	3 784.1	-17.5%
Large companies	2 008.5	1 702.8	1 491.5	-25.7%
Medium-sized companies	2 578.3	2 347.0	2 292.6	-11.1%
Project Finance – Portugal	1 206.8	1 158.4	1 136.3	-5.8%
Madrid branch	1 658.1	1 555.1	1 439.1	-13.2%
Project Finance	749.9	739.5	707.4	-5.7%
Companies	908.2	815.6	731.7	-19.4%
Public sector	2 060.7	1 979.1	1 616.8	-21.5%
Total loan portfolio	**9 512.3**	**8 742.5**	**7 976.3**	**-16.1%**
Resources[1]	2 221.8	2 518.9	1 785.3	-19.6%
Note:				
BPI Vida	1 694.4	1 725.1	2 052.7	21.2%

1) Includes sight and term deposits. Excluding the withdrawal, in June 2014, of a deposit of 774 M.€ that the IGCP (Portuguese Treasury and Debt Management Agency) kept on the bank since late 2011, resources would have increased by 15.2%.

MEDIUM-SIZED AND LARGE COMPANIES

At the end of June 2014, the portfolio of loans to customers of the Medium-sized and Large Companies segment totalled 2 293 M.€ and 1 492 M.€, respectively.

Loans to Medium-sized and Large Companies decreased 7.1% (-0.4 Bi.€) year-on-year when one takes into consideration the behaviour of the Corporate Banking portfolios and BPI Vida e Pensões's securitised loans portfolio, which essentially corresponds to bonds and commercial paper issued by large Portuguese companies. Already in the 1st half of 2014, one can observe the positive trend in the loan portfolio, with a 1.1% relative to December 2013. In the SME segment, BPI continued to provide funding under competitive conditions, namely by way of new PME Crescimento 2014 lines, extending the III Period of the PME Investe and Comércio Investe lines.

Since the launch of the PME Investe/Crescimento lines, BPI has held a leading position, attaining a 19% share of the total figure contracted (data referring to the end of the 1st half of 2014).

Additionally, it played an active role in the dynamic promotion of mutual guarantee operations, in close liaison with the mutual guarantee companies (Norgarante, Lisgarante, Garval and Agrogarante), achieving a 17% share of the value of the guarantees portfolio at the end of the 1st half of 2014.

As concerns the PME Líder and PME Excelência statutes, the Bank continues to occupy a sustained leading position. It is worth highlighting that at the end of the 1st half of 2014 (still with candidacies in progress), BPI's leadership translates into a 41% share of the PME Líder statutes awarded.

In the agricultural and agro-industrial sectors, BPI similarly reinforced its positioning:

- The Bank is No. 1 in the total accumulated amount of the guarantees issued by Agrogarante, with a share of 23% (at the end of June 2014);
- The Bank is No. 1 in the total amount financed under the IFAP Curto Prazo, Agricultura, Silvicultura e Pecuária line and in the total amount of operating subsidy advance payments granted by the IFAP and validated by the CAP, with shares of 69% and 77% (latest available data Dec-13);
- Sponsoring and participating at the sector's major fairs and events (Feira Nacional da Agricultura, SISAB, 7º Colóquio Nacional do Milho, Ovibeja and Prémio Agricultura 2014).

The global 19th line protocoled with the EIB, in the amount of 300 M.€, earmarked for assisting SMEs, has already been fully applied through the support to 1 500 SME projects.

Up till 30/06/2014 BPI, under the JESSICA Programme, contracted 22 operations, representing an amount of loans extended of some 60 M.€, of which 30 M.€ by the application of JESSICA funds under management.

BPI stepped up support to export companies, having kept abreast of their international treasury flows and brokered solutions for covering the risks of export credit.

BPI's international business volume registered an overall increase of 9%, relative to the 1st half of 2013. Noteworthy was the strong growth of International Factoring: in Import Factoring the increase was 38% with the increase in Export Factoring being 91%.

In the placing of credit insurance covered by public programmes (outside OECD policies), BPI's share stood at 62%, thereby enabling it to strengthen its position in supporting export firms.

PROJECT FINANCE

The project finance segment's loan portfolio totalled 1 844 M.€ in June 2014, down 5.8% when compared with the same month a year earlier, notwithstanding the maintenance of a number of projects still in the disbursement phase.

The loan portfolio's behaviour continues to reflect the conjugation of ordinary repayments, early repayments and the disbursement of operations already contracted, these essentially in the domestic market.

By virtue of the overriding factors imposed by the macroeconomic backdrop, the project finance market in Portugal has been recording a significant slowdown, due namely to the halt to the launching of new public investment projects under the public-private regime. In this context, the Bank has adhered to a strategy of deliberately focused on the greater selectivity in the financing of projects, on the decision to not participate in new operations on the international markets and on reinforcing monitoring activities covering the loan and guarantees portfolio under management.

In parallel, the Project Finance area remains particularly active in the provision of financial advisory services, both to private firms and to public sector entities, including a portfolio of projects in which it assumes the role of permanent financial advisor. Special mention is made of the health, infrastructures (namely water and waste) and transportation.

MADRID BRANCH

The loan portfolio domiciled at the Madrid Branch at the end of June 2014 reached 1 439 M.€, as a result of a strategy pursued by the Bank of not entering into new syndicated operations in Spain.

INSTITUTIONAL BANKING AND STATE BUSINESS SECTOR

The Institutional Banking and State Business Sector Division caters for institutional clients, public-sector companies and other companies owned by public-sector entities.

Loans to Public Sector clients totalled 1 617 M.€ at the end of June 2014, a 22% year-on-year decline.

Events with Customers

In the 1st half of 2014, BPI organised and participated, in collaboration with prominent public and private entities, in several events attended by some 1000 participants. These initiatives were designed to strengthen the support for Portuguese companies in important segments with topical themes, amongst which:

Export and Internationalisation

"BPI Iniciar Exportação": in 2014 BPI launched a cycle of 5 events being held at various Portuguese cities, which have as their objective debating risks, good practices and the support available for the initial approach to new markets.

BPI supported and bolstered partnership initiatives, directed at addressing market themes and specific sectors of activity, of which we highlight events with the Mexican, Spanish and French chambers of commerce in Portugal, COSEC, amongst others.

Agriculture

"Prémio Agricultura 2014": in the context of the 3rd edition of the Agricultural Award a start was made to a cycle of 5 conferences, 2 of which in the 1st half of the year, directed at disclosing and promoting candidacies, as well as exploring major issues affecting the agro-industrial sector (Exports, Innovation, Alqueva, amongst others).

The Agricultural Award 2014 is a joint initiative of BPI and COFINA, sponsored by the Ministry of Agriculture and the Sea, with the aim of promoting, encouraging and rewarding cases of national success.

"Forests in Portugal": conference promoted in partnership with COFINA and with the sponsorship of the Ministry of Agriculture and the Sea, held in Coimbra, with the goal of debating this sector's performance and prospects.

Urban rehabilitation

"BPI Oportunidades": in the cycle "BPI Opportunities", which seeks to share the experiences of firms which, in an adverse economic climate, find opportunities in different business areas, investing and boosting their potential, staged an event devoted to urban rehabilitation in Viseu.

Urban rehabilitation, associated with business projects with diversified purposes (tourism, restaurants, health, education, etc.) has been a successful investment area in Portugal, with BPI's involvement through the placing of the JESSICA funds in the North, Centre and Alentejo regions, contributing greatly.

Innovation and entrepreneurship

Workshop "How to present projects to financiers?": BPI promoted, in co-working venues sponsored by NOS, 2 events for presenting entrepreneurs sustained forms of financing and project management. These events form part of a cycle of 7 scheduled to take place by the end of the year.

Newsletter BPI Empresas

BPI places at the disposal of the corporate segment a monthly electronic newsletter containing information about products and services, as well as analyses and other important business news. The newsletter is distributed to more than 50 thousand Corporate Banking recipients.

Bancassurance

In the insurance arena, BPI has a strategic partnership with the sector's world leader, the German Allianz group. This association has been forged via BPI's holding in the capital of Allianz Portugal (35%) and an insurance distribution agreement through the Bank's commercial network.

BPI customers thus have at their disposal a comprehensive range of insurance products. This range includes both life risk – which embraces death and disability insurance – and non-life branches – which comprise motor insurance and all-risks insurance: homes, fire, works and installations, public liability, theft, personal accident, unemployment and illness.

Bancassurance's performance in the 1st half of 2014 is reflected in the following income indicators:

- The value of commissions was 19.1 M.€;
- Insurance premiums totalled 71.7 M.€ , which corresponds to 4.8% growth.
- The number of insurance policies at the end of June 2014 was 429 thousand active policies in life assurance and 465 thousand active policies in non-life policies.

Asset management

At the end of the 1st half of 2014, BPI Gestão de Activos had a volume of financial assets under management of 8 992 M.€, which represents a 14.6% increase relative to the corresponding period of 2013. This increase, in the amount of 1 143 M.€, was motivated in particular by the increase recorded in the assets under management of Capitalisation Insurance, while the Pension and Unit Trust Funds also increased their assets under management by about
11% and 8%, respectively, relative to June 2013.

Assets under management

Amounts in M.€

	30 Jun. 13	31 Dec. 13	30 Jun. 14	Δ% Jun. 13 / Jun. 14
Unit trust (mutual) funds	2 125	2 142	2 298	8%
Real estate unit trust funds	193	192	184	(5%)
Pension funds	1 991	2 123	2 201	11%
Capitalisation insurance	3 093	3 364	4 001	29%
Institutional customers	447	289	309	(31%)
Total	**7 849**	**8 110**	**8 992**	**15%**

Unit trust funds

Unit trust funds (Portuguese acronym FIM) under management totalled 2 298 M.€ at the end of June 2014, with BPI Gestão de Activos occupying third place in unit trust fund management in Portugal, with a 14.2% market share (14.5% in June 2013).

Unit trust funds under management

Amounts in M.€

	30 Jun. 13	31 Dec. 13	30 Jun. 14	Δ% Jun. 13 / Jun. 14
Bonds and money market	860	861	864	0.5%
Capital growth (equities)	374	406	543	45%
Tax efficiency (PPR/E and PPA)	671	669	681	2%
Diversification	220	206	210	(5%)
Total	**2 125**	**2 142**	**2 298**	**8%**

In the period under review, it is worth highlighting the positive performance of the "Appreciation" class (equities) with a 45% increase relative to June 2013. This resulted primarily from a very significant growth in the BPI Ibéria funds, both domestic and those domiciled in Luxembourg, and in BPI's Alternative Fund, launched in Luxembourg in the 1st half of 2013, funds which had a high volume of subscriptions. Also noteworthy was the launching of a new equities fund in Luxembourg – BPI Euro Large Caps – in August 2013, which also contributed to this segment's growth. The class "Tax Efficiency (PPR/E and PPA)" presented a slight growth of around 2% relative to the same period of the previous year, resulting above all from the increase in the volume of assets under management at BPI Reforma Acções PPR/E. Meanwhile the caption "Bonds and Money Market" virtually maintained the volume of assets under management constant relative to June 2013. It is worth mentioning meanwhile the increase of almost 80% in BPI Euro Taxa Fixa and the changes of more than 40% in BPI Obrigações Mundiais, in BPI Alto Rendimento Alto Risco and in BPI High Income. Conversely, the decline in BPI Monetário Curto Prazo, which represents roughly 50% of this class, finished up cancelling out the rise in the other portfolios. The only class which presented a negative change was "Diversification", originated by the fall in the volume of assets under management in BPI Brasil.

REAL ESTATE UNIT TRUST FUNDS

At 30 June 2014, assets under management of the real-estate unit trust funds totalled 184 M.€, down by a year-on-year 5%,

At the end of June 2014, BPI Gestão de Activos had a 1.5% market share as regards the real-estate unit trust funds.

CAPITALISATION INSURANCE

At 30 June 2014 the accumulated new contracting of capitalisation insurance by BPI Vida e Pensões was 752 M.€, which corresponds to a very meaningful increase of 128% when compared with the 1st half of 2013, being the second biggest new business written during the 1st half year of the past 5 years.

Total investments were situated at 30 June 2014, at 4 001 M.€, up 29.4% relative to the same period a year earlier.

PENSION FUNDS

At 30 June 2014 BPI Vida e Pensões managed 2 201 M.€, relating to 137 corporate pension plans, of which 85 are Defined Contribution plans, 41 are of the Defined Benefit type and 11 are mixed plans. Compared with the end of the previous year, three new defined-contribution mandates were obtained.

CORPORATE FINANCE

The Mergers and Acquisitions business in Portugal in the first half of 2014 continued to register low volumes. Nevertheless, BPI Corporate Finance registered an increase in deal flow relating to mandates in progress. The progressive decrease in the risk levels associated with the Portuguese economy, visible in declining public-debt yields on the secondary market, the signs of recovery in the Portuguese economy and some normalisation in the access to financing, are strengthening the confidence level which could be conductive to the materialising of transactions.

The market continued to be characterised by a small number of middle market operations with impact on the volatility of the corporate finance business, to the extent that it becomes dependent on a reduced number of large operations. In any event, the outlook for a progressive improvement and normalisation of the financing conditions has permitted sustaining an important level of interest on the part of potential investors and the prospective operations analysed.

The M&A market in Portugal has essentially been characterised by (i) privatisations, (ii) concentration operations in the domestic market; (iii) the sale of companies or assets with the object of deleveraging or (iv) Portuguese companies investing abroad in order to reduce exposure to the Portuguese market.

During the first half of 2014, BPI was involved in several major operations, including; the analysis of the fair value of Partex's oil and gas assets; advising the Nors Group in the analysis of an investment opportunity; advising in an investment operation on the part of a Spanish company in the capital of a Portuguese company; assisting Inter-Risco in a disinvestment operation in an investee company of its funds; financial consulting to Fidequity in the analysis of an investment operation; support in the privatisation of EGF.

In addition, BPI advised a broad range of national entities, including its traditional clients as well as new clients in the taking of investment, restructuring and financing decisions.
Listed below are some of the advisory assignments of a public nature in which BPI was involved during the first six months of 2014.

Partex – Advising in the calculation of the fair value of oil and gas assets.
Grupo Nors – Assisting in the analysis of an investment and disinvestment decision.
EGF – Advising a potential investor in the privatisation of EGF (in progress).
Fidequity – Advising in the evaluation and analysis of opportunity and investment.
Inter-Risco – Advising in the disinvestment of a subsidiary.
Sonaecom – Financial broker in the takeover bid for the company's own shares.

EQUITIES

Secondary market

In the first half of 2014, BPI brokered share dealings worth 5.2 th.M.€ and generated net brokerage commissions of 7.4 M.€.

Online brokerage

In this period, Banco BPI was market leader in online brokerage for individual investors with a market share of 22.2%, handling deals worth 2 104 M.€. BPI offers two services which permit access to the national markets and 12 international bourses:

- BPI NetBolsa, integrated within the range of homebanking services for Banco BPI customers, is the leader in Portugal in online brokerage for 5 years;
- BPI Online, the Investment Bank's exclusive channel.

Primary market

BPI was involved in the Initial Public Offering of Espirito Santo Saúde (25%) and of Euronext (60%) as co-lead, as well as in the final phase of REN's privatisation (11%).

Research and sales – Iberia and France

BPI continues to be amongst the research houses with the greatest coverage of companies listed on the Portuguese and Spanish markets, while currently fully developing the French market from its office in Paris.

At the end of June 2014, the universe of BPI Equity Research coverage included 117 European companies: 63 companies in Spain, 27 in Portugal, one in Denmark and 27 French.

BPI continued to organise various events with the object of bringing together companies and the community of institutional investors. During the first half of the year, several road shows were organised for Iberian companies, as well as marketing activities with analysts in the various markets. In total, some 45 road shows with more than 30 Portuguese and Spanish companies were staged, which visited institutional investors in various markets, not only throughout Europe, but also in the United States, Canada and Australia. In addition, a number of "reverse road shows" were organised, in which institutional investors pay *in loco* visits to companies, while 374 meetings were staged for promoting investment ideas amongst institutional investors.

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 the first half of 2014, it increased its universe of research coverage from 70 to 78 shares, including a number of companies listed on various sub-Saharan African stock markets (South Africa, Ghana, Nigeria, Mauritius, Kenya, Ruanda, Tanzania, Uganda, Zambia and Zimbabwe). Besides this, BPI Capital Africa maintained contact with some 115 institutional investors in South Africa, Europe, United States and Asia.

At the end of June 2014, the BPI Capital Africa team comprised 15 people (from Portugal, South Africa, Zimbabwe, England and Mozambique).

Trading

The Equities Department's main trading is segregated since February 2013 at BPI Alternative Fund – Iberian Equities Long/Short FEI (since January 2010) and at BPI Alternative Fund GIF.
At 30 June 2014 BPI was the holder of around 49% of the participating units in circulation in the total amount of 73 M.€.

Of special note in the first half of 2014 was the strong growth in the fund's assets under management on the part of participants outside BPI. The total value of the fund at 30 June 2014 was 149 M.€ which compares with 89 M.€ at the beginning of the year.

This fund's consolidation in Banco BPI's accounts, plus the equities brokerage business realised directly on the bank's balance sheet, resulted at the end of the first half of 2014 in a contribution to profits from financial operations and commissions in the total amount of 4.7 M.€.

Recognition

At the end of the 1st half of 2014, the Iberian team was composed of 28 employees, of whom 12 were attached to the research team and 16 to sales and trading.

This team received widespread recognition in the main rankings of Iberian brokers, including the following awards:

Thomson Extel
- #2 Corporate & Expert Meetings;
- #2 Iberian Equity Sales;
- #3 Iberian Trading & Execution;
- #2 Iberian Conference
- #3 Leading Brokerage Firm.

Institutional Investor
- #3 Iberian Research Team
- #7 Europe

Deloitte
- #1 Portuguese Research Team – IRG Awards.
- #1 Equity Analyst: Bruno Silva – IRG Awards

Starmine by Thomson Reuters
- #1 Iberian Broker – Analyst awards.

NYSE Euronext
- Most active Research House 2013 – Portugal
- Most Active Trading House – Segments B and C

PRIVATE BANKING

At the end of June 2014, BPI Private Banking's business volume amounted to 4 917 M.€, which translates into a year-on-year increase of 7.6%, thereby consolidating the rising trend observed in this business area. Assets under discretionary management and advisory mandate, in the amount of 4 251 M.€, registered a 7.9% increase relative to June 2013, whilst stable investments under custody grew by 9% relative to the same period a year ago.

In the 1st half of 2014, there was modest growth in the various locations where the Bank operates and in spite of some instability in the domestic market, we witnessed gradually more demand on the part of Customers for higher returns than those which characterise placements in traditional deposits.

Against this background, priority continued to be focused on fostering a closer Customer relationship, giving preference to the presentation of solutions aimed at the gradual diversification of investment portfolio taking into consideration risk and maturity, with emphasis on recommended Asset-Allocation for the different risk profiles and taking advantage of opportunities in specific products or markets. The dynamic promotion of international business also continued to be a priority.

Accordingly, there was a decrease in the volumes allocated to deposits, with a corresponding increase in the portfolio of investments in Funds, Capitalisation Insurance, Structured Products and in Stocks, with special reference to the 18.5% growth in Discretionary Management in June 2014 relative to the same period last year.

The signing up of new clients in the first half of 2014 represented 5% of the initial client base.

Private Banking

Selected indicators

Amounts in M.€

			Jun.13	Jun.14	Δ%
Discretionary management and advisory services		1	3 939	4 251	7,9%
Stable investments under custody		2	437	479	9%
Loans portfolio		3	192	188	(2%)
Business volume	[= Σ1 to 3]	4	4 568	4 917	7,6%

PRIVATE EQUITY

The Group's private equity business is undertaken by BPI Private Equity, essentially by way of investments in venture-capital funds and a 49% shareholding in Inter-Risco, a venture-capital fund manager. BPI Private Equity also has its own investment portfolio that it manages directly.

At the end of June 2014, the overall portfolio of the Group's private equity assets, comprising its own portfolio and the participating interests in venture-capital funds, amounted to some 88 M.€ at balance sheet values.

The participating units in venture-capital funds corresponded at the close of June 2014 to:

- The 52% participating interest in the Fundo Caravela - Fundo de Capital de Risco with a capital of 30 M.€, promoted by BPI and managed by Inter-Risco. This fund is now in the disinvestment stage;
- The 46% participating interest in the Fundo Inter-Risco II, launched in 2010 and which is similarly managed by Inter Risco. At the end of 2011, the fund-raising period was completed, having attained a sum of 81.5 M.€. Besides BPI's participation as sponsor with a position of 37.5 M.€, it boasts as key investors the European Investment Fund and the Fundação Calouste Gulbenkian. The fund adheres to a generalist sectorial approach and focuses on buyout and build-up investments in unlisted small and medium-sized Portuguese companies. The investment period began in 2010 and extends until 2015. Besides the investments in the areas of oral health, cold storage logistics and veterinary medicine, the Fund has recently made investments (i) in the hotel industry, through the creation of the Just Stay Hotels, destined for the implementation of a buy and build strategy in the limited-service hotels format (ii) in ENC Energy, a holding company whose subsidiaries are specialists in the extraction, conditioning and energy recovery of the biogas generated in the treatment of agro-industrial waste processes; and (iii) in Mwide SGPS, a holding company controlling 100% of Mecwide, a specialist engineering services company in the oil and gas sectors, energy production and the automobile industry;
- The 9% participating interest in the Fundo PVCi, a 111 M.€ fund managed by the European Investment Fund, specialising in the investment in private equity and venture-capital funds in Portugal, and
- The 99.8% participating interest in the Fundo IR II CI, a co-investment fund with Inter-Risco and managed by it, complementary and subordinated to the Fundo IR II, and whose mission is to comply with the commitment assumed by BPI as part of its recapitalisation plan. Corresponding to an investment of 30 M.€, the Fundo IR II CI, which has been reinforcing the BPI Group's investment capacity in SMEs and build-up projects, has realised since its formation in July 2013 investments in the share capital of Just Stay Hotels, Mecwide and ENC Energy.

The portfolio of investments under management of BPI's Private Equity area at 30 June 2014 was as follows:

Private Equity investments

	% held	Description
Invested funds		
Caravela fund	52,0%	Early-stage investments and development capital in Portuguese SME
IR II fund	46.0%	Expansion and buy-out investments in Portuguese SME
IR II CI fund	99,8%	Investment in SME's and build up projects
PVCi	9.0%	Investment in private equity and venture capital funds in Portugal
Other investments[1]		
Inter-Risco, S.A.	49.0%	Venture capital fund manager

1) Includes participating interest of 2.72% in Corporación Financiera Arco (Spanish-law holding company which comprises companies in the production and distribution of wine and assets in the hotel business, also associated with wine production), a 20.0% stake in Caravela Gest (Food retailing - Haagen Dazs) and a 9.2% stake in Conduril (civil engineering and public works).

International operations

BANCO DE FOMENTO ANGOLA

In June 2014 Banco de Fomento Angola's (BFA) shareholders' equity was 879 M.US$ (641 M.€) while assets at the same date totalled 9 288 M.US$ (6 799 M.€).

At the close of June 2014, BFA boasted a commercial network comprising 179 branches, which represents 4.7% growth relative to the same period a year ago.

Resources

Customer resources in June 2014 amounted to 8 174 M.US$ (5 984 M.€), registering 16.7% growth relative to the same period in 2013[1].

BFA had a 14.7% market share in deposits in May 2014.

Loans

The customer loans portfolio increased by a year-on-year1 2.3% to 1 518 M.US$ (1 111 M.€). According to central bank statistics (BNA), BFA's market share in May 2014 was 11.8%.

Securities portfolio

BFA's securities portfolio at 30 June 2014 amounted to 3 907 M.US$ (2 860 M.€) which represented 42% of the Bank's assets. The short-term securities portfolio composed of Treasury Bills, was 941 M.US$ while the portfolio of medium-term securities comprising Treasury Bonds, denominated in AKZ and in USD, amounted to 2 961 M.US$.

Cards and automated banking

BFA has a leading position in debit and credit cards in Angola, recording at the end of June 2014 884 thousand valid debit cards, which corresponded to a market share of 21.6%. On the same date there were 15.7 thousand active credit cards (Classic and Gold).

The Bank maintains a prominent position in terms of the stock of active APT and ATM equipment in June 2014, having terminated the first half of the year with 5 755 APT terminals, corresponding to first place with a 25.3% market share, and 355 ATM corresponding to second position with a 15.4% market share.

Insofar as Remote Banking is concerned, BFA SMS had 356.7 thousand subscriber customers at the end of June. As concerns homebanking, BFA registered in June 2014 a total of 461.9 thousand users of BFA Net, of whom 452.0 thousand correspond to the Individuals segment and 9.9 thousand to the Companies segment.

Banco de Fomento Angola
Selected indicators

Amounts in M.€

	Jun.13	Jun.14	Δ%
Net total assets	6 171	6 799	10,2%
Loans to Customers	1 135	1 111	-2,1%
Customer resources	5 357	5 984	11,7%
Shareholders' equity	557	641	15,2%
Employees (no.)	2 380	2 435	2,3%
Branches (no.)	171	179	4,7%
ATM machines (no.)	334	355	6,3%
POS (no.)	4 356	5 755	32,1%
Customers (thousand)	1 139	1 250	9,7%

CAMPAIGNS

Business solutions
The business solutions campaign is a campaign directed at the small and medium-sized companies segment and seeks to promote the products and services which the Bank already offers, integrating credit solutions, treasury management and overseas payment operations.

Western Union
Announced the extension of the Western Union service to all the Branches and Investment Centres, as well as positioning the Bank as the principal service provider in the area of rapid national and international transfers.

Learn not to queue
Campaign targeted at the BFA customer when visiting a branch. It has as its goal encouraging customers to use the Multicaixa card, thereby avoiding long waits in the queue.

1) When expressed in the consolidation currency (the euro), the Customer resources and loans portfolios registered, respectively, 11.7% growth and a 2.1% decline relative to June 2013.

SPONSORSHIP

Carnival

BFA was once again present at the Luanda and Huila Carnivals. As was the case in previous years, the Bank celebrated these festive days with thousands of Angolans
.

Moda Luanda

BFA sponsored the 17th edition of the Luanda Fashion contest. The event took place on 21 and 22 of February at the Luanda Bay. Moda Luanda showcases Angolan fashion and the potential of national designers, while this year the concept chosen was Digital Fashion.

Clube Desportivo 1° D'Agosto

BFA renewed the sponsorship contract with the Clube Desportivo 1° de Agosto. The Bank sponsors the club's senior soccer team for the 4th consecutive year. This initiative forms part of BFA's strategy of supporting major sporting projects and with a major impact within the community.

AWARDS

Brand of excellence - Superbrands

BFA was distinguished for the third time as a brand of excellence by Superbrands, an independent international organisation dedicated to promoting brands.
Superbrands Angola rewards brands of excellence for their performance on the national market.

STP Excellence Award – Deutsche Bank

Deutsche Bank distinguished for the 12th consecutive year BFA with the STP Award (Straight Through Processing) as a result of the high success rate in the automatic processing index of foreign operations realised in 2013, with a rate of 99.31%.

Best Corporate Bank – International Finance Magazine

The International Finance magazine honoured BFA with the awards for the "Best Corporate Bank in Angola" for the second year running. International Finance is an online British magazine with an audience of more than 180 countries which annually rates the best players in the banking sector in their different operating areas.

Card and Epayment Africa Awards

BFA was given the award for the "Best Debit Card Programme" by the portal Card and epayment Africa Awards. In awarding the prize the portal had as its principal criteria innovation in the debit cards, production design of the cards and the technological development of electronic payment means in Africa.

Best Corporate Management – World Finance

The World Finance magazine voted BFA the Bank with the "Best Corporate Management". In its decision World Finance magazine had as the chief criteria the consolidation of operations, the contribution to Angola's economic development and the creation of specific solutions for Customers.

Best Commercial Bank – Global Banking and Finance Review

BFA was honoured for the second consecutive year with the award for "Best Commercial Bank in Angola" by the English portal Global Banking and Finance Review. The distinction is based on the diversified range of products and services, the vast branch network and the Social Responsibility Programme focused on Education, Health and Social Solidarity.

BCI – BANCO COMERCIAL E DE INVESTIMENTOS

Total assets at the end of the first half of 2014 were 2 093 M.€, representing a 9.6% increase relative to June 2013. In May 2014 the Bank had a 29.2% market share of the Mozambican financial system's total assets.

Banco Comercial e de Investimentos

Selected indicators — Amounts in M.€

	Jun.13	Jun.14	Δ%
Net total assets	1 910	2 093	9,6%
Loans to Customers (net)	999	1 184	18,6%
Customer deposits	1 408	1 507	7,0%
Shareholders' equity	138	149	8,4%
Employees (no.)	2 039	2 243	10,0%
Branches (no.)	130	139	6,9%
ATM machines (no.)	319	362	13.5%
POS (no.)	4 444	5 114	15.1%
Customers (thousand)	639	893	39,7%

Deposits

Deposits taken from Customers registered in June 2014, when measured in euro, 7% growth, amounting to 1 507 M.€. Deposits in national currency constituted the most important component of the aforementioned growth. At the end of May 2014, BCI had a 28.2% market share in deposits.

Loans

The net loans portfolio, valued in euro, posted 18.6% growth, standing at 1 184 M.€. BCI's market share in the loan segment was situated in May 2014 at 29.0%.

Distribution network

BCI continued to expand the distribution network, having opened a further 9 branches in the past 12 months. At the end of 2014, the bank boasted a total of 139 distribution points, that is, 124 traditional branches, 1 business centre and 14 exclusive centres. On the other side, the ATM and POS network increased by 43 units (+13%) and 670 units (+15%), respectively, in the last year to total 362 ATM and 5 114 POS. The bank's customer base numbered 893 thousand (up 40%) who were served by a total of 2 243 employees.

MOZAMBIQUE FINANCIAL SERVICES DIVISION

During the 1st half of2014, the Mozambique Financial Services Division pursued the work and back-up contacts for the installation of BPI Moçambique and continued, in parallel, to undertake its promotional activity and own technique, in liaison with BCI and with the BPI Group's complementary areas.

At the end of June 2014, the loan and guarantees portfolio in African countries monitored by the Mozambique Financial Services Division totalled 103.0 M.€.

ESTABLISHMENT OF BPI MOÇAMBIQUE

BPI Moçambique, the Mozambique-law investment company dedicated to the provision of services in the financial consultancy area and the structuring of medium/long-term financing in Mozambique and surrounding countries formally commenced its operations in April 2014.

Besides the conclusion of its installation and authorisation process, the company undertook during the 1st half of 2014, with the support of the Mozambique Financial Services Division, a vast number of studies and promotional contacts with Mozambican and foreign entities with a view to lending support to its activity in Mozambique and neighbouring countries.

Financial review

OVERVIEW OF CONSOLIDATED RESULTS

Consolidated

BPI recorded a consolidated net loss of 106.6 M.€ in the first half of 2014. Consolidated cash flow (after taxation) was 14.8 M.€.

The return on consolidated average shareholders' equity (ROE) was a negative 5.1%.

Consolidated earnings were penalised by the negative contribution of 156.2 M.€, which in turn was particularly influenced by losses of 102 M.€ (-132 M.€ before taxation) realised in the 1st quarter from the sale of Portuguese and Italian medium and long-term public debt. The result from domestic activity is also affected by the cost of the contingent convertible subordinated bonds (CoCo) and which in the meantime were fully redeemed in June, by the maintenance of the cost of term deposits at high levels and by low Euribor rates.

International activity, which refer primarily to the activity conducted in Angola via BFA and, on a smaller scale, by BCI in Mozambique, contributed to consolidated earnings with 49.5 M.€, which corresponds to a 28.6% improvement on the preceding year. The ROE from International activity, to which 16% of the Group's average capital was allocated, was situated at 27.7%.

Net income, efficiency and profitability

Amounts in M.€

	30 Jun.13	30 Jun. 14		
	Consolidated	Domestic activity	International activity	Consolidated
Net income	58,9	(156,2)	49,5	(106,6)
Net income per share [1]	0,043	(0,112)	0,036	(0,077)
Cash flow after taxation	236,0	(49,0)	63,8	14,8
Net operating revenue	583,7	150,1	178,4	328,6
Net operating revenue per Employee [2] (thousands of euro)	67	24	73	38
Operating costs / net operating revenue, excluding non-recurring impacts (last 12 months)[3]	65,0%	87,6%	37,3%	68,3%
Average total assets	43 708,6	36 617,5	6 654,5	42 344,9
Return on average total assets (ROA)	0,4%	(0,6%)	3,0%	(0,0%)
Average Shareholders' equity	2 256,5	1 847,3	358,0	2 205,4
Return on average Shareholders' equity (ROE)[4]	5,2%	(11,4%)	27,7%	(5,1%)

1) Corresponds to net profit divided by the weighted average number of shares, after deducting treasury stock.
2) Number of Employees of the companies which are consolidated in full.
3) Operating costs as percentage of net operating revenue. Excluding non-recurring impacts on both costs and revenues.
4) In calculating ROE, it was considered the Shareholders' equity prior to deduct the fair value reserve (negative) relating to the portfolio of available-for-sale financial assets.

Consolidation by way of overall integration of the funds BPI Obrigações Mundiais and Imofomento and recognition under liabilities of minority interests in unit trust funds (IFRS 10)

According to the rules laid down in IFRS 10, the BPI Group started in 2014 to fully consolidated the participating interests in BPI Obrigações Mundiais – Fundo de Investimento Aberto de Obrigações and in Imofomento – Fundo de Investimento Imobiliário Aberto, in which it holds 56.1% and 40.4% respectively of the participating units.

Also as required by IFRS 10, the minority interests in the unit trust funds consolidated using the full consolidation method (BPI Alternative Fund Lux, BPI Obrigações Mundiais and Imofomento) are now recorded under liabilities, included under the caption Customer resources. See note 2.1 to the financial statements.

The figures presented in the Directors' Report refer to amounts as reported except when they are expressly indicated to be Pro forms figures (considering the retrospective application of IFRS 10). The retrospective application of IFRS 10, as envisaged by IAS 8, has the following impacts: increase in net assets of 120 M.€ in Jun.13 and of 107 M.€ in Dec. 13, reducing shareholders' equity and minority interests by 10 M.€ in Jun.13 and by 19 M.€ in Dec.13 and reducing by 0.04 M.€ of the consolidated net profit for the 1st half of 2013.

Domestic activity
Operating profit from Domestic activity fell by 273.5 M.€, to a negative figure of 99.8 M.€ in the 1st half of 2014, and is chiefly explained by the decrease in income derived above all from:

- The drop in profits from financial operations by 260.2 M.€, to -112.8 M.€ in the 1st six months of 2014, bearing in mind that these include in this period losses of 132 M.€ realised on the sale of sovereign debt;
- Reduction of 12.6 M.€ (-8.6%) in net interest income. Net interest income was penalised by the cost of the CoCo and remained under pressure from an environment of low Euribor rates and by the cost of term deposits at high levels;
- Decline in commissions of 8.9 M.€ (-6.9%).

Operating costs were 0.9% lower(-2.3 M.€ year-on-year).

The Bank continued to pursue its drive aimed rationalising the operational structure and improving operating efficiency in Portugal, which involves namely the gradual downsizing of the branch network and reducing the number of employees. In the last 12 months, 49 branches were closed in Portugal, of which 28 at the end of June 2014, while the headcount deployed in Domestic activity decreased 3.1% (-197 Employees).

In the past 5 and a half years (since December 2008), BPI has reduced its staff complement in Domestic activity by 1 601 Employees (-21%) and the distribution network in Portugal by 152 units (-19%).

Net credit loss (loan impairments net of recoveries as a percentage of the loan portfolio) stood at 0.71% in the 1st half of 2014, in annualised terms, down on the annualised figure of 1.05% recorded in the same six months of 2013. That indicator however remains significantly above the historical average indicator.

The contraction in the income base, greatly influenced by the negative impacts of a non-recurring nature, and the cost of credit risk which persists at high levels despite the drop noted in this half year, explain the net loss of 156.2 M.€ generated in Domestic activity.

International activity
Income from International activity rose by 13.1% (+20.7 M.€) relative to the 1st half of 2013.

However, given that costs represent about 38% of income in the period, the income growth rate had a proportionally greater impact on earnings, with the result that operating profit attributable to International activity increased by 23.4% (+21.1 M.€) year-on-year to 111.1 M.€.

Net profit was up 28.6% to 49.5 M.€ in the 1st half of 2014.

Consolidated income statement

Amounts in M.€

		Proforma consolidated[3]	Domestic Activity			International Activity			Consolidated		
		1st H.13	1st H.13	1st H.14	Δ M.€	1st H.13	1st H.13	1st H.14	Δ M.€	1st H.13	1st H.13
Net interest income (narrow sense)	1	219,4	129,2	118,0	(11,2)	90,0	102,7	+12,8	219,2	220,7	+1,5
Other income [1]	2	17,1	17,1	15,8	(1,4)	0,3	0,1	(0,2)	17,4	15,8	(1,6)
Net interest income [= 1 + 2]	3	**236,6**	**146,4**	**133,8**	**(12,6)**	**90,2**	**102,8**	**+12,5**	**236,6**	**236,5**	**(0,1)**
Technical result from insurance contracts	4	11,2	11,2	14,9	+3,6	0,0	0,0	+0,0	11,2	14,9	+3,6
Commissions and other fees (net)	5	156,5	130,0	121,1	(8,9)	27,1	25,8	(1,3)	157,1	146,9	(10,2)
Profits from financial operations	6	187,9	147,3	(112,8)	(260,2)	41,0	55,6	+14,6	188,3	(57,3)	(245,6)
Operating income and charges	7	(8,7)	(9,0)	(6,8)	+2,3	(0,6)	(5,7)	(5,1)	(9,6)	(12,5)	(2,9)
Net operating revenue [= ∑ 3 to 7]	8	**583,5**	**425,9**	**150,1**	**(275,8)**	**157,7**	**178,4**	**+20,7**	**583,7**	**328,6**	**(255,1)**
Personnel costs, excluding non-recurring	9	183,8	150,6	149,3	(1,3)	33,2	32,0	(1,2)	183,8	181,3	(2,5)
Outside supplies and services	10	119,5	91,5	92,5	+1,0	28,0	28,5	+0,5	119,5	121,0	+1,5
Depreciation of fixed assets	11	15,9	9,4	8,2	(1,2)	6,5	6,8	+0,3	15,9	15,0	(0,9)
Operating costs, excluding non-recurring personnel costs [= ∑ 9 to 11]	12	**319,2**	**251,5**	**250,0**	**(1,5)**	**67,7**	**67,3**	**(0,4)**	**319,2**	**317,3**	**(1,9)**
Non-recurring personnel costs / (gains) [2]	13	0,8	0,8	0,0	(0,8)	0,0	0,0	+0,0	0,8	0,0	(0,8)
Operating costs [= 12 + 13]	14	**320,0**	**252,2**	**250,0**	**(2,3)**	**67,7**	**67,3**	**(0,4)**	**320,0**	**317,3**	**(2,7)**
Operating profit [= 8 - 14]	15	**263,5**	**173,7**	**(99,8)**	**(273,5)**	**90,0**	**111,1**	**+21,1**	**263,7**	**11,3**	**(252,4)**
Recovery of loans written-off	16	10,4	9,1	7,5	(1,6)	1,3	1,0	(0,3)	10,4	8,5	(1,9)
Loan provisions and impairments	17	150,6	145,0	94,1	(50,9)	5,6	6,0	+0,4	150,6	100,1	(50,5)
Other impairments and provisions	18	10,6	9,0	4,9	(4,2)	1,5	1,5	(0,1)	10,6	6,3	(4,2)
Profits before taxes [= 15 + 16 - 17 - 18]	19	**112,7**	**28,8**	**(191,3)**	**(220,1)**	**84,1**	**104,7**	**+20,5**	**112,9**	**(86,7)**	**(199,6)**
Corporate income tax	20	25,3	13,7	(28,1)	(41,8)	11,6	9,8	(1,8)	25,3	(18,3)	(43,6)
Equity-accounted results of subsidiaries	21	10,2	5,9	7,7	+1,8	4,3	3,7	(0,6)	10,2	11,4	+1,2
Minority interests	22	38,8	0,6	0,7	+0,0	38,3	49,0	+10,7	38,9	49,7	+10,8
Net income [= 19 - 20 + 21 - 22]	23	**58,9**	**20,4**	**(156,2)**	**(176,6)**	**38,5**	**49,5**	**+11,0**	**58,9**	**(106,6)**	**(165,5)**
Cash flow after taxation [= 23 + 11 + 17 + 18]	24	**235,9**	**183,8**	**(49,0)**	**(232,8)**	**52,2**	**63,8**	**+11,6**	**236,0**	**14,8**	**(221,2)**

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

2) Non-recurring personnel costs in the 1st half 2013: cost of 0.8 M.€ which was due to (i) early-retirements costs of 4.1 M.€ and (ii) gains of 3.3 M.€ resulting from changes in calculating the death subsidy, following the publication of Decree Law 13/2013.

3) Proforma 1st half of 2013: considering the retrospective application of IFRS 10. According to that standard's requirements, in 2014 the BPI Group began to fully consolidate the participating interests in the BPI Obrigações and Imfomento funds, and to recognise in liabilities the minority interests in the unit trust funds consolidated using the full consolidation method.

Geographical segmentation of the BPI Group's activity

a) 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.

b) International activity 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 Moçambique – Sociedade de Investimento (100% held) and the activity of BPI Capital África in South Africa (100% held). International activity' contribution to net profit in the first half 2014 from Banco Fomento Angola amounted to 46.8 M.€, from BCI was 3.4 M.€, from BPI Moçambique was 0.2 M.€ and from BPI Capital África was -0.7 M.€.

At 30 June 2014 Banco BPI presents adequate capitalisation, good risk indicators, full cover of its pension obligations by the respective funds, a loans/deposits ratio of below 100%, comfortable leverage and liquidity ratios (CRD IV / CRR) and minimal net medium and long-term refinancing requirements.

Adequate capitalisation

Redemption of CoCo

Banco BPI repaid to the Portuguese State 920 M.€ of the contingent convertible subordinated bonds (CoCo) in the 1st half of 2014.

The Bank thus completed the full redemption of the recapitalisation operation carried out in June 2012, when the Portuguese State subscribed for CoCo totalling 1 500 M.€.

In accordance with the Capital Requirements Directive IV (CRD IV) / Capital Requirements Regulation (CRR)

The Common Equity Tier I capital calculated according to the CRD IV / CRR rules applicable in 2014 totals 2.5 th.M.€. The Common Equity Tier I ratio stands at 12.5% which, relative to the benchmark ratio of the valuation of assets to be undertaken by the ECB, of 8% corresponds to a capital surplus of 793 M.€.

The Common Equity Tier I ratio calculated according to the fully-implemented CRD IV / CRR rules (that is, without benefiting from the phasing in provided for in those rules) stands at 8.6%.

Capital and liquidity

Amounts in M.€

	31 Dec.13	30 Jun.14
	Consolidated	Consolidated
Capital and leverage		
Shareholders' equity and minority interests	2 190	2 541
CRD IV / CRR for 2014		
Common equity tier I capital	3 375	2 512
Risk weighted assets	21 616	20 111
Common equity tier I capital ratio	15,6%	12,5%
Leverage ratio	7,6%	6,4%
CRD IV / CRR fully implemented		
Common equity tier I capital	2 374	1 701
Risk weighted assets	21 126	19 682
Common equity tier I capital ratio	11,2%	8,6%
Leverage ratio	5,5%	4,7%
Liquidity		
Liquidity coverage ratio (CRD IV / CRR fully implemented)	350,0%	216,4%
Net Stable Funding Ratio (CRD IV / CRR fully implemented)	114,0%	103,1%
Loans-to-deposits ratio[1]	101,2%	91,7%

1) According to Bank of Portugal Instruction 23 / 2011.

Quality of assets

At the end of June 2014, BPI continues to maintain good loan-quality indicators:

- The ratio of loans in arrears for more than 90 days was 3.7%;
- The credit-at-risk ratio was situated at 5.4%;
- New loan defaults[1] amounted to 3.3 M.€ in the 1st six months of 2014, which corresponded to 0.03% of the loan portfolio in annual-equivalent terms (indicator of -0.04% if the recovery of loans written off is deducted);
- The credit-risk cost reflected in the income statement was situated at 0.72%, in annual-equivalent terms.
- Accumulated loan and guarantee impairment allowances in the balance sheet amount to some 1.1 th.M.€;
- Accumulated loan and guarantee impairment allowances in the balance sheet covered loans in arrears for more than 90 days to the extent of 110% (100% in June 2013) and 83% of the credit-at-risk (73% in June 2013), not considering the effect of collateral;
- Specifically for exposures to loans with instalments in default, the accumulated impairment allowances in the balance sheet set aside for these loans[2] and guarantees received (real or personal) relating to these loans covered 89% of the total exposure to the aforementioned loans, that is, loans in arrears for more than 30 days and associated loans falling due;
- The gross value of foreclosed fixed properties was 174.6 M.€ and was 19% covered by impairments.

1) Calculated as the change in the balance of arrear loans (for more than 90 days) between the beginning and end of the year, after adding the write-offs made.

Full cover of pension liabilities

At the close of June 2014, pension liabilities to retirees and pensioners for which BPI is liable (1 114 M.€) were 106% covered by the pension funds.

2) In addition, BPI had set aside impairment allowances of 324 M.€ for loans with no instalments in arrear and for guarantees. Considering also this figure, the cover for total arrear loans and associated loans falling due stood at 110%.

Assets quality and pension liabilities

Amounts in M.€

	30 Jun.13	30 Jun. 14		
	Consolidated	Domestic activity	International activity	Consolidated
Assets quality				
Loans in arrears for more than 90 days / Loans to Customers	3,4%	3,7%	4,5%	3,7%
Impairments accumulated in the balance sheet / Loans in arrears (> 90 days)	100%	108%	153%	110%
Credit at risk / Loans to Customers [1,2]	4,9%	5,3%	6,4%	5,4%
Impairments accumulated in the balance sheet / Credit at risk	73%	81%	107%	83%
Net credit loss [3]	1,04%	0,71%	0,91%	0,72%
Pension liabilities				
Employee pension liabilities	948	1 114		1 114
Cover of pension obligations	110%	106%		106%

1) According to Bank of Portugal Instruction 23 / 2011.
2) The credit at risk is the sum of: (1) the total amount outstanding on a loan in respect of which there are instalments of principal or interest in arrears for 90 days or more; (2) the total amount outstanding on loans which have been restructured, after having been in arrears for a period of 90 days or more, without adequate reinforcement of guarantees (these should be sufficient to cover the full amount of the outstanding principal and interest) or full payment of interest and other charges in arrears; (3) the total value of loans with instalments of principal and accrued interest in arrears for less than 90 days but in respect of which there is evidence to justify their classification as credit-at-risk, namely the debtor's bankruptcy or winding up.
3) Loan impairments in the period, after deducting recoveries of loans in arrears written-off (in the income statement) as % of the Customer loans average portfolio. In annualized terms.

Balanced funding and liquidity

Balance sheet funding is stable and the liquidity situation in balance:

- The transformation of deposits into loans ratio according to Bank of Portugal Instruction 23 / 2011 is situated at 92%.
- The leverage ratio stands at 4.7% according to the fully-implemented CRD IV rules (minimum in calibration ratio, which is expected to be situated at 3%).
- The *liquidity coverage* ratio (LCR) and the *net stable funding ratio* (NSFR) are situated at 216% and 103%, according to the fully-implemented CRD IV rules, whose minimum levels will be 100%.
- At the end of June 2014, BPI had a portfolio of short-term Portuguese public debt (Treasury Bills) of 3.5 th.M.€;
- In the 2nd quarter, BPI redeemed before maturity 1.0 th.M.€ of resources raised from the ECB, reducing the amount of funding to 3.0 th.M.€;
- The Bank also had assets capable of being transformed into immediate liquidity in operations with the ECB of 5.9 th.M.€;
- The medium and long-term refinancing needs arising in the next few years are immaterial: 1.3 th.M.€ from June 2014 until the end of 2018. It is also worth mentioning that in 2019 there will be the redemption of 1.4 thousand M.€ of public-debt bonds held by BPI in portfolio.

Consolidated balance sheet

Amounts in M.€

		Proforma Jun.13	Proforma Dec.13	Jun.13	Dec.13	Jun.14	Δ% Jun.13/ Jun.14
Assets							
Cash, deposits at central banks and deposits and loans to credit institutions	1	3 458,1	3 725,1	3 458,1	3 725,1	3 640,0	5,3%
Loans and advances to Customers	2	27 014,4	25 965,1	27 014,4	25 965,1	25 190,6	(6,8%)
Financial assets held for dealing	3	1 111,2	1 306,7	1 100,6	1 295,8	1 895,2	72,2%
Financial assets available for sale	4	9 438,3	9 624,2	9 498,1	9 694,2	8 633,6	(9,1%)
Investments held to maturity	5	253,0	136,9	253,0	136,9	103,5	(59,1%)
Investments in associated companies and jointly controlled entities	6	209,2	222,0	209,2	222,0	224,4	7,3%
Other	7	1 803,7	1 826,2	1 634,1	1 660,6	1 599,2	(2,1%)
Total assets [= ∑ 1 to 7]	**8**	**43 287,9**	**42 806,3**	**43 167,4**	**42 699,7**	**41 286,7**	**(4,4%)**
Liabilities and shareholders' equity							
Resources of central banks	9	4 132,8	4 140,1	4 132,8	4 140,1	3 055,0	(26,1%)
Credit institutions' resources	10	1 884,0	1 453,2	1 884,0	1 453,2	1 682,4	(10,7%)
Customer resources and other loans	11	25 506,8	25 617,5	25 379,0	25 495,0	25 600,4	0,9%
Debts evidenced by certificates	12	2 884,5	2 598,5	2 884,5	2 598,5	2 419,2	(16,1%)
Technical provisions	13	2 352,2	2 689,8	2 352,2	2 689,8	3 211,4	36,5%
Financial liabilities associated to transferred assets	14	1 478,0	1 387,3	1 478,0	1 387,3	1 199,6	(18,8%)
Contingent convertible subordinated bonds	15	1 041,6	920,4	1 041,6	920,4		(100,0%)
Other subordinated loans and participating bonds	16	144,4	136,9	144,4	136,9	69,5	(51,8%)
Other	17	1 683,0	1 575,4	1 680,7	1 572,3	1 508,5	(10,2%)
Shareholders' equity attributable to BPI shareholders	18	1 850,5	1 921,7	1 850,7	1 921,9	2 217,6	19,8%
Minority interests	19	330,1	365,5	339,6	384,4	323,0	(4,9%)
Total Shareholders' equity and minority interests [=18+19]	**20**	**2 180,7**	**2 287,2**	**2 190,3**	**2 306,3**	**2 540,6**	**16,0%**
Total liabilities and Shareholders' equity [= ∑ 9 to 19]	**21**	**43 287,9**	**42 806,3**	**43 167,4**	**42 699,7**	**41 286,7**	**(4,4%)**
Note: bank guarantees	22	2 165,4	2 106,8	2 165,4	2 106,8	2 053,7	(5,2%)
Off-balance sheet Customer resources [1]	23	2 938,3	3 016,4	3 060,8	3 137,6	3 135,5	2,4%

Proforma Jun.13 and Dec.13: considering the retrospective application of IFRS 10. According to that standard's requirements, in 2014 the BPI Group began to fully consolidate the participating interests in the BPI Obrigações and Imfomento funds, and to recognise in liabilities the minority interests in the unit trust funds consolidated using the full consolidation method.

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.

ACCOUNTING SHAREHOLDERS' EQUITY

Accounting shareholders' equity was 2 541 M.€ at the end of June 2014, and corresponded to:

- Share capital attributable to BPI shareholders of 2 218 M.€;
- Minority interests of 323 M.€ corresponding in essence to Unitel's 49.9% equity interest in BFA (321.2 M.€).

The increase of 296 M.€ in shareholders' equity attributable to shareholders relative to December 2013 is chiefly explained by:

- 210 M.€ appreciation in the value of Portuguese and Italian medium and long-term public debt securities held in the portfolio of available-for-sale financial assets. This figure results from the decrease in unrealised losses of 418 M.€ in Dec.13 to 77 M.€ in Jun.14, from which is deducted losses of 132 M.€ (before taxation) realised in the 1st quarter on the sale of 50% of the position held in Portuguese and Italian public debt.
- Public exchange offer (Portuguese initials OPT) of subordinated debt and preference shares for new Banco BPI shares concluded in June, which permitted an increase in accounting shareholders' equity of 112.8 M.€, of which 103.1 M.€ corresponded to the share capital increase.

  The Offer was accepted by the holders of negotiable securities in the amount of 115.8 M.€, which represented 91% of the securities which were the object of the OPT (127 M.€).

CAPITAL RATIOS

Early redemption of CoCo

Banco BPI repaid to the Portuguese State 920 M.€ of contingent convertible subordinated bonds (CoCo) in the 1st half of 2014, concluding the total redemption of the recapitalisation operation 3 years before the end of the envisaged legal deadline.

The redemption of the 920 M.€ of CoCo held by the State was effected in 2 tranches:

- 500 M.€ on 19 March;
- 420 M.€ on 25 June.

Common Equity Tier 1 ratio (CRD IV / CRR)

The Common Equity Tier 1 ratio in June 2014 calculated according with the CRD IV / CRR rules applicable in 2014 stands at 12.5%, which corresponds to a surplus capital of 793 M.€ relative to the reference of 8% prescribed by the ECB for the evaluation to be made of banks as preparation for assuming responsibility for banking supervision under the single supervisory mechanism.

Own funds requirements ratio

Amounts in M.€

	CRD IV / CRR for 2014		CRD IV / CRR Fully implemented	
	Dec. 13	**Jun. 14**	**Dec. 13**	**Jun. 14**
Common Equity Tier1	3 375.0	2 511.6	2 373.9	1 701.2
Risk-weighted assets	21 616.0	20 110.8	21 125.7	19 682.3
CET 1 ratio	**15.6%**	**12.5%**	**11.2%**	**8.6%**

The Common Equity Tier 1 ratio calculated in accordance with the fully-implemented CRD IV / CRR rules stood at 8.6% at the end of June.

The trend in the fully-implemented Common Equity Tier (CET 1) relative to December 2013
(-673 M.€) is primarily explained by the following factors:

- Redemption of 920 M.€ of contingent convertible bonds (CoCo) that resulted in a decrease in CET 1 capital by the same amount;
- OPT of subordinated debt and preference shares for Banco BPI shares which led to an increase in CET 1 capital of 113 M.€,
- Appreciation in the value and sale of Portuguese and Italian medium and long-term public debt securities held in the portfolio of available-for-sale financial assets with a positive impact on CET1 of 201 M.€.
- Sale of subordinated bonds of European insurers, with an impact on CET 1 of 86 M.€.

Leverage and liquidity ratios (CRD IV / CRR)

The **leverage ratio** as at 30 June 2014 stands at 4.7% according to the fully-implemented CRD IV rules (the minimum ratio is in calibration, and it is expected to be situated at 3%).

The **Liquidity coverage ratio (LCR)** and the **Net stable funding ratio (NSFR)** are situated at 216% and 103% according to the fully-implemented CRD IV rules, whose minimum levels will be 100%.

RESULTS OF DOMESTIC ACTIVITY

In the 1st half of 2014, the BPI Group's **Domestic activity posted a net loss of** 156.2 M.€.

That result can be ascribed to the negative contribution from **domestic commercial banking activity** (-165.9 M.€[1]), which is explained by losses of 102 M.€ realised in the 1st half of 2014 from the sale of half of the position held in Portuguese and Italian medium and long-term public debt. The result from commercial banking was also penalised by the cost of the CoCo, by an environment of Euribor rates at low levels and by the high cost of term deposits.

The investment banking and equity investments areas recorded positive contributions of 7.0 M.€[1] and 2.8 M.€[1], respectively, to the results from Domestic activity.

1) Contribution adjusted by the reallocation of capital between the areas which comprise Domestic activity.

ROE by business area in the 1st half 2014

Amounts in M.€

		Domestic activity			
		Commercial banking	**Investment banking**	**Participating interests and other**	**Total**
Average risk weighted assets	1	**17 578,9**	**393,3**	**165,1**	**18 137,3**
Capital allocated	2	1 665,5	84,2	97,7	**1 847,3**
Capital reallocation	3	125,0	(44,1)	(80,9)	
Adjusted Shareholders' equity for ROE calculation [= 2+3]	4	**1 790,5**	**40,1**	**16,8**	**1 847,3**
Net income	5	(167,0)	7,4	3,5	**(156,2)**
Adjustment to profit due to capital reallocation	6	1,1	(0,4)	(0,7)	
Net income (adjusted) [= 5+6]	7	**(165,9)**	**7,0**	**2,8**	**(156,2)**
ROE [=7/4]	8	**-12,9%**	**34,9%**	**32,9%**	**-11,4%**

Calculation of ROE by business areas

The return generated by each area results from the quotient between the contribution and the average capital allocated to the area. In determining the capital allocated to domestic activity, the accounting capital (shareholders' equity) before deducting the fair value reserve (negative) relating to the portfolio of available-for-sale financial assets, was taken into consideration. As regards each business area making up the domestic operations, it is assumed that the capital employed (before deducting the fair value reserve) is identical to the average capital employed for this activity as a whole. The amount of capital allocated to each area is calculated by multiplying the assets weighted by the quotient between shareholders' equity (before deducting the fair value reserve) and the assets weighted for the universe of the aforesaid areas. Whenever the shareholders' equity of a business area is more (or less) than the allocated capital using the above procedure, it is presumed 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.

Domestic activity income statement

Amounts in M.€

		Proforma 2) 1st half 13	1st half 13	1st half 14	Δ M.€	Δ%
Net interest income (narrow sense)	1	129,5	129,2	118,0	(11,2)	(8,7%)
Other income 1	2	16,8	17,1	15,8	(1,4)	(8,0%)
Net interest income [= 1 + 2]	3	**146,3**	**146,4**	**133,8**	**(12,6)**	**(8,6%)**
Technical result from insurance contracts	4	11,2	11,2	14,9	+3,6	32,3%
Commissions and other fees (net)	5	129,4	130,0	121,1	(8,9)	(6,9%)
Profits from financial operations	6	146,9	147,3	(112,8)	(260,2)	(176,6%)
Operating income and charges	7	(8,2)	(9,0)	(6,8)	+2,3	25,1%
Net operating revenue [= ∑ 3 to 7]	8	**425,7**	**425,9**	**150,1**	**(275,8)**	**(64,8%)**
Personnel costs, excluding non-recurring	9	150,6	150,6	149,3	(1,3)	(0,9%)
Outside supplies and services	10	91,5	91,5	92,5	+1,0	1,1%
Depreciation of fixed assets	11	9,4	9,4	8,2	(1,2)	(12,7%)
Operating costs, excl. non-recurring personnel costs [= ∑ 9 to 11]	12	**251,5**	**251,5**	**250,0**	**(1,5)**	**(0,6%)**
Non-recurring personnel costs / (gains)	13	0,8	0,8	0,0	(0,8)	(100,0%)
Operating costs [= 12 + 13]	14	**252,2**	**252,2**	**250,0**	**(2,3)**	**(0,9%)**
Operating profit [= 8 - 14]	15	**173,5**	**173,7**	**(99,8)**	**(273,5)**	**(157,5%)**
Recovery of loans written-off	16	9,1	9,1	7,5	(1,6)	(18,0%)
Loan provisions and impairments	17	145,0	145,0	94,1	(50,9)	(35,1%)
Other impairments and provisions	18	9,0	9,0	4,9	(4,2)	(46,2%)
Profits before taxes [= 15 + 16 - 17 - 18]	19	**28,6**	**28,8**	**(191,3)**	**(220,1)**	**(764,8%)**
Corporate income tax	20	13,7	13,7	(28,1)	(41,8)	(305,4%)
Equity-accounted results of subsidiaries	21	5,9	5,9	7,7	+1,8	30,1%
Minority interests	22	0,5	0,6	0,7	+0,0	7,7%
Net income [= 19 - 20 + 21 - 22]	23	**20,4**	**20,4**	**(156,2)**	**(176,6)**	**(865,2%)**
Cash flow after taxation [= 23 + 11 + 17 + 18]	24	**183,7**	**183,8**	**(49,0)**	**(232,8)**	**(126,7%)**

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

2) Proforma 1st half of 2013: considering the retrospective application of IFRS 10. According to that standard's requirements, in 2014 the BPI Group began to fully consolidate the participating interests in the BPI Obrigações and Imfomento funds, and to recognise in liabilities the minority interests in the unit trust funds consolidated using the full consolidation method.

BALANCE SHEET

The Domestic activity' balance sheet mainly reflects commercial banking business conducted in Portugal. At the end of 2014, customer loans represent 68% of assets while customer resources constitute the principal source of balance sheet funding (65% of assets).

Customer resources on the balance sheet (excluding capitalisation insurance) secured the funding of 87% of loans[1]. Aggregate customer resources on the balance sheet (excluding capitalisation insurance), medium and long-term debt and shareholders' equity represented 112% of customer loans[1].

The Bank has a portfolio of available-for-sale assets of 5.9 th.M.€. This portfolio essentially corresponds to Portuguese short-term public debt (3.5 th.M.€), Portuguese treasury bonds (0.9 th.M.€), Italian public debt bonds (0.6 th.M.€) and corporate bonds (0.6 th.M.€).

In the 2nd quarter of 2014, the Bank made the early repayment of 1.0 th.M.€ of European Central Bank resources obtained from the two extraordinary liquidity provision operations realised by the ECB in December 2011 and February 2012, so that the amount of funding utilised at the end of June amounted to 3.0 th.M.€.

1) Excluding the portfolio of securitised loans of BPI Vida e Pensões, the BPI Group that manages capitalisation insurance.

In June 2014, the Bank had assets eligible for funding from the ECB of 10.5 th.M.€ (figures net of capital appreciation and haircuts). Taking into account portfolio drawings on that date of 4.6 th.M.€ - repo operations, for the collateralisation of various liabilities and for funding from the ECB, the Bank kept 5.9 th.M.€ in assets capable of transformation into additional funding from the ECB, which represented 17% of total assets employed in a Domestic activity.

In the new few years, the Bank has negligible net resources requirements for refinancing medium and long-term debt, taking into consideration maturities as well as the repayment of bonds (excluding treasury bills) held in the portfolio of available-for-sale assets. Debt refinancing needs from June 2014 up until 2018, net of bond repayments occurring in this period, amount to 1.3 th.M.€.

Domestic activity balance sheet

Amounts in M.€

		Proforma Jun.13	Proforma Dec.13	Jun.13	Dec.13	Jun.14	Δ% Jun.13/ Jun.14
Assets							
Cash, deposits at central banks and deposits and loans to credit institutions	1	1 624,5	2 056,7	1 624,5	2 056,7	1 743,8	7,3%
Loans and advances to Customers	2	25 879,4	24 893,5	25 879,4	24 893,5	24 079,5	(7,0%)
Financial assets held for dealing	3	1 003,0	1 166,4	992,4	1 155,4	1 740,2	75,3%
Financial assets available for sale	4	7 855,9	7 338,3	7 915,7	7 408,3	5 929,1	(25,1%)
Investments held to maturity	5	253,0	136,9	253,0	136,9	103,5	(59,1%)
Investments in associated companies and jointly controlled entities	6	167,9	177,0	167,9	177,0	179,6	7,0%
Other	7	1 677,9	1 682,9	1 508,3	1 517,3	1 496,9	(0,8%)
Total assets [= ∑ 1 to 7]	8	**38 461,6**	**37 451,7**	**38 341,1**	**37 345,2**	**35 272,6**	**(8,0%)**
Liabilities and shareholders' equity							
Resources of central banks	9	4 132,8	4 140,1	4 132,8	4 140,1	3 055,0	(26,1%)
Credit institutions' resources	10	3 179,6	2 535,4	3 179,6	2 535,4	2 466,7	(22,4%)
Customer resources and other loans	11	20 081,7	19 919,0	19 953,9	19 796,5	19 562,1	(2,0%)
Debts evidenced by certificates	12	2 884,5	2 598,5	2 884,5	2 598,5	2 419,2	(16,1%)
Technical provisions	13	2 352,2	2 689,8	2 352,2	2 689,8	3 211,4	36,5%
Financial liabilities associated to transferred assets	14	1 478,0	1 387,3	1 478,0	1 387,3	1 199,6	(18,8%)
Contingent convertible subordinated bonds	15	1 041,6	920,4	1 041,6	920,4		(100,0%)
Other subordinated loans and participating bonds	16	144,4	136,9	144,4	136,9	69,5	(51,8%)
Other	17	1 578,6	1 501,5	1 576,4	1 498,4	1 428,8	(9,4%)
Shareholders' equity attributable to BPI shareholders	18	1 537,0	1 571,5	1 537,2	1 571,7	1 858,5	20,9%
Minority interests	19	51,2	51,2	60,7	70,2	1,8	(97,0%)
Total Shareholders' equity and minority interests [=18+19]	20	**1 588,2**	**1 622,8**	**1 597,9**	**1 641,9**	**1 860,3**	**16,4%**
Total liabilities and Shareholders' equity [= ∑ 9 to 19]	21	**38 461,6**	**37 451,7**	**38 341,1**	**37 345,2**	**35 272,6**	**(8,0%)**
Note: bank guarantees	22	1 966,0	1 879,1	1 966,0	1 879,1	1 704,8	(13,3%)
Off-balance sheet Customer resources [1]	23	2 938,3	3 016,4	3 060,8	3 137,6	3 135,5	2,4%

Proforma Jun.13 and Dec.13: considering the retrospective application of IFRS 10. According to that standard's requirements, in 2014 the BPI Group began to fully consolidate the participating interests in the BPI Obrigações and Imfomento funds, and to recognise in liabilities the minority interests in the unit trust funds consolidated using the full consolidation method.

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.

Customer loans

The Domestic activity loan portfolio decreased 1.8 th.M.€ (-7%) year-on-year. The portfolio's contraction reflects the subdued demand for loans as a result of the lower level of investment and consumption on the domestic market. In this context, the Bank continued to apply stringent criteria in lending activity.

Customer loans portfolio

Amounts in M.€

		Jun.13	Dec.13	Jun.14	Δ% Jun.13/ Jun.14
Corporate banking					
Large companies	1	2 008,5	1 702,8	1 491,5	(25,7%)
Medium-sized companies	2	2 578,3	2 347,0	2 292,6	(11,1%)
[= ∑ 1 to 2]	3	**4 586,8**	**4 049,9**	**3 784,1**	**(17,5%)**
Project Finance - Portugal	4	**1 206,8**	**1 158,4**	**1 136,3**	**(5,8%)**
Madrid branch					
Project Finance	5	749,9	739,5	707,4	(5,7%)
Corporates	6	908,2	815,6	731,7	(19,4%)
[= ∑ 5 to 6]	7	**1 658,1**	**1 555,1**	**1 439,1**	**(13,2%)**
Public Sector					
Central Administration	8	109,9	104,6	99,2	(9,8%)
Regional and local administrations	9	830,7	771,4	792,3	(4,6%)
State Corporate Sector - in the budget perimeter	10	218,7	192,6	208,5	(4,7%)
State Corporate Sector - outside the budget perimeter	11	849,9	863,7	475,6	(44,0%)
Other institutional	12	51,5	46,9	41,2	(20,0%)
[= ∑ 8 to 12]	13	**2 060,7**	**1 979,1**	**1 616,8**	**(21,5%)**
Individuals and Small Businesses Banking					
Mortgage loans to individuals	14	11 584,0	11 386,3	11 227,2	(3,1%)
Consumer credit / other purposes	15	643,1	601,1	571,4	(11,2%)
Credit cards	16	149,5	165,0	150,6	0,7%
Car financing	17	193,3	164,3	142,8	(26,1%)
Small businesses	18	1 480,3	1 411,3	1 357,4	(8,3%)
[= ∑ 14 to 18]	19	**14 050,2**	**13 728,0**	**13 449,4**	**(4,3%)**
BPI Vida e Pensões [1]	20	**1 694,4**	**1 725,1**	**2 052,7**	**21,2%**
Loans in arrears net of impairments	21	**134,6**	**82,8**	**- 13,1**	**(109,7%)**
Other	22	**487,9**	**615,0**	**614,2**	**25,9%**
Total [= 3+4+7+13 + ∑ 19 to 22]	23	**25 879,4**	**24 893,5**	**24 079,5**	**(7,0%)**
Note:					
Guarantees	24	1 966,0	1 879,1	1 704,8	(13,3%)

1) Securitised loans held by BPI Vida e Pensões (fully consolidated) and which is allocated to cover the capitalisation insurance issued by that Group subsidiary.

Loans to medium and large-sized companies in Portugal declined 7.1% (-444 M.€) year-on-year, considering Corporate Banking's aggregate loan portfolio and the securitised loans portfolio of BPI Vida e Pensões which essentially corresponds to bonds and commercial paper issued by large Portuguese companies. It should be pointed out that this aggregate evidences a positive trend of 1.1% (+62 M.€) when compared with December 2013.

The Madrid branch's loan portfolio decreased 13.2% (-219 M.€). For its part, the portfolio of loans to the public and State business sectors posted a year-on-year fall of 21.5% (-444 M.€).

Loans to individuals and small businesses was down 4.3% (-601 M.€) year-on-year, with decreases of 3.1% (-357 M.€) in mortgage loans and 8.3% (-123 M.€) in the small business loans segment.

Customer resources

Customer deposits declined by a year-on-year 3.3% (-633 M.€) to 18.4 th.M.€ at the close of June 2014. The trend in deposits in the past six months was influenced by the withdrawal of the 774 M.€ deposit that the IGCP (Treasury and Public Debt Management Agency - Agência de Gestão de Tesouraria e da Dívida Pública) kept at the bank since the end of 2011 under the agreement for the partial transfer of pension obligations to the Social Security.

Total customer resources registered year-on-year 1.6% growth to 25.9 th.M.€, founded on the expansion of capitalisation insurance of roughly 1.1 th.M.€ (+40%) and, to a lesser extent, of off-balance sheet resources of 75 M.€ (+2.4%).

Total Customer resources

Amounts in M.€

		Proforma Jun.13	Proforma Dec.13	Jun.13	Dec.13	Jun.14	Δ% Jun.13/ Jun.14
On-balance sheet resources							
Deposits							
Sight deposits	1	5 165,9	5 028,1	5 167,4	5 029,9	5 491,1	6,3%
Term and savings deposits	2	13 861,1	13 873,0	13 862,5	13 877,0	12 905,6	(6,9%)
[= 1 + 2]	3	19 027,0	18 901,1	19 029,9	18 906,9	18 396,7	(3,3%)
Bonds placed with Customers[1]	4	1 147,2	912,0	1 147,2	912,0	711,7	(38,0%)
Subtotal [= 3 + 4]	5	**20 174,2**	**19 813,0**	**20 177,1**	**19 818,9**	**19 108,4**	**(5,3%)**
Insurance capitalisation, PPR (BPI Vida e Pensões) and others	6	2 974,0	3 334,1	2 843,2	3 205,8	3 990,3	40,3%
On-balance sheet resources [= 5 + 6]	7	**23 148,2**	**23 147,2**	**23 020,3**	**23 024,6**	**23 098,7**	**0,3%**
Off-balance sheet resources[2]	8	**2 938,3**	**3 016,4**	**3 060,8**	**3 137,6**	**3 135,5**	**2,4%**
Corrections for double counting[3]	9	- 606,4	- 233,1	- 609,4	- 238,6	- 358,7	
Total Customer resources[4] [= 7+ 8 + 9]	10	**25 480,0**	**25 930,4**	**25 471,8**	**25 923,6**	**25 875,6**	**1,6%**

Proforma Jun.13 and Dec.13: considering the retrospective application of IFRS 10. According to that standard's requirements, in 2014 the BPI Group began to fully consolidate the participating interests in the BPI Obrigações and Imfomento funds, and to recognise in liabilities the minority interests in the unit trust funds consolidated using the full consolidation method.

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 amounted to 7 952 M.€ at the end of June 2014. This portfolio includes, besides available-for-sale financial assets, those held for trading as well as investments held to maturity and participating interests.

The portfolio of available-for-sale financial assets totalled 5 929 M.€. Of this figure. 3 476 M.€ corresponds to Portuguese short-term public debt (Treasury Bills).

The following were the most salient aspects of the movement in the 1st half of 2014 on the portfolio of available-for-sale financial assets:

- The sale in the 1st quarter of half of the position held in the medium and long-term public debt of Portugal and Italy with a nominal value of 850 M.€ and 487.5 M.€, respectively. The sale of Portuguese and Italian bonds generated total losses (in securities and in interest-rate hedging derivatives) of 132 M.€ before taxation (102 M.€ after taxation).
- The increase in the value of Portuguese and Italian public-debt securities, a reflection of the lower remuneration demanded by investors on the secondary market.

At the end of June 2014, the fair value reserve (before deferred tax) relating to available-for-sale financial assets was a negative figure of 87 M.€.

Financial assets available-for-sale portfolio

Amounts in M.€

	Proforma Dec.13		31 Dec. 2013					30 Jun. 2014				
					Gains / (losses) [1)]					Gains / (losses) [1)]		
	Book value	Gains / (losses)	Acquisition cost	Book value	Securities	Derivatives	Total	Acquisition cost	Book value	Securities	Derivatives	Total
Sovereign debt	6 221,2	- 410,2	6 241,5	6 221,2	- 68,9	- 341,2	**- 410,2**	4 860,5	4 987,0	130,7	- 202,0	**- 71,3**
Portugal	5 163,3	- 332,1	5 237,9	5 163,3	- 122,0	- 210,1	**- 332,1**	4 355,5	4 423,4	70,4	- 124,8	**- 54,5**
Of which:												
T. bonds	1 680,8	- 340,1	1 809,2	1 680,8	- 129,9	- 210,1	**- 340,1**	904,2	947,4	65,1	- 124,8	**- 59,7**
T. bills	3 482,5	8,0	3 428,8	3 482,5	8,0	0,0	**8,0**	3 451,3	3 476,0	5,2	0,0	**5,2**
Italy	1 057,9	- 78,1	1 003,5	1 057,9	53,0	- 131,1	**- 78,1**	505,0	563,6	60,3	- 77,2	**- 16,9**
Corporate bonds	794,1	- 41,6	746,9	794,1	23,1	- 64,8	**- 41,6**	593,2	628,4	22,9	- 46,2	**- 23,3**
Equities	101,7	16,7	131,1	101,7	16,7		**16,7**	131,9	105,1	19,6		**19,6**
Other	221,3	- 1,8	309,9	291,3	- 1,7		**- 1,7**	241,5	208,5	- 11,8		**- 11,8**
Total	**7 338,3**	**- 436,9**	**7 429,4**	**7 408,3**	**- 30,9**	**- 406,0**	**- 436,9**	**5 827,1**	**5 929,1**	**161,4**	**- 248,2**	**- 86,8**

Proforma Dec.13: considering the retrospective application of IFRS 10. According to that standard's requirements, in 2014 the BPI Group began to fully consolidate the participating interests in the BPI Obrigações and Imfomento funds, and to recognise in liabilities the minority interests in the unit trust funds consolidated using the full consolidation method.

1) Fair value reserve, net of deferred taxes. Includes impact of the interest rate risk coverage.

INCOME

Net operating revenue from domestic banking operations declined by a year-on-year 65% (-275.8 M.€) as a consequence of the decreases in net interest income of 12.6 M.€ (-8.6%), in commissions of 8.9 M.€ (-6.9%) and the 260.2 M.€. drop in profits from financial operations.

Net interest income

Net interest income was 12.6 M.€ lower (-8.6%) relative to the 1st half of 2013, in large part explained by the following factors:

- The 26 M.€ decrease in interest income on the Treasury Bills portfolio and on the portfolio of Treasury Bonds acquired during 2012 and sold by the end of January 2013.
- The 18.1 M.€ lower cost of CoCo, explained by the redemption of these instruments and which partially compensated for the above-mentioned negative effect.
- The smaller interest margin earned on intermediation business with customers is basically explained by the negative effect of the decline in the loan portfolio[1] (average balance decreased by a year-on-year 2.0 th.M.€), which was meanwhile largely offset by the positive effect of the decrease in the margin (negative) on term deposits.

Net interest income Amounts in M.€

		1st half 13	1st half 14	Chg.M.€
Net interest income (narrow sense)	1	129,2	118,0	(11,2)
Unit linked gross margin	2	1,4	2,0	+0,6
Income from securities (variable yield)	3	3,2	3,4	+0,2
Commissions related to deferred cost (net)	4	12,6	10,4	(2,2)
Net interest income [= ∑ 1 a 4]	5	**146,4**	**133,8**	**(12,6)**
Note:				
Cost of CoCo	6	44,8	26,7	(18,1)
Net interest income excl. cost of CoCo's [=5+6]	7	191,2	160,4	(30,7)

Considering the retrospective application of IFRS 10:
Net interest income 1st half 13 Proforma = 146.3 M.€.

In the half-year under review, net interest income was under pressure from the following factors:

- Interest cost of CoCo of 26.7 M.€. In the meantime, on 25 June BPI completed the redemption of the entire CoCo bonds still held by the State.
- Euribor rates at historical lows, given that this is reflected directly in the contraction of the average margin on sight deposits. The average Euribor rate in the 1st half of 2014 was situated at 0.30%.
- The high cost of term deposits. It is worth highlighting that the margin (negative) on term deposits reflects a gradual improvement since the start of the second half of 2013. The margin (negative) on term deposits was situated at 1.68 p.p. in the 1st half of 2014, which compares favourably with the 1.90 p.p. in the same period of the previous year.

The intermediation unit margin (margin between the average remuneration earned on the loan portfolio and that paid on Customer deposits) improved by 0.76 p.p., from 0.69 p.p. in the 1st half of 2013 to 1.45% in the 1st half of 2014.

Commissions

Commissions and other net income fell by 6.9% (-8.9 M.€) when compared with the same period of 2013. This decline is mainly explained by the lower commissions derived from commercial banking, which in turn reflects the 2.7 M.€ fall in commissions associated with loans and guarantees and the 7.1 M.€ drop in primary and capital market commissions arising from corporate debt issues.

Asset management fees were down 1.2% (-0.3 M.€) while investment banking commissions rose by 33% (+2.5 M.€).

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

		1st half 13	1st half 14	Chg.%
Commercial banking	1	101,3	90,2	(11,0%)
Asset management	2	21,1	20,8	(1,2%)
Investment Banking	3	7,6	10,1	32,7%
Total [= ∑ 1 a 3]	4	**130,0**	**121,1**	**(6,9%)**

Considering the retrospective application of IFRS 10:
Commissions 1st half 13 Proforma = 129.4 M.€.

1) Does not include the securitised loan portfolio of BPI Vida e Pensões since the corresponding interest income is considered in the margin obtained from capitalisation insurance products which is essentially recorded in the captions "Gross margin on unit links" and "Technical results of insurance contracts".

Profits from financial operations

The negative results from financial operations of 112.8 M.€ in the 1st half of 2014 are chiefly explained by losses of 132 M.€ (before taxation) realised on the sale in the 1st quarter of half of the position held in Portuguese and Italian medium and long-term public debt.

In the 1st six months of the preceding year, the profits from financial operations were 147.3 M.€, benefiting from the gains of 129 M.€ realised on the sale of Portuguese Treasury Bonds which had been acquired in 2012.

In this way the year-on-year change in results of financial operations was a negative 260.2 M.€.

Profits from financial operations Amounts in M.€

		1st half 13	1st half 14	Δ M.€
Operations at fair value	1	16,2	17,4	+ 1,3
Available for sale assets	2	129,1	-131,1	- 260,2
Financial income from pensions	3	2,1	0,8	- 1,3
Total [= ∑ 1 a 3]	4	**147,3**	**-112,8**	**- 260,2**

Considering the retrospective application of IFRS 10:
Profits from financial operations 1st half 13 Proforma = 146.9 M.€.

OPERATING COSTS

Operating costs – personnel costs, outside supplies and services – were down by a year-on-year 0.9% (0.6% lower excluding non-recurring personnel costs).

BPI has pursued the gradual implementation of measures aimed at the rationalisation of the structure deployed in activity in Portugal. The average workforce employed in Domestic activity decreased by 2.2% year-on-year , at the same time as 49 branches were closed in Portugal (of which 28 at the end of June 2014).

Meanwhile, the contraction in the income base explains the unfavourable trend in the efficiency indicator "operating costs as a percentage of net operating revenue".
The efficiency indicator excluding non-recurring impacts on both the cost and income sides, was situated at 87.6% in the 12-month period ended in June 2014.

Operating costs Amounts in M.€

		1st half 13	1st half 14	Δ%
Personnel costs, excluding non-recurring costs	1	150,6	149,3	(0,9%)
Outside supplies and services	2	91,5	92,5	1,1%
Operating costs before depreciation and amortisation [=1 + 2]	3	**242,1**	**241,8**	**(0,1%)**
Depreciation of fixed assets	4	9,4	8,2	(12,7%)
Operating costs, excluding non-recurring costs [=3 + 4]	5	**251,5**	**250,0**	**(0,6%)**
Non-recurring personnel costs	6	0,8	0,0	
Operating costs [=5 + 6]	7	**252,2**	**250,0**	**(0,9%)**
Efficiency ratio excl. non-recurring items (last 12 months) [1]	8	76,3%	87,6%	

1) Operating costs as percentage of net operating revenue, excluding non-recurring impacts on both costs and revenues.

Personnel costs

Personnel costs (excluding non-recurrent costs) fell by 0.9%, which mainly reflects the reduction in the average headcount employed in Domestic activity and the zero growth in the fixed component of remuneration, as contemplated in the revision of the salary scale in Portugal laid down by the Collection Vertical Employment Agreement for the banking sector.

Personnel costs

Amounts in M.€

		1st half 13	1st half 14	Δ%
Remunerações				
Fixed remunerations	1	105,2	103,8	(1,3%)
Variable remunerations	2	8,5	8,0	(6,5%)
Other [1]	3	4,5	4,8	6,2%
Remunerations [= ∑ 1 a 3]	4	**118,2**	**116,5**	**(1,4%)**
Pension costs and social charges [2]	5	32,4	32,7	1,2%
Subtotal [= 4 + 5]	6	**150,6**	**149,3**	**(0,9%)**
Non-recurring costs				
Costs with early retirements	7	4,1	0,0	(100,0%)
Changes to the pensions plan - death subsidy [3]	8	(3,3)	0,0	(100,0%)
Non-recurring costs [= 7 + 8]	9	**0,8**	**0,0**	**(100,0%)**
Total [= 6 + 9]	10	**151,3**	**149,3**	**(1,4%)**

1) Includes bonuses and motivation incentives for the commercial network, long service awards, cost of loans to Employees and others.
2) Includes current service cost, other Employer's contributions and the amortisation of changes to pension plan conditions.
3) Gain of 3.3 M.€ resulting from changes in calculating the death subsidy, following the publication of Decree Law 13/2013.

Staff pension liabilities

At 30 June 2014, the present value of the Bank's liabilities amount to 1 114 M.€.

The net assets of the employee pension funds total 1 184 M.€, which cover the funding of 106% of pension liabilities.

Pension funds' return

In the 1st half of 2014, the Bank's pension funds posted a non-annualised return of 5.5%.

It must be noted that, up to the end of June 2014, the actual return attained by the Banco BPI pension fund since its creation in 1991 was 9.4% per annum, on average, and that in the last ten, five and three years, the actual return was 7.1%, 9.3% and 12.2%, respectively.

Employees' pension liabilities and pension funds

Amounts in M.€

		30 Jun.13	31 Dec.13	30 Jun.14
Pension liabilities	1	948,2	1 082,4	1 113,9
Pension funds	2	1 045,5	1 131,9	1 184,2
Financing surplus	3	97,3	49,6	70,3
Financing of pension liabilities	4	**110%**	**105%**	**106%**
Total actuarial deviations [1]	5	(44,4)	(92,4)	(64,0)
Pension funds return [2]	6	6,8%	16,2%	5,5%

1) Actuarial gains and losses are recognized directly in Shareholders' equity (OCI - Other Comprehensive Income), in accordance with the revision of IAS19 which became mandatory from 1 Jan. 2013.
2) Accumulated return since the beginning of the year; non-annualised.

Financial and actuarial assumptions

At the end of June 2014, BPI reduced the discount rates by 0.5 p.p. (at Banco BPI, from 4.33% to 3.83%[1] for current employees and from 3.50% to 3.00%[1] in the case of retirees), and reduced by 0.25 p.p. for salary (from 1.5% to 1.25%) and pension growth rates (from 1.0% to 0.75%).

1) The amount of the pension liabilities that result from the utilisation of the aforesaid discount rates for the population of current employees and retirees at 30 June 2014, is similar to that which would have been obtained had a single discount rate of 3.5% had been used for the entire population.

These changes as a whole explain essentially a negative actuarial variance (increase in liabilities) of 12.2 M.€ (-104.7 M.€ from the change in discount rates, 21.3 M.€ from the change in the growth rate for salaries and 71.2 M.€ from the change to the pension growth rate).

The pension funds' actual return above the discount rate gave rise to a positive actuarial variance of 40.6 M.€ which compensated for the aforementioned negative variances stemming from the changes to the actuarial assumptions.

Actuarial and financial assumptions

	2013			**1st half 2014**	
	Year-beginning	**30 Jun.13**	**Year-end**	**Year-beginning**	**Year-end**
Discount rate at Banco BPI	4,5% [1]	4,5%	4,0% [2]	4,0%	3,5% [3]
Discount rate at other companies	4,5%	4,5%	4,0%	4,0%	3,5%
Pensionable salary increase rate	1,5%	1,5%	1,5%	1,50%	1,25%
Pension increase rate	1,0%	1,0%	1,0%	1,00%	0,75%
Mortality table	TV 73/77-M – 1 year [4] TV 88/ 90-W – 1 year [4]		TV 73/77-M – 2 years [5] TV 88/ 90-W – 3 years [5]		

1) It was considered a discount rate of 4.83%for current employees' liabilities and 4.00% for retirees, which is similar to that which one would obtain had a single discount rate of 4.5% been applied to the entire population.
2) It was considered a discount rate of 4.33%for current employees' liabilities and 3.50% for retirees, which is similar to that which one would obtain had a single discount rate of 4.0% been applied to the entire population.
3) It was considered a discount rate of 3.83%for current employees' liabilities and 3.00% for retirees, which is similar to that which one would obtain had a single discount rate of 3.5% been applied to the entire population.
4) 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.
5) For the population covered, an age of 2 years less for men (M) and 3 years less for women (W) than the beneficiaries' actual age is considered, which equates to considering a longer life expectation.

IMPAIRMENTS AND PROVISIONS

Impairment charges in the 1st half of 2014, net of recoveries of loans previously written off, amounted to 91.5 M.€ and corresponded to:

- Loan impairments (net of recoveries) of 86.6 M.€;
- impairments for other purposes 4.9 M.€.

Customer loan impairments

Loan impairments totalled 94.1 M.€ in the 1st half of 2014, which corresponded to 0.77% of the loan portfolio's average balance in annualised terms

Net credit loss, which corresponds to the amount of impairment charges (94.1 M.€) net of loan recoveries (7.5 M.€), was 86.6 M.€ in the 1st half of 2014. Net credit loss represented 0.71% of the average balance on the loan portfolio. This indicator was situated at 1.05% in the 1st half of 2013 and at 0.98% for the whole of 2013.

The average figure for net loan loss in the past ten years was 0.41%.

At the end of June 2014, accumulated impairments in the balance sheet (without taking into consideration cover by collateral) covered loans in arrears for more than 90 days by 108% and 81% of credit at risk, calculated according to Bank of Portugal Instruction 23/2011.

Loan impairments

Amounts in M.€

		1st half 13				1st half 14			
		Impairments	As % of loan portfolio 1, 2	Impairments net of recoveries	As % of loan portfolio 1, 2	Impairments	As % of loan portfolio 1, 2	Impairments net of recoveries	As % of loan portfolio 1, 2
Corporate banking, institutional banking and project finance	1	87,7	1,75%	84,7	1,69%	67,8	1,62%	66,4	1,59%
Individuals and small businesses									
Mortgage loans	2	24,3	0,42%	23,8	0,41%	19,9	0,35%	19,2	0,34%
Loans to individuals – other purposes	3	6,5	1,27%	3,4	0,66%	5,3	1,20%	3,5	0,79%
Loans to small businesses	4	12,6	1,65%	10,1	1,32%	0,5	0,08%	-3,1	-0,46%
[= ∑ 2 to 4]	5	43,4	0,61%	37,3	0,52%	25,7	0,38%	19,6	0,29%
Other	6	13,9	1,73%	13,9	1,73%	0,6	0,05%	0,6	0,05%
Total [= 1 + 5 + 6]	7	**145,0**	**1,12%**	**135,9**	**1,05%**	**94,1**	**0,77%**	**86,6**	**0,71%**

1) Average performing loan portfolio.
2) In annualised terms.

EQUITY ACCOUNTED RESULTS OF SUBSIDIARIES

The contribution from equity-accounted subsidiaries to the result from Domestic activity was 7.7 M.€ in the 1st half of 2014, which corresponds to a year-on-year 30.1% increase.

The contribution from the subsidiaries engaged in insurance business – Allianz Portugal and Cosec – improved by 8.6% to 6.7 M.€.

Equity-accounted results of subsidiaries

Amounts in M.€

		1st half 13	1st half 14	Δ%
Allianz Portugal	1	4,8	4,9	2,1%
Cosec	2	1,4	1,8	31,6%
[= 1 + 2]	3	6,2	6,7	8,6%
Finangeste	4	(0,9)	(0,3)	67,7%
Unicre	5	0,6	1,2	112,3%
Other	6	0,0	0,0	88,0%
Total [=∑ 3 a 6]	7	**5,9**	**7,7**	30,1%

RESULTS OF INTERNATIONAL ACTIVITY

NET PROFIT

The contribution from International activity to consolidated earnings was 49.5 M.€ in the 1st half of 2014, which corresponded to 28.6% year-on-year growth (+11.0 M.€).

The main contributions to the profit from International activity corresponded:

- to the contribution of 46.8 M.€ from Banco de Fomento Angola (BFA), relating to the appropriation of 50.1% its individual net profit (which was 30.1% higher than that earned in the 1st half of 2013);
- to the contribution of 3.4 M.€ from Banco Comercial e de Investimentos (BCI), relating to the appropriation of 30% of its individual net profit (equity accounted), which corresponds to a year-on-year decrease of 13.9%.

In the individual accounts, BFA earned a return on equity (ROE) of 30.4% in the 1st half of 2014 while BCI earned a ROE of 16.7%.

The return on average capital allocated to International activity, after consolidated adjustments, was situated at 27.7% in the 1st half of 2014.

International activity income statement

Amounts in M.€

		1st half 13	1st half 14	Δ M.€	Δ%
Net interest income (narrow sense)	1	90,0	102,7	+12,8	14,2%
Net commission relating to amortised cost	2	0,3	0,1	(0,2)	(79,8%)
Net interest income [= 1 + 2]	3	**90,2**	**102,8**	**+12,5**	**13,9%**
Commissions and other fees (net)	4	27,1	25,8	(1,3)	(4,8%)
Profits from financial operations	5	41,0	55,6	+14,6	35,6%
Operating income and charges	6	(0,6)	(5,7)	(5,1)	(909,3%)
Net operating revenue [= ∑ 3 to 6]	7	**157,7**	**178,4**	**+20,7**	**13,1%**
Personnel costs	8	33,2	32,0	(1,2)	(3,6%)
Outside supplies and services	9	28,0	28,5	+0,5	1,8%
Depreciation of fixed assets	10	6,5	6,8	+0,3	4,9%
Operating costs [= ∑ 8 to 10]	11	**67,7**	**67,3**	**(0,4)**	**(0,6%)**
Operating profit [= 7 - 11]	12	**90,0**	**111,1**	**+21,1**	**23,4%**
Recovery of loans written-off	13	1,3	1,0	(0,3)	(19,8%)
Loan provisions and impairments	14	5,6	6,0	+0,4	6,4%
Other impairments and provisions	15	1,5	1,5	(0,1)	(4,3%)
Profits before taxes [= 12 + 13 - 14 - 15]	16	**84,1**	**104,7**	**+20,5**	**24,4%**
Corporate income tax	17	11,6	9,8	(1,8)	(15,7%)
Equity-accounted results of subsidiaries	18	4,3	3,7	(0,6)	(13,9%)
Minority interests	19	38,3	49,0	+10,7	28,0%
Net profit [= 16 - 17 + 18 - 19]	20	**38,5**	**49,5**	**+11,0**	**28,6%**
Cash flow after taxation [= 20 + 10 + 14 + 15]	21	**52,2**	**63,8**	**+11,6**	**22,3%**

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 BPI Moçambique and BPI Capital África, both consolidated in full, have a minor weight. See notes to the financial statements 2.2 and 3.

INCOME

International activity generated net operating revenue (BFA's business activity) which rose by 13.1% (+20.7 M.€) relative to the 1st half of 2013.

Net operating revenue Amounts in M.€

		1st half 13	1st half 14	Chg.%
Net interest income	*1*	90,2	102,8	13,9%
Commissions and other similar income (net)	*2*	27,1	25,8	(4,8%)
Profits from financial operations	*3*	41,0	55,6	35,6%
Operating income and charges	*4*	-0,6	-5,7	s.s.
Total	***5***	**157,7**	**178,4**	**13,1%**

Net interest income

The 13.9% (+12.5 M.€) improvement in net interest income in the 1st half of 2013 was chiefly due to the positive volume effect of the 0.8 th.M.€ increase in the average securities portfolio, coupled with the growth in customer resources.

That effect was partially cancelled out by the decline in the average remuneration rates earned on placements at CI's of 0.5 p.p., and of 0.8 p.p. in the Customer loans' portfolio.

In the 1st six months of 2014 the interest margin relative to the average cost of resources was 7.9 p.p. in loans and 4.7 p.p. in securities.

Commissions

Commissions and other similar income amounted to 25.8 M.€, which corresponds to a 4.8% year-on-year decline (-1.3 M.€).

Profits from financial operations

Profits from financial operations climbed 35.6% (+14.6 M.€) to 55.6 M.€. This figure corresponds primarily to foreign currency gains derived from commercial operations with Customers.

OVERHEAD COSTS

Overhead costs totalled 67.3 M.€ in the 1st half of 2014 (-0.6% relative to the 1st half of 2013).

BFA continued to develop its operational structure in Angola, having opened 8 new branches in the past 12 months, which represented a 4.7% increase in the distribution network while increasing the staff headcount by 2.3% to 2 435 Employees.

The indicator "operating costs as a percentage of net operating revenue" was situated at 37.3% in the 12 months ended on 30 June 2014.

Operating costs Amounts in M.€

		1st half 13	1st half 14	Δ%
Personnel costs	*1*	33,2	32,0	(3,6%)
Outside supplies and services	*2*	28,0	28,5	1,8%
Operating costs, before depreciation and amortisation [= 1 + 2]	*3*	**61,2**	**60,5**	**(1,2%)**
Depreciation and amortisation	*4*	6,5	6,8	4,9%
Operating costs [= 3 + 4]	*5*	**67,7**	**67,3**	**(0,6%)**
Efficiency ratio (last 12 months) [1]	6	41,3%	37,3%	

1) Operating costs as percentage of net operating revenue.

LOAN IMPAIRMENTS AND PROVISIONS

Loan impairments amounted to 6.0 M.€, which corresponded to 1.10% of the average balance of the loan portfolio in annualised terms.

Loan impairments after deducting recoveries (1.0 M.€), amounted to 5.0 M.€ and represented 0.91% of the average loan portfolio in annualised terms.

At the end of June 2014, BFA had a ratio of Customer loans in arrears for more than 90 days of 4.5%. Loans in arrears for more than 90 days were 153% covered by accumulated loan provisions on the balance sheet.

Loan impairments

		1st half 13		1st half 14	
		M.€	As % of loan portfolio[1]	M.€	As % of loan portfolio[1]
Loan impairments	1	5,6	1,03%	6,0	1,10%
(-) Recoveries of loans in arrears written off	2	1,3	0,23%	1,0	0,19%
Loan impairments net of recoveries [=1 - 2]	3	**4,4**	**0,80%**	**5,0**	**0,91%**

1) As a % of average performing loan portfolio, in annualised terms.

Equity-accounted results of subsidiaries

Equity-accounted results – which correspond to the appropriation of the net profit attributable to the 30% shareholding in BCI in Mozambique – amounted to 3.7 M.€[1] in the 1st half of 2014, which corresponded to a year-on-year 13.9% decline.

BCI continued to expand the business in Mozambique, posting 9.6% year-on-year growth in net total assets, 7.0% in deposits and 18.6% in the Customer loans portfolio. The number of Customers grew by 40% to 893 thousand.

1) BCI's contribution to BPI's consolidated earnings, besides the equity-accounted results also includes the deferred tax relating to BCI's contribution was 3.4 M.€, which corresponds to a 13.9% year-on-year decline.

MINORITY INTERESTS

Minority interests in net profit from International activity correspond to the 49.9% interest in the capital of BFA held by Unitel.

BPI recognised 49.0 M.€ of minority interests in BFA's net profit in the 1st half of 2014.

BALANCE SHEET

BFA has a very liquid balance sheet, with Customer resources (5 984 M.€) financing 88% of assets. At the end of June 2014, Customer resources together with shareholders' equity covered the financing of virtually all the assets.

The Customer loans portfolio represented 16% of assets, while the transformation of deposits into loans ratio was situated at 19% at the end of June.

Surplus liquidity on BFA's balance sheet, defined as total deposits and shareholders' equity not allocated to the financing of loans, compulsory reserves or the financing of fixed assets, amounted to 4.5 th.M.€ at the end of June 2014.

Surplus liquidity in kwanzas is invested in short-term securities issued by the Angolan Treasury, in placements at the BNA with reverse repos and in Angolan Treasury Bonds in kwanzas. The surplus liquidity in dollars is invested on the interbank market and in Angolan Treasury Bonds expressed in dollars or indexed to the dollar.

International activity balance sheet

Amounts in M.€

			Jun.13	Dec.13	Jun.14	Δ% Jun.13/ Jun.14
Assets						
Cash, deposits at central banks and deposits and loans to credit institutions		1	3 169,8	2 766,3	2 683,7	(15,3%)
Loans and advances to Customers		2	1 135,0	1 071,6	1 111,1	(2,1%)
Financial assets held for dealing		3	108,2	140,4	155,0	43,3%
Financial assets available for sale		4	1 582,4	2 285,9	2 704,6	70,9%
Investments held to maturity		5				
Investments in associated companies and jointly controlled entities		6	41,3	45,0	44,8	8,4%
Other		7	177,9	146,4	147,5	(17,1%)
Total assets	[= ∑ 1 to 7]	8	**6 214,6**	**6 455,6**	**6 846,8**	**10,2%**
Liabilities and shareholders' equity						
Resources of central banks		9				
Credit institutions' resources		10	40,7	15,7	3,2	(92,1%)
Customer resources and other loans		11	5 425,1	5 698,5	6 038,4	11,3%
Debts evidenced by certificates		12				
Technical provisions		13				
Financial liabilities associated to transferred assets		14				
Contingent convertible subordinated bonds		15				
Other subordinated loans and participating bonds		16				
Other		17	156,4	77,0	124,9	(20,1%)
Shareholders' equity attributable to BPI shareholders		18	313,5	350,2	359,1	14,6%
Minority interests		19	279,0	314,3	321,2	15,1%
Total Shareholders' equity and minority interests	[=18+19]	20	**592,4**	**664,5**	**680,3**	**14,8%**
Total liabilities and Shareholders' equity	[= ∑ 9 to 19]	21	**6 214,6**	**6 455,6**	**6 846,8**	**10,2%**
Note: bank guarantees		22	199,4	227,6	349,0	75,0%

Customer loans

BFA's customer loans portfolio decreased by a year-on-year 2.1%[1], with BFA maintaining a selective approach in lending activity and the employment of stringent risk-evaluation criteria.

At the end of June 2014, the component expressed in kwanzas represented 64.5% of the total portfolio (66.4% in June 2013) while the component expressed in USD represented 35% of the total portfolio.

Customer loans portfolio Amounts in M.€

		Jun.13	Dec.13	Jun.14	Δ% Jun.13 / Jun.14
Loans to companies	1	**744,8**	**699,9**	**736,3**	**(1,1%)**
Loans to individuals					
Housing loans	2	130,4	121,7	119,6	(8,3%)
Consumer loans	3	206,2	194,8	193,7	(6,1%)
Other	4	65,8	65,1	72,5	10,2%
[= ∑ 2 a 4]	5	**402,4**	**381,6**	**385,8**	**(4,1%)**
Loans in arrears	6	59,1	52,0	56,2	(5,0%)
Loan impairments	7	- 78,3	- 69,5	- 73,5	(6,1%)
Interests and other	8	7,0	7,7	6,3	(9,2%)
Total [=1 + ∑ 5 a 8]	9	**1 135,0**	**1 071,6**	**1 111,1**	**(2,1%)**
Guarantees	10	199,4	227,6	349,0	75,0%

Customer resources

BFA's resources portfolio posted a 11.7%[1] expansion relative to June 2013. Sight deposits represent more than half of total resources.

1) When expressed in American dollars, the loan portfolio increased 2.3% yoy and customer resources increased 16.7% yoy. When analysing the evolution of BFA's commercial activity, one considers the financial figures translated to US dollars, since the largest share of Customer resources and loans is denominated in U.S. dollars, hence changes expressed in that currency are more representative of the business evolution in Angola.

Total Customer resources Amounts in M.€

		Jun.13	Dec.13	Jun.14	Δ% Jun.13/ Jun.14
Sight deposits	1	2 892,7	3 028,6	3 070,2	6,1%
Term and savings deposits	2	2 464,7	2 616,0	2 913,4	18,2%
Total [= 1 + 2]	3	**5 357,4**	**5 644,6**	**5 983,6**	**11,7%**

In June 2014, 42.9% of Customer deposits were denominated in dollars (56.9% in June 2013), 54.6% in kwanzas (39.7% in June 2013) and 2.6% in other currencies.

Securities and financial investments portfolio

The financial assets portfolio comprises in June 2014, short-term securities with maturities of up to one year, denominated in kwanzas and issued by the State (Treasury Bills) and Angolan Treasury Bonds with maturities of 1 to 6 years.

This portfolio is utilised for the investment of BFA's surplus liquidity and balance sheet management. The surplus liquidity in kwanzas is invested in short-term securities issued by the Angolan Treasury, in placements at the BNA and in Treasury Bonds denominated in kwanzas. The surplus liquidity in dollars is invested in the interbank market and in Angolan Treasury Bonds denominated in dollars and indexed to the dollar.

The securities portfolio at the end of June 2014 totalled 2 860 M.€ (+69% relative to June 2013).

Securities and financial investments portfolio Amounts in M.€

		Jun.13	Dec.13	Jun.14	Δ%Jun.13/ Jun.14
Angolan Treasury Bills (BT)	1	211,3	506,7	688,8	226,0%
Angolan Treasury Bonds (OT)	2	1 476,4	1 915,7	2 167,8	46,8%
Other	3	2,9	3,9	3,0	1,9%
[= ∑ 1 a 3]	4	**1 690,6**	**2 426,3**	**2 859,6**	**69,1%**
Financial investments[1]	5	41,3	45,0	44,8	8,4%
Total [= 4 + 5]	6	**1 731,9**	**2 471,2**	**2 904,4**	**67,7%**

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

	30 Jun. 13	31 Dec. 13	30 Jun. 14
Net operating revenue and results of equity accounted subsidiaries / ATA	2,7%	2,5%	1,6%
Profit before taxation and minority interests / ATA	0,6%	0,4%	-0,4%
Profit before taxation and minority interests / average shareholders' equity (including minority interests)	11,3%	8,2%	-6,0%
Personnel costs / net operating revenue and results of equity accounted subsidiaries[1]	31,1%	36,0%	53,3%
Operating costs / net operating revenue and results of equity accounted subsidiaries[1]	53,9%	60,5%	93,3%
Loans in arrears for more than 90 days + doubtful loans / loan portfolio (gross)	3,6%	4,0%	4,2%
Loans in arrears for more than 90 days + doubtful loans, net of accumulated loan impairments / loan portfolio (net)	0,2%	0,3%	0,0%
Credit at risk[2]	4,9%	5,1%	5,4%
Credit at risk[2], net of accumulated loan impairments / loan portfolio (net)	1,5%	1,4%	1,2%
Restructured loans[3] as % of total loans		6,1%	6,8%
Restructured loans[3] not included in non-performing loans ("credit at risk") as % of total loans		4,4%	4,8%
Own funds requirements ratio	15,2% [4)]	16,2% [4)]	12,5% [5)]
Basis own funds ratio (Tier I)	15,1% [4)]	16,2% [4)]	12,5% [5)]
Core Tier I ratio	15,3% [4)]	16,5% [4)]	12,5% [5)]
Loans (net) to deposits ratio	101%	96%	92%

1) Excluding costs with early-retirements.
2) The credit at risk is the sum of: (1) the total amount outstanding on a loan in respect of which there are instalments of principal or interest in arrears for 90 days or more; (2) the total amount outstanding on loans which have been restructured, after having been in arrears for a period of 90 days or more, without adequate reinforcement of guarantees (these should be sufficient to cover the full amount of the outstanding principal and interest) or full payment of interest and other charges in arrears; (3) the total value of loans with instalments of principal and accrued interest in arrears for less than 90 days but in respect of which there is evidence to justify their classification as credit-at-risk, namely the debtor's bankruptcy or winding up.
3) According to Bank of Portugal Instruction 32/2013.
4) According to the previous Bank of Portugal rules in force until 31 Dec. 13.
5) According to CRD IV/CRR phasing in rules for 2014.

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.

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, with the Rating Committee having the power to derogate them for the clients with great exposure. Quantitative models and expert analysis produced, respectively, by the Risk Analysis and Control Division and the Credit Risk 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 the Operational Division, as well as to members of each one of the Group's bodies charged with the identification and management of operational risks in their areas of activity.

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

Matrix of responsibilities for risk management and control

	Identification and analysis of exposure	Strategy	Limits and control	Recovery	Performance Evaluation
Credit / counterparty risk	**DACR**: rating and scoring models (probabilities of default), and loss given default for all loan segments **DACR** and **DF**: external rating identification for debt securities and for credit to financial institutions **DRC**: Risk analysis, Rating for Corporates, Small Businesses, Project Finance and Institutional Clients **Rating Committee**: Rating for Institutional Clients and Derogation of Rating for Large Corporates **DRCP**: Expert System for loans to Individuals **DACR**: exposure to derivatives **DACR**: analysis of overall exposure to credit risk	**CECA, CERG**: overall strategy **CECA, CERC**: approval of substantial operations **Credit Board, DRC, DBI, DRCP, DF**: approval of operations	**CA** (with CRF advisory) **CECA, CERC, Credit Board, DRC, DRCP, DACR, DF**: limits **CA** (with CRF advisory), **CECA, CACI, CERC, CERG, Credit Board, DACR, DO, Internal and external Auditors**[1]**, Supervisory Board, Bank of Portugal:** control	**DRCE**: Companies **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 **DACR**: analysis of overall exposure	**CECA, CERG**: overall strategy **DF, DA:** operations	**CA** (with CRF advisory) **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, CERG**: overall strategy **DF, DA**: operations	**CA** (with CRF advisory) **CECA, CERG, DACR, DF, DA**: limits **CECA, CACI, CERG, DACR, DC, Internal and external Auditors**[1]**, Supervisory Board, Bank of Portugal**: control		
Liquidity risk	**DF**, **DA**: individual risk analysis of liquidity, by instrument **DACR**: analysis of overall liquidity risk	**CECA, CERG**: overall strategy	**CA** (with CRF advisory) **CECA, CACI, CERG, DACR, DC, Internal and external Auditors**[1]**, Supervisory Board, Bank of Portugal:** control		
Operating risks	**DACR**: analysis of overall exposure **DOQ** and **all the Divisions**: identification of critical points	**CECA**: overall organisation **CRO** **DOQ**: regulations	**CECA, CERG, DOQ, DACR**: regulation and limits **CECA, CACI, DOQ, DACR, DC, Internal and external Auditors**[1]**, Supervisory Board, Bank of Portugal**: control	**DJ, DAI, DO, Commercial Divisions**	**CECA, DOQ**[2]
Legal and compliance risks	**DJ, DC** **DC:** compliance risk analysis	**CECA:** compliance	**CECA, CACI, DJ, DC, Internal and external Auditors**[1]**, Supervisory Board, Bank of Portugal**: control		

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.

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 Financial Risks (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); **DJ** – Direcção Jurídica (Legal Division); **DO** – Direcção de Operações (Operations Division); **DOQ** – Direcção da Organização e Oualidade (Organisation and Quality 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.

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.

For more details concerning the collateral evaluation and management policy, see the "Market Discipline" report published on the Investor Relations site (point 6).

In project finance or structured finance of primary important is the clear identification and allocation of the chief emerging risks, isolating the project and the risk assets of their Promotors or Shareholders ("ring-fencing"), focusing on the forecast or actual capacity for generating cash flow whether it be as the source of debt repayment or as guarantee for financing. The loan contract typically contains a set of very wide-ranging powers and oversight mechanisms by the lenders.

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 more details concerning the collateral evaluation and management policy, see the "Market Discipline" report published on the Investor Relations site (point 6).

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, and the evolution of its portfolio (diversification by geographical area, sector, segment, counterparty, currency and maturity). A more detailed description of this topic of risk concentration is available in the "Market Discipline" Report published on the Investor Relations site (point 5.A.3.).

The Bank keeps constant vigilance over the results and profitability indices achieved vis-à-vis the risks assumed.

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

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

Recovery procedures are duly identified with the object of determining on a case-by-case basis the choice of option that hopefully allows maximising the amount recovered.

In the case of Companies or Small Businesses, the Bank seeks as a rule to arrange a non-judicial debt restructuring which, being credible, may involve extending the maturity period and, perhaps, the pardon of principal with the payment of arrear interest and additional guarantees. Also as a rule, the Bank does not increase its exposure, and does not accept payment in specie (goods in lieu of cash payment) nor does it convert debt into capital (equity). Once a debt restructuring has been set up, the process is duly monitored. Default in the plan agreed upon sets into motion the judicial debt-recovery process and execution. Where the debt restructuring option does not prove to be feasible, the loan is immediately remitted for judicial execution.

In the case of Individuals, the restructuring or renegotiation accords are also the preferred debt-recovery route provided that they are minimally viable and capable of compliance. The choice depends in large part on the default period and age of the credit product, and could entail extending the maturity term and a payment plan for overdue and outstanding instalments, amongst other modes. There also exists a system which alerts to breach of the restructuring accord, thereby triggering subsequent action.

For operations in default, but also for operations with incidents or performing loans, the Bank makes an estimate of provisions for impairments which involves not only a statistical calculation but also an assessment by an expert system of the same impairment for all material 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.

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.

DESCRIPTION OF IMPAIRMENT CALCULATION METHODOLOGIES

Financial assets or off-balance sheet operations (loans, guarantees given, irrevocable commitments, commercial paper underwriting, derivatives, other) are in a default situation when events occur, after the initial recognition of the asset, which alter expectations regarding the future cash flows associated with that asset. The impairment corresponds to the difference between the balance sheet value of the financial asset and the present value of its estimated future cash flows. In addition, provisions are recorded for losses also incurred but not yet reported (IBNR - Incurred but not reported)

In the case of loans to individual Customers, the portfolio is segmented according to the type of products, while a collective analysis is made of impairments. The individual analysis in the case of Individuals only takes place for exposures of 1.000 th.€ or more (Private Banking).

In the case of Corporate Banking, Project Finance, Institutional Banking, State Business Sector and Small Businesses, use is made of size-related criteria and other smaller-case complementary criteria in order to determine the type of analysis to be carried out. As a general rule, the most significant exposures – 250 th.€ or more – are subject to individual analysis. The analysis can be individual or collective for exposures which are not material. In the Small Businesses segment, collective analyses are undertaken separately for Equipment Leasing, Real Estate Leasing and the Commercial Loans Portfolio.

As a general rule, where no provisions are set aside after the individual analysis, provisions are created for collective analysis.

The calculation of individual impairment is effected operation by operation. The following constitute objective signs of the existence of individual impairment, amongst others:
- Incidents and defaults (non accidental);
- Recording of Incidents at BoP's CRC;
- Risk warnings which indicate a significant deterioration in the situation of Individuals and of Groups/Companies;
- Attachment of Accounts;
- Insolvency applications;
- Tax and Social Security debts;
- Strong increase in the probability of default (including Scoring/Rating situations beyond the established rejection boundary and restructured/renegotiated loans for risk deterioration);
- Strong devaluation of the collateral.

The final calculation of individual impairment is based on an empirical estimate (educated guess) of the product's probability of default and of a loss in the event of default (for performing loans or with incidents); or simply of a loss in the case of default (for loans in default).

The expected value of the loan recovery contains a judgment about the value of the cash flows to be presented by customers, based on both their historical economic-financial performance and on the expected future trend. The expected value of the loan recovery includes mandatorily the cash flow that could result from the execution of the guarantees or collateral associated with the loan advanced. In this case, the costs related to the respective recovery process are deducted.

Properties pledged as security are obligatorily valued on site before the process is definitively concluded. The valuation of properties pledged as security is entrusted by Banco BPI to duly accredited external valuation companies which are obliged to visit the interior of the property. The goal of these valuations carried out by Banco BPI is to determine the market value of a property, according to the principles defined by:
- IVSC-International Valuation Standards Council in the publication International Valuation Standards (7th edition of 2005);
- Bank of Portugal Notice 5/2006 (Valuation of Mortgaged Properties as security pledged for Mortgage Bonds);
- Bank of Portugal Notice 5/2007 (Adequacy of Own Funds).

The Market Value of a property is the price at which it can be sold between an interested seller and a buyer with the capability to realise the transaction, at the valuation date on the assumption that the property is placed for public sale, that the market conditions permit a proper transfer of the asset and that there is a normal period, taking into account the nature of the property. In order to determine the Market Value, it is possible to resort to three valuation methods: Market Method, Return Method and Cost Method.

The calculation mode for collective provisions relating to the most important portfolios (Home Loans, Companies, Sole Proprietors and Small Businesses), involves a breakdown according to the gravity of the past or present signs. In the case of Home Loans, the restructured or renegotiated operations (without arrears) are also treated separately.

<table>
<tr><th>Segments</th><th>Without signs</th><th>With signs</th><th>Default</th></tr>
<tr><td>Corporate Banking</td><td rowspan="4">Performing loans or
Delays up to 30 days</td><td>Delays of more than 30 days or risk factors</td><td rowspan="2">Delays of more than 180 days or Litigation</td></tr>
<tr><td>Small Businesses</td><td rowspan="3">Delays of more than 30 days</td></tr>
<tr><td>Personal Loan</td><td rowspan="2">Delays of more than 90 days or Litigation</td></tr>
<tr><td>Motor Car Finance</td></tr>
<tr><td>Home Loans</td><td>Performing loans or
Delays or delays up to 12 days</td><td>Delays of more than 12 days</td><td>Dealys of more than 180 days or Litigation</td></tr>
<tr><td>Credit Cards</td><td>Performing loans (status AA) or
Miscellaneous (inactive, cheques, etc)</td><td>Delinquencies
(status D01, D02 and D03)</td><td>Default (status CG) or Litigation</td></tr>
</table>

The balance sheet value corresponds to the sum of the book value of the principal falling due, overdue principal, overdue interest and the expenses of arrear loans.

Based on the aforesaid breakdowns, probability curves are constructed based on the Kaplan-Meier methodology. Sign/arrear probabilities are calculated during an emergency period of 6 months and subsequent transition to a default situation (arrears of 180 days or 90 days, according to the segments), up until the final maturity.

Multiple sign probability curves are constructed based on the period running from the start of the operations and/or since the settlement of the arrears/Default. The probabilities are less the longer the operation pans out without incidents and the distance increases relative to its start or the settlement of the previous sign/Default anterior.

Different transitional probability curves are also constructed according to the gravity of the sign and based on the time elapsing since the observation of the sign. The probability is marginally lower to the extent that we distance ourselves from the observation of the sign and the operation/customer does not attain the Default situation.

In case of default, an estimate is made of the economic loss. The payments made by the customer after the default are analysed, after deducting the direct costs of the recovery process. These flows are discounted at the interest rate of the operations and compared (%) with the exposure at the time of the Default. Different recovery curves are estimated for operations which are for different periods in default (based on the amount of the debt after t months of the operations /customers who remain in default in that month). In the Real Estate and Home Loan segments, in which the recovery processes are longer by virtue of the execution of the property, the recoveries include the estimate of recovery via judicial process (execution/repossession of the asset), based on the available history relating to these situations (probability of judicial recovery multiplied by the percentage of estimated recovery by judicial process).

Risk Factors	Without signs	With signs	Default
Probability of sign (or incident): Probability of an operation/customer becoming late during an emergency period	✓	✗	✗
Probability of Transition (to Default): Probability of an operation/customer which/who already records delays (signs) arriving at a default situation during the remaining term of the operation.	✓	✓	✗
Loss in case of default (PED/LGD): Economic loss of the operations in case of Default	✓	✓	✓

Depending on the situation of the loans, the provisions for impairment are calculated differently.

- **Loans without signs**

$$\text{Impairment} = \sum_{H,j} \left(\text{Book Value}_{H,j} - \sum_{t} \frac{ECF_t}{(1+i)^t} \right) \times SP_{H,j}$$

- **Loans with signs**

$$\text{Impairment} = \sum_{DS} \left(\text{Book Value}_{DS} - \sum_{t} \frac{ECF_t}{(1+i)^t} \right)$$

- **Loans in Default**

$$\text{Impairment} = \sum_{j} (\text{Book Value}_j \text{ x } LD_j)$$

With:
ECF = expected cash flow
SP = sign probability
TP = transition probability
DL = default loss
DS – degree of sign (e.g. 12-30 days, 30-60 days, etc.)
H – history of operations/customers without indications (without problems in the past, with signs or with Default)
t – period in which the payment of a future cash flow is contractually envisaged

Restructuring of loans

The recovery procedures are duly identified with the aim of deciding on a case-by-case basis on the choice of option which allows maximising the amount recovered.

In the case of Companies or Small Businesses, the Bank tries as a rule to arrange a non-judicial debt restructuring which, being credible, may involve extending the maturity period and, perhaps, the pardon of principal with the payment of arrear interest and additional guarantees. Also as a rule, the Bank does not increase its exposure, and does not accept pledge in lieu nor does it convert debt into capital (equity). Once a loan restructuring has been set up, the process is duly monitored. Default in the plan agreed upon sets into motion the judicial debt-recovery process and execution. Where the debt restructuring option does not prove to be feasible, the loan is immediately remitted for judicial execution.

In the case of Individuals, the restructuring or renegotiation accords are also the preferred debt-recovery route provided that they are minimally viable and capable of compliance. The choice depends in large part on the default period and the age of the credit product, and could entail extending the maturity term and a payment plan for overdue and outstanding instalments, amongst other modes. There also exists a system which alerts to breach of the restructuring accord, triggering subsequent action.

Evaluation of exposure to credit risk

Companies, institutional Customers, specialised finance and small businesses

BPI uses an internal rating system for companies (excluding small businesses) with ten classes (E1 to E10) plus two classes in the case of incidents (ED1 and ED2) and one in the case of default (ED3, which corresponds to a 100% "probability of default"). Default probabilities are associated to each classification for the evaluation of loans, guarantees and securities of medium and large-sized companies.

Internal rating of companies
Breakdown of exposure by risk classes
At 30 June 2014

Risk classes		Value (M.€)[1]	% of portfolio amount	One-year default probability[2]
E1	1	79.3	1.24%	0.0%
E2	2	208.4	3.26%	0.0%
E3	3	621.2	9.70%	0.2%
E4	4	1 241.8	19.40%	0.2%
E5	5	897.6	14.02%	0.5%
E6	6	596.7	9.32%	1.0%
E7	7	830.2	12.97%	2.6%
E8	8	377.9	5.90%	6.0%
E9	9	347.1	5.42%	12.6%
E10	10	360.6	5.63%	18.3%
Without rating	11	69.2	1.08%	3.8%
ED1	12	31.3	0.49%	50.5%
ED2	13	8.0	0.13%	80.4%
ED3 (default)	14	732.7	11.44%	100.0%
Total [=Σ 1 a 14]	15	**6 402.0**	**100%**	**3.8%**

The average probability of default in the Companies' portfolio, over 1 year, weighted by the value of liabilities at 30 June 2014, was 3.8%. The loss in case of default in this segment is on average 34.7%, identical figure to that of the past, indicating difficulties in the recovery of operations in default against the backdrop of the prevailing economic crisis. The expected loss is on average 1.3% for the whole 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.

Internal rating of project finance
Breakdown of exposure by risk classes in 30 June 2014

Risk classes		Value (M.€)	% of portfolio amount
Strong	1	163.3	6.5%
Good	2	1 336.3	52.8%
Satisfactory	3	433.3	17.1%
Weak	4	365.1	14.4%
Default	5	233.5	9.2%
Total [=Σ 1 to 5]	6	**2 531.6**	**100.0%**

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 4.67% and 62.05%, 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 indicator is 56% while the sectorial concentration index is 11.2%. At geographical level the concentration is inherent to the location of the Group's activity.

1) Includes bonds, bank guarantees and commercial paper of the corporate segment and excludes without-recourse factoring operations and derivatives.
2) 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.

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 (1.54%). This favourable trend is due to the natural decline in default probabilities on older loans (the portfolio's average age is 7 years while the peak of default probabilities in their lifespan is situated between 2 and 3 years).

Default probabilities of loans to individuals
In 30 June 2014

Risk classes	Probability of default within a year [1,2,3]	Loss given default	Expected loss
Mortgage loans	1.54%	22.79%	0.35%
Personal loans	2.83%	33.55%	0.95%
Motor car finance	1.52%	22.47%	0.34%
Credit cards	0.99%	48.52%	0.48%

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 30 June 2014

	Jun 2014
New loans contracted[3]	55.23%
Housing loan portfolio	57.71%
Loans in default (more than 90 days)	89.05%

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[4]
Amounts in M.€

Rating	Dec.13	%	Jun.14	%
AAA	1	0.0%	1	0.0%
AA	8	0.1%	9	0.1%
A	157	1.9%	155	2.4%
BBB	1,583	19.5%	961	14.8%
BB	5,244	64.5%	4,469	69.1%
B	60	0.7%	61	0.9%
CCC	1	0.0%	1	0.0%
CC	0	0.0%	0	0.0%
C	0	0.0%	0	0.0%
Commercial paper with guarantees from credit institutions	164	2.0%	122	1.9%
Commercial paper without guarantees	798	9.8%	580	9.0%
Without rating	115	1.4%	113	1.7%
Total	**8,131**	**100%**	**6,471**	**100%**

3) Loans granted in December 2013.
4) Includes securities in the available-for-sale portfolios, bonds classified as loans and commercial paper.

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 (20% fall in quoted prices) reveals a capital at risk figure of 21 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 396 M.€ (gross amount) to 235 M.€ (net amount, after set off and collateralisation) at the end of June 2014.

Current credit risk – substitution value of derivatives by type of counterparty[1]

Amounts in M.€

	Dec.13	%	Jun.14	%
Over-the-counter market	**193.3**	**100.0%**	**234.7**	**100.0%**
Financial institutions	6.1	3.1%	10.6	2.0%
Other financial intermediaries	0.3	0.2%	0.5	0.8%
Local and administrative public sector	0.4	0.2%	0.4	0.3%
Companies	185.7	96.1%	222.8	96.1%
Unit trust funds and pension funds				
Individuals	0.8	0.4%	0.5	0.9%
Regulated markets	**0.0**	**0.0%**	**0.0**	**0.0%**
Stock exchange				
Total	**193.3**	**100.0%**	**234.7**	**100.0%**

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

Default, provisioning and recovery levels

BPI maintains relatively good loan quality indicators and adequate risk provisioning.

The following are details of the principal arrear-loan, risk-cost and impairment-coverage ratios:

- **Ratio of loans in arrears (+90 days):** At the end of June 2014, the ratio of loans in arrears for more than 90 days stood at 3.7% in consolidated terms. In domestic operations (95% of the consolidated loan portfolio), that ratio was 3.7% while in international operations (in Angola), which accounts for 5% of the consolidated loan portfolio, it was 4.5%.

1) 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.

- **Credit-at-risk ratio (BoP Instruction 23/2011[1]):** credit-at-risk in accordance with the Bank of Portugal's definition, corresponded to 5.4% of the consolidated gross loan portfolio at the end of June 2014. In domestic operations, that ratio was situated at 5.3% and at 6.4% in international operations (in Angola).
- **Cost of credit risk:** impairment charges in the year net of loan recoveries represented 0.72% of the loan portfolio in the first half of 2014, in annualised terms.
- **Impairment cover:** the accumulated impairment allowances in the balance sheet for non-performing loans[2] and guarantees (real and personal) represented 89% cover for the total exposure to operations with principal or interest in arrears for more than 30 days and including the associated loans falling due.
- **Cover for impairments relating to foreclosed properties:** accumulated impairments in the balance sheet for foreclosed properties covered 19% of their gross balance sheet value (174.6 M.€). The net balance sheet value of those properties was therefore 141.0 M.€, which compares with their market value of 168.1 M.€

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 321 M.€ for loans with no arrear instalments and for guarantees. Taking this figure also into account, coverage for total overdue loans and associated loans falling due stood at 108%.

Loans to Customers in arrears and loan impairments

Amounts in M.€

		30 Jun. 13	31 Dec. 13	30 Jun. 14		
		Consolidated	Consolidated	Domestic activity	International activity	Consolidated
Customer loan portfolio (gross)	1	27 908,7	26 897,1	25 025,2	1 184,6	26 209,8
Loans in arrears, falling due loans and impairments						
Credit at risk [1]	2	1 285,5	1 277,0	1 218,4	75,9	1 294,3
Loan impairments (accumulated in the balance sheet)	3	941,4	978,7	988,8	81,2	1 070,0
Loans in arrears for more than 90 days	4	945,0	976,3	918,2	53,0	971,2
Loans in arrears for more than 30 days	5	1 009,8	997,2	932,6	56,2	988,8
Ratios (as % of total loans)						
Credit at risk as % of loan portfolio [1,2]	6	4,9%	5,1%	5,3%	6,4%	5,4%
Credit at risk, net of accumulated impairments, as % of net loan portfolio [1,2]	7	1,5%	1,4%	1,3%	0,2%	1,2%
Loan impairments (accumulated in the balance sheet) as % of loan portfolio [=3/1]	8	3,4%	3,6%	4,0%	6,9%	4,1%
Loans in arrears for more than 90 days as % of loan portfolio [=4/1]	9	3,4%	3,6%	3,7%	4,5%	3,7%
Loans in arrears for more than 30 days as % of loan portfolio [=5/1]	10	3,6%	3,7%	3,7%	4,7%	3,8%
Loan impairments as % of credit at risk [= 3/2]	11	73%	77%	81%	107%	83%
Loan impairments as % of loans in arrears for more than 90 days [= 3/4]	12	100%	100%	108%	153%	110%
Write-offs	13	34,2	93,4	8,3	0,0	8,3
Recovery of loans and interests in arrears written-off	14	10,4	17,6	7,5	1,0	8,5

1) Credit-at-risk corresponds to the sum of: (1) total amount of loan outstanding which has capital instalments or interest in arrears for a period of 90 days or more; (2) total amount outstanding on loans which have been restructured after having been in arrears for a period of 90 days or more, without having been adequately backed by security pledged (with such security being sufficient to cover the total amount of outstanding principal and interest) or the interest and other charges in arrears having been paid by the debtor; (3) total amount of outstanding loans with instalments of capital or interest in arrears for less than 90 days, but in respect of which there is evidence that warrants it classification as credit at risk, namely the debtor's insolvency or liquidation.

2) For purposes of calculating the credit-at-risk indicator, account is taken of the Group universe subject to the Bank of Portugal's supervision so that in BPI's case, BPI Vida e Pensões is equity accounted (whereas in the consolidated accounts, according to the IAS/IFRS requirements, this entity is fully consolidated).

The entries of new loans into default (for more than 90 days) in the 1st half of 2014, calculated as the change in the balance of overdue loans between the beginning and end of the half-year period, to which is added the *write-offs* made in this period, amounted to 3.3 M.€, which corresponded to 0.03% of the consolidated average loan portfolio, in annualised terms.

On the other hand, 8.5 M.€ of overdue loans and interest previously written off was recovered, with the result that entries of new loans into default (for more than 90 days), net of loan recoveries, were -5.2 M.€.

In domestic operations, the entries of new loans into default net of recoveries amounted to -6.8 M.€. In international operations, this figure was situated at 1.6 M.€, representing 0.30% of the average loan portfolio in the 1st half of 2014, in annualised terms.

In the 1st six months of 2014, loan impairment charges net of recoveries of overdue loans in the period were 91.6 M.€.

Impairments net of recoveries represented in annualised terms 0.72% of the average performing loan portfolio in the 1st half of 2014 (0.71% in domestic operations and 0.91% in international operations).

Credit loss and risk cost

Amounts in M.€

		Domestic operations		International operations		BPI Group (consolidated)	
		1st half13	1st half.14	1st half13	1st half14	1st half13	1st half14
Performing loan portfolio (average balance)	1	**25 814,4**	**24 367,9**	**1 089,5**	**1 089,2**	**26 904,0**	**25 457,1**
Change in loans in arrears						w	
Increase in loans in arrears for more than 90 days, adjusted for write-offs	2	83,7	0,7	3,6	2,6	87,3	3,3
As a percentage of the loan portfolio (average balance)[1] [= 2/1]	3	0,65%	0,01%	0,67%	0,49%	0,65%	0,03%
– Recoveries of arrear loans and interest written off	4	9,1	7,5	1,3	1,0	10,4	8,5
= Increase in loans in arrears (for more than 90days), adjusted for write-offs and net of recoveries of arrear loans [= 2-4]	5	**74,6**	**- 6,8**	**2,4**	**1,6**	**76,9**	**- 5,2**
As a percentage of the loan portfolio (average balance)[1] [= 5/1]	6	0,58%	-0,06%	0,44%	0,30%	0,57%	-0,04%
Net credit loss							
Loans impairments	7	145,0	94,1	5,6	6,0	150,6	100,1
As a percentage of the loan portfolio (average balance)[1] [= 7/1]	8	1,12%	0,77%	1,03%	1,10%	1,12%	0,79%
– Recoveries of arrear loans and interest written off	9	9,1	7,5	1,3	1,0	10,4	8,5
= Net credit loss [= 7 - 9]	10	**135,9**	**86,6**	**4,4**	**5,0**	**140,2**	**91,6**
As a percentage of the loan portfolio (average balance)[1] [= 10/1]	11	1,05%	0,71%	0,80%	0,91%	1,04%	0,72%

1) In annualised terms.

The credit-at-risk ratio calculated according to Bank of Portugal Instruction 23/2011 stood at 5.4% in the consolidated accounts at the end of June 2014, (5.3% in domestic operations and 6.4% in international operations).

Credit-at-risk cover by impairments, not considering associated collateral, was 83% (81% in domestic operations and 107% in international operations).

The following table presents credit-at-risk ratios and the cover of credit-at-risk by accumulated impairments in the balance sheet by market segment, as well as each segment's contribution to the gross loan portfolio.

Loans in arrears and accumulated impairments in the balance sheet, by market segments

		30 Jun. 13			31 Dec. 13			30 Jun. 14		
		Loan portfolio (gross) as % of total	Credit at risk	Impairments cover accumulated in the Balance Sheet	Loan portfolio (gross) as % of total	Credit at risk	Impairments cover accumulated in the Balance Sheet	Loan portfolio (gross) as % of total	Credit at risk	Impairments cover accumulated in the Balance Sheet
Domestic activity										
Corporate Banking, Institutional Banking and Project Finance	1	36%	5,9%	77%	34%	6,7%	81%	32%	7,4%	90%
Individuals and small business banking										
Mortgage loans to individuals	2	43%	3,3%	51%	43%	3,3%	57%	44%	3,4%	60%
Other loans to individuals	3	4%	4,3%	98%	4%	4,2%	97%	3%	5,0%	98%
Small businesses	4	6%	10,6%	84%	6%	10,1%	85%	6%	10,0%	90%
[=Σ 2 a 4]	5	52%	4,2%	63%	53%	4,1%	67%	53%	4,2%	70%
Other	6	8%	1,3%	258%	9%	0,8%	210%	10%	0,8%	260%
[=1+5+6]		**96%**	**4,8%**	**71%**	**96%**	**5,0%**	**75%**	**95%**	**5,3%**	**81%**
International activity		**4%**	**7,0%**	**100%**	**4%**	**6,5%**	**101%**	**5%**	**6,4%**	**107%**
Total [=7+8]		**100%**	**4,9%**	**73%**	**100%**	**5,1%**	**77%**	**100%**	**5,4%**	**83%**

Restructured loans

The amount of restructured loans (consolidated) totalled 1 633 M.€ at the end of June 2014. Of this amount, 474.5 M.€ is included in the credit-at-risk balance.

The amount of restructured loans not included in credit-at-risk therefore totals 1 158 M.€, which corresponds to 4.8% of the gross loan portfolio.

Restructured loans

Amounts in M.€

		30 Jun. 14	As % of gross loans[1]
Amount included in credit at risk	1	474,5	2,0%
Outstanding amount	2	1 158,1	4,8%
Total [= 1+2]	3	**1 632,6**	**6,8%**

1) According to Bank of Portugal Instruction 32/2013. 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).

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Impairments cover for defaulting loans

At the end of June 2014, the total exposure to loans with arrear instalments of principal or interest amounted to 1 488.3 M.€ in consolidated terms and corresponded to:

- Total arrear loans (principal or interest instalments in arrears for more than 30 days) of 988.8 M.€ which represented 3.8% of the gross loan portfolio.
- Portion not yet due in those loan operations of 499.5 M.€.

In average terms, the total exposure to the aforesaid loans (arrear loans and associated instalments falling due) was 89% covered by individual impairments set aside specifically for those loans (746.1 M.€) and by the value of real guarantees (572.4 M.€).

Loans in arrears and performing loans associated with loans in arrears

		30 Jun. 13			31 Dez.13			30 Jun. 14		
		Loans with collateral	Loans without collateral	**Total**	Loans with collateral	Loans without collateral	**Total**	Loans with collateral	Loans without collateral	**Total**
Loans										
In arrears	1	385,0	624,8	**1 009,8**	403,8	593,4	**997,2**	397,2	591,5	**988,8**
Falling due loans[1]	2	290,6	197,6	**488,2**	220,4	174,4	**394,9**	314,3	185,2	**499,5**
Loans [= 1+2]	3	**675,6**	**822,4**	**1 497,9**	**624,2**	**767,9**	**1 392,1**	**711,5**	**776,8**	**1 488,3**
Real guarantees[2] (mortgages and other[3])	4	594,2		**594,2**	528,2		**528,2**	572,4		**572,4**
Impairments[4]	5	200,8	378,0	**578,8**	210,2	447,4	**657,7**[5)]	255,7	490,4	**746,1**
Loans coverage by collateral and impairments [= (4+5) / 3]	6	**118%**	**46%**	**78%**	**118%**	**58%**	**85%**	**116%**	**63%**	**89%**

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.
5) Pro forma amount of 658.4 M.€ in December 2013, considering the retrospective application of IFRS 10. According to that standard, the BPI Group began to fully consolidate in 2014 the participating interests in the funds BPI Obrigações Mundiais and Imofomento, and to recognise under liabilities the minority interests in the unit trust funds consolidated using the full consolidation method.

Foreclosed properties

At the end of June 2014, BPI had a portfolio of foreclosed properties with a gross balance sheet value of 174.6 M.€. Of this amount, 68.9 M.€ refers to properties originating from the recoupment of housing loans and 105.7 M.€ relate to properties received from the recovery of other loans.

In the 4th quarter of 2013, BPI reversed 30 M.€ of impairment allowances for foreclosed properties by virtue of having adjusted these assets' surplus coverage that was identified following the valuation of loan-recovery assets requested by the Bank of Portugal.

At 30 June 2014, the accumulated amount of impairments for foreclosed properties amounted to 33.7 M.€, which corresponded to 19% of the gross balance sheet value. Accordingly, the net balance sheet value of these properties was 141.0 M.€, which compares with their market value of 168.1 M.€.

Property repossessed from loans recovery

Amounts in M.€

			30 Jun. 13	31 Dec. 13	30 Jun. 14
By mortgage loans' operations					
Gross value		1	64,5	66,6	68,9
Impairments		2	29,5	2,7	2,7
Net Value	[= 1-2]	3	**35,0**	**63,9**	**66,2**
Impairment as% of gross value		4	**46%**	**4%**	**4%**
Market value		5	78,1	78,5	82,1
Other					
Gross value		6	104,2	101,6	105,7
Impairments		7	40,4	30,5	30,9
Net Value	[= 6-7]	8	**63,8**	**71,1**	**74,8**
Impairment as% of gross value		9	**39%**	**30%**	**29%**
Market value		10	93,1	81,9	86,0
Total					
Gross value		11	168,6	168,3	174,6
Impairments		12	69,9	33,2	33,7
Net Value	[= 11-12]	#	**98,7**	**135,0**	**141,0**
Impairment as% of gross value		14	**41%**	**20%**	**19%**
Market Value		15	171,2	160,4	168,1

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 and the respective limits. 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 30 June 2014

Amounts in M.€

Country	Rating	Gross exposure	Personal guarantees	Tangible guarantees	Exposure net of guarantees
Countries from group I		**3 911.7**	**15.6**	**- 66.6**	**3 860.7**
Euro Zone		**3 228.0**	**11.2**	**- 39.0**	**3 200.1**
	AAA	580.0	0.7	- 7.4	573.3
	AA	386.2	- 0.5	- 24.3	361.5
	BBB	2 242.1	10.9	- 7.3	2 245.7
	B	19.7			19.7
Other EU countries		**312.2**	**0.8**	**- 18.8**	**294.1**
	AAA	124.9	0.0	- 0.1	124.9
	AA	186.3	0.8	- 18.8	168.4
	A	0.9			0.9
Switzerland	AAA	198.4	2.9	- 2.4	198.9
USA	AAA	106.3		- 2.0	104.4
Other		29.4	0.7	- 0.8	29.2
Offshores		37.5	0.0	- 3.6	33.9
Countries from group II		**614.8**	**- 255.5**	**- 16.8**	**342.4**
Brazil	BBB	37.2	0.0	- 0.5	36.7
Angola	BB	364.2	- 178.9	- 8.4	176.9
Russia	BBB	26.5			26.5
Turkey	BBB	0.6			0.6
Mexico	BBB	42.4		- 0.1	42.2
Mozambique	B	29.9		- 0.6	29.3
Venezuela	B	14.3		- 2.9	11.4
Cape Verde	B	80.2	- 76.6	0.0	3.6
South Africa	BBB	15.9		- 4.3	11.6
Other		3.5			3.5
Subsidiaries		**367.3**			**367.3**
Angola (BFA)		322.5			322.5
Mozambique (BCI)		44.8			44.8
Total		**4 893.8**	**- 240.0**	**- 83.4**	**4 570.4**

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.€

	Jun. 13		Jun. 14	
	Average VaR	Maximum VaR	Average VaR	Maximum VaR
Interest rate risk	0,4	1,5	0,5	1,2
Currency risk	1,3	1,5	1,4	1,7
Equities risk	1,0	3,0	2,3	3,8

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.

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 Executive Committee or the Global Risks Executive Committee.

Long-term structural positions are managed in accordance with the rules laid down by the Executive Committee or 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 30 June 2014, the repricing gap (of interest rates) accumulated up to 1 year of the EUR was 5 140 M.€.

Interest rate risk[2]

Structural position, at 30 June 2014

Amounts in M.€

	1 year	1 to 2 years	2 to 5 years	5 to 7 years	7 a 15 years	> 15 years
Accumulated gap	5,140	5,260	5,523	5,607	5,692	5,743

The Bank is structurally exposed to the risk of a fall in interest rates. A classical stress test to a 50 b.p. change in interest rates points to a loss in net interest income of 31 M.€[3].

2) Customer sight deposits were considered as being not sensitive to the interest rate.
3) This standard test entails the simulation of a 50-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.

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 122 M.€.

Foreign exchange rate risk
Structural position, at 30 June 2014

Amounts in M.€

Type of financial instrument	Assets and liabilities by currency				
	EUR	USD	AKZ	Other	Total
Assets					
Cash and deposits at central banks	215	469	587	4	1 274
Amounts owed by credit institutions repayable on demand	290	23	5	27	345
Financial assets held for dealing and at fair value through profit and loss	1 555	179	154	7	1 895
Financial assets available for sale	5 907	1 063	1 751	0	8 720
Loans and advances to credit institutions	964	427	628	2	2 021
Loans and advances to Customers	23 735	602	717	137	25 191
Investments held to maturity	104	0	0	0	104
Hedging derivatives	130	1	0	5	137
Other assets	34	78	1	1	114
	32 933	**2 843**	**3 843**	**183**	**39 801**
Liabilities					
Resources of central banks	3 055	0	0	0	3 055
Financial liabilities held for dealing	340	2	0	0	342
Credit institutions' resources	1 465	210	0	7	1 682
Clients' resources and other loans	18 139	3 969	3 296	196	25 600
Debts evidenced by certificates	2 356	30	0	34	2 419
Financial liabilities associated to transferred assets	1 200	0	0	0	1 200
Hedging derivatives	310	9	0	0	320
Provisions	88	21	3	0	113
Technical provisions	3 211	0	0	0	3 211
Other subordinated debt	70	0	0	0	70
	30 234	**4 241**	**3 300**	**238**	**38 012**
Forward currency operations	-1 598	1 549	-12	130	69
Structural position		-26	377	68	
Stress test 1		-5	113	14	122

LIQUIDITY RISK

Management process

Liquidity risk is monitored: i) in the liquidity of the different assets; ii) in the strict management of treasury needs and iii) in adjusting the funding sources to assets' maturity and liquidity profiles, with liquidity risk defined based on the (in)ability to keep pace with the growth of assets and to meet treasury needs 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 during the first half of 2014 to be one of the chief priorities. BPI pursued a balanced situation throughout this period:

- In the intermediation business with Customers, Customer resources constitute the principal source of funding, representing 81% and 98% of the domestic operations' and consolidated loan portfolio, respectively;
- At 30 June 2014, the Bank had a portfolio of public debt of Eurozone countries valued at market prices of 5.6 th.M.€, of which 3.5 th.M.€ in short-term Portuguese public debt. Funding of this portfolio, which itself is totally discountable at the ECB, is assured by way of securities repo operations and resources obtained from the ECB (3 th.M.€).
- The portfolio of assets eligible for funding from the Eurosystem totalled 10.5 th.M.€ at the end of June. Of that figure, the amount not yet utilised and therefore capable of being converted into immediate liquidity at the ECB was 5.9 th.M.€;
- Medium and long-term debt refinancing needs for the next few years are minimal: 1.3 thousand M.€ up till the end of 2018. It should also be noted that in 2019 there will be a significant release of liquidity with the redemption of 1.4 thousand M.€ of medium and long-term bonds held by BPI in portfolio.

Short-term gap

BPI's short-term funding gap (domestic activity) decreased from -5.9 th.M.€ in December 2013 to -4.5 th.M.€ in June 2014. The main factors behind this behaviour were:

- Sale during the first quarter of 2014 of half the position in Portuguese and Italian public debt amounting to 1 467 M.€;
- Reinforcement during the first six months of the Treasury Bills portfolio by 123 M.€;
- Sale of 158 M.€ from the miscellaneous bonds portfolio;
- Positive change in the commercial Gap of 534 M.€;
- CoCo redemption of 920 M.€, with which BPI completed the total repayment of the instruments eligible for core tier 1 capital which were subscribed by the Portuguese State in June 2012 within the framework of the Bank's recapitalisation plan.

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

GAP at 31 Dec.13	**(5 920)**
Change in commercial liquidity GAP	534
Redemption of CoCo	(920)
Redemption of other own debt	(25)
Sales and redemptions of bonds held	705
Sale of Treasury Bonds	926
Change in Treasury Bills portfolio	(123)
GAP at 30 Jun. 14	**(4 522)**

At the end of June 2014, short-term funding was broken down as follows:

- Net debtor position on the money market of 1.1 th.M.€ and security repos of 0.4 th.M.€;
- Funding from the ECB of 3 th.M.€.

Financing of short term liquidity position Amounts in M.€

		Dec. 2013	Jun. 2014
Short term lending			
Loans to credit institutions	1	250	179
[=1]	2	**250**	**179**
Short term borrowing			
Money market	3	(1 339)	(1 290)
Repos	4	(831)	(399)
[=3+4]	5	**(2 170)**	**(1 689)**
Euro commercial paper	6	0	(11)
Funding from the ECB (net of deposits)	7	(4 000)	(3 000)
[=Σ 5 to 7]	8	**(6 170)**	**(4 700)**
Total short term gap [=1+8]	9	**(5 920)**	**(4 521)**

Funding from the ECB

BPI carried out the early repayment of 1 th.M.€ of 3-year funding contracted from the ECB in 2011 and 2012 (LTRO). At the end of June the total of this funding which was outstanding amounted to 3 th.M.€.

Portfolio of assets eligible for Eurosystem funding

At the end of June 2014, BPI had at its disposal a portfolio of assets eligible for the Eurosystem worth 10 507 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 5 891 M.€.

Assets eligible for the Eurosystem Amounts in M.€

		Dec. 2013	Jun. 2014
Total eligible assets[1]	1	**11 138**	**10 507**
of which: assets given as collateral[2]	2	1 596	1 572
Net eligible assets [= 1 - 2]	3	**9 542**	**8 935**
Used as collateral in funding with ECB	4	4 055	3 044
Available eligible assets [= 3 - 4]	5	**5 487**	**5 891**

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.

The decrease in the portfolio of eligible assets during the first half of 2014 essentially reflects the sale of part of the public-debt portfolio, partially offset by the positive change in the value attributed by the ECB to the public debt still in the portfolio and to the collateralised and retained bonds (mortgage bonds and securitisations effected for the ECB portfolio).

Outlook for the liquidity situation in the second half of 2014

During the second half of 2014 no substantial alterations to BPI's liquidity profile are expected to occur: debt repayments up till the end of the year are negligible, as well as portfolio redemptions.

The interbank money market and the short-term repo market should continue to undergo the normalisation trend observed in the last few quarters. The access to the medium and long-term funds market should also continue to improve, with international investors increasingly more disposed to lending funds for longer periods.

The Targeted Longer Term Refinancing Operations (TLTRO) – the new monetary policy instrument announced during June – will also permit access to medium-term funds at very low cost. The availability of these funds is subject to the granting of loans to the economy and is aimed at improving the monetary policy transmission mechanism.

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 activity of all institutions.

The BPI Group has procedures implemented for managing operational risks with the ultimate goal of maximising the security, resilience and efficiency of the management of the assets in its custody and the service rendered to the customer.

The management of operational risks is the responsibility of the Board of Directors' Executive Committee and is operationally delegated to specific committees. The Operational Risks Committee approves and periodically reviews the principles of identification, evaluation, control, monitoring and mitigation of operational risks. Similarly, the Business Continuity Committee supervises the implementation of the policies and procedures which, in conformity with the recommendations of the Supervisory Entities aim to ensure BPI's uninterrupted functioning. Given its specificity, the Information Security domain is under the stewardship of an Information Security Committee which with the necessary technical expertise supervises and monitors the initiatives directed at controlling the exposure to those risks.
The management model adopted is based on a system of self-evaluation of the risks associated with the processes and on the decentralised recording of incidents, carried out directly by the area where it occurred. Each Division appoints Managers and local operational-risk managers charged with the identification and the definition of mitigation measures.

The Operational Risks Analysis and Control Area, integrated within the Organisation and Quality Division, which is permanently and exclusively dedicated to the Management of Operational Risks, conceives and develops the methodologies for managing risk, the preparation and analysis of management information, and undertakes the relevant reporting. This Area, besides ensuring compliance with the governance model instituted, coordinates the local operational-risk managers and assists in the operationalization of the respective procedures.

Evaluation of exposure to operational risk

The register of operational risk occurrences permits assessing the efficiency of the processes and being decentralised, increases the awareness to this type of risk.

The distribution of occurrences with actual loss in the 1st half of 2014 by the type of cause was as follows:

Operational risk occurrences in the 1st half 2014
Distribution by type of cause

Type of cause	Frequency	Net impact
External causes	32%	74%
People	47%	18%
Processes	9%	6%
Systems	12%	2%
Total	**100%**	**100%**

Business continuity

The Business Continuity Plans of each one of the Group's bodies detail the strategy of BPI's response to events capable of putting at risk the safety of persons and other assets, or which cause the interruption to normal functioning, identifying the procedures and alternative resources for guaranteeing the continuity of critical activities.

These plans and the information supporting them are located at sites off the Bank's premises in redundant systems, available and accessible to the respective managers at any moment and at any location.

It is worth highlighting the existence of alternative technological premises and platforms for guaranteeing the Bank's functioning under contingency conditions.

In the 1st half of 2014, work was completed on the upgrading, adapting and testing of the Business Continuity Plans, introducing improvements aimed at enhancing the efficacy of the response to unforeseen incidents.

Special attention was paid to the preparation of the Business Continuity Plans with a view to responding to a set of specific incidents whose probability of occurrence was considered to be important.

Trials were held involving the activation of alternative technological infrastructures (Disaster Recovery Plan), at the same time as the functioning conditions were optimised at the premises to be used in contingency situations.

Work was concluded on the project which commenced in 2013 with the support of one of the technological partners for defining the model for upgrading the technological contingency solutions from the standpoint of improving the back-up for operational continuity.

Information security

The existence of operational teams solely dedicated to Information Security ensures that there is permanent monitoring of both risk assessment and the implementation of mitigation measures, and in the response to any eventual incidents.

Information Security Risk Management is already integrated into the overall model for Operational Risks, with a close connection to the information systems.

The prevention and monitoring means for internal security as well as for the utilisation of the homebanking channels are continually being reviewed and reinforced whenever necessary.
Initiatives were also implemented aimed at informing Employees and making them aware of the good practices for the secure handling of information.

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 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.

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 the 1st half 2014.

Recommendation Summary	Cross-reference for 1st half 2014 Report
I. BUSINESS MODEL	
1. Description of the business model	**RG** – *Financial and business structure, page 9.*
2. Description of strategies and objectives	**RG** – *Presentation of the report, page 5; Financial review, page 39; Risk Management, page 64.*
3. Description of the importance of the operations carried out and the respective contribution to business	**RG** – *Domestic Commercial Banking, page 23; Bancassurance, page 29; Asset management, page 30; Investment banking, page 32; International activity, page 36; Financial review, page 39;* **NDF** – *3. Segment reporting, page 118.*
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.	**RG** – *Domestic Commercial Banking, page 23; Bancassurance, page 29; Asset management, page 30; Investment banking, page 32; International activity, page 36; Background to operations, page 14; Financial review, page 39; Risk Management, page 64.*
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	***RG*** – *Risk Management, page 64;* ***NDF*** – *4.48. Financial Risks, page 203 and following.*
7. Description of major risk-management practices in operations	***RG*** – *Risk Management, page 64;* ***NDF*** – *4.48. Financial Risks, page 203 and following.*
III. IMPACT OF THE FINANCIAL TURBULENCE PERIOD ON RESULTS	
8. Qualitative and quantitative description of the results	***RG*** – *Financial review, page 39.*
9. Breakdown of the "write-downs" / losses by types of products and instruments affected by the period of turbulence	***NDF*** – *4.5. Available-for-sale financial assets, page 131, 4.7. Loans to customers, page 138, 4.21. Provisions and impairments, page 165, 4.40. Net gains/losses from financial operations, page 194; 4.48 Financial Risks, page 203.*
10. Description of the reasons and factors responsible for the impact suffered	***RG*** – *Financial review, page 39; Background to operations, page 14.*
11. Comparison of the i) impacts between (relevant) periods and ii) financial statements before and after the turbulent period	***RG*** – *Financial review, page 39.*
12. Breakdown of the write-downs between realised and unrealised amounts	***RG*** – *Financial review, page 39;* ***NDF*** – *4.5. Available-for-sale financial assets, page 131; 4.7. Loans to customers, page 138; 4.40. Net gains/losses from financial operations, page 194 and 4.21. Provisions and impairments, page 165.*
13. Description of the influence of the financial turbulence on the behaviour of Banco BPI shares	***RG*** – *Banco BPI Share, page 88.*
14. Disclosure of the maximum loss risk	***RG*** – *Risk Management, page 64;* ***NDF*** – *4.48. Financial Risks, page 203 and following.*
15. Disclosure of the impact that the trend in spreads associated with the institution's own liabilities had on earnings	***RG*** – *Financial review, pages. 53 e 59.* *The Bank did not revalue its liabilities.*
IV. EXPOSURE TYPES AND LEVELS AFFECTED BY THE TURBULENT PERIOD	
16. Nominal value (or amortised cost) and fair value of exposures	***NDF*** – *4.48. Financial Risks, page 203 and following and 4.5 Available-for-sale financial assets, page 131.*
17. Information about credit risk mitigation and respective effects on existing exposures	***RG*** – *Risk Management, page 64 and following.*

18. Detailed disclosure of exposures	***RG*** *– Risk Management, page 64;* ***NDF*** *– 4.48. Financial Risks, page* 203 *and following, 4.5. Available-for-sale financial assets, page* 131 *e 4.7. Loans to customers, page* 138.
19. Movements which occurred in the exposures between the relevant reporting periods and the underlying reasons for these variations (sales, write-downs, purchases, etc.)	***RG*** *– Financial review, page 39.*
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 30 June 2014, BPI's exposure to mono-line insurers was totally indirect and stemmed from the existence of a portfolio position, the interest and principal of which were unconditionally guaranteed by this type of company. There were no losses worth noting, given that this security was not in default. At the end of 2013, BPI exposure to mono-line insurers amounted to 45 M.€ (book value).*
V. ACCOUNTING AND VALUATION POLICIES 22. Classification of transactions and structured products for accounting purposes and the respective accounting treatment	***NDF*** *– 2.3. Financial assets and liabilities, page 104; 2.3.3. Available-for-sale financial assets, page* 105*; 2.3.4. Loans and other receivables, page* 106*; 4.20. Financial liabilities associated with transferred assets, page* 163.
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	***NDF*** *– 4.48. Financial Risks, page* 203 *and following.*
25. Description of the modelling techniques utilised for valuing financial instruments	***NDF*** *– 2.3. Financial assets and liabilities, page 104 and 4.48. Financial Risks, page* 203 *and following.*
VI. OTHER IMPORTANT DISCLOSURE ASPECTS 26. Description of disclosure policies and principles which are used in financial reporting	**CGovR *2013*** *– IV. Investor Relations, page* 297

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

Rating

With the approximation of the conclusion of the Financial Assistance Programme, the rating agencies give the first signs of an improvement in the outlook for Portugal. In April 2014, Fitch revised upwards the Republic's Outlook from negative to stable. In May, already after Portugal's successful exit from the Programme, Moody's raises its long-term rating of the Republic by one notch from Ba3, where it had been placed in February 2012, to Ba2. Also in May S&P upgrades the Republic's Outlook from negative to stable.

This last-mentioned revision also set in motion an identical upgrade in Banco BPI's Outlook, which was also revised upwards from negative to stable.

At the end of July, Moody's once again improved the Republic's long-term rating by one notch, from Ba2 to Ba1.

The current long-term rating attributed to BPI by Fitch is equivalent to that for the Republic. In the case of Standard & Poor's, BPI's rating is one level below that of the Republic while that of Moody's is 2 below that of the Republic.

	Fitch Ratings	Moody's	Standard & Poor's
Banco BPI credit rating			
Long term	BB+	Ba3	BB-
Short term	B	Not prime	B
Outlook	Negative	Negative	Stable
Individual Rating	Viability rating bb	Financial strength (BFSR) E+	Stand-alone credit profile (SACP) bb-
Collateralised senior debt			
Mortgage	BBB+	Baa2	A-
Public sector		Baa3	BB-
Non-collateralised senior debt		Ba3	BB-
Long term	BB+		
Short term	B		
Subordinated debt	BB-	B2	B
Subordinated junior debt		B3	
Commercial Paper	B		B
Other short-term debt		Not prime	B
Preference shares	B	Caa1 (hyb)	B-
Portuguese Republic sovereign risk			
Long term	BB+	Ba1	BB
Short term	B	Not prime	B
Outlook	Positive	Stable	Stable

Fitch Ratings: rating decision on 25 November 2011. On the 4th July 2014, Fitch Ratings reaffirmed BPI credit rating notations (LT/ST), with a negative Outlook, and revised the stand-alone credit rating notation (viability rating) from bb- to bb.

Moody's: rating decision on 28 March 2012. On the 29th July 2014, Moody's reaffirmed BPI credit rating notations (LT/ST), with a negative Outlook.

Standard & Poor's: rating decision on 14 February 2012. On the 21st January 2014, Standard & Poor's reaffirmed BPI credit rating notations (LT/ST), and revised the Outlook from negative to stable.

Banco BPI share

STOCK MARKET PERFORMANCE

Banco BPI shares in the first half of 2014 posted a gain of 25.7%, having closed the half year at 1.529 €. The Portuguese PSI 20 index registered a 3.7% advance during the period, while the Spanish index was 10.2% higher in the same period.

The European banking sector, represented by the DJ Europe Stoxx Banks, closed the six months with a drop of 1.0%.

Contributing to Banco BPI's positive performance were the early redemption of the CoCo to the Portuguese State, with the last payment taking place at the end of June, 3 years before the scheduled timetable, as well as the sale of part of the portfolio of public debt held by the Bank.

Index weighting (30 June 2014)
PSI-20: 2.35%; #11
Next 150: 1.19%;[1]

Codes and tickers

ISIN and Euronext code:	PTBPI0AM004
Reuters:	BBPI.LS
Bloomberg:	BPI PL

Banco BPI shares main indicators

	1st half 2013	1st half 2014
Banco BPI share price (€)		
Maximum price	1.380	2.060
Average price	1.142	1 663
Minimum price	0.840	1.213
Closing price	0.908	1.529
Share price and benchmarks' evolution		
Banco BPI	-3.7%	25.7%
PSI-20	(1.7%)	3.7%
IBEX 35	(5.0%)	10.2%
Dow Jones Europe STOXX Banks	-1.6%	(1.0%)
Dow Jones STOXX 600	1.9%	4.1%
Data per share (€) [2]		
Net profit	0.04	(0.08)
Cash flow after taxation	0.17	0.01
Book value	1.34	1.53
Weighted average no. of shares (in millions)	1 383.7	1 392.7
Stock market capitalisation		
Stock market capitalisation (M.€)	1 262	2 228
Liquidity		
Trading volume in the semester (M.€)	263	514
Daily average trading volume (M.€)	2.1	4.1
Daily average trading quantity (x th.)	1 845	2 474

1) At 28 July 2014.

TREASURY SHARES

Banco BPI manages a portfolio of own shares created for the purpose of executing the stock-incentive scheme (Portuguese initials RVA) for employees and executive directors. In this regard, the transactions referred to below were realised in the 1st half 2014.

At the end of June 2014, Banco BPI held 2 284 118 treasury shares (0.16% of capital).

Banco Português de Investimento, S. A., the entity 100% owned by Banco BPI, and the other subsidiaries whose management is controlled by Banco BPI, did not own any Banco BPI shares at the end of June 2014.

Treasury shares transactions in the 1st half 2014

	No. shares held	Acquisition			Disposal			Total turnover (amount)	N.º shares held
	(31 Dec. 13)	Quantity	Amount	Average Price	Quantity	Amount	Average Price		(30 Jun.14)[2]
Banco BPI (over-the-counter)[1]	6 117 252	-	-	-	3 833 134	6 121 464	1.60	3 833 134	2 284 118
Banco Português de Investimento	0	150 184	228.086	1.52	150 184	227 939	1.52	300 368.0	0
Over-the-counter		53 150	76.366	1.44	-	-	-	53.150.0	
In the stock exchange		97 034	151.720	1.56	150 184	227.939	1.52	247 218.0	
Total	**6 117 252**	**150 184**	**228 086**	**1.52**	**3 983 318**	**6 349 403**	**1.59**	**4 133 502**	**2 284 118**
% of share capital	0.44%	0.01%			0.29%			0.30%	0.16%

1) Over-the-counter trades only.
2) The balance of treasury shares at the end of June 2014 does not include:
- 551 232 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
- 148 538 Banco BPI shares held in the portfolio under special management in terms of an insurance investment contract of a BPI Vida e Pensões's customer.

According to the International Financial Reporting Standards (IAS/IFRS), the balances described in the above points are deemed to be "Own shares" for accounting purposes, with the result that at 30 June 2014 in Banco BPI's consolidated financial statements 2 983 888 Banco BPI shares are recognised under the balance sheet caption "Own shares".

25 August 2014

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Banco BPI, S.A.

Consolidated financial statements as of June 30, 2014 and 2013

BANCO BPI, S.A.

CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2014 AND DECEMBER 31, 2013 PROFORMA

(Translation of balance sheets originally issued in Portuguese - Note 5)

(Amounts expressed in thousands of Euro)

	Notes	Jun. 30, 14 Amounts before impairment, depreciation and amortisation	Jun. 30, 14 Impairment, depreciation and amortisation	Jun. 30, 14 Net	Dec. 31, 13 Proforma Net	Jan. 01, 13 Proforma Net
ASSETS						
Cash and deposits at central banks	4.1	1 274 283		1 274 283	1 372 211	1 269 365
Deposits at other credit institutions	4.2	344 749		344 749	466 863	453 442
Financial assets held for trading and at fair value through profit or loss	4.3/4.4	1 895 204		1 895 204	1 306 717	1 122 131
Financial assets available for sale	4.5	8 724 478	90 855	8 633 623	9 624 243	10 208 611
Loans and advances to credit institutions	4.6	2 021 001	2	2 020 999	1 886 070	1 710 727
Loans and advances to customers	4.7	26 209 817	1 019 167	25 190 650	25 965 133	27 346 822
Held to maturity investments	4.8	103 522		103 522	136 877	445 298
Hedging derivatives	4.4	137 000		137 000	194 043	280 737
Investment properties	4.9	158 617		158 617	164 949	169 606
Other tangible assets	4.10	703 248	509 793	193 455	197 337	210 689
Intangible assets	4.11	108 766	90 192	18 574	19 149	14 017
Investments in associated companies and jointly controlled entities	4.12	224 424		224 424	221 992	202 255
Tax assets	4.13	468 899		468 899	539 692	617 692
Other assets	4.14	660 868	38 199	622 669	711 046	650 817
Total Assets		**43 034 876**	**1 748 208**	**41 286 668**	**42 806 322**	**44 702 209**

	Notes	Jun. 30, 14	Dec. 31, 13 Proforma	Jan. 01, 13 Proforma
LIABILITIES				
Resources of central banks	4.15	3 054 955	4 140 068	4 270 918
Financial liabilities held for trading	4.16/4.4	342 453	255 245	340 164
Resources of other credit institutions	4.17	1 682 390	1 453 249	2 568 421
Resources of customers and other debts	4.18	25 600 435	25 617 488	24 762 737
Debt securities	4.19	2 419 194	2 598 455	3 787 627
Financial liabilities relating to transferred assets	4.20	1 199 635	1 387 296	1 590 984
Hedging derivatives	4.4	319 563	548 458	814 983
Provisions	4.21	113 287	124 038	138 498
Technical provisions	4.22	3 211 377	2 689 768	2 255 364
Tax liabilities	4.23	54 166	57 711	120 262
Contingent convertible subordinated bonds	4.24		920 433	1 200 279
Other subordinated debt and participating bonds	4.25	69 546	136 931	156 331
Other liabilities	4.26	679 060	589 953	642 996
Total Liabilities		**38 746 061**	**40 519 093**	**42 649 564**
SHAREHOLDERS' EQUITY				
Subscribed share capital	4.28	1 293 063	1 190 000	1 190 000
Other equity instruments	4.29	3 739	3 414	8 558
Revaluation reserves	4.30	(114 718)	(362 294)	(507 524)
Other reserves and retained earnings	4.31	1 150 276	1 040 707	785 960
(Treasury shares)	4.29	(8 159)	(17 090)	(18 272)
Consolidated net income of the BPI Group	4.46	(106 615)	66 973	249 135
Shareholders' equity attributable to the shareholders of BPI		**2 217 586**	**1 921 710**	**1 707 857**
Minority interests	4.32	323 021	365 519	344 788
Total Shareholders' Equity		**2 540 607**	**2 287 229**	**2 052 645**
Total Liabilities and Shareholders' Equity		**41 286 668**	**42 806 322**	**44 702 209**

	Notes	Jun. 30, 14 Net	Dec. 31, 13 Proforma Net	Jan. 01, 13 Proforma Net
OFF BALANCE SHEET ITEMS				
Guarantees given and other contingent liabilities	4.7/4.33	2 053 749	2 106 771	3 012 038
Of which:				
[Guarantees and sureties]		[1 798 374]	[1 832 700]	[2 820 405]
[Others]		[255 375]	[274 071]	[191 633]
Commitments	4.33	3 098 690	3 020 342	3 856 696

The accompanying notes form an integral part of these balance sheets.

The Accountant

The Executive Committee of the Board of Directors

BANCO BPI, S.A.

CONSOLIDATED STATEMENTS OF INCOME FOR PERIODS ENDED JUNE 30, 2014 AND 2013 PROFORMA

(Translation of statements of income originally issued in Portuguese - Note 5)

(Amounts expressed in thousands of Euro)

	Notes	Jun. 30, 14	Jun. 30, 13 Proforma
Interest and similar income		671 206	719 061
Interest and similar expenses		(450 502)	(499 616)
Financial margin (narrow sense)	4.34	**220 704**	**219 445**
Gross margin on unit links	4.35	1 993	1 392
Income from equity instruments	4.36	3 365	2 876
Net commission relating to amortised cost	4.37	10 458	12 839
Financial margin		**236 520**	**236 552**
Technical result of insurance contracts	4.38	14 880	11 247
Commissions received		149 271	153 884
Commissions paid		(19 367)	(20 351)
Other income, net		17 011	22 970
Net commission income	4.39	**146 915**	**156 503**
Gain and loss on operations at fair value		72 994	56 713
Gain and loss on assets available for sale		(131 092)	129 076
Interest and financial gain and loss with pensions		834	2 084
Net income on financial operations	4.40	**(57 264)**	**187 873**
Operating income		16 231	10 277
Operating expenses		(20 906)	(16 116)
Other taxes		(7 811)	(2 879)
Net operating income	4.41	**(12 486)**	**(8 718)**
Operating income from banking activity		**328 565**	**583 457**
Personnel costs	4.42	(181 286)	(184 554)
General administrative costs	4.43	(121 000)	(119 533)
Depreciation and amortisation	4.10/4.11	(15 027)	(15 899)
Overhead costs		**(317 313)**	**(319 986)**
Recovery of loans, interest and expenses		8 478	10 368
Impairment losses and provisions for loans and guarantees, net	4.21	(100 062)	(150 582)
Impairment losses and other provisions, net	4.21	(6 319)	(10 560)
Net income before income tax		**(86 651)**	**112 697**
Income tax	4.44	18 330	(25 260)
Earnings of associated companies (equity method)	4.45	11 385	10 191
Global consolidated net income		**(56 936)**	**97 628**
Income attributable to minority interests	4.32	(49 679)	(38 755)
Consolidated net income of the BPI Group	4.46	**(106 615)**	**58 873**
Earnings per share (in Euro)			
Basic		-0.077	0.043
Diluted		-0.076	0.042

The accompanying notes form an integral part of these statements.

The Accountant

The Executive Committee of the Board of Directors

BANCO BPI, S.A.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR PERIODS ENDED JUNE 30, 2014 AND 2013 PROFORMA

(Translation of statements originally issued in Portuguese - Note 5)

(Amounts expressed in thousands of Euro)

	Jun. 30, 14			Jun. 30, 13 Proforma		
	Attributable to shareholders of the BPI Group	Attributable to minority interests	Total	Attributable to shareholders of the BPI Group	Attributable to minority interests	Total
Consolidated net income	**(106 615)**	**49 679**	**(56 936)**	**58 873**	**38 755**	**97 628**
Income not included in the consolidated statements of income:						
Items that will not be reclassified to net income						
Actuarial deviations	28 131		28 131	44 920		44 920
Tax effect	(6 489)		(6 489)	(14 038)		(14 038)
	21 642		**21 642**	**30 882**		**30 882**
Items that may be reclassified subsequently to net income						
Foreign exchange translation differences	795	2 093	2 888	(544)	1 025	481
Revaluation reserves of financial assets available for sale:						
Revaluation of financial assets available for sale	214 285		214 285	201 445		201 445
Tax effect	(63 368)		(63 368)	(58 013)		(58 013)
Transfer to income resulting from sales	131 232		131 232	(128 654)		(128 654)
Tax effect	(38 582)		(38 582)	37 224		37 224
Transfer to income resulting from impairment recognized in the period	4 552		4 552	(170)		(170)
Tax effect	(1 338)		(1 338)	49		49
Valuation of assets of associated companies	17 087		17 087	3 423		3 423
Tax effect	(5 454)		(5 454)	(856)		(856)
	259 209	**2 093**	**261 302**	**53 905**	**1 025**	**54 930**
Income not included in the consolidated statements of income	**280 851**	**2 093**	**282 944**	**84 787**	**1 025**	**85 812**
Consolidated comprehensive income	**174 236**	**51 772**	**226 008**	**143 660**	**39 780**	**183 440**

The accompanying notes form an integral part of these statements.

The Accountant

The Executive Committee of the Board of Directors

BANCO BPI, S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR PERIODS ENDED JUNE 30, 2014 AND 2013 PROFORMA

(Translation of statements originally issued in Portuguese - Note 5)

(Amounts expressed in thousands of Euro)

	Subscribed share capital	Other equity instruments	Revaluation reserves	Other reserves and retained earnings	Treasury shares	Net income	Minority Interests	Shareholders' equity
Balance at December 31, 2012	**1 190 000**	**8 558**	**(507 614)**	**786 175**	**(18 272)**	**249 135**	**352 662**	**2 060 644**
Impact of the change in the consolidation perimeter			90	(215)			(7 874)	(7 999)
Balance at January 1, 2013 Proforma	**1 190 000**	**8 558**	**(507 524)**	**785 960**	**(18 272)**	**249 135**	**344 788**	**2 052 645**
Appropriation of net income for 2012 to reserves				249 135		(249 135)		
Dividends paid on preference shares							(472)	(472)
Dividends paid to minority interests							(54 021)	(54 021)
Variable Remuneration Program (RVA)		(5 399)			916			(4 483)
Sale / purchase of treasury shares				3 548				3 548
Sale / purchase of preference shares							18	18
Comprehensive income for the first half of 2013 Proforma			51 338	33 449		58 873	39 780	183 440
Other				(60)			40	(20)
Balance at June 30, 2013 Proforma	**1 190 000**	**3 159**	**(456 186)**	**1 072 032**	**(17 356)**	**58 873**	**330 133**	**2 180 655**
Dividends paid on preference shares							(616)	(616)
Variable Remuneration Program (RVA)		255			266			521
Sale / purchase of treasury shares				(152)				(152)
Sale / purchase of preference shares				(3)			24	21
Comprehensive income for the second half of 2013 Proforma			93 892	(31 070)		8 100	35 983	106 905
Other				(100)			(5)	(105)
Balance at December 31, 2013 Proforma	**1 190 000**	**3 414**	**(362 294)**	**1 040 707**	**(17 090)**	**66 973**	**365 519**	**2 287 229**
Appropriation of net income for 2013 to reserves				66 973		(66 973)		
Exchange operation of subordinated debt and preference shares for share	103 063			12 206			(49 365)	65 904
Dividends paid on preference shares							(719)	(719)
Dividends paid to minority interests							(44 186)	(44 186)
Variable Remuneration Program (RVA)		325			8 704			9 029
Sale / purchase of treasury shares				(2 869)	227			(2 642)
Comprehensive income for the first half of 2014			247 576	33 275		(106 615)	51 772	226 008
Other				(16)				(16)
Balance at June 30, 2014	**1 293 063**	**3 739**	**(114 718)**	**1 150 276**	**(8 159)**	**(106 615)**	**323 021**	**2 540 607**

The accompanying notes form an integral part of these statements.

The Accountant

The Executive Committee of the Board of Directors

BANCO BPI, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE PERIODS ENDED JUNE 30, 2014 AND 2013 PROFORMA

(Translation of statements originally issued in Portuguese - Note 5)

(Amounts expressed in thousands of Euro)

	Jun. 30, 14	**Jun. 30, 13 Proforma**
Operating activities		
Interest, commissions and similar income received	1 608 038	1 235 007
Interest, commissions and similar expenses paid	(1 157 303)	(754 394)
Recovery of loans and interest in arrears	8 478	10 368
Payments to personnel and suppliers	(299 118)	(279 845)
Net cash flow from income and expenses	160 095	211 136
Decrease (increase) in:		
Financial assets held for trading, available for sale and held to maturity	723 975	1 234 344
Loans and advances to credit institutions	(134 000)	(165 379)
Loans and advances to customers	675 380	299 805
Investment properties	6 333	791
Other assets	273 388	(59 085)
Net cash flow from operating assets	1 545 076	1 310 476
Increase (decrease) in:		
Resources of central banks and other credit institutions	(844 432)	(836 646)
Resources of customers	491 308	835 580
Financial liabilities held for trading	87 208	(79 387)
Other liabilities	(254 826)	(227 596)
Net cash flow from operating liabilities	(520 742)	(308 049)
Contributions to the Pension Funds	(5 658)	(2 975)
Income tax paid	(24 201)	(46 100)
	1 154 570	**1 164 488**
Investing activities		
Purchase of other tangible assets and intangible assets	(11 676)	(12 069)
Sale of other tangible assets	64	69
Dividends received and other income	22 545	8 722
	10 933	**(3 278)**
Financing activities		
Liability for assets not derecognised	(187 781)	(112 014)
Redemption of contingent convertible subordinated bonds	(920 000)	(200 000)
Issuance of debt securities and subordinated debt	188 648	95 355
Redemption of debt securities	(428 964)	(1 203 025)
Purchase and sale of own debt securities and subordinated debt	24 979	247 210
Purchase and sale of preference shares	(49 365)	
Interest on contingent convertible subordinated bonds	(27 108)	(3 423)
Interest on debt securities and subordinated debt	(50 508)	(64 974)
Exchange operation of subordinated debt and preference shares for shares	103 063	
Dividends paid on preference shares	(719)	(472)
Dividends distributed to minority interests	(44 186)	(54 021)
Purchase and sale of treasury shares	6 386	(934)
	(1 385 555)	**(1 296 298)**
Net increase (decrease) in cash and equivalents	(220 052)	(135 088)
Cash and equivalents at the beginning of the period	1 839 043	1 722 721
Cash and equivalents at the end of the period	**1 618 991**	**1 587 633**

The accompanying notes form an integral part of these statements.

The Accountant
Alberto Pitôrra

The Executive Committee of the Board of Directors
President Fernando Ulrich
Vice-President António Domingues
Members José Pena do Amaral
Maria Celeste Hagatong
Manuel Ferreira da Silva
Pedro Barreto

Banco BPI, S.A.

Notes to the consolidated financial statements as of June 30, 2014 and 2013

(Unless otherwise indicated, all amounts are expressed in thousands of Euro – t. 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 November 30, 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 December 20, 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 June 30, 2014 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 2013 the BPI Alternative Fund: Iberian Equities Long / Short Fund (Lux)[1] was established. At June 30, 2014, the BPI Group, through Banco BPI and BPI Vida e Pensões – Companhia de Seguros, S.A., held 57.3% of the participating units of this fund, its financial statements being included in the financial statements of the BPI Group in accordance with the full consolidation method. In October 2013 the BPI Alternative Fund: Iberian Equities Long/Short Fund (Portugal) was liquidated, its operations now being carried out by BPI Alternative Fund: Iberian Equities Long/Short Fund (Lux).

In 2013 the BPI Group increased its participation to 100% of the share capital of BPI Dealer – Sociedade Financeira de Corretagem (Mozambique), through acquisition of 10.5% of the share capital of that company, previously owned by Banco Comercial e de Investimentos (Mozambique). The company name of BPI Dealer – Sociedade Financeira de Corretagem (Moçambique), was changed to BPI Moçambique – Sociedade de Investimento, S.A.

As a result of the change in IFRS 10 - Consolidated Financial Statements, in the first half of 2014, the BPI Group started consolidating the funds BPI Obrigações Mundiais – Fundo de Investimento Aberto de Obrigações[1] and Imofomento - Fundo de Investimento Imobiliário Aberto[1], in which it holds 56.1% and 40.4% of the participating units, respectively, in accordance with the full consolidation method. Although the BPI Group holds less than 50% of the participating units of Fundo Imofomento, it is consolidated by the full consolidation method, given that the BPI Group has control over the related fund management company and holds more than 20% of the participating units.

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.

[1] Funds managed by BPI Gestão de Activos – Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.

At June 30, 2014 the BPI Group was made up of the following companies:

	Head Office	Shareholder's Equity	Total assets	Net Income (loss) for the period	Direct Participation	Effective Participation	Consolidation / Recognition method
Banks							
Banco BPI, S.A.	Portugal	1593 744	38 568 207	(112 017)			
Banco Português de Investimento, S.A.	Portugal	56 641	1569 847	2 360	100.00%	100.00%	Full Consolidation
Banco Comercial e de Investimentos, S.A.R.L.	Mozambique	149 355	2 093 233	12 330	29.70%	30.00%	Equity Method
Banco de Fomento Angola, S.A.	Angola	643 714	6 881259	98 435	50.08%	50.10%	Full Consolidation
Banco BPI Cayman, Ltd.	Cayman Islands	159 371	244 419	1250		100.00%	Full Consolidation
Asset management companies and dealers							
BPI Gestão de Activos - Sociedade Gestora de Fundos de Investimento Mobiliários, S.A	Portugal	14 148	22 766	3 788	100.00%	100.00%	Full Consolidation
BPI – Global Investment Fund Management Company, S.A.	Luxembourg	1939	4 268	672	100.00%	100.00%	Full Consolidation
BPI (Suisse), S.A.	Switzerland	11209	12 358	2 062		100.00%	Full Consolidation
BPI Alternative Fund: Iberian Equities Long/Short Fund (Lux) [1]	Luxembourg	148 938	154 630	3 994	49.08%	57.28%	Full Consolidation
BPI Obrigações Mundiais - Fundo de Investimento Aberto de Obrigações [1]	Portugal	17 029	18 424	518		56.10%	Full Consolidation
Imofomento - Fundo de Investimento Imobiliário Aberto [1]	Portugal	159 306	163 595	1010	34.10%	40.38%	Full Consolidation
Venture Capital Companies							
BPI Private Equity - Sociedade de Capital de Risco, S.A.	Portugal	25 551	27 447	531	100.00%	100.00%	Full Consolidation
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	1108	1926	148		49.00%	Equity Method
Insurance Companies							
BPI Vida e Pensões – Companhia de Seguros, S.A.	Portugal	133 595	4 084 839	11468	100.00%	100.00%	Full Consolidation
Cosec – Companhia de Seguros de Crédito, S.A.	Portugal	52 508	108 580	3 627	50.00%	50.00%	Equity Method
Companhia de Seguros Allianz Portugal, S.A.	Portugal	285 809	1253 316	13 998	35.00%	35.00%	Equity Method
Others							
BPI Capital Finance Ltd. [2]	Cayman Islands	53 662	53 665	761	100.00%	100.00%	Full Consolidation
BPI Capital Africa (Proprietary) Limited	South Africa	(3 078)	1820	(755)		100.00%	Full Consolidation
BPI, Inc.	U.S.A	617	621	(187)	100.00%	100.00%	Full Consolidation
BPI Locação de Equipamentos, Lda	Portugal	1108	1341	(3)	100.00%	100.00%	Full Consolidation
BPI Madeira, SGPS, Unipessoal, S.A.	Portugal	152 844	157 795	(5)	100.00%	100.00%	Full Consolidation
BPI Moçambique – Sociedade de Investimento, S.A.	Mozambique	735	1055	(290)	96.54%	100.00%	Full Consolidation
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	Portugal	61749	64 049	(786)	32.78%	32.78%	Equity Method
Unicre - Instituição Financeira de Crédito, S.A.	Portugal	91283	319 406	(5 839)	20.65%	21.01%	Equity Method

Note: Unless otherwise indicated, all amounts are as of June 30, 2014 (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] Funds managed by BPI Gestão de Activos – Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.

[2] Share capital is made up of 5 000 ordinary shares of 1 Euro each, and 53 427 000 non-voting preference shares of 1 euro each. Considering the preference shares held by the BPI Group (51 641 000 preference shares) and the total share capital of the company, the effective participation of the BPI Group in this company corresponds to 96.7%.

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 July 19 of the European Parliament and Council, incorporated into Portuguese legislation through Bank of Portugal Notice 1/2005 of February 21.

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 reflected in the financial statements as of June 30, 2014, are as follows:

- 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 January 1, 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 January 1, 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 January 1, 2014.

- IAS 36 - Impairment: this standard was amended to eliminate the requirements to disclose the recoverable amount of a cash generating unit with goodwill or intangible assets with undefined useful lives allocated to periods in which no impairment loss or impairment reversal was recognized. It introduces additional disclosure requirements for assets for which impairment loss or impairment reversal was recognized and their recoverable amount was determined based on fair value less costs to sell. This amendment is mandatory for years beginning on or after January 1, 2014.

- IAS 39 - Financial Instruments: Recognition and Measurement: this amendment allows, under certain circumstances, continuation of hedge accounting when a derivative designated as an hedging instrument is reformulated. This amendment is mandatory for years beginning on or after January 1, 2014.

- 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 January 1, 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 January 1, 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 January 1, 2014.

- IFRS 10 – Consolidated Financial Statements and IFRS 12 – Disclosure of Interests in Other Entities: changes were made to these standards to exempt the consolidation of certain entities that meet the definition of investment entity. It also establishes rules for measurement of investments held by these investment entities. These standards are of mandatory application for years beginning on or after January 1, 2014.

- Transition guidelines – consolidated financial statements, joint agreements and disclosures of interests in other entities: these guidelines change IFRS 10 - Consolidated Financial Statements, IFRS 11 - Joint Agreements and IFRS 12 - Disclosure of interests in other entities, limiting the requirement to provide comparative information only for the preceding comparative period. In addition, changes were made to IFRS 11 and IFRS12 by eliminating the requirement to present comparative information for periods prior to the immediately preceding period. This standard is of optional application for years beginning on or after January 1, 2014.

- IFRIC 21 – Levies: this interpretation establishes the criteria for recognition of a liability for a levy imposed by a government (other than income taxes). This interpretation typifies the levies and the obligation events for the recognition of a levy, clarifying when it should be recognized as a liability. This interpretation is of mandatory application for years beginning on or after January 1, 2014.

The impact of the implementation of the new requirements of IFRS 10 is explained in Note 2.1 - Comparability of information. Application of the other aforementioned standards did not have a significant impact on the accompanying financial statements.

B) MAIN ACCOUNTING POLICIES:

The following accounting policies are applicable to the consolidated financial statements of the BPI Group.

2.1. Comparability of information (IFRS 10)

On January 1, 2014, the European Union endorsed IFRS 10 – Consolidated financial statements. This standard establishes the requirements for the presentation and preparation of consolidated financial statements by the parent company, replacing, on this matter, IAS 27 - Consolidated and Separate Financial Statements and SIC 12 - Consolidation of Special Purpose Entities. This standard amends the definition of control and establishes a single consolidation model for all entities regardless of their nature, being of mandatory application for annual periods beginning on or after January 1, 2014.

In compliance with the rules defined in this standard, the BPI Group started consolidating, in accordance with the full consolidation method, its investments in BPI Obrigações Mundiais – Fundo de Investimento Aberto de Obrigações and Imofomento - Fundo de Investimento Imobiliário Aberto, in which it holds 56.1% and 40.4% of the participating units, respectively.

Also in compliance with IFRS 10, the minority interest in the investment funds consolidated in accordance with the full consolidation method (BPI Alternative Fund Lux, BPI Obrigações Mundiais and Imofomento) started being recorded as a liability, being included in the caption Resources of Customers. The minority interest in the results of these investment funds started being included in the caption Net Income on Financial Operations (BPI Alternative Fund Lux and BPI Obrigações Mundiais) and in Net Operating Income (Imofomento).

Retrospective application of the requirements of IFRS 10, in accordance with IAS 8, had the following impact:

	Consolidated shareholders' equity at Dec. 31, 12 (including net income for the year)	Net Income for 2013	Consolidated shareholders' equity at Dec. 31, 13 (including net income for the year)
Balances as reported (before the retrospective application of the change in accounting policy)	2 060 644	66 839	2 306 330
Impact of retrospective application of IFRS 10			
Consolidation of the funds BPI Obrigações Mundiais and Imofomento			
Revaluation reserves	90		(14)
Other reserves and retained earnings	(215)		(298)
Net income for the year		134	134
Reclassification to liabilities of the minority interests in the investment funds	(7 874)		(18 923)
	(7 999)	134	(19 101)
Balances (proforma)	2 052 645	66 973	2 287 229

2.2. Consolidation of subsidiaries and jointly controlled entities and recognition of associated companies (IFRS 10, IFRS 11, IAS 28 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, that is when the following conditions are met, cumulatively:

- Power over the company;
- Exposure, or rights, to variable returns from its involvement with the company; and
- Ability to use this power over the company to affect the amount of the variable returns.

In the case of investment funds managed by BPI Gestão de Activos, it is assumed that there is control whenever the BPI Group has a participation of more than 20%. In the case of investment funds managed by Inter-Risco, the BPI Group does not consolidate the funds in which, despite having a participation greater than 20%, it does not have control over the investment decisions.

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 intra-group transactions and account balances are 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, except for investment funds which are recorded in the caption Resources of Customers. 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.

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 January 1, 2004 was deducted in full from shareholders' equity.

Negative goodwill arising from the difference between the cost of acquisitions (including expenses) and the fair value of the identifiable assets, liabilities and contingent liabilities of subsidiary and associated companies as of the date of the first consolidation or the date the equity method is first applied is immediately recognised in the statement of income.

The financial statements of subsidiary or associated companies which are inactive or in liquidation were excluded from the consolidation and from application of the equity method. These participations are classified as financial assets available for sale.

Consolidated net income is the sum of the individual net 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; and,
- 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, IAS 39, IFRS 7 and IFRS 13)

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.

In accordance with IFRS 13, fair value is understood to be the price that would be received from the sale of an asset or paid for the transfer of a liability in a transaction between market participants at the measurement date. On the contracting date or at the beginning of an operation fair value is generally the transaction amount.

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 November 1, 2008, the reference date of the changes made by the BPI Group was July 1, 2008. The reclassifications made on or after November 1, 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; and,
- 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, taking into account the own credit risk and counterparty risk of the operations. 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.

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; and
- 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).

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; and,
- 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 250 t. 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 1 own funds, so as to comply with the minimum ratios defined by the European Banking Authority and the Bank of Portugal, in June 2012 Banco BPI issued financial instruments eligible as Core Tier 1 own funds (contingent convertible subordinated bonds), which were subscribed for by the Portuguese State (Notes 4.24, 4.28 and 4.50).

Considering its features, defined in Law 63 – A/2008 of November 24, re-published by Law 4/2012 of January 11 (Bank Recapitalisation Law), Ministerial Order 150-A/2012 of May 17 and in the Terms and Conditions established in Order 8840-A/2012, of the Portuguese Minister of State and Finance of June 28, 2012 and the requirements of the 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 June 29, 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.

At June 30, 2014 the BPI Group did not hold contingent convertible subordinated bonds as it repaid the full amount to the Portuguese State.

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 January 1, 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. Investment properties

Properties held by the investment funds consolidated by the Group in accordance with the full consolidation method are recorded as investment properties since they are held for the purpose of long term capital appreciation and not for short-term sale, nor for use in carrying out banking activity.

These properties are initially recognized at cost, including transaction costs, being subsequently revaluated at fair value. The appraisals are carried out by independent appraisers registered at "Comissão dos Mercados de Valores Mobiliários" (Stock Exchange Commission). The fair value of investment properties should reflect market conditions at the balance sheet date, the corresponding changes being recorded in the statement of income caption Operating Income and Expenses.

Investment properties are not depreciated.

2.6. 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 legal or tax acquisition amount or the amount stated in the settlement agreement. Assets recovered following the resolution of lease contracts are recorded at the outstanding amount due not invoiced. 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.

The appraisals are carried out by independent appraisers registered at "Comissão dos Mercados de Valores Mobiliários". Unrealized gains on these assets are not recognized in the balance sheet.

Tangible assets available for sale are not depreciated.

2.7. 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.

2.8. 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) 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 December 31, 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 January 3, 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 January 1, 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 December 31 was published, which establishes transfer to the Social Security of the liability for retirement and survivor pensions of retirees and pensioners which at December 31, 2011 were in that situation and were covered by the substitute social security regime included in the collective labour regulations in force for the banking sector (Pillar 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 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 January 1, 2012.

The value of the pension fund assets transferred to the Portuguese State must be equal to the amount of the liabilities assumed 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 December 31, 2011, the amount equivalent to 55% of the provisional present value of the liabilities; (ii) by June 30, 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 110 of IAS 19.

In accordance with the Decree-Law 127/2011 of December 31, 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 January 1, 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 an abrupt decrease in 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, at June 30, 2014 and December 31, 2013 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 be of high quality in terms of credit risk. An analysis of the actuarial assumptions and, if applicable, their corresponding change, is carried out by the BPI Group as of June 30 and December 31 of each year. On December 31, 2013 the BPI Group changed the discount rate and the mortality table as regards the average life expectancy of employees, retired employees and pensioners of the BPI Group. On June 30, 2014 the BPI Group changed again the discount rate and the salary and pension increase rates.The updating of these assumptions is reflected in actuarial deviations for the period and prospectively in pension costs. The amount of the liability includes, in addition to the retirement pension benefits, post-employment healthcare benefits (SAMS) and death subsidy during retirement.

In accordance with the requirements of IAS 19, the BPI Group recognizes the effect of re-measuring the net liability (asset) of defined benefit pension plans and other post-employment benefits, directly in equity, in the Statement of Comprehensive Income, in the period in which it occurs, including actuarial gains and losses and deviations relating to the return on pension fund assets.

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 in the statements of income.

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 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);
- net interest cost;
- cost relating to the increase in the past service liability due to early retirements;
- gains and losses resulting from changes in the conditions of the Pension Plan.

At the transition date to IAS/IFRS, 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 December 31, 2003 were reversed by corresponding entry to retained earnings at the transition date (January 1, 2004).

2.9. 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 December 31, 2012.

In 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, so that it pays 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 December 31, 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.

2.10. 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.

2.11. 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 resolution condition (relating to termination of the employment relationship, unless made by just cause of the Employee), which terminates on a gradual basis over the three years following the grant date (25% each year). The share purchase options may be exercised between the 90th day and the fifth year as from the grant date. Termination of the employment relationship between the Employee and BPI Group also affects the options granted, in accordance with RVA Regulations.

The conditions for granting shares and share options to the Executive Directors up to RVA 2009 were similar to those previously referred to for Employees. As from RVA 2010, the shares and share options granted to Executive Directors under the RVA program are subject to the following suspending 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 suspending condition relating to 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 suspending 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 4.24, 4.28 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 (January 1) 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.

2.12. 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).

2.13. 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.

2.14. 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 Corporation 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 December 31, 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 January 1, 2003. As from January 1, 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 Corporation Income Tax Code, which provides for the elimination of double taxation of net income distributed.

2.15. 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.

2.16. 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 July 31, 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 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 refers 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 January 31).

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 referred to.

2.17. 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 have been estimated based on actuarial tables and assumptions of the increase in pensions and salaries and discount rates. 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 financial market environment, 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: corresponds to commercial banking business in Portugal, the provision overseas of banking services to non-residents - namely to emigrant Portuguese communities and services provided in the Madrid branch - and investment banking, private equity, asset management and insurance operations. Thus, domestic operations are divided into:

    - 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 Moçambique – Sociedade de Investimento, S.A. 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 – includes commercial operations with private clients, sole traders and businesses with turnover of up to 5 million euro through a multi-channel distribution network made up of traditional branches, investment centres, home banking services and telephone banking.
- Corporate Banking, Project Finance and Institutional Banking – includes commercial operations with companies with a turnover of more than 2 million euro and also with Retail Banking for the segment of up to 5 million euro. This also includes project finance services and relationships with entities of the Public Sector, Public and Municipal Companies, the State Business Sector, Foundations and Associations. This segment operates through a network of business centres, institutional centres and homebanking services adapted to the business needs.

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 June 30, 2014 and investments in tangible and intangible assets during the period, by segment, are as follows:

	Domestic operations					International operations				
	Commercial banking	Investment banking	Equity investments and others	Inter segment operations	Total	Angola	Others	Total	Inter segment operations	BPI Group
ASSETS										
Cash and deposits at Central Banks	215 250	182			215 432	1058 850	1	1058 851		1274 283
Loans and advances to other credit institutions repayable on demand	387 251	66 109	4 361	(138 074)	319 647	41258	1	41259	(16 157)	344 749
Financial assets held for trading and at fair value through profit or loss	1588 425	218 485		(66 739)	1740 171	155 010	23	155 033		1895 204
Financial assets available for sale	5 867 205	7 660	52 888	1307	5 929 060	2 704 563		2 704 563		8 633 623
Loans and advances to credit institutions	1851961	1422 232	2 895	(2 068 361)	1208 727	1582 045	1589	1583 634	(771362)	2 020 999
Loans and advances to customers	23 863 355	221458		(5 268)	24 079 545	1111 105		1111 105		25 190 650
Held to maturity investments	134 151	10 320		(40 949)	103 522					103 522
Hedging derivatives	141053	253		(4 306)	137 000					137 000
Investment properties	158 617				158 617					158 617
Other tangible assets	61556	1598			63 154	129 886	415	130 301		193 455
Intangible assets	16 231	84			16 315	2 255	4	2 259		18 574
Investment in associated companies and jointly controlled entities	100 034		79 584		179 618		44 806	44 806		224 424
Tax assets	459 767	7 866	(2 592)		465 041	3 200	658	3 858		468 899
Other assets	722 043	28 748	112	(94 179)	656 724	10 861	263	11 124	(45 179)	622 669
TOTAL ASSETS	**35 566 899**	**1 984 995**	**137 248**	**(2 416 569)**	**35 272 573**	**6 799 033**	**47 760**	**6 846 793**	**(832 698)**	**41 286 668**
LIABILITIES										
Resources of central banks	3 054 955				3 054 955					3 054 955
Financial liabilities held for trading	346 294	17 833		(21973)	342 154	299		299		342 453
Resources of other credit institutions	3 954 270	(8 916)	36 370	(1515 047)	2 466 677	3 012	220	3 232	(787 519)	1682 390
Resources of customers and other debts	18 741739	1533 395		(713 066)	19 562 068	6 038 367		6 038 367		25 600 435
Debt securities	2 492 839			(73 645)	2 419 194					2 419 194
Financial liabilities relating to transferred assets	1199 635				1199 635					1199 635
Hedging derivatives	322 533			(2 970)	319 563					319 563
Provisions	87 806	201			88 007	25 280		25 280		113 287
Technical provisions	2 981987	229 390			3 211377					3 211377
Tax liabilities	37 668	2 396	(2 244)		37 820	12 935	3 411	16 346		54 166
Other subordinated debt and participating bonds	131126	4 291		(65 871)	69 546					69 546
Other liabilities	627 320	36 052	1896	(23 997)	641271	77 892	5 076	82 968	(45 179)	679 060
TOTAL LIABILITIES	**33 978 172**	**1 814 642**	**36 022**	**(2 416 569)**	**33 412 267**	**6 157 785**	**8 707**	**6 166 492**	**(832 698)**	**38 746 061**
SHAREHOLDERS' EQUITY										
Shareholders' equity attributable to the shareholders of BPI	1586 919	170 353	101226		1858 498	320 035	39 053	359 088		2 217 586
Minority interest	1808				1808	321213		321213		323 021
TOTAL SHAREHOLDERS' EQUITY	**1 588 727**	**170 353**	**101 226**		**1 860 306**	**641 248**	**39 053**	**680 301**		**2 540 607**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**35 566 899**	**1 984 995**	**137 248**	**(2 416 569)**	**35 272 573**	**6 799 033**	**47 760**	**6 846 793**	**(832 698)**	**41 286 668**
Investments made in:										
Property						1040		1040		1040
Equipment and other tangible assets	2 105	85			2 190	6 719	1	6 720		8 910
Intangible assets	931	4			935	787	4	791		1726

The BPI Group's income statement for the half-year ended June 30, 2014, 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)	**117 540**	**1 836**	**(1 383)**		**117 993**	**102 833**	**(122)**	**102 711**		**220 704**
Gross margin on unit links	519	1474			1993					1993
Income from equity instruments	1 143	101	2 121		3 365					3 365
Net commission relating to amortised cost	10 402				10 402	56		56		10 458
Financial margin	**129 604**	**3 411**	**738**		**133 753**	**102 889**	**(122)**	**102 767**		**236 520**
Technical result of insurance contracts	14 678	202			14 880					14 880
Commission received	120 864	28 120		(19 153)	129 831	19 865	200	20 065	(625)	149 271
Commission paid	(27 228)	(8 290)	(14)	19 153	(16 379)	(3 612)	(1)	(3 613)	625	(19 367)
Other income, net	7 609	41			7 650	9 361		9 361		17 011
Net commission income	**101 245**	**19 871**	**(14)**		**121 102**	**25 614**	**199**	**25 813**		**146 915**
Gain and loss on operations at fair value	11 160	6 265			17 425	55 569		55 569		72 994
Gain and loss on assets available for sale	(131310)	218			(131092)					(131092)
Interest and financial gain and loss with pensions	840	(5)	(1)		834					834
Net income on financial operations	**(119 310)**	**6 478**	**(1)**		**(112 833)**	**55 569**		**55 569**		**(57 264)**
Operating income	15 826	3			15 829	350	52	402		16 231
Operating expenses	(20 060)	(254)			(20 314)	(591)	(1)	(592)		(20 906)
Other taxes	(1906)	(386)			(2 292)	(5 483)	(36)	(5 519)		(7 811)
Net operating expenses	**(6 140)**	**(637)**			**(6 777)**	**(5 724)**	**15**	**(5 709)**		**(12 486)**
Operating income from banking activity	**120 077**	**29 325**	**723**		**150 125**	**178 348**	**92**	**178 440**		**328 565**
Personnel costs	(137 644)	(11553)	(86)		(149 283)	(31078)	(925)	(32 003)		(181286)
General administrative costs	(86 394)	(6 076)	(15)		(92 485)	(28 238)	(277)	(28 515)		(121000)
Depreciation and amortisation	(7 585)	(615)			(8 200)	(6 775)	(52)	(6 827)		(15 027)
Overhead costs	**(231 623)**	**(18 244)**	**(101)**		**(249 968)**	**(66 091)**	**(1 254)**	**(67 345)**		**(317 313)**
Recovery of loans, interest and expenses	7 452				7 452	1026		1026		8 478
Impairment losses and provisions for loans and guarantees, net	(94 052)	(15)			(94 067)	(5 995)		(5 995)		(100 062)
Impairment losses and other provisions, net	(4 771)	(86)			(4 857)	(1462)		(1462)		(6 319)
Net income before income tax	**(202 917)**	**10 980**	**622**		**(191 315)**	**105 826**	**(1 162)**	**104 664**		**(86 651)**
Income tax	31664	(3 602)	49		28 111	(10 049)	268	(9 781)		18 330
Earnings of associated companies (equity method)	4 899		2 809		7 708		3 677	3 677		11385
Global consolidated net income	**(166 354)**	**7 378**	**3 480**		**(155 496)**	**95 777**	**2 783**	**98 560**		**(56 936)**
Income attributable to minority interest	(658)				(658)	(49 021)		(49 021)		(49 679)
Consolidated net income of the BPI Group	**(167 012)**	**7 378**	**3 480**		**(156 154)**	**46 756**	**2 783**	**49 539**		**(106 615)**
Cash flow after taxes	(60 604)	8 094	3 480		(49 030)	60 988	2 835	63 823		14 793

The BPI Group’s balance sheet as of December 31, 2013 Proforma and investments 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	314 551	209			314 760	1057 451		1057 451		1372 211
Loans and advances to other credit institutions repayable on demand	510 982	71 186	4 204	(128 582)	457 790	18 289	33	18 322	(9 249)	466 863
Financial assets held for trading and at fair value through profit or loss	1076 874	153 398		(63 910)	1166 362	140 297	58	140 355		1306 717
Financial assets available for sale	7 267 098	17 511	52 426	1291	7 338 326	2 285 917		2 285 917		9 624 243
Loans and advances to credit institutions	1773 643	1111 651	2 894	(1604 020)	1284 168	1689 984	575	1690 559	(1088 657)	1886 070
Loans and advances to customers	24 717 196	195 865		(19 565)	24 893 496	1071637		1071637		25 965 133
Held to maturity investments	166 530	11 667		(41320)	136 877					136 877
Hedging derivatives	196 410	222		(2 589)	194 043					194 043
Investment properties	164 949				164 949					164 949
Other tangible assets	67 706	1616	1		69 323	127 456	558	128 014		197 337
Intangible assets	16 770	101			16 871	2 278		2 278		19 149
Investment in associated companies and jointly controlled entities	95 875		81 150		177 025		44 967	44 967		221992
Tax assets	532 275	5 030	(816)		536 489	3 133	70	3 203		539 692
Other assets	767 636	32 039	135	(98 554)	701256	12 686	225	12 911	(3 121)	711046
TOTAL ASSETS	**37 668 495**	**1600 495**	**139 994**	**(1957 249)**	**37 451 735**	**6 409 128**	**46 486**	**6 455 614**	**(1101 027)**	**42 806 322**
LIABILITIES										
Resources of central banks	4 140 068				4 140 068					4 140 068
Financial liabilities held for trading	256 022	17 140		(19 150)	254 012	1233		1233		255 245
Resources of other credit institutions	3 707 139	4 551	27 416	(1203 664)	2 535 442	14 992	721	15 713	(1097 906)	1453 249
Resources of customers and other debts	19 242 233	1230 691		(553 897)	19 919 027	5 698 461		5 698 461		25 617 488
Debt securities	2 688 097			(89 642)	2 598 455					2 598 455
Financial liabilities relating to transferred assets	1387 296				1387 296					1387 296
Hedging derivatives	549 991	(1)		(1532)	548 458					548 458
Provisions	102 134	186			102 320	21718		21718		124 038
Technical provisions	2 513 660	176 108			2 689 768					2 689 768
Tax liabilities	39 529	1520	(1775)		39 274	15 153	3 284	18 437		57 711
Contingent convertible subordinated bonds	920 433				920 433					920 433
Other subordinated debt and participating bonds	198 857	3 934		(65 860)	136 931					136 931
Other liabilities	540 345	38 496	2 145	(23 504)	557 482	32 194	3 398	35 592	(3 121)	589 953
TOTAL LIABILITIES	**36 285 804**	**1472 625**	**27 786**	**(1957 249)**	**35 828 966**	**5 783 751**	**7 403**	**5 791 154**	**(1101 027)**	**40 519 093**
SHAREHOLDERS' EQUITY										
Shareholders' equity attributable to the shareholders of BPI	1331458	127 870	112 208		1571536	311091	39 083	350 174		1921710
Minority interest	51233				51233	314 286		314 286		365 519
TOTAL SHAREHOLDERS' EQUITY	**1382 691**	**127 870**	**112 208**		**1622 769**	**625 377**	**39 083**	**664 460**		**2 287 229**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**37 668 495**	**1600 495**	**139 994**	**(1957 249)**	**37 451 735**	**6 409 128**	**46 486**	**6 455 614**	**(1101 027)**	**42 806 322**
Investments made in:										
Property	207				207	1052		1052		1259
Equipment and other tangible assets	6 539	166			6 705	17 473	217	17 690		24 395
Intangible assets	7 897	78			7 975	1742		1742		9 717

The BPI Group's income statement for the half-year ended June 30, 2013 Proforma, 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)	**129 244**	**958**	**(707)**		**129 495**	**90 090**	**(140)**	**89 950**		**219 445**
Gross margin on unit links	402	990			1392					1392
Income from equity instruments	947	84	1845		2 876					2 876
Net commission relating to amortised cost	12 561				12 561	278		278		12 839
Financial margin	**143 154**	**2 032**	**1 138**		**146 324**	**90 368**	**(140)**	**90 228**		**236 552**
Technical result of insurance contracts	11 115	132			11 247					11 247
Commission received	130 286	21437		(14 180)	137 543	16 876	90	16 966	(625)	153 884
Commission paid	(26 003)	(5 540)	(7)	14 180	(17 370)	(3 606)		(3 606)	625	(20 351)
Other income, net	9 175	43			9 218	13 752		13 752		22 970
Net commission income	**113 458**	**15 940**	**(7)**		**129 391**	**27 022**	**90**	**27 112**		**156 503**
Gain and loss on operations at fair value	12 681	3 061			15 742	40 971		40 971		56 713
Gain and loss on assets available for sale	129 076				129 076					129 076
Interest and financial gain and loss with pensions	2 051	33			2 084					2 084
Net income on financial operations	**143 808**	**3 094**			**146 902**	**40 971**		**40 971**		**187 873**
Operating income	9 892	6			9 898	368	11	379		10 277
Operating expenses	(14 798)	(1014)			(15 812)	(303)	(1)	(304)		(16 116)
Other taxes	(1850)	(389)			(2 239)	(628)	(12)	(640)		(2 879)
Net operating expenses	**(6 756)**	**(1 397)**			**(8 153)**	**(563)**	**(2)**	**(565)**		**(8 718)**
Operating income from banking activity	**404 779**	**19 801**	**1 131**		**425 711**	**157 798**	**(52)**	**157 746**		**583 457**
Personnel costs	(140 966)	(10 292)	(84)		(151342)	(32 278)	(934)	(33 212)		(184 554)
General administrative costs	(85 567)	(5 933)	(14)		(91514)	(27 732)	(287)	(28 019)		(119 533)
Depreciation and amortisation	(8 746)	(643)			(9 389)	(6 446)	(64)	(6 510)		(15 899)
Overhead costs	**(235 279)**	**(16 868)**	**(98)**		**(252 245)**	**(66 456)**	**(1 285)**	**(67 741)**		**(319 986)**
Recovery of loans, interest and expenses	9 089				9 089	1279		1279		10 368
Impairment losses and provisions for loans and guarantees, net	(144 408)	(542)			(144 950)	(5 632)		(5 632)		(150 582)
Impairment losses and other provisions, net	(9 187)	(8)	162		(9 033)	(1527)		(1527)		(10 560)
Net income before income tax	**24 994**	**2 383**	**1 195**		**28 572**	**85 462**	**(1 337)**	**84 125**		**112 697**
Income tax	(11936)	(1471)	(254)		(13 661)	(11235)	(364)	(11599)		(25 260)
Earnings of associated companies (equity method)	4 801		1123		5 924		4 267	4 267		10 191
Global consolidated net income	**17 859**	**912**	**2 064**		**20 835**	**74 227**	**2 566**	**76 793**		**97 628**
Income attributable to minority interest	(467)	(2)			(469)	(38 286)		(38 286)		(38 755)
Consolidated net income of the BPI Group	**17 392**	**910**	**2 064**		**20 366**	**35 941**	**2 566**	**38 507**		**58 873**
Cash flow after taxes	179 733	2 103	1902		183 738	49 546	2 630	52 176		235 914

4. NOTES

4.1. Cash and deposits at Central Banks

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Cash	337 062	369 451
Demand deposits at the Bank of Portugal	33 927	109 939
Demand deposits at foreign Central Banks	903 259	892 793
Accrued interest	35	28
	1 274 283	**1 372 211**

The caption “Demand deposits at the Bank of Portugal” includes deposits made to comply with the minimum cash reserve requirements of the Eurosystem. These deposits bear interest and correspond to 1% of the amount of customers’ deposits and debt securities issued maturing in up to 2 years, excluding liabilities to other institutions subject to and not exempt from the same minimum reserve system, liabilities to the ECB and national central banks that participate in the euro.

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 1/2014 of February 12 (up to that date BNA Instruction 3/2013 of July 1 was in force) and must be held in kwanzas and in dollars, depending on the currency of the liabilities which serve as a base for determining the amount, and must be maintained during the whole period they refer to. At June 30, 2014 the requirement to maintain compulsory cash reserves was calculated by application of the rate of 12.5% to the mathematical average of the eligible liabilities in kwanzas and 15% to the mathematical average of the eligible liabilities in other currencies. At December 31, 2013 the requirement to maintain compulsory cash reserves was calculated by application of a 15% rate to the mathematical average of the eligible liabilities in kwanzas and in other currencies.

4.2. Deposits at other Credit Institutions

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Domestic Credit Institutions		
Demand deposits	3 030	3 480
Cheques for collection	72 406	65 779
Other	1 007	1 042
Foreign Credit Institutions		
Demand deposits	260 867	392 448
Cheques for collection	7 433	4 111
Accrued interest	6	3
	344 749	**466 863**

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:

	Jun. 30, 14	Dec. 31, 13 Proforma
Financial assets held for trading		
Debt Instruments		
Bonds issued by Portuguese government entities	188 501	4 747
Bonds issued by foreign government entities	157 633	142 913
Bonds issued by other Portuguese entities		
Non-subordinated debt	15 591	14 711
Bonds issued by international financial organizations		49
Bonds issued by other foreign entities		
Non-subordinated debt	17 418	9 940
Subordinated debt	737	
	379 880	**172 360**
Equity instruments		
Shares issued by Portuguese entities	166 539	148 902
Shares issued by foreign entities	90 537	59 113
	257 076	**208 015**
Other securities		
Participating units issued by Portuguese entities	159	157
Participating units issued by foreign entities	98	92
	257	**249**
	637 213	**380 624**
Financial assets at fair value through profit or loss		
Debt Instruments		
Bonds issued by Portuguese government entities	38 032	99 301
Bonds issued by foreign government entities	497 844	239 513
Bonds issued by other Portuguese entities		
Non-subordinated debt	125 136	71 240
Bonds issued by other foreign entities		
Non-subordinated debt	52 747	43 350
Subordinated debt	1 699	1 589
	715 458	**454 993**
Equity instruments		
Shares issued by Portuguese entities	267	1 349
Shares issued by foreign entities	20 000	24 668
	20 267	**26 017**
Other securities		
Participating units issued by Portuguese entities	6 925	11 347
Participating units issued by foreign entities	234 384	210 239
	241 309	**221 586**
	977 034	**702 596**
Derivative instruments with positive fair value (Note 4.4)	**280 957**	**223 497**
	1 895 204	**1 306 717**

This caption includes the following assets hedging capitalisation insurance products issued by BPI Vida e Pensões:

	Jun. 30, 14	Dec. 31, 13 Proforma
Debt Instruments		
Of public entities	535 877	338 814
Other entities	179 355	116 179
Equity Instruments	3 609	9 628
Other securities	241 309	221 586
	960 150	**686 207**

In 2008 and 2009 and in the first half of 2012, the BPI Group reclassified bonds from Financial assets held for trading to 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 October 31, 2008 were based on prices at July 1, 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 4.16) is made up as follows:

	Jun. 30, 14			Dec. 31, 13 Proforma		
	Notional value[1]	Book value		Notional value[1]	Book value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate contracts						
Futures	501		3			
Exchange forwards and swaps	1 900 393	390	605	1 623 706	1 250	1 244
Interest rate contracts						
Futures	72 150	47	6	66 597	11	10
Options	495 720	2 679	2 069	473 833	3 051	3 284
Swaps	6 060 665	235 620	237 549	6 356 628	191 182	195 972
Contracts over shares						
Futures	11 211	538	4	12 509	162	222
Swaps	292 487	2 179	43 251	264 030	55	27 008
Options	82 042	21 220	76	31 225	614	19
Contracts over other underlying items						
Futures	67 035			51 737		
Others						
Options[2]	839 199	18 106	39 881	643 635	26 932	27 360
Others[3]	1 879 155		126	1 951 222		126
Overdue derivatives		178			240	
	11 700 558	**280 957**	**323 570**	**11 475 122**	**223 497**	**255 245**

[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 4.20).

The caption "Derivative instruments held for hedging" is made up as follows:

	Jun. 30, 14			Dec. 31, 13 Proforma		
	Notional value[1]	Book value		Notional value[1]	Book value	
		Assets	Liabilities		Assets	Liabilities
Interest rate contracts						
Futures	158 516	22	236	172 541	51	29
Swaps	13 226 047	136 178	312 283	15 187 052	169 642	518 152
Contracts over shares						
Swaps	300 412	466	6 851	204 758	146	6 124
Contracts over credit events						
Swaps				9 240	33	
Contracts over other underlying items						
Swaps	12 758	334	193	12 758	334	316
Others						
Options[2]				570 583	23 837	23 837
	13 697 733	**137 000**	**319 563**	**16 156 932**	**194 043**	**548 458**

[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, to 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, among others, to inflation, shares) 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 details of the valuation methods used 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 on 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 June 30, 2014 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	**1 599 732**	**83 752**	**216 909**			**1 900 393**
Forwards	115 195	18 971	215 811			349 977
Swaps	1 484 537	64 781	1 098			1 550 416
Interest rate contracts	**3 266 768**	**1 676 329**	**3 798 058**	**8 442 971**	**2 598 306**	**19 782 432**
Swaps	3 234 214	1 545 292	3 662 525	8 265 261	2 579 420	19 286 712
Options	32 554	131 037	135 533	177 710	18 886	495 720
Contracts over indexes and shares	**344 753**	**52 688**	**200**	**236 300**	**41 000**	**674 941**
Swaps	324 032	52 688		216 179		592 899
Options	20 721		200	20 121	41 000	82 042
Contracts over credit events						
Swaps						
Contracts over other underlying items		**3 526**	**5 970**	**3 262**		**12 758**
Swaps		3 526	5 970	3 262		12 758
Others	**518 277**	**103 338**	**179 321**	**1 849 435**	**67 983**	**2 718 354**
Options	85 154	103 338	179 321	403 403	67 983	839 199
Others	433 123			1 446 032		1 879 155
	5 729 530	**1 919 633**	**4 200 458**	**10 531 968**	**2 707 289**	**25 088 878**
Organized markets	433 123			1 446 032		
Exchange rate contracts	**501**					**501**
Futures	501					501
Interest rate contracts	**77 362**	**12 000**	**20 000**	**121 304**		**230 666**
Futures	77 362	12 000	20 000	121 304		230 666
Contracts over indexes and shares	**11 211**					**11 211**
Futures	11 211					11 211
Contracts over other underlying items	**67 035**					**67 035**
Futures	67 035					67 035
	156 109	**12 000**	**20 000**	**121 304**		**309 413**
	5 885 639	**1 931 633**	**4 220 458**	**10 653 272**	**2 707 289**	**25 398 291**

At December 31, 2013 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	**1 473 733**	**146 937**	**3 037**			**1 623 706**
Forwards	117 297	15 066	3 037			135 399
Swaps	1 356 436	131 871				1 488 307
Interest rate contracts	**1 106 526**	**1 103 140**	**5 204 896**	**9 503 795**	**5 099 156**	**22 017 513**
Swaps	1 085 499	1 056 598	5 011 945	9 310 798	5 078 840	21 543 680
Options	21 026	46 542	192 951	192 997	20 316	473 833
Contracts over indexes and shares	**264 030**	**8 500**	**115 322**	**112 161**		**500 013**
Swaps	264 030	8 500	84 234	112 024		468 788
Options			31 088	137		31 225
Contracts over credit events		**9 240**				**9 240**
Swaps		9 240				9 240
Contracts over other underlying items			**3 526**	**9 232**		**12 758**
Swaps			3 526	9 232		12 758
Others	**759**	**131 993**	**685 621**	**2 052 838**	**294 228**	**3 165 440**
Options	759	131 993	233 223	554 014	294 228	1 214 218
Others			452 398	1 498 824		1 951 222
	2 845 048	**1 399 810**	**6 012 402**	**11 678 027**	**5 393 384**	**27 328 670**
Organized markets						
Interest rate contracts	**200 138**		**4 000**	**35 000**		**239 138**
Futures	200 138		4 000	35 000		239 138
Contracts over indexes and shares	**12 509**					**12 509**
Futures	12 509					12 509
Contracts over other underlying items	**51 737**					**51 737**
Futures	51 737					51 737
	264 384		**4 000**	**35 000**		**303 384**
	3 109 432	**1 399 810**	**6 016 402**	**11 713 027**	**5 393 384**	**27 632 054**

At June 30, 2014 the distribution of derivative operations, by counterparty external rating, was as follows:

	Jun. 30, 14			
	Notional Value[1]	**Gross exposure [2]**	**Exposure considering netting[3]**	**Net exposure[4]**
Over-the-counter market (OTC)				
AA-	219 600	6 409	3 431	49
A+	1 399 915	9 502	6 453	1 465
A	7 686 805	76 325	33 255	4 349
A-	1 592 732	4 864	1 678	948
BBB+	3 160 256	38 529	2 009	23
BBB	449 601	12 270	11 003	3 420
BBB-	4 226 455	14 010		
BB+	60 124	8 544	5 080	250
BB-	47 097	1 136	1 136	136
N.R.	3 527 939	224 538	224 077	224 077
	22 370 524	**396 128**	**288 122**	**234 716**
Traded on the stock exchange				
Futures[5]	309 413			
	309 413			
	22 679 937	**396 128**	**288 122**	**234 716**

Note: The amounts were accumulated by rating levels of the counterparties, considering the senior medium and long term debt ratings attributed by the Moody, 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 2 718 354 t. 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 December 31, 2013 the distribution of derivative operations, by counterparty external rating, was as follows:

	Dec. 31, 13			
	Notional Value[1]	Gross exposure [2]	Exposure considering netting[3]	Net exposure[4]
Over-the-counter market (OTC)				
AA-	390 100	10 056	7 042	
A+	595 676	1 851		
A	9 490 583	113 966	59 327	2 212
A-	2 762 559	29 248	118	118
BBB+	33 657	1 292		
BBB	697 731	11 417	5 258	2 575
BBB-	5 869 425	23 902	2 421	1 051
BB+	62 840	7 843	5 059	
BB-	27 867	963	963	
N.R.	4 225 292	189 355	185 809	185 809
	24 163 230	**390 103**	**266 206**	**191 975**
Traded on the stock exchange				
Futures[5]	303 384			
	303 384			
	24 466 614	**390 103**	**266 206**	**191 975**

Note: The amounts were accumulated by rating levels of the counterparties, considering the senior medium and long term debt ratings attributed by the Moody, 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 3 165 440 t. 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:

	Jun. 30, 14	Dec. 31, 13 Proforma
Debt instruments		
Bonds issued by Portuguese government entities	4 423 382	5 163 311
Bonds issued by foreign government entities	3 265 846	3 341 475
Bonds issued by other Portuguese entities		
Non-subordinated debt	494	477
Bonds issued by other foreign entities		
Non-subordinated debt	146 526	149 002
Subordinated debt	481 410	644 639
	8 317 658	**9 298 904**
Equity instruments		
Shares issued by Portuguese entities	76 109	72 494
Impairment	(28 284)	(27 997)
Quotas	45 042	44 971
Shares issued by foreign entities	32 620	32 570
Impairment	(18 115)	(18 108)
	107 372	**103 930**
Other securities		
Participating units issued by Portuguese entities	226 341	236 099
Impairment	(22 453)	(18 188)
Participating units issued by foreign entities	3 312	2 122
	207 200	**220 033**
Loans and other receivables	22 351	22 119
Impairment	(20 958)	(20 743)
	1 393	**1 376**
Overdue bonds	1 045	1 635
Impairment on overdue bonds	(1 045)	(1 635)
	8 633 623	**9 624 243**

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.

In the first half of 2014 the BPI Group sold bonds issued by Portuguese and foreign government entities with a nominal value of 850 000 t. euro and 487 500 t. euro, respectively. The impact of the sale was recognised in “Net income on financial operations” (Note 4.40).

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.

In 2013 the BPI Group reclassified a bond from Financial assets available for sale to Loans and advances to customers (Note 4.7), under the amendments to IAS 39 and IFRS 7 (Notes 2 and 4.48). The reclassification was made based on the price at the reclassification date.

The changes in impairment losses and provisions in the first half of 2014 and 2013 are shown in Note 4.21.

At June 30, 2014 this caption was made up as follows:

Nature and type of security	Quantity	Amounts per unit		Cost	Book Value / Fair Value	Net gain/ (loss) on securities [2]	Hedge accounting effect [2]	Impairment
		Nominal	Listing / Price					
Debt Instruments								
Issued by Portuguese Entities								
Portuguese Public Debt								
Treasury Bills								
BILHETES DO TESOURO -CZ 22.08.2014	125 952 000	100	100	125 756	125 914	42		
BILHETES DO TESOURO-CZ-17.04.2015	368 033 000	100	100	365 933	366 855	546		
BILHETES DO TESOURO-CZ-18.07.2014	775 315 000	100	100	764 510	775 230	424		
BILHETES DO TESOURO-CZ-19.09.2014	254 528 000	100	100	251 274	254 393	453		
BILHETES DO TESOURO-CZ-19.12.2014	265 097 000	100	100	260 593	264 723	1 161		
BILHETES DO TESOURO-CZ-20.02.2015	297 616 000	100	100	295 830	296 887	500		
BILHETES DO TESOURO-CZ-20.03.2015	405 742 000	100	100	403 637	404 423	326		
BILHETES DO TESOURO-CZ-21.11.2014	125 000 000	100	100	123 998	124 850	287		
BILHETES DO TESOURO-CZ-22.05.2015	490 066 000	100	100	487 099	488 155	728		
BILHETES DO TESOURO-CZ-22.05.2015	3 600 000	100	100	3 578	3 586	6		
BILHETES DO TESOURO-CZ-23.01.2015	371 784 000	100	100	369 104	370 966	765		
				3 451 312	**3 475 982**	**5 238**		
Treasury Bonds								
OT - 3.35% (15.10.2015)	150 000	0.01	103.63	139	159	10		
OT - 4.35% (16.10.2017)	1 500 000	0.01	0.01	1 574	1 673	60		
OT-4.75%-14.06.2019	850 000 000	0.01	0.01	902 454	945 568	65 071	(124 847)	
				904 167	**947 400**	**65 141**	**(124 847)**	
Other Residents								
Non - Subordinated debt								
Other Bonds								
SEMAPA - 2006/2016	500 000	50 000.00	49 250.00	495	494	(6)		
				495	**494**	**(6)**		
Issued by non - residents								
By foreign government entities								
Bonds								
BILHETES DO TESOURO (Angola)	75 527 228	7.50		543 558	555 812			
BUONI POLIENNALI DEL T-4.25%-01.09.2019	312 500 000	1000.00	1 139.70	319 558	360 546	39 979	(49 817)	
BUONI POLIENNALI DEL T-4.5%-01.03.2019	175 000 000	1000.00	1 145.60	185 458	203 083	20 322	(27 348)	
OBRIGAÇÕES DO TESOURO - AKZ (Angola)	639 520	750.13		1 743 596	1 777 930			
OBRIGAÇÕES DO TESOURO - USD (Angola)	70 264	150.03		362 435	368 475			
				3 154 605	**3 265 846**	**60 301**	**(77 165)**	
Others non - residents								
Non - subordinated Debt								
Bonds								
ATLANTES MORTGAGE -SR.1-CL.A (17.12036)	817 016	16 340.32	15 853.48	713	794	(24)		
AVOCA CLO BV-SR-II.X-CL-A1-15.01.2020	101 203	126.50	125.78	99	101			
BARCLAYS BANK PLC-TV-25.05.2017	3 123 429	44 620.42	33 649.60	2 256	2 355	(268)		
CELF LOAN PART.BV-SR.2005-1X CL.A 2021	256 205	320.26	318.43	248	256	(1)		
COSAN FINANCE LTD-7%-01.02.2017	14 643 432	732.17	813.68	14 489	16 698	1 721	(2 097)	
COSIPA COMMERCIAL - 8.25% (14.06.2016)	7 687 802	732.17	809.05	8 622	8 523	619	(671)	
DUCHESS-SR.V-X CL.B-TV.25.05.2021	800 000	1000.00	970.16	742	777	6		
EIRLES TWO LIMITED-TV. PERP.	800 000	100 000.00	71000.00	794	572	(232)		
GAZ CAPITAL(GAZPROM)-6.212% (22.11.2016)	23 795 578	732.17	795.45	23 713	26 008	2 077	(2 565)	
HARVEST CLO-SR.II-X CL.A (21.05.2020)	156 115	2 945.56	2 916.99	151	155	(2)		
KION MORTGAGE FIN SR.06-1CL.A-15.07.51	84 836	1325.57	1 138.20	84	73	(11)		
LAFARGE-4.25% (23.03.2016)	30 000 000	1000.00	1050.76	29 554	31 869	1 752	(2 252)	
LAFARGE-6.5%-15.07.2016	6 589 545	732.17	801.11	6 776	7 406	582	(631)	
OTE PLC-4.625%-20.05.2016	25 000 000	50 000.00	51965.00	24 913	26 112	1 002	(1 697)	
PORTUGAL TELCM INT FIN-4.375%(24.3.2017)	23 000 000	1000.00	1067.68	22 058	24 827	2 124	(2 691)	
				135 212	**146 526**	**9 345**	**(12 604)**	

[1] Net of impairment.

[2] Amount recorded in revaluation reserves (Note 4.30).

Nature and type of security	Quantity	Amounts per unit: Nominal	Amounts per unit: Listing / Price	Cost	Book Value / Fair Value	Net gain/ (loss) on securities [2]	Hedge accounting effect [2]	Impairment
Subordinated Debt								
Bonds								
ALLIANZ FINANCE BV-4.375% PERP.	135 000 000	1000.00	1049.28	128 393	143 804	8 433	(13 572)	
ALLIANZ FRANCE-4.625%-PERP	6 700 000	1000.00	1015.72	6 562	6 822	129	(251)	
AVOCA CLO SR.IV-X CL.B-TV.(18.02.2022)	800 000	100 000.00	96 110.00	746	771	(20)		
BANCO SABADELL-5.234%-PERPETUA	50 000	50 000.00	43 625.00	49	46	(6)		
C8 CAPITAL SPV - 6.64% - PERPETUA	47 591 155	732.17	636.99	47 391	41404	(6 174)	(1 131)	
DONG A/S - 5.5% (29.06.3005)	65 000 000	100	103	65 111	67 241	2 214	(3 035)	
GENERALI FINANCE BV - 5.479% - PERPETUAS	75 000 000	50 000.00	52 093.00	75 986	79 738	2 865	(7 558)	
GRANITE MASTER-SR.2006-1A-CL.A5-20.12.54	534 678	97.21	96.27	528	530	(5)		
GRANITE MORTG.-TV(20.3.2044)-SR.04-1/2C	500 000	100 000.00	102 240.00	499	512	11		
GRANITE MORTG.-TV(20.3.2044)-SR.04-1/2M	500 000	100 000.00	101 110.00	499	506	6		
GRANITE MORTG.-TV(20.9.2044)-SR.04-3/2C	153 488	383.72	383.82	152	154			
HARBOURMASTER CLO-S.4X-CL.A3(11.10.2019)	500 000	100	0.94	491	471	(26)		
HARVEST CLO SA-SR.IX-CL.B2 (29.3.2017)	176 354	58 784.79	58 520.26	175	176	(1)		
LUSITANO MTGE-SR.1-CL.D-TV (15.12.2035)	200 000	100 000.00	72 460.00	198	145	(55)		
MADRID RMBS FTA-SR.06-1CL.A2-22.06.2049	204 126	5103140	45 189.27	200	181	(20)		
OLD MUTUAL PLC-OB.PERPETUA	14 000 000	1000.00	1022.46	13 888	14 771	369	(711)	
PELICAN MORTGAGES-2/B (15.9.2036)	290 000	10 000.00	9 082.45	286	264	(27)		
RHODIUM BV - SR.1X- CL.C (27.5.2084)	800 000	100 000.00	70 000.00	785	561	(240)		
SIEMENS FINANCIERINGSMAT-5.25% 14.9.2066	50 000 000	1000.00	1078.48	50 896	56 002	3 702	(4 272)	
VATTENFALL AB-TV. PERP.	65 000 000	1000.00	1035.41	64 690	67 311	2 402	(3 029)	
				457 525	**481 410**	**13 557**	**(33 559)**	
Equity instruments								
Issued by residents								
Shares								
AGROGARANTE SA	937 570	100	100	938	938			
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	21900	5.00		109				109
BOMBARDIER TRANSPORTATION PORTUGAL SA	1	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	100		967				967
CARAVELA GEST, SGPS, SA	272 775	5.00		1895	222	55		1729
CARMO & BRAZ (C)	65 000	4.99						
CIMPOR - CIM.DE PORTUGAL-SGPS	3 565	100	2.94	7	10	4		
COMPª AURIFICIA - N	1 186	7.00	1 111.30	25	1 318	1293		
COMPª PRESTAMISTA PORTUGUEZA	10	100						
COMPª.FIAÇAO E TECIDOS DE FAFE - P	168	4.99						
COMUNDO-CONSORCIO MUNDIAL IMP.EXP.	3 119	0.50		5	1			4
CONDURIL, SA	184 262	5.00		806	10 036	9 231		
CORTICEIRA AMORIM - SGPS	127 419	100	2.90	315	370	296		241
DIGITMARKET-SIST.INF.-N	4 950	100		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	8	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	0.51	539	54	30		516
GAP - SGPS	548	4.99		3	3			
GARVAL - SOCIEDADE DE GARANTIA MUTUA	1261930	100	100	1262	1262			
GEIE - GESTÃO ESPAÇOS INC.EMPRESARIAL(C)	12 500	100		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	151	22 791	9 362	7 440		20 869
INCAL-IND.E COM.DE ALIMENTAÇÃO	2 434	1.13		2	2			
INTERSIS AUTOMAÇAO, ENG.DE SISTEMAS	42 147	4.99		1307				1307
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	204 905	100	100	205	205			
LISNAVE - EST.NAVAIS	180	5.00		1	1			
MARGUEIRA-SOC.GEST.DE FUNDOS INV.IMOB.-N	3 511	5.00		18	18			
MATUR-SOC.EMPR.TURISTICOS DA MADEIRA	13 175	5.00		143				143
MATUR-SOC.EMPR.TURISTICOS MADEIRA-N	4	5.00						

[1] Net of impairment.

[2] Amount recorded in revaluation reserves (Note 4.30).

Nature and type of security	Quantity	Amounts per unit		Cost	Book Value / Fair Value	Net gain/ (loss) on securities [2]	Hedge accounting effect [2]	Impairment
		Nominal	Listing / Price					
Shares (cont.)								
METALURGIA CASAL - P	128	4.99		1	1			
MIMALHA, SA (CÓD LB0001 9201702 2101)	40 557	4.99		335				335
MORETEXTILE,SGPS,SA	711	100		1	1			
NET - NOVAS EMPRESAS E TECNOLOGIAS - N	20 097	5.00	3.62	73	73			
NEWPLASTICS	1445	100		1	1			
NEXPONOR-SICAFI	1933 840	5.00		9 669	9 669			
NORGARANTE - SOC.DE GARANTIA MUTUA	163 000	100	100	163	163			
NOTORIOUSWAY, SA	2 500	100		3	3			
NUTROTON SGPS - C	11395	5.00	4.38	50	50			
OFICINA DA INOVACAO	10 000	5.00	7.13	50	71	31		10
PORTO DE CAVALEIROS , SGPS	2	4.99						
PORTUGAL CAP. VENTURES-SOC.CAP.RISCO	500 641	5.00	5.65	2 692	2 829	137		
PRIMUS-PROM.DESENVOL.REGIONAL,EMT,S.A.	8 000	4.99		40	16			24
S.P.G.M.- SOCIEDADE DE INVESTIMENTO - N	665 150	100	100	664	665	1		
SALVOR - SOC.INV.HOTELEIRO - P	10	5.00						
SANJIMO - SOCIEDADE IMOBILIARIA	1620	4.99		8				8
SAPHETY LEVEL - TRUSTED SERVICES	5 069	100		98				98
SDEM -SOC.DE DESENV.EMPR.MADEIRA,SGPS-N	937 500	100	0.34	938	319			618
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			
SOFID-SOC.P/FIN.DES.-INST.FIN.CREDITO SA	1000 000	100	0.98	1250	976			273
SOMOTEL-SOC.PORTUGUESA DE MOTEIS	1420	2.50						
SONAE - SGPS	36 868	100	120	69	44	30		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	1500	5.00		7	7			
STAR - SOC. TURISMO E AGENCIAS RIBAMAR	533	4.99		3	3			
TAEM - PROCESSAMENTO ALIMENTAR,SGPS, SA	125	100						
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	1002	100	8.07	8	8			
VIALITORAL - CONC. RODOVIARIA MADEIRA	4 750	161.25	766.95	792	3 643	2 852		
VNCORK SGPS	151	100						
XELB-CORK - COM.E INDUSTRIA DE CORTIÇA	87	4.99						
				54 712	**47 825**	**21 400**		**28 284**
Quotas								
PROPAÇO - SOC.IMOB.DE PAÇO D'ARCOS		100		1	1			
VIACER - SOC.GEST.PART.SOCIAIS, SA		100		48 160	45 041	(3 119)		
				48 161	**45 042**	**(3 119)**		
Issued by non residents								
Shares								
ALTITUDE SOFTWARE B.V.	6 386 243	0.04		13 810				13 810
AMSCO-USD	1807	732.17		732				732
BVDA				220	220			
CLUB FINANCIERO VIGO	1	15 626.31		18	12			6
CORPORACIÓN FINANCIERA ARCO	7 786	100.00		4 399	1085			3 314
CREDIT LOGEMEN DEVELOPMENT	20	70.00	70.00	1	1			
EASDAQ NV	100	142		25				25
EMIS-EMPRESA INTERBANCÁRIA DE SERVIÇOS				2 035	2 034			
EUROPEAN INVESTMENT FUND	9	1000 000.00	1183 040.05	9 410	10 647	1238		
GROWELA CABO VERDE	19 000	9.07		172				172
IMC-INSTITUTO DO MERCADO DE CAPITAIS INTERBANCOS				3	3			
NCG BANCO SA	18 583	100		29				29
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			189	266	77		
UNIRISCO GALICIA	80	1202.02	1009.67	96	81	11		27
VISA EUROPE LIMITED	1	10.00						
				31 295	**14 505**	**1 326**		**18 115**

[1] Net of impairment.

[2] Amount recorded in revaluation reserves (Note 4.30).

Nature and type of security	Quantity	Amounts per unit: Nominal	Amounts per unit: Listing / Price	Cost	Book Value / Fair Value	Net gain/ (loss) on securities [2]	Hedge accounting effect [2]	Impairment
Others								
Issued by residents								
Participating Units								
CITEVE - CENT.TEC.IND.TEX.VEST.PORTUGAL	20	498.80		10	10			
EGP-UNIVERSITY OF PORTO BUS.SCHOOL ASS.	2	4.99		70	70			
FCR - FUNDO REVITALIZAR CENTRO	7 272 727	100	0.99	7 273	7 231	(42)		
FCR - FUNDO REVITALIZAR NORTE	7 272 728	100	0.99	7 273	7 206	(67)		
FCR - FUNDO REVITALIZAR SUL - CAT.A2	1 818 182	100	100	1 818	1 812	(7)		
FCR - FUNDO REVITALIZAR SUL - CAT.B2	1 818 181	100	100	1 818	1 812	(7)		
FCR - FUNDO REVITALIZAR SUL - CAT.C2	1 818 182	100	100	1 818	1 812	(7)		
FCR F-HITEC (ES VENTURES)	500 000	100	100	500	500			
FCR PORTUGAL VENTURES ACTEC	50		8 125.52	500	406	(94)		
FCR PORTUGAL VENTURES GPI	9	25 000.00	19 453.81	200	177			22
FCR PORTUGAL VENTURES VALOR	24	24 939.89	4 996.35	599	120	1		479
FCR PORTUGAL VENTURES-FIEP	3 783	1000.00	836.76	3 783	3 165	(618)		
FCR-PORTUGAL VENTURES	81	24 939.00	4 037.78	2 031	329			1703
FCR-PORTUGAL VENTURES TURISMO	164	24 939.89	8 830.19	3 568	1448			2 119
FUNDO CAP. RISCO TURISMO INOVACAO CAT.B	12	50 000.00	55 408.17	600	665	65		
FUNDO CARAVELA - CAP. REDUZIDO	3 121	3 738.80	3 821.23	11 751	11 926	175		
FUNDO INTER-RISCO II - F.C.R.- CL.A	7 500	5 000.00	3 787.46	37 500	28 406	(9 094)		
FUNDO INTER-RISCO II CI-FUNDO C.DE RISCO	6 000	5 000.00	4 839.23	30 144	29 035	(1 109)		
FUNDO RECUPERACAO,FCR-CATEGORIA B	95 000	1000.00	842.35	95 000	80 023			14 977
FUNDO RECUPERACAO,FCR-CATEGORIA C	20 000	1000.00	842.35	20 000	16 847			3 153
FUNDO REESTRUTURAÇÃO EMPRESARIAL FCR	7 894	1000.00	994.68	7 894	7 852	(42)		
INEGI INSTITUTO DE ENGENHARIA MECANICA	5 000			25	25			
UNICAMPUS-FEIIF	3 000	1000.00	1003.61	3 000	3 011	11		
				237 175	**203 888**	**(10 835)**		**22 453**
Issued by non residents								
Participating Units								
FUNDO BPI-EUROPA	23 405	0.01	13.02	171	305	134		
PORTUGAL VENTURE CAPITAL INITIATIVE-PVCI	4 118 364	100	0.73	4 118	3 007	(1 110)		
				4 289	**3 312**	**(976)**		
Loans and others receivables								
Loans and Shareholder's loans								
EMIS - EMPRESA INTERBANCÁRIA DE SERVIÇOS					86			
MORETEXTILE SGPS, SA								11 525
NEWPLASTIC								1 516
PETROCER SGPS, LDA					201			
PROPACO-IMOBILIARIA DE PACO D'ARCOS					1052			4 145
SAPHETY Level - Trusted Services SA					54			154
TAEM-PROCESSAMENTO ALIMENTAR								3 461
VNCORK-SGPS,SA								157
					1 393			**20 958**
Overdues Bonds								
Suprimentos - Intersis				50				50
Suprimentos - Maxstor				972				972
Suprimentos - GEIE				23				23
				1 045				**1 045**
				8 479 993	**8 633 623**	**161 372**	**(248 175)**	**90 855**

[1] Net of impairment.

[2] Amount recorded in revaluation reserves (Note 4.30).

Banco BPI carried out a series of operations relating to the transfer of financial assets (Loans to customers) to specialized credit recovery funds (Fundo de Recuperação, FCR and Fundo de Reestruturação Empresarial FCR). These funds aim to recover companies that, despite having financial difficulties, have sustainable business models.

In addition, under the transfer of asset operations, the Bank subscribed for:
- participating units in the credit recovery funds and in the companies controlled by these funds;
- shares and shareholders' loans of companies controlled by these funds.

The credit recovery funds in which Banco BPI participates have a specific management structure, fully independent of the Bank and are held by several banks in the market (which are credit transferors). The Bank has a minority interest in these funds.

At June 30, 2014 and at December 31, 2013, the portfolio of financial assets available for sale included 78 487 t. euro and 72 951 t. euro, respectively, relating to securities and shareholders' loans subscribed for by Banco BPI under transfer of assets operations:

	Jun. 30, 14				
	Subscribed securities under operations of transfer of assets				
	Participating units and shares	**Shareholder's loans[1]**	**Impairment in participating units and shares**	**Impairment in shareholder's loans**	**Net Value**
Fundo de Recuperação, FCR [2]	91 163	15 151	(18 129)	(15 151)	73 034
Fundo de Reestruturação Empresarial, FCR	5 453				5 453
	96 616	15 151	(18 129)	(15 151)	78 487

Amounts net of unrealized subscribed capital recorded in the caption Other liabilities.

[1] Does not include interest in the amount of 1 508 t. euro, for which impairment of 100% has been recorded.

[2] Includes the companies controlled by Fundo de Recuperação, FCR: Notoriousway SA, Newplastics SA, Vncork SGPS SA, TAEM - Processamento Alimentar SGPS SA and Moretextile SA.

	Dec. 31, 13				
	Subscribed securities under operations of transfer of assets				
	Participating units and shares	**Shareholder's loans[1]**	**Impairment in participating units and shares**	**Impairment in shareholder's loans**	**Net Value**
Fundo de Recuperação, FCR [2]	81 916	15 151	(14 037)	(15 151)	67 879
Fundo de Reestruturação Empresarial, FCR	5 072				5 072
	86 988	15 151	(14 037)	(15 151)	72 951

Amounts net of unrealized subscribed capital recorded in the caption Other liabilities.

[1] Does not include interest in the amount of 1 293 t. euro, for which impairment of 100% has been recorded.

[2] Includes the companies controlled by Fundo de Recuperação, FCR: Notoriousway SA, Newplastics SA, Vncork SGPS SA, TAEM - Processamento Alimentar SGPS SA e Moretextile SA.

Operations relating to the transfer of assets carried out by Banco BPI include the sale of loans granted to operating industrial and hospitality companies, which, because of the change of the economic environment, were having difficulties in complying with their financial commitments to the Bank. All the assets sold correspond to loans to corporate customers of Banco BPI, no real estate having been traded.

As the Bank does not have control, since it has no influence over the Funds or the companies that own the assets, in accordance with IAS 39 it derecognized the loans transferred. The loans sold totalled 78 497 t. euro and 66 405 t. euro at June 30, 2014 and December 31, 2013, respectively.

	Jun. 30, 14			
	Amounts related to the transferred assets			
	Gross assets transferred	Impairment on transferred assets	Sale amount	Result on the sale date[1]
Fundo de Recuperação, FCR [2]	123 730	48 967	98 289	10 635
Fundo de Reestruturação Empresarial, FCR	3 734		3 734	
	127 464	**48 967**	**102 023**	**10 635**

[1] The result determined on the sale date is deducted from impairment recorded for shareholders' loans on the transaction date.

[2] Includes sales to companies controlled by Fundo de Recuperação, FCR.

	Dec. 31, 13			
	Amounts related to the transferred assets			
	Gross assets transferred	Impairment on transferred assets	Sale amount	Result on the sale date[1]
Fundo de Recuperação, FCR [2]	103 589	40 918	85 788	10 228
Fundo de Reestruturação Empresarial, FCR	3 734		3 734	
	107 323	**40 918**	**89 522**	**10 228**

[1] The result determined on the sale date is deducted from impairment recorded for shareholders' loans on the transaction date.

[2] Includes sales to companies controlled by Fundo de Recuperação, FCR.

4.6. Loans and advances to credit institutions

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Loans and advances to other Portuguese credit institutions		
Deposits	304 655	346 060
Other loans	71 100	59 100
Securities purchased with resale agreements	163 114	4 670
Other advances	14 277	9 491
Accrued interest	1 034	843
	554 180	**420 164**
Loans and advances to other foreign Central Banks	511 590	327 540
Loans and advances to other foreign credit institutions		
Very short term loans and advances	224 323	309 416
Deposits	206 364	105 131
Loans	44	44
Securities purchased with resale agreements	14 601	28 881
Other loans and advances	507 996	693 730
Accrued interest	1 929	1 187
	1 466 847	**1 465 929**
Commission relating to amortised cost (net)	(26)	(21)
	2 021 001	**1 886 072**
Impairment	(2)	(2)
	2 020 999	**1 886 070**

The changes in impairment losses and provisions in the first half of 2014 and 2013 are shown in Note 4.21.

4.7. Loans and advances to customers

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Loans		
Domestic loans		
Companies		
Discount	106 823	91 484
Loans	4 690 297	5 123 437
Commercial lines of credit	826 271	852 796
Demand deposits - overdrafts	176 231	134 342
Invoices received - factoring	323 238	375 189
Finance leasing	210 544	215 594
Real estate leasing	355 562	373 626
Other loans	19 285	18 328
Loans to individuals		
Housing	11 230 739	11 390 108
Consumer	669 572	717 098
Other loans	487 124	498 513
Foreign loans		
Companies		
Discount	398	622
Loans	2 179 856	2 245 142
Commercial lines of credit	239 215	144 305
Demand deposits - overdrafts	19 459	22 259
Invoices received - factoring		826
Finance leasing	463	171
Real estate leasing	833	884
Other loans	284 784	301 621
Loans to individuals		
Housing	97 883	210 177
Consumer	229 749	223 910
Other loans	82 783	87 326
Accrued interest	66 726	63 544
	22 297 835	**23 091 302**
Securities		
Issued by Portuguese government entities	99 973	99 963
Issued by other Portuguese entities		
Non subordinated debt securities		
Bonds	1 324 295	1 267 965
Commercial paper	925 001	986 755
Issued by other foreign entities		
Non subordinated debt securities		
Bonds	483 256	374 443
Subordinated debt securities	24 720	24 720
Accrued interest	22 539	19 213
Deferred interest	(600)	(911)
	2 879 184	**2 772 148**
Correction of the amount of hedged assets	40 412	33 922
Commission relating to amortised cost (net)	3 609	2 467
	25 221 040	**25 899 839**
Overdue loans and interest	988 777	997 229
Loan impairment	(1 019 167)	(931 935)
	25 190 650	**25 965 133**

At June 30, 2014 the amount of the exposure and impairment of loans and advances to customers was made up as follows:

Segment	Exposure					Impairment		
		Credit-not at-risk	Of which restructured	**Credit-at-risk**	Of which restructured	Total impairment	**Credit-not at-risk**	**Credit-at-risk**
DOMESTIC ACTIVITY	**24 898 889**	**23 680 480**	**1 152 004**	**1 218 409**	**441 443**	**945 680**	**299 028**	**646 652**
Corporate banking	4 025 878	3 681 778	434 695	344 100	178 106	288 435	82 440	205 995
Large Companies	1 534 710	1 470 602	115 620	64 108	37 974	51 142	25 314	25 828
Medium-sized Companies	2 491 168	2 211 176	319 075	279 992	140 132	237 293	57 126	180 167
Project Finance - Portugal	1 149 959	1 101 055	131 641	48 904	3 025	31 680	8 359	23 321
Madrid	1 619 254	1 428 196	223 216	191 058	96 337	190 893	63 680	127 213
Project Finance	755 023	699 642	69 097	55 381	9 875	50 156	29 622	20 534
Corporate	864 231	728 554	154 119	135 677	86 462	140 737	34 058	106 679
Public Sector	1 624 517	1 586 957	52 150	37 560	29 695	6 998	397	6 601
Central Administration	99 203	99 203						
Regional and local administration	792 464	792 347	28 060	117		12	4	8
State Corporate Sector – in the budget perimeter	208 465	208 465						
State Corporate Sector – outside the budget perimeter	481 514	451 171	24 090	30 343	29 695	5 729	393	5 336
Other institutional	42 871	35 771		7 100		1 257		1 257
Individuals and Small Businesses Banking	13 933 639	13 341 735	310 302	591 904	134 280	415 172	132 776	282 396
Mortgage loans to individuals	11 535 714	11 138 053	160 818	397 661	70 491	238 074	97 330	140 744
Consumer credit / other purposes	599 272	565 471	37 704	33 801	10 572	32 895	5 286	27 609
Credit cards	158 652	150 682	30	7 970	4	8 871	1 884	6 987
Car financing	145 702	142 020	203	3 682	57	2 825	704	2 121
Small businesses	1 494 299	1 345 509	111 547	148 790	53 156	132 507	27 572	104 935
Others [2]	2 545 642	2 540 759		4 883		12 502	11 376	1 126
INTERNATIONAL ACTIVITY	**1 178 242**	**1 102 384**	**3 898**	**75 858**	**34 334**	**73 487**	**37 272**	**36 215**
Total	**26 077 131**	**24 782 864**	**1 155 902**	**1 294 267**	**475 777**	**1 019 167**	**336 300**	**682 867**

[1] Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commission relating to amortised cost.

[2] Includes 2 052 740 t. euro of securities held by BPI Vida, essentially allocated to the coverage of capitalization insurance.

At June 30, 2014 the amount of the exposure and impairment of loans and advances to customers was made up as follows:

Segment	Total Exposure [1]	Total exposure				Total Impairment	Total Impairment			
		Credit - not at - risk		Credit - at - risk			Credit - not at - risk		Credit - at - risk	
		Days in arrears		Days in arrears			Days in arrears		Days in arrears	
		< 30 [2]	between 30 - 90	<= 90	> 90 days		< 30 [2]	between 30 - 90	<= 90	> 90 days
DOMESTIC ACTIVITY	**24 898 889**	**23 533 016**	**147 464**	**47 604**	**1 170 805**	**945 680**	**264 744**	**34 284**	**20 709**	**625 943**
Corporate banking	4 025 878	3 663 275	18 503	43 489	300 611	288 435	76 823	5 617	19 781	186 214
Large Companies	1 534 710	1 470 188	414	25 168	38 940	51 142	25 215	99	8 842	16 986
Medium-sized Companies	2 491 168	2 193 087	18 089	18 321	261 671	237 293	51 608	5 518	10 939	169 228
Project Finance - Portugal	1 149 959	1 093 469	7 586		48 904	31 680	7 344	1 015		23 321
Madrid	1 619 254	1 428 196			191 058	190 893	63 680			127 213
Project Finance	755 023	699 642			55 381	50 156	29 622			20 534
Corporate	864 231	728 554			135 677	140 737	34 058			106 679
Public Sector	1 624 517	1 586 678	279	588	36 972	6 998	396	1	104	6 497
Central Administration	99 203	99 203								
Regional and local administration	792 464	792 347			117	12	4			8
State Corporate Sector – in the budget perimeter	208 465	208 465								
State Corporate Sector – outside the budget perimeter	481 514	450 892	279	588	29 755	5 729	392	1	104	5 232
Other institutional	42 871	35 771			7 100	1 257				1 257
Individuals and Small Businesses Banking	13 933 639	13 220 722	121 013	3 527	588 377	415 172	105 125	27 651	823	281 573
Mortgage loans to individuals	11 535 714	11 045 502	92 551	1 641	396 020	238 074	76 955	20 375	436	140 308
Consumer credit / other purposes	599 272	557 371	8 100	159	33 642	32 895	3 341	1 945	60	27 549
Credit cards	158 652	149 720	962	21	7 949	8 871	1 538	346	9	6 978
Car financing	145 702	140 663	1 357	117	3 565	2 825	452	252	8	2 113
Small businesses	1 494 299	1 327 466	18 043	1 589	147 201	132 507	22 839	4 733	310	104 625
Others [2]	2 545 642	2 540 676	83		4 883	12 502	11 376		1	1 125
INTERNATIONAL ACTIVITY	**1 178 242**	**1 088 849**	**13 535**		**75 858**	**73 487**	**33 196**	**4 076**		**36 215**
Total	**26 077 131**	**24 621 865**	**160 999**	**47 604**	**1 246 663**	**1 019 167**	**297 940**	**38 360**	**20 709**	**662 158**

[1] Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commission relating to amortised cost.

[2] Includes non-defaulting loans (no days in arrears).

[3] Includes 2 052 740 t. euro of securities held by BPI Vida, essentially allocated to the coverage of capitalization insurance.

At June 30, 2014 the amount of the exposure and impairment of loans and advances to customers assessed individually and collectively, by segment, was made up as follows:

	Performing Loans	Overdue Loans	Exposure[1]	of which: Individually assessed	of which: Collectively assessed	Individual Impairment	Collective Impairment	Total Impairment
DOMESTIC ACTIVITY	**23 966 268**	**932 621**	**24 898 889**	**3 414 411**	**21 484 478**	**518 711**	**426 969**	**945 680**
Corporate banking	3 784 393	241 485	4 025 878	592 555	3 433 323	261 728	26 707	288 435
Large Companies	1 491 505	43 205	1 534 710	145 005	1 389 705	45 350	5 792	51 142
Medium-sized Companies	2 292 888	198 280	2 491 168	447 550	2 043 618	216 378	20 915	237 293
Project Finance - Portugal	1 136 321	13 638	1 149 959	196 723	953 236	30 011	1 669	31 680
Madrid	1 439 067	180 187	1 619 254	441 979	1 177 275	188 867	2 026	190 893
Project Finance	707 388	47 635	755 023	113 264	641 759	49 416	740	50 156
Corporate	731 679	132 552	864 231	328 715	535 516	139 451	1 286	140 737
Public Sector	1 616 776	7 741	1 624 517	32 851	1 591 666	6 944	54	6 998
Central Administration	99 203		99 203		99 203			
Regional and local administration	792 347	117	792 464		792 464		12	12
State Corporate Sector - in the budget perimeter	208 465		208 465		208 465			
State Corporate Sector - outside the budget perimeter	475 568	5 946	481 514	31 594	449 920	5 687	42	5 729
Other institutional	41 193	1 678	42 871	1 257	41 614	1 257		1 257
Individuals and Small Business Banking	13 449 099	484 540	13 933 639	97 248	13 836 391	27 715	387 457	415 172
Mortgage loans to individuals	11 227 226	308 488	11 535 714	382	11 535 332	252	237 822	238 074
Consumer credit/ other purposes	571 379	27 893	599 272	82	599 190	80	32 815	32 895
Credit cards	150 570	8 082	158 652		158 652		8 871	8 871
Vehicle financing	142 568	3 134	145 702	14	145 688	10	2 815	2 825
Small business	1 357 356	136 943	1 494 299	96 770	1 397 529	27 373	105 134	132 507
Others [2]	2 540 612	5 030	2 545 642	2 053 055	492 587	3 446	9 056	12 502
INTERNATIONAL ACTIVITY	**1 122 086**	**56 156**	**1 178 242**		**1 178 242**		**73 487**	**73 487**
Total	**25 088 354**	**988 777**	**26 077 131**	**3 414 411**	**22 662 720**	**518 711**	**500 456**	**1 019 167**

[1] Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commission relating to amortised cost.

[2] Includes 2 052 740 t. euro of securities held by BPI Vida, essentially allocated to the coverage of capitalization insurance.

At June 30, 2014 the amount of exposure and impairment of Loans and advances to customers assessed individually and collectively, by business sector, was made up as follows:

	Performing Loans	Overdue Loans	Exposure[1]	of which:		Individual Impairment	Collective Impairment	Total Impairment
				Individually assessed	Collectively assessed			
DOMESTIC ACTIVITY								
Corporates	11 498 929	562 938	12 061 867	3 390 550	8 671 317	508 512	127 993	636 505
Agriculture, animal production and hunting	219 357	6 327	225 684	23 415	202 269	5 210	4 289	9 499
Forestry and forest operations	11 565	477	12 042	76	11 966	53	452	505
Fishing	34 328	44 545	78 873	65 465	13 408	45 108	51	45 159
Mining	122 212	1 401	123 613	1 878	121 735	1 076	639	1 715
Beverage, tobacco and food	396 164	13 498	409 662	56 360	353 302	14 076	5 252	19 328
Textiles and clothing	93 449	5 473	98 922	23 592	75 330	11 411	1 735	13 146
Leather and related products	19 526	580	20 106	1 287	18 819	445	209	654
Wood and cork	97 980	8 163	106 143	60 688	45 455	3 855	1 505	5 360
Pulp, paper and cardboard and graphic arts	214 308	6 470	220 778	139 353	81 425	4 692	1 176	5 868
Coke, refined petroleum products and fuel pellets	150 891		150 891	150 000	891		2	2
Chemicals, synthetic or artificial fibres, except pharmaceutical products	100 614	376	100 990	58 017	42 973	117	329	446
Base pharmaceutical products and pharmaceutical mixtures	42 700		42 700		42 700		192	192
Rubber and plastic materials	85 461	1 192	86 653	952	85 701	849	899	1 748
Other mineral non-metallic products	305 359	2 533	307 892	181 095	126 797	11 368	1 794	13 162
Metalworking industries	217 514	6 698	224 212	9 801	214 411	4 635	4 826	9 461
Computers, electronic, electrical and optical equipment	104 236	2 305	106 541	6 766	99 775	1 994	1 436	3 430
Transport equipment	43 498	1 434	44 932	2 201	42 731	832	638	1 470
Other manufacturing industries	51 601	6 237	57 838	6 955	50 883	4 089	1 916	6 005
Electricity, gas and water	827 703	663	828 366	256 017	572 349	3 107	260	3 367
Water treatment and collection	384 398	6 776	391 174	90 490	300 684	8 045	855	8 900
Construction	742 859	141 066	883 925	378 438	505 487	136 470	17 750	154 220
Wholesale and retail trade; motor vehicle and motorcycle repairs	1 628 471	94 400	1 722 871	420 770	1 302 101	61 778	37 939	99 717
Transport and storage	1 188 763	67 285	1 256 048	171 711	1 084 337	57 330	4 727	62 057
Restaurants and hotels	385 166	47 240	432 406	104 960	327 446	23 053	6 891	29 944
Information and communication activities	403 268	6 998	410 266	264 285	145 981	19 466	2 567	22 033
Financial intermediation, except for insurance and pension funds	697 872	28 713	726 585	248 233	478 352	24 853	3 023	27 876
Insurance, reinsurance and pension funds, except for mandatory social security	161		161		161		1	1
Auxiliary activities to financial services and insurance	6 949	172	7 121	55	7 066	11	188	199
Real estate	388 045	24 792	412 837	54 086	358 751	14 494	5 699	20 193
Consulting, scientific, technical and similar activities	328 110	11 194	339 304	118 004	221 300	13 918	4 782	18 700
Administrative and support services	256 884	12 550	269 434	76 348	193 086	11 066	3 649	14 715
Public administration, defence and mandatory social security	1 331 184	117	1 331 301	99 973	1 231 328		58	58
Education	31 402	1 445	32 847	2 822	30 025	578	925	1 503
Healthcare and welfare	200 659	2 050	202 709	2 997	199 712	516	1 882	2 398
Leisure, cultural and sports activities	69 749	7 770	77 519	43 232	34 287	7 088	889	7 977
Other service companies	316 269	1 797	318 066	270 228	47 838	3 169	1 333	4 502
Companies without CAE code (Business Activity Classification - "Classificação das Actividades Económicas")	254	201	455		455	13 760	7 235	20 995
Individuals	12 467 339	369 683	12 837 022	23 861	12 813 161	10 199	298 976	309 175
Housing loans	11 266 524	308 904	11 575 428	428	11 575 000	295	238 008	238 303
Others	1 200 815	60 779	1 261 594	23 433	1 238 161	9 904	60 968	70 872
INTERNATIONAL ACTIVITY								
Financial and credit institutions	24	8	32		32		9	9
Non-financial companies	791 551	47 599	839 150		839 150		50 842	50 842
Individuals	330 511	8 549	339 060		339 060		22 636	22 636
	25 088 354	**988 777**	**26 077 131**	**3 414 411**	**22 662 720**	**518 711**	**500 456**	**1 019 167**

[1] Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commission relating to amortised cost.

At June 30, 2014 the mortgage loans to individual Customers, by year of production, granted by Banco BPI (non-consolidated) was made up as follows:

Year of production	Number of operations	Amount	Impairment recorded
2004 or previous	96 421	3 154 930	88 812
2005	13 760	702 509	18 151
2006	18 078	1 055 532	22 265
2007	26 663	1 591 028	33 831
2008	23 374	1 448 839	24 393
2009	15 388	1 076 696	15 207
2010	16 650	1 253 487	15 706
2011	5 979	416 972	5 480
2012	5 780	328 947	4 753
2013	5 477	342 853	7 484
1st half of 2014	2 313	163 921	1 992
	229 883	**11 535 714**	**238 074**

The caption "Loans to customers" includes the following non-derecognised securitised assets:

	Jun. 30, 14	**Dec. 31, 13 Proforma**
Non-derecognised securitised assets [1]		
Loans		
Housing	4 497 836	4 618 430
Loans to SME's	3 224 579	3 101 221
Accrued interest	17 752	18 500
	7 740 167	**7 738 151**

[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 4.20).

At June 30, 2014 and December 31, 2013 the caption "Loans to Customers" also included operations allocated to the Cover Pool given as collateral for Covered Bonds issued by Banco BPI (Note 4.19), namely:

- 5 752 872 t. euro and 5 729 852 t. euro, respectively, allocated as collateral to mortgage bonds,
- 674 006 t. euro and 673 149 t. euro, respectively, allocated as collateral to public sector bonds.

The securities portfolio includes the following assets essentially allocated to cover capitalisation insurance contracts issued by BPI Vida e Pensões:

	Jun. 30, 14	**Dec. 31, 13 Proforma**
Debt instruments		
Issued by Portuguese government entities	99 973	99 963
Issued by other Portuguese entities	1 463 798	1 238 859
Issued by other foreign entities	488 969	377 812
	2 052 740	**1 716 634**

The changes in impairment losses and provisions in the first half of 2014 and 2013 are presented in Note 4.21.

The breakdown of the caption “Loans” by country is as follows:

	Jun. 30, 14	Dec. 31, 13
Portugal	19 063 798	19 753 398
Spain	1 430 363	1 541 125
Angola	1 375 990	1 378 149
Holland	100 088	100 105
France	96 396	92 321
Cape Verde	79 687	73 998
Mozambique	22 785	23 351
Switzerland	11 475	11 993
South Africa	11 525	11 378
Mauritius	8 993	10 654
Venezuela	5 442	7 679
Brazil	4 193	5 031
Others	20 374	18 576
	22 231 109	**23 027 758**

Note: Excludes interest receivable.

The caption “Securities” at June 30, 2014 is made up as follows:

Nature and type of security	Quantity	Cost	Gross Book Value	Impairment [5]
Debt Instruments				
Issued by Portuguese Entities				
Portuguese Public Debt				
REPUBLICA DE PORTUGAL 3.75% - 29.01.2018	50 000 000	50 000	50 792	
REPUBLICA PORTUGUESA - TV - 03.11.2015	50 000 000	49 973	50 227	
		99 973	**101 019**	
Other Residents				
Non - subordinated Debt				
Bonds				
Asset Backed Securities (ABS's)				
TAGUS-SOC.TIT.CREDITO-CL.A-12.02.2025	82 986 504	82 987	82 987	
TAGUS-SOC.TIT.CREDITO-CL.B-12.02.2025	50 000	50	50	
		83 037	**83 037**	
Other Bonds				
ADP-AGUAS DE PORTUGAL,SGPS-TV-20.06.2022	36 500 000	30 710	36 507	
ADP-AGUAS DE PORTUGAL,SGPS-TV-20.06.2022	6 900 000	6 900	6 901	
ADP-AGUAS DE PORTUGAL,SGPS-TV-20.06.2022	6 600 000	6 600	6 601	
AUTO-SUECO - 2013 / 2018	30 000 000	30 000	30 776	
BA GLASS I-SERV.GEST.INV.-TV-22.12.15	7 500 000	7 500	7 506	
BANCO COMERCIAL PORT.-9.25%-13.10.2014	1 550 000	1 571	1 673	
BANCO ESPIRITO SANTO SA5.875%-09.11.2015	21 000 000	20 973	21 760	
BANCO INTERNAC CRED(CI)-6.09%-27.07.2015	753 000	775	818	
BANIF - TAX.VAR. (30.12.2015) [1]	11 800 000	11 800	11 800	1 894
BES-3.375%-17.02.2015	13 700 000	13 759	13 927	
BES-3.875%-21.01.2015	2 500 000	2 496	2 539	
BRISA - 4.5% - 05.12.2016	8 200 000	8 024	8 234	
BRISA CONCESSAO ROD.-6.25%-05.12.2014	25 000 000	25 000	25 109	
BRISA-CONCESSAO ROD.SA-TV-07.06.2020	60 000 000	59 133	59 319	
CAIXA GERAL DE DEPóSITOS 5.625%-04.12.15	17 700 000	17 741	18 309	
CAIXA GERAL DE DEPOSITOS-8%-28.09.2015	12 400 000	12 682	13 430	
CELBI CELULOSE BEIRA IND.-TV(08.02.2015)	53 500 000	52 661	53 761	
CELBI CELULOSE BEIRA IND.-TV-16.04.2020	50 000 000	50 000	50 409	
CGD-3.625%-21.07.2014	9 500 000	9 505	9 830	
CGD-3.75%-18.01.2018	9 000 000	8 976	9 127	
EDIA SA-TV-30.01.2027	16 180 000	16 180	16 208	
EDIA-EMP.DES.DO ALQUEVA - TV-11.08.2030	19 250 000	19 250	19 476	
EDP FINANCE BV-4.75%-26.09.2016	12 275 000	12 340	12 783	
EDP-ENERGIAS DE PORTUGAL-6%-04.05.2015	1 171 000	1 203	1 214	
GALP 2013/2018	150 000 000	150 000	151 370	
GRUPO VISABEIRA SGPS-TV-13.07.2014	5 000 000	5 000	5 029	
JMR - 2012 / 2015	175 000 000	175 000	175 240	
JMR - 2012 / 2015	25 000 000	25 000	25 034	
MOTA-ENGIL SGPS-TV-30.12.2016	12 500 000	12 500	12 500	
NOS SA EM.56 - 140616..140915, 120%	1	199	199	
P.TELECOM - 184ù - 140623..140723, 1.11%	1	300	300	
POLIMAIA / 1989 - SR.C (AC.CRED.)	7			
PORTUGAL TELECOM SGPS,SA-6.25%-2016	51 636 000	51 751	53 132	
REN-REDES ENERG.NAC.-6.25%-21.09.2016	664 000	708	719	
REN-REDES ENERG.NAC.-TV-16.01.2020	100 000 000	100 000	101 057	
SATA AIR EM.02 - 140616..141202, 180%	1	248	248	
SECIL - 2013/2016	40 000 000	40 000	40 164	
SECIL - 2013/2018	40 000 000	40 000	40 191	
SEMAPA - 2006/2016 2ª	41 500 000	40 199	41 558	
SEMAPA 2014/2019	28 487 000	28 552	28 768	
SEMAPA TV (20.04.2016) [3]	7 650 000	7 642	7 669	
SEMAPA-6.85%-30.03.2015	673 000	693	705	
SONAE CAPITAL SGPS - TV - 17.01.2016	10 000 000	10 000	10 217	
SONAE DISTRIBUIÇAO SETEMBRO - 2007/2015	13 200 000	13 200	13 238	
SONAE DISTRIBUIÇAO SETEMBRO - 2007/2015	6 800 000	6 800	6 820	
ZON OPTIMUS 2014-2019	100 000 000	99 757	100 180	
		1 233 328	**1 252 355**	**1 894**
Commercial Paper			927 540	3 430
			927 540	**3 430**

[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] Securities reclassified from the caption “Financial assets available for sale” in 2013 (Notes 2 and 4.48).

[5] Additionally, the Bank recorded collective impairment of 4 344 t. euro.

Nature and type of security	Quantity	Cost	Gross Book Value	Impairment [5]
Issued by others non - residents				
Non - subordinated Debt				
Bonds				
Asset Backed Securities (ABS's)				
HSBC BRAZIL-SR.2006-A-15.04.2016	4 515 054	4 243	4 458	
RED & BLACK PRIME RUS-S07-1CA-01.19.35	502 293	502	502	
SARATOGA CLO I LTD-SR.2006-1X-CL-A2-2019	7 321 716	7 322	7 333	
SARATOGA CLO I LTD-SR.2006-1X-CL-B-2019	2 196 515	2 197	2 202	
YAPI KREDIT FIN-SR.2010-CL.C-21.11.2014	600 001	578	599	
		14 842	**15 094**	
Other Bonds				
BANCO DE SABADELL SA 4.25% - 19.09.2014	7 900 000	7 900	8 161	
BANCO DE SABADELL SA-3.375%-13.01.2018	16 000 000	15 944	16 178	
BBVA SENIOR FINANCE SA-TV-14.09.2015	65 000 000	64 735	65 205	
BPE FINANCIACIONES SA-4%-17.07.2015	14 800 000	14 783	15 348	
BPE FINANCIACIONES, S.A.-TV 2017.02.13	49 000 000	49 000	49 145	
CAIXABANK-3.25%-22.01.2016	14 800 000	14 775	14 984	
EDDYSTONE FIN.SR2006-1CLA1B 19.04.2021 [2]	358 253	269	270	
EDP FINANCE BV - 3.75% (22.06.2015)	2 349 000	2 367	2 369	
EDP FINANCE BV-3.25%-16.03.2015	12 982 000	12 987	13 110	
EDP FINANCE BV-4.625% (13.06.2016)	6 903 000	7 007	7 022	
EDP FINANCE BV-4.875%-14.09.2020	80 000 000	79 488	82 598	
EDP FINANCE BV-5.875%-01.02.2016	22 228 000	22 869	23 402	
EDP FINANCE BV-TV 26.06.2019	69 556 304	69 822	69 573	
EIRLES THREE LTD(SERIES 297)-31.12.2021	6 609 908	5 787	5 787	
ENEL FINANCE INTL SA-4%-14.09.2016	6 700 000	6 824	7 036	
EURO-VIP / 1990 [4]	4 393 030	3 910	3 942	
GAS NATURAL CAPITAL-4.375%-02.11.2016	7 000 000	6 961	7 163	
PORTUGAL TELECOM I.F.-5.625%-08.02.2016	5 700 000	5 849	5 974	
RED ELECTRICA FINAN.BV-3.5%-07.10.2016	7 000 000	6 969	7 147	
REPSOL SA-4.25%-12.02.2016	6 800 000	6 870	6 979	
SANTANDER INTL DEBT SA-4.375%-04.09.2014	7 000 000	7 009	7 259	
SANTANDER INTL DEBT SA-TV-28.09.2015	40 000 000	40 000	40 000	
TELECOM ITALIA SPA 8.25% - 21.03.2016	6 100 000	6 485	6 624	
TELEFONICA EMISIONES-4.375% (02.02.2016)	5 100 000	5 080	5 170	
UNICREDIT SPA 4.375% 11.09.2015	4 700 000	4 736	4 900	
		468 426	**475 346**	
Subordinated Debt				
Bonds				
B.FINANTIA INTL LTD-CAY-TV.(04.05.2015) [1]	3 500 000	3 500	3 515	
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	4 019	
BANIF FINANCE(CAY)-TV-29.12.2014 [1]	4 220 000	4 220	4 220	1239
ESPIRITO SANTO INVST PLC-TV.(20.12.2015) [1]	4 500 000	4 500	4 501	
		24 720	**24 793**	**1 239**
			2 879 184	**6 563**

[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] Securities reclassified from the caption "Financial assets available for sale" in 2013 (Notes 2 and 4.48).

[5] Additionally, the Bank recorded collective impairment of 4 344 t. euro.

Evidence of possible impairment of the Asset Backed Securities (ABSs) portfolio is determined through regular monitoring of the performance indicators of the underlying transactions. At June 30, 2014 this did not show evidence of impaired securities.

4.8 Held to maturity investments

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Debt Instruments		
Bonds issued by other Portuguese entities		
Non-subordinated debt	1 181	24 457
Bonds issued by foreign government entities	59 979	59 965
Bonds issued by other foreign entities		
Non-subordinated debt	40 028	49 980
Subordinated debt	1 900	1 900
Accrued interest	434	575
	103 522	**136 877**

The portfolio of held to maturity investments includes assets to cover capitalisation insurance contracts issued by BPI Vida e Pensões.

At June 30, 2014 this caption was made up as follows:

Nature and type of security	Quantity	Cost	Gross Book Value	Impairment
Debt Instruments				
Issued by others residents				
non - subordinated Debt				
Bonds				
SEMAPA - TV (20.04.2016) [2]	1200 000	1181	1185	
		1 181	**1 185**	
Issued by non- residents				
Issued by foreign government entities				
Bonds				
BONOS Y OBLIG DEL ESTADO-TV-17.03.2015	60 000 000	59 979	59 993	
		59 979	**59 993**	
Issued by other non resident entities				
Non - subordinated Debt				
Bonds				
BANCA CARIGE SPA-TV-07.06.2016 [2]	1000 000	1000	1001	
CRITERIA CAIXA CORP.-4.125%-20.11.2014	14 800 000	14 795	15 165	
IBERCAJA(CA.ZARAGOZA A.R.)TV-20.04.2018 [1]	6 000 000	6 000	6 014	
IBERCAJA(CA.ZARAGOZA A.R.)TV-25.04.2019 [1]	8 400 000	8 400	8 418	
ING GROEP NV-TV. (11.04.2016) [1]	3 900 000	3 833	3 838	
ROYAL BANK OF SCOTLAND-TV-08.06.2015 [1,2]	6 000 000	6 000	6 004	
		40 028	**40 440**	
Subordinated Debt				
Bonds				
CAM INTERNATIONAL-TV-26.04.2017 [2]	1900 000	1900	1904	
		1 900	**1 904**	
		103 088	**103 522**	

[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 Investment properties

The caption Investment property refers to properties held by the fund Imofomento – Fundo de Investimento Imobiliário Aberto which is consolidated in accordance with the full consolidation method, in accordance with the accounting policy explained in Note 2.5.

The changes in this caption in the first half of 2014 and 2013 were as follows:

	Jun. 30, 14	Jun. 30, 13 Proforma
Balance at the beginning of the period (Dec 31)		
Cost	168 087	170 222
Revaluations	(3 138)	(615)
Net value	164 949	169 606
Acquisitions	508	13
Sales and write-offs		
Cost	5 423	
Revaluations	(525)	
Revaluations	(892)	(804)
Balance at the end of the period (Jun 30)		
Cost	163 172	170 235
Revaluations	(4 556)	(1 420)
Net value	**158 617**	**168 815**

The impact of the revaluation to fair value of the investment properties is recorded in the statement of income caption "Net operating income and expenses" (Note 4.41)

4.10. Other tangible assets

The changes in other tangible assets in the first half of 2014 were as follows:

	Gross						Depreciation						Net	
	Balance at Dec. 31, 13 Proforma	Purchases	Sales and write-offs	Transfers and others	Foreign exchange differences	Balance at Jun. 30, 14	Balance at Dec. 31, 13 Proforma	Depreciation for the period	Sales and write-offs	Transfers and others	Foreign exchange differences	Balance at Jun. 30, 14	Balance at Jun. 30, 14	Balance at Dec. 31, 13 Proforma
Property														
Property for own use	138 126	921	(248)	2 173	794	141 766	28 082	1 299		(14)	85	29 452	112 314	110 044
Other property	104		(92)			12	36		(34)			2	10	68
Leasehold improvements	110 139	119	(1 697)	1 448	328	110 337	96 484	1 269	(1 361)	(214)	229	96 407	13 930	13 655
	248 369	**1 040**	**(2 037)**	**3 621**	**1 122**	**252 115**	**124 602**	**2 568**	**(1 395)**	**(228)**	**314**	**125 861**	**126 254**	**123 767**
Equipment														
Furniture and fixtures	52 820	390	(3 285)	8	101	50 034	45 141	883	(3 239)	(3)	52	42 834	7 200	7 679
Machinery and tools	14 056	215	(1 102)	1	32	13 202	12 447	295	(1 099)	(13)	21	11 651	1 551	1 609
Computer hardware	185 432	1 925	(4 933)	751	222	183 397	175 381	3 126	(4 922)	7	177	173 769	9 628	10 051
Interior installations	155 561	596	(13 329)	157	71	143 056	121 952	4 283	(12 809)	(43)	33	113 416	29 640	33 609
Vehicles	11 722	590	(631)		79	11 760	8 327	979	(583)	138	59	8 920	2 840	3 395
Security equipment	26 907	266	(283)	15	38	26 943	23 363	489	(279)	(212)	21	23 382	3 561	3 544
Other equipment	583	1	(2)		4	586	139	3		(1)		141	445	444
	447 081	**3 983**	**(23 565)**	**932**	**547**	**428 978**	**386 750**	**10 058**	**(22 931)**	**(127)**	**363**	**374 113**	**54 865**	**60 331**
Tangible assets in progress	10 674	4 927		(5 741)	38	9 898							9 898	10 674
Other tangible assets	12 570		(271)	(42)		12 257	10 005	96	(240)	(42)		9 819	2 438	2 565
	23 244	**4 927**	**(271)**	**(5 783)**	**38**	**22 155**	**10 005**	**96**	**(240)**	**(42)**		**9 819**	**12 336**	**13 239**
	718 694	**9 950**	**(25 873)**	**(1 230)**	**1 707**	**703 248**	**521 357**	**12 722**	**(24 566)**	**(397)**	**677**	**509 793**	**193 455**	**197 337**

The changes in other tangible assets in the first half of 2013 were as follows:

	Gross						Depreciation					Net	
	Balance at Dec. 31, 12	Purchases	Sales and write-offs	Transfers and others	Foreign exchange differences	Balance at Jun. 30, 13 Proforma	Balance at Dec. 31, 12	Depreciation for the period	Sales and write-offs	Foreign exchange differences	Balance at Jun. 30, 13 Proforma	Balance at Jun. 30, 13 Proforma	Balance at Dec. 31, 12
Property													
Property for own use	136 800	208	(143)	2 635	265	139 765	26 172	1 280	(41)	30	27 441	112 324	110 628
Other property	104					104	35	1			36	68	69
Leasehold improvements	112 360	361	(24)	1 651	149	114 497	97 543	1 131	(22)	96	98 748	15 749	14 817
	249 264	**569**	**(167)**	**4 286**	**414**	**254 366**	**123 750**	**2 412**	**(63)**	**126**	**126 225**	**128 141**	**125 514**
Equipment													
Furniture and fixtures	52 835	472	(295)	54	16	53 082	44 001	963	(289)	6	44 681	8 401	8 834
Machinery and tools	14 203	318	(288)	(16)	11	14 228	12 405	319	(287)	8	12 445	1 783	1 798
Computer hardware	187 920	2 079	(2 428)	437	52	188 060	178 735	3 548	(2 413)	44	179 914	8 146	9 185
Interior installations	160 475	758	(1 168)	68	5	160 138	116 553	5 172	(602)		121 123	39 015	43 922
Vehicles	10 758	1 039	(447)	216	28	11 594	7 301	1 008	(413)	19	7 915	3 679	3 457
Security equipment	27 692	374	(104)	(1 115)	21	26 868	22 704	544	(102)	7	23 153	3 715	4 988
Other equipment	620	1		(8)	2	615	133	3		2	138	477	487
	454 503	**5 041**	**(4 730)**	**(364)**	**135**	**454 585**	**381 832**	**11 557**	**(4 106)**	**86**	**389 369**	**65 216**	**72 671**
Tangible assets in progress	9 624	3 669		(3 886)	77	9 484						9 484	9 624
Other tangible assets	12 991	2	(242)			12 751	10 111	124	(183)		10 052	2 699	2 880
	22 615	**3 671**	**(242)**	**(3 886)**	**77**	**22 235**	**10 111**	**124**	**(183)**		**10 052**	**12 183**	**12 504**
	726 382	**9 281**	**(5 139)**	**36**	**626**	**731 186**	**515 693**	**14 093**	**(4 352)**	**212**	**525 646**	**205 540**	**210 689**

4.11. Intangible assets

The changes in intangible assets in the first half of 2014 were as follows:

	Gross						Amortization					Net	
	Balance at Dec. 31, 13 Proforma	Purchases	Sales and write-offs	Transfers and others	Foreign exchange differences	Balance at Jun. 30, 14	Balance at Dec. 31, 13 Proforma	Depreciation for the period	Sales and write-offs	Foreign exchange differences	Balance at Jun. 30, 14	Balance at Jun. 30, 14	Balance at Dec. 31, 13 Proforma
Software	71 044	798	(13)	173	51	72 053	62 581	2 299	(13)	32	64 899	7 154	8 463
Other intangible assets	28 735		(788)		12	27 959	26 063	6	(788)	12	25 293	2 666	2 672
	99 779	**798**	**(801)**	**173**	**63**	**100 012**	**88 644**	**2 305**	**(801)**	**44**	**90 192**	**9 820**	**11 135**
Intangible assets in progress	8 014	928		(188)		8 754						8 754	8 014
	107 793	**1 726**	**(801)**	**(15)**	**63**	**108 766**	**88 644**	**2 305**	**(801)**	**44**	**90 192**	**18 574**	**19 149**

The changes in intangible assets in the first half of 2013 were as follows:

	Gross						Amortization					Net	
	Balance at Dec. 31, 12 Proforma	Purchases	Sales and write-offs	Transfers and others	Foreign exchange differences	Balance at Jun. 30, 13	Balance at Dec. 31, 12 Proforma	Amortization for the period	Sales and write-offs	Foreign exchange differences	Balance at Jun. 30, 13	Balance at Jun. 30, 13	Balance at Dec. 31, 12 Proforma
Software	65 116	1 119		829	23	67 087	59 089	1 800		7	60 896	6 191	6 027
Other intangible assets	30 144		(303)		5	29 846	27 460	6	(303)	5	27 168	2 678	2 684
	95 260	**1 119**	**(303)**	**829**	**28**	**96 933**	**86 549**	**1 806**	**(303)**	**12**	**88 064**	**8 869**	**8 711**
Intangible assets in progress	5 306	1 667		(1 528)		5 445						5 445	5 306
	100 566	**2 786**	**(303)**	**(699)**	**28**	**102 378**	**86 549**	**1 806**	**(303)**	**12**	**88 064**	**14 314**	**14 017**

4.12. 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	
	Jun. 30, 14	Dec. 31, 13 Proforma	Jun. 30, 14	Dec. 31, 13 Proforma
Banco Comercial e de Investimentos, S.A.R.L.	30.0	30.0	44 806	44 967
Companhia de Seguros Allianz Portugal, S.A.	35.0	35.0	100 033	95 875
Cosec – Companhia de Seguros de Crédito, S.A.	50.0	50.0	26 254	27 935
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	32.8	32.8	20 243	20 507
Inter-Risco - Sociedade de Capital de Risco, S.A.	49.0	49.0	715	669
Unicre - Instituição Financeira de Crédito, S.A.	21.0	21.0	32 373	32 039
			224 424	**221 992**

During the first half of 2014 and 2013 the BPI Group received the following dividends from associated companies:

	Jun. 30, 14	Jun. 30, 13 Proforma
Banco Comercial e de Investimentos, S.A.R.L.	1 879	2 404
Companhia de Seguros Allianz Portugal, S.A.	12 263	
Cosec – Companhia de Seguros de Crédito, S.A.	3 904	2 481
Unicre - Instituição Financeira de Crédito, S.A.	1 135	962
	19 180	**5 847**

In some of the associated companies, Banco BPI is party to shareholder agreements that contain, among others, rules on the composition of the governing bodies and on the transfer of shares of such companies.

None of the associated companies of the BPI Group are listed on the stock exchange.

4.13. Tax assets

This caption is made up as follows:

	Jun. 30, 14	Dec 31, 13 Proforma
Current tax assets		
Corporate income tax recoverable	21 236	20 234
Others	2 052	2 003
	23 288	**22 237**
Deferred tax assets		
Due to temporary differences	320 509	430 568
Due to tax losses carried forward	125 102	86 887
	445 611	**517 455**
	468 899	**539 692**

Details of deferred tax assets are presented in Note 4.44.

4.14. Other assets

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Debtors, other applications and other assets		
Debtors for future operations	5 260	11 609
Collateral accounts	6 427	5 289
Other aplications	8 501	12 592
VAT recoverable	170	173
Debtors for loan interest subsidy receivable	6 649	5 429
Other debtors	87 448	87 792
Overdue debtors and other applications	640	571
Impairment	(2 235)	(982)
Other assets		
Gold	25	51
Other available funds and other assets	363	807
	113 248	123 331
Tangible assets available for sale	180 821	174 361
Impairment	(35 964)	(35 781)
	144 857	138 580
Accrued income		
For irrevocable commitments assumed in relation to third parties	240	263
For banking services rendered to third parties	2 675	2 352
Other accrued income	20 009	31 551
	22 924	34 166
Deferred expenses		
Insurance	150	14
Rent	3 081	3 456
Contributions to the Deposit Guarantee Fund	1 493	
Initial contribution to the Resolution Fund (Note 4.41)	1 345	
Extraordinary contribution of the banking sector	7 749	
Other deferred expenses	15 725	8 459
	29 543	11 929
Liability for pensions and other benefits (Note 4.27)		
Pension Fund Asset Value		
Pensioners and employees	1 184 209	1 129 067
Directors	39 049	35 262
Past Service Liabilities		
Pensioners and employees	(1 113 874)	(1 082 369)
Directors	(41 294)	(39 137)
Others	(1 290)	(1 143)
	66 800	41 680
Other accounts		
Stock exchange transactions pending settlement	4 846	6 837
Operations on assets pending settlement	240 451	354 523
	245 297	361 360
	622 669	**711 046**

The caption “Other applications” at June 30, 2014 and December 31, 2013 includes 5 760 t. euro and 7 404 t. 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 June 30, 2014 and December 31, 2013 includes 73 217 t. euro and 72 511 t. 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 t. 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 the first half of 2014 were as follows:

	Balance at Dec. 31, 13 Proforma			Aquisitions and transfers	Sales and write-offs		Increase / Reversals of impairment	Foreign exchange translation difference	Balance at Jun. 30, 14		
	Gross	Impairment	Net		Gross	Impairment			Gross	Impairment	Net
Assets received in settlement of defaulting loans											
Real estate	168 251	(33 214)	135 037	22 738	(16 356)	1 692	(2 129)	13	174 646	(33 651)	140 995
Equipment	2 129	(1 308)	821	1 210	(1 700)	254		1	1 640	(1 054)	586
Others	61	(61)							61	(61)	
Other tangible assets											
Real estate	3 920	(1 198)	2 722	554					4 474	(1 198)	3 276
	174 361	**(35 781)**	**138 580**	**24 502**	**(18 056)**	**1 946**	**(2 129)**	**14**	**180 821**	**(35 964)**	**144 857**

The changes in tangible assets available for sale in the first half of 2013 were as follows:

	Balance at Dec. 31, 12 Proforma			Aquisitions and transfers	Sales and write-offs		Increase / Reversals of impairment	Foreign exchange differences	Balance at Jun. 30, 13 Proforma		
	Gross	Impairment	Net		Gross	Impairment			Gross	Impairment	Net
Assets received in settlement of defaulting loans											
Real estate	162 320	(63 418)	98 902	21 560	(15 250)	2 164	(8 646)	16	168 646	(69 900)	98 746
Equipment	2 701	(1 025)	1 676	1 533	(2 139)	191	(105)	1	2 096	(939)	1 157
Others	61	(61)							61	(61)	
Other tangible assets											
Real estate	4 315	(203)	4 112		(395)	198	(1 173)		3 920	(1 178)	2 742
	169 397	**(64 707)**	**104 690**	**23 093**	**(17 784)**	**2 553**	**(9 924)**	**17**	**174 723**	**(72 078)**	**102 645**

In the second half of 2013, following Bank of Portugal Circular 11/2013/DSP of September 20 (*Carta Circular No. 11/2013/DSP)*, the BPI Group updated the appraisals of all the properties acquired in settlement of its loans. In this process, the BPI Group determined an excess impairment of 29 726 t.euro in relation to the criteria adopted up to that date and made the respective reversal in the fourth quarter of 2013.

The properties received in settlement of defaulting loans at June 30, 2014 were made up as follows, by type of property:

Assets	Nr of properties	Fair Value	Book value
Land	**49**	**7 332**	**5 644**
Urban	24	5 824	4 321
Rural	25	1 508	1 324
Buildings	**1 436**	**162 894**	**135 351**
Business	273	24 330	21 043
Housing	941	84 792	67 936
Others [1]	222	53 773	46 372
Total	**1 485**	**170 226**	**140 995**

[1] This category includes all buildings that are not exclusively business or housing.

At December 31, 2013 the properties received in settlement of defaulting loans were made up as follows, by type of property:

Assets	Nr of properties	Fair Value	Book value
Land	**50**	**6 811**	**5 244**
Urban	25	5 924	4 514
Rural	25	887	730
Buildings	**1 372**	**155 710**	**129 793**
Business	260	23 695	20 129
Housing	904	80 717	65 713
Others [1]	208	51 298	43 951
Total	**1 422**	**162 521**	**135 037**

[1] This category includes all buildings that are not exclusively business or housing.

At June 30, 2014 the properties received in settlement of defaulting loans were made up as follows, by age:

Time since the settlement / execution	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Book value
Land	**653**	**2 445**	**161**	**2 385**	**5 644**
Urban	50	2 108	116	2 046	**4 321**
Rural	603	337	45	338	**1 324**
Buildings	**42 026**	**45 036**	**34 170**	**14 118**	**135 351**
Business	5 751	8 306	5 620	1 366	**21 043**
Housing	24 126	25 346	14 002	4 462	**67 936**
Others [1]	12 150	11 384	14 548	8 289	**46 372**
Total	**42 679**	**47 481**	**34 331**	**16 503**	**140 995**

[1] This category includes all buildings that are not exclusive for business or housing.

The caption “Other accrued income” at June 30, 2014 and December 31, 2013 includes 9 534 t. euro and 19 380 t. euro, respectively, relating to accrued commission from participation on the results of insurance products (Notes 2.16 and 4.39).

At June 30, 2014 and December 31, 2013 the caption “Past service liabilities – Others” corresponded 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 June 30, 2014 and December 31, 2013 refers to the sale of securities only settled in the following month.

At June 30, 2014 and December 31, 2013 the balance of the caption asset operations pending adjustment includes:

- 174 042 t. euro and 282 640 t. euro, respectively, relating to securitisation operations carried out by the BPI Group (Notes 4.7 and 4.20), resulting from temporary differences between settlement of the securitised loans and settlement of the liability for assets not derecognised;
- 30 901 t. euro and 32 576 t. euro, respectively, relating to taxes to be settled, of which 6 962 t. euro and 8 631 t. euro, respectively, relate to taxes in litigation, paid under Decree-Law 248-A / 02 of November 14. The balance at June 30, 2014 and December 31, 2013 also includes 19 916 t. euro and 19 921 t. euro, respectively, relating to taxes in litigation paid under Decree-Law 151-A / 13 of October 31;
- 7 392 t. euro and 9 669 t. euro, respectively, relating to housing loans pending settlement;
- 43 388 t. euro and 18 432 t. euro, respectively, relating to transfers under SEPA (*Single Euro Payments Area*).

The changes in impairment losses and provisions in the first half of 2014 and 2013 are shown in Note 4.21.

4.15. Resources of Central Banks

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Resources of the Bank of Portugal		
Deposits	3 000 000	4 073 961
Accrued interest	44 258	55 501
Resources of other Central Banks		
Deposits	10 677	10 579
Accrued interest	20	27
	3 054 955	**4 140 068**

In the first half of 2014 and in 2013 Banco BPI took funds from the EuroSystem, using part of its portfolio of eligible assets for this purpose (Note 4.33).

4.16. Financial liabilities held for trading

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Short selling		
Debt instruments		
Bonds issued by foreign government entities	18 883	
Derivative instruments with negative fair value (Note 4.4)	323 570	255 245
	342 453	**255 245**

4.17. Resources of other credit institutions

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Resources of Portuguese credit institutions		
Very short term resources	146 574	
Deposits	225 724	152 118
Loans	51	
Other resources	7 454	6 061
Accrued interest	714	699
	380 517	158 878
Resources of foreign credit institutions		
Deposits of international financial organisations	463 216	163 332
Very short term resources	590	924
Deposits	181 989	159 683
Debt securities sold with repurchase agreements	576 983	865 667
Other resources	67 712	96 201
Accrued interest	819	1 195
	1 291 309	1 287 002
Correction of the amount of hedged liabilities	10 568	7 444
Commission relating to amortised cost	(4)	(75)
	1 682 390	**1 453 249**

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.

4.18. Resources of customers and other debts

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Demand deposits	8 552 830	8 048 458
Term deposits	15 725 619	16 371 658
Savings deposits	93 307	117 349
Compulsory deposits	7 136	6 795
Cheques and orders payable	57 672	60 662
Debt securities sold with repurchase agreement	88 134	106 798
Other resources of customers	53 822	50 015
Minority interests in investment funds		
BPI Alternative Fund (Lux)	63 622	18 923
BPI Obrigações Mundiais	7 476	6 678
Imofomento	94 973	102 749
Capitalisation insurance products - Unit links	537 348	430 206
Capitalisation insurance products - Guaranteed Rate and Guaranteed Retirement	75 538	85 782
Accrued interest	198 689	185 445
	25 556 166	25 591 518
Correction of the amount of hedged liabilities	44 269	25 973
Commission relating to amortized cost (net)		(3)
	25 600 435	**25 617 488**

The caption "Resources of customers" at June 30, 2014 included 312 666 t. euro and 132 926 t. euro, respectively, relating to deposits of investment funds and pension funds managed by the BPI Group (205 652 t. euro and 153 918 t. euro, respectively, at December 31, 2013).

4.19. Debt securities

This caption is made up as follows:

	Jun. 30, 14				Dec. 31, 13 Proforma			
	Issued	Repurchased	Balance	Average interest rate	Issued	Repurchased	Balance	Average interest rate
Commercial Paper								
EUR	11 346		11 346	1.3%				
	11 346		**11 346**					
Covered Bonds								
EUR	4 325 000	(2 806 500)	1 518 500	1.7%	4 325 000	(2 805 600)	1 519 400	1.6%
	4 325 000	**(2 806 500)**	**1 518 500**		**4 325 000**	**(2 805 600)**	**1 519 400**	
Fixed rate cash bonds								
EUR	621 807	(159 441)	462 366	4.0%	842 580	(201 091)	641 489	4.2%
USD					11 333	(2 871)	8 462	3.4%
JPY	28 893		28 893	2.5%	27 640		27 640	2.5%
	650 700	**(159 441)**	**491 259**		**881 553**	**(203 962)**	**677 591**	
Variable rate cash bonds								
EUR	130 000	(21 871)	108 129	0.7%	142 000	(42 000)	100 000	0.9%
	130 000	**(21 871)**	**108 129**		**142 000**	**(42 000)**	**100 000**	
Variable income cash bonds								
EUR	279 966	(57 998)	221 968		295 866	(87 127)	208 739	
USD	39 922	(9 181)	30 741		31 343	(8 513)	22 830	
	319 888	**(67 179)**	**252 709**		**327 209**	**(95 640)**	**231 569**	
	5 436 934	**(3 054 991)**	**2 381 943**		**5 675 762**	**(3 147 202)**	**2 528 560**	
Accrued interest			19 421				33 430	
Correction of the amount of hedged liabilities			24 848				45 031	
Premiums and commission (net)			(7 018)				(8 566)	
			37 251				69 895	
			2 419 194				2 598 455	

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 June 30, 2014 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 206 500 000	-	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 June 30, 2014 and December 31, 2013, the cover pool allocated to the mortgage bonds amounted to 5 798 886 t. euro and 5 805 856 t. euro, respectively, of which 5 752 872 t. euro and 5 729 852 t. 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 June 30, 2014 BPI Group 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 June 30, 2014 and December 31, 2013 the cover pool allocated to bonds over the public sector amounted to 685 984 t. euro and 679 696 t. euro, respectively, of which 674 006 t. euro and 673 149 t. 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 the first half of 2014 were as follows:

	Commercial Paper	Covered Bonds	Fixed rate bonds	Variable rate bonds	Variable income bonds	Total
Balance at December 31, 2013		1 519 400	677 591	100 000	231 569	2 528 560
Bonds issued during the year	11 346		69 107	30 000	78 195	188 648
Bonds redeemed			(301 213)	(42 000)	(85 751)	(428 964)
Repurchases (net of resales)		(900)	44 521	20 129	28 543	92 293
Exchange difference			1 253		153	1 406
Balance at June 30, 2014	11 346	1 518 500	491 259	108 129	252 709	2 381 943

The changes in the bonds issued by the BPI Group in 2013 were as follows:

	Deposit Certificates	Commercial Paper	Covered Bonds	Fixed rate bonds	Variable rate bonds	Variable income bonds	Total
Balance at December 31, 2012	9	19 889	1 572 400	1 512 486	115 444	438 675	3 658 903
Bonds issued during the year				86 685		108 648	195 333
Bonds redeemed	(9)	(19 889)		(1 059 255)	(77 579)	(506 207)	(1 662 939)
Repurchases (net of resales)			(53 000)	145 660	62 135	190 726	345 521
Exchange difference				(7 985)		(273)	(8 258)
Balance at December 31, 2013			1 519 400	677 591	100 000	231 569	2 528 560

Bonds issued by the BPI Group at June 30, 2014, by maturity date, are as follows:

	Maturity					
	2014	2015	2016	2017-2020	> 2020	Total
Commercial Paper						
EUR		11 346				11 346
		11 346				11 346
Covered Bonds						
EUR		793 500	325 000	400 000		1 518 500
		793 500	325 000	400 000		1 518 500
Fixed rate bonds						
EUR	120 333	143 846	177 809	378	20 000	462 366
JPY					28 893	28 893
	120 333	143 846	177 809	378	48 893	491 259
Variable rate bonds						
EUR	100 000		8 129			108 129
	100 000		8 129			108 129
Variable income bonds						
EUR	100 100	13 773	45 127	62 968		221 968
USD		6 037	9 672	15 032		30 741
	100 100	19 810	54 799	78 000		252 709
Total	320 433	968 502	565 737	478 378	48 893	2 381 943

Bonds issued by the BPI Group at December 31, 2013, by maturity date, are as follows:

	Maturity					
	2014	2015	2016	2017-2020	> 2020	Total
Covered Bonds						
EUR		794 400	325 000	400 000		1 519 400
		794 400	325 000	400 000		1 519 400
Fixed rate bonds						
EUR	364 879	146 191	109 999	420	20 000	641 489
USD	8 462					8 462
JPY					27 640	27 640
	373 341	146 191	109 999	420	47 640	677 591
Variable rate bonds						
EUR	100 000					100 000
	100 000					100 000
Variable income bonds						
EUR	118 203	14 122	75 784	630		208 739
USD		5 989	16 841			22 830
	118 203	20 111	92 625	630		231 569
Total	591 544	972 048	527 624	401 050	47 640	2 539 906

4.20. Financial liabilities relating to transferred assets

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Liabilities relating to assets not derecognised in securitisation operations (Note 4.7)		
Loans		
Housing loans	4 660 354	4 787 212
Loans to SME's	3 344 900	3 339 300
Liabilities held by the BPI Group	(6 804 638)	(6 738 114)
Accrued costs	1 337	1 457
Commission relating to amortised cost (net)	(2 318)	(2 559)
	1 199 635	**1 387 296**

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.

On February 11, 2011 Banco BPI launched its second small and medium companies securitisation operation, in the amount of 3 472 400 t. 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	3.70	A+/A	Without guarantee	0.15%
▪ Class B Notes	1 317 500	6.71	n/r	Without guarantee	n/a
▪ Class D Notes	208 000	6.71	n/r	Without guarantee	Residual interest
Total of the issues	3 344 900				
Liabilities held by BPI Group	(3 344 900)				
Total					

This issue was made in order to be eligible for possible funding from the European Central Bank.

On November 24, 2005 Banco BPI launched its first housing loan securitisation operation, in the amount of 1 500 000 t. 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	394 996	6.07	Ba1/A-/A	0.14%
▪ Class B Notes	8 358	6.07	B3/BBB-/A	0.17%
▪ Class C Notes	7 598	6.07	Caa1/BB-/BBB	0.27%
▪ Class D Notes	6 332	6.07	Caa2/B/BB	0.47%
▪ Class E Notes	6 677	6.07	nr/nr/nr	Residual interest
Total of the issues	423 961			
Other funds	4			
Liabilities held by BPI Group	(100 957)			
Total	323 008			

[1] Until the date of the call option (September 2014); after this date, if the option is not exercised, the spread doubles.

On September 28, 2006 Banco BPI launched its second housing loan securitisation operation in the amount of 1 500 000 t. 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	5 408	7.28	Baa3/A-/A	0.05%
▪ Class A2 Notes	546 593	7.28	Ba2/A-/A	0.14%
▪ Class B Notes	13 483	7.28	B3/BB/BBB	0.17%
▪ Class C Notes	8 746	7.28	Caa1/B/BB	0.23%
▪ Class D Notes	6 924	7.28	Caa2/B-/B	0.48%
▪ Class E Notes	6 974	7.28	nr/nr/nr	Residual interest
Total of the issues	588 128			
Liabilities held by BPI Group	(304 940)			
Total	283 188			

[1] Until the date of the call option (April 2015); after this date, if the option is not exercised, the spread doubles.

On July 31, 2007 Banco BPI launched its third housing loan securitisation operation in the amount of 1 500 000 t. 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	812 726	8.28	Ba2/BBB-/A	0.16%
▪ Class B Notes	20 837	8.28	nr/B/BBB	0.17%
▪ Class C Notes	12 390	8.28	nr/B-/BB	0.23%
▪ Class D Notes	10 700	8.28	nr/B-/B	0.48%
▪ Class F Notes	1 251	8.28	nr/nr/nr	Residual interest
Total of the issues	857 904			
Liabilities held by BPI Group	(263 484)			
Total	594 420			

[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 t. 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	1 124 225	8.01	A-/AA	0.15%
▪ Class B Notes	202 500	22.08	nr/nr	0.20%
▪ Class C Notes	45 000	23.99	nr/nr	0.25%
▪ Class D Notes	22 500	23.99	nr/nr	Residual interest
Total of the issues	1 394 225			
Liabilities held by BPI Group	(1 394 225)			
Total				

This issue was made in order to be eligible for possible funding from the European Central Bank.

On August 6, 2010 Banco BPI launched its fifth housing loan securitisation operation in the amount of 1 421 000 t. 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	1 074 132	8.24	A/AA	0.20%
▪ Class B Notes	301 000	23.54	nr/nr	n/a
▪ Class C Notes	21 000	23.54	nr/nr	Residual interest
Total of the issues	1 396 132			
Liabilities held by BPI Group	(1 396 132)			
Total				

This issue was made in order to be eligible for possible funding from the European Central Bank.

4.21. Provisions and impairment losses

The changes in provisions and impairment losses of the Group in the first half of 2014 were as follows:

	Balance at Dec. 31, 13 Proforma	Increases	Decreases and reversals	Utilisation	Exchange differences and others	Balance at Jun. 30, 14
Impairment losses on loans and advances to credit institutions (Note 4.6)	2					2
Impairment losses on loans and advances to customers (Note 4.7)	931 935	104 336	(6 313)	(11 366)	575	1 019 167
Impairment losses on financial assets available for sale (Note 4.5)						
Debt instruments	1 635			(590)		1 045
Equity instruments	46 105	287			7	46 399
Other securitites	18 188	4 265				22 453
Loans and other receivables	20 743	215				20 958
Impairment losses on other assets (Note 4.14)						
Tangible assets held for sale	35 781	2 504	(375)	(1 946)		35 964
Debtors, other applications and other assets	982	1 730	(414)	(63)		2 235
Impairment losses and provisions for guarantees and commitments	46 766	4 229			(129)	50 866
Other provisions	77 272	2 184	(3 163)	(13 817)	(55)	62 421
	1 179 409	**119 750**	**(10 265)**	**(27 782)**	**398**	**1 261 510**

Utilisation of impairment losses on loans and advances to customers in the first half of 2014 corresponds to credit write-offs, of which 10 178 t. euro relates to loans sold.

The increase in impairment losses on loans and advances in the first half of 2014 includes 2 190 t. euro relating to the operations of BPI Vida, that was included under caption "Technical result of insurance contracts" (Note 4.38).

In the first half of 2014, the increases net of decreases of impairment losses on debtors, other applications and other assets and of other provisions include, respectively, 830 t. euro and 84 t. euro relating to Imofomento's operations. In the statement of income, these impairment losses were included under caption "Net Operating Income" (Note 4.41).

The changes in the Group's provisions and impairment losses in the first half of 2013 were as follows:

	Balance at Dec. 31, 12 Proforma	Increases	Decreases and reversals	Utilisation	Exchange differences and others	Balance at Jun. 30, 13 Proforma
Impairment losses on loans and advances to credit institutions (Note 4.6)	952		(538)	(394)	(17)	3
Impairment losses on loans and advances	783 157	152 088	(4 184)	(37 188)	442	894 315
Impairment losses on financial assets available for sale						
Debt instruments	2 588		(996)		530	2 122
Equity instruments	46 089	12		(46)	7	46 062
Other securitites	15 068	815				15 883
Loans and other receivables	19 976	1 262		(31)	(1 035)	20 172
Impairment losses on other assets						
Tangible assets held for sale	64 707	15 807	(5 883)	(2 553)		72 078
Debtors, other applications and other assets	1 317	260	(734)			843
Impairment losses and provisions for guarantees and commitments	48 106	2 681	(3)		94	50 878
Other provisions	90 392	3 533	(2 962)	(20 226)	8 487	79 224
	1 072 352	**176 458**	**(15 300)**	**(60 438)**	**8 508**	**1 181 580**

Utilisation of impairment losses on loans and advances to customers in the first half of 2013 corresponds to credit write-offs.

In the first half of 2013, the increases net of decreases of impairment losses on debtors, other applications and other assets and of other provisions include, respectively, (319) t. euro and 335 t. euro relating to Imofomento's operations. In the statement of income, these impairment losses were included under caption "Net Operating Income" (Note 4.41).

4.22. Technical provisions

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Immediate Life Annuity / Individual	5	5
Immediate Life Annuity / Group	25	26
Family Savings	9	26
BPI New Family Savings	1 888 919	1 481 043
BPI Retirement Guaranteed	147 057	143 920
BPI Retirement Savings	937 137	892 927
BPI Non Resident Savings	229 435	162 780
Planor	5 425	5 333
PPR BBI Life	2 287	2 542
Savings Investment Plan / Youths	1 016	1 080
South PPR	62	86
	3 211 377	**2 689 768**

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 Counter-insurance 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.

4.23. Tax liabilities

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Current Tax Liability		
Corporate income tax payable	19 497	19 532
Other	213	202
	19 710	19 734
Deferred Tax Liability		
On temporary differences	34 456	37 977
	34 456	37 977
	54 166	**57 711**

Details of the deferred tax liability are presented in Note 4.44.

4.24. Contingent convertible subordinated bonds

In the first half of 2014 Banco BPI repaid the total amount of the contingent convertible subordinated bonds issued on June 29, 2012 under the Recapitalisation Plan.

At December 31, 2013 this caption was made up as follows:

	Dec. 31, 13 Proforma			
	Issued	Repurchased	Balance	Average interest rate
Contingent convertible subordinated bonds				
EUR	1 200 000	(280 000)	920 000	8.8%
	1 200 000	**(280 000)**	**920 000**	
Accrued interest			433	
			920 433	

In the beginning of June, 2012 Banco BPI's Board of Directors approved the Recapitalisation Plan for reinforcing Core Tier 1 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 t. euro, included:

- a share capital increase of 200 000 t. 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 t.euro.

On June 29, 2012 the Portuguese State subscribed for debt instruments eligible for Core Tier 1 own funds (contingent convertible subordinated bonds), in the amount of 1 500 000 t. euro. The features of these instruments were defined in Law 63 – A/2008 of November 24, as republished by Law 4/2012 of January 11 (Bank Recapitalisation Law), in Ministerial Order 150-A/2012 of May 17 and in the Terms and Conditions established in Order 8840-A/2012 of the Portuguese Minister of State and Finance of June 28, 2012. The investment period of the instrument is five years as from the date of issue, and the Recapitalisation Plan of the Bank established partial repayments over the period of the instrument. On August 10, 2012 the Bank completed the capital increase of 200 000 t. euro, with shareholders' preemptive rights (Note 4.28). The amount received was used in August 13, 2012 by the Bank to repay part of the contingent convertible subordinated bonds, the par value of which was reduced to 1 300 000 t. euro. Since that date the Bank has fully repaid the contingent convertible subordinated bonds, as follows:

- 100 000 t. euro on December 4, 2012;
- 200 000 t. euro on March 13, 2013;
- 80 000 t. euro on July 16, 2013;
- 500 000 t. euro on March 19, 2014;
- 420 000 t. euro on June 25, 2014.

The contingent convertible subordinated bonds bore 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 were 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 June 28, 2012. Briefly the conversion events were 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.

Should the conversion into Banco BPI shares referred to above have occurred, it would have been 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 October 1, 2012 the amount of instruments issued exceeds 1 300 000 t. euro), which will no longer occur because, as mentioned above, in August, 2012, 200 000 t.euro of these instruments were repurchased, reducing the amount on that date to 1 300 000 t.euro.

4.25. Other Subordinated debt and participating bonds

This caption is made up as follows:

	Jun. 30, 14				Dec. 31, 13 Proforma			
	Issued	Repurchased	Balance	Average interest rate	Issued	Repurchased	Balance	Average interest rate
Other subordinated debt								
Perpetual bonds								
EUR	420 000	(360 000)	60 000	2.6%	420 000	(360 000)	60 000	2.5%
JPY	54 175	(54 175)		2.9%	51 824	(51 824)		2.9%
	474 175	**(414 175)**	**60 000**		**471 824**	**(411 824)**	**60 000**	
Other Bonds								
EUR	400 000	(391 283)	8 717	1.7%	400 000	(327 025)	72 975	1.8%
JPY	126 409	(126 409)		2.8%	120 923	(120 923)		2.8%
	526 409	**(517 692)**	**8 717**		**520 923**	**(447 948)**	**72 975**	
	1 000 584	**(931 867)**	**68 717**		**992 747**	**(859 772)**	**132 975**	
Participating bonds								
EUR	28 081	(27 342)	739	0.7%	28 081	(24 285)	3 796	0.8%
	28 081	**(27 342)**	**739**		**28 081**	**(24 285)**	**3 796**	
Accrued interest			90				160	
			90				160	
			69 546				136 931	

In the first half of 2014 Banco BPI carried out an exchange operation of subordinated debt and participating bonds for Banco BPI shares. The nominal amount of subordinated debt bonds (non-perpetual) and participating securities accepted for the exchange amounted to 63 286 t. euro and 2 932 t. euro, respectively (Note 4.40).

The changes in debt issued by the BPI Group in the first half of 2014 were as follows:

	Perpetual bonds	Other bonds	Participating bonds	Total
Balance at December 31, 2013	60 000	72 975	3 796	136 771
Repurchases (net of resales)		(64 258)	(3 057)	(67 315)
Balance at June 30, 2014	60 000	8 717	739	69 456

The changes in debt issued by the BPI Group in 2013 were as follows:

	Perpetual bonds	Other bonds	Participating bonds	Total
Balance at December 31, 2012	60 000	91 963	4 119	156 082
Bonds redeemed		(4 200)		(4 200)
Repurchases (net of resales)		(14 788)	(323)	(15 111)
Balance at December 31, 2013	60 000	72 975	3 796	136 771

Perpetual and other bonds issued by the BPI Group at June 30, 2014 are made up as follows, by residual term to maturity:

	Maturity					
	2014	2015	2016	2017-2020	> 2020	Total
Perpetual Bonds						
EUR [1]	60 000					60 000
Other Bonds						
EUR				8 717		8 717
Total	60 000			8 717		68 717

[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 December 31, 2013 are made up as follows, by residual term to maturity:

	Maturity					
	2014	2015	2016	2017-2020	> 2020	Total
Perpetual Bonds						
EUR [1]	60 000					60 000
Other Bonds						
EUR				72 975		72 975
Total	60 000			72 975		132 975

[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.

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.

4.26. Other liabilities

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Creditors and other resources		
Creditors for futures operations	4 531	9 927
Consigned resources	15 762	18 672
Captive account resources	7 176	7 088
Subscription account resources		199
Guarantee account resources	10 894	10 665
State administrative sector		
Value Added Tax (VAT) payable	3 431	3 869
Tax withheld at source	20 994	21 170
Social Security contributions	4 533	4 696
Other	565	547
Contributions to other health systems	1 425	1 410
Creditors for factoring contracts	16 825	19 859
Creditors for the supply of assets	7 104	7 553
Contributions owed to the Pension Fund (Note 4.26)		
Pensioners and employees		2 853
Directors		2 805
Other creditors	127 864	140 345
Deferred costs	(197)	(89)
	220 907	251 569
Accrued costs		
Creditors and other resources	282	226
Personnel costs	90 578	103 928
General administrative costs	45 718	37 871
Others	2 971	2 421
	139 549	144 446
Deferred income		
On guarantees given and other contingent liabilities	4 150	4 637
Others	5 324	4 963
	9 474	9 600
Other accounts		
Foreign exchange transactions pending settlement	1 708	6 539
Securities operations pending settlement - non stock exchange operations	59 034	3 247
Liabilities pending settlement	79 362	100 697
Other operations pending settlement	169 026	73 855
	309 130	184 338
	679 060	**589 953**

The caption “Other creditors” at June 30, 2014 and December 31, 2013 includes 89 598 t. euro and 103 296 t. euro, respectively, relating to unrealized subscribed capital in Venture Capital Funds:

	Jun. 30, 14	Dec. 31, 13 Proforma
Fundo de Recuperação, FCR	23 842	33 089
Fundo InterRisco II CI	23 971	25 828
Fundo InterRisco II - Fundo de Capital de Risco	15 918	18 127
FCR - Fundo Revitalizar	16 000	16 000
Fundo de Reestruturação Empresarial, FCR	2 400	2 785
Other funds	7 467	7 467
	89 598	**103 296**

At June 30, 2014 and at December 31, 2013 the caption “Accrued costs – Personnel costs” included 27 115 t. euro and 25 173 t. euro, respectively, relating to long service premiums.

The main actuarial and financial assumptions used to calculate the long service premium liability are as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Demographic assumptions:		
Mortality table [1]	TV 73/77-M - 2 years TV 88/90-W -3 years	TV 73/77-M - 2 years TV 88/90-W -3 years
Financial assumptions:		
Discount rate		
Beginning of the year	4.00%	4.50%
End of the year	3.50%	4.00%
Salary growth rate [2]		
Beginning of the year	1.50%	1.50%
End of the year	1.25%	1.50%
Mandatory promotions due to antiquity and seniority	0.50%	0.50%

[1] The life expectancy considered was 2 years greater than the mortality table used for the male popopulation and 3 years for the female population.

[2] 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.

The changes in the long service premium liability in the first half of 2014 and in 2013 were as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Long service premiums at the beginning of the period	25 173	21 188
Personnel costs:		
Current service cost	1 158	2 282
Interest cost	543	1 042
Actuarial gains and losses		
Changes in assumptions	555	1 323
Others		(79)
Long service premium payments	(314)	(583)
Long service premiums at the end of the period	**27 115**	**25 173**

The caption “Non stock exchange transactions pending settlement” at June 30, 2014 and December 31, 2013 refers to the acquisition of securities only settled in the following month.

The caption “Liabilities pending settlement”, at June 30, 2014 and December 31, 2013 includes:

- 22 391 t. euro and 43 310 t. euro, respectively, relating to loan securitization fund transactions;
- 391 t. euro and 2 572 t. euro, respectively, relating to electronic interbank transfer transactions;
- 13 667 t. euro and 12 240 t. euro, respectively, relating to ATM/POS transactions to be settled with SIBS.

The caption “Other operations pending settlement”, at June 30, 2014 and December 31, 2013 includes:

- 149 641 t. euro and 84 796 t. euro, respectively, relating to transfers under SEPA (*Single Euro Payment Area*);
- 1 822 t. euro and 2 430 t. euro, respectively, relating to the settlement of payments and receipts of Leasing/ALD/Factoring operations.

4.27. 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.

Benefits established by the BPI Group are defined benefits based on the last salary earned and the length of service, involving the payment of benefits in the event of retirement due to length of service or disability, death and long service premiums. The rules for calculating the benefits result mainly from the provisions of the Collective Labour Agreement for the Portuguese Banking Sector, there being a restricted group of management employees, however, that is also covered by a supplementary defined benefit pension plan, based on the last salary earned and length of service.

With the publication of Decree-Law 1-A/2011 of January 3, 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 January 1, 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 December 31, 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 December 31, establishes the transfer to the Social Security of the liability for costs of the retirement and survivor pension liabilities of retired personnel and pensioners that were in that situation at December 31, 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 January 1, 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 the calculation of the definitive amount of the liability transferred, made by an independent expert entity hired for the purpose by the Ministry of Finance.

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[1] Companies consolidated by the full consolidation method (Banco BPI, BPI Investimentos, BPI Gestão de Activos, BPI Private Equity and BPI Vida e Pensões)

Since the transfer to the Social Security corresponds to settlement, extinguishing 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 liability transferred based on actuarial assumptions used by Banco BPI in the amount of 99 652 t. euro was recorded in 2011 in the statement of income caption “Operating gains and losses”, as established in paragraph 110 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. relates to the amount of the liability and 1 688 t. euro to the value of the fund. The positive difference between these amounts, totalling 145 t. 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 January 15, 2012, the defined benefit plan ceasing to exist and a defined contribution plan being introduced. Therefore, the amount of the past service liability at December 31, 2011, relating to retirement pensions of current employees, hired up to June 22, 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 August 29, 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 December 31, 2011 were retired or pre-retired.

The commitments assumed in the regulations of the Banco BPI Pension Plans are funded by Pension Funds and so Banco BPI is exposed to risks resulting from the valuation of the liability and the value of the related pension funds.

As regards determination of the liability, Banco BPI is exposed to adverse changes in interest rates and credit spreads, since the discount rate used to determine the liability results from the income of corporate bonds with AA ratings and so includes exposure to the risk-free yields and credit spreads. In addition to the risks inherent in the discount of the future liabilities, there is exposure to the long-term inflation and mortality rates. Any change in these rates could affect positively or negatively the amount of liabilities payable by Banco BPI.

In the case of financial assets included in the Pension Fund assets, there is exposure of the equity component to market risk, the bond component to interest rate risk and credit risk, as well as currency risk. In the case of real estate assets, the main risks result from the nature of the composition of the portfolio, quality and diversification of the assets and from factors inherent in economic developments and government policies for the sector.

The investment policy was defined taking into account a long-term strategy, with an allocation of assets that includes shares, bonds, real estate and short-term investments. This strategy ensures suitability to the type of liability and also contributes to the appropriate diversification of investments through the long-term expectation of different returns and volatilities of the different asset classes.

The main actuarial assumptions used to calculate the pension liability are as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Demographic assumptions:		
Mortality table [1]	TV 73/77-M - 2 years TV 88/90-W - 3 years	TV 73/77-M - 2 years TV 88/90-W - 3 years
Incapacity table	EKV 80	EKV 80
Personnel turnover	0%	0%
Decreases	By mortality	By mortality
Financial assumptions:		
Discount rate of Banco BPI		
Beginning of the year	4.00% [2]	4.50% [3]
End of the year	3.50% [4]	4.00% [2]
Discount rate of the other companies		
Beginning of the year	4.00%	4.50%
End of the year	3.50%	4.00%
Pensionable salary increase rate [5]	1.25%	1.50%
Mandatory promotions due to antiquity and seniority payments effect	0.50%	0.50%
Pension increase rate	0.75%	1.00%

[1] The life expectancy considered was 2 years greater than the mortality table used for the male popopulation and 3 years for the female population.

[2] A discount rate of 4.33% for current employees and 3.50% for pensioners, which is similar to that which would be obtained if a single discount rate of 4.0% were used for the entire population.

[3] A discount rate of 4.83% for current employees and 4.00% for pensioners, which is similar to that which would be obtained if a single discount rate of 4.5% were used for the entire population.

[4] A discount rate of 3.83% for current employees and 3.00% for pensioners, which is similar to that which would be obtained if a single discount rate of 3.5% were used for the entire population.

[5] The mandatory promotions due to antiquity and seniority payments were considered autonomously, directly in the evolution of the estimated salaries. Thus, the pensionable salary growth rate was adjusted accordingly.

The actual results obtained in relation to the main financial assumptions were:

	Jun. 30, 14	Dec. 31, 13 Proforma
Pensionable salary increase rate	[1]	1.60% [2]
Pension increase rate	[1]	0.00% [3]
Pension fund income rate		
Banco BPI	5.54% [4]	16.44%
Other companies	4.32% [4]	3.68%

[1] Determined solely on an annual basis.

[2] Calculated based on the changes in pensionable salaries of employees working for Group companies at 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 hires and exits).

[3] Corresponds to the ACTV table update rate.

[4] Rate relative to the first half of 2014, not annualized.

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:

	Jun. 30, 14	Dec. 31, 13 Proforma
Salary increase rate for purposes of calculating the Social Security pension[1]	2.25%	2.50%
Salary revaluation rate for purposes of calculating the Social Security pension	0.75%	1.00%
Social Security pension increase rate	0.75%	1.00%

[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.

The calculation of retirement and survivor pension liabilities of the BPI Group at June 30, 2014 was made based on projections of the actuarial appraisals as of December 31, 2013.

At December 31, 2013 the number of pensioners and employees covered by the pension plans funded by the pension funds was as follows:

	Dec. 31, 13 Proforma
Retired pensioners	6 885
Survivor pensioners	1 301
Current employees	6 033
Former employees (clauses 137º A and 140 of the ACTV)	3 144
	17 363

The past service liability for pensioners and employees of the BPI Group and respective coverage by the Pension Fund at June 30, 2014 and December 31, 2013 are as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Total past service liability		
Liability for pensions under payment	563 223	577 394
Of which: [increase in the liability resulting from early retirements during the period]	[8 553]	[8 679]
Past service liability of current and former employees	550 651	504 975
	1 113 874	**1 082 369**
Net assets of the pension funds	1 184 209	1 129 067
Contributions to be transferred to the Pension Fund		2 853
Excess/(Insufficient) cover	70 335	49 551
Degree of coverage	106%	105%

The average duration of the pension liability of BPI Group employees is 18.6 years, including both current employees and pensioners.

On December 31, 2013 the Bank recorded in the caption "Other Liabilities – Contributions to the Pension Fund" (Note 4.26) the amount of 2 853 t. euro relating to the contribution for 2013 made in February 2014, after which the degree of coverage of the liability at that date would be 105%. Even without the above mentioned contribution the degree of coverage was already greater than 100%.

Evolution of the degree of coverage of the liability in the last five years was as follows:

	Jun. 30, 14	2013 Proforma	2012 Proforma	2011	2010 Proforma
Total past service liability	1 113 874	1 082 369	937 090	835 767	2 306 127
Net assets of the Pension Fund	1 184 209	1 129 067	986 874	801 250	2 409 393
Contributions to be transferred to the Pension Fund		2 853	500	37 888	1 375
Excess/ (insufficient) cover	70 335	49 551	50 284	3 371	104 641
Degree of coverage	106%	105%	105%	100%	105%

The changes in the present value of the past service liability in the first half of 2014 and in 2013 were as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Liability at the beginning of the period	1 082 369	937 090
Current cost:		
Of the BPI Group	(53)	(388)
Of the employees	1 798	3 591
Interest cost	20 884	40 865
Actuarial (gain) and loss in the liability	12 215	118 341
Early retirements	8 553	8 679
Changes in the conditions of the Pension Plan - Death subsidy		(3 317)
Pensions payable (estimate)	(11 892)	(22 492)
Liability at the end of the period	**1 113 874**	**1 082 369**

The legal framework of the death subsidy payable by the Social Security was amended by Decree Law 133/2012 of June 27, in force as from July 1, 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 t. euro) was fully recognised in the statement of income for 2012.

In 2013 the legal framework of the death subsidy payable by the Social Security was again amended by Decree Law 13/2013 of January 25, in force as from February 1, which has reduced the maximum limit for death subsidies, from 6 to 3 times the IAS (social support index). 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, Decree Law 13/2013 established a change in the conditions of the post-retirement benefit plan liability of Banco BPI. The impact of this change (3 317 t. euro) was fully recognised in the statement of income for the year in which the change occurred (Note 4.42).

The sensitivity analysis to a variation of the main financial assumptions for the entire period covered by the actuarial valuation (and not just a variation in a given year) at June 30, 2014 would result in the following impact on the present value of the past service liability [(1)]:

	(decrease)/increase	
	by %	**amount**
Change in the discount rate		
Increase by 0.25%	-4.5%	(49 631)
Decrease by 0.25%	4.8%	53 013
Change in the pensionable salary increase rate [2]		
Increase by 0.25%	1.7%	19 265
Change in the pension increase rate [3]		
Increase by 0.25%	6.2%	68 557
Mortality Table		
+1 year	3.3%	36 204

[1] The same calculation method and assumptions used in the calculation of the liabilities was used, only the assumptions under analysis varying.

[2] The increase in the changes in pensionable salaries applies only to the pensionable salary pension scheme component provided for in the Collective Labour Agreement (ACT), without any change in the pensionable salary increase for Social Security purposes, since it is the maximum risk of the salary evolution component.

[3] The change in the pension increase applies to pensions and supplements provided by the Bank, as well as pensions transferred to the Social Security, for which the Bank remains responsible for future updates.

The changes in the pension funds in the first half of 2014 and in 2013 were as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Net assets of the Pension Fund at the beginning of the period	1 129 067	986 874
Current cost:		
Of the BPI Group	2 853	500
Of the employees	1 798	3 591
Pension Fund income (net)		
Income on Plan assets computed with the discount rate	21 796	45 170
Deviation of return on assets	40 575	114 986
Pensions paid by the Pension Funds	(11 880)	(22 054)
Net assets of the Pension Fund at the end of the period	**1 184 209**	**1 129 067**

The estimated contribution to the pension plan to be made in 2014 amounts to 6 448 t. euro, a contribution of 4 651 t. euro having already been made in the first half of 2014.

At June 30, 2014 and December 31, 2013 the assets of the Banco BPI Employees' Pension Funds were as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Liquidity	4.8%	4.1%
Fixed rate bonds		
Listed	15.7%	15.4%
Floating rate bonds		
Listed	15.6%	16.3%
Portuguese shares		
Listed	28.0%	27.2%
Not listed	3.2%	3.3%
Foreign shares		
Listed	2.6%	1.2%
Real Estate	28.8%	31.1%
Others		
Listed	1.3%	1.4%
	100.0%	**100.0%**

Contributions to the Pension Funds in the first half of 2014 and in 2013 were made in cash.

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 the first half of 2014 were as follows:

	Dec. 31, 13 Proforma	Aquisitions	Changes in fair value	Sales	Jun. 30, 14
Fair value of the plan assets:					
Financial instruments issued by the BPI Group					
Bonds	60 079				60 079
	60 079				60 079
Premises used by the BPI Group	208 757	6 030	(6 748)	126	207 914
	268 836	**6 030**	**(6 748)**	**126**	**267 993**

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 2013 were as follows:

	Dec. 31, 12 Proforma	Changes in fair value	Sales	Dec. 31, 13 Proforma
Fair value of the plan assets:				
Financial instruments issued by the BPI Group				
Shares	7 499		7 499	
Bonds	60 077	2		60 079
	67 576	2	7 499	60 079
Premises used by the BPI Group	215 052	(6 295)		208 757
	282 628	**(6 293)**	**7 499**	**268 836**

As mentioned in Note 2.8, and in accordance with the requirements of IAS 19, the Bank recognizes the effects of re-measuring the net liability (asset) of the defined benefits relating to the pension plans and other post-employment benefits, directly in equity, in the Statement of comprehensive income, in the period in which they occur, including the actuarial gains and losses and deviations relating to the return on the pension fund assets.

The changes in actuarial deviations[1] from 2010 to 2014 were as follows:

Amount at December 31, 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 December 31, 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 December 31, 2011	**(316 705)**
Of which:	
Deviation associated with the transferred liabilities	(193 538)
Deviation associated with the liabilities that remain with the Bank	(123 167)

Amount at December 31, 2011 [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 December 31, 2012 Proforma	**(89 393)**
Adjustment in the ACTV Table below the estimate	22 467
Change in the actuarial assumptions	
Discount rate and pension increase rate	(93 721)
Mortality table	(42 635)
Deviation in pension fund income	114 986
Deviation in pensions paid	441
Others	(4 452)
Amount at December 31, 2013 Proforma (Note 4.31)	**(92 307)**
Change in the actuarial assumptions	
Discount rate and salary and pension increase rate	(12 215)
Deviation in pension fund income	40 575
Deviation in pensions paid	10
Amount at June 30, 2014 (Note 4.31)	**(63 937)**

[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 t. euro relating to deviations caused by changes in the salary growth calculating methodology.

[5] Includes (25) t. euro relating to BPI Vida e Pensões.

The consolidated financial statements as of June 30, 2014 and 2013 include the following amounts relating to coverage of the pension liability, in the captions "Interest, financial gain and loss with pensions" (Note 4.40) and "Personnel costs" (Note 4.42):

	Jun. 30, 14	**Jun. 30, 13 Proforma**
Interest and financial gain and loss with pensions		
Interest cost relating to the liabilities	20 884	20 265
Income on Plan assets computed with the discount rate	(21 796)	(22 437)
	(912)	**(2 172)**
Personnel costs		
Current service cost	(53)	(176)
Increase in liability for early retirements		3 747
Compensation due to early retirements		338
Change in the pension plan conditions - Death subsidy		(3 317)
	(53)	**592**

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 December 31, 2006 a pension fund was started to cover this liability.

The main actuarial assumptions used to calculate the pension liability were as follows:

	Jun. 30, 14	**Dec. 31, 13 Proforma**
Demographic assumptions:		
Mortality table [1]	TV 73/77-M - 2 years TV 88/90-W - 3 years	TV 73/77-M - 2 years TV 88/90-W - 3 years
Incapacity table	EKV 80	EKV 80
Personnel turnover	0%	0%
Decreases	By mortality	By mortality
Financial assumptions:		
Discount rate		
Beginning of the year	4.00%	4.50%
End of the year	3.50%	4.00%
Pensionable salary increase rate	0.75%	1.00%
Pension increase rate [2]	0.75%	1.00%

[1] The life expectancy considered was 2 years greater than the mortality table used for the male popopulation and 3 years for the female population.

[2] Increase equal to the variation of the Consumer Index Prices rate in accordante with the rules of the pension plan.

The actual results obtained in relation to the main financial assumptions were as follows:

	Jun. 30, 14	**Dec. 31, 13 Proforma**
Pensionable salary increase rate [1]	[1]	0% [2]
Pension increase rate [2]	[1]	2.7% [3]
Pension fund income rate	4.5% [4]	3.95%

[1] Determined solely on an annual basis.

[2] Calculated based on the changes in pensionable salaries of Directors serving in the Group companies in the beginning and end of the year.

[3] Corresponds to the variation in the CPI in accordance with the pension plan rules.

[4] Rate in relation to the first half of 2014, not annualized.

At June 30, 2014 and at December 31, 2013 the past service liability of this plan and respective coverage by the Pension Fund were as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Total past service liability		
Liability for pensions under payment	17 728	17 723
Past service liabilty relating to the current and former directors	23 566	21 414
	41 294	**39 137**
Net assets of the pension fund	39 049	35 262
Contributions to be transferred to the Pension Fund		2 805
Excess/(Insufficient) cover	(2 245)	(1 070)
Degree of coverage	95%	97%

The average duration of the pension liability of directors is 11.8 years, including both current directors and pensioners.

On December 31, 2013 the Bank recorded in the caption "Other Liabilities - Contributions to the Pension Fund" (Note 4.26) the amount of 2 805 t. euro relating to the contribution for 2013 made in February 2014, after which the degree of coverage of the liability at that date was 97%, thus exceeding the minimum level of funding of 95% required by Bank of Portugal Regulation 4/2005.

The changes in the degree of coverage of the liabilities in the last five years were as follows:

	Jun. 30, 14	2013 Proforma	2012 Proforma	2011	2010 Proforma
Total past service liability	41 294	39 137	35 113	31 141	29 402
Net assets of the Pension Fund	39 049	35 262	32 638	28 335	29 477
Contributions to be transferred to the Pension Fund		2 805	2 475	2 806	
Excess/ (insufficient) cover	(2 245)	(1 070)			75
Degree of coverage [(1)]	95%	97%	100%	100%	100%

[(1)] The minimum level of funding required in Regulation 4/2005 of Bank of Portugal is 95%.

The changes in the present value of the past service liability of the plan in the first half of 2014 and in 2013 were as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Liability at the beginning of the period	39 137	35 113
Current service cost	858	1 544
Interest cost	804	1 640
Actuarial (gain)/loss in the liability	1 183	2 218
Pensions payable (estimate)	(688)	(1 378)
Liability at the end of the period	**41 294**	**39 137**

The sensitivity analysis to a variation of the main financial assumptions for the entire period covered by the actuarial valuation (and not just a variation in a given year) at June 30, 2014 would result in the following impact on the present value of the past service liability [(1)]:

	(decrease)/increase	
	by %	amount
Change in the discount rate		
Increase by 0.25%	-2.9%	(1 216)
Decrease by 0.25%	3.1%	1 275
Change in the pensionable salary increase rate [2]		
Increase by 0.25%	0.9%	354
Change in the pension increase rate [3]		
Increase by 0.25%	2.7%	1 133
Mortality Table		
+1 year	3.0%	1 255

[1] The same calculation method and assumptions used in the calculation of the liabilities was used, only varying the assumptions under analysis.

[2] The increase in the changes in pensionable salaries applies only to the pensionable salary pension scheme component provided for in the Collective Labour Agreement (ACT), without any change in the pensionable salary increase for Social Security purposes, since it is the maximum risk of the salary evolution component.

[3] The change in the pension increase applies to pensions and supplements provided by the Bank, as well as pensions transferred to the Social Security, for which the Bank remains responsible for future updates.

The changes in the pension fund in the first half of 2014 and in 2013 were as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Net assets of the Pension Fund at the beginning of the period	35 262	32 638
Contributions made	2 805	2 475
Pension Fund income (net)		
Income on Plan assets computed with the discount rate	726	1 528
Deviation of return on assets	866	(238)
Pensions paid by the Pension Fund	(610)	(1 141)
Net assets of the Pension Fund at the end of the period	**39 049**	**35 262**

The estimated contribution to the pension plan to be made in 2014 amounts to 3 872 t. euro, the amount of 2 805 t. euro having already been contributed in the first half of 2014.

At June 30, 2014 and December 31, 2013 the net assets of the Banco BPI Directors' Pension Fund were as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Liquidity		
Listed	6.0%	9.2%
Not listed	3.3%	2.0%
Fixed rate bonds		
Listed	46.5%	42.2%
Not listed		0.9%
Floating rate bonds		
Listed	5.5%	6.2%
Shares		
Listed	32.5%	36.1%
Real Estate		
Listed	1.2%	1.4%
Others		
Listed	5.0%	2.0%
	100.0%	**100.0%**

Contributions to the Pension Funds in the first half of 2014 and in 2013 were paid in cash.

As mentioned in Note 2.8, and in accordance with the requirements of IAS 19, the Bank recognizes the effects of re-measuring the liability (asset) of the defined benefit pension plans and other post-employment benefits, directly in equity, in the Statement of Comprehensive Income, in the period in which they occur, including the actuarial gains and losses and deviations in the return on pension fund assets.

The changes in actuarial deviations from 2010 to 2014 were as follows:

Amount at December 31, 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 December 31, 2010 Proforma	**515**
Deviation in pension fund income	(1 927)
Change in actuarial assumptions	994
Deviation in pensions paid	69
Amount at December 31, 2011	**(349)**
Deviation in pension fund income	859
Change in actuarial assumptions	(1 716)
Deviation in pensions paid	232
Others	(458)
Amount at December 31, 2012 Proforma	**(1 432)**
Change in the actuarial assumptions	
Discount rate and pension increase rate	(2 262)
Mortality table	(1 192)
Deviation in pension fund income	(238)
Deviation in pensions paid	236
Others	1 236
Amount at December 31, 2013 Proforma (Note 4.31)	**(3 652)**
Change in the actuarial assumptions	
Discount rate and salary and pension increase rate	(1 183)
Deviation in pension fund income	866
Deviation in pensions paid	78
Amount at June 30, 2014 (Note 4.31)	**(3 891)**

The consolidated financial statements as of June 30, 2014 and 2013 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):

	Jun. 30, 14	**Jun. 30, 13**
Interest and financial gain and loss with pensions		
Interest cost relating to the liabilities	804	810
Income on Plan assets computed with the discount rate	(726)	(722)
	78	**88**
Personnel costs		
Current service cost	858	772
Change in the pension plan conditions		3
	858	**775**

4.28. Share capital

At December 31, 2013 Banco BPI's share capital amounted to 1 190 000 t. euro. The Shareholders' General Meeting held on April 23, 2014 approved a proposal to increase share capital, to be paid up in kind, under a Public Exchange Offer of subordinated debt, participating bonds and preference shares for new shares of Banco BPI. The exchange operation was completed in June 2014. The nominal value of the securities subject to the offer was 127 001 t. euro, of which 115 758 t. euro accepted the exchange, which corresponds to an acceptance rate of 91%. The share capital increase included 66 924 000 new shares issued at the price of 1.54 euros, which corresponds to a share capital increase of 103 063 t. euro. Following this operation, Banco BPI's share capital was increased to 1 293 063 t. euro, represented by 1 456 924 237 ordinary, nominal dematerialized shares, of no par value.

The Shareholders' General Meeting held on April 23, 2014 granted the Board of Directors of Banco BPI authorization for the following, after obtaining all the permissions necessary considering the terms and conditions (hereinafter referred to as Terms and Conditions) of the Core Tier 1 Capital Instruments (contingent convertible subordinated bonds) subscribed for by the Portuguese State in connection with Banco BPI's recapitalization operation:

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;

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;
   ii) the shares sold are delivered to the Portuguese State, under the terms of and pursuant to the "Alternative Interest Payment Mechanism" established in clause 6 of the Terms and Conditions;
   or
   iii) 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); and
      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).

The purchases and sales authorized by this decision may be carried out within eighteen months from the date thereof, this permission also being applicable, with the due adaptations, to the acquisition and sale of Banco BPI shares by Banco Português de Investimento, S.A..

Without prejudice to its freedom of decision and action under the above permissions, the Board of Directors, in carrying them out, should take into account, whenever it considers it necessary based on the relevant circumstances, the requirements of Commission Regulation (EC) 2273/2003 of December 22, 2003, as well as compliance at all times with the requirements of the Terms and Conditions of clause 11.

4.29. Other equity instruments and treasury shares

These captions are made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Other equity instruments		
Cost of shares to be made available to Group employees		
RVA 2010		124
RVA 2011	1	1
RVA 2012	19	15
RVA 2013	443	23
RVA 2014	10	
Costs of options not exercised (premiums)		
RVA 2008		828
RVA 2009	786	806
RVA 2010	563	590
RVA 2011	52	55
RVA 2012	492	587
RVA 2013	1 198	385
RVA 2014	175	
	3 739	3 414
Treasury shares		
Shares to be made available to Group employees		
RVA 2010		2
RVA 2011	1	2
RVA 2012	26	26
RVA 2013	936	
Shares hedging RVA options		
RVA 2008		3 045
RVA 2009	188	3 147
RVA 2010	313	95
RVA 2011	2 309	2 391
RVA 2012	4 137	8 382
RVA 2013	22	
Other own shares	227	
	8 159	17 090

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 BPI Group’s financial statements as of June 30, 2014 and December 31, 2013 reflect 2 983 888 and 6 154 117 treasury shares, respectively, including 551 232 and 36 865 treasury shares to be made available under the RVA program for which ownership was transferred to the employees on the grant date.

In the first half of 2014 and in 2013 the Bank recorded directly in shareholders’ equity losses and gains of -4 064 t. euro and 4 810 t. 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:

	Jun. 30, 14	Dec. 31, 13 Proforma
Revaluation reserves		
Reserves resulting from valuation to fair value of financial assets available for sale (Note 4.5):		
Debt Instruments		
Securities	153 576	(45 822)
Hedging derivatives	(248 175)	(405 990)
Equity Instruments	19 607	16 691
Other	(11 811)	(1 751)
Reserve for foreign exchange difference on investments in foreign entities		
Subsidiary or associated companies	(57 030)	(57 824)
Equity instruments available for sale	(5)	(6)
Legal revaluation reserve	703	703
	(143 135)	**(493 999)**
Deferred tax reserve		
Resulting from valuation to fair value of financial assets available for sale:		
Tax assets	33 167	136 761
Tax liabilities	(4 750)	(5 056)
	28 417	**131 705**
	(114 718)	**(362 294)**

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:

	Jun. 30, 14	Dec. 31, 13 Proforma
Legal reserve	86 124	86 124
Merger reserve	(2 463)	(2 463)
Consolidation reserves and retained earnings	682 049	558 686
Other reserves	574 433	606 346
Actuarial deviations		
Associated with the transferred liabilities	(193 538)	(193 538)
Associated with the liabilities that remain with the Bank	(67 828)	(95 959)
Taxes related to actuarial deviations	76 509	82 998
Loss on treasury shares	(6 820)	(2 102)
Taxes relating to gain on treasury shares	1 810	615
	1 150 276	**1 040 707**

In accordance with Article 97 of the General Regime for Credit Institutions and Financial Companies, approved by Decree-Law 298/91 of December 31 and amended by Decree-Law 201/2002 of September 25, 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.

At June 30, 2014 and December 31, 2013 the share premium account and legal reserve of the BPI Group companies which, under the applicable regulations, may not be distributed, amounted to 187 855 t. euro and 172 308 t. euro, respectively which, weighted by Banco BPI’s effective participation percentage in these companies, amounted to 89 423 t. euro and 80 248 t. euro, respectively. These reserves are included in the captions consolidation reserves and retained earnings and revaluation reserves.

The caption “Consolidation reserves” at June 30, 2014 and December 31, 2013 includes 23 659 t. euro and 11 473 t. 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 the first half of 2014 BPI Group recorded under the caption “Consolidation reserves and retained earnings” the amount of 9 536 t. euro corresponding to the impact, net of taxes, of the exchange of preference shares for new shares of Banco BPI (Notes 4.28 and 4.32).

This caption at June 30, 2014 also includes (3 467) t. euro relating to the revaluation of the new Banco BPI shares issued as part of the exchange operation of subordinated debt for new shares of Banco BPI (Note 4.40).

4.32. Minority interests

This caption is made up as follows:

	Balance sheet		Statement of income	
	Jun. 30, 14	Dec. 31, 13 Proforma	Jun. 30, 14	Jun. 30, 13 Proforma
Minority shareholders in:				
Banco de Fomento Angola, S.A.	321 214	314 286	49 020	38 286
BPI Capital Finance Ltd	1 807	51 233	659	467
BPI (Suisse), S.A.				2
	323 021	**365 519**	**49 679**	**38 755**

In 2008, as part of the sale operation of 49.9% of BFA's share capital, a shareholders agreement relating to Banco de Fomento Angola, S.A. was signed, containing, among others, rules on the composition of the governing bodies and on the transfer of the Bank’s shares.

Minority interests in BPI Capital Finance at June 30, 2014 and December 31, 2013 include 1 786 t. euro and 51 021 t. euro, respectively, relating to preference shares:

	Jun. 30, 14			Dec. 31, 13 Proforma		
	Issued	Repurchased	Balance	Issued	Repurchased	Balance
"C" Series Shares	250 000	(248 214)	1 786	250 000	(198 979)	51 021
	250 000	(248 214)	1 786	250 000	(198 979)	51 021

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 August 12, 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 February 12, May 12, August 12 and November 12 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.

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.

In the first half of 2014 Banco BPI carried out an exchange operation of preference shares for new shares of Banco BPI. The nominal value of the preference shares accepted for exchange amounted to 49 540 t. euro. Considering that the price attributed to the exchange corresponded to 75% of the nominal value, a gain net of taxes in the amount of 9 536 t. euro was obtained, which was recorded under the caption “Consolidation reserves and retained earnings” (Note 4.31).

4.33. Off balance sheet items

This caption is made up as follows:

	Jun. 30, 14	Dec. 31, 13 Proforma
Guarantees given and other contingent liabilities		
Guarantees and sureties	1 798 374	1 832 700
Stand-by letters of credit	71 525	71 565
Documentary credits	170 532	189 201
Sureties and indemnities	118	105
Other guarantees given and contingent liabilities	13 200	13 200
	2 053 749	**2 106 771**
Assets given as collateral	**9 093 106**	**9 841 209**
Commitments to third parties		
Irrevocable commitments		
Options on assets	8 374	10 359
Irrevocable credit lines	2 503	1 960
Securities subscription	244 250	326 625
Term commitment to make annual contributions to the deposit Guarantee Fund	38 714	38 714
Commitment to the Investor Indemnity System	9 625	10 262
Other irrevocable commitments		293
Revocable commitments	2 795 224	2 632 129
	3 098 690	**3 020 342**
Responsibility for services provided		
Deposit and safeguard of assets	26 409 544	25 409 651
Amounts for collection	121 160	72 501
Assets managed by the institution	5 143 469	4 876 032
	31 674 173	**30 358 184**

The structure, by sector, of the guarantees given to the BPI Group at June 30, 2014 and December 31, 2013 is as follows:

	Jun. 30, 14		Dec. 31, 13 Proforma	
	Amount	**%**	**Amount**	**%**
Residents:				
Agriculture, animal production and hunting	4 402	0.2	4 050	0.2
Forestry and forest operations	577		708	
Fishing	694		943	
Mining	4 713	0.2	5 170	0.2
Beverage, tobacco and food	87 480	4.3	99 848	4.7
Textiles and clothing	17 932	0.9	12 750	0.6
Leather and related products	1 355	0.1	1 070	0.1
Wood and cork	11 469	0.6	16 758	0.8
Pulp, paper and cardboard and graphic arts	4 159	0.2	4 214	0.2
Coke, refined petroleum products and fuel pellets	19 606	1.0	19 621	0.9
Chemicals, synthetic or artificial fibres, except pharmaceutical products	6 014	0.3	4 711	0.2
Base pharmaceutical products and pharmaceutical mixtures	2 280	0.1	2 137	0.1
Rubber and plastic materials	12 220	0.6	11 477	0.5
Other mineral non-metallic products	33 465	1.6	33 114	1.6
Metalworking industries	31 242	1.5	41 378	2.0
Computers, electronic, electrical and optical equipment	20 364	1.0	17 367	0.8
Transport equipment	15 409	0.8	18 509	0.9
Other manufacturing industries	8 530	0.4	11 076	0.5
Electricity, gas and water	56 071	2.7	49 391	2.3
Water treatment and collection	54 340	2.6	57 249	2.7
Construction	374 760	18.2	435 310	20.7
Wholesale and retail trade; motor vehicle and motorcycle repairs	189 814	9.2	186 037	8.8
Transport and storage	313 305	15.2	316 891	15.1
Restaurants and hotels	28 195	1.4	31 049	1.5
Information and communication activities	149 171	7.3	145 236	7.0
Investment holding companies	9 352	0.5	41 969	2.0
Financial intermediation, except for insurance and pension funds	36 011	1.8	49 568	2.4
Insurance, reinsurance and pension funds, except for mandatory social security	1 679	0.1	1 827	0.1
Auxiliary activities to financial services and insurance	645		675	
Real estate	36 562	1.8	53 209	2.5
Consulting, scientific, technical and similar activities	57 791	2.8	71 856	3.5
Administrative and support services	19 519	1.0	12 648	0.6
Public administration, defence and mandatory social security	26 214	1.3	29 012	1.4
Education	3 356	0.2	3 649	0.2
Healthcare and welfare	4 937	0.2	4 638	0.2
Leisure, cultural and sports activities	9 291	0.5	33 457	1.6
Other service companies	2 579	0.1	2 745	0.1
Other companies [4]	680		1 006	
Individuals				
Others	48 594	2.4	46 821	2.2
Non-residents:				
Financial and credit institutions	23 523	1.1	16 132	0.8
Non-financial companies	324 659	15.8	131 196	6.2
Individuals	790		80 299	3.8
	2 053 749	**100.0**	**2 106 771**	**100.0**

[1] Companies without CAE Code (Business Activity Classification - Classificação das Actividades Económicas).

The caption “Assets given as collateral” at June 30, 2014 and December 31, 2013 includes:

- 116 483 t. euro and 139 926 t. euro, respectively, relating to credit and 7 664 334 t. euro and 8 810 143 t. euro relating to securities, captive for obtaining funding from the European Central Bank (ECB).
- 10 971 t. euro and 10.565 t. 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);
- 55 800 t. euro and 48 522 t. euro relating to securities given in guarantee to the Deposit Guarantee Fund.

Additionally, at June 30, 2014 and December 31, 2013 the caption “Assets given as collateral” includes, respectively, 1 052 439 t. euro and 617 708 t. euro of securities and 175 631 t. euro and 197 330 t. euro of credit, given as collateral to the European Investment Bank.

The “Options on assets” caption at June 30, 2014 and December 31, 2013 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 June 30, 2014 and December 31, 2013 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 June 30, 2014 and December 31, 2013 corresponds to BPI’s legally required irrevocable commitment, to pay to the Fund, upon request by it, of the amount of the annual contributions not yet paid.

The “Commitment to the Investor Indemnity System” caption at June 30, 2014 and December 31, 2013 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 June 30, 2014 the BPI Group managed the following third party assets:

Investment Funds and PPRs	1 985 849
Pension Funds [1]	2 180 730

[1] Includes the Group companies’ Pension Funds.

4.34. Financial margin (narrow sense)

This caption is made up as follows:

	Jun. 30, 14	Jun. 30, 13 Proforma
Interest and similar income		
Interest on deposits with banks	260	936
Interest on placements with credit institutions	13 453	17 848
Interest on loans to customers	244 412	271 472
Interest on credit in arrears	4 939	9 540
Interest on securities held for trading and available for sale	161 719	189 750
Interest on securitised assets not derecognised	89 869	87 970
Interest on derivatives	153 377	137 445
Interest on securities held to maturity		103
Interest on debtors and other aplications	1 230	1 685
Other interest and similar income	1 947	2 312
	671 206	**719 061**
Interest and similar expense		
Interest on resources		
Of central banks	4 898	14 072
Of other credit institutions	3 452	5 808
Deposits and other resources of customers	201 455	213 998
Debt securities	36 437	46 756
Interest from short selling	682	270
Interest on derivatives	167 889	161 441
Interest on liabilities relating to assets not derecognised on securitised operations	7 654	10 870
Interest on contingent convertible subordinated bonds	26 675	44 777
Interest on subordinated debt	1 293	1 473
Other interest and similar expenses	67	151
	450 502	**499 616**

4.35. Gross margin on unit links

This caption is made up as follows:

	Jun. 30, 14	Jun. 30, 13 Proforma
Income from financial instruments		
Interest	1 977	1 254
Gains and losses on financial instruments	16 354	3 194
Gains and losses on capitalisation insurance - unit links	(18 331)	(4 448)
Management and redemption comission	1 993	1 392
	1 993	**1 392**

4.36. Income from equity instruments

This caption is made up as follows:

	Jun. 30, 14	Jun. 30, 13 Proforma
Conduril	553	276
SIBS	1 086	878
Viacer	1 568	1 568
Others	158	154
	3 365	**2 876**

4.37. Net commission relating to amortized cost

This caption is made up as follows:

	Jun. 30, 14	Jun. 30, 13 Proforma
Commission received relating to amortised cost		
Loans to customers	13 400	15 812
Others	523	667
Commission paid relating to amortised cost		
Loans to customers	(2 861)	(3 009)
Others	(604)	(631)
	10 458	**12 839**

4.38. Technical result of insurance contracts

This caption is made up as follows:

	Jun. 30, 14	Jun. 30, 13 Proforma
Premiums	638 225	258 861
Income from financial instruments	41 561	34 198
Impairment (Note 4.21)	(2 189)	
Cost of claims, net of reinsurance	(151 567)	(209 739)
Changes in technical provisions, net of reinsurance	(486 733)	(49 293)
Participation in results	(24 417)	(22 780)
	14 880	**11 247**

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 2.12).

4.39. Net commission income

This caption is made up as follows:

	Jun. 30, 14	Jun. 30, 13 Proforma
Commissions received		
On guarantees provided	10 974	11 811
On commitments to third parties	1 388	1 556
On insurance brokerage services	19 481	19 515
On banking services rendered	106 656	113 030
On operations realised on behalf of third parties	9 257	6 453
Other	1 515	1 519
	149 271	**153 884**
Commissions paid		
On guarantees received	26	7
On financial instrument operations	18	178
On banking services rendered by third parties	17 319	19 048
On operations realised by third parties	1 824	1 300
Other	180	(182)
	19 367	**20 351**
Other income, net		
Refund of expenses	11 968	13 611
Income from banking services	10 229	13 803
Charges similar to fees	(5 186)	(4 444)
	17 011	**22 970**

At June 30, 2014 and 2013 commissions received for insurance brokerage services or reinsurance are made up as follows:

	Jun. 30, 14	Jun. 30, 13 Proforma
Life insurance		
Housing	10 007	9 813
Consumer	743	803
Others	3 129	3 623
	13 879	**14 239**
Non-life insurance		
Housing	2 442	2 226
Consumer	269	354
Others	2 891	2 696
	5 602	**5 276**
	19 481	**19 515**

At June 30, 2014 and 2013 remuneration for insurance brokerage services was received in full in cash and more than 85% and 88%, respectively, thereof relates to insurance brokerage services for Allianz.

4.40. Net income on financial operations

This caption is made up as follows:

	Jun. 30, 14	Jun. 30, 13 Proforma
Gain and loss on operations at fair value		
Foreign exchange gain, net	56 130	45 181
Gain and loss on financial assets held for trading		
Debt instruments	6 357	1 770
Equity instruments	37 453	12 700
Other securities	3	1
Gain and loss on trading derivative instruments	(32 838)	(11 928)
Gain and loss on other financial assets valued at fair value through profit or loss	361	415
Gain and loss on investments held to maturity		
Gain and loss on financial liabilities held for trading	(104)	1 111
Gain and loss on the revaluation of assets and liabilities hedged by derivatives	51 580	(86 642)
Gain and loss on hedging derivative instruments	(56 635)	87 950
Other gain and loss on financial operations	10 687	6 155
	72 994	**56 713**
Gain and loss on assets available for sale		
Gain and loss on the sale of loans and advances to customers	(4)	356
Gain and loss on financial assets available for sale		
Debt instruments	(131 088)	128 735
	(131 092)	**129 076**
Interest and financial gain and loss with pensions (Note 4.26)		
Interest cost	(21 688)	(21 075)
Expected fund income	22 522	23 159
	834	**2 084**

At June 30, 2014 and 2013 the caption “Gain and loss on trading derivative instruments” includes (22 516) t. euro and (10 271) t. euro, respectively, relating to equity swaps contracted with Customers, which are hedged with shares classified in the caption “Equity Instruments”.

The caption “Other gains and losses on financial operations” at June 30, 2014 and 2013, includes 14 025 t. euro and 5 964 t. euro, respectively, relating to gain on the repurchase of financial liabilities on securitization operations. This caption at June 30, 2014 also includes (3 467) t. euro relating to the revaluation of the new Banco BPI shares issued as part of the exchange operation of subordinated debt for new shares of Banco BPI (Note 4.31).

The caption “Gain and loss on financial assets available for sale – debt instruments” at June 30, 2014 and 2013 includes losses amounting to 99 361 t. euro and gains amounting to 129 327 t. euro, respectively, relating to the sale of Treasury Bonds and Treasury Bills issued by the Portuguese State. At June 30, 2014 this caption also included losses amounting to 28 550 t euro relating to the sale of Italian public debt bonds.

4.41. Net operating expenses

This caption is made up as follows:

	Jun. 30, 14	Jun. 30, 13 Proforma
Operating income		
Revenue from investment properties	5 002	5 273
Gains on investment properties	4 541	406
Minority interest in the investment fund Imofomento	(602)	(821)
Gain on tangible assets held for sale	384	283
Gain on other tangible assets	4 813	3 069
Other operating income	2 093	2 067
	16 231	**10 277**
Operating expenses		
Losses on investment properties	4 817	1 545
Expenses with investment properties	1 763	1 150
Subscriptions and donations	1 972	1 484
Contributions to the Deposit Guarantee Fund	1 636	1 634
Contributions to the Resolution Fund	1 332	2 267
Contribution to the Investor Indemnity System	8	10
Loss on tangible assets held for sale	956	388
Loss on other tangible and intangible assets	5 819	4 379
Other operating expenses	2 603	3 259
	20 906	**16 116**
Other taxes		
Indirect taxes	7 153	2 351
Direct taxes	658	528
	7 811	**2 879**

Decree-Law 24/2013 of February 19 established the contributions system of Banks to the new Resolution Fund created with the purpose of preventing, mitigating and containing systemic risk. Bank of Portugal Notice 1/2013 and Instructions 6/2013 and 7/2013 established the payment of an initial contribution and periodic contributions to the Resolution Fund. Banco BPI recorded in its 2013 accounts the initial contribution and the periodic contribution for 2013.

The caption Loss on other tangible and intangible assets at June 30, 2014 and 2013 includes 1 084 t. euro and 617 t. euro, respectively, relating to the closure of branches.

4.42. Personnel costs

This caption is made up as follows:

	Jun. 30, 14	Jun. 30, 13 Proforma
Remuneration	138 788	142 503
Long service premium	2 256	1 665
Pension costs	2 920	2 755
Early retirements		4 085
Death subsidy		(3 317)
Other mandatory social charges	31 727	31 834
Other personnel costs	5 595	5 029
	181 286	**184 554**

The caption “Remuneration” at June 30, 2014 and 2013 includes the following costs relating to remuneration granted to the members of Banco BPI’s Board of Directors:

- 1 445 t. euro and 1 446 t. euro, respectively, relating to remuneration paid in cash; and
- 42 t. euro and 63 t. euro, respectively, relating to prior years’ accrued cost of the share-based remuneration program (RVA) in accordance with IFRS 2.

The caption "Pension Fund" at June 30, 2014 and 2013 includes 2 025 t. euro and 2 074 t. 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:

	Jun. 30, 14	Jun. 30, 13 Proforma
Administrative costs		
Supplies		
Water, energy and fuel	6 575	6 925
Consumable material	2 586	2 746
Other	498	511
Services		
Rent and leasing	24 612	25 282
Communications and computer costs	19 677	20 509
Travel, lodging and representation	4 054	4 154
Publicity	9 243	8 480
Maintenance and repairs	10 886	10 389
Insurance	2 412	2 212
Fees	2 238	2 283
Legal expenses	2 495	2 993
Security and cleaning	5 893	5 777
Information services	2 880	2 550
Temporary labour	1 937	2 077
Studies, consultancy and auditing	3 685	2 905
SIBS	10 062	9 941
Other services	11 267	9 799
	121 000	**119 533**

4.44.Income tax

At June 30, 2014 and 2013 Proforma, 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, were as follows:

	Jun. 30, 14	Jun. 30, 13 Proforma
Current income tax		
For the year	18 800	26 053
Correction of prior years	(300)	(2 401)
	18 500	**23 652**
Deferred tax		
Recognition and reversal of temporary differences	(6 419)	(21 558)
Change in tax rate		(192)
On tax losses carried forward	(38 215)	16 828
	(44 634)	**(4 922)**
Contribution over the banking sector	**7 804**	**6 529**
Total tax charged to the statement of income	**(18 330)**	**25 260**
Net income before income tax [1]	(86 651)	112 697
Tax burden	21.2%	22.4%

[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 the first half of 2014 and 2013 Proforma Banco BPI recorded, directly in retained earnings, income tax of 6 091 t. euro and 15 481 t. euro, respectively, resulting from (i) actuarial deviations in pensions recognized in the period, (ii) net gain/loss on treasury shares recognized in equity and (iii) the operation relating to the exchange of preference shares for new shares of Banco BPI (Note 4.31).

Reconciliation between the nominal rate of income tax and the tax burden at June 30, 2014 and 2013 Proforma, as well as between the tax cost/income and the product of the accounting profit times the nominal tax rate are as follows:

	Jun. 30, 14		Jun. 30, 13 Proforma	
	Tax rate	Amount	Tax rate	Amount
Net income before income tax		(86 651)		112 697
Income tax computed based on the nominal tax rate	7.5%	(6 502)	33.4%	37 718
Effect of tax rates applicable to foreign branches	0.0%	19	-0.1%	(121)
Capital gain and impairment of investments (net)	0.0%	(29)	0.2%	278
Capital gain of tangible assets (net)	0.3%	(219)	-0.2%	(260)
Income on Angolan public debt	34.2%	(29 647)	-20.0%	(22 569)
Non taxable dividends	1.7%	(1 488)	-0.6%	(632)
Tax on dividends of subsidiary and associated companies	-3.2%	2 792	2.6%	2 884
Conversion of shareholders' equity of associated companies	0.1%	(116)		
Tax benefits	0.5%	(432)	-0.7%	(813)
Impairment and provision for loans	0.2%	(154)	-0.4%	(469)
Non tax deductible pension costs	-0.4%	355	1.1%	1 224
Interest recognised on minority interests	0.2%	(163)	-0.1%	(138)
Correction of prior year taxes	0.1%	(120)	-1.1%	(1 255)
Extraordinary investment tax credit	0.3%	(252)		
Difference of tax rate on tax losses [1]			0.1%	126
Difference between the current income tax rate and the deferred tax rate [2]	-1.1%	941	1.0%	1 138
Use of tax losses	-8.7%	7 500		
Effect of change in the rate of deferred tax			-0.2%	(199)
Contribution over the financial sector	-9.0%	7 804	5.8%	6 529
Autonomous taxation	-1.2%	1 022	0.6%	627
Other non taxable income and expenses	-0.4%	359	1.1%	1 192
	21.2%	**(18 330)**	**22.4%**	**25 260**

[1] The calculation of deferred taxes on tax losses at December 31, 2013 is based on the tax rate of 23% and not on the nominal tax rate (which includes State and Municipal surcharge).

[2] Difference resulting from the fact that the effective current income tax rate differs from the rate used to calculate deferred taxes.

Current taxes are calculated based on the nominal tax rates legally in force in the countries in which the Bank operates:

	Jun. 30, 14		Jun. 30, 13 Proforma	
	Net income before income tax	Current tax rate	Net income before income tax	Current tax rate
Companies with income tax rate of 25% and Surcharge between [1.5% ; 6.5%[	(198 044)	22.0%	25 365	30.5%
Companies with income tax rate of 35% (Angola)	105 825	35.0%	85 461	35.0%
Investment funds[1]	5 568		1 871	
	(86 651)	7.5%	112 697	33.4%

[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 Corporation 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 June 30, 2014 and December 31, 2013 Proforma are as follows:

	Jun. 30, 14	**Dec. 31, 13 Proforma**
Deferred tax		
Assets (Note 4.13)	445 611	517 455
Liabilities (Note 4.23)	(34 456)	(37 977)
	411 155	479 478
Recorded by corresponding entry to:		
Retained earnings	267 494	246 155
Other reserves - Actuarial deviations	70 611	75 318
Fair value reserve (Note 4.30)		
Financial instruments available for sale	28 416	131 699
Net income	44 634	26 306
	411 155	479 478

Deferred tax assets are recognized up to the amount expected to be realized through future taxable profits.

The changes in deferred taxes in the first half of 2014 are as follows:

	Balance at Dec. 31, 13 Proforma	Corresponding entry to net income		Corresponding entry to reserves and retained earnings		Balance at Jun. 30, 14
		Costs	Income	Increases	Decreases	
Deferred tax assets						
Pension liability	1 647	(1 823)				(176)
Early retirements	30 455	(2 981)				27 474
Net income of Banco BPI Cayman	229					229
Taxed provisions and impairment	147 706	(852)	3 687			150 541
Long service premium	7 401		568			7 969
Tax losses	86 887	(2 567)	40 782			125 102
Investment tax credit	700		252			952
Financial instruments available for sale	137 139	(248)	856	5 110	(109 611)	33 246
Actuarial deviations	75 318	(4 707)				70 611
Actuarial deviations after 2011			6 711		(6 711)	
Public exchange offer			797	449	(1 247)	
Tax deferral of the impact of transition to NCA	26 044	(813)				25 231
Others	3 930	(53)	530	26		4 433
	517 455	(14 044)	54 183	5 585	(117 569)	445 611
Deferred tax liabilities						
Revaluation of tangible fixed assets	(696)		34			(662)
Revaluation of assets and liabilities hedged by derivatives	(170)	(149)				(319)
Subsidiary's equity conversion	(211)	116				(95)
Dividends to be distributed by subsidiary and associated companies	(7 736)	(2 773)	4 624	14		(5 871)
RVA's		(1 195)		1 195		
Financial instruments available for sale	(6 372)			190	(2 574)	(8 756)
Repurchase of liabilities and preference shares	(20 066)		2 983	3 514	(2 848)	(16 417)
Reversal of gains in the consolidated accounts	(2 723)		392			(2 331)
Others	(2)	(110)	573	109	(574)	(4)
	(37 977)	(4 111)	8 606	5 022	(5 996)	(34 456)
	479 478	**(18 155)**	**62 789**	**10 607**	**(123 565)**	**411 155**

The changes in deferred taxes in the first half of 2013 Proforma are as follows:

	Balance at Dec. 31, 12	Corresponding entry to net income		Corresponding entry to reserves and retained earnings		Balance at Jun. 30, 13 Proforma
		Costs	Income	Increases	Decreases	
Deferred tax assets						
Pension liability	6 263	(2 836)	7			3 434
Early retirements	31 959	(3 315)				28 644
Advertising campaigns	70					70
Net income of Banco BPI Cayman	225					225
Taxed provisions and impairment	136 166	(590)	18 647			154 223
Long service premium	6 117		392			6 509
Tax losses	71 934	(10 948)	(5 880)			55 106
Financial instruments available for sale	244 672		891	7 789	(69 746)	183 607
Actuarial deviations	83 205	(4 627)				78 578
Actuarial deviations after 2011			8 487		(8 487)	
Tax deferral of the impact of transition to NCA	27 172	(771)				26 401
Others	700	(82)	113	2 740	(11)	3 460
	608 483	(23 170)	22 659	10 529	(78 243)	540 257
Deferred tax liabilities						
Revaluation of tangible fixed assets	(721)		19			(702)
Revaluation of assets and liabilities hedged by derivatives	(267)	(153)				(420)
Subsidiary's equity conversion	(691)	301				(390)
Dividends to be distributed by subsidiary and associated companies	(8 032)	(2 861)	5 484	161	(5)	(5 253)
RVA's			1 442		(1 442)	
Loan impairment						
Financial instruments available for sale	(49 971)	631		39 867		(9 474)
Repurchase of liabilities and preference shares	(30 132)		4 129	1 371		(24 632)
Reversal of gains in the consolidated accounts		(3 434)				(3 434)
Others	(1)	(1 394)	1 268	(22)		(149)
	(89 815)	(6 910)	12 342	41 376	(1 447)	(44 454)
	518 668	**(30 080)**	**35 001**	**51 905**	**(79 691)**	**495 803**

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:

	Jun. 30, 14	Jun. 30, 13 Proforma
Banco Comercial e de Investimentos, S.A.R.L.	3 676	4 267
Companhia de Seguros Allianz Portugal, S.A.	4 900	4 801
Cosec – Companhia de Seguros de Crédito, S.A.	1 813	1 378
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	(277)	(857)
InterRisco - Sociedade de Capital de Risco, S.A.	46	24
Unicre - Instituição Financeira de Crédito, S.A.	1 227	578
	11 385	**10 191**

Contribution of the associated companies of Banco BPI to the consolidated comprehensive income is as follows:

	Jun. 30, 14	Jun. 30, 13 Proforma
Contribution to consolidated net income	11 385	10 191
Income not included in the consolidated statement of income:	11 633	2 567
Contribution to consolidated comprehensive income	**23 018**	**12 758**

4.46. Consolidated net income of the BPI Group

Contribution of Banco BPI and subsidiary and associated companies to consolidated net income in the first half of 2014 and 2013 is as follows:

	Jun. 30, 14	30 Jun. 13 Proforma
Banks		
Banco BPI, S.A.[1]	(188 765)	(34 002)
Banco Português de Investimento, S.A.[1]	2 118	(189)
Banco de Fomento Angola, S.A.[1]	46 756	35 941
Banco Comercial e de Investimentos, S.A.R.L.[1]	3 364	3 904
Banco BPI Cayman, Ltd	1 248	858
Asset management and brokerage		
BPI Gestão de Activos - Sociedade Gestora de Fundos de Investimento Mobiliários, S.A.	3 788	3 660
BPI - Global Investment Fund Management Company, S.A.	672	268
BPI (Suisse), S.A.	2 058	1 932
BPI Alternative Fund: Iberian Equities Long/Short Fund [1]		910
BPI Alternative Fund: Iberian Equities Long/Short Fund Luxemburgo [1]	2 718	59
BPI Obrigações Mundiais - Fundo de Investimento Aberto de Obrigações [1]	226	(111)
Imofomento - Fundo de Investiemento Imobiliário Aberto [1]	401	373
Venture capital / development		
BPI Private Equity - Sociedade de Capital de Risco, S.A.	531	357
Inter-Risco - Sociedade de Capital de Risco, S.A.[1]	46	24
Insurance		
BPI Vida e Pensões - Companhia de Seguros, S.A.	11 340	40 174
Cosec - Companhia de Seguros de Crédito, S.A.	1 813	1 378
Companhia de Seguros Allianz Portugal, S.A.	4 900	4 801
Others		
BPI, Inc	(187)	57
BPI Locação de Equipamentos, Lda	(3)	24
BPI Madeira, SGPS, Unipessoal, S.A.	(8)	71
BPI Moçambique - Sociedade de Investimento, S.A. [1]	155	(449)
BPI Capital Finance		
BPI Capital Africa	(736)	(888)
Finangeste - Empresa Financeira de Gestão e Desenvolvimento, S.A.[1]	(277)	(857)
Unicre - Instituição Financeira de Crédito, S.A.	1 227	578
	(106 615)	**58 873**

[1]Adjusted net income.

4.47. Personnel

The average and period-end number of employees[1] in the first half of 2014 and 2013 were as follows:

	Jun. 30, 14		Jun. 30, 13 Proforma	
	Average for the period	End of period	Average for the period	End of period
Executive directors[2]	10	10	10	10
Management staff	611	614	613	614
Other staff	5 435	5 431	5 326	5 385
Other employees	2 783	2 702	2 921	2 909
	8 839	**8 757**	**8 870**	**8 918**

[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 of financial instruments and investment properties is determined whenever possible based on the price in an active market. A market is considered to be active and liquid, when it is accessed by equally knowledgeable counterparties and is traded on a regular basis. In the case of financial instruments and investment properties with no prices in active markets, due to lack of liquidity and absence of regular transactions, valuation methods and techniques to estimate fair value are used.

Financial instruments and investment properties recorded in the balance sheet at fair value were classified by levels in accordance with the hierarchy of IFRS 13.

Financial instruments recorded in the balance sheet at fair value

Debt instruments and equity instruments

• 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 published in electronic trading platforms, taking into account the liquidity (number of contributors) and depth of the asset (contributor type) . Classification as an active market is carried out automatically by the asset valuation system, provided that the financial instruments are quoted by more than ten market contributors, with at least five firm offers and there is a multi-contributed quotation (price formed by several firm offers from contributors available in the market). The proposed automatic classification is assessed by an expert team.

• Level 2 – Valuation techniques based on market inputs

This level considers securities that, having no active market, are valued by reference to valuation techniques based on market prices for instruments having the same or similar characteristics, including observable market prices for financial assets which have had significant decreases in trading volumes. The asset valuation system classifies automatically as level 2, financial instruments quoted by more than 4 and up to 9 contributors, with at least two firm bids and there is a multi - contributed quotation. This level also includes financial instruments valued based on internal models using inputs which are mainly observable in the market (such as interest rate curves or exchange rates) and financial instruments valued based on third party purchase prices (indicative bids), based on observable market data. The proposed automatic classification is assessed by an expert team.

• Level 3 – Valuation techniques using mainly inputs not based on observable market data

Financial assets 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 securities 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, namely:
  - assets valued based on Net Asset Value updated and disclosed by their managing companies;
  - 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).

- securities valued at indicative purchase prices based on theoretical models, disclosed by third parties and considered reliable.

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). For the over-the-counter derivatives (swaps and options) the valuation is based on generally accepted methods, always giving priority to values from the market.

• Level 1 – Price in an active market

This category includes futures and options traded on stock exchanges.

• Level 2 – Valuation techniques based on market inputs

Level 2 includes derivatives, traded on over-the-counter markets, without an optional component (swaps and similar) and that have been contracted with counterparties with which the Bank has collateralization agreements and therefore are not subject to adjustments for credit risk, to the extent that it is mitigated.

Valuation of these derivatives is made by discounting the cash flows of the operations, using interest rate market curves deemed appropriate for the currency concerned, prevailing at the time of calculation. The interest rates are obtained from reliable sources of information (e.g. Bloomberg or Reuters). The same interest rate curves are used in the projection of non-deterministic cash flows such as interest calculated from indices. The rates for required specific periods are determined by appropriate interpolation methods.

• Level 3 – Valuation techniques using mainly inputs not based on observable market data

Level 3 includes options and derivatives traded in the over-the-counter market, with embedded optional elements or derivatives that have been contracted with counterparties with which the Bank does not have collateralization agreements.

Derivative financial instruments traded in the over-the-counter market, that have been contracted with counterparties with which the Bank does not have collateralization agreements were classified as Level 3 since their credit risk adjustments are estimated mainly by using inputs not based on observable market data.

The valuation of derivatives with optional elements is performed using statistical models based on principles generally accepted in the market, that take into account the market value of the underlying assets and their volatility. Such derivatives are valued daily under the responsibility of "Direcção de Análise e Controlo de Riscos" (DACR).

The theoretical models used to value derivatives classified in Level 3 are of two types:

(i) For simpler operations (plain vanilla) option and optional elements are valued based on the Black-Scholes models or their derivatives (commonly used models by the market in the valuation of this type of operation). The inputs for these models, price and volatility, are collected from Bloomberg. At June 30, 2014 the values of the unobservable market inputs (implied volatility of the underlying assets) are included in the following ranges by type of underlying asset:

Implicit volatility		
Underlying	Min	Max
Euribor 1 month	70.25%	222.69%
Euribor 3 months	32.60%	98.50%
Euribor 6 months	32.52%	63.71%
Euribor 12 months	45.37%	64.73%
Exchange EUR/USD	4.42%	15.52%

Valuation of the non-optional components is made based on discounted cash flows, using methodology similar to that used for derivatives without an optional component.

(ii) For the more exotic options or complex derivatives incorporating optional elements (for which there are no Black Scholes models available) the Bank contracted a specialized entity that performs the valuation based on specific models, constructed using criteria and methodologies generally accepted for this type of operations. At June 30, 2014 the values of the inputs not observable in the market (implicit volatility of the underlying assets) are included in the following categories, by type of underlying asset:

Implicit volatility		
Underlying type	Min	Max
Shares/indices	2.86%	36.94%
Commodities	14.10%	34.77%

In accordance with the policy defined by the BPI Group as regards the management of exposure of options, significant open positions are not maintained, the risk being managed mainly through "back-to-back" hedges. Thus, the impact of possible changes in the inputs used in the valuation of the options, in terms of the income statement of the BPI Group, tends to be negligible.

Valuations thus obtained are, in the case of interbank transactions, valued against those used by the counterparties and whenever there are significant differences the models or assumptions are reviewed.

The Bank has been incorporating counterparty credit risk in determining the fair value of derivative financial instruments contracted on the over-the-counter market. Therefore, the present value of the derivatives contract is adjusted to avoid the immediate recognition in results of the full amount of the initial margin of the operations on the recording date, thus ensuring that the Bank's financial margin gain is recognized on a straight-line basis over the period of the operations. Additionally, counterparty credit risk of the derivative instruments is analyzed based on the Bank's impairment model, the balance sheet amount being adjusted by corresponding entry to results of financial operations.

Following the entry into force in 2013 of IFRS 13 - Fair Value Measurement, the Bank developed new methodology for incorporating counterparty credit risk and own credit risk into the calculation of the balance sheet amount of derivative financial instruments contracted in the over-the-counter market. This methodology includes the following main aspects:

- derivative financial instruments contracted with counterparties with which the Bank has collateralization agreements are not subject to adjustment for credit risk, to the extent that it is mitigated;

- counterparty credit risk and own credit risk adjustments relating to derivative financial instruments not collateralized are estimated using mainly historical information regarding non-performance.

Credit risk adjustments resulting from the application of the new methodology developed by the Bank to meet the requirements of IFRS 13 at June 30, 2014 and December 31, 2013, do not differ significantly from the adjustments determined by the methodology that the Bank had already implemented.

Considering the complexity and subjectivity relating to determination of the assumptions used in the calculation of the adjustments to the credit risk of derivative financial instruments, it will continue to be monitored by the Bank in order to introduce the improvements that are identified based on practical experience in applying these methodologies.

Investment properties

The most relevant variables considered in each of the valuation methodologies used to determine the fair value of investment properties (comparative market method, income method, cost method) are the following:

i. revenue currently practiced in rented properties
ii. revenue potentially applicable to those properties that are not rented,
iii. estimated yields applicable to each property according to its geographical location and state of preservation,
iv. cost of construction and the cost of land of the property, as well as applicable rates, and
v. sale price per square meter for properties in a similar situation.

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) at December 2013 and June 2014 (the latter with an exception referred to later) yield curves for interbank operations at the reference date of the financial statements are used. Given the characteristics of the operations concerning medium and long term resources of other financial institutions relating to June 2014, the Bank opted to use the Portuguese public debt yield curve.

- in operations with customers (Loans to costumers and Resources of Customers and other loans) the weighted average of the spreads over the reference rates used by the Bank in the previous month for similar operations is considered;

- the reference rates that are more suitable for bond issuances (Debt securities and Subordinated debt) are applied, taking into account the residual maturity and degree of subordination. As from December 31, 2011, given the lack of market references for Portuguese issuances, the Portuguese public debt curve was gradually introduced as a working basis, a spread taking into consideration the Bank’s differential risk potentially increased by a spread to represent the differential risk of the Bank and the degree of subordination, this basis being that currently used to determine the discount rate for all bonds issued. At June 30, 2014 and December 31, 2013 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 subordinated debt, at June 30, 2014 and December 31, 2013 spreads over the rates used for senior issuances, increasing with the residual maturity and degree of subordination were used. The 5-year spread for the highest degree of subordination is considered between the contingent convertible subordinated bonds and senior debt. For the remaining maturities, a proportional spread is built between the credit risk spread for the Portuguese and German sovereign debt. For contingent convertible subordinated bonds at December 31, 2013 the implicit rates of the bonds themselves were used, thus obtaining a fair value equal to book value. At June 30, 2014 BPI did not have contingent convertible subordinated bonds in its balance sheet.

The reference rates used to calculate the discount factors at June 30, 2014 are listed in the following tables and refer to the interbank market rates.

	1 month	3 months	6 months	1 year	2 years	3 years	5 years	7 years	10 years	30 years
EUR	0.10%	0.21%	0.30%	0.49%	0.31%	0.38%	0.66%	0.99%	1.44%	2.18%
GBP	0.49%	0.55%	0.70%	1.04%	1.33%	1.70%	2.17%	2.47%	2.77%	3.24%
USD	0.16%	0.23%	0.33%	0.55%	0.58%	0.99%	1.69%	2.16%	2.61%	3.30%
JPY	0.10%	0.13%	0.18%	0.33%	0.18%	0.22%	0.34%	0.52%	1.74%	2.74%

	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years	10 years
Portuguese public debt	0.90%	0.90%	1.19%	1.68%	2.36%	2.77%	3.05%	3.34%	3.63%	3.65%
German public debt	0.02%	0.03%	0.06%	0.17%	0.34%	0.50%	0.69%	0.90%	1.07%	1.25%
Spread PT/DE	0.87%	0.87%	1.13%	1.51%	2.02%	2.27%	2.36%	2.44%	2.56%	2.40%

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 and investment properties at June 30, 2014 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	1 274 283		1 274 283	1 274 283			1 274 283
Deposits at other credit institutions	344 749		344 749	344 749			344 749
Financial assets held for trading and at fair value through profit or loss	1 614 247	1 614 247		1 614 247			1 614 247
Financial assets available for sale	8 625 098	8 625 098		8 625 098		8 525	8 633 623
Loans and advances to credit institutions	2 020 999		2 019 486 [3]	2 019 486	(1 513)		2 020 999
Loans and advances to customers	25 190 650		22 843 727 [4]	22 843 727	(2 346 923)		25 190 650
Held to maturity investments	103 522		101 292 [3]	101 292	(2 230)		103 522
Trading derivatives [2]	280 957	280 957		280 957			280 957
Hedging derivatives	137 000	137 000		137 000			137 000
Investment properties	158 617	158 617		158 617			158 617
	39 750 122	10 815 919	26 583 537	37 399 456	(2 350 666)	8 525	39 758 647
Liabilities							
Resources of central banks	3 054 955		3 054 943 [3]	3 054 943	12		3 054 955
Financial liabilities held for trading	18 883	18 883		18 883			18 883
Resources of other credit institutions	1 682 390		1 633 264 [3]	1 633 264	49 126		1 682 390
Resources of customers and other debts	25 600 435		25 745 352 [5]	25 745 352	(144 917)		25 600 435
Debt securities	2 419 194		2 443 052 [3]	2 443 052	(23 858)		2 419 194
Financial liabilities relating to transferred assets	1 199 635		993 119 [4]	993 119	206 516		1 199 635
Trading derivatives	323 570	323 570		323 570			323 570
Hedging derivatives	319 563	319 563		319 563			319 563
Technical provisions	3 211 377		3 211 377 [3]	3 211 377			3 211 377
Other subordinated debt and participating bonds	69 546		65 454 [3]	66 069	3 477		69 546
	37 899 548	662 016	37 146 561	37 809 192	90 356		37 899 548
	1 850 574			(409 736)	(2 260 310)	8 525	1 859 099
Valuation differences in financial assets recognised in revaluation reserves					(86 808)		
Total					(2 347 118)		

[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.

[3] Financial instruments recognized in the balance sheet at amortized cost classified as Level 2, in accordance with the fair value hierarchy established in IFRS 13.

[4] Financial instruments recognized in the balance sheet at amortized cost classified as Level 3, in accordance with the fair value hierarchy established in IFRS 13.

[5] Demand deposits valued at their nominal amount. Term deposits and other resources not payable on demand classified as Level 3, in accordance with the fair value hierarchy established in IFRS 13.

The fair value of financial instruments and investment properties at December 31, 2013 is made up as follows:

Type of financial instrument	Net book value	Fair value of financial instruments: Recorded in the balance sheet at fair value	Recorded in the balance sheet at amortised cost	Total	Difference	Assets valued at historical cost [1]	Total book value
Assets							
Cash and deposits at Central Banks	1 372 211		1 372 211	1 372 211			1 372 211
Deposits at other credit institutions	466 863		466 863	466 863			466 863
Financial assets held for trading and at fair value through profit or loss	1 083 220	1 083 220		1 083 220			1 083 220
Financial assets available for sale	9 616 530	9 616 530		9 616 530		7 713	9 624 243
Loans and advances to credit institutions	1 886 070		1 884 609 [3]	1 884 609	(1 461)		1 886 070
Loans and advances to customers	25 965 133		23 238 075 [4]	23 238 075	(2 727 058)		25 965 133
Held to maturity investments	136 877		132 216 [3]	132 216	(4 661)		136 877
Trading derivatives [2]	223 497	223 497		223 497			223 497
Hedging derivatives	194 043	194 043		194 043			194 043
Investment properties	164 949	164 949		164 949			164 949
	41 109 393	11 282 239	27 093 974	38 376 213	(2 733 180)	7 713	41 117 106
Liabilities							
Resources of central banks	4 140 068		4 140 045 [3]	4 140 045	23		4 140 068
Financial liabilities held for trading	1 453 249		1 455 411 [3]	1 455 411	(2 162)		1 453 249
Resources of other credit institutions	25 617 488		25 831 360 [5]	25 831 360	(213 872)		25 617 488
Debt securities	2 598 455		2 520 133 [3]	2 520 133	78 322		2 598 455
Financial liabilities relating to transferred assets	1 387 296		1 129 785 [4]	1 129 785	257 511		1 387 296
Trading derivatives	255 245	255 245		255 245			255 245
Hedging derivatives	548 458	548 458		548 458			548 458
Technical provisions	2 689 768		2 689 768 [3]	2 689 768			2 689 768
Contingent convertible subordinated bonds	920 433		920 433 [3]	920 433			920 433
Other subordinated debt and participating bonds	136 931		116 261 [3]	116 261	20 670		136 931
	39 747 391	803 703	38 803 195	39 606 899	140 492		39 747 391
	1 362 002			(1 230 686)	(2 592 688)	7 713	1 369 715
Valuation differences in financial assets recognised in revaluation reserves					(436 878)		
Total					(3 029 566)		

[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.

[3] Financial instruments recognized in the balance sheet at amortized cost classified as Level 2, in accordance with the fair value hierarchy established in IFRS 13.

[4] Financial instruments recognized in the balance sheet at amortized cost classified as Level 3, in accordance with the fair value hierarchy established in IFRS 13.

[5] Demand deposits valued at their nominal amount. Term deposits and other resources not at demand classified as Level 3, in accordance with the fair value hierarchy established in IFRS 13.

The book value of the financial instruments and investment properties recorded in the balance sheet at fair value at June 30, 2014, is made up as follows by valuation methodologies:

Type of financial instrument	Active market listings (Level 1)	Valuation techniques Market data (Level 2)	 Models (Level 3)	Total fair value
Assets				
Financial assets held for trading and at fair value through profit or loss	1 402 636	44 249	167 362	1 614 247
Financial assets available for sale	5 568 823	51 216	3 005 059	8 625 098
Trading derivatives	586	40 905	239 466	280 957
Hedging derivatives	22	108 086	28 892	137 000
Investment properties			158 617	158 617
	6 972 067	244 456	3 599 396	10 815 919
Liabilities				
Financial liabilities held for trading	15 353	3 530		18 883
Trading derivatives	13	238 477	85 080	323 570
Hedging derivatives	236	311 102	8 225	319 563
	15 602	553 109	93 305	662 016

The book value of the financial instruments and investment properties recorded in the balance sheet at fair value at December 31, 2013, is made up as follows by valuation methodologies:

Type of financial instrument	Active market listings (Level 1)	Valuation techniques Market data (Level 2)	 Models (Level 3)	Total fair value
Assets				
Financial assets held for trading and at fair value through profit or loss	909 200	21 894	152 126	1 083 220
Financial assets available for sale	6 966 267	49 495	2 600 768	9 616 530
Trading derivatives	172	29 118	194 207	223 497
Hedging derivatives	51	140 579	53 413	194 043
Investment properties			164 949	164 949
	7 875 690	241 086	3 000 514	11 117 290
Liabilities				
Trading derivatives	232	198 971	56 042	255 245
Hedging derivatives	29	516 868	31 561	548 458
	261	715 839	87 603	803 703

In the first half of 2014 and in 2013 the following securities were transferred from level 2 to level 1 due to the increase in their liquidity in the market, as a result of the increase in contributors quoting the securities with firm offers and, in the case of securities of domestic issuers, resulting from improvement in the conditions of the Portuguese Debt:

	Book Value	
	Jun. 30, 14	Dec. 31, 13
BANCO SABADELL-5.234%-PERPETUA	46	
BRISA CONCESSAO ROD.-6.25%-05.12.2014		38
SEMAPA-6.85%-30.03.2015		114
LA FARGE-6.5%-15.07.2016		7 392
CP-COMBOIOS DE PORTUGAL-4.17%-16.10.2019		45
SEMAPA-6.85%-30.03.2015		834
ZON MULTIMEDIA 2012-2015		43
INTL BK RECON.&DEVEL.-3.375%-30.04.2015		346
RABOBANK NEDERLAND-3.25%-30.06.2014		59
REN-REDES ENERG.NAC.-6.25%-21.09.2016		547
ESPIRITO SANTO FIN GRP-6.875%-21.10.2019		102
SCH FINANCE SA - TX. VR. - OB.PERP		168
	46	9 690

At June 30, 2014 and December 31, 2013 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 June 30, 2014 and December 31, 2013 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 June 30, 2014 and December 31, 2013 trading and hedging derivatives included in Level 3 refer mainly to:

- options or swaps negotiated with Customers with an optional component and 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;

- derivatives contracted in the over-the-counter market with counterparties with which the Bank does not have collaterization agreements.

For financial instruments and investment properties recorded at fair value on the balance sheet, the changes between December 31, 2013 and June 30, 2014 of 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)	Investment Properties	Total
Net book value at December 31, 2013 Proforma	152 126	2 600 768	138 165	21 852	164 949	3 077 860
Accrued interest (amount at December 31, 2013)	(46)	(480)	(12 047)	5 787		(6 786)
Gain / (loss) recognized in net income						
In net income on financial operations	382	(86)	11 896	2 068		14 260
Potential gain / (loss)	349		16 309	(103)		16 555
Effective gain / (loss)	33	(86)	(4 413)	2 171		(2 295)
Net operating expenses					(892)	(892)
In impairment loss		(4 178)				(4 178)
Gain / (loss) recognized in revaluation reserves		(9 486)				(9 486)
Purchases	15 864	420 368			508	436 740
Sales / redemptions	(983)	(2 355)	4 413	(2 171)	(5 948)	(7 044)
Accrued interest (amount at June 30, 2014)	19	508	11 959	(6 869)		5 617
Net book value at June 30, 2014	167 362	3 005 059	154 386	20 667	158 617	3 347 474

Note: The effective gain / (loss) on derivatives corresponds to amounts paid / received in the course of early settlement of the operations.

The purchase of assets held for trading and at fair value through profit or loss and assets available for sale corresponds mainly to public debt securities of Angola and of Banco Nacional de Angola through Banco de Fomento Angola.

For financial instruments and investment properties recorded at fair value on the balance sheet, the changes between December 31, 2012 and December 31, 2013 in 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)	Investment Properties	Total
Net book value at December 31, 2012 Proforma	168 963	2 237 628	171	36 981	169 606	2 613 349
Accrued interest (amount at December 31, 2012)	(64)	(1 053)	569	6 285		5 737
Gain / (loss) recognized in net income						
In net income on financial operations	633	(53)	(31 684)	(10 662)		(41 766)
Potential gain / (loss)	234		(2 528)	(15 713)		(18 007)
Effective gain / (loss)	399	(53)	(29 156)	5 051		(23 759)
Net operating expenses					(2 523)	(2 523)
In impairment loss		(3 186)				(3 186)
Gain / (loss) recognized in revaluation reserves		(5 477)				(5 477)
Purchases	324	511 871			13	512 208
Sales / redemptions	(17 776)	(139 442)	29 156	(5 051)	(2 147)	(135 260)
Transfers in			127 906	86		127 992
Accrued interest (amount at December 31, 2013)	46	480	12 047	(5 787)		6 786
Net book value at December 31, 2013 Proforma	152 126	2 600 768	138 165	21 852	164 949	3 077 860

Note: The effective gain / (loss) on derivatives corresponds to amounts paid / received in the course of early settlement of the operations.

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.

The purchase of assets available for sale corresponds mostly to public debt securities issued by Angola and by Banco Nacional de Angola (BNA), acquired by Banco de Fomento Angola.

Sales / redemptions of assets available for sale include 52 106 t. euro relating to the sale of participating units in Fundo de Reestruturação Empresarial and 50 688 t.euro relating to the redemption of bonds of ANA – Aeroportos de Portugal.

Transfers from other levels correspond to the entry into force in 2013 of IFRS 13 and refer to derivative financial instruments contracted with counterparties with which the Bank does not have collateralization agreements. As explained earlier in this note, these instruments are considered in the new methodology developed by the Bank in 2013 to incorporate counterparty credit risk and own credit risk, which is estimated using mainly historical information regarding non-performance.

Derecognition of financial instruments

In the first half of 2014 and in 2013 no financial instruments for which it was not possible to reliably determine their fair value were derecognized and so 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 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:

	Jun. 30, 14			**Dec. 31, 13**			
	Book value on reclassification date	Book value at Jun. 30, 14	Fair value at Jun. 30, 14	Book value on reclassification date	Book value at Dec. 31, 13	Fair value at Dec. 31, 13	Effective interest rate on reclassification date
Reclassification of bonds in 2008							
Financial assets held for trading	(57 928)			(57 928)			
Loans represented by securities	36 002	36 594	27 469	36 002	36 592	22 621	6.37%
Held to maturity investments	21 926	23 773	21 485	21 926	23 744	19 603	6.29%
Reclassification of bonds in 2009							
Financial assets held for trading	(3 252)			(3 267)			
Loans represented by securities	216	270	354	231	282	371	5.34%
Held to maturity investments	3 036	4 590	4 376	3 036	4 585	3 898	5.98%
Reclassification of bonds in 2012							
Financial assets at fair value through profit or loss	(7 699)			(7 699)			
Loans represented by securities	7 699	7 669	7 562	7 699	7 665	7 293	2.78%
Reclassification of bonds in 2013							
Financial assets available for sale	(4 093)			(4 093)			
Loans represented by securities	4 093	3 942	3 031	4 093	3 891	3 002	1.94%
		76 838	64 277		76 759	56 788	

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 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 2012 a security recorded in the financial assets at fair value through profit or loss portfolio was reclassified to the loans to customers' portfolio as, due to the lack of liquidity of the bond market, its valuation did not reflect the price on an active market with regular transactions.

In 2013 a security recorded in the financial assets available for sale portfolio was reclassified to the loans to customers portfolio as, due to the lack of liquidity, its valuation did not reflect the price on an active market with regular transactions.

For purposes of determining the effective interest rate of the reclassified assets at their reclassification date, the BPI Group estimated that it would recover all future cash flows relating to the reclassified securities.

After the reclassification date, the gain / (loss) relating to fair value changes of these securities not recognized in the statement of income in the first half of 2014 and in 2013 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:

	Jun. 30, 14			Dec. 31, 13		
	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			3	2	2	19
Loans represented by securities	5 112		903	4 404		1 614
Held-to-maturity investments	2 325		135	1 717		430
	7 437		1 041	6 123	2	2 063

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 June 30, 2014, 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	**181 729**	**187 939**	**(170)**		
Portugal	181 729	187 939	(170)		
Available for sale	**4 334 383**	**4 423 382**	**70 379**	**(124 847)**	
Portugal	4 334 383	4 423 382	70 379	(124 847)	
Total exposure	**4 516 112**	**4 611 321**	**70 209**	**(124 847)**	

Fair value 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 exposure to Portugal, the BPI Group considers that at June 30, 2014 there was no objective evidence of impairment.

In the first half of 2014 the BPI Group sold bonds issued by Portuguese government entities with a nominal value of 850 000 t. euro. In 2013 Banco BPI sold its whole position in government bonds issued by Ireland.

At June 30, 2014 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 26 112 t. euro and KION MORTGAGE Class A bonds (securitization of mortgage loans originated by the Greek Millennium bank) in the amount of 73 t. euro (Note 4.5).

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 June 30, 2014 is as follows, by residual period to maturity:

Maturity	2014	2015 to 2020	> 2021	Total
Portugal	1 618 357	2 976 752	16 212	4 611 321
	1 618 357	**2 976 752**	**16 212**	**4 611 321**

The ratings of Portugal and Greece are the following:

	Jun. 30, 14			Dec. 31, 13		
	S&P	Moody's	Fitch	S&P	Moody's	Fitch
Portugal	BB	Ba2	BB+	BB	Ba3	BB+
Greece	B-	Caa3	B	B-	Caa3	B-

In addition, at June 30, 2014, 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	**79 562**	**38 432**	**37 879**	
Portugal	34 202	37 792	37 239	
Greece	45 360	640	640	
Loans and other receivables	**100 000**	**101 019**	**100 624**	
Portugal	100 000	101 019	100 624	
Total exposure	**179 562**	**139 451**	**138 503**	

Exposure of the insurance capitalization portfolios of BPI Vida e Pensões to the sovereign debt of Portugal and Greece, at June 30, 2014 is made up as follows, by residual period of maturity:

Maturity	2014	2015 to 2020	> 2021	Total
Portugal	2 066	134 418	2 327	138 811
Greece			640	640
	2 066	**134 418**	**2 967**	**139 451**

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 June 30, 2014, 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	344 749		344 749
Financial assets held for trading and at fair value through profit or loss	1 614 247		1 614 247
Financial assets available for sale	8 724 478	(90 855)	8 633 623
Loans and advances to credit institutions	2 021 001	(2)	2 020 999
Loans and advances to customers	26 209 817	(1 019 167)	25 190 650
Held to maturity investments	103 522		103 522
Derivatives			
Hedging derivatives	137 000		137 000
Trading derivatives [1]	280 957		280 957
	39 435 771	(1 110 024)	38 325 747
Off balance sheet items			
Guarantees given	1 798 374	(50 861)	1 747 513
Irrevocable credit lines	2 503	(5)	2 498
	1 800 877	(50 866)	1 750 011
	41 236 648	(1 160 890)	40 075 758

[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 December 31, 2013 Proforma, 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	466 863		466 863
Financial assets held for trading and at fair value through profit or loss	1 083 220		1 083 220
Financial assets available for sale	9 710 914	(86 671)	9 624 243
Loans and advances to credit institutions	1 886 072	(2)	1 886 070
Loans and advances to customers	26 897 068	(931 935)	25 965 133
Held to maturity investments	136 877		136 877
Derivatives			
Hedging derivatives	194 043		194 043
Trading derivatives [1]	223 497		223 497
	40 598 554	(1 018 608)	39 579 946
Off balance sheet items			
Guarantees given	1 832 700	(46 124)	1 786 576
Irrevocable credit lines	1 960	(642)	1 318
	1 834 660	(46 766)	1 787 894
	42 433 214	(1 065 374)	41 367 840

[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 June 30, 2014, by non performing classes, are as follows:

	Non performing classes					
	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	more than 5 years	Total
Loans and advances to customers						
Subject to individual assessment						
Overdue loans and interest	862	9 869	53 514	386 913	92 646	543 804
Impairment	(793)	(4 218)	(32 627)	(227 378)	(69 228)	(334 244)
	69	5 651	20 887	159 535	23 418	209 560
Subject to collective assessment						
Overdue loans and interest	147	6 473	37 567	303 233	97 553	444 973
Impairment	(49)	(1 802)	(16 029)	(155 568)	(58 703)	(232 151)
	98	4 671	21 538	147 665	38 850	212 822

In addition, at June 30, 2014, collective impairment of 452 774 t. euro was recognized on performing loans.

Overdue loans and interest at December 31, 2013 Proforma, by non performing classes, are as follows:

	Non performing classes					
	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	more than 5 years	Total
Loans and advances to customers						
Subject to individual assessment						
Overdue loans and interest	1 299	12 534	127 107	316 309	81 866	539 115
Impairment	(109)	(6 302)	(76 921)	(158 432)	(62 351)	(304 115)
	1 190	6 232	50 186	157 877	19 515	235 000
Subject to collective assessment						
Overdue loans and interest	95	6 137	53 860	320 887	77 135	458 114
Impairment	(53)	(1 708)	(21 956)	(150 889)	(40 831)	(215 437)
	42	4 429	31 904	169 998	36 304	242 677

In addition, at December 31, 2013, collective impairment of 412 383 t. 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 June 30, 2014 was as follows:

Coverage	Loans with default			Collateral [1]		Impairment [3]
	Performing amount associated with defaulting loans	Overdue	Total	Mortgages	Other Collateral [2]	
>=100%	125 221	154 944	280 165	277 660	2 504	95 695
>=75% and <100%	106 599	157 118	263 717	227 074	11 650	86 146
>=50% and <75%	8 697	53 611	62 308	40 493	312	27 064
>=25% and <50%	1 282	19 760	21 042	6 440	1 828	13 647
>=0 and <25%	72 502	11 813	84 315	826	3 585	33 159
Without collateral	185 245	591 531	776 776			490 375
Total	**499 546**	**988 777**	**1 488 323**	**552 493**	**19 879**	**746 086**

[1] The value of collateral presented is the lower of the fair value of the collateral received and the amount owed at June 30, 2014.

[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 179 691 t. euro relating to performing loans associated with overdue loans.

The coverage of performing loans on which impairment was determined on an individual basis at June 30, 2014 was as follows:

Loans with impairment		Collateral [1]		Impairment [3]
Coverage	Performing loans	Mortgages	Other collateral [2]	
Loans not represented by securities				
>=100%	127 242	117 433	9 810	17 586
>=75% and <100%	13 525	9 126	2 492	5 771
>=50% and <75%	25 467	14 569	692	5 925
>=25% and <50%	45 181	4 090	13 909	2 086
>=0 and <25%	35 735	333	1 609	3 986
Without collateral	438 618			94 411
	685 768	145 551	28 512	129 765
Loans represented by securities				
Without collateral	7 929			3 430
Guarantees provided				
>=100%	16 100	11 800	4 300	1 288
>=50% and <75%	3 440	1 692	104	1 652
>=25% and <50%	2 219	696	34	443
>=0 and <25%	672	11	11	3
Without collateral	152 203			34 883
	174 634	14 199	4 449	38 269
	868 331	**159 750**	**32 961**	**171 464**

[1] The value of collateral shown is the lower of the fair value of the collateral received and the amount owed at June 30, 2014.

[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.

At June 30, 2014 the fair value of the underlying collateral of the domestic housing loans portfolio was as follows:

Fair value of the collateral	Housing			
	Properties		Other real collateral [1]	
	Number	Amount	Number	Amount
< 0.5 M€	223 518	19 559 777	1 870	58 130
≥ 0.5 M€ and < 1 M€	480	301 705	5	1 746
≥ 1 M€ and < 5 M€	47	63 883		
Total	**224 045**	**19 925 365**	**1 875**	**59 876**

[1] Includes financial collateral (shares, bonds, deposits) and other assets.

At June 30, 2014 the loan-to-value ratio (LTV) for the domestic housing segment was as follows:

Segment / Loan-to-value ratio	Number of properties	Without signs of impairment	With signs of impairment	Default	Impairment
Without associated collateral		9 901	257	17 300	14 717
< 60%	95 384	3 322 547	51 718	54 475	33 973
≥ 60% and <80%	47 660	2 643 428	48 814	67 093	36 334
≥ 80% and <100%	51 719	3 241 825	68 924	118 797	57 660
≥ 100%	29 282	1 601 720	51 885	237 030	95 390
	224 045	10 819 421	221 598	494 694	238 074

The coverage of overdue loans by collateral received at December 31, 2013 Proforma was as follows:

Coverage	Loans with default			Collateral [1]		Impairment [3]
	Performing amount associated with defaulting loans	Overdue	Total	Mortgages	Other Collateral [2]	
>=100%	104 109	179 552	283 661	280 723	2 938	91 583
>=75% and <100%	72 730	151 158	223 888	195 376	6 142	71 940
>=50% and <75%	2 510	49 391	51 901	33 668	473	21 432
>=25% and <50%	529	13 953	14 482	5 114	155	9 214
>=0 and <25%	40 563	9 732	50 295	869	2 766	16 616
Without collateral	174 435	593 443	767 878			447 623
Total	**394 876**	**997 229**	**1 392 105**	**515 750**	**12 474**	**658 408**

[1] The value of collateral shown is the lower of the fair value of the collateral received and the amount owed at December 31, 2013.

[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 138 856 t. euro relating to performing loans associated with defaulting loans.

The coverage of performing loans on which impairment was determined on an individual basis at December 31, 2013 Proforma was as follows:

Loans with impairment		Collateral [1]		Impairment [3]
Coverage	Performing loans	Mortgages	Other collateral [2]	
Loans not represented by securities				
>=100%	155 044	145 499	9 545	20 258
>=75% and <100%	16 062	9 160	4 627	5 807
>=50% and <75%	19 171	11 077	210	2 420
>=25% and <50%	44 216	3 538	13 939	2 382
>=0 and <25%	35 628	362	1 411	4 014
Without collateral	465 669			91 634
	735 790	169 636	29 732	126 515
Loans represented by securities				
Without collateral	7 729			4 205
Guarantees provided				
>=100%	14 678	10 492	4 186	1 232
>=75% and <100%	49		49	2
>=50% and <75%	245	58	100	50
>=25% and <50%	2 216	696	27	442
>=0 and <25%	29 545	11	392	9 786
Without collateral	130 755			21 659
	177 488	11 257	4 754	33 171
	921 007	**180 893**	**34 486**	**163 891**

[1] The value of collateral shown is the lower of the fair value of the collateral received and the amount owed at December 31, 2013.

[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 analyzed in detail in Note 4.4.. In the case of financial assets with ratings assigned by the international rating agencies (Moody, Standard & Poor and Fitch) the rules set in the prudential regulations issued by the Bank of Portugal were followed, selecting the second best in the case of different external ratings for the same instrument. When no specific external ratings were found, Banco BPI used external ratings assigned by the issuer of instruments with the same degree of subordination. In the case of local authorities, banks and other similar institutions, the ratings used are based on the external ratings assigned to the State where the entity has its headquarters. 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 quality levels (project finance), rating classes (for company and entrepreneurs and business exposures), or by scorings (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, namely it excludes sovereign exposures or exposure to other banks, in which case external ratings are used and the loans granted locally by Banco de Fomento de Angola which uses its own methodologies.

As from 2013 the distribution of exposures of the entrepreneur and business segment is presented in accordance with the classification of the counterparties by the current internal rating system of the BPI Group.

Actual internal ratings and scorings include ten classes for regular operations, from E01/N01/01 (less probability of default) to E10/N10/10 (more probability of default); two classes (ED1/ND1/D01 and ED2/ND2/D02) for "incidents" (delays in payment of less than 60 and 90 days, respectively) and finally one class for default (ED3/ND3/D03), 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 June 30, 2014 were 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-	385 589		385 589
		A+ to A-	332 093		332 093
		BBB+ to BBB-	433 825		433 825
		BB+ to BB-	1 128 688		1 128 688
		B+ to B-	2 665	2	2 663
	N/A	N/A	108		108
			2 282 968	2	2 282 966

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value and does not include cheques for collection.

Loans to costumers, by ratings, at June 30, 2014 were as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Loans to costumers	External rating	AAA to AA-	9 825		9 825
		A+ to A-	31 259		31 259
		BBB+ to BBB-	317 590	850	316 740
		BB+ to BB-	1 957 942	59	1 957 883
		B+ to B-	78 106		78 106
		< B-	16 020		16 020
	Project Finance rating	Strong	139 252		139 252
		Good	870 951	140	870 811
		Satisfactory	280 315	797	279 518
		Weak	279 623	13 751	265 872
	Company Rating	E01 to E03	564 084	2 135	561 949
		E04 to E06	2 153 467	8 169	2 145 298
		E07 to E10	1 565 297	70 246	1 495 051
		ED1 to ED3	626 052	348 680	277 372
	Entrepreneurs and Business Rating	N01 to N03	38 593	256	38 337
		N04 to N06	382 784	2 973	379 811
		N07 to N10	606 630	8 800	597 830
		ND1 to ND3	243 704	117 884	125 820
	Scoring	01 to 03	7 843 739	13 515	7 830 224
		04 to 06	2 646 223	10 475	2 635 748
		07 to 10	1 162 525	22 008	1 140 517
		D01 to D03	697 925	232 025	465 900
	N/A	N/A	3 605 637	166 404	3 439 233
			26 117 543	1 019 167	25 098 376

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value.

The Securities portfolio, by ratings, at June 30, 2014 was as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Securities	External rating	AAA to AA-	18 379		18 379
		A+ to A-	170 846		170 846
		BBB+ to BBB-	1 573 299		1 573 299
		BB+ to BB-	7 671 804	275	7 671 529
		B+ to B-	88 574	29	88 545
		< B-	1 691		1 691
	N/A	N/A	917 220	90 551	826 669
			10 441 813	90 855	10 350 958

Deposits and loans and advances to credit institutions, by ratings, at December 31, 2013 Proforma were 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-	1 110 257		1 110 257
		A+ to A-	38		38
		BBB+ to BBB-	283 836	1	283 835
		BB+ to BB-	883 677		883 677
		B+ to B-	2 716	1	2 715
	N/A	N/A	509		509
			2 281 033	2	2 281 031

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value and does not include cheques for collection.

Loans to costumers, by ratings, at December 31, 2013 Proforma were as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Loans to costumers	External rating	AAA a AA-	7 256		7 256
		A+ a A-	29 611		29 611
		BBB+ a BBB-	381 812	662	381 150
		BB+ a BB-	1 889 877	379	1 889 498
		B+ a B-	87 473		87 473
		< B-	264 020		264 020
	Project Finance rating	Strong	152 420		152 420
		Good	895 771	187	895 584
		Satisfactory	285 508	174	285 334
		Weak	338 541	19 793	318 748
	Company Rating	E01 to E03	815 101	2 939	812 162
		E04 to E06	2 177 238	8 251	2 168 987
		E07 to E10	1 543 409	68 452	1 474 957
		ED1 to ED3	722 365	319 955	402 410
	Entrepreneurs and Business Rating	N01 to N03	40 339	332	40 007
		N04 to N06	390 049	3 106	386 943
		N07 to N10	606 529	10 033	596 496
		ND1 to ND3	251 583	115 199	136 384
	Scoring	01 to 03	8 015 555	14 262	8 001 293
		04 to 06	2 718 601	10 733	2 707 868
		07 to 10	1 179 173	22 633	1 156 540
		D01 to D03	655 580	205 568	450 012
	N/A	N/A	3 364 944	129 277	3 235 667
			26 812 755	931 935	25 880 820

Note: Gross exposure corresponds to the nominal value adjusted for value corrections.

The Securities portfolio, by ratings, at December 31, 2013 Proforma was as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Securities	External rating	AAA to AA-	100 765		100 765
		A+ to A-	183 959		183 959
		BBB+ to BBB-	1 742 669		1 742 669
		BB+ to BB-	7 858 020	232	7 857 788
		B+ to B-	117 951	29	117 922
		< B-	1 913		1 913
	N/A	N/A	925 159	86 410	838 749
			10 930 436	86 671	10 843 765

Restructured loans

At June 30, 2014 and December 31, 2013 the restructured loan operations were identified in accordance with Bank of Portugal Instruction 32/2013 (which replaces Instruction 18/2012) which defines restructured loans due to financial difficulties of the customer.

In accordance with the Instruction, institutions must identify and mark in their information systems, loan contracts with customers in situations of financial difficulty, whenever there are changes to the terms and conditions of the contracts (namely, extension of the repayment term, introduction of grace periods, capitalization of interest, reduction of interest rates, waiver of interest or capital), or the institution agrees to grant new credit facilities for total or partial payment of the existing debt service, and for this purpose include the words "restructured loans due to financial difficulty of the customer."

A customer is considered to be in a position of financial difficulty when it has failed to fulfill any of its financial obligations to the institution or if it is foreseeable that this will occur, given the information available.

A loan operation which is restructured due to financial difficulty of the customer can only be demarked after a minimum period of two years from the date it is restructured, provided that certain conditions are met cumulatively.

The following restructured loan operations have been identified for domestic operations of the BPI Group at June 30, 2014 and December 31, 2013:

	Jun. 30, 14				Dec. 31, 13 Proforma			
	Loans			Impairment	Loans			Impairment
	Performing	Overdue	Total		Performing	Overdue	Total	
Companies	1 064 239	218 546	1 282 785	287 423	1 036 054	224 667	1 260 722	266 667
Loans to individuals								
Housing	184 877	46 432	231 309	58 036	142 726	43 359	186 085	48 719
Other loans	65 423	13 929	79 352	18 046	62 754	13 479	76 233	14 426
	1 314 539	278 907	1 593 447	363 505	1 241 534	281 505	1 523 039	329 811

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 June 30, 2014 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	1 274 248						1 274 248
Deposits at other credit institutions	264 905	79 838					344 743
Financial assets held for trading and at fair value through profit or loss		160 028	573 839	179 315	182 157	518 908	1 614 247
Financial assets available for sale		1 570 288	3 132 157	3 259 819	355 394	406 820	8 724 478
Held-to-maturity investments		2 632	82 739	17 717			103 088
Loans and advances to credit institutions		1 690 082	248 509	79 429	44		2 018 064
Loans and advances to customers		2 772 629	2 527 947	6 975 267	12 812 511	988 777	26 077 131
Hedging derivatives[1]		1 929 908	5 038 037	5 913 386	569 139		13 450 470
Trading derivatives [1]		2 221 769	385 752	3 696 503	1 599 543		7 903 567
Contractual interest cash flows of derivatives		41 191	144 876	291 854	202 729		680 650
Contractual interest cash flows of other assets	41	252 538	743 987	2 412 255	2 292 759		5 701 580
	1 539 194	10 720 903	12 877 843	22 825 545	18 014 276	1 914 505	67 892 266
Liabilities							
Resources of central banks		10 677	3 000 000				3 010 677
Financial liabilities held for trading				3 841	15 042		18 883
Resources of other credit institutions		1 049 766	104 682	136 341	379 504		1 670 293
Resources of customers and other debts	8 552 830	6 130 334	6 127 665	4 102 047	444 601		25 357 477
Debt securities		177 538	968 586	1 123 030	112 789		2 381 943
Financial liabilities relating to transferred assets		475 875		724 741			1 200 616
Hedging derivatives [1]		1 941 753	5 068 492	5 953 549	572 089		13 535 883
Trading derivatives [1]		2 239 650	352 330	3 702 081	1 614 501		7 908 562
Technical provisions		251 765	1 027 729	792 785	1 139 098		3 211 377
Contingent convertible subordinated bonds							
Other subordinated debt and participating bonds		58 899		10 557			69 456
Contractual interest cash flows of derivatives		47 330	159 299	463 452	183 863		853 944
Contractual interest cash flows of other liabilities		9 365	223 240	169 331	88 980		490 916
	8 552 830	12 392 952	17 032 023	17 181 755	4 550 467		59 710 027

[1] Includes the notional amount of swap operations.

The contractual undiscounted cash flows of financial assets and liabilities at December 31, 2013 Proforma 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	1 372 183						1 372 183
Deposits at other credit institutions	396 969	69 891					466 860
Financial assets held for trading and at fair value through profit or loss		246 481	148 859	82 594	149 420	455 866	1 083 220
Financial assets available for sale		1 278 464	3 033 808	2 229 997	2 756 636	412 009	9 710 914
Held-to-maturity investments		11 964	44 168	79 771	399		136 302
Loans and advances to credit institutions		1 856 203		27 816	44		1 884 063
Loans and advances to customers		3 373 800	2 549 899	7 312 305	12 545 599	997 230	26 778 833
Hedging derivatives[1]		1 051 572	4 616 743	6 831 764	2 913 730		15 413 808
Trading derivatives [1]		525 477	2 153 960	3 793 523	1 636 005		8 108 965
Contractual interest cash flows of derivatives		72 530	133 799	383 167	244 054		833 549
Contractual interest cash flows of other assets	31	759 349	736 006	2 563 431	2 292 564		6 351 380
	1 769 183	9 245 731	13 417 241	23 304 368	22 538 451	1 865 105	72 140 078
Liabilities							
Resources of central banks		73 962	10 578	4 000 000			4 084 540
Financial liabilities held for trading							
Resources of other credit institutions		1 189 306	57 645	140 031	57 004		1 443 986
Resources of customers and other debts	8 050 286	6 028 443	6 769 752	4 254 037	303 555		25 406 073
Debt securities		107 127	467 405	1 885 674	68 354		2 528 560
Financial liabilities relating to transferred assets			487 576	900 822			1 388 398
Hedging derivatives [1]		1 052 434	4 616 711	6 831 341	2 910 863		15 411 349
Trading derivatives [1]		530 887	2 149 547	3 794 322	1 651 433		8 126 188
Technical provisions		288 760	826 593	803 007	771 408		2 689 768
Contingent convertible subordinated bonds				920 000			920 000
Other subordinated debt and participating bonds		59 245	25 295	52 231			136 771
Contractual interest cash flows of derivatives		58 577	211 723	726 304	294 255		1 290 859
Contractual interest cash flows of other liabilities		89 601	192 950	460 264	70 985	0	813 801
	8 050 286	9 478 342	15 815 775	24 768 034	6 127 857	0	64 240 294

[1] Includes the notional amount of swap operations.

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The Bank continuously tracks the evolution of its liquidity, monitoring the incoming and outgoing of funds in real time. Projections of liquidity are carried out periodically in order to help plan the short and medium term funding strategy. In the first half of 2014 the BPI Group carried out an exchange of subordinated debt and preference shares for Banco BPI shares resulting in a nominal value repurchase of 115 758 t. euro. In March and June 2014 the Bank made an early repayment of 500 000 t. euro and 420 000 t. euro, respectively, of the Contingent Convertible Subordinated Bonds, settling the total amount of the outstanding debt. The securities portfolio was subject to sales in the amount of 1 335 000 t. euro. Net funding obtained from the ECB in the amount of 4 000 000 t. euro in December 2013 was reduced to 3 000 000 t. euro in June 2014, with scheduled maturity for 2015 and the possibility of early repayment. At June 30 the Bank had a portfolio of assets eligible for obtaining funding from the ECB, totalling 10 506 673 t. euro net of ECB valuation margins. This amount includes 5 889 703 t. 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 the first half of 2014 and 2013 the average VaR in the Bank's trading books was as follows:

	Jun. 30, 14		Jun. 30, 13	
	VaR (average)	VaR (maximum)	VaR (average)	VaR (maximum)
Interest rate risk	546	1 163	447	1 474
Currency risk	1 371	1 662	1 281	1 545
Equity risk	2 288	3 765	977	2 975

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.

Offsetting of financial assets and liabilities

BPI Group has contracts that allow the offsetting of financial assets and liabilities on a net basis per counterparty, namely derivative operations and repo security transactions.

The Group has the policy of contracting its derivative operations with its professional counterparties (through "ISDA Master Agreements") or with its customers (through framework contracts), in order to have the possibility, in both cases, of netting positions by counterparty or customer. Credit Support Annexes (CSA's) are also signed with professional counterparties that allow the transfer of collateral in order to minimize the risk.

Repo transactions are made mostly under a standard ISMA contract called "Global Master Repurchase Agreement", which is considered as a compensation agreement, allowing the offsetting of the positive and negative values of all transactions negotiated with the counterparty.

Derivatives and repo transactions relating to securities are not compensated for the purpose of presentation in the financial statements of the BPI Group - the amount of each transaction is recorded as an asset or a liability, depending on whether the operation has a positive or negative fair value, respectively.

At June 30, 2014 and December 31, 2013 the amount of asset derivative financial instruments[1] traded in the over-the-counter market, offset by related liability derivatives, by counterparty type, was as follows:

Counterparty	Financial assets presented in the financial statements	Related amounts not set off in the financial statements		Net value
		Financial instruments	Cash collateral received as guarantee	
		Jun. 30, 14		
Financial Institutions	190 225	(105 028)	(54 332)	30 865
Local and Administrative Public Sector	365			365
Other Financial Intermediaries	1 459	(1 166)		293
Companies	199 199	18		199 217
Insurance Companies / Pensions	73			73
Individuals	415	(1)		414
Total	391 736	(106 177)	(54 332)	231 227
		Dec. 31, 13		
Financial Institutions	194 266	(97 455)	(71 683)	25 128
Local and Administrative Public Sector	110			110
Other Financial Intermediaries	185			185
Companies	171 613	(271)		171 342
Insurance Companies/Pensions				
Individuals	562	(1)		561
Total	366 736	(97 727)	(71 683)	197 326

At June 30, 2014 and December 31, 2013 the amount of liability derivative financial instruments[1] traded in the over-the-counter market, offset by related asset derivatives, by counterparty type, was as follows:

Counterparty	Financial liabilities presented in the financial statements	Related amounts not set off in the financial statements		Net value
		Financial instruments	Cash collateral pledged as guarantee	
		Jun. 30, 14		
Financial Institutions	582 966	(105 028)	(460 341)	17 597
Other Financial Intermediaries	2 012	(1 166)		846
Companies	43 270	18		43 288
Insurance Companies/Pensions	12			12
Individuals	8	(1)		7
Total	628 268	(106 177)	(460 341)	61 750
		Dec. 31, 13		
Financial Institutions	725 148	(97 455)	(615 942)	11 751
Local and Administrative Public Sector	1			1
Other Financial Intermediaries	843			843
Companies	26 305	(271)		26 034
Individuals	11	(1)		10
Total	752 308	(97 727)	(615 942)	38 639

[1] Does not include embedded derivatives and listed derivatives in the amounts of 11 355 t. euro and 554 t. euro, at June 30, 2014 and December 31, 2013, respectively.

At June 30, 2014 and December 31, 2013 the amount of securities purchased with resale agreements, by counterparty type, was as follows:

Counterparty	Financial assets presented in the financial statements	Related amounts not set off in the financial statements		Net value
		Financial instruments	Cash collateral received as guarantee	
	Jun. 30, 14			
Financial Institutions	177 715	(177 715)		
Total	177 715	(177 715)		
	Dec. 31, 13			
Financial Institutions	33 551	(33 551)		
Central Banks	287 357	(287 357)		
Total	320 908	(320 908)		

At June 30, 2014 and December 31, 2013 the amount of debt securities sold with repurchase agreements, by counterparty type, was as follows:

Counterparty	Financial liabilities presented in the financial statements	Related amounts not set off in the financial statements		Net value
		Financial instruments	Cash collateral pledged as guarantee	
	Jun. 30, 14			
Financial Institutions	576 983	(576 983)		
Other Financial Intermediaries	88 134	(88 134)		
Total	665 117	(665 117)		
	31 Dez. 13			
Financial Institutions	865 667	(865 667)		
Other Financial Intermediaries	106 798	(106 798)		
Total	972 465	(972 465)		

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 operations classified in the accounting records as of trading):

	Jun. 30, 14			Jun. 30, 13		
	Financial margin					
Time band	Position	Weighting factor	Weighted position	Position	Weighting factor	Weighted position
on demand	1 049 608	2.00%	20 992	2 424 170	2.00%	48 483
on demand - 1 month	(1 648 248)	1.92%	(31 646)	(4 451 508)	1.92%	(85 469)
1 - 2 months	838 681	1.75%	14 677	421 071	1.75%	7 369
2 - 3 months	2 734 589	1.58%	43 207	3 288 961	1.58%	51 966
3 - 4 months	(427 143)	1.42%	(6 065)	139 430	1.42%	1 980
4 - 5 months	(171 811)	1.25%	(2 148)	(469 680)	1.25%	(5 871)
5 - 6 months	1 702 850	1.08%	18 391	2 310 421	1.08%	24 953
6 - 7 months	675 604	0.92%	6 216	611 675	0.92%	5 627
7 - 8 months	188 526	0.75%	1 414	164 327	0.75%	1 232
8 - 9 months	191 705	0.58%	1 112	386 605	0.58%	2 242
9 - 10 months	304 636	0.42%	1 279	246 052	0.42%	1 033
10 - 11 months	506 248	0.25%	1 266	803 289	0.25%	2 008
11 - 12 months	(42 639)	0.08%	(34)	(99 733)	0.08%	(80)
Total			68 659			55 474

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 July 1 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 June 30, 2013 BPI had a liability of 1 000 000 t. euro, corresponding to contingent convertible subordinated bonds, settled in the first half of 2014. 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.

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[2]. This stress test was based on the following exposures in shares and participating units:

	Jun. 30, 14	Dec. 31, 13 Proforma
Financial assets held for trading and at fair value through profit or loss	17 142	16 636
Financial assets available for sale - at fair value and without impairment	125 752	129 906
Financial assets available for sale - at fair value and with impairment	88 026	80 377
Financial assets available for sale at historical cost	8 525	7 713
Participating units in liquidity, bond and real estate funds	4 064	4 047
	243 509	**238 679**

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) at June 30, 2014 and December 31, 2013, would result in a decrease of 46 184 t. euro and 45 384 t. euro, respectively, in their fair value, implying the recognition of a loss of 21 034 t. euro and 19 403 t. euro, the remaining devaluation being reflected in the fair value reserve.

[2] Excluding securities held by BPI Vida e Pensões.

Currency risk

Financial assets and liabilities at June 30, 2014, 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	214 568	468 691	587 029	3 995	1 274 283
Deposits at other credit institutions	289 732	22 957	5 102	26 958	344 749
Financial assets held for trading and at fair value through profit or loss	1 555 346	178 669	154 467	6 722	1 895 204
Financial assets available for sale[1]	5 906 580	1 062 657	1 750 751	438	8 720 426
Loans and advances to credit institutions	964 084	427 409	627 660	1 846	2 020 999
Loans and advances to customers	23 734 586	602 333	716 695	137 036	25 190 650
Held-to-maturity investments	103 522				103 522
Hedging derivatives	130 245	1 490		5 265	137 000
Debtors and other applications	32 756	78 295	1 226	583	112 860
	32 931 419	2 842 501	3 842 930	182 843	39 799 693
Liabilities					
Resources of central banks	3 054 955				3 054 955
Financial liabilities held for trading	340 443	1 692	299	19	342 453
Resources of other credit institutions	1 465 222	210 087	51	7 030	1 682 390
Resources of customers and other debts	18 139 294	3 968 766	3 295 962	196 413	25 600 435
Debt securities	2 355 614	29 835		33 745	2 419 194
Financial liabilities relating to transferred assets	1 199 635				1 199 635
Hedging derivatives	310 021	9 487		55	319 563
Provisions	88 617	20 724	3 469	477	113 287
Technical provisions	3 211 377				3 211 377
Contingent convertible subordinated bonds					
Other subordinated debt and participating bonds	69 546				69 546
	30 234 724	4 240 591	3 299 781	237 739	38 012 835
Forward currency operations	(1 598 074)	1 548 864	(11 574)	129 710	68 926
		150 774	531 575	74 814	
Stress Test		30 155	159 473	14 963	

[1] Excludes the amount recorded in the Fair Value Reserve.

Financial assets and liabilities at December 31, 2013, 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	304 935	483 216	578 878	5 182	1 372 211
Deposits at other credit institutions	323 033	116 493	2 786	24 551	466 863
Financial assets held for trading and at fair value through profit or loss	1 058 625	91 587	139 736	16 769	1 306 717
Financial assets available for sale[1]	7 664 633	1 080 482	1 315 563	437	10 061 115
Loans and advances to credit institutions	(57 144)	1 427 934	514 469	811	1 886 070
Loans and advances to customers	24 532 958	655 040	650 407	126 728	25 965 133
Held-to-maturity investments	136 877				136 877
Hedging derivatives	188 544	1 055		4 444	194 043
Debtors and other applications	39 486	80 448	1 612	927	122 473
	34 191 947	3 936 255	3 203 451	179 849	41 511 502
Liabilities					
Resources of central banks	4 066 106	73 962			4 140 068
Financial liabilities held for trading	251 668	2 371	1 233	(27)	255 245
Resources of other credit institutions	453 505	998 194		1 550	1 453 249
Resources of customers and other debts	18 579 024	4 059 648	2 759 513	219 303	25 617 488
Debt securities	2 535 997	30 764		31 694	2 598 455
Financial liabilities relating to transferred assets	1 387 296				1 387 296
Hedging derivatives	537 108	11 282		68	548 458
Provisions	101 959	20 378	1 228	473	124 038
Technical provisions	2 689 768				2 689 768
Contingent convertible subordinated bonds	920 433				920 433
Other subordinated debt and participating bonds	136 931				136 931
	31 659 795	5 196 599	2 761 974	253 061	39 871 429
Forward currency operations	(1 520 427)	1 369 445	44 512	120 248	13 778
		109 101	485 989	47 036	
Stress Test		21 820	145 797	9 407	

[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 loans to customers;
- 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 their exposure (nominal value contracted).

The book value of hedged instruments and fair value of hedging instruments at June 30, 2014 is made up as follows:

Fair value types of hedge	Hedged items: Nominal amount	Hedged items: Interest, premiums and potential gain/loss	Hedged items: Impairment	Hedged items: Value corrections	Hedged items: Total	Hedging instruments: Notional amount	Hedging instruments: Interest and premiums	Hedging instruments: Revaluation	Hedging instruments: Fair value
Assets									
Loans to customers	387 904	3 072	(2 440)	40 412	428 948	459 977	(5 861)	(41 837)	(47 698)
Fixed rate securities portfolio	1 926 508	(46 947)		248 175	2 127 736	1 925 701	(13 181)	(246 974)	(260 155)
	2 314 412	(43 875)	(2 440)	288 587	2 556 684	2 385 678	(19 042)	(288 811)	(307 853)
Liabilities									
Resources of credit institutions	20 000	310		10 568	(30 878)	20 000	283	10 562	10 845
Customer deposits	8 695 307	71 963		44 269	(8 811 539)	8 987 857	40 617	26 922	67 539
Debt issues	1 525 597	3 651		24 848	(1 554 096)	2 304 198	2 585	44 321	46 906
	10 240 904	75 924		79 685	(10 396 513)	11 312 055	43 485	81 805	125 290

Embedded options were not included.

The book value of hedged instruments and fair value of hedging instruments at December 31, 2013 is made up as follows:

Fair value types of hedge	Hedged items: Nominal amount	Hedged items: Interest, premiums and potential gain/loss	Hedged items: Impairment	Hedged items: Value corrections	Hedged items: Total	Hedging instruments: Notional amount	Hedging instruments: Interest and premiums	Hedging instruments: Revaluation	Hedging instruments: Fair value
Assets									
Loans to customers	405 719	3 111	(2 385)	33 922	440 367	480 571	(5 842)	(35 297)	(41 139)
Fixed rate securities portfolio	3 415 040	(304 451)		405 990	3 516 579	3 453 632	(63 919)	(405 957)	(469 876)
	3 820 759	(301 340)	(2 385)	439 912	3 956 946	3 934 203	(69 761)	(441 254)	(511 015)
Liabilities									
Resources of credit institutions	20 000	775		7 444	(28 219)	20 000	750	7 441	8 191
Customer deposits	8 833 347	61 041		25 973	(8 920 361)	9 326 842	47 551	16 913	64 464
Debt issues	1 683 175	16 583		45 031	(1 744 789)	2 305 304	20 814	63 131	83 945
	10 536 522	78 399		78 448	(10 693 369)	11 652 146	69 115	87 485	156 600

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 derivative 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 the first half of 2014 and 2013 were the following:

Fair value types of hedge	**Jun. 30, 14**	**Jun. 30, 13**
Hedging derivatives	(56 635)	87 950
Hedged items		
Loans and advances to credit institutions		
Loans to customers	6 490	(10 803)
Fixed rate securities portfolio	47 738	(134 379)
Resources of credit institutions	(3 125)	1 778
Customer deposits	(18 365)	24 896
Debt issues	18 842	31 866
	51 580	(86 642)
	(5 055)	1 308

The caption gain on debt issues at June 30, 2014 and 2013 includes 592 t. euro and 408 t. 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 2500 euro) it is made up of BPI shares and BPI share options. The individual remuneration under the RVA program varies between 10% and 50%, the percentage increasing with the responsibility level of the beneficiary.

The shares granted to employees under the RVA program are transferred in full at the grant date, but 75% of the transfer is subject to a resolution 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 90th 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 suspending 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 suspending 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 suspending 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 assignment	Strike Price[1]	Date of availability of tranches		
			2nd	3rd	4th
RVA 2010	2011-04-29	1.11	2012-04-29	2013-04-29	2014-04-29
RVA 2011	2012-05-28	0.36	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
RVA 2013	2014-05-14	1.81	2015-05-14	2016-05-14	2017-05-14

[1] Strike price after considering the effect of the share capital increases of Banco BPI made in May 2011 and in August 2012.

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 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
RVA 2013	2014-05-14	1.81	2014-08-15	2019-05-14

[1] Strike price after considering the effect of the share capital increases of Banco BPI made in May 2011 and 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 assigment	Strike Price [1]	Date of availability
RVA 2010	2011-04-29	1.11	2014-04-29

[1] Strike price after considering the effect of the share capital increase of Banco BPI made in August 2012.

Program	Options			
	Date of assigment	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 of Banco BPI made in August 2012.

The number of employees and directors covered by the RVA 2013 and RVA 2012 programs was as follows:

	RVA 2013	RVA 2012
Directors	3	0
Employees	1 250	135
	1 253	135

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
RVA 2013	1 269	1 331	2 600
RVA 2014	1 269	1 331	2 600
	19 006	**22 549**	**41 555**

The RVA 2014 amounts are estimated for the year.

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 the first half of 2014 and in 2013, as well as the fair value of the respective instruments, are as follows:

	RVA 2009			RVA 2010			RVA 2011			RVA 2012			RVA 2013		
	Number of shares	Fair value: On the date attributed	Fair value: On the reference date	Number of shares	Fair value: On the date attributed	Fair value: On the reference date	Number of shares	Fair value: On the date attributed	Fair value: On the reference date	Number of shares	Fair value: On the date attributed	Fair value: On the reference date	Number of shares	Fair value: On the date attributed	Fair value: On the reference date
Shares attributed until 2012	15 706	27	8	7 059	8	3	9 168	3	4	60 923	53	29			
Shares made available until 2012	11 491	20	6	3 431	4	2	2 301	1	1	15 257	13	7			
Shares made available early until 2012	120														
Shares refused until 2012															
Shares not made available at December 31, 2012	4 095	7	2	3 628	4	2	6 867	2	3	45 666	40	22			
Shares attributed in 2013															
Shares made available in 2013	4 095	7	4	1785	2	2	2 289	1	2	15 222	13	14			
Shares made available early in 2013															
Shares refused in 2013															
Shares not made available at December 31, 2013				1843	2	2	4 578	2	4	30 444	26	29			
Shares attributed in 2014													702 879	1269	1075
Shares made available in 2014				1843	2	3	2 289	1	3				176 847	319	270
Shares made available early in 2014													7 533	14	12
Shares refused in 2014															
Shares not made available at June 30, 2014							2 289	1	3	30 444	26	47	518 499	936	793

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 the first half of 2014 and in 2013, as well as their respective fair values are as follows:

	RVA 2008			RVA 2009			RVA 2010			RVA 2011			RVA 2012			RVA 2013		
	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
Options attributed up to 2012	3 599 255	1198	197	2 337 808	763	95	855 761	210	174	1194 011	145	767						
Options made available until 2012	3 599 255	1198	197	2 337 808	763	95	855 761	210	174	1194 011	145	767	2 173 552	602	778			
Options cancelled until 2012	4 853	2																
Options exercised until 2012	1119 935	373	61							461339	56	296						
Options in circulation and exercisable at December 31, 2012	2 474 467	824	136	2 337 808	763	95	855 761	210	174	732 672	89	470	2 173 552	602	778			
Options in circulation at December 31, 2012	2 474 467	824	505	2 337 808	763	346	855 761	210	444	732 672	89	815	2 173 552	602	1635			
Options attributed in 2013													443 101	123	333			
Options made available in 2013													443 101	123	333			
Options cancelled in 2013				24 501	8	4							412 628	114	310			
Options exercised in 2013							7 495	2	4	283 198	34	315	85 005	24	64			
Options in circulation and exercisable at December 31, 2013	2 474 467	824	505	2 313 307	755	342	848 266	208	440	449 474	55	500	2 119 020	587	1594			
Options in circulation at December 31, 2013	2 474 467	824		2 313 307	755	154	848 266	208	434	449 474	55	494	2 119 020	587	1425			
Options attributed in 2014							2 040 204	501	1045							2 982 564	826	2 006
Options made available in 2014																2 982 564	826	2 006
Options cancelled in 2014	124 548	41		3 257	1													
Options exercised in 2014	2 349 919	782		58 187	19	4	237 769	58	122	25 166	3	28	342 322	95	230			
Options in circulation and exercisable at June 30, 2014				2 251863	735	150	2 650 701	651	1358	424 308	52	466	1776 698	492	1195	2 982 564	826	2 006

The granting and availability of Shares and Options under the RVA 2011, 2012 and 2013 programs in 2008, 2009, 2010, 2011 and 2012 result from the share 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 the first half of 2014 and in 2013, the average price of the shares on the date in which the options were exercised was as follows:

Program	Options exercised in 2014		Options exercised in 2013	
	Number of options	Average price of the shares	Number of options	Average price of the shares
RVA 2008	2 349 919	1.58		
RVA 2009	58 187	1.89		
RVA 2010	237 769	1.83	7 495	1.13
RVA 2011	25 166	1.48	283 198	1.24
RVA 2012	342 322	1.62	85 005	1.12

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 2013 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	RVA 2013
BPI listing	3.33	1.41	1.94	1.25	0.37	0.87	1.81
Strike price	3.33	1.41	1.94	1.25	0.37	0.87	1.81
Implicit volatility	29.34%	44.27%	32.25%	35.97%	41.70%	39.78%	37.29%
Interest rate	3.73%	3.10%	2.68%	5.15%	3.87%	3.18%	1.48%
Expected dividends	0.19	0.07	0.08	0.00	0.00	0.00	0.00
Value of the option	0.41	0.37	0.37	0.28	0.12	0.28	0.44

The number of outstanding options under each RVA Program, as well as their respective fair values at June 30, 2014 were as follows:

	RVA 2009	RVA 2010	RVA 2011	RVA 2012	RVA 2013
Number of outstanding options	2 251 863	2 650 701	424 308	1 776 698	2 982 564
Strike price	1.72	1.11	0.36	0.87	1.81
Value of option	0.07	0.51	1.10	0.67	0.23

The number of outstanding options under each RVA Program, as well as their respective fair values at December 31, 2013 were as follows:

	RVA 2008	RVA 2009	RVA 2010	RVA 2011	RVA 2012
Number of outstanding options	2 474 467	2 313 307	848 266	449 474	2 119 020
Strike price	1.26	1.72	1.11	0.36	0.87
Value of option	0.20	0.15	0.52	1.11	0.75

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 June 30, 2014 and December 31, 2013 are as follows:

Shares	Program	Jun. 30, 14			Dec. 31, 13		
		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 2010				124		
	RVA 2011	1			1		
	RVA 2012	19			15		
	RVA 2013	443			23		
	RVA 2014	10					
		473			163		
Cost of the shares to be made available to the Group's employees/directors, not recognized in shareholders' equity	RVA 2010				(122)		
	RVA 2011				1		
	RVA 2012	7			11		
	RVA 2013	493			25		
	RVA 2014	38					
		538			(85)		
	Total	**1 011**	**551 232**	**843**	**78**	**36 865**	**45**
Treasury shares made available early to the Group's employees/directors	RVA 2011						
	RVA 2012						
	RVA 2013	14					
	Total	**14**					
Treasury shares to be made available early to the Group's employees/directors	RVA 2010				2	1843	2
	RVA 2011	1	2 289	3	2	4 578	6
	RVA 2012	26	30 444	47	26	30 444	37
	RVA 2013	936	518 499	793			
	Total	**963**	**551 232**	**843**	**30**	**36 865**	**45**

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 June 30, 2014 and December 31, 2013 were as follows:

Options	Program	Jun. 30, 14			Dec. 31, 13		
		Book value	Fair value	Unrealized gain/(loss)	Book value	Fair value	Unrealized gain/(loss)
Cost of outstanding options (premiuns) recognized in shareholder's equity	RVA 2008				828		
	RVA 2009	786			806		
	RVA 2010	563			591		
	RVA 2011	52			55		
	RVA 2012	492			587		
	RVA 2013	1 198			385		
	RVA 2014	175					
		3 266			3 252		
Cost of outstanding options (premiuns) not recognized in shareholder's equity	RVA 2012						
	RVA 2013				167		
	RVA 2014	377					
		377			167		
	Total	**3 643**	**2 619**	**1 024**	**3 419**	**2 619**	**800**
Treasury shares hedging the RVA options	RVA 2008				3 045	1 797	(1 248)
	RVA 2009	188	94	(94)	3 147	1 252	(1 895)
	RVA 2010	313	160	(153)	95	38	(57)
	RVA 2011	2 309	1 079	(1 230)	2 391	889	(1 502)
	RVA 2012	4 137	2 149	(1 988)	8 382	3 463	(4 919)
	RVA 2013	22	11	(11)			
	Total	**6 969**	**3 493**	**(3 476)**	**17 060**	**7 439**	**(9 621)**
Unrealized gain/(loss)				(2 452)			(8 822)

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 exercising the options, as well as in the corresponding hedge, recorded in shareholders' equity at June 30, 2014 and December 31, 2013 were as follows:

Gain-loss		**Program**	**Jun. 30, 2014**	**Dec. 31, 2013**
Shares	In making the shares available	RVA 2008	50	
		RVA 2010	(206)	
		RVA 2013	(879)	
			(1 035)	
Options	In the exercise of options	RVA 2008	(1 242)	
		RVA 2009	(59)	
		RVA 2010	(390)	(13)
		RVA 2011	(70)	(848)
		RVA 2012	(616)	(53)
			(2 377)	**(914)**
Transaction costs/ Dividend devolution			**7**	**21**
Premiums of options not exercised at the end of the program				**5 703**
			(3 405)	**4 810**

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 (January 1) to the date they are made available to the Employees/Directors.

The total cost of the share-based payment program recognized in the first half of 2014 and 2013 was as follows:

Program	**Jun. 30, 14**			**Jun. 30, 13**		
	Shares	**Options**	**Total**	**Shares**	**Options**	**Total**
RVA 2008						
RVA 2009		(1)	(1)			
RVA 2010	8	32	40	16	48	64
RVA 2011						
RVA 2012	4		4	7	122	129
RVA 2013	752	811	1 563	10	175	185
RVA 2014	10	175	185			
Total	**774**	**1 017**	**1 791**	**33**	**345**	**378**

4.50. Capital Management

At June 30, 2014 the Group had the following capital ratios calculated in accordance with the transitional provisions of Directive 2013/36/EU and Regulation (EU) 575/2013, CRD IV / CRR, approved on June 26, 2013 by the European Parliament and the Council of the European Union in force as of January 1, 2014.

	30 Jun. 14
Accounting equity [1]	2 323 338
Unrealized gains/losses in fair value reserve	(5 594)
Eligible minority interests	256 903
Actuarial deviations and excess pension fund	(17 614)
Loans for the purchase of own shares and intangible assets	(5 877)
Participations in banking and insurance institutions	(17 929)
Additional negative Tier 1	(21 642)
Common Equity Tier 1	**2 511 584**
Additional Tier 1	(21 642)
Tier 2	(35 178)
Total own funds	2 511 584
Risk weighted assets	**20 110 769**
Common Equity Tier 1	12.5%
Tier 1	12.5%
Total ratio	12.5%

[1] Excluding the fair value reserve and actuarial deviations

In exercising its Asset Quality Review (AQR) the European Central Bank indicated a minimum 8% ratio for Common Equity Tier 1 (CET1), calculated in accordance with the transitional provisions of CRD IV / CRR. At June 30, 2014 the ratio presented by Banco BPI was 12.5%, which represents an excess of 792 525 t. euro in relation to the minimum indicated by the ECB.

At December 31, 2013 the BPI Group had the following capital ratios calculated in accordance with Notice 6/2010 of the Bank of Portugal in force at that date:

	Dec. 31, 13
Base own funds	
Subscribed share capital, share premium, reserves (excluding positive fair value reserves) and retained earnings	2 230 220
Contingent convertible subordinated bonds	920 000
Preference shares	51 326
Other minority interests	272 285
Intangible assets	(19 149)
Treasury shares	(13 676)
Deduction related to deposits with high interest rates	(278)
Actuarial deviations considered in the prudential corridor	74 870
Deferred transition adjustments to IAS / IFRS	12 367
Base own funds	**3 527 965**
Complementary own funds	
Revaluation reserves of fixed assets	8 548
Positive fair value reserve	7 643
Subordinated debt and participating securities	71 937
Complementary own funds	**88 128**
Deductions	
Deduction of participations in insurance companies and other financial institutions	(204 208)
Others deductions	(9 245)
Deductions	**(213 453)**
Total own funds	**3 402 640**
Total requirements	1 681 277
Assets weighted by risk[1]	**21 015 960**
Own Funds requirements ratio	16.2%
Tier I[2]	16.2%
Core Tier I (excluding preference shares)[2]	16.5%

[1] Total requirements x 12.5.

[2] Calculated in accordance with Bank of Portugal Instruction 16 / 2004.

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 minimum Core Tier I ratios of 9% at the end of 2011 and 10% as from the end of 2012, on a consolidated basis.

In the European Council meeting of October 26, 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 December 8, 2011 (EBA/REC/2011/1), the supervisory authorities determined 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 June 30, 2012, considering sovereign debt exposures at September 30, 2011 valued at market prices at that date. This Recommendation was accepted by the Bank of Portugal through the Notice 5/2012.

Based on the amounts observed on September 30, 2011 the need for a temporary capital buffer of 1 389 million euro for the BPI Group was identified, resulting mostly from sovereign debt exposure (1 359 million euro), namely Portuguese sovereign debt (989 million euro).

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 1 capital ratio, in order to comply with the minimum ratios established by EBA and the Bank of Portugal. The “Recapitalization Plan”, in the amount of 1 500 000 t. euro, includes:

a) a capital increase of 200 000 t. euro with pre-emptive rights of the shareholders;

b) the issuance of financial instruments eligible as Core Tier 1 own funds (contingent convertible subordinated debt), subscribed for by the Portuguese State, in the amount of 1 300 000 t. euro.

On June 29, 2012 the Portuguese State subscribed for contingent convertible subordinated bonds, in the amount of 1 500 000 t. euro.

The features of these instruments are defined in Law 63-A/2008 of November 24, as republished by Law 4/2012 of January 11 (Bank Recapitalization Law), in Ministerial Order 150-A/2012 of May 17 and in the Terms and Conditions established in Order 8840-A/2012 of the Portuguese Minister of Finance and State of June 28, 2012. The contingent convertible subordinated bonds mature in five years from the date of issue, and the Bank's Recapitalization Plan assumed partial repayments over the period of the instrument.

On August 10, 2012 the Bank's capital increase mentioned in a), in the amount of 200 000 t. euro, with preemptive rights of the shareholders, was concluded and on August 13, 2012 this amount was used by the Bank to repay part of the contingent convertible subordinated bonds, which were reduced to 1 300 000 t. euro.

Between December 2012 and July 2013 contingent convertible subordinated bonds amounting to 380 000 t. euro were repaid, the amount of which at July 2013 was thus reduced to 920 000 t. euro.

On July 22, 2013, following the entry into force in the European Union of new minimum capital requirements imposed by Directive 2013 / 36 / UE, of the European Parliament and of the Council, of June 26 and by the Regulation (UE) No. 575 / 2013 of the European Parliament and of the Council, of June 26 (referred to as the Capital Requirements Directive IV / Capital Requirements Regulation (CRD IV / CRR), the European Banking Authority (EBA) published a new Recommendation for the preservation in absolute terms of the necessary capital to comply with the minimum ratio of 9% previously established, with reference to the capital requirements of June 30, 2012, in order to ensure a proper transition to the minimum capital requirements imposed by the CRD IV / CRR.

Central Banks may authorize exceptions to the minimum Core Tier 1, after consultation and discussion with EBA if:

- the Bank is developing a specific restructuring plan or a risk mitigation plan; or,
- if the level of capital of the Bank is considered to be greater than minimum Common Equity T1 (4.5%) and the capital preservation buffer (2.5%) required by the CRD IV /CRR rules, considering full implementation of these rules.

At December 31, 2013 Banco BPI had a CET 1 capital ratio 11.2%, calculated according to the rules of the fully implemented CRD IV / CRR, which represents a capital surplus of 713 M. € in relation to the minimum CET1 ratio of 4.5% and the capital conservation buffer of 2.5% (ratio of 7%).

Banco BPI was authorized by the Bank of Portugal and EBA to be covered by the second aforementioned exception. Banco BPI completed repayment of the full amount of the recapitalization operation to the Portuguese State during the first half of 2014, having repaid 500 000 t. euro on March 19, 2014 and 420 000 t. euro on June 25, 2014.

At June 30, 2014 the capital ratio CET1, calculated in accordance with the rules of the CRD IV / CRR "fully Implemented" was 8.6%.

Dividend policy

As from the amendment to the articles of association of Banco BPI approved in the Shareholders' General Meeting held on April 20, 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 April 19, 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 previous paragraph was temporarily limited by item 6.4. of the Recapitalization Plan approved in the Shareholders' General Meeting held on June 27, 2012, in which the Board of Directors indicated that there would be no dividends or reserve distributions until the hybrid instruments to be issued in the recapitalization operation had been entirely repaid, as well, in the same way, as item 11.1. A) of the Terms and Conditions of the Core Tier 1 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 June 30, 2014 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, SA	Portugal	35.0%	35.0%
Cosec - Companhia de Seguros de Crédito, SA	Portugal	50.0%	50.0%
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	49.0%	
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, SA	Portugal	32.8%	32.8%
Unicre - Instituição Financeira de Crédito, SA	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	11.9%	
Fundo de Pensões Aberto BPI Valorização	Portugal	43.2%	
Fundo de Pensões Aberto BPI Segurança	Portugal	27.9%	
Fundo de Pensões Aberto BPI Garantia	Portugal	11.7%	
Shareholders of Banco BPI			
Grupo La Caixa	Spain	44.10%	
Members of the Board of Directors of Banco BPI [1]			
Artur Santos Silva			
Fernando Ulrich			
Alfredo Rezende de Almeida			
Allianz Europe Ltd. - Represented by Herbert Walter			
António Domingues			
António Lobo Xavier			
Armando Leite de Pinho			
Carlos Moreira da Silva			
Edgar Alves Ferreira			
Isidro Fainé Casas			
Ignacio Alvarez-Rendueles			
João Pedro Oliveira e Costa [2]			
José Pena do Amaral			
Juan María Nin			
Manuel Ferreira da Silva			
Marcelino Armenter Vidal			
Maria Celeste Hagatong			
Mário Leite da Silva			
Pedro Barreto			
Santoro Finance – Prestação de Serviços, S.A. [3]			
Tomaz Jervell			
Vicente Tardio Barutel [2]			

[1] Composition for the 2014/2016 term. The tables presented for 2013 refer to the previous composition of the Board of Directors.

[2] Pending registration in the Bank of Portugal.

[3] Pending indication of the person that will represent the entity.

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 and off-balance sheet responsibilities relating to operations with associated and jointly controlled companies and pension funds of employees of the BPI Group at June 30, 2014 were as follows:

	Associated and jointly controlled companies	Pension funds of Employees of the BPI Group	Total
Assets			
Financial applications	2 727		**2 727**
Financial assets held for trading and at fair value through profit or loss		159	**159**
Loans	31 940		**31 940**
Other assets	9 534		**9 534**
	44 201	**159**	**44 360**
Liabilities			
Deposits and technical provisions	16 893	112 934	**129 827**
Other financial resources		60 078	**60 078**
Other liabilities	50		**50**
	16 943	**173 012**	**189 955**
Off balance sheet items			
Guarantees given and other contingent liabilities			
Guarantees and sureties	9 699		**9 699**
Responsabilities for services rendered			
Deposit and safeguard of assets	1 099 822	980 583	**2 080 405**
	1 109 521	**980 583**	**2 090 104**

The total assets, liabilities 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 June 30, 2014 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	115 984			**115 984**
Financial assets held for trading and at fair value through profit or loss	166		29	**195**
Financial assets available for sale			45 049	**45 049**
Loans	16 046	11 064	359 635	**386 745**
Held-to-maturity investments	15 166			**15 166**
Others			51	**51**
	147 362	**11 064**	**404 764**	**563 190**
Liabilities				
Deposits and technical provisions	2 829	9 320	12 586	**24 735**
Other liabilities	427	25		**452**
	3 256	**9 345**	**12 586**	**25 187**
Off balance sheet items				
Guarantees given and other contingent liabilities				
Guarantees and sureties	17 928	93	131 329	**149 350**
Commitments to third parties				
Revocable commitments	210		58 500	**58 710**
Responsabilities for services rendered				
Deposit and safeguard of assets	982 325	23 064	244 635	**1 250 024**
Others			96 500	**96 500**
Foreign exchange operations and derivatives instruments				
Purchases	513 607		53 711	**567 318**
Sales	(513 963)		(53 743)	**(567 706)**
	1 000 107	**23 157**	**530 932**	**1 554 196**

[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 and off balance sheet responsibilities relating to operations with associated and jointly controlled companies and pension funds of employees of the BPI Group at December 31, 2013 are as follows:

	Associated and jointly controlled companies	Pension funds of Employees of the BPI Group	Total
Assets			
Financial applications	2 701		**2 701**
Financial assets held for trading			
and at fair value through profit or loss		156	**156**
Loans	28 538		**28 538**
Other assets	19 380		**19 380**
	50 619	**156**	**50 775**
Liabilities			
Deposits and technical provisions	32 859	116 250	**149 109**
Other financial resources		60 078	**60 078**
Other liabilities	944		**944**
	33 803	**176 328**	**210 131**
Off balance sheet items			
Guarantees given and other contingent liabilities			
Guarantees and sureties	9 631		**9 631**
Responsibilities for services rendered			
Deposit and safeguard of assets	1 052 565	919 179	**1 971 744**
	1 062 196	**919 179**	**1 981 375**

The total assets, liabilities 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 December 31, 2013 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	86 226			**86 226**
Financial assets held for trading and at fair value through profit or loss	5 191			**5 191**
Financial assets available for sale			48 094	**48 094**
Loans	16 487	10 894	200 292	**227 673**
Held-to-maturity investments	14 856			**14 856**
Other assets			102	**102**
	122 760	**10 894**	**248 488**	**382 142**
Liabilities				
Deposits and technical provisions	4 229	6 378	34 885	**45 492**
Other liabilities	7 110	25	108	**7 243**
	11 339	**6 403**	**34 993**	**52 735**
Off balance sheet items				
Guarantees given and other contingent liabilities				
Guarantees and sureties	18 330	93	127 499	**145 922**
Commitments to third parties				
Revocable commitments	204		75 000	**75 204**
Responsabilities for services rendered				
Deposit and safeguard of assets	781 234	22 683	399 545	**1 203 462**
Others			69 557	**69 557**
Foreign exchange operations and derivatives instruments				
Purchases	472 787		54 958	**527 745**
Sales	(479 634)		(54 992)	**(534 626)**
	792 921	**22 776**	**671 567**	**1 487 264**

[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.

Total income and costs relating to operations with associated and jointly controlled companies and pension funds of employees of the BPI Group at June 30, 2014 are as follows:

	Associated and jointly controlled companies	Pension funds of Employees of the BPI Group	Total
Net income			
Financial margin (narrow sense)	29	(984)	**(955)**
Net fees and comissions	19 267	5	**19 272**
General and administrative expenses	(184)	(8 238)	**(8 422)**
	19 112	**(9 217)**	**9 895**

Total income and costs 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 June 30, 2014 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
Net income				
Financial margin (narrow sense)	351	(23)	161	**489**
Net fees and comissions		6	43	**49**
Net income on financial operations	35			**35**
	386	**(17)**	**204**	**573**

[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.

Total income and costs relating to operations with associated and jointly controlled companies and pension funds of employees of the BPI Group at June 30, 2013 are as follows:

	Associated and jointly controlled companies	Pension funds of Employees of the BPI Group	Total
Net income			
Financial margin (narrow sense)	(216)	(1 019)	**(1 235)**
Net fees and comissions	19 065	7	**19 072**
General and administrative expenses	(420)	(8 385)	**(8 805)**
	18 429	**(9 397)**	**9 032**

Total income and costs 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 June 30, 2013 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
Net income				
Financial margin (narrow sense)	797	(129)	15	**683**
Net fees and comissions		8	4	**12**
	797	**(121)**	**19**	**695**

[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 November 24) and approval by the Shareholders' General Meeting held on June 27, 2012 of adjustments to the Remuneration Policy included in 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 (hereinafter referred to as Limit), 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 the first half of 2014 the overall remuneration for exercising the function of **Chairman of the Shareholders' General Meeting Committee** was 7 000 euro, paid in 7 instalments.

The members of the Shareholders' General Meeting Committee do not gain from this fact any retirement entitlement.

Remuneration of the Supervisory Board

At June 26, 2012, considering the 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 the first half of 2014 the aggregate remuneration of the Supervisory Board members was 95 282 euro gross[1].

The gross amounts earned individually were as follows: **Abel Pinto dos Reis** (Chairman) earned 32 509 euro; **Jorge Figueiredo Dias** earned 28 132 euro; **José Adelino Neves** earned 22 774 euro; **Rui Campos Guimarães** earned 11 867 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

At June 26, 2012 considering the Limit, the Remunerations Committee decided to reduce the overall annual remuneration of the members of the Board of Directors to 2 629 thousand euro.

In the first half of 2014 the remuneration of all the members of the Board of Directors amounted to 1 296 thousand euro relating to fixed remuneration.

In addition, the payment of 18 681 euro was made relating to seniority payments and, in the case of non-executive members, 73 250 euro for attendance allowance.

There were no payments in the first half of 2014 resulting from early termination.

Remuneration of the Board of Directors' non-executive members

Remuneration of the non-executive members of the Board of Directors amounted to 289 799 euro in the first half of 2014 and includes regular fixed salaries, paid in 7 instalments, in the amount of 216 549 euro and the payment of attendance allowance for meetings of the Consultative Committees of the Board of Directors in the amount of 73 250 euro.

The **amounts earned individually** were as follows: **Artur Santos Silva** earned fixed remuneration of 31 500 euro for his role as Chairman of the Board of Directors. He also received attendance allowance totalling 7 400 euro: 5 550 euro for serving on the Financial Risks Committee and 1 850 euro for serving on the Corporate Governance Committee. **Alfredo Rezende Almeida** earned fixed remuneration of 12 250 euro, plus 7 400 euro in attendance allowance for serving on the Audit and Internal Control Committee. **António Lobo Xavier** earned fixed remuneration of 12 250 euro, plus 1 850 euro in attendance allowance for serving on the Nominations, Evaluation and Remunerations Committee. **Armando Leite Pinho** earned fixed remuneration of 12 250 euro, plus 1 850 euro in attendance allowance for serving on the Corporate Governance Committee. **Carlos Moreira da Silva** earned fixed remuneration of 12 250 euro, plus 1 850 euro in attendance allowance for serving on the Nominations, Evaluation and Remunerations Committee. **Edgar Alves Ferreira** earned fixed remuneration of 12 250 euro, plus 7 400 euro in attendance allowance for serving on the Audit and Internal Control Committee. **Herbert Walter** earned a fixed remuneration of 12 250 euro, plus1 850 euro for serving on the Financial Risks Committee and 1 850 euro for serving on the Corporate Governance Committee. **Ignacio Alvarez-Rendueles** earned fixed remuneration of 12 250 euro, plus 7 400 euro in attendance allowance for serving on the Audit and Internal Control Committee.

1 The Audit Committee also includes Dr. Miguel Barbosa, State representative in that body, having been appointed through Order 15463-B/2012 of the Minister of State and Finance. This appointment was made under the provisions of Article 14 of Law 2. 63-A/2008 of November 24, taking into account the provisions of section 9 of Order 8840-A/2012 of the Minister of State and Finance which approved the recapitalization of Banco BPI. The fixed monthly remuneration was 4 644.09 euro, so the total remuneration paid in the first half of 2014 amounted to 39 069.09 euro. He was dismissed from his functions as representative of the State by Order of the Minister of State and Finance, published in the Diary of the Republic ("Diário da República") dated July 16, 2014, with effect from June 25, 2014.

Isidro Fainé Casas, earned fixed remuneration of 12 250 euro. **Juan Maria Nin,** earned fixed remuneration of 12 250 euro. **Klaus Dührkop** earned fixed remuneration of 9 917 euro, plus 1 850 euro in attendance allowance for serving on the Corporate Governance Committee. **Marcelino Armenter Vidal** earned fixed remuneration of 12 250 euro, plus 7 400 euro in attendance allowance for serving on the Financial Risks Committee (5 550 euro) and for serving on the Nominations, Evaluation and Remunerations Committee (1 850 euro). **Mário Leite da Silva** earned fixed remuneration of 12 250 euro, plus 3 700 euro in attendance allowance for serving on the Audit and Internal Control Committee. **Tomaz Jervell**, earned fixed remuneration of 12 250 euro, plus 1 850 euro in attendance allowance for serving on the Corporate Governance Committee.

Remuneration of the Executive Committee

Total fixed remuneration paid to Banco BPI's Executive Committee in the first half of 2014 for carrying out its duties was 1 079 600 euro. In addition, payment was made of 18 681 euro relating to seniority payments. In the first half of 2014 no variable remuneration relating to 2013 was paid to the Executive Board 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 remuneration earned individually by the members of the Executive Committee in the first half of 2014 was as follows, (fixed remuneration being paid in 7 instalments): **Fernando Ulrich** (Chairman): fixed remuneration of 206 304.77 euro, plus 3 600.80 euro relating to seniority payments. **António Domingues** (Vice-Chairman): fixed remuneration of 189 508.38 euro, plus 2 374.08 euro relating to seniority payments. **António Farinha Morais**: fixed remuneration of 45 097.48 euro (up to April 23, 2014), plus 1 629.37 euro (up to April 23, 2014) relating to seniority payments. **João Pedro Oliveira e Costa**: fixed remuneration of 56 035.15 euro (from April 23, 2014), plus 828.63 euro relating to seniority payments. **José Pena Amaral**: fixed remuneration of 145 663.70 euro, plus 2 769.83 euro relating to seniority payments. **Manuel Ferreira da Silva**: fixed remuneration of 145 663.70 euro plus 2 769.83 euro relating to seniority payments.These amounts correspond to remuneration earned from Banco Português de Investimento (fixed remuneration of 109 247.74 euro) and Banco BPI (fixed remuneration of 36 415.96 euro). **Maria Celeste Hagatong:** fixed remuneration of 145 663.70 euro, plus 2 769.83 euro relating to seniority payments. **Pedro Barreto**: fixed remuneration of 145 663.70 euro plus 1 938.93 euro relating to seniority payments.

With the aforementioned exception of the Board member 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

At June 30, 2014 the Directors covered by the defined benefits pension plan and the plan's liability, were as follows:

	Current	Retired	Total
Number of persons	7	4	11
Liability (t.€)	17 369	11 773	29 142

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 (t.€)	22 265	18 428	40 693

In December 2006 the liability for retirement and survivor pensions under a defined benefit pension regime for 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 the first half of 2014 by the members of the Executive Committee relating to old age retirement pensions amounted to 87 079 euro.

Loans to members of the Board of Directors

Mortgage loans

At June 30, 2014 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 1 645 t. euro.

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 June 30, 2014, the balance of credit given to the members of Banco BPI's Executive Committee was 5 593 t.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 June 30, 2014 the credit line balance relating to the members of Banco BPI's Executive Committee was 967 t. euro.

Credit lines for the exercise of RVA options and subscription for BPI shares in the 2008 capital increase

Balance at June 30, 2014

	Credit line for the exercise of options [2]	Credit line for subscription for BPI shares
Banco BPI Executive Committee	5 593	967
Directors of Banco Português de Investimento [3]	100	38
Managers and other employees	2 532	271
Total	8 225	1 276

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]

The costs incurred by the BPI Group in connection with the above mentioned policies amounted to 22.6 t.euro in 2013.

In addition, the BPI Group incurs costs of 3.7 t.euro relating to SAMS contributions for the three members of Banco BPI's Executive Committee who benefit from the protection of this scheme.

Early termination of contracts

No severance compensation was paid nor is any due in the first half of 2014 to any former Executive Director relating to cessation of their functions during that period.

[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 (May 21, 2008, last day on which the shares are 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.

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;

b) 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 3.2 of the Governance Report of the BPI Group, namely:

- employees considered as "managers" for purposes of the provisions of article 248º-B of the Portuguese Securities Code;
- employees that occupy first and second tier positions in departments which perform control functions.

In the first half of 2014, the universe defined above encompassed 24 employees.

In the first half of 2014, the remuneration paid to the above universe totalled 1 197 thousand euro split between fixed remuneration of 1 187 thousand euro and long service premium of 10 thousand euro. The fixed remuneration includes 71 thousand euro relating to seniority payments.

At first half of 2014 the aggregate amount of annual pension rights acquired by the universe of employees under review was 1 180 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	12
Fixed remuneration	452 707	734 344
Long service premium	6 312	3 754
Total remuneration	**459 019**	**738 098**
Pension rights acquired	487 135	692 587

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 the first half of 2014 who fall within this universe.

No payments were made in the first half of 2014 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 June 30, 2014 were as follows:

	Shares[1]										
	Held at Dec. 31, 13	**Purchases**	**Sales**	**Held at Jun. 30, 14**	**Value at Jun. 30, 14[2]**	**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	500 000			500 000	765						
Fernando Ulrich [3]	2 092 180			2 092 180	3 199		1 585 040	348 510		4 156	716
Alfredo Rezende de Almeida	2 250 000			2 250 000	3 440						
António Domingues [3]	56 042			56 042	86						
António Farinha Morais [4]	450 000		100 000	350 000	535		365 323			450	
António Lobo Xavier											
Armando Costa Leite de Pinho											
Carlos Moreira da Silva	66 333			66 333	101						
Edgar Alves Ferreira	503 083	227 273	503 083	227 273	348						
Herbert Walter											
Ignacio Alvarez-Rendueles											
Isidro Fainé Casas											
João Pedro Oliveira e Costa [5]	10 708			10 708	16	5 354					
José Pena do Amaral [3]	72 682	132 231	20 000	184 913	283						
Juan María Nin [6]											
Klaus Dührkop [4]											
Manuel Ferreira da Silva [3]	850 000	140 755	59 871	930 884	1 423				300 000		
Marcelino Armenter Vidal											
Maria Celeste Hagatong [3]	885 151	77 928	77 928	885 151	1 353		171 110	48 815		375	99
Mário Leite da Silva											
Pedro Barreto [3]	473 999	179 834	153 833	500 000	765		378 399	94 600		612	153
Tomaz Jervell	15 680			15 680	24						
Vicente Tardio Barutel [7]											

A - Shares attributed under the RVA program, the availability of which at June 30, 2014 is subject to a resolution condition.

B - Shares which at December 31, 2014 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 December 31, 2014 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 December 31, 2014 were pledged in guarantee for purposes of article 396 of the Commercial Company Code (Código das Sociedades Comerciais).

E - Amount owed at December 31, 2014 on the loan referred to in B.

F - Amount owed at December 31, 2014 on the loan referred to in C

[1] Includes securities held by their spouses.

[2] Fair value of the shares.

[3] Member of the Executive Committee.

[4] Terminated functions on April 23, 2014 and so the transactions and final position are as of that date.

[5] Elected to the Board of Directors and appointed to its Executive Committee on April 23, 2014.

[6] Submitted his resignation on July 1, which pursuant to paragraph 2, article 404 of the CSC, will become effective on August 31, unless a substitute is appointed or elected.

[7] Elected to the Board of Directors on April 23, 2014.

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 June 30, 2014 was as follows:

	Options[1]			
	Held at Dec. 31, 13	**Purchases**	**Exercise**[2]	**Held at Jun. 30, 14**
Artur Santos Silva				
Fernando Ulrich [3]				
Alfredo Rezende de Almeida				
António Domingues [3]		426 820		426 820
António Farinha Morais [4]	308 707			308 707
António Lobo Xavier				
Armando Costa Leite de Pinho				
Carlos Moreira da Silva				
Edgar Alves Ferreira				
Herbert Walter				
Ignacio Alvarez-Rendueles				
Isidro Fainé Casas				
João Pedro Oliveira e Costa [5]	33 476	93 773		127 249
José Pena do Amaral [3]	132 231	358 530	132 231	358 530
Juan María Nin [6]				
Klaus Dührkop [4]				
Manuel Ferreira da Silva [3]	286 586	402 901	132 231	557 256
Marcelino Armenter Vidal				
Maria Celeste Hagatong [3]				
Mário Leite da Silva				
Pedro Barreto [3]	488 541	358 530	179 834	667 237
Tomaz Jervell				
Vicente Tardio Barutel [7]				

[1] Includes securities held by their spouses.

[2] Includes extinction by lapsing.

[3] Member of the Executive Committee.

[4] Terminated functions on April 23, 2014 and so the transactions and final position are as of that date.

[5] Elected to the Board of Directors and appointed to its Executive Committee on April 23, 2014.

[6] Submitted his resignation on July 1, which pursuant to paragraph 2, article 404 of the CSC, will become effective on August 31, unless a substitute is appointed or elected.

[7] Elected to the Board of Directors on April 23, 2014.

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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 Investmento, in terms of the shares held at June 30, 2014 was as follows:

	Shares										
	Held at Dec. 31, 13	Purchases	Sales	Held at Jun. 30, 14	Value at Jun. 30,14[1]	Unavailable shares A	Shares pledge in guarantee B	Shares pledge in guarantee C	Shares pledge in guarantee D	Loans E	Loans F
Alexandre Lucena e Vale	153 312	193 413	191 417	155 308	237		40 594	18 694		100 373	38 366
Fernando Costa Lima	81 124			81 124	124						
José Miguel Morais Alves	35 517	121 119	121 119	35 517	54	8 974					

A - Shares attributed under the RVA program, the availability of which at December 31, 2013 is subject to a resolution condition.

B - Shares which at December 31, 2013 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 December 31, 2013 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 December 31, 2013 were pledged in guarantee for purposes of article 396 of the Commercial Company Code (Código das Sociedades Comerciais).

E - Amount owed at December 31, 2013, on the loan referred to in B.

F - Amount owed at December 31, 2013, 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 Investmento, in terms of the options held at June 30, 2014 was as follows:

	Options			
	Held at Dec. 31,	Purchases	Exercise[1]	Held at Jun. 30,
Alexandre Lucena e Vale	140 167	121 305	140 167	121 305
Fernando Costa Lima	186 781	65 012		251 793
José Miguel Morais Alves	177 240	62 953	121 119	119 074

[1] Includes extinction by lapsing

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 June 30, 2014 was as follows:

	Shares[1]					Options[1]			
	Held at Dec. 31, 13	Purchases	Sales	Held at Jun. 30, 14	Value at Jun. 30, 14[2]	Held at Dec. 31, 13	Purchases	Exercise[3]	Held at Jun. 30, 14
Manuel Maria Meneses	103 704	70 431	59 956	114 179	175	121 055	42 702	59 956	103 801
Francisco Xavier Avillez [4]	150 000	152 957	102 956	200 001	306	189 615	131 648	6 853	314 410
Susana Trigo Cabral	21 038	57 402	40 259	38 181	58				
Luis Ricardo Araújo	57 200	55 948	33 058	80 090	122	228 743	26 872	33 058	222 557
Graça Graça Moura	37 134	3 094		40 228	62				
Ana Rosas Oliveira	6 487	15 611		22 098	34	51 306			51 306
João Avides Moreira	20 892	15 026	15026	20 892	32	100 956	10 949	15 026	96 879

[1] Includes securities held by their spouses.

[2] Fair value of shares.

[3] Includes extinction by lapsing.

[4] Deemed a director as from January 1, 2014.

Artur Santos Silva

Has not traded any shares.

Fernando Ulrich

Has not traded any shares.

At June 30, 2014 his spouse held 58 724 Banco BPI shares

Alfredo Rezende de Almeida

Has not traded any shares.

António Domingues

Has not traded any shares.

As a result of the consolidation of the acquisition of options granted in 2011under and in accordance with the RVA program for 2010, this acquisition that had been subject to a deferral period of three years and to the suspending condition considered in that RVA and as that period had elapsed and the aforementioned condition met, on April 28, 426 820 the purchase options of Banco BPI shares were granted to him at a share price of 0.2765 euro and an adjusted strike price of 1.108 euro as a result of the share capital increase.

António Farinha Morais

Sold on the stock exchange:

On February 18:

- 25 000 shares at 1.720 euro per share

On February 24:

- 10 000 shares at 1.687 euro per share
- 15 000 shares at 1.708 euro per share

On March 6:

- 25 000 shares at 1.756 euro per share

On March 11:

- 25 000 shares at 1.770 euro per share

Terminated his functions on April 23, 2014.

António Lobo Xavier

Does not hold and has not traded any Banco BPI shares.

Armando Costa Leite de Pinho

Does not hold and has not traded any Banco BPI shares.

At June 30, Arsopi – Holding, SGPS, S.A., of which he is President of the Board of Directors. owned 2 942 267 Banco BPI shares.

At June 30, ROE, SGPS, S.A., of which he is President of the Board of Directors, owned 4 442 291 Banco BPI shares.

At June 30, 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

Has not traded any shares.

Edgar Alves Ferreira

Sold on the stock exchange:

On February 21:

- 103 083 shares at 1.710 euro per share

On February 25:

- 100 000 shares at 1.710 euro per share

On February 26:

- 47 100 shares at 1.730 euro per share.

On March 12:

- 10 900 shares at 1.765 euro per share.

His spouse sold on the stock exchange:

On March 12:

- 112 717 shares at 1.750 euro per share
- 11 033 shares at 1.753 euro per share
- 2 993 shares at 1.752 euro per share
- 7 203 shares at 1.754 euro per share
- 32 173 shares at 1.755 euro per share
- 6 677 shares at 1.757 euro per share
- 5 290 shares at 1.753 euro per share
- 2 384 shares at 1.761 euro per share
- 18 018 shares at 1.768 euro per share
- 25 172 shares at 1.759 euro per share
- 8 100 shares at 1.751 euro per share
- 9 476 shares at 1.756 euro per share
- 764 shares at 1.765 euro per share

On June 13, 227 273 acquired shares as a result of accepting the public exchange offer of subordinated debt and preference shares for ordinary shares issued by Banco BPI.

At June 30, his spouse did not hold any Banco BPI shares.

At June 30, Violas Ferreira Financial, S.A., of which he is a member of the Board of Directors, owned 28 351 791 Banco BPI shares.

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.

At June 30, Allianz Europe, Ltd. owned 120 553 986 Banco BPI shares.

Ignacio Alvarez Rendueles

Does not hold and has not traded any Banco BPI shares.

Is Deputy General Director at CaixaBank, S.A..

For further information about the transactions and participation of Caixa Bank, S.A. in Banco BPI's capital, see the information below concerning the member Isidro Fainé Casas.

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 control over CaixaBank, S.A., being also President of CaixaBank, S.A.

At June 30, Caixa Bank, S.A. owned a total of 642 462 536 Banco BPI shares.

João Pedro Oliveira e Costa

Elected to the Board of Directors and appointed to its Executive Committee on April 23, 2014.

Has not traded any shares.

On May 22, under the RVA for 2013, 93 773 purchase options of Banco BPI shares were granted to him at a share price of 0.443 euro and a strike price of 1.806 euro.

José Pena do Amaral

On February 4 he acquired 132 231 shares as a result of the exercise of an equal number of options over Banco BPI shares granted in 2009, at a strike price (adjusted for share capital increases) of 1.258 euros set at the time they were granted.

Sold in the stock exchange on May 23:

- 20 000 shares at 1.607 euro per share.

As a result of the consolidation of the acquisition of the options granted in 2011 under and in accordance with the RVA program for 2010, this acquisition that had been subject to a deferral period of three years and to the suspending condition considered in that RVA and as such period had elapsed and the aforementioned condition met, on April 28, 358 530 purchase options of Banco BPI shares were granted to him at a share price of 0.2765 euro and an adjusted strike price of 1.108 euro as a result of the share capital increase.

Juan María Nin

Resigned effectively as from August 31, 2014.

Does not hold and has not traded any Banco BPI shares.

Klaus Dührkop

Does not hold and has not traded any Banco BPI shares.

Terminated his functions on April 23, 2014.

Manuel Ferreira da Silva

Sold on the stock exchange:

On May 2:

- 14 709 shares at 1.834 euro per share
- 2 500 shares at 1.833 euro per share
- 10 900 shares at 1.832 euro per share
- 2 350 shares at 1.831 euro per share
- 19 541 shares at 1.830 euro per share

On June 20:

- 2 000 shares at 1.605 euro per share
- 4 337 shares at 1.604 euro per share
- 3 534 shares at 1.603 euro per share

On June 13 acquired 129 871 shares as a result of accepting the public exchange offer of subordinated debt and preference shares for ordinary shares issued by Banco BPI.

On March 18, 132 231 purchase options of Banco BPI shares under the RVA for 2008 were extinguished through expiry.

As a result of the consolidation of the acquisition of the options granted in 2011 under and in accordance with the RVA program for 2010, this acquisition that had been subject to a deferral period of three years and to the suspending condition considered in that RVA and as such period had elapsed and the aforementioned condition met, on April 28, 358 530 purchase options of Banco BPI shares were granted to him at a share price of 0.2765 euro and an adjusted strike price of 1.108 euro as a result of the share capital increase.

On May 22, under the RVA for 2013, 10 884 shares at a unit price of 1.806 euro and 44 371 purchase options of Banco BPI shares were granted to his spouse at a share price of 0.443 euro and a strike price of 1.806 euro.

On June 30 his spouse held a total of 260 884 shares and 44 371 purchase options of Banco BPI shares.

Marcelino Armenter Vidal

Does not hold and has not traded any Banco BPI shares.

Is Executive Deputy General Director of Criteria Caixa-Holding, S.A., which has 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

As a result of the consolidation of the acquisition of the options granted in 2011 under and in accordance with the RVA program for 2010, this acquisition that had been subject to a deferral period of three years and to the suspending condition considered in that RVA and as such period had elapsed and the aforementioned condition met, on April 28, 77 928 Banco BPI shares at an average share price of 1.245 euro were granted to her.

Sold on the stock exchange:

on April 29:

- 61 496 shares at 1.880 euro per share
- 7 478 shares at 1.881 euro per share
- 2 447 shares at 1.882 euro per share
- 2 922 shares at 1.883 euro per share
- 3 585 shares at 1.884 euro per share

At June 30 her husband held 407 316 shares

Mário Leite da Silva

Does not hold and has not traded any Banco BPI shares.

Is the President of the Board of Directors of Santoro Finance – Prestação de Serviços, S.A. and President of the Board of Directors of Santoro Financial Holdings, SGPS, S.A. which has full control over it.

At June 30, Santoro Finance – Prestação de Serviços, S.A. owned 270 643 372 Banco BPI shares.

Pedro Barreto

On February 4, acquired 179 834 shares as a result of the exercise of an equal number of options over Banco BPI shares granted in 2009 under the RVA for 2008, at a strike price (adjusted for share capital increases) of 1.258 euros set at the time they were granted.

Sold on the stock exchange, on the same date:

- 123 605 shares at 1.430 euro per share
- 17 988 shares at 1.431 euro per share
- 1 000 shares at 1.432 euro per share
- 2 859 shares at 1.436 euro per share
- 8 381 shares at 1.440 euro per share

As a result of the consolidation of the acquisition of the options granted in 2011 under and in accordance with the RVA program for 2010, this acquisition that had been subject to a deferral period of three years and to the suspending condition considered in that RVA and as such period had elapsed and the aforementioned condition met, on April 28, 358 530 purchase options of Banco BPI shares were granted to him at a share price of 0.2765 euro and an adjusted strike price of 1.108 euro as a result of the share capital increase.

Tomaz Jervell

Has not traded any shares.

At June 30, Norsócia, SGPS, S.A. of which he is a member of the Board of Directors owned 11 050 105 Banco BPI shares.

Vicente Tardio Barutel

Elected to the Board of Directors on April 23, 2014.

Does not hold and has not traded any Banco BPI shares.

Alexandre Lucena e Vale

On February 7 acquired 140 167 shares as a result of the exercise of an equal number of options over Banco BPI shares granted in 2009 under the RVA for 2008, at a strike price (adjusted for share capital increases) of 1.258 euros set at the time they were granted.

Sold on the stock exchange, on the same date:

- 100 shares at 1.576 euro per share
- 5 599 shares at 1.567 euro per share
- 9 672 shares at 1.566 euro per share
- 39 552 shares at 1.565 euro per share
- 18 841 shares at 1.5620 euro per share
- 2 917 shares at 1.5610 euro per share
- 28 500 shares at 1.56 euro per share
- 6 415 shares at 1.557 euro per share
- 5 181 shares at 1.556 euro per share
- 8 046 shares at 1.555 euro per share
- 15 344 shares at 1.552 euro per share

On June 12 acquired 53 246 shares as a result of accepting the public exchange offer of subordinated debt and preference shares for ordinary shares issued by Banco BPI.

Sold on the stock exchange on June 24:

- 51 250 shares at 1.60 euro per share

On May 22, under the RVA for 2013, 121 305 purchase options of Banco BPI shares were granted to him at a share price of 0.443 euro and a strike price of 1.806 euro.

Fernando Costa Lima

Has not traded any shares.

On May 22, under the RVA for 2013, 65 012 purchase options of Banco BPI shares were granted to him at a share price of 0.443 euro and a strike price of 1.806 euro.

José Miguel Morais Alves

On February 5, acquired 21 199 shares as a result of the exercise of an equal number of options over Banco BPI shares granted in 2009 under the RVA for 2008, at a strike price (adjusted for share capital increases) of 1.258 euros set at the time they were granted.

Sold on the stock exchange, on the same date:

- 6 767 shares at 1.490 euro per share
- 6 571 shares at 1.491 euro per share
- 4 893 shares at 1.492 euro per share
- 2 888 shares at 1.495 euro per share

On February 10, acquired 40 000 shares as a result of the exercise of an equal number of options over Banco BPI shares granted in 2009 under the RVA for 2008, at a strike price (adjusted for share capital increases) of 1.258 euros set at the time they were granted.

Sold on the stock exchange, on the same date:

- 20 000 shares at 1.500 euro per share
- 4 850 shares at 1.520 euro per share
- 4 915 shares at 1.523 euro per share
- 10 235 shares at 1.525 euro per share

On February 11, acquired 20 000 shares as a result of the exercise of an equal number of options over Banco BPI shares granted in 2009 under the RVA for 2008, at a strike price (adjusted for share capital increases) of 1.258 euros set at the time they were granted.

Sold on the stock exchange, on the same date 20 000 shares at 1.540 euro per share.

On February 12, acquired 40 000 shares as a result of the exercise of an equal number of options over Banco BPI shares granted in 2009 under the RVA for 2008, at a strike price (adjusted for share capital increases) of 1.258 euros set at the time they were granted.

Sold on the stock exchange, on the same date the 20 000 shares at 1.540 euro per share.

- 20 000 shares at 1.550 euro per share
- 20 000 shares at 1.560 euro per share

On May 22, under the RVA for 2013, 62 953 purchase options of Banco BPI shares were granted to him with a share price of 0.443 euro and a strike price of 1.806 euro.

Manuel Maria Meneses

On February 4, acquired 59 956 shares as a result of the exercise of an equal number of options over Banco BPI shares granted in 2009 under the RVA for 2008, at a strike price (adjusted for share capital increases) of 1.258 euros set at the time they were granted.

Sold on the stock exchange on the same date, 59 956 shares at 1.50 euro per share.

On May 14, under the RVA for 2013, 10 475 shares at a share price of 1.806 euro and 42 702 purchase options of Banco BPI shares were granted to him at a share price of 0.443 euro and an adjusted strike price of 1.806 euro.

Francisco Xavier Avillez

On February 11 acquired 6 853 shares as a result of the exercise of an equal number of options over Banco BPI shares granted in 2009 under the RVA for 2008, at a strike price (adjusted for share capital increases) of 1.258 euros set at the time they were granted.

Sold on the stock exchange:

On June 4:

- 1 669 shares at 1.754 euro per share

On June 5:

- 26 168 shares at 1.757 euro per share
- 1 850 shares at 1.756 euro per share
- 19 982 shares at 1.755 euro per share
- 20 000 shares at 1.765 euro per share

On June 6:

- 25 000 shares at 1.772 euro per share
- 8 287 shares at 1.781 euro per share

On June 12 acquired 146 104 shares at 1.54 euro per share as a result of accepting the public exchange offer of subordinated debt and preference shares for ordinary shares issued by Banco BPI.

On May 22, under the RVA for 2013, 131 648 purchase options of Banco BPI shares were granted to him at a share price of 0.443 euro and a strike price of 1.806 euro.

Susana Trigo Cabral

On May 22, under the RVA for 2013, 17 143 Banco BPI shares were granted to her at a share price of 1.806 euro.

On June 12 acquired 40 259 shares at 1.54 euro per share as a result of accepting the public exchange offer of subordinated debt and preference shares for ordinary shares issued by Banco BPI.

Sold on the stock exchange on June 19, 40 259 shares at 1.623 euro per share.

Luís Ricardo Araújo

On February 18 acquired 18 000 shares as a result of the exercise of an equal number of options over Banco BPI shares granted in 2009 under the RVA for 2008, at a strike price (adjusted for share capital increases) of 1.258 euros set at the time they were granted.

Sold on the stock exchange, on the same date:

- 5 334 shares at 1.685 euro per share
- 8 018 shares at 1.684 euro per share
- 4 648 shares at 1.683 euro per share

On March 6, acquired 10 000 shares as a result of the exercise of an equal number of options over Banco BPI shares granted in 2009 under the RVA for 2008, at a strike price (adjusted for share capital increases) of 1.258 euro set at the time they were granted.

Sold on the stock exchange, on the same date 10 000 shares at 1.748 euro per share.

On March 17, acquired 5 058 shares as a result of the exercise of an equal number of options over Banco BPI shares granted in 2009 under the RVA for 2008, at a strike price (adjusted for share capital increases) of 1.258 euros set at the time they were granted.

Sold on the stock exchange, on the same date, 5 058 shares at 1.757 euro per share.

On June 12 acquired 22 890 shares at 1.54 euro per share as a result of accepting the public exchange offer of subordinated debt and preference shares for ordinary shares issued by Banco BPI.

On May 14, under the RVA for 2013, 26 872 purchase options of Banco BPI shares were granted to him at a share price of 0.443 euro and a strike price of 1.806 euro.

Graça Graça Moura

On May 14, under the RVA for 2013, 3 094 Banco BPI shares were granted to her at a share price of 1.806 euro.

At June 30 her husband owned 27 677 Banco BPI shares.

Ana Rosas Oliveira

On May 14, under the RVA for 2013, 12 791 Banco BPI shares were granted to her at a share price of 1.806 euro.

On May 14, under the RVA for 2013, 2 820 Banco BPI shares were granted to her husband at a share price of 1.806 euro.

At June 30 her husband held 4 659 Banco BPI shares and 7 871 options on Banco BPI shares.

João Avides Moreira

On February 26 acquired 15 026 shares as a result of the exercise of an equal number of options over Banco BPI shares granted in 2009 under the RVA for 2008, at a strike price (adjusted for share capital increases) of 1.258 euro set at the time they were granted.

Sold on the stock exchange, on the same date, 15 026 shares at 1.725 euro per share.

On May 14, under the RVA for 2013, 10 949 purchase options of Banco BPI shares were granted to him at a share price of 0.443 euro and a strike price of 1.806 euro.

4.52. Subsequent events

In accordance with a communication of the Bank of Portugal dated August 3, 2014, it was decided to apply a resolution measure to Banco Espírito Santo, S.A., which consists of the transfer of most of its business to a transition bank, called “Novo Banco”, created especially for that purpose. In accordance with the community norm, capitalization of “Novo Banco” is ensured by the Resolution Fund, created by Decree-Law 31-A / 2012 of February 10. As provided for in the Decree-Law, the Resolution Fund is resourced from payment of contributions due by the institutions participating in the Fund and contribution from the banking sector. In addition, the Decree-Law provides that if such resources are insufficient for fulfillment of its obligations other financing means can be used, such as: (i) special contributions from credit institutions; and (ii) loans granted.

In the specific case of the resolution measure relating to Banco Espírito Santo, S.A., the Resolution Fund will provide 4.9 thousand million euro to pay up the share capital of “Novo Banco”. Of this amount, 377 million euro corresponds to the Resolution Fund’s own financial resources, resulting from the contributions already paid by the participating institutions and from contributions of the banking sector. In addition, a syndicated loan estimated at 700 million euro will be made to the Resolution Fund, with the contribution of each credit institution depending on various factors, including their size. The remaining amount needed to finance the resolution measure adopted will come from a loan granted by the Portuguese State, which will subsequently be repaid and remunerated by the Resolution Fund. When Novo Banco is sold the proceeds of the sale will be primarily assigned to the Resolution Fund.

In case of insufficient funding, the Recovery Fund may resort to other means of funding, including special contributions from the credit institutions, weighted based on various factors, including their size.

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

DECLARATION REFERRED TO IN ARTICLE 246 (1) C) OF THE SECURITIES CODE

Article 246 (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 the Executive Committee of Banco BPI's Board of Directors, identified here by name, individually subscribe to the declaration transcribed as follows:

"I declare in the terms and for the purposes for article 246 (1) (c) of the Securities Code that, to the best of my knowledge, the financial statements and the directors' report of Banco BPI, S.A., relating to the 1st half of 2014, 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 contains an indication of the important events which occurred in the 1st half of 2014 and their impact on the respective financial statements, as well as a description of the principal risks and uncertainties for the six following months."

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

25 August 2014

AUDIT REPORT PREPARED BY AN AUDITOR REGISTERED AT THE PORTUGUESE SECURITIES MARKET COMMISSION (CMVM) ON THE HALF YEAR CONSOLIDATED INFORMATION

(Amounts expressed in thousands of Euros – t. euro)

(Translation of a report originally issued in Portuguese – Note 5)

Introduction

1. In compliance with the Portuguese Securities Market Code (Código dos Valores Mobiliários) we hereby present our Audit Report on the consolidated financial information contained in the Directors' Report and on the accompanying consolidated financial statements of Banco BPI, S.A. and subsidiaries ("the Bank") for the six-month period ended June 30, 2014, which comprise the Consolidated Balance Sheet as of June 30, 2014 (that reflects total assets of 41,286,668 t. euro and total shareholders' equity of 2,540,607 t. euro, including a consolidated net loss of 106,615 t. euro), the Consolidated Statements of Income, Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for the six-month period 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; (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 the operations of the companies included in the consolidation, their financial position, their results 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.

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. We believe that the examination performed 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 subsidiaries as of June 30, 2014, the consolidated income and comprehensive income from their operations, the changes in their consolidated shareholders' equity and their consolidated cash flows for the six-month period 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 financial information included in the consolidated Directors' Report is consistent with the consolidated financial statements for the six-month period ended June 30, 2014.

Lisbon, August 29, 2014

Deloitte & 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.)