Annual Report

Banco BPI 2016

Report

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Leading business indicators

(Amounts expressed in M.€, except where indicated otherwise)

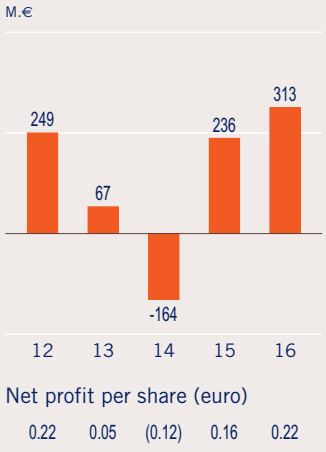
	2012	2013	2014	2015	2016
Net total assets	44 565	42 700	42 629	40 673	38 285
Assets under management[1]	13 445	13 121	15 816	17 905	16 344
Loans to Customers (gross) and guarantees	30 519	29 004	28 474	27 089	24 897
Customer sight, time and savings deposits	23 800	24 551	26 518	25 637	19 601
Total Customer resources[2]	30 811	31 414	35 092	35 364	27 828
Business turnover[3]	61 330	60 418	63 566	62 453	52 725
Business turnover[3] per Employee (thousands of euro)	7 066	6 929	7 473	7 322	9 543
Loans to deposits ratio (Instruction 23 / 2011 BoP)[4,5]	106%	96%	84%	85%	106%
Operating income from banking activity	1 330.0	1 048.1	857.7	1 181.9	716.6
Operating income from banking activity per Employee (thousands of euro)	151	120	99	138	123
Cost-to-income ratio[6]	48.1%	62.1%	78.3%	56.7%	69.5%
Adjusted overhead costs-to-commercial banking income[7]	69.1%	77.8%	74.2%	65.1%	69.6%
Net income	249.1	66.8	(163.6)	236.4	313.2
Return on total assets (ROA)	0.8%	0.4%	(0.1%)	0.9%	1.2%
Return on Shareholders' equity (ROE)[8]	13.1%	2.9%	(7.3%)	10.4%	13.4%
Earnings per share	0.216	0.048	(0.115)	0.163	0.216
Book value per share	1.235	1.389	1.467	1.659	1.681
Weighted average no. of shares (in millions)	1 154.6	1 383.7	1 422.3	1 450.4	1 451.0
Credit at risk ratio (consolidation perimeter IAS / IFRS)[9]	4.1%	4.7%	5.0%	4.6%	3.7%
Impairments cover of credit at risk (consolidation perimeter IAS / IFRS)[10]	71%	77%	82%	87%	83%
Cost of credit risk net of recoveries[11]	0.92%	0.96%	0.70%	0.48%	0.09%
Total past service pension liabilities	937	1 082	1 278	1 280	1 463
Degree of coverage of pension liabilities[12]	105%	105%	98%	109%	98%
Shareholders' equity attributable to the shareholders of BPI	1 708	1 922	2 127	2 407	2 440
Shareholders' equity and non-controlling interests	2 061	2 306	2 546	2 835	2 909
Core Tier 1 capital ratio (previous rules of Bank of Portugal)	15.0%	16.5%	-	-	-
Common equity Tier 1 ratio (CRD IV / CRR phasing in)	-	-	10.2%[13]	10.9%	11.4%
Common equity Tier 1 ratio (CRD IV / CRR fully implemented)	-	-	8.6%[13]	9.8%	11.1%
Closing price (euro)	0.943	1.216	1.026	1.091	1.131
Stock market capitalisation at year end	1 311	1 690	1 495	1 590	1 648
Distribution network (no.)[14]	914	871	835	788	736
BPI Group staff complement (no.)[15]	8 680	8 720	8 506	8 529	8 157

Table 1

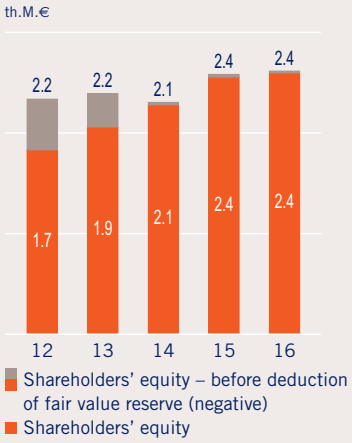
Note: figures as reported. The figures presented in the Directors' Report refer to the amounts as reported, except where it is expressly stated that they are pro forma figures. The term "2015 pro forma" reflects the restatement of BFA's contribution to consolidated net profit in conformity with IFRS 5 (see note to the financial statements "1. Financial group".

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) On-balance sheet Customer Resources (deposits, bonds placed with Customers and capitalisation insurance) and off-balance sheet resources (financial-asset and real-estate unit trust funds, equity savings plans and retirement savings plans). Figures corrected for double counting (placements of the unit trust funds managed by the BPI Group in deposits, structured products and the Group's unit trust funds) and written off from the investments of the pension funds under management in resources carried on and off the balance sheet.
3) Customer loans, guarantees and total Customer resources.
4) Deposits as a percentage of net loans.
5) Calculated in accordance with *Bank of Portugal Instruction 16 / 2004*.
6) Overhead costs as % of operating income from banking activity.
7) Overhead costs, excluding early-retirement costs and gain stemming from the revision of the ACT, as a percentage of commercial banking income. Where "commercial banking income = financial margin + technical result of insurance contracts + net commissions".
8) 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.
9) Calculated in accordance with the definition in *Bank of Portugal Instruction 23 / 2011* and considering the consolidation perimeter in IAS / IFRS, in which BPI Vida e Pensões is consolidated by global integration and its loan portfolio is included in the consolidated loan portfolio (under the supervision perimeter of the Bank of Portugal, BPI Vida e Pensões is consolidated under the equity method). According to *Instruction 23 / 2011* and considering the supervision scope at 31 Dec. 2016, consolidated credit risk amounted to 862.6 M.€ and the consolidated credit-risk ratio stood at 3.9%.
10) Cover by accumulated loans and guarantees impairment allowances in the balance sheet and without considering the effect of associated collaterals.
11) Impairment losses and provisions for loans and guarantees in the year, net of recovery of loans, interest and expenses, as a percentage of the average loan portfolio.
12) Includes contributions to the pension fund (0.5 M.€ in 2012, 2.9 M.€ in 2013, 47.0 M.€ in 2014, 1.3 M.€ in 2015 and 75.5 M.€ in 2016) made at the beginning of the following year.
13) Pro forma figures considering the adherence to the special regime applicable to deferred tax assets (DTA) and the change to the risk weightings applied to Banco BPI's indirect exposure to the Angolan State and to BNA.
14) Includes network of traditional branches in Portugal, in France (Paris branch) and investment centres in Portugal and in Angola (BFA), and the network geared to serving large and medium-sized companies, project finance centre and the institutional centres in Portugal, the corporate centre in Madrid (Madrid branch) and the corporate centres in Angola.
15) Excludes temporary workers.

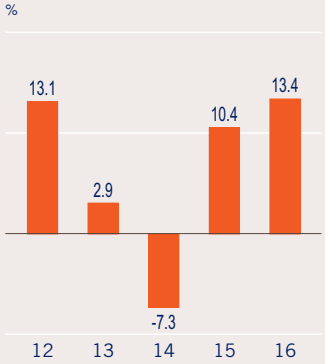
Net profit



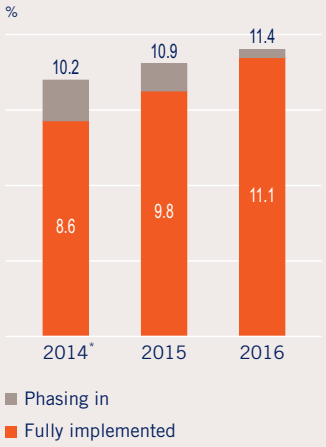
Shareholders' Equity attributable to BPI Shareholders



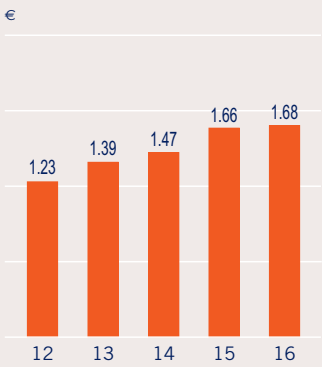
ROE



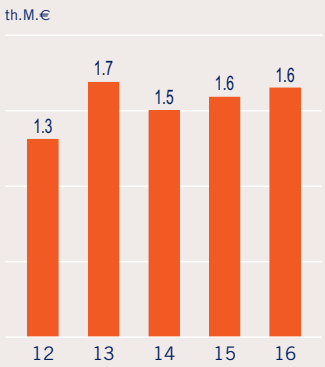
Common Equity Tier 1 ratio



Book value per share

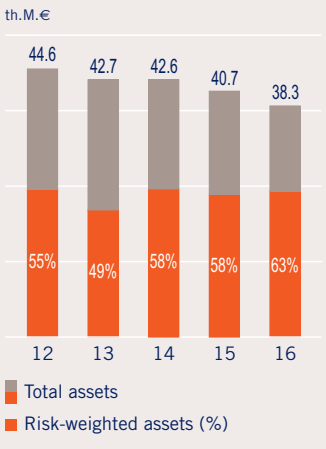


Stock market capitalisation

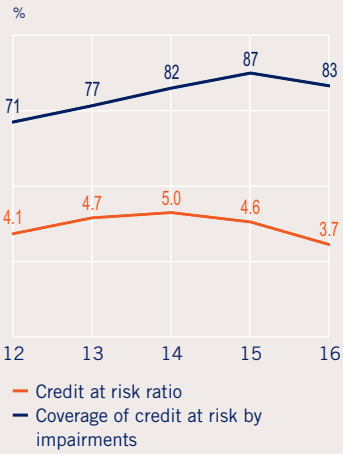


* Proforma figures.

Total assets



Credit at risk and impairments cover



Cost of credit risk net of recoveries

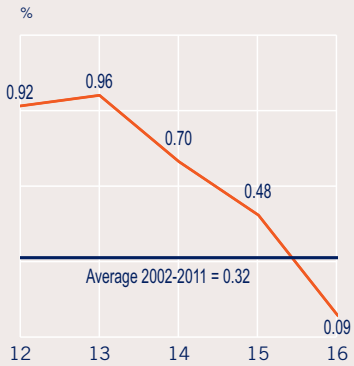


Figure 1

ACRONYMS AND ABBREVIATIONS

BPI Group entities – some designations adopted

"BPI Group" / "BPI"*:
The financial group as defined in pages 16 and 177.

"Banco BPI" (S.A.) / "BPI" or "the Bank"*:
Head of the BPI Group and responsible for conducting the Commercial Banking business; listed on the stock exchange.

"Banco Português de Investimento" (S.A.), "the Investment Bank"*:
The group's investment bank.

"Banco de Fomento Angola" (S.A.), "BFA":
Angolan law bank, 50.1% held by BPI at 31 December and 48.1% at current report's date, develops BPI Group banking business in Angola.

"BCI" / "Banco Comercial e de Investimentos":
Mozambican law bank, in which BPI has an equity interest of 30%.

Units

€	euro
US$	American dollar
th.€	thousands of euro
M.€, M.US$, M.AKZ	millions of euro, millions of American dollar, millions of Angolan Kwanza
th.M.€, th.M.US$, th.M.AKZ	thousand millions of euro, thousand millions of dollar, thousand millions of kwanza
b.p.	basis points
p.p.	percentage points

* if the context so permits.

Introduction

A NEW NORMALITY

Banco BPI earned in 2016 the second highest consolidated net profit in its history and the best of the past eight years, confirming the continuation of the good international performance and the sustained recovery in domestic activity, already quite tangible in 2015. This trend is primarily explained by the reduction in impairment charges and the improvement in financial margin, together with the positive commercial performance in the most relevant segments, the considerable decrease in credit at risk and the control of operating costs, factors which were reflected in a return of 13.4%, one of the best indices at Iberian level.

Chairman of the Board of Directors

Artur Santos Silva

At 31 December 2016, the Bank exceeded by a wide margin the minimum requirements relating to liquidity and leverage ratios; as concerns capital, it complied comfortably with the new T1 and CET1 capital ratios fixed by the ECB for 2017 as part of the SREP (Supervisory Review and Evaluation Process), but fell short of the limit in the total ratio, which led to the decision to advance with a subordinated debt issue in the amount of 300 million euro – this information was opportunely communicated to the market. The Bank expects that there will be a downward revision of the capital requirements imposed by the supervisor now that the two issues that negatively influenced the previous evaluation have been overcome: the armour-plating of the statutes and the alleged surpassing of the large exposures limit in Angola.

A definitive solution

The creation of the conditions for the definitive resolution of those two obstacles clearly marked BPI's management in 2016, in particular that relating to BPI's excessive exposure to Angolan sovereign debt which the European Central Bank deemed to exist as from 1 January 2015, intimating the Bank to eliminate it under pain of incurring hefty penalties. With this in mind, the General Meeting approved on 13 December, by 83.2% of the votes cast, a proposal of the Board of Directors for the sale to Unitel of 2% of Banco de Fomento Angola's capital, thus reducing BPI's position from 50.1 to 48.1%, together with a shareholder agreement which supresses any participation by the Bank in BFA's executive management. This development put an end to BFA's consolidation in BPI's accounts with effect from 1st January, and thereby satisfying the ECB's demands relating to the overstepping of the large exposures limit.

In a parallel and related process, the unfolding of which has been described in the past three years' reports and accounts, CaixaBank, BPI's largest shareholders with a 44.1% stake, announced on 18 April 2016 the launch of a public tender offer for the Bank's capital, with a twin condition of obtaining a minimum of 50% and being able to de-armourplate the statutes, which was approved by the General Meeting of 21 September. As a consequence of this decision, the tender offer, previously voluntary, became compulsory under the law and was launched on that same day, offering 1.134 euro per share. The results, published on 8 February 2017, permitted CaixaBank to attain a shareholding of 84.51% in Banco BPI, thereby initiating a new chapter in the institution's history: it is now integrated into the Iberian Peninsula's biggest banking group.

A sustained result

Banco BPI generated in 2016 a consolidated net profit of 313 million euro, which in all of its history has only been surpassed in 2007, with 355 million. Domestic operations contributed with 147 million and foreign operations with 166 million to this result, at the same as it is worth noting that in this respect BFA posted its highest ever profit, in both absolute terms and as regards the share attributable to BPI.

The main contributors to the improvement in domestic earnings are linked to the decrease in net impairments and provisions for loans and guarantees, which were 70 million euro lower, and the 51 million euro increase in financial margin, which climbed by more than 14%, fuelling the 7.4% rise of operating income from banking activity.

The credit-at-risk ratio fell from 4.5 to 3.7%, one of the lowest levels amongst Iberian banks, accompanied by an impairment cover of 83% and a credit-risk cost indicator (net of recoveries) of 0.09% (0.38% in 2015). In the home loans portfolio, the average loan-to-value ratio stands at 67% while impairment cover is 61%. For its part, the trend in financial margin is primarily explained by the decline in the cost of term deposits.

A clear recovery

It is important to underline that in order to understand the adverse landscape for commercial banking in the past few years, the financial margin continued to be severely penalised by three conjugated effects: the persistence of Euribor rates at historical lows of close to zero or even negative, which cancelled out the average margin on sight deposits, the minimal remuneration on short-term public debt and the pressure for the contraction of spreads on loans to the high-quality companies. Finally, it is important to highlight still on this issue, the steep decrease in the Bank's exposure to sovereign risk, which was reduced from more than 8 thousand million euro in 2012 to less than 2 thousand million at the end of 2016, with only 319 million of Portuguese medium and long-term debt.

On the commercial activity front, it is worth disclosing in summary the following principal facts:

- the climb in market shares, for the second consecutive year, in total business, in loans and in resources;
- the rise in share as the main bank in the companies and business segments;
- the 8% improvement in insurance commissions;
- the leadership in internet banking penetration in the Corporate segment;
- the leadership in the main satisfaction and service quality indicators, according to independent assessments.

From a more specific perspective, it worth mentioning the stabilisation of the overall loan portfolio following consecutive years of contraction, the 14% growth of loans to small businesses, the leadership in the PME Crescimento (SME Growth) line, in the Line dedicated to Tourism and in the PME Líder and PME Excelência statutes, the reinforced positioning as the Agriculture bank and the maintenance of the first place amongst Cosec brokers.

It must be noted that these performances were achieved with a deposits' cost clearly below the market average and credit-risk indicators which are situated below half of that average in Individuals banking and less than one third in the Corporate segment.

A continuous adjustment

Simultaneously, work continued on the commercial network's optimisation plan through the further development of the specialisation plan, which involved the reallocation of several thousand Customers and the closure of 50 branches without the loss of any meaningful turnover. A total of 255 branches have been closed between 2008 and 2016, corresponding to 36% of the total network, at the same time as the commercial workforce was similarly reduced by 36% to 2 553 people, substantially increasing on the other hand the business volume and the number of Customers per employee in an undeniable uplift in productivity, not to mention the cutback in direct and indirect costs.

Considering for the Bank as a whole, the same period 2008-2016, which began with the outbreak of the financial crisis, the total staff headcount decreased by 2 260 while overhead costs fell by 114 million euro, which corresponds to a 19.2% decrease compared with an accumulated inflation rate of 10.3%. The biggest contributions to this trend can be attributed to depreciation and amortisation (-41.5%), personnel costs (-18%) and general administrative costs (-17.3%). In 2016 alone, overhead costs – excluding the extraordinary effect of some 300 early retirements and the income, also extraordinary, resulting from the revision of the Collective Employment Agreement for the Banking Sector – once again retreated 2.5%, as a consequence primarily of the decline in general administrative costs (-5.3%) and personnel costs (-1.5%).

Still on the subject of costs, but under a completely separate caption, one must mention once again that the Bank incurred a total charge of 31 million euro, corresponding to the sum of the compulsory contributions to the European resolution funds, the national resolution fund and the extraordinary levy imposed on the Portuguese banking sector.

A historical profit in Angola

International operations generated an aggregate net profit of 166.3 million euro, up 16% on the 2015 figure, due to the contribution from Banco de Fomento Angola, which improved by 20% to 163 million euro, corresponding to BPI's 50.1% shareholding at the close of the year. The contribution from Banco Comercial e de Investimentos in Mozambique, in which BPI has a 30% shareholding, fell by 43% to 5.4 million euro.

BFA's net profit in 2016, in the amount of 338 million euro, and the portion appropriated by BPI were the highest ever, with the retention of the leadership position in deposits and high efficiency and profitability levels, underpinned by a very liquid balance sheet and sound capitalisation. At the end of 2016, the efficiency ratio stood at 32%, the return on shareholders' equity has risen from 33.6 to 41.4%, the deposits-into-loans transformation rate was 22%, and the CET1 capital ratio was situated at 31.6% according to the Angolan central bank's rules.

The initial investment in BFA amounting to 4 million dollars in 1993, equivalent to 3.3 million euro, translated, up till the end of 2016, into a return in cash of 945 million euro – a result obtained despite the extremely turbulent environment at times: these were initially marked by the civil war and later by the crisis cycles impacting the oil markets and their consequences from the standpoint of monetary and foreign-exchange policies. At the end of 2016, BFA had 191 branches, more than 1.5 million Customers and 2 632 employees, only 20 of whom are Portuguese.

A responsible policy

BPI recovered in 2016 the first absolute place in the ECSI, the National Customer Satisfaction Index, an indicator established at European level and constructed in Portugal through a partnership with the Universidade Nova de Lisboa, the NSI and the Quality Institute; it maintained second place in the indicator "satisfaction as principal bank" in the Basef Financial Sector Barometer, published by Marktest and continued clearly above the five main competitors in the independent Mystery Customer survey, which evaluates certain of the chief service quality factors at the retail network. According to Basef, the Bank also leads in the quality of service on the Internet for Individuals and Companies. In this segment, the Data E survey, which is the market's benchmark, BPI occupies second place in the categories "best bank for companies" and "most suitable products for companies".

The past financial year also underlined the manifestations of the Brand's public recognition and reputation. One of the most notable came from the London Institute of Banking & Finance and the British Banking Association, which jointly gave the Bank a first prize for innovation in digital distribution for its GoBanking system, which allows individuals to access an ambulatory banking service. And amongst other first-class accolades the following can be included: Trusted Brand in the Banking sector for the 4th consecutive year; Brand of Excellence in Portugal for the third consecutive year (Superbrands Portugal); Best Price-Quality Ratio in Banking in Portugal (Best Buy Awards); Senior Choice, best products for senior citizens for the second consecutive year (Consumer Choice); Best Asset Management, International Clients and Philanthropic Advice (Euromoney).

In the Capital Market and in Asset Management, the long curriculum amassed in the past was confirmed, amongst which from a long list of distinctions, the consecutive awards given by the NYSE Euronext Lisbon for the best research and trading house and by Morningstar for the best national equities fund manager and the best national equities fund can be highlighted. Also noteworthy was the recognition attained by BFA, which received 15 first places, many of them consecutive, in diverse performance categories, awarded by international publications or institutions, such as Deutsche Bank and the magazines The Banker, Capital Finance International, Global Finance and International Finance Magazine.

The improvement in earnings in the last two years enabled us to bolster the public responsibility policy, the execution of which rose from 4.8 to 5.4 million euro in 2016. This increase was wholly applied in the social solidarity arena, which absorbed some 2.5 million euro and now represents the largest share of the financial resources allocated, surpassing the support to cultural institutions, which amounted to two million euro, and the Education, Science and Research, Innovation and Entrepreneurship areas.

The Bank's involvement in the so-called Third Sector has been executed by way of three awards given by independent juries: the BPI Capacitar Award created in 2010 and dedicated to the social inclusion of handicapped persons; the BPI Seniores Award earmarked since 2013 for projects which improve the quality of lives of persons over the age of 65; and the new BPI Solidário award, launched in 2016 in order to combat poverty and social exclusion. In aggregate, these Awards permit distributing 7 million euro by means of specific projects conducted by around 250 Social Solidarity Institutions, which benefited more than 70 thousand people in a process that is today widely acknowledged as being one of the most important private-sector initiatives in the Social Economy sphere.

Executive Committee

João Pedro Oliveira e Costa (Director), Alexandre Lucena e Vale (General Manager), Pedro Barreto (Director), Francisco Barbeira (General Manager), José Pena do Amaral (Director), Manuel Ferreira da Silva (Director), Farinha Morais (General Manager), Susana Trigo Cabral (General Manager), Manuel Meneses (General Manager) – standing

Maria Celeste Hagatong (Director), Fernando Ulrich (Chairman) – seated

Key corporate events

2016

January

3 Banco BPI informs the market about the letter dated 31 December 2015 received from Unitel, S.A., containing a proposal for the acquisition of 10% of Banco de Fomento Angola (BFA), as part of the search for a solution to BPI's non-compliance with the large exposures limit stemming from its controlling interest in BFA.

27 Banco BPI informs the market that the Board of Directors analysed the proposal presented by Unitel for the purchase of shares representing 10% of BFA's share capital and voting rights, and deliberated unanimously to reject it. In the discussion and voting on this point, the Board member Mário Leite da Silva did not participate.

February

4 Banco BPI informs the market that following an initiative of the Executive Committee in this respect, the Board of Directors approved, with two votes against and no abstentions, to submit to the General Meeting to be convened for this purpose a motion to amend BPI's statutes with a view to eliminating the statutory limit on the counting of votes cast in General Meeting.

5 The Shareholders' General Meeting, at which Shareholders owning shares corresponding to 82.35% of the share capital were present or represented, does not approve the proposed demerger of BPI – within the framework of a solution for the situation in which BPI is in breach of the large exposures limit stemming from its controlling interest in BFA – by virtue of not having obtained a qualified majority of two thirds of the votes cast and which was needed for its approval; the motion in question obtained 63.08% of votes in favour.

Banco BPI announces to the market that it had been informed by CaixaBank and Santoro that these shareholders maintained their contacts with a view to finding a solution to the situation of the excessive concentration of risks at BFA stemming from its controlling interest in BFA, without at that date having found a solution in this regard.

April

10 Banco BPI announces to the market that it has been informed that CaixaBank and Santoro Finance had successfully concluded negotiations which involved them in finding a solution to the non-compliance by BPI of the large exposures limit. In that announcement, BPI also provided information that the solution found was laid down in a series of contractual documents that would be presented to the competent governing bodies in the following days and that, as soon as they were approved, this would be communicated to the market.

17 Banco BPI notified the market that the agreement announced on 10 April was no longer valid, as well as the solution envisaged therein.

18 CaixaBank, holder of 44.1% of BPI's capital, discloses, through the publication of an preliminary announcement, its intention to launch a general and voluntary tender offer for all of the Bank's share capital, against the payment of 1.113 euro per share and which included two conditions: i) elimination of any limit to the counting of the votes of any shareholder in general meeting, as set out in article 12(4) and (5) of the Statutes; and ii) acquisition of a number of shares which, added to the shares already owned by Caixabank on that date, represent more than 50% of BPI's share capital.

19 Banco BPI makes public on 1 March 2016 that the European Central Bank (ECB) communicated to the Bank a draft decision to apply a temporary financial penalty relating to the breaching of the large exposures limit related to the exposures to the Republic of Angola and to the BNA which, prior to 1 January 2015, were not weighted at 0% and, therefore, were no longer exempt from the large exposures limit. In the same announcement, it is stated that on 22 March 2016, Banco BPI sent to the ECB its position with respect to that draft decision, with the Bank waiting for the ECB's final decision.

May

17 Banco BPI discloses the report of the Board of Directors, prepared in terms of article 181(1) of the Securities Code concerning the Public Tender Offer for Banco BPI, S.A.'s shares announced by CaixaBank, S.A., the Preliminary Announcement of which was published on 18 April 2016.

June

14 Banco BPI discloses that the Board of Directors at its meeting on that date deliberated by a majority with three votes against to renew the proposal of 4 February 2016 to submit for consideration by the General Meeting to be convened for the purpose a proposed amendment to Banco BPI's Statutes with a view to the elimination of the statutory limit on the counting of votes cast in General Meeting.

A Shareholders' General Meeting is convened for 22 July at the request of the shareholder Violas Ferreira Financial, S.A. and at the request of the Board of Directors, to deliberate on the alteration to Banco BPI's Statutes with the aim of eliminating the statutory limit on the counting of votes cast.

22 Banco BPI announces publicly it has received a letter from the European Central Bank (ECB) informing that the ECB's Supervisory Board had decided to grant Caixabank a period of four months to resolve the breaching by Banco BPI of the large exposures limit relating to the Angolan exposures. This four-month period would start counting from the date of the conclusion of the acquisition of Banco BPI, on the assumption that such conclusion would take place at the latest by the end of October 2016. In that communication, Banco BPI is also informed that the ECB's Supervisory Board also decided to suspend, during that period, the enforcement procedures in progress against the Bank relating to BPI's breaching of the large exposures limit related to the exposures to Angola which existed prior to the end of the 2015 financial year.

July

22 The Shareholders' General Meeting, at which Shareholders owning shares corresponding to 83.46% of the share capital were present or represented, approves the Board of Directors proposal in terms of which the new composition of the General Meeting Committee is elected to carry out its functions until the end of the current term of office (2014 / 2016).

At the Shareholders' General Meeting convened to deliberate on the elimination of the statutory limit on the counting of votes cast, Shareholders owning shares corresponding to 87.57% of the share capital were present or represented. The Shareholders approved the suspension of the meeting and its reconvening on 6 September.

August

23 Banco BPI informs the market that it had contested the legal injunctions instituted by the shareholder Violas Ferreira Financial, S.A., – an injunction aimed at preventing the proposed amendment to the statutes presented by the Board of Directors to be analysed and voted on, and an injunction to suspend the resolution passed electing the new General Meeting Committee – at that date the decision of the court was being awaited relating to both cases.

September

6 On 6 September a new session was held of the Shareholders' General Meeting convened for 22 July at 11h30. Shareholders owning 88.2% of the share capital were present or represented. Following the proposal in this respect by the representative of the shareholder CaixaBank, S.A., the General Meeting approved a new suspension of the meeting and its reconvening on 21 September.

20 Banco BPI informs the market that it sent on that date a letter to Unitel in which the Bank's Board of Directors expressed its willingness to propose for approval by the Shareholders' General Meeting of an operation for the sale of 2% of BFA's to Unitel, for 28 million euro and subject to the terms expressed in the aforesaid letter. This letter was sent for deliberation by Banco BPI's Board of Directors, having been approved unanimously with one abstention. The Board of Directors members Isidro Fainé Casas, Marcelino Armenter Vidal, Ignacio Alvarez-Rendueles, Lluis Vendrell and Mário Leite da Silva did not take part in the deliberation.

21 Shareholders' General Meeting at which Shareholders owning shares corresponding to 88.27% of the share capital were present or represented (in a new session of the General Meeting convened for 22 July) approves the suppression of the limit on the counting of votes laid down in the statutes. Two motions were voted on and approved, both proposing that suppression. The motion presented by the Board of Directors was voted subject to the suspensive condition of the judicial approval of the withdrawal of the injunction which prevented its voting and obtained votes in favour of 94.04% of the votes cast. The motion presented by the Shareholder Violas Ferreira Financial, S.A. obtained votes in favour of 88.22% of the votes cast, thereby complying with the statutory requirement of approval by a majority of 75% of the votes cast and having observed the limit on the counting of the voting rights.

CaixaBank, holder of 45.5% of BPI's share capital, makes public by means of a preliminary announcement the decision to launch a general and compulsory public tender offer for all of the Bank's share capital for a consideration of 1.134 euro per share. The aforesaid announcement contains the alterations stemming from the transformation of the nature of the tender offer, whose preliminary announcement had been published on 18 April 2016, from voluntary to compulsory, in particular with respect to the consideration and conditions, in conformity with the mandatory offers regime envisaged in article 187 and following of the Securities Code.

October

7 Banco BPI informs that Unitel gave its agreement to the operation relating to Banco de Fomento Angola, S.A. (BFA) which was proposed by way of a letter which the Bank released to the market on 20 September. Within this framework the two parties signed: (1) The purchase and sale contract for a number of BFA shares corresponding to 2% of its share capital, which operation will lead to Banco BPI's and Unitel's shareholdings in BFA being respectively 48.1% and 51.9%; (2) The new shareholder agreement relating to BFA will be dependent upon the verification of the following suspensive conditions: i) Authorisation of the Banco Nacional de Angola (BNA) with regard to the increase in the qualified shareholding already owned by Unitel in BFA and authorisation of the necessary capital operations for the payment to Banco BPI and transfer to Portugal of the agreed price of 28 million euro; (ii)BNA authorisation for the amendment to BFA's statutes and (iii) Approval of the operation by Banco BPI's General Meeting.

10 Banco BPI releases the Board of Directors' Report, prepared in accordance with article 181(1) of the Securities Code, on the Public Tender Offer for Banco BPI shares, announced by CaixaBank, the Preliminary Announcement of which was published on 21 September 2016.

November

7 Bearing in mind the confirmation of what was also the Board of Director's opinion, that the operation relating to BFA and announced to the market on 7 October, would permit solving the problem of the large exposures that Banco BPI was confronted with, Banco BPI formally requested the ECB to pronounce itself on this matter and, namely, on whether the operation concerned would allow Banco BPI to cease consolidating BFA.

23 Shareholders' General Meeting, at which 239 Shareholders owning shares corresponding to 83.9% of the share capital were present or represented, following a proposal presented by the representative of the Shareholder CaixaBank, S.A. and with the approval of 65.68% of the votes cast, the meeting was suspended and reconvened for 13 December.

December

12 Banco BPI informs that on 9 December 2016, Unitel paid Banco BPI, at its international correspondent bank for North American dollars and in terms of the Promissory Purchase and Sale Agreement for BFA shares entered into between Banco BPI and Unitel on 9 December 2008, the amount of 30 M.USD, corresponding to the last instalment of the price for the purchase and sale of 49.9% of BFA which was concluded on that date in 2008.

Banco BPI advises that Banco Nacional de Angola communicated that it does not oppose the series of acts needed for the realisation of the sale by BPI to Unitel of 2% of BFA's share capital.

13 Banco BPI informs the market that, as a result of the interaction with the ECB following the letter sent by the Bank on the 7 November, the latter notified Banco BPI that "it had no reasons to object to BFA's deconsolidation" providing that a number of conditions in the aforementioned notification are met. As Banco BPI found itself in a position to confirm that, after the date of the completion of the operation in question, the aforesaid conditions would be met, it expressed the opinion that, after that date, it would cease to consolidate, for prudential purposes, BFA and that such fact would eliminate the problem of the exceeding the large exposures limit confronting Banco BPI.

Banco BPI informs the market it has received confirmation that the transfer to Portugal of the Banco de Fomento Angola, S.A. (BFA) dividends relating to the 2015 financial year, in amount the equivalent to 36.9 M.€, had been authorised by the Banco Nacional de Angola. As regards that part of the BFA dividends relating to 2014 which had not yet been transferred, in the amount equivalent to 29.2 M.€, the Bank informed that it was waiting for the respective authorisation for the transfer in the very near future.

Banco BPI's Shareholders' Meeting, at which 223 Shareholders owning shares corresponding to 84.15% of the share capital were present or represented, approves in terms of article 182(4)(b) of the Securities Code with 83.23% of the votes cast, the Board of Directors proposal for the sale by Banco BPI to Unitel, S.A. of 26 111 (twenty six thousand one hundred and eleven) shares, representing in total 2% (two per cent) of Banco de Fomento Angola, S.A.'s share capital, in the terms set out in the purchase and sale contract entered into between those two entities.

15 Banco BPI informs the market that it had received confirmation that the transfer to Portugal of the Banco de Fomento Angola, S.A. dividends relating to 2014 that had not yet been transferred in the amount equivalent to 29.2 M.€, had been authorised by the Banco Nacional de Angola.

2017

January

5 Banco BPI informs the market that, in execution of the Purchase and Sale of shares Contract, the signing of which was disclosed to the market on 7 October last year, the transfer in favour of Unitel, S.A. (Unitel), of an equity interest representing 2% if the share capital and voting rights of Banco de Fomento Angola, S.A. (BFA) had been completed. As a consequence of the realisation of that transfer, Banco BPI's and Unitel's shareholdings in BFA were now respectively 48.1% and 51.9%.

February

8 The results of the Public Tender Offer, by means of which CaixaBank attained a holding of 84.51% in Banco BPI's share capital, are made public.

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.

At 31 December 2016 the two main markets of operations were Portugal, a developed and competitive market where BPI has a strong competitive position, and Angola, an emerging economy which has historically recorded robust and sustained growth, where BPI, through its equity interest in BFA, had a leading position in the market.

At 31 December 2016, 80% of the Group's Shareholders' equity was allocated to domestic operations[1], and the remaining 20% to international activity.

The sale of 2% of BFA's share capital to Unitel was completed in January 2017, with Banco BPI now holding 48.1% of BFA's capital and Unitel 51.9%.

Leading indicators by business segment
At 31 December 2016

Amounts in M.€

	Domestic activity	International activity	Consolidated
Net total assets[2]	31 313	6 972	38 285
Shareholders' Equity attributed to BPI shareholders	1 945	496	2 440
Loans to Customers and guarantees	24 897	-[4]	24 897
Total Customers resources	27 828	-[4]	27 828
Business turnover[3]	52 725	-[4]	52 725
No. of Customers (thousand)	1 594	1 539	3 134
No. of Employees	5 507	2 650	8 157
Distribution network (no.)	545	191	736

Table 2

Main units of the BPI Group

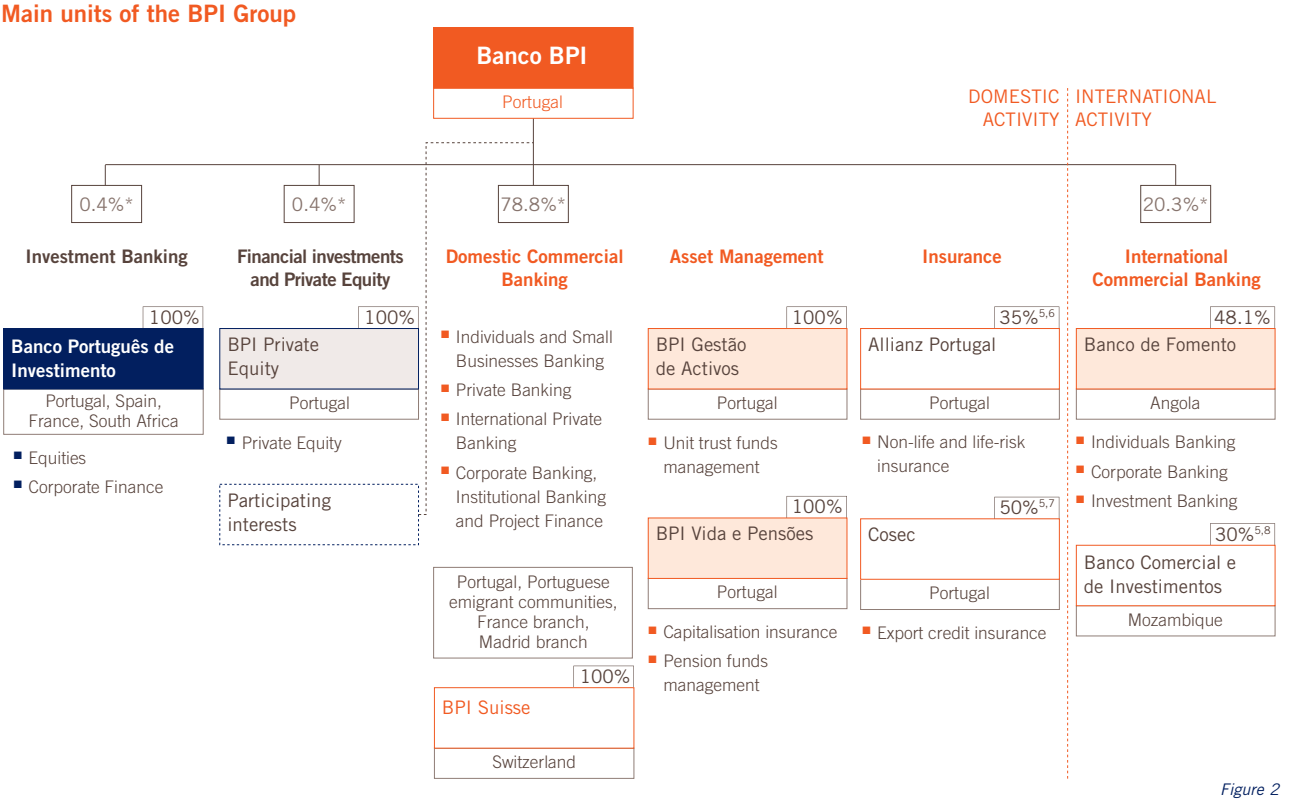


Figure 2

* The indicated percentages refer to the allocated capital by business segment at 31 December 2016. In determining the capital allocated to the domestic activity and to the international activity business areas, the accounting capital (shareholders' equity) was taken into consideration. As regard each business area integrating the domestic operations, it is assumed that the capital employed is identical to the average capital employed for this activity as a whole.

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) Loans, guarantees and total Customer resources.
4) In BFA's individual accounts, gross loans and guarantees totalled 1 554 M.€, total Customer resources amounted to 5 804 M.€ and business volume was 7 359 M.€, which were reclassified to the captions "Non-current assets held for sale and discontinued operations" and "Non–current liabilities held for sale and discontinued operations", stemming from the reclassification of BFA's operations as discontinued operations, in accordance with IFRS 5 – Non-current assets held for sale and discontinued operations. Consequently, those figures are not reflected in the captions consolidated Customer loans, guarantees and 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.

Human resources

Staff headcount

At 31 December 2016, the BPI Group's workforce numbered 8 157.

In domestic operations, the staff headcount fell by 392 (7.1%), to 5 507.

In international operations, the workforce grew by 20, which represents a 0.8% increase. At the end of 2016, in Angola, Banco de Fomento Angola's headcount stood at 2 632 Employees, of which 20 is BPI staff seconded to Angola.

BPI Group Employees

		Year-end figures			Year-average figures		
		2015	2016	Δ%	2015	2016	Δ%
Domestic activity							
Activity in Portugal							
Banco BPI	1	5 598	5 249	(6.6%)	5 633	5 503	(2.4%)
Banco Português de Investimento	2	52	48	(8.3%)	54	51	(5.9%)
Other subsidiary companies	3	66	71	7.0%	65	68	4.4%
[= Σ 1 to 3]	4	**5 716**	**5 368**	**(6.5%)**	**5 752**	**5 622**	**(2.3%)**
Overseas branches and representative offices	5	183	139	(31.7%)	193	162	(19.1%)
Domestic activity *[= 4 + 5]*	6	**5 899**	**5 507**	**(7.1%)**	**5 945**	**5 784**	**(2.8%)**
International activity							
Banco de Fomento Angola	7	2 610	2 632	0.8%	2 574	2 621	1.8%
BPI Capital Africa	8	16	14	(14.3%)	15	16	6.3%
Financial services Mozambique	9	4	4	0.0%	4	4	0.0%
International activity *[= 7 + 8 + 9]*	10	**2 630**	**2 650**	**0.8%**	**2 593**	**2 641**	**1.8%**
Total[1] *[= 6 + 10]*	11	**8 529**	**8 157**	**(4.6%)**	**8 538**	**8 425**	**(1.3%)**

Table 3

BPI Group staff complement

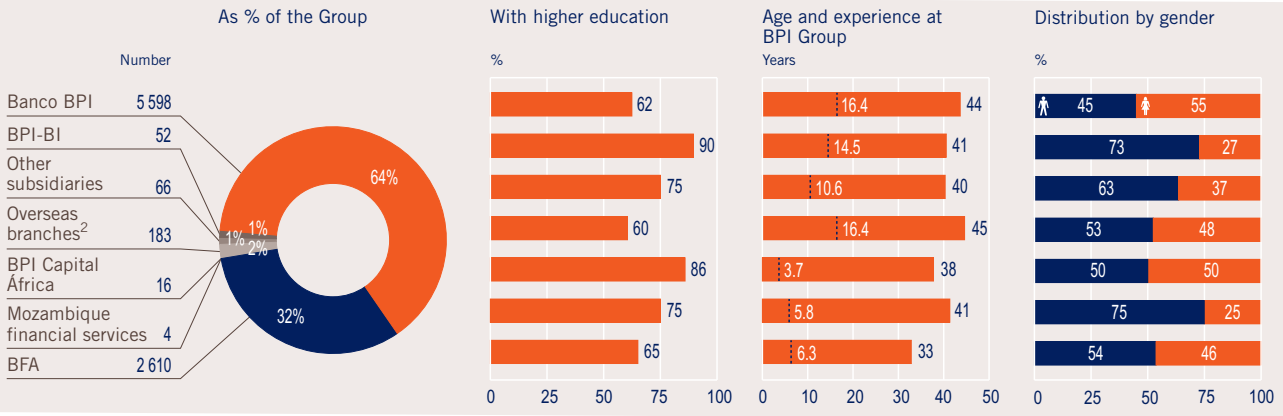


Chart 1

1) Includes fixed-term contracts and excludes temporary employment of persons with no binding work contracts with BPI.
At 31 December 2015 and 2016, the number of Employees with fixed-term contracts in Portugal stood at 32 and 25, respectively, while for overseas operations, the number stood at 4 and 3, for the same dates.
In average terms, the number of Employees with fixed-term contracts in Portugal was situated at 30 and 32 in 2015 and 2016, respectively, while the corresponding figures for overseas operations were 4 and 5, respectively.
2) Overseas branches and representative offices.

Distribution channels

Distribution channels

Banco BPI

445
TRADITIONAL BRANCHES

39
INVESTMENT CENTRES

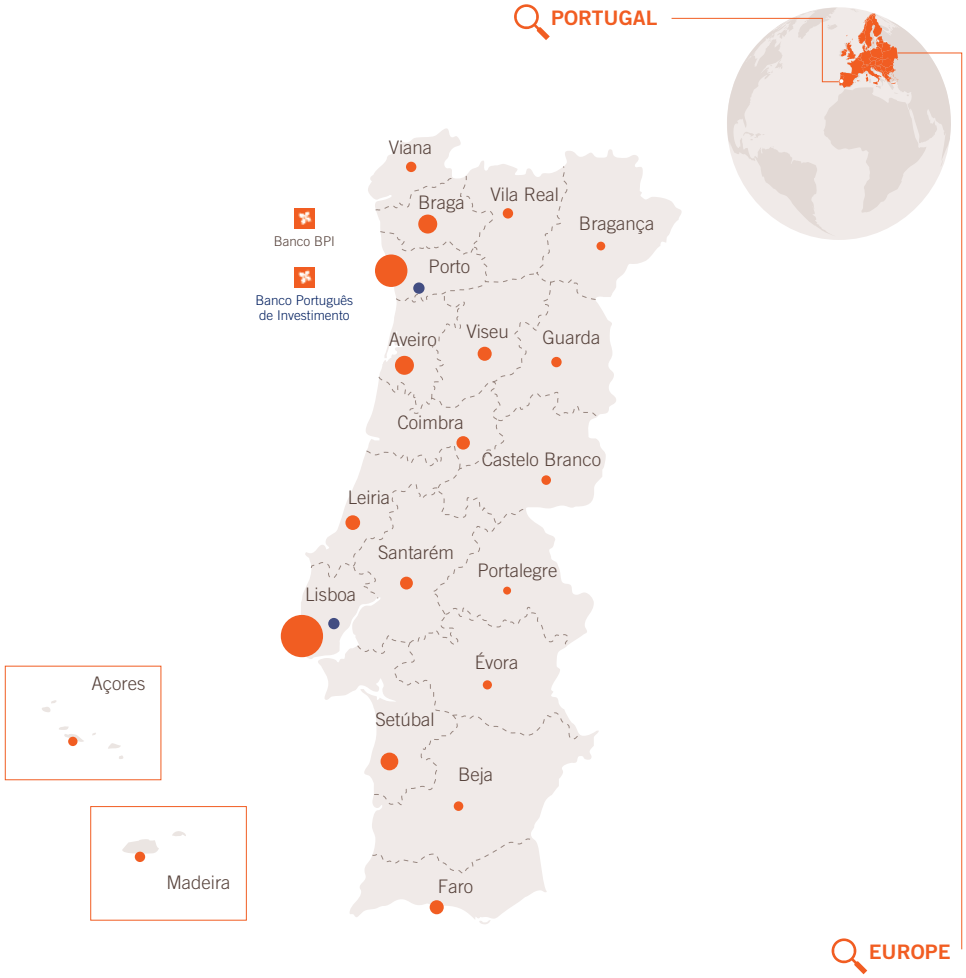
52
CORPORATE CENTRES

1 342
ATM (AUTOMATIC BANK)

30 318
POINTS OF SALE (ACTIVE)

20 609
COMMERCIAL PARTNERS

9
BRANCHES (PARIS BRANCH)



INTERNET BANKING
(active users)

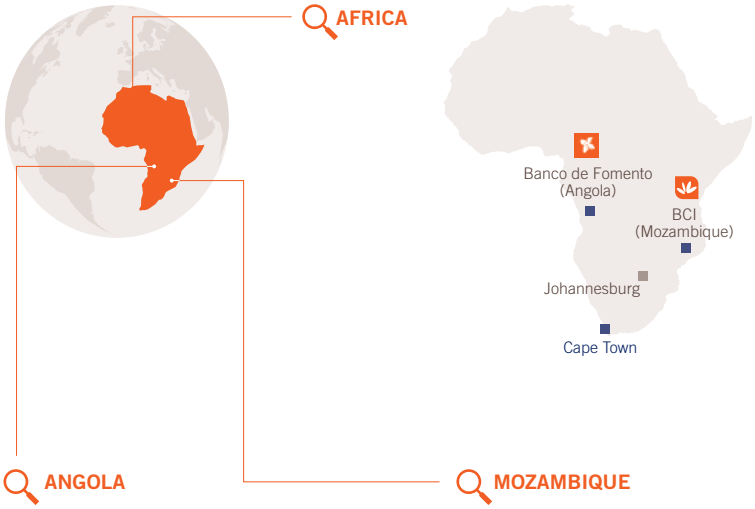
792 837
BPI NET

112 467
BPI NET EMPRESAS

TELEPHONE BANKING
(active users)

445 067
BPI DIRECTO

In Africa



Banco de Fomento (Angola)	BCI (Mozambique)
166	163
TRADITIONAL BRANCHES	
9	27
INVESTMENT CENTRES	EXCELLENCE CENTRES
16	3
CORPORATE CENTRES	
382	642
ATM (AUTOMATIC BANK)	
9 876	9 660
POINTS OF SALE (ACTIVE)	

INTERNET BANKING (active users)

563 308	90 262
BFA NET PARTICULARES	E-BANKING PARTICULARES
13 503	13 232
BFA NET EMPRESAS	E-BANKING EMPRESAS

Around the world

Commercial Banking
- Banks
- Branches
- Overseas branches
- Representative offices

Investment Banking
- Bank
- Offices
- Overseas units

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

Figure 3

Digital banking

The digital technologies are profoundly changing the way in which Customers relate with the banking industry, creating new expectations and interaction models, thereby obliging banks to effect important transformations in their commercial channels. BPI stepped up the investment in new digital transformation initiatives in 2016 in order to respond to those challenges while also taking advantage of the new opportunities created by the new context.

Taking advantage of the investments made in recent years that left the Bank well prepared for the Digital Banking challenges, the principal initiatives were arranged bearing in mind the following goals:

- creation of new experience and relationship models on the Mobile Banking channel;
- modernisation, mobility and efficacy of the Commercial Networks' support solutions;
- continuous development of Individuals and Companies Homebanking solutions;
- boosting Digital Marketing capabilities for improving promotion, selling and communication.

LAUNCH OF THE NEW BPI APP

BPI launched a new version of the BPI App in the last quarter of 2016, reflecting the commitment to provide more innovative solutions which facilitate the day-to-day lives of Customers and making use of the new digital tools.

Besides a more modern and intuitive design and the realisation of more frequent banking operations, the following new functionalities merit mention:

- access via digital printing;
- immediate access to account balances and cards;
- personalised messages and information about the next movements on diarised accounts;
- catalogue consultation and ordering of Prestige Products (via credit card);
- management and creation of made-to-measure savings objectives for each Customer;
- management of frequent beneficiaries or pre-defined payments.

MODERNISATION, MOBILITY AND EFFICIENCY OF THE COMMERCIAL NETWORKS

The commercial network's mobility and efficiency solutions were reinforced in 2016, notably:

- the broadening of the new commercial platform, BPI GoBanking (see box), to branch network employees with functions aimed at the management of high net-worth and small business Customers;
- the substantial extension of the distribution of smartphones to commercial network employees, with secure access to the Bank's systems;
- the availability of Wi-Fi for Customers and Employees at around 35% of the branch network, adding to the already-existing service at all the Investment Centres and Corporate Network.

EVOLUTION OF THE BPI GOBANKING COMMERCIAL PLATFORM

BPI GoBanking is BPI's new commercial platform based on innovative equipment (hybrid work station) and software solutions (new business Apps). BPI GoBanking enables BPI commercial managers to perform their work with total mobility, close to Customers and where it is more convenient for them.

At the close of 2016, more than 500 Employees with commercial functions were equipped with this solution. During the year, new service and sales functionalities were introduced, while the opening of accounts in mobile mode was extended to new Customer segments.

NEW CONTACT CENTRE SOLUTION

2016 saw the launching of a new Contact Centre solution, improving the attendance, call-management and team-management functions, contributing to a better commercial flexibility and more efficiency.

The solution is made available in an innovative "as-a-Service" model, with the advantages associated with this model, namely, rapid scalability when necessary, integrated service management and permanent updating of the solution.

DIGITAL TRANSFORMATION PROCESS AT BPI

During 2016 BPI structured its digital transformation process with the aim of accelerating, multiplying, systemising and boosting their efficiency.

Commencing with Customers' needs, the transformation initiatives bring together the multi-disciplinary teams who transfer the business process and implement the new process in a global manner, from its analysis through to the implementation in all the contact and back-office channels and the dissemination and communication to Customers.

This process uses User Experience, Design Thinking methodologies and flexible development, also taking advantage of the information system development platforms which enable concentrating at a single team the development of all the functionalities.

NEW SOLUTION FOR NON-FINANCIAL PRODUCTS

Taking advantage of the model created for the digital transformation initiatives, the possibility was made available in 2016 of ordering Prestige Products with a credit card via all the Customer contact channels, namely BPI Net, Nova BPI APP, BPI GoBanking and branch solutions.

This new solution transforms the consultation and the ordering of prestigious non-financial products, allowing Customers to place orders on the digital channels or with a BPI manager. Through the GoBanking solution, the order can be placed anywhere resorting to the biometric digital signature.

IMPROVED HOMEBANKING SERVICES

BPI offers its Customers the **homebanking services** BPI Directo, BPI Net, BPI Net Empresas, BPI Net Mobile, Apps BPI, as well as the online brokerage services BPI Online and BPI Net Bolsa.

The increased adherence to **homebanking** services has permitted a progressive migration of transactional activity to these channels, freeing the commercial network to focus on more value-added functions. The digital channels are also responsible for an increase in the Customer-Bank relationship, given that the frequency of these channels utilisation is extremely high.

2016 saw the strengthening of BPI solutions in the **Individuals Homebanking** area, with special reference to the broadening of the cards area with the unveiling of the new range of prepaid cards and the launching of the 3D Secure service (additional authentication in purchases made with cards).

In the **Mobile Banking** area, besides the launch of the new BPI App, mention is made of the broadening of the **BPI Empresas App**, with the availability of Payment operations and the launch of an application for Portuguese communities abroad (**App Aqui Portugal**).

BPI homebanking services
Selected indicators

	2015	2016	Δ%
BPI Directo / Net + BPI Net Empresas			
Active adherents (x thousand)[1]	1 153	1 134	(2%)
% total transactions[2]	94%	94%	0%
BPI Directo / Net			
Active adherents (x thousand)[1]	1 018	997	(2%)
BPI Net Empresas			
Active adherents (x thousand)[3]	135	137	1%
Stock Exchange			
Market share (Internet)	25.4%	25.8%	0.4 p.p.

Table 4

It is worth noting that in 2016 approximately 125 000 new downloads of BPI Apps were made, making a total of more than 500 000 new downloads since the launch.

As concerns **Corporate Internet Banking**, 2016 was marked by the reinforcement of the above-mentioned BPI Empresas App, the strong expansion of the Confirming

1) In 2016 an extraordinary process of technical closure of accounts occurred, with an impact on the reduction of these indicators.
2) Total transactions of homebanking services as a percentage of the Bank's total. Does not include ATM.
3) Does not include Small Businesses' Customers that use the BPI Net service. These Customers are considered in the BPI Net service.

operations available through BPI Net Empresas, and the availability of Unit Trust Funds on this channel.

BPI IS LEADER IN DIGITAL CHANNELS

BPI is well positioned in the indicators relating to the usage and adoption of digital channels, having witnessed a positive trend and an increase in the public acknowledgement of its digital solutions.

"Brokerage Services – Ranking CMVM" (2016)

- BPI is leader in Online Brokerage (Internet)

"Companies Financial Services Barometer– BFin" (2016)

- BPI is leader in "Net Banking Service Penetration"
- BPI is leader in "Net Banking Service Satisfaction"

"BPI Service Quality Survey" (2016)

- Level of Satisfaction with Internet Services: 8.9 (scale of 0 to 10)

"Consumer Satisfaction Index – CSI Banca" (2nd wave of 2016)

- BPI is leader in "Penetration Channel of Internet Contact used"

National and international recognition

The Digital Account Opening solution, available at BPI GoBanking, was also finalist in the "Gartner Eye on Innovation Awards 2016", one of the most prestigious international awards in the field of information systems, in the category "Most Innovative Digital Customer Service or Product".

"Inovation in the delivery on financial products"

BPI GoBanking
2016

BPI

Best Digital Leader

Francisco Barbeira / BPI
2016

BPI

REINFORCING DIGITAL MARKETING

In 2016, Digital Marketing continued to boost its importance in the Bank's digital presence, fostering Customer proximity and contributing to a greater realisation of commercial opportunities. Search Marketing action within the ambit of paid announcements and organic research was instrumental in the improved positioning of BPI's public sites.

Digital Marketing initiatives in 2016 were responsible for more than 800 thousand simulations on BPI sites and for more than 20 thousand direct opportunities.

BANCO BPI SITE

Banco BPI's public website invested in the dynamics of its contents with respect to the presentation of BPI's diversified product range. New content was developed in the Corporate segment, with special emphasis on the Portugal 2020 and PME Líder themes.

In 2016 BPI boosted its Customers' increasingly more digital preferences. The **Click to Call** and **Chat** functionality was extended on the site, at the same time as new cross-selling opportunities were introduced.

BPI EXPRESSO IMOBILIÁRIO SITE

BPI Expresso Imobiliário (real estate site) invested in 2016 in enhancing its fixed property search mechanism. The BPI Expresso Imobiliário site had on average 528 thousand monthly visits and 5.4 million monthly page views during the year, corresponding to a substantial annual improvement.

GROWING PRESENCE ON THE SOCIAL NETWORKS

2016 saw a meaningful growth in BPI's presence in the social networks and its integration in other platforms in addition to Facebook and Youtube, with more than 1.1 million video viewings in 2016.

The BPI Solidariedade (Solidarity) page was launched on Facebook, aggregating the previous BPI Capacitar Award and BPI Seniores Award pages with the new BPI Solidário Award. This page is already an important support base for the communities associated with those initiatives.

Since July, BPI has been present on LinkedIn with an editorial planning focused on publicising initiatives, campaigns and useful information specially geared towards the Corporate segment.

On Twitter since the end of 2016, BPI has as its objective disseminating the chief economic and financial publications, as well as publicising forecasts and recommendations for the various markets.

Also in December, BPI launched, for institutional purposes, the Banco BPI page on Facebook.

The BPI Brand

BPI reaffirmed its leadership in Customer satisfaction and the quality of service provided in 2016, having been voted the most Trusted Bank by the Portuguese for the 4th consecutive year.

In the social responsibility domain, BPI contributed with the most financial support ever, 5.4 million euro, distributed over the cultural, solidarity, educational, innovation and entrepreneurial fields. A special reference to the launching of the BPI Solidário Award which now complements the BPI Capacitar and BPI Seniores awards.

Fernando Ulrich was rated as the most reputable leader in Portuguese banking and obtained the sector's highest reputation index.

Satisfaction and trust

BPI secured 1st place in the Customer Satisfaction rankings according to the ECSI Portugal 2016 – the National Customer Satisfaction Index. The ECSI Portugal is an independent survey conducted annually by the Instituto Português da Qualidade, by the Associação Portuguesa para a Qualidade and by the Instituto Superior de Estatística e Gestão de Informação – Universidade Nova de Lisboa, based on a common European methodology – European Customer Satisfaction Index – which permits evaluating the quality of the goods and services available on the domestic market in various sectors of activity.

BPI was rated for the 4th consecutive year the most trusted banking brand in Portugal in the 2017 edition of the Trusted Brands survey which the Readers' Digest has organised over the past 17 years in 15 countries.

The BASEF – Estudo de Base do Sistema Financeiro, published by Marktest, confirms once again that BPI boasts the highest level of satisfaction amongst the five largest banks in the Portuguese financial system as regards the following indicators: Overall Satisfaction, Quality of Attendance – leads in this indicator from the very beginning – and Quality of the Products.

BPI is leader in Total Penetration of the Companies Market and in Globally Most Efficient Bank in this market according to BFin 2016 – Corporate Financial Services Barometer compiled by DATA E.

It is also 1st in the Utilisation of NetBanking and in Satisfaction with this digital channel. BPI occupies 2nd place in indicators such as Satisfaction with 1st Bank, Best Bank for Companies and with Most Suitable Products.

BPI was honoured for the 2nd year running as the best banking brand in the category of banking products for senior citizens according to a poll carried out by Consumer Choice 2016. The Senior Choice is a consumer choice project which assesses the satisfaction of consumers over the age of 60 with respect to specific products or services.

Reputation and recognition

BPI's performance was also publicly acknowledged in a number of areas of financial activity, by independent national and international entities. The following accolades earned by the Bank in 2016 merit special mention:

- **Most reputable leader and most well-known personality in Portuguese banking – Fernando Ulrich**
  Classification attributed to Fernando Ulrich, Chairman of BPI's Executive Committee (CEO) by the *OnStrategy Group*, a company which evaluates the reputation of brands and their leaders in more than 20 sectors of activity, based on a panel of 3 stakeholders: general public, companies and mass media.

- **Best Innovation in the delivery of financial products – planning and advice – BPI GoBanking**
  Awarded by The *London Institute of Banking & Finance* and by the *British Banking Association in the Financial Innovation Awards 2016*, an event which rewards the best projects around the world in the financial industry.

BPI was also elected a finalist in 4 other categories, with the BPI Empresas App, BPI Poupança App, Digital Account Opening and the BPI Solidariedade Facebook page.

- **Best Digital Leader – Francisco Barbeira**
  In the *Portugal Awards 2016* – initiative of the Jornal de Negócios and the IDC Portugal in partnership with Novabase and Vodafone, which distinguishes distinctive and innovative projects and personalities who excel in the digital transformation arena. In this event, BPI GoBanking also received an honourable mention in the category *Best Digital Workplace*.

- **Excellence Brand in Portugal**
  For the 3rd consecutive year and according to Superbrands, an independent international organisation which is dedicated to the promotion of brands governed by values such as longevity, loyalty, acceptance, goodwill and market dominance in 89 countries since 1995.

  Superbrands analyses brand performance with a view to identifying which outstrip and outshine their peers / rivals.

- **Bank with best Price-Quality ratio**
  In the category Loan Products for Individuals and Companies, rated by the *Best Buy Awards Portugal 2016*. Present in more than 30 countries around the world, the *Best Buy Awards* is a market survey created in 2010, and is organised every two years in different countries and for different market sectors.

- **Best Treasury & Cash Management Provider**
  According to the *Global Finance Magazine* in the *World Best Treasury & Cash Management Banks and Providers Awards 2017*. This rating is the result of a poll realised annually by the magazine *Global Finance* amongst readers, analysts and specialist from a variety of areas of financial activity.

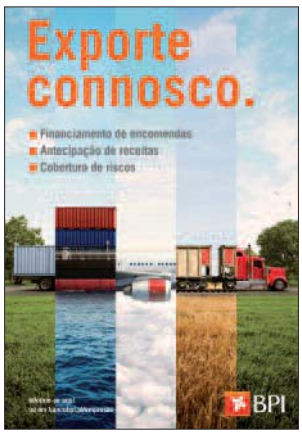
- **Best National Equities Fund Manager**
  BPI Gestão de Activos was voted for the 6th time in 8 years in the *Morningstar 2016* awards as managing the best real-estate unit trust funds.

- **Best National Equities Fund**
  Distinction granted to BPI Portugal in the *Morningstar 2016* awards for the best real-estate unit trust funds. It was the 4th time that BPI Gestão de Activos received this award in the last 5 years.

  The BPI Portugal Unit Trust Fund was also rated the Best National Equities Fund in the *2016 Best Funds Awards*, organised by the Jornal de Negócios and by the Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios.

- **Best Equities Fund domiciled outside Portugal**
  BPI América (Luxembourg) was honoured in the *2016 Best Funds Awards* organised by the Jornal de Negócios and by the Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios.

My BPI App is even better.



Export with us.

Take your projects out of the paper.

To improve the life who needs most.

- **Best Iberian Peninsula Broker**
  Distinction received in the *Starmine Analyst Awards 2016* in a rating compiled by *Thompson Reuters* and which measures the precision of the estimates and recommendations made by *Equity Research* analysts.

- **Best Iberian Sales Individual – Francisco Pires**
  In the *Equity Sales* category, by the *Extel Survey 2016*. BPI also attained 2nd position in the *Iberian Conference* and 3rd position in *Company & Expert Meetings* and Equity Sales Team.

Investment and communication

In 2016, the financial sector was the 9th biggest investor out of all the sectors of activity, accounting for 3% of the total, thereby registering an 11% decrease in advertising expenditure relative to 2015. In the financial sector total investment ranking, BPI occupied 16th position, with an ad spend share of 2%.

BPI's communication policy remained focused on Customer service, innovation and digital transformation, in lending support to Portuguese companies and in reinforcing its involvement in the social responsibility arena.

Each one of these topics is dealt with in separate chapters of this report, while here we outline the principal guidelines.

- **Innovation and Digital Transformation**
  Digital technologies are the major engine driving BPI's innovation, being as they are crucial in the optimisation, redefinition and strengthening of its relationship with Customers. The digital transformation which began in 2015 was followed through in 2016, with the investment being maintained in the support dimensions for Digital Banking and which contributed not only to the creation of new services, but also to the simplification and streamlining of internal business processes. We highlight:

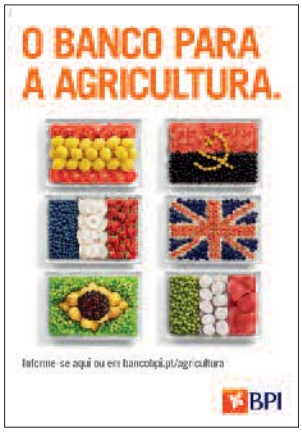
  - the launching of the new BPI App which permits immediate access to accounts and cards, receiving personalised messages, keep track of spending and manage savings;

  - the launching of the BPI Cash Purse, in partnership with MoneyToPay, a pioneering product on the market which permits making payments anywhere in the world at establishments linked to the Visa network without the need to use cards, thanks to its contactless technology;

Pay everything with the new BPI Cash Bracelet.

Pay to the whole world.

200 million euro to innovative companies.



The bank for agriculture.

25 years planning your future.

- the availability of a new area at BPI Net and in the BPI App with a catalogue of around 100 prestige brand products, with exclusive offers and special purchase conditions via the BPI credit cards;

- the boosting of BPI's presence on the social networks, with the launch of the pages on LinkedIn and Twitter.

- **Support for Portuguese companies**
  In 2016, BPI once again stepped up its support to companies, a segment of growing strategic importance:

  - it enlarged its range of products and services for companies, namely cash-management support with the launch of BPI Confirming and BPI Tesouraria Já;

  - reaffirmed its leadership in the principal public-backed programmes and statutes, such as PME Líder and PME Excelência;

  - it maintained its financial backing for exports, the creation of new companies and for innovation, with the promotion of support solutions for international trade and credit lines established with the EIB and EIF;

  - it reinforced its positioning as the Bank for Agriculture, incentivising successful cases in Portugal in the 5th edition of the National Agriculture Award, renewing its support to the farming-related events Feira Nacional da Agricultura, Colóquio Nacional do Milho, Ovibeja and SISAB.

- **Support for the attainment of commercial goals**
  Launch of campaigns focusing on the differentiating factors of BPI's product range, such as the special conditions attaching to credit solutions and the 25 years' experience in PPR (retirement-savings plans) management, permitting support for the attainment of two important commercial objectives: credit growth and the retention of the resources portfolio.

- **Social responsibility**
  BPI boosted its bonds with society, its problems and its ambitions, including the launching in 2016 of the BPI Solidário (solidarity) award to combat poverty and social exclusion, as well as the increased total annual donated to projects that improve the lives of those who most need it. Taking the 3 BPI awards as a whole – Capacitar, Seniores and Solidário – a total of 2 million euro was donated.

Social responsibility

BPI interprets its social responsibility as the Institution's set of duties and obligations towards the community in which it is integrated and to the specific interest groups which are dependent on its activity: Customers, shareholders, employees and investors.

The conduct of social responsibility is undertaken in multiple dimensions, namely the governance policy and respective execution, the observance of our own conduct codes, the relationship whith investors, the promotion of quality and service, the policy of enhancing human resources involvement in community life, and supporting its social solidarity, education, research and culture, innovation and entrepreneurial initiatives.

In these areas the nature of BPI's involvement assumes distinct forms, ranging from the grass-roots development of social-value projects to lending support to existing entities. BPI is governed by the following principles of conduct:

- support to institutions of acknowledged importance in Portuguese society;
- which demonstrate the capability to become sustainable;
- from the standpoint of continuity and long-term association.

In 2016, BPI contributed the highest amount ever to the social responsibility field, – 5.4 million euro – distributed amongst the social solidarity, cultural, education and research, innovation and entrepreneurial areas. Over the past 10 years and notwithstanding the economic landscape, the Bank has devoted an annual average of financial assistance of roughly 4.53 million euro.

BFA – Banco de Fomento Angola, in which BPI has a 50.1% stake, continued to support important activities through its social fund. At the end of 2016 the social fund had a value of 15.9 million dollars.

In Mozambique, o Banco Comercial e de Investimento, BCI, in which BPI has a 30% shareholding, confirmed its support for a variety of initiatives in the fields of social solidarity, culture and education.

SOCIAL SOLIDARITY

2016 was marked by the launching of a new award in the social solidarity domain: BPI Solidário. This award aims to promote the improvement in the living conditions of persons living in poverty and social exclusion, at the same time complementing the assistance given to the segments already covered by the BPI Capacitar e BPI Seniores Awards – the disabled and elderly persons.

Taking the three solidarity awards as a whole, BPI made donations in 2016 totalling 2 million euro for the implementation of 63 projects, selected from 1.188 candidacies. Over the past 7 years, these awards have involved the payment of 7 million euro towards the implementation of 247 social-inclusion projects, which constitutes one of the largest Corporate Social Responsibility initiatives in Portugal.

In 2016, we highlight each one of the BPI solidarity awards:

- 1st edition of the BPI Solidário Award registered 335 candidacies and granted a total donation of 700 thousand euro, 200 thousand more than initially projected. 15 private non-profit institutions were singled out. According to this award's regulations, no first places are mentioned.

- 7th edition of the BPI Capacitar Award which this year made a total donation of 700 thousand euro, also 200 thousand more than initially budgeted. 19 private non-profit institutions, which have as their mission improving the quality of life and the social integration of the handicapped or permanently disabled persons, were the recipients of grants. In total some 6 000 people were direct beneficiaries.

  The 1st award was handed over, *ex-aequo*, to the Associação Oncológica do Alentejo – AOAL (Alentejo Oncology Association), comprising a project for the creation of a mobile unit for providing domestic assistance to cancer patients who live alone, providing weekly health care to them such as physiotherapy and psychological support; and to the Fundação Afid Diferença, with a family-support project by way of a weekend visit programme for mentally-handicapped persons, helping them to become self-sufficient and to support their careers.

- 4th edition of the BPI Seniores Award, designed to back projects which promote the social integration and active involvement of people older than 65. The total amount given was 600 thousand euro, 20% more than initially envisaged. A total of 29 private non-profit institutions were contemplated, encompassing more than 5 thousand direct beneficiaries.

  The 1st Award was given, *ex-aequo*, to the Associação de Socorros Mútuos – Mutualista Covilhanense, which submitted a project for the creation of a mobile health unit to cater for the population living by themselves in rural parishes; and to the Portuguese Red Cross – Torres Vedras branch, with a project to train senior civil defence persons to form part of the local emergency team and to act in a critical health situation.

In the social solidarity domain, the following initiatives merit mentioning:

- Christmas Action which permitted offering, for the 5th consecutive year, presents to some 15 thousand children from 400 solidarity institutions dotted around the country; the Christmas trees located in more than 520 commercial locations and BPI central services were decorated with a card which contained the present that each child wished to receive for Christmas; the gifts were offered by the Bank's Customers and Employees; BPI also participated with a donation to each local institution and to institutions operating at national level. Over the past 5 years, this initiative has resulted in 90 thousand presents being given to children from 400 social-solidarity institutions;

This hug is for you.

- Campanha Verde Esperança (Green Hope Campaign), a SIC Esperança initiative, with which BPI is associated by means of a solidarity account to assist those populations affected by the many forest fires which occurred in 2016; the donations raised reverted to the Private Social Solidarity Institutions of the areas affected with the object of assisting the victims, the campaign for clearing the forests and the reforestation of the areas devastated;

- Renewed support for the EPIS – Empresários pela Inclusão Social (Businessmen for Social Inclusion), whose work is centred on the fight against failure and school drop-outs, contributing to the advancement and development of youngsters from the viewpoint of human dignity, focusing on education and qualification at the school, university and work as the fundamental instrument for personal fulfilment and social inclusion;

- Other major initiatives in this domain are the renewed support to the Portuguese Red Cross, to Crescer Ser – Associação Portuguesa para o Direito dos Menores e da Família (association for minors' and family rights); to the Centro de Acolhimento para Crianças Refugiadas (child refugee shelter home); to Movimento ao Serviço da Vida (MSV) for funding the Casa das Cores project; to Novo Futuro – Associação de Lares para Crianças (child shelter homes); to Federação dos Bancos Alimentares contra a Fome (food bank federation); to Procissão Corpo de Deus; to Instituto de Surdos da Imaculada Conceição (for the deaf); to Liga do Hospital D. Estefânia; to Operação Nariz Vermelho.

In Angola, BFA gave its backing in 2016 to the following initiatives:

- Hospital Pediátrico David Bernardino (paediatric hospital) – in the last 10 years, BFA has sponsored countless initiatives and projects relating to this hospital in Luanda; in 2016, BFA helped fund the conclusion of the project for the construction of a new casualty ward which includes a facility for paediatric surgery and an X-ray unit; the objective of this initiative is to boost the attendance capacity of the HPDB's Outpatients section in a more spacious and accommodating environment for patients, medical staff and the Hospital's other employees;

- Banco Alimentar Contra a Fome Angola (food bank against hunger) – in 2016, BFA once again associated itself with the BACFA for the staging of the 5th food collection campaign; in line with previous years, this campaign collected, separated and weighed food products; it collected foodstuffs from a number of retail outlets in Luanda and subsequently donated these to charitable institutions.

In Mozambique, BCI continued to allocate some of its revenue generated by the use of its "Daki" debit card in transactions realised by its Customers, channelling these to support social-solidarity causes and institutions without additional costs for the cardholders, giving donations to several institutions / projects in the health, education, citizenship arenas, contributing to the communities' wellbeing.

Amongst the projects worth highlighting were the "Movimento no Abraço Livre a Moçambique" and "Like US Sem Preconceito", the offer of books to the education and human development ministry, the rehabilitation of the CERCI school in Maputo, the paediatric services of the provincial hospitals.

CULTURE

BPI renewed in 2016 its support to leading national institutions linked to the arts, such as the Museu de Serralves and the Casa da Música, of which the Bank is a founder, and the Fundação Calouste Gulbenkian, as the main patron of the cycle of Great Composers concerts and the José Escada exhibition.

- Sole Patron of the Museu de Serralves, which recorded 683 thousand visitors in 2016, the highest number ever.

- Patron of the 2016 Annual Grand Exhibition "The Sonnabend Collection. Half a Century of European and American Art. Part 1", which attracted more than 100 thousand visitors.
- Patron of the "Serralves em Festa" – 40h of uninterrupted culture, with more than 107 activities, more than 193 cultural sessions, which set a new attendance record: 161 244 visitors.
- Principal Patron of the Casa da Música, which in 2016 celebrated its 11th anniversary with more than 531 thousand visitors, of whom 302 thousand were spectators.

- Patron of the Sala Suggia, known as the heart of the Casa da Música, with more than 131 thousand spectators.
- Patron of the festival "À volta do Barroco", with more than 7 690 spectators.
- Sponsor of the "Verão na Casa", festival dedicated to the summer season and involved 115 concerts, 26 of which outdoor and of these we refer to the two major concerts held on the Avenida dos Aliados which drew a total of 71 060 spectators.
- Principal Patron of the Major Composers cycle of concerts as part of the 2016 Gulbenkian Music season, which included 10 events with a total of roughly 11 thousand spectators.
- Principal Patron of the José Escada exhibition held in July to October 2016 at the Gulbenkian Centre for Modern Art, which was attended by 41 900 visitors.

Also worth mentioning was the renewed status of patron of the Museu do Caramulo, Museu de Arte Contemporânea de Elvas, Centro Nacional de Cultura, Casa de Mateus, Teatro Viriato in Viseu and the support given to the Museu Nacional de Arte Antiga, Fundação Júlio Resende – Lugar do Desenho and Teatro Micaelense.

In Mozambique, BCI continued to give priority to activities and institutions which promote the preservation of the country's identity and cultural progress, associating itself with initiatives of acknowledged value and social impact. Amongst which: the Annual BCI Literature Prize, the Festival da Marrabenta, the Festival de Timbila "M'saho, the National Song and Dance Company, the Fundação Malangatana Valente Ngwenya, the Associação Cultural Kukungwana and to the Cultural Division of the Universidade Eduardo Mondlane.

EDUCATION AND RESEARCH

At the end of 2016, BPI maintained protocols in force with a total of 29 higher-learning institutions. These include the long-term protocols with the Instituto Superior Técnico, involving the support for the activities of 8 Student Nuclei of the IST recognised as key extracurricular activities in the students' civic, cultural, scientific and technical training; with the Science and Technology Foundation in backing for the Lisbon MBA; with the Universidade Católica Portuguesa; with the Escola de Tecnologias Navais da Armada Portuguesa; with the Universidade do Algarve, in the granting of 5 study bursaries in the amount corresponding to an annual tuition fee and in the awarding of prizes to the best students of the Universidades do Algarve and of Aveiro.

With the object of actively contributing to the increase in financial education, BPI promoted for the 6th consecutive year a series of initiatives addressing the importance of

saving held at public and private schools and covering students aged between 8 and 14 years. In 2016, a total of 98 sessions were held attended by approximately 4 000 participants.

Support was also renewed for the Fundação Cidade de Lisboa, which has run for more than 6 years and based on the awarding of 10 annual study bursaries worth 7 500 euro each, given to 10 university students from 5 Portuguese-speaking African countries, with preference for those born in Angola and Mozambique.

Also noteworthy is the backing given to the Economics faculty of the Universidade Nova de Lisboa, Ius Gentium Conimbrigae of the Universidade de Coimbra Law Faculty and the Alexis Tocqueville Annual Address at the Universidade Católica Portuguesa.

In Angola, and in the research field, BFA gave its support to the Angolan Health Research Centre, more specifically for 2 of the CISA's research projects: to the creation of the microbiology service at the Hospital Geral do Bengo Laboratory and to the programme for the back-up and reinforcement of primary health case in the Dande municipality. The CISA also relies upon the support of the Ministry of Health and with the financial aid of the Cooperação Portuguesa and the Fundação Calouste Gulbenkian.

In Mozambique, BCI carried out a number of initiatives incentivising and rewarding deserving students from the country's main universities and polytechnic institutions, thereby contributing to the integration of young graduate people into curricular traineeships and the professional induction into a variety of work areas at BCI.

INNOVATION AND ENTREPRENEURSHIP

In 2016, BPI backed and organised a series initiatives aimed at the promotion of innovation and entrepreneurship, namely:

- the 5th edition of the National Agriculture Award, a joint Cofina Group and BPI initiative, in partnership with the Ministry of Agriculture, Forests and Rural Development, which has as its goal encouraging and rewarding cases of success in the Portuguese Agriculture, Agro-Industrial, Livestock and Forestry sectors in the categories Large, Small and Medium-sized Companies; Associations / Cooperatives; Young Farmers, New Projects; Innovation;

- the awarding for the 7th consecutive year of the BPI Innovation Award which aims to reward proposals by BPI Employees which foster innovation as regards the Bank's products, services or processes;

- the reinforced important support for the Financial Markets Academy in the training of BPI employees, with the realisation of 2 distinct programmes – General and Advanced – encompassing a total of 621 participants. These programmes involved the close collaboration between 9 professors from the Universidade NOVA SBE and 35 people from the Bank's different divisions;

- iTGROW – Software e Sistemas, ACE, an innovative project in Portugal in which BPI and Critical Software participate, and which has the object to attract, select and complement the training of young people through on-the-job education and training in the area of software engineering. In 2016, more than 100 new staff were recruited and support was renewed for the 4th edition of the Correct the Direction Programme (Programa Acertar o Rumo), an initiative developed by iTGROW in collaboration with the Universidade de Coimbra which concentrates on professional requalification targeted at unemployed graduate persons and who wish to pursue alternative career areas such as computer programming. The BPI Merit Prize was once again given to the best pupil, at the same time as a credit line was made available for training adjusted to this programme's needs;

- the *New Idea Competition*, a Business Plan Contest for Students of the Universidade Nova de Lisboa. The initiative, which BPI supported for the 8th consecutive year, is promoted by the UNL Dean's Entrepreneurial Office with the aim of providing students an integrated learning experience that stimulates the entrepreneurial and multi-disciplinary mind-set; in 2016, BPI was once again part of the jury composed of professors and private-sector professionals. It sponsored the awarding of a cash prize in the total amount of 15 thousand euro distributed amongst the first 3 students: the 1st BPI prize went to CoBid, an online commercial platform which permits making collective bids for premium

products based on a probability algorithm that takes into account the investment made by each one of the participants; the 2nd was won by Usedful, an online platform which promotes the work of designers dedicated to the creation of unique articles using used materials; the 3rd prize went to Parqly, an application for mobile devices which will enable drivers to obtain at any location and in real time information relating to the existence of parking, price and availability;

- BPI sponsored for the 11th consecutive year and since its creation, the PME Inovação COTEC BPI Award, promoted by COTEC with the goal of recognising Small and Medium-sized Enterprises (SME) with innovative profiles and activities; examples to the country for the creation of value; in this edition, ERT-Têxtil Portugal and i2S – Informática, Sistemas e Serviços were honoured as the most innovative SME's in 2016, taking into consideration their business which is strongly based on innovation, with a marked emphasis on exports and the generation of substantial financial results;

- the 9th edition of FAZ – Prémio Empreendedorismo Inovador (Innovative Entrepreneurial Prize) for the Portuguese diaspora, promoted by COTEC, which distinguishes each year those Portuguese who have excelled themselves abroad for their entrepreneurial skills in their host country. In 2016, the winner was Augusto Pinho, Chairman of Direct Poultry Inc / Premium Foods, one of the largest companies in the food manufacturing sector in Ontario, Canada, which has a turnover of some 80 million euros and about 180 employees.

In Angola, BFA lent its support to GEM Angola, the largest independent survey of entrepreneurialism conducted throughout the world. It constitutes a tool of extreme importance for keeping track of and monitoring the entrepreneurship of economic and social agents in Angola, and for this reason BFA has backed this project since 2008.

In Mozambique, 2016 was marked by the renewed partnership between BCI and the Clube Empresarial da Gorongosa, so as to support projects and activities indispensable for the success of restaurants in the Gorongosa National Park – the largest biodiversity conservation reserve in Mozambique and one of the world's biggest.

Background to operations

GLOBAL ECONOMY, PORTUGUESE ECONOMY AND FINANCIAL MARKETS

GLOBAL AND EUROPEAN ECONOMIES

The International Monetary Fund (IMF) estimates that the world economy grew 3.1% in 2016, marginally below the 2015 figure: (+3.2%). This weak expansion rate reflects above all the lacklustre growth of the developed economies (GDP rose by just 1.6% in 2016, 0.5 percentage points less (p.p.) than in 2015), reflecting political and economic factors which influenced economic agents' confidence and activity. Amongst these we cite the turbulence at the beginning of 2016 due to the fears relating to the abrupt slowdown in and massive capital outflows from China; the United Kingdom referendum midway through the year and the US presidential elections towards the end of the year. For their part, the emerging economies presented contrasting behaviours: Latin America disappointed given Brazil's (-3.6%) and Argentina's poor performances, in part offset by the higher-than expected growth in China (6.7%), benefiting from the economic policy stimuli. The IMF expects that the emerging economies grew 4.1% in 2016, the same rate as in 2015.

For 2017, the projections are slightly more positive, with the IMF forecasting that the world economy will accelerate to 3.4%, with favourable contributions from both the developed countries (expected 1.9%) and the emerging and developing countries (4.5%). The Brazilian economy should grow 0.2% while China is expected to post 6.5% growth. It should be noted that the risks to the emerging economies are, according to the IMF, on the downside, and are primarily related to the adoption of more protectionist policies and more restrictive global financial restrictions. The expectation of improvement in the developed economies is also enveloped by significant uncertainty above all bearing in mind the factors of a political nature associated with the various elections in the EU countries, uncertainty with respect to the policies of the new North American policies, as well as with the advance of the process involving the United Kingdom's withdrawal from the EU (Brexit). It is worth highlighting however that the strengthening of the activity and confidence indicators at the turn of the year suggests the possibility of an acceleration in the upswing and inflation rising above current projections. For the countries of the Euro region, the IMF anticipates growth of 1.6%, down 0.1 p.p. on the 2016 figure. As concerns the USA, the economy is forecast to expand 2.3%, after having posted growth of 1.6% in 2016 even though there remains uncertainty as regards the economic policies to be implemented.

Monetary policy remained accommodative

Reflecting the uncertainty concerning the pace of activity and direction of prices, the Federal Reserve was more cautious in the plan for the normalisation of monetary policy than was expected at the start of 2016, postponing until December the hike in the benchmark rate to 0.5-0.75%. As for 2017, expectations that growth in the US will be more robust and that inflation will behave in line with the central bank's target lend support for the case that this will accelerate the normalisation trend projected for the fed funds interest rate. Nevertheless, this movement will continue to be gradual *vis-à-vis* previous cycles. For its part, the European Central Bank stepped up the ultra-expansionist stance of its policy in 2016. In March it set the principal refinancing rate at 0.0%, reduced the deposit rate to -0.4% and that for fund supply at 0.25%, affirming that these levels should remain unchanged beyond the date indicated for the finalisation of the asset-purchasing programme, extended in the meantime to December 2017. It also launched a new series of four long-term Liquidity Injection operations aimed at revitalising the credit market.

PORTUGUESE ECONOMY

According to the National Statistics Institute, the Portuguese grew 1.4% in 2016, down 0.2 p.p. on the preceding year. The first half of the year was characterised by a sluggish rate of expansion, of less than 1%, due to fragility of international trade, which was affected by the economic difficulties in Angola and the temporary stoppage of one of the Sines refineries. The contraction in investment was also a crucial factor behind this deceleration, being primarily a reflection of the weak outlook for the trend in demand, political uncertainty in the early months of the year and also the cutback in public investment due to budgetary consolidation measures. In fact, there were falls of more than 20% in nominal terms in public investment. Private consumption rise by 2.3% over the year as a whole, benefiting from the increase in disposable income associated with the restitution of civil servants' salaries and the inflation rate situated at very low levels. This was situated at 0.6% taking the year as a whole, slightly above the 0.5% registered in 2015. Insofar as external trade is concerned, available data at current prices indicate that the export and import of goods climbed by 0.9% and 1.2%, respectively, which in large part is explained by the approximate 28% decline in sales to Angola and by the 22% drop in the value of fuel imports due to the low oil price recorded during the year. Measured at constant prices, both exports and imports posted increases of 4.4%, generating a minor negative contribution (-0.1 p.p.) to annual GDP. However, it is worth mentioning the individual contribution from exports, +1.9 p.p., the biggest contribution to wealth generated by the components of aggregate demand, with exports in the form of Tourism services meriting special mention.

The information made available by the NSI relating to the economy's financing capability relates to the third quarter of the year, revealing that in the four quarters ended in September 2016, this represented 0.9% of GDP (same as in 2015), although there were changes in the various institutional sectors. Hence, the financing capability of financial companies rose 1.5 p.p. to 3.3% of GDP, whereas that of families fell 0.8 p.p. to 0.8% of GDP, given the steeper increase in consumption than in income and which translates into a decrease in the savings rate to 4.0% of disposable income. Turning to the public accounts, the information available indicates that the deficit was situated at 2.3% of GDP[1] in 2016, below the target set by the European Commission (2.5%). According to the Bank of Portugal, the public debt ratio was situated at 130.5% of GDP in 2016, 1.5 p.p. higher than in the previous year, which in large part results from the increase in new issues of medium and long-term debt issues in order to take advantage of more favourable financing conditions, broadening the spectrum of debt eligible for participation in the European Central Bank's public-debt programme. It should be noted that this figure incorporates an availability of deposits of some 10 th.M.€, reflecting the advance funding of the CGD's recapitalisation operation which will only take place in 2017, according to the information provided by the Public Debt and Treasury Management Agency (Agência de Gestão da Tesouraria e de Dívida Pública – IGCP).

GDP growth

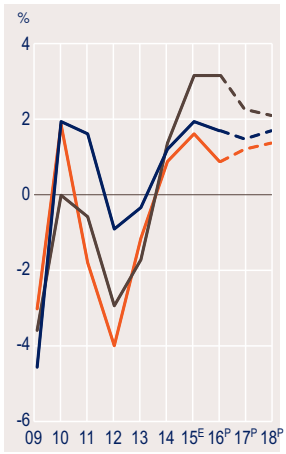


Chart 2

- Portugal
- Spain
- EMU

Source: European Commission, Autumn 2016 forecasts.

Current and capital balance as % of GDP

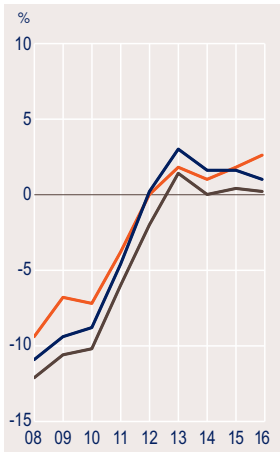


Chart 3

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

Source: Bank of Portugal.

1) Technical information of the UTAO n.º 6 / 2017.

The Treasury issued 17.4 th.M.€ of medium and long-term debt and repaid IMF loans of 4.5 th.M.€. By the end of 2016, Portugal had already repaid around 42% of the total IMF loans which, according to Moody's rating agency, will permit the Portuguese State to save about 41 M.€ interest payments. The average maturity of the issues realised during the year was 8.5 years while the cost of the debt issued was 2.5%, up 0.1 p.p. on 2015. The employment market behaved favourably, with the unemployment rate falling by 1.3 p.p. to 11.1%.

The private sector continued along the path of deleveraging. According to the Bank of Portugal, private companies' debt represented 143% of GDP at the end of 2016, which compares with 171.1% at the end of 2012; amongst individuals, the same ratio was 77.6%, down 18.2 p.p. on the maximum figure recorded in September 2009.

Financing to Portuguese Banks

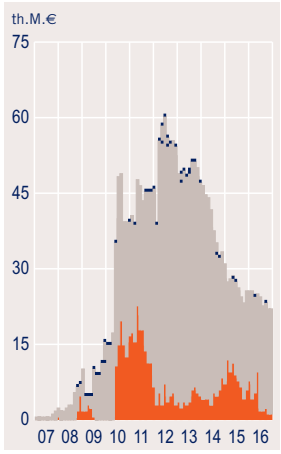


Chart 4

- Marginal loans facility
- Long-term refinancing operations
- Main refinancing operations

Source: Bank of Portugal.

Unemployment rate in Portugal

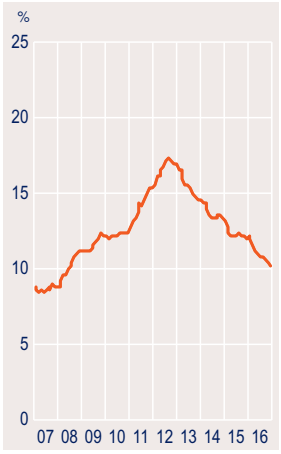


Chart 5

Source:: INE.

Scenario for 2017

The European Commission estimates that the Portuguese economy will advance 1.2% in 2017, with domestic demand being the principal engine driving growth. This organisation expects that this component's contribution will increase to 1.4 p.p., reflecting chiefly the expectation that investment will accelerate to levels of around 3.7%. Private consumption, for its part, could grow at a slower rate than in 2016, reflecting a more cautious posture on the part of households, given the lower savings levels and the still high indebtedness levels.

The prospect that the oil price will recover relative to the levels observed in 2016 – in 2017, the IMF estimates that this raw material's average price will be situated at 51.2 dollars per barrel, 20% higher than in 2016 – will have an impact on inflation, with the European Commission forecasting that this will accelerate to 1.2%.

As regards the process of budgetary consolidation, the government expects to cut the public deficit to 1.6% of GDP, which may prove to be an ambitious goal in a scenario marked by the permanence of risk factors.

The behaviour of public-debt financing costs and consequently that of companies, could limit investment, thus impacting the State's ability to collect more receipts.

Important during the course of this year will be the resolution of issues related to the financial system, namely as concerns the recapitalisation and restructuring of Caixa Geral de Depósitos and the solution for Novo Banco. In the case of the public-sector bank, the capital needs are estimated to total 5.2 th.M.€, of which the first phase (1.4 th.M.€) has already been concluded, including the conversion of the Contingent Convertible Bonds (CoCos) into capital. The direct recapitalisation by the State should amount to 2.7 th.M.€, already funded in 2016 according to the IGCP.

Financial system

The Portuguese financial system's deleveraging process continued apace in 2016, with the loans / deposits ratio dropping to 101.1% in September 2016, 1.4 p.p. less than in December 2015 and 66 p.p. below the figure in June 2010, when the ratio recorded its highest ever level. This performance mirrors the fact that loans advanced (including securitisation operations) maintained a contracting trend in 2016, while deposits continued to register a moderately ascending trajectory.

The solvency ratios remained relatively stable in the first nine months of 2016, with the common equity tier 1 ratio closing the third quarter of 2016 at 12.3% and the total solvency ratio standing at 13.2%, both 0.1 p.p. below the 2015 levels. For its part, the total credit-at-risk ratio reflects fragilities that the Portuguese banking industry still has to contend with, having climbed to 12.6% in September 2016, 0.6 p.p. higher than in 2015.

The recourse to ECB funding declined during the course of 2016, being situated at the end of the year at 22 th.M.€, down 4 th.M.€ relative to 2015, equivalent to a year-on-year fall of 15%, which compares with a 63% drop for the whole of the Eurosystem. Long-term funding operations represented 94% of the total of Portuguese banks' recourse to the Eurosystem.

Loans

In 2016, loans advanced to residents fell by roughly 4% in annual average terms, 0.6 p.p. less than a year ago. This decrease extended to all sectors, with decreases of 6.0% and 2.5% in lending to non-financial companies and individuals, respectively. The scenario of loan contraction is expected to continue in 2017, although the rate of decline could be more moderate bearing in mind that there are signs of a recovery in the contracting of new home-purchase loans.

Trend in loans in Portugal

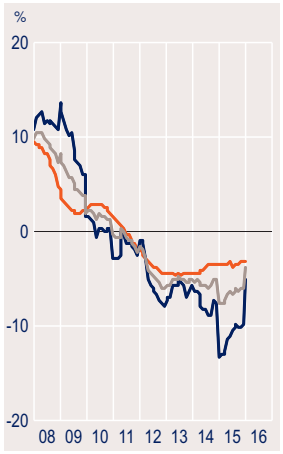


Chart 6

- Individuals
- Non-financial companies
- Total lending to the private sector

Note: Year-on-year growth rate; adjusted by securitisations.
Source: Bank of Portugal.

Trend in deposits in Portugal

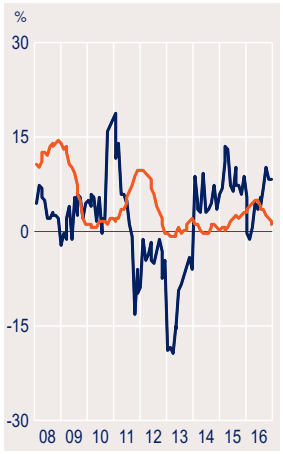


Chart 7

- Individuals
- Non-financial companies

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

FINANCIAL MARKETS

Events of a political and economic character impacted the behaviour of the financial markets in 2016. The result of the referendum relating to the United Kingdom's participation in the European Union and the unexpected victory of the candidate for the US presidency, Donald Trump, justified some volatility in virtually all asset classes. The year was also dominated by divergent monetary policies in the principal economic blocs.

On the currency market, 2016 was characterised by the dollar's appreciation. The EUR / USD exchange rate closed the year at 1.05, while the dollar's aggregate exchange-rate index (in relation to the market's major currencies) reached its highest value (103.60) since the end of 2002.

The US economy's good performance, in contrast to that of other zones of the globe, and the prospects of the rise in interest rates (which only materialised at the end of the year), amplifying differentials for other currencies, were determining factors. The uncertainty and deception relating to growth in other regions of the world were also responsible for the dollar's role of currency of refuge. The pound sterling lost 16% of its value against the dollar and the euro, reflecting the United Kingdom's decision to withdraw from the European project.

The interbank money market recorded the lowest Euribor rates ever: 3-month rate of -0.319%, 6-month rate of -0.221% and 12-month rate of -0.082%, reflecting the changes in the monetary conditions made by the ECB. In the US, the Federal Reserve assumed a policy in the last two years directed at normalising interest rates after having registered historically low levels.

The fed funds rate, the market's main benchmark, rose for an average rate of change interval of 0.375% to the current 0.625%, having been accompanied by the rise in the 3- and 6-months dollar Libor rate to the highest values since 2009, 0.9982% and 1.3226%, respectively.

In the public-debt market, the yields on the principal benchmarks registered a sharply downward movement to the lowest levels ever midway through the year to subsequently stage a recovery. The monetary policies were instrumental, as was the perception that the economic cycle in the US was on the upswing and that Europe was gaining traction.

The yield on the 10-year Treasury closed the year at 2.432%, having posted a minimum of 1.321%; meanwhile the 10-year Bund ended the year at 0.207%, after having recovered from the low of -0.204%.

The Euro periphery markets posted a highly heterogeneous performance, with the risk premiums of the countries considered to be the most vulnerable being subject to upward pressure. Matters of a political nature in Italy, Spain and Portugal (changes in government and/or changes in policies) generated distrust and led to selling.

In the case of Portugal, the year closed with the 10-year bond yielding 3.76%, with a spread *vis-à-vis* the market benchmark (Bund) of around 350 basis points (maximum levels), which compares with 2.54% and 190 b.p., respectively observed at the end of 2015.

Evolution of reference rates

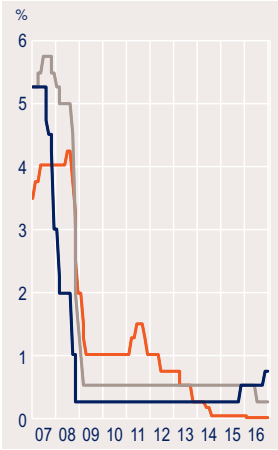


Chart 8

ECB
BoE
Fed

Source: Central banks / Thomson Reuters.

Net financing with ECB in the Eurosystem

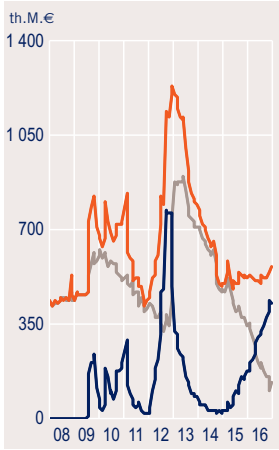


Chart 9

Net financing less deposits
Deposit facility
Lending operations

Source: ECB.

10-year sovereign debt
Yield

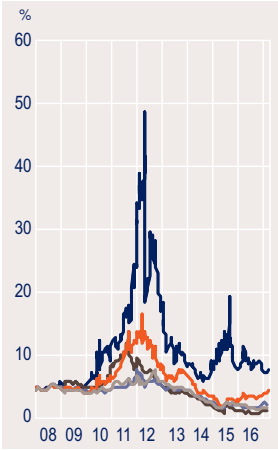


Chart 10

Greece
Ireland
Italy
Portugal
Spain

Source: BPI and Reuters.

Corporates and financials
Credit risk premiums

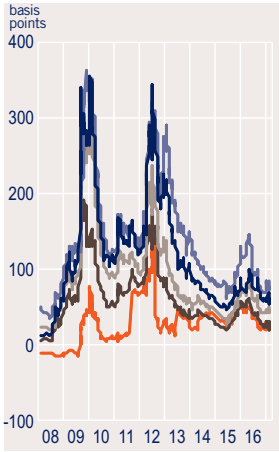


Chart 11

Financials
BBB
A
AA
AAA

Source: Credit Suisse, Bloomberg.

Equities market

Global context

2016 was marked by an increase in geopolitical uncertainty at global level, namely with the vote in favour of the United Kingdom's exit from the European Union and Donald Trump's election as US president. Nonetheless there were also signs of macroeconomic improvement in the world's main economic blocs which, coupled with a rebound in the oil price and commodities in general, increased the pressure for a reversal of the ultra-expansionist monetary policies (in particular in the US). In this context, the benchmark European equities index Euro Stoxx 600 closed the year with a fall of 1%, while the S&P 500 – the leading North American stock market index – ended 2016 posting a gain of 10% (to historical highs).

Portugal and Spain – secondary market

In Portugal, the PSI-20 benchmark index retreated 12% in 2016, marked by drops of 71% posted by BCP shares, 23% by CTT shares and 20% by NOS shares. In Spain, the IBEX 35 index closed the year registering a loss of 2%, largely due to the 66% decline in Banco Popular, and losses of 36% in IAG shares and 20% in Cellnex shares. Trading volumes also suffered drops with Portugal and Spain posting declines of close to 30% when compared to 2015 to 18 th.M.€ and 578 th.M.€, respectively. This change in the trading volumes of the main stock market indices in Portugal and Spain compares with the 14% drop in the Euro Stoxx 600 and an 8% rise in the S&P 500.

Portugal and Spain – primary market

Of the POS operations realised in Spain, the main highlights were the POS (public offer for sale) of Parques Reunidos (600 M.€), Telepizza (550 M.€) and Global Dominion (150 M.€). There were no primary market operations in Portugal.

In 2016 a number of companies quoted on the Iberian market carried out capital increases. In the Spain, these included those realised by Arcelor Mittal (2 800 M.€), Banco Popular (2 500 M.€), Hispania (231 M.€), Lar (147 M.€), Realia (89 M.€).

In terms of bond issues, the only one worth mentioning was the Indra 250 M.€ bond issue in Spain.

Equity indexes' evolution

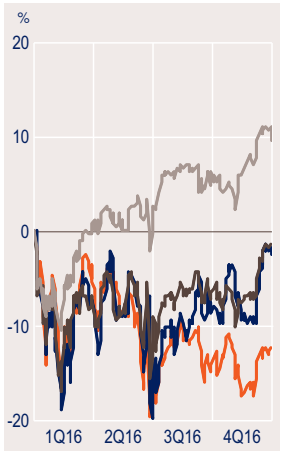


Chart 12

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

Source: Bloomberg.

Turnover

Secondary market

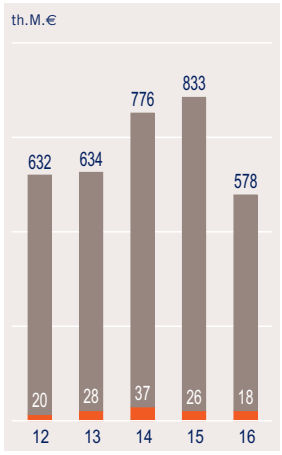


Chart 13

- IBEX 35
- PSI-20

Source: Bloomberg.

ANGOLAN ECONOMY

Economic activity

According to estimates included in the State Budget for 2017, the Angolan economy decelerated to 1.1%[1] in 2016, after the 3.0% growth posted in 2015. This slowdown is explained by the crude-oil sector (growth of 0.8%), notably due to the 21% fall in the average price for a barrel of oil on the international market to 40.6 US$, while the average oil output dropped by around 2% y/y to 1.72[2] million barrels / day (mbd), below the government's target of 1.79 mbd. The other sectors of economic activity grew by 1.2%, spurred positively by the agriculture and energy sectors, and negatively by the fishing, diamonds and manufacturing sectors. As for 2017, the government projects a 2.1% expansion in GDP, justified by the expected recovery in oil prices and output (46 US$ and 1.82 mbd), which should permit an expansion of 1.8% in the oil and gas sector, while also underpinning the other sectors of economic activity (2.3%).

Real GDP growth in Angola

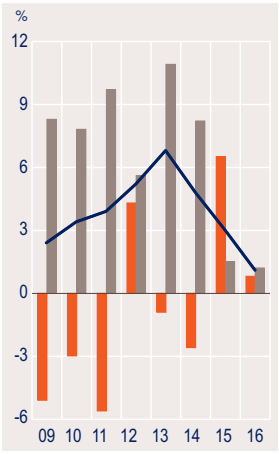


Chart 14

Source: Finance Ministry.

Foreign exchange reserves

Chart 15

Source: Angolan Central Bank (BNA).

Economic indicators and forecasts

	2011	2012	2013	2014	2015E	2016E	2017P
Real Gross Domestic Product growth (yoy, %)	3.9	5.2	6.8	4.8	3.0	1.1	2.1
Oil sector	(5.6)	4.3	(0.9)	(2.6)	6.5	0.8	1.8
Non-oil sector	9.7	5.6	10.9	8.2	1.5	1.2	2.3
Oil production (millions of barrels / day)	1.63	1.72	1.73	1.63	1.76	1.72	1.82
Price of Angolan oil (average, USD / barrel)	108.7	111.0	107.5	100.8	51.4	40.6	46.0
Consumer Price Index (y-o-y change, end of period)	11.4%	9.0%	7.7%	7.5%	14.3%	42.0%	15.8%
Fiscal balance (% of GDP)	10.3	6.7	0.3	(6.6)	(3.9)	(5.9)	(5.8)
Non-oil primary fiscal balance (% of non-oil GDP)	(51.1)	(53.7)	(48.3)	(44.6)	(22.5)	(15.8)	-
Net foreign exchange reserves (in thousand millions of USD, end of period)	26.3	30.8	31.2	27.3	24.6	18.6	18.9
Average exchange rate (AKZ / USD)	94.0	95.6	96.9	98.5	121.0	164.4	-

Source: BNA, Finance Ministry Angola, FMI. E – Estimated. P – Forecasts of the Finance Ministry. *Table 5*
Note: the table data for the economic growth was published by the Finance Ministry, and differ from data published by the National Statistics' Institute.

1) More recent data disclosed during the presentation of the State's Annual Borrowing Plan for 2017, indicate a virtual zero growth of 0.1% in 2016. Moreover, there has also been a revision of the series of National Accounts on the part of the Angolan NSI, still without complete figures for 2016, but which point to a decrease in GDP of 4.7% yoy in the first nine months of the year.
2) Source: Angolan Ministry of Finance.

External sector

The trade balance in 2016 should register a more positive performance than that of the previous year. According to the IMF's forecasts, the goods balance as a percentage of GDP improved by 1.9 p.p. in 2016 to 14.0%, as reflected in an improvement in the current account deficit to -4.3% of GDP. During the course of 2016, net international reserves continued to be under pressure, reflecting above all the decrease in revenues from crude-oil exports; these posted a 13% drop to total 21.4 th.M.US$ in November. According to the IMF, the amount of reserves is expected to have represented 8.1 months of imported goods and services in the past year, substantially above the recommended minimum (3 months). The backdrop of low oil prices and the consequent shortage of foreign currency obliged the Banco Nacional de Angola to adjust the Kwanza-Dollar exchange rate in the first half of the year, as evidenced by the 15% depreciation recorded at the start of 2016. In the second half of the year, the exchange rate remained stable at AKZ 166.7 per USD.

Public accounts

In the Correctional State Budget for 2016, the government revised downwards the average price of a barrel of crude oil from 45 US$ to 40.9 US$, estimating a deficit of 5.9% of GDP and reflecting a less optimistic prospect for the collection of crude-oil taxes. Budgetary execution data in the first half of the year reveal a surplus of 0.7% of GDP, due to cost containment (realisation of 29% of the budgeted expenditure). On the receipts side, the execution rate reached 39%, impacted by the low rate of oil-related revenues received (34%). More recent data reveal that the deficit could have been situated at 2.3% of the GDP[1]. As concerns public financing, the Angolan government stepped up the recourse to Treasury Bonds, giving greater preference to the 2-year maturity series when compared with 2015.

The amount of Treasury Bills placed also rose significantly when compared to the previous year, with greater incidence in the 6-month securities. In addition, it was possible to witness an increase in placing interest rates, in line with the trajectory of the BNA's key interest rates. The Correctional Budget foresees an increase in the public-debt ratio as a percentage of GDP of 14.5 p.p. to 61.9%; more recent data place the stock of government debt at 52.5% of GDP[2]. For 2017, the government anticipates that the fiscal deficit will remain high (-5.8%), projecting that the average price per barrel of crude oil will rebound to 46 US$.

Placements of Central Bank Securities and Treasury Bills

Placement interest rates

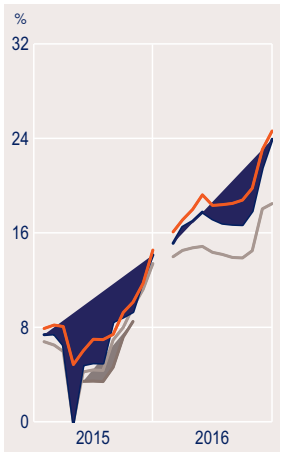


Chart 16

364 days
182 days
91 days
63 days

Amounts placed

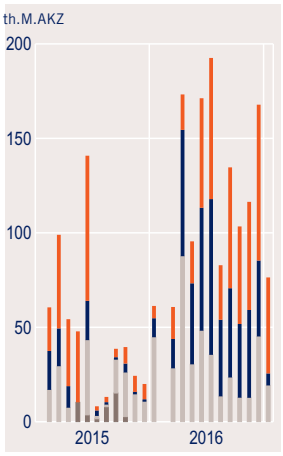


Chart 17

364 days
182 days
91 days
63 days

Source: Angolan Central Bank (BNA).

1) Presentation of the State Debt Annual Plan for 2017.
2) Source: Annual Debt Plan 2017.

Inflation and interest rates

The scarcity of foreign currency, the Kwanza's depreciation and the supply restrictions contributed considerably to the rise in prices in 2016, with the average inflation rate reaching 32.4%[1]. Meanwhile, the inflationary pressures were cushioned during the year, reflecting the appropriate economic policies. The BNA's benchmark rate climbed by 500 b.p. to 16%, the mandatory minimum reserves coefficient was hiked from 25% to 30% and the liquidity-supply interest rate increased from 13% at the end of 2015 to 20% at the end of 2016. It is expected that the inflation rate will retreat in 2017, benefiting from the effect of the favourable base and the upswing in the international oil market: however, even so, it is forecast to remain in the double-digit range.

Banking sector

Lending to the economy posted average growth of 19.7% in 2016, which compares favourably with the 0.7% contraction observed in 2015. This trend resulted from an increase in lending to the private sector, where the average increase stood at 19.2%. Deposits expanded by 21.2%, on average, during the past year (10.7% in 2015).

Loans' evolution
Annual average balance

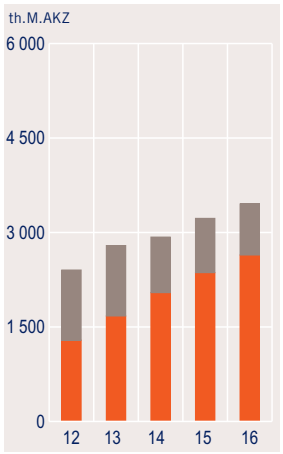


Chart 18

Total loans
Loans in local currency (AKZ)

Source: Angolan Central Bank (BNA).

Deposits' evolution
Annual average balance

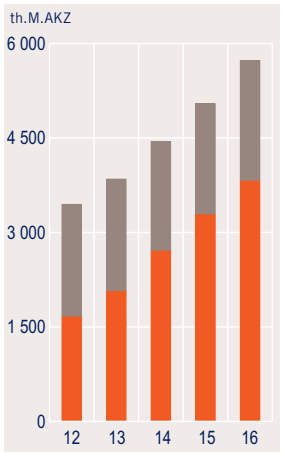


Chart 19

Total deposits
Deposits in local currency (AKZ)

1) Source: Angola NSI.

MOZAMBIQUE ECONOMY

Economic activity

The Mozambique economy grew 3.3% in 2016, which compares unfavourably with the 6.6% posted in the preceding year. The challenges faced by the economy were numerous: low raw material prices, smaller flow of direct foreign investment (FDI), adverse climatic conditions, lower confidence on the part of economic agents, depreciation of the Metical and the restrictive fiscal and monetary policies. The extractive industry registered in this period a significant downturn relative to 2015, while the electricity, water and gas sector contracted in line with the drought that devastated the country; on the positive side, the main highlight were financial services. The revival of economic agents' confidence and the rebound in commodity prices, notably coal, should be the support factors underpinning the country's economy in 2017, with growth forecast to attain 5.5%[1].

External sector

The goods account deficit contracted considerably in 2016 (-65% y/y); exports declined in line with the lower commodity prices, albeit less than the drop noted in imports, which in turn reflected the deceleration in domestic economic activity and the Metical's depreciation. Accordingly, the current account deficit improved by roughly 30% in the period under review. Mention is also made of the 19% fall in FDI inflows during the course of the past year[2]. The utilisation of reserves permitted attenuating the pressure on the exchange rate; in this respect, net foreign reserves decreased by 418 M.US$ in 2016 to 1.78 th.M.US$ at the end of the year, the equivalent of 3.1 months' imports of goods and services (including megaprojects)[2].

Public accounts

The government compiled the Corrective Budget in 2016, reflecting the country's new economic and financial landscape, and after the disclosure of additional public-debt figures. The new document projects a deterioration in the deficit after donations of 2 p.p. to -8.6%. In the first 9 months of the year, the fiscal deficit after donations stood at 5.1% of GDP. In April, the government disclosed an additional amount of external public debt which had not been revealed previously, which led to the freezing of donations and financing on the part of partner countries and organisations, such as the IMF.

Real GDP growth in Mozambique

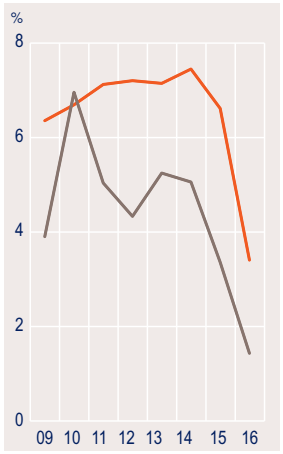


Chart 20

Mozambique
Sub-Saharan Africa

Source: International Monetary Fund (IMF).

Net foreign direct investment

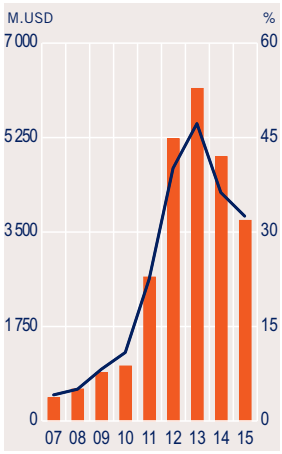


Chart 21

in % of GDP
FDI (net)

Source: Mozambique Bank, Bloomberg, BPI.

1) IMF estimates (WEO October 2016) and those of the Mozambique government (State Budget for 2017).
2) Source: Banco de Moçambique.

This situation, in line with the drop in the foreign currency inflows into the country, placed the country in a delicate position from a liquidity standpoint and gave rise to a series of rating revisions by the international agencies. In October, the government announced that it was unable to meet its financial commitments and, therefore, requested that the creditors restructure a part of the external public debt. One other objective of this restructuring includes the possibility of securing from the IMF a new programme of economic aid. Meanwhile the government did not pay the interest on the EMATUM bonds (restructured in 2016), which was due to take place in January this year. At the same time, the creditors have proven to be intransigent in discussing any restructuring, requesting the findings of the audit of the companies EMATUM, MAM and Proindicus, and that the IMF accepts to reinstate the financial aid to Mozambique.

Financial sector, deposits and loans

Inflationary pressures intensified during the course of 2016, resulting in an average inflation rate of 19.9%. The effects of climatic conditions on agricultural output, the Metical's depreciation, this rise in administered prices and political-military tensions are the factors behind this state of affairs. In order to stem this rise in prices, the Banco de Moçambique adopted a restrictive monetary policy: the liquidity-supply interest rate climbed from 9.75% at the end of 2015 to 23.25% in 2016; the deposit rate jumped from 3.75% in 2015 to 16.25% in 2016; the mandatory minimum reserves ratio in local and foreign currency was fixed at 15.5% in both cases. The average growth in lending to the economy was 17% in the past year (25% in 2015), while deposits increased by an average of 25%, similar to that observed in the previous year.

Domestic Commercial Banking

INDIVIDUALS AND SMALL BUSINESS BANKING

Individuals and Small Business Banking handled at the end of 2016, 1 million 651 thousand accounts, being responsible for a portfolio of Customer resources of 23 138 M.€ and a Loan and Guarantees portfolio amounting to 13 556 M.€.

At the end of 2016, the Individuals and Small Business Banking's physical branch network was composed of a total of 445 Branches and 39 Investment Centres, catering specifically for high net-worth clients or those with the potential to accumulate financial assets. It is worth mentioning that six branches located in heavy-traffic commercial outlets have already been converted into service branches.

50 branches were closed during the year as part of the drive to optimise the network and as form of adapting to the market's challenging conditions. This decrease did not however have any significant impact on the relationship with Customers and on the performance of the Bank's business. In parallel, BPI stepped up its commitment to specialised service at the branch network, through managers dedicated solely to upper-tier and small business Customers, having made a significant investment in the training of these managers.

CUSTOMER RESOURCES

At 31 December 2016 the resources of Individuals and Small Business Banking Customers totalled 23 138 M.€, which corresponded to a 2.0% decrease relative to 2015.

The main trends in resources in 2016 were as follows:

- the expressive increase of 46.2% in third parties' securities portfolios, related to the placing of three Variable Yield Treasury Bond issues (Obrigações do Tesouro de Rendimento Variável – OTRV's), with BPI having placed 34% of the total value of the issues of 3 450 M.€;
- the 1 002 M.€ growth of Sight Deposits and the 182 M.€ decline in Time Deposits, within a framework – common to the market in general – influenced by the drop in the remuneration rates on time deposits, now close to zero;
- negative change in Capitalisation Insurance of -1 335 M.€;
- the 202 M.€ increase in BPI Unit Trust Funds, in particular the 33.2% growth in the Money Market Funds;
- 484 M.€ decrease in Indexed Deposits due to the maturity of seven issues.

Customer resources Amounts in M.€

	2015	2016	Δ%
Sight deposits	5 704.9	6 707.0	17.6%
Time deposits	7 806.9	7 625.3	(2.3%)
Bonds and structured products[1] placed in Customers	964.8	278.6	(71.1%)
o.w. Indexed Deposits	684.6	200.2	(70.8%)
PPR[2]	965.9	722.5	(25.2%)
Insurance capitalisation[3]	3 731.6	2 396.1	(35.8%)
On-balance sheet resources	**19 174.1**	**17 729.5**	**(7.5%)**
Unit trust funds[3]	1 793.3	1 995.6	11.3%
PPR[4]	1 025.3	1 041.0	1.5%
Off-balance sheet resources	**2 818.5**	**3 036.5**	**7.7%**
Subtotal	**21 992.6**	**20 766.0**	**(5.6%)**
Corporate bonds held by Customers	327.7	1 212.6	270.0%
Other Customer securities[5]	1 294.9	1 159.6	(10.4%)
Other Customer resources	**1 622.6**	**2 372.2**	**46.2%**
Total Customer resources	**23 615.2**	**23 138.2**	**(2.0%)**

Excludes BPI securities. *Table 6*

1) Guaranteed-capital and limited-risk bonds and indexed deposits (guaranteed capital).
2) PPR (retrement savings) in the form of capitalisation insurance.
3) Excludes PPR.
4) PPR in the form of unit trust funds.
5) Includes third party funds and strcutured products placed with Customers, Excludes BPI stocks.

CUSTOMER LOANS

At 31 December 2016, the individuals and small business Customer loans and guarantees portfolio amounted to 13 556 M.€, registering a 2.1% or 278 M.€ increase when compared to the end of the previous year, consolidating the portfolio expansion already initiated in the 2nd half of 2015. The expansion of the loan and guarantees portfolio intensified throughout the year, increasing by +80 M.€ in the first half and by +197 M.€ in the second half of the year. Loans to Small Businesses posted an increase of +192 M.€.

Customer loans and guarantees Amounts in M.€

	2015	2016	Δ%
Loans to individuals			
Mortgage loans[1]	10 812.4	10 799.0	(0.1%)
Personal loans[2]	575.3	662.7	15.2%
Credit cards[3]	162.8	155.8	(4.3%)
Car finance	107.7	130.7	21.3%
Loans to individuals	**11 658.2**	**11 748.2**	**0.8%**
Loans to small businesses			
Commercial loans[4]	1 209.3	1 376.0	13.8%
Equipment leasing	49.1	69.5	41.7%
Property leasing	247.1	245.8	(0.5%)
Factoring / Confirming	8.3	14.4	72.6%
Loans to small businesses	**1 513.8**	**1 705.7**	**12.7%**
Total loan portfolio	**13 172.0**	**13 453.9**	**2.1%**
Guarantees and sureties	106.1	101.8	(4.1%)
Total	**13 278.1**	**13 555.7**	**2.1%**

Table 7

Individuals and Small Businesses Banking

Loans and guarantees

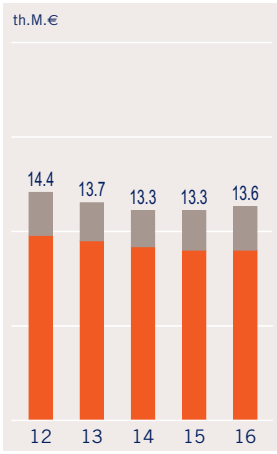


Chart 22

Customer resources

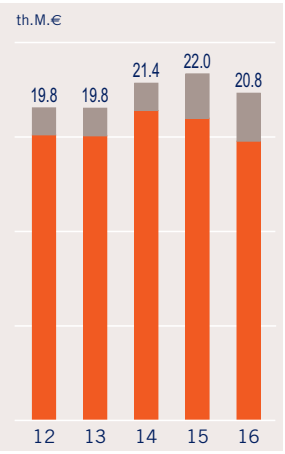


Chart 23

Other loans and guarantees
Mortgage loans
Off-balance sheet
On-balance sheet

MORTGAGE LOANS, PERSONAL LOANS AND MOTOR CAR FINANCE

Mortgage loans

New mortgage loans contracted at BPI grew 52% in 2016, reaching 896 M.€.

The mortgage-loan portfolio amounted to 10 799 M.€, which amount is very close to the figure recorded at the end of 2015.

Personal loans

The contracting of new personal loans totalled 320 M.€, which corresponds to 36% growth in 2016.

The personal loans portfolio expanded 15% in 2016, standing at 663 M.€ at the end of year.

In 2016, the selling of non-financial products trended very positively, having registered historically high levels of sales and commissions, with growth of more than 30% in the number and value of the products financed and the commissions generated.

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.

Motor car finance

The contracting of motor car finance presented a 22% increase, reflecting the steep rise in motor vehicle sales in the market and the consequent larger demand for financing.

At the end of 2016, the portfolio of motor vehicle finance advanced to Individuals and Small Business Banking Customers stood at 131 M.€, representing 21% growth.

COMMERCIAL LOANS, LEASING AND FACTORING / CONFIRMING

In 2016, BPI continued to reinforce its positioning in the segments selected as priority, namely export-business Customers, those engaged in the agricultural and tourism sectors, and more generally, all those presenting good risk indicators. Hence, in loan products tailored for small businesses, the portfolio posted +13% growth to 1 706 M.€.

The financing for small and medium-sized companies with competitive conditions was maintained, namely through the principal programmes launched by the government, with special reference to the continuation of the PME Crescimento 2015 credit line. Noteworthy was:

- the contracting under this line of 3 143 operations amounting to some 199 M.€ with Customers of the Individuals and Small Businesses Network;
- in the overall terms and since the launching of the PME Investe / Crescimento credit lines, BPI has contracted 33 177 operations, in the amount of 2 867 M.€, thereby enabling it to maintain leadership with a market share of 18.4%.

As regards the PME Líder (Programa Fincresce) and PME Excelência statutes, in which BPI has been leader since their creation (in 2008 and 2009, respectively), it continued to occupy the leading position, with shares of 26% and 27%, respectively. As concerns the Individuals and Small Businesses Network, 969 PME Líder (52%) and 300 PME Excelência (61%) statutes were awarded.

The Portugal 2020 incentives system, which constitutes an opportunity for the development of investment projects also assumed great importance in 2016 from the perspective of commercial activity, having as its objective supporting entities with approved projects. In this respect, Banco BPI developed a specific array of products for financing those projects by means of the BPI P2020 and BPI PDR2020 Lines.

Also worth underlining was the 115% expansion of the confirming portfolio and the support given to innovative companies via the BPI / FEI Inovação II Line, the first line in Portugal set up pursuant to Horizonte 2020.

CREDIT AND DEBIT CARDS

At the end of 2016, Banco BPI had 1 607 thousand cards placed with Customers, which translates into growth of 0.3% relative to the end of 2015. The corresponding billing was up 6.8% on the 2015 figure.

The number of credit cards stood at 459 thousand, -5.8% when compared with the end of 2015. In billing, there was a +5.1% increase in the amount per card.

Turning to credit cards, Banco BPI closed 2016 with 1 148 thousand debit cards, which represents a 3.0% increase over the same period a year earlier, influenced by the issue of the BPI Electron Empresa cards in substitution of the Multibanco Empresa cards (which had still not been cancelled at the end of the year). The accumulated billing of debit cards rose by 8.0% to reach 7 202 M.€.

Credit and debit cards
Selected indicators

	2015	2016	Δ%
Credit cards			
No. of credit cards at the end of the year (x th.)	487.4	459.3	(5.8%)
Billing (M.€)	995.3	984.2	(1.1%)
Loan portfolio (M.€)[1]	162.8	155.8	(4.3%)
Debit cards			
No. of debit cards at the end of the year (x th.)	1 114.3	1 147.8	3.0%
Billing (M.€)	6 667.7	7 202.2	8.0%

Table 8

1) Outstanding owed by Individuals and Small Business Customers and non Customers.

ALLIANZ INSURANCE

As part of the strategic partnership with Allianz Portugal, Banco BPI continues to offer a diversified range of insurance products targeted at Individuals, Corporate and Small Business Customers, and Self-employed Professionals.

At the close of 2016, there were roughly 760 thousand policies in portfolio, taking into account credit-linked and isolated-sale insurance policies. Associated commissions totalled 44.6 M.€, representing 8% annual growth in 2016 against the 5% posted in the preceding year.

With 321 thousand policies, isolated-sale insurance already accounts for 42% of the total portfolio. These insurance policies grew by 6.8% in number as a result of the strong growth in the life assurance portfolio (13.6%) and the maintenance of the dynamic sales of business-related insurance (All Risks and Health) and specialised (Individual and Company Public Liability).

NON RESIDENTS

The Non-Residents Division supports Individuals and Small Business Banking in connecting to the non-resident Portuguese communities and Portuguese descendants.

With the object of boosting efficiency, the Bank set about downsizing the structure abroad. At the end of January 2017, the French branch's activity began to be undertaken by the branch head office in Paris and the representative office in Lyon. The Non-Residents Divisions also encompasses 4 representative offices in 4 countries whose mission is to lend support to the local communities.

At the end of 2016, the non-residents' segment of Individuals and Small Business Banking was responsible for a resources portfolio[1,2] of 4 279 M.€ (-5.4% down on 2015) and for 552 M.€ in loans[2] (+9% relative to 2015), representing 18% of the resources and 4% of loans of Individuals and Small Business Banking.

1) Includes third-party securities portfolio held by Customers.
2) Does not include the France branch.

PRIVATE BANKING

At the end of December 2016, BPI Private Banking's business volume totalled 6 186 M.€, representing a 4.5% increase relative to the previous year, with growth in the second half of the year accelerating to an annualised 14.4%.

Assets under discretionary management and subject to advisory mandate, in the amount of 5 091 M.€, climbed by 3.8% when compared with December 2015. Stable investments under custody, amounting to 811 M.€, posted 2.6% growth in this period. The loan and guarantees portfolio maintained the previous year's growth trend, climbing 26.7% when compared with December 2015.

The prospecting for new Customers in 2016 represented 8% of the initial Customer base.

Private Banking
Selected indicators

Amounts in M.€

		2015	2016	Δ%
Discretionary management and advisory services	*1*	4 904	5 091	3.8%
Stable investments under custody	*2*	791	811	2.6%
Loans and guarantees portfolio	*3*	224	284	26.7%
Business volume *[= Σ 1 to 3]*	*4*	**5 919**	**6 186**	**4.5%**

Table 9

The economic landscape in 2016 was marked on the one hand, by the maintenance of a climate of very low interest rates and, on the other, by the high levels of market volatility associated with the economic uncertainty and with the impact related to unexpected political developments. The victory of the "Brexit" camp in the referendum held in the United Kingdom and Donald Trump's election as US President flowed over into 2017 as events whose next steps will continue to dominate investors' attentions.

Taking into account the uncertainty of the economic background and the volatility of the financial markets, decisions relating to discretionary and advisory management at BPI were focused on safeguarding Customers' wealth.

Customers' demand for gradual diversification solutions for their portfolios increased throughout 2016, as borne out by the 24% and 19% growth of the BPI Unit Trust Funds and Third Party Funds, respectively.

CORPORATE BANKING, INSTITUTIONAL BANKING AND PROJECT FINANCE

Against a national backdrop marked by the slump in private investment, BPI has positioned itself in order to support the granting of credit to the business segment, continuing to record a positive performance in the market share of loans to the universe of non-financial companies.

In the 2016 edition of BFin – Barómetro Serviços Financeiros Empresas, complied by DATA E, BPI was recognised by the companies as:

- no. 1 in the category "Globally most efficient";
- no. 1 in the share of Internet Banking and no. 1 as regards the level of satisfaction with Internet Banking;
- no. 2 in "Most suitable products for companies" and "Globally best for companies";
- increasingly more important as the Principal Bank, an indicator in which BPI presents an increase in share to 20.4% (*vs.* 19.4% in 2015).

The approach to the corporate segment was founded on the following pillars:

- permanent focus on the leadership in the main public programmes: PME Investe / Crescimento, Garantia Mútua, PME Líder and PME Excelência;
- support for Small and Medium-sized Companies (SME) through the specific credit lines negotiated with the European Investment Bank (EIB), some of which were fully placed in 2016, namely the BEI Agro and BEI América Latina lines;
- strong dynamism within the ambit of the Portugal 2020 and PDR 2020 programmes: availability of specific loan offers and regular sharing of information with Customers, as well as the permanent tracking of loan opportunities amongst companies which present candidacies;
- support to innovative companies via the BPI / FEI Inovação II line, which falls within the financial instruments of Horizonte 2020. This line was exhausted by the end of 2016, with a candidature having been submitted to the European Investment Fund (EIF) for a new line earmarked to give continuity to this important means of financing for innovative companies;
- reinforcement of its positioning in Agriculture and Agro-industry, as a result of the increased granting of loans to Customers in the farming sector;
- high pro-activity within the scope of the JESSICA Programme, continuing to finance urban rehabilitation projects for a variety of ends, having applied all the funds managed by the Bank under this programme;
- great emphasis on support for the Tourism sector, with the signature of the Facilities Upgrading credit line in the amount of 60 M.€, protocoled with the Turismo de Portugal board. BPI was the 1st bank to actively promote this line, occupying the leading position in the amount handled with a 42% share and in the number of projects handled (36%);
- launching of the new BPI Confirming, created in order to permit greater simplicity on the payment of suppliers, national and foreign, through the simple transfer of files on BPI Net Empresas, with notification and the eventual advance receipt of funds by suppliers. The requests for advances can also be made via BPI Net Empresas by the suppliers who are BPI Customers;
- launch of various solutions for medium and long-term assistance, namely the IFD 2016-2020, the BPI SGM, BEI Start-ups and BEI SME V lines;
- simplification of the contracting of all the types of short-term operations at BPI, facilitating and accelerating the availability of funds to companies.

In the analysis of credit risk, the Bank pursued a policy of great rigour, in line with practices that ensure a permanent tracking and monitoring of companies.

This positioning allows BPI to have credit-risk levels well below the market averages (of only about 35% of the market figures, as per figures relating to September 2016).

At the close of 2016, the loan portfolio of Corporate Banking, Institutional Banking and Project Finance Customers totalled 7 464 M.€. The main feature was the approximate 12% increase in the Companies portfolio, which translates the results of the approach adopted for this segment.

Resources amounted at 2 802 M.€, 21% higher than in December 2015.

Corporate Banking, Institucional Banking and Project Finance			Amounts in M.€
	2015	2016	Δ%
Loan portfolio			
Corporate loans	3 831.7	4 300.0	12.2%
Large companies	1 445.5	1 733.6	19.9%
Medium-sized companies	2 386.2	2 566.4	7.6%
Project Finance – Portugal	1 161.0	983.8	(15.3%)
Madrid branch	943.6	763.4	(19.1%)
Project Finance	557.3	444.3	(20.3%)
Companies	386.3	319.1	(17.4%)
Public sector	1 358.8	1 417.3	4.3%
Total loans to Customers	**7 295.0**	**7 464.4**	**2.3%**
Resources[1]	**2 316.3**	**2 801.6**	**21.0%**

Table 10

In Specialised Credit to Companies, there was a very significant increase in the writing of new confirming business (payment orders processed through BPI) and Factoring operations (assignment of debts), respectively of 60.6% and 51.8%. It is worth underlining that BPI Confirming has grown 210% in the past three years (2014-2016).

In equipment leasing, the Bank continued to grow, climbing 11.6% to 137 M.€. Following the 98% surge noted in 2015, 2016 was a year of consolidating this expressive growth in Real Estate Leasing. It is worth pointing out that Equipment and Real Estate Leasing rose, respectively, by 188% and 183% in the past three years (2014-2016).

Specialized corporate loans			Amounts in M.€
	2015	2016	Δ%
Leasing (contracting)	**221**	**234**	**5.6%**
Equipment Leasing	123	137	11.6%
Real-estate Leasing	98	97	(1.9%)
Factoring and Confirming (loans taken)	**642**	**1 004**	**56.3%**
Confirming	328	528	60.6%
Factoring[2]	314	476	51.8%

Table 11

COMPANIES AND LARGE CORPORATIONS

At the close of 2016, the loan portfolios of Customers in the Medium-sized Companies and Large Corporations segments totalled 2 566 M.€ and 1 734 M.€, respectively, which correspond to increases of 7.6% and 19.9% relative to the previous year. On the other hand, BPI followed through with its strategic reduction of the Madrid Branch's exposure.

In the context of its actions in recent years, in 2016 BPI maintained its support for larger-sized companies in the mounting and placing of bonds, public and private.

This strategy permitted ensuring alternative forms of financing for Customers – complementary to the direct advancing of loans – which were increasingly sought after by larger companies within the context of policies aimed at diversifying funding sources.

In 2016 BPI participated as arranger / leader or placer of 7 bonds issues, with the placing of national and international corporate bond issues.

INSTITUTIONAL BANKING AND STATE BUSINESS SECTOR

Loans to public-sector Customers amounted to 1 417 M.€ at the end of 2016, which represents 4.3% year-on-year growth, reversing the contracting trend initiated with the sovereign debt crisis.

This performance was achieved within the context initiated in 2011 of the abrupt drop in the level of public-sector investment. Nonetheless, the partnership relationship the Bank maintains with the main companies of the State Business Sector which have the capability of borrowing outside the public perimeter, allowed ensuring this segment's expressive growth.

In the Institutional Banking segment, in particular in the municipal and regional sector, in light of the more favourable market conditions, the Bank promoted whenever possible long-term refinancing operations so as the provide the regions, the municipalities and local companies resources with maturity profiles on a par with the nature of their activities and investments.

1) Includes sight and term deposits.
2) Began to include loan assignments within the scope of motor-car loan stock.

PROJECT FINANCE

The Project Finance segment's loan portfolio at the end of December 2016 evidenced an amount of 1 428 M.€, down 16.9% when compared with the figure a year earlier, which decrease is fundamentally associated with operations outside of Portugal.

The loan portfolio's behaviour – which encompasses most of the medium and long-term operations, as is typical in the financing structure – continues to reflect the conjugation of ordinary repayments, early disbursements, sale operations (particularly on the international market) and financing advances on the domestic market, amongst which some recently contracted.

After a period greatly affected by the macroeconomic background and, namely, by the suspension of new public-investment projects under the public-private partnership regime, the Project Finance market has displayed signs of some dynamism, as a result of which it has been possible to secure new operations in Portugal, fundamentally in the renewable energies sector. In the meantime, the Bank has maintained a global strategy of selectivity in the financing of this type of project, intensifying the monitoring of activities with regard to the loan and guarantees portfolio.

It is worth making reference to the existence of a pipeline of operations worth more than 120 M.€, already under review or in the process of being contracted, involving various sectors, with particular focus on renewable energy projects.

Amongst the new operations contracted in 2016, we highlight the Bank's involvement in the structuring, mounting and financing of the acquisition by Brookfield from the Infraventus Group of a wind farm with an installed capacity of 102 MW, translating into a total amount financed of 88 M.€.

2016 also continued to be marked by the important involvement in a number of restructuring and renegotiation processes, involving namely, (i) various motorway concessions and sub-concessions in the wake of the signing in 2011 of the Economic and Financial Adjustment Programme between the Portuguese authorities and the European Union, the European Central Bank and the International Monetary Fund and (ii) renewable energy projects in Spain, as a consequence of unilateral regulatory alterations which were retroactively imposed by the respective Government.

In parallel with the financing aspect, the Project Finance area remains active in the provision of financial advisory services to both private and public entities, including a portfolio of projects in which it continues to play the role of permanent financial adviser, in particular in the infrastructures and transportation sector.

BPI, THE SME BANK

The SME's play a fundamental role in the national economy and, in line with the past few years, they continued to be a strategic priority in BPI's business approach in 2016.

Leader in PME Líder

In 2016, BPI maintained the position of the leading bank in the PME Líder stakes, which it has held since this statute was created in 2008.

The share stood at 26%, 2 p.p. above the second-placed Bank and corresponding to 1.864 PME Líder firms via BPI.

Recognising the importance of companies which attain the PME Líder and PME Excelência statutes, BPI offers a number of benefits applicable to:

- financing operations: PME Crescimento 2015, BPI / FEI Inovação II lines, EIB and BPI SGM lines;
- BPI / COSEC credit insurance: Global Policy and Secure Business SME.

Noteworthy in 2016 was the fact that the PME Líder project was recognised at European level in the final of the European Awards edition for Business Promotion, a European Commission initiative, where the PME Líder statute was victor in the category "Best Business Environment". The candidacy for these awards was endorsed by the Associação Portuguesa de Bancos, of which BPI is naturally a member, in partnership with IAPMEI and the Turismo de Portugal board.

Leader in PME Investe / Crescimento

Since the launching of the PME Investe / Crescimento lines (and for the 9th year) BPI has assumed a leading position, attaining an overall amount contracted of some 2 867 M.€ (data at the end of 2016, PME Investimentos), with an 18.4% share.

In PME Crescimento 2015, which is earmarked for funding investments and working capital, with special emphasis on high-growth and export companies, BPI leads in the total number of operations handled, with 6 734 operations, which is equivalent to a 20.4% market share(at the end of 2016, PME Investimentos). It is worth noting that in 2016, BPI channelled more than 300 M.€ in PME Crescimento 2015 funding.

Leader in Mutual Guarantee

In close liaison with the Mutual Guarantee Companies (Norgarante, Lisgarante, Garval e Agrogarante), BPI maintained an active role in the promotion of mutual guarantee business.

At the end of 2016, BPI was the leader in the number and accumulated amount of all the guarantees issued, with shares of 19% in the number of operations and 18.5% of the accumulated amount (at the end of 2016).

BPI subscribed, with the IFD and the Mutual Guarantee Companies, to the Mutual Guarantee Line IFD 2016-2020, in the amount of 1 000 million euro.

In addition, it launched the BPI SGM line, which aggregates financing with guarantees issued by Agrogarante, Garval, Lisgarante or Norgarante, in a much simpler contracting format.

Partnership in Portugal 2020

In 2016, BPI maintained a posture of strong pro-activity as regards Portugal 2020, namely through the permanent accompaniment and communication to the commercial networks and Customers of new tenders / competitions, legal and procedural alterations, as well as other relevant information.

BPI assists companies in the different phases of their projects, with appropriate financial solutions, including via the specific BPI P2020 credit line, which permits financing projects right from the submission of the respective candidacy.

Specially targeted at the Azores, the COMPETIR + line was developed in order to process financing associated with the payment of the reimbursable grant under the Programa Açores 2020.

EIB credit lines

During 2016, the specific funding lines negotiated with the EIB in 2015 were fully placed (EIB Agro and EIB América Latina), in the aggregate amount of 60 M.€, which permitted financing more than 240 companies.

In parallel, important steps were taken to reinforce and ensure the continuity of the partnership in the coming years, through the negotiation and contracting of two new funding lines and a funding and guarantee line for energy-efficient projects:

EIB Start-ups line

Financing agreement in the amount of 70 M.€, with a view to facilitating the availability of funds for start-ups (companies up to 4 years) and companies in initial development with growth prospects and the creation of work posts. This accord with the EIB will benefit from a European Union guarantee under the European Strategic Investments Fund (forming part of the "Juncker Plan").

EIB SME V line

New funding line of a general nature with an initial amount of 300 M.€ (which could be increased up to 400 M.€). This line will give continuity to the previous lines of a similar nature and should enable the Bank to offer financing at advantageous interest rates and with extended maturities for SME (companies with less than 250 workers) and mid-caps (companies with less than 3 000 employees), with a view to the fostering of economic growth and the creation of employment in Portugal. Up to 30% of the total loan may be used to finance small projects undertaken by public-sector entities.

Energy Efficiency Projects line

Financing and guarantee agreement, amounting to 50 M.€, for financing energy efficiency projects at companies.

It is the 1st accord entered into in Portugal within the ambit of the new Private Financing for Energy Efficiency Instrument (PF4EE), a joint EIB and European Commission initiative, which is aimed at promoting the development of energy efficiency and the small investments made in renewable energy, primarily by the business community in Portugal.

BPI will thus be the pioneer in the launch of yet another community financing instrument in Portugal.

JESSICA-BPI credit line

The JESSICA programme is an initiative of the European Commission and the European Investment Bank which permits countries to utilise a part of grants received from the European Union's Structural Funds to carry out reimbursable investments in projects falling within an integrated sustainable urban development plan.

These investments are realised by means of "urban development funds", to be applied in the form of loans, together with other sources of own and third-party funds.

The funds available for Portugal in this context totalled 130 M.€, allocated to the JESSICA Holding Fund Portugal. In this domain, Banco BPI was adjudicated the management of an amount of 72.5 M.€ of funds, of which 46 M.€ in the Northern region, 8.5 M.€ in the Central region and 18 M.€ in the Alentejo region.

In 2016 BPI continued to be extremely active in the placing of JESSICA funds ("Joint European Support for Sustainable Investment in City Areas"), reserved for the financing of urban rehabilitation and regeneration projects.

Through this dynamic drive, BPI paid out the total of the funds attributed and during an additional period of 6 years (until 2021), in terms of the mandate attributed to it, will continue to support Urban Rehabilitation, reinvesting the funds which the projects already funded have in the meantime repaid.

BPI financed 68 projects falling under the JESSICA Programme, in 31 municipalities and 18 sectors of activity, representing 287 M.€ of investment and 181 M.€ of financing.

It is worth underlining that in 2016 some of the Customers with projects were financed under this Programme were honoured, namely:

- the project for the recovery and requalification of the Church and Convent of S. Francisco in Évora, winner of the IHRU / Nuno Teotónio Pereira 2016 Award in the category Building Rehabilitation;
- the project for the restoration and recovery of the Church and Torre dos Clérigos in Oporto, winner of the Vasco Vivalva Prize given by the Fundação Gulbenkian and also the National Urban rehabilitation Award in the category "Best Restoration Work";

- the rehabilitation project of the Palácio do Raio in Braga won the National Urban Rehabilitation Award in the category "Social Impact";
- the Misericórdias de Vila Verde, Riba d'Ave and Póvoa de Lanhoso, entities which carried out urban rehabilitation projects financed by BPI under this Programme, saw the respective hospitals distinguished with the maximum level of medical excellence by the Health Regulator (Entidade Reguladora da Saúde – ERS), which evaluated 160 units from the social, public and private sector.

BPI, THE EXPORT COMPANIES' BANK

BPI continues to offer export companies a comprehensive and competitive range of products and services which encompass international trade solutions. These include financing and advance receipt of export proceeds and support for the management of treasury needs, which guarantee compliance of commitments to these companies' Customers and suppliers.

The drop in investment and Portuguese exports to key markets for Portuguese firms, such as Angola or Mozambique, had as a consequence the necessity to search for new destinations for domestic companies' exports, with BPI supporting this diversification with greater proximity to the companies concerned.

The solutions of advance payments on account of export proceeds and financing of international trade were reformulated with a view to facilitating their contracting and utilisation, thereby improving lending to the export segment. Through BPI Net Empresas it is possible to carry out a growing number of consultations and operations.

In addition, BPI offers, in partnership with COSEC, solutions for hedging risk and financial protection, adapted to the specific requirements of export firms.

BPI compiles and publishes a host of information about countries which are markets or potential markets for Portuguese companies' products and services.

There are 12 country files available which assume importance with respect to the interaction with Portuguese companies, the contents of which are regularly updated.

With the development and constant updating of this information, publicised on the BPI website and social networks, BPI strives to facilitate the access to useful and pertinent information as part of its ongoing support to Portuguese exporters.

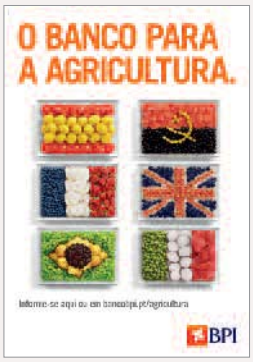
The Bank offers at its Branch and Investment Centre network experienced teams in the provision of financial services and international business assistance.

For the main markets for national exports, BPI also has dedicated teams for identifying, formulating and detailing the suitable solutions for each company's business and international operations.

BPI, THE BANK FOR AGRICULTURE

BPI maintained the support for the development, modernisation and internationalisation of companies from the agricultural and agro-industrial sector, reinforcing its leading position:

- no. 1 in the total accumulated amount and in the number of guarantee operations issued by Agrogarante, with shares of 22% and 24%[1];
- no. 1 in the total amount of requests for advances against operating subsidies granted by the IFAP and validated by the CAP, with a share of 69%[2];



- no. 1 in the total farming-season loans granted under the IFAP Curto Prazo line to Agriculture, Forestry and Livestock, with a 60%[3] share;
- no. 1 in the awarding of the PME Líder 2016 statute in the agricultural and agro-industrial sectors, with a 29%[4] share.

The Bank for Agriculture offers a complete and diversified range of solutions which encompass investment and treasury support, specially structured for the sector's

1) Agrogarante – Sociedade de Garantia Mútua. Amounts until 30 November 2016.
2) CAP – Confederação dos Agricultores de Portugal; Data concerning the 2016 agricultural campaign reported at 30 September 2016.
3) Instituto de Financiamento da Agricultura e Pescas. Data concerning the 2016 agricultural campaign. Amounts until 31 October 2016.
4) IAPMEI and Turismo de Portugal. Amounts at 11 January 2017.

needs, amongst which:

- BPI PDR 2020 line: products adapted to the financing needs of all the phases of a PDR 2020 project);
- BPI FEI / Inovação II line;
- joint solutions with Agrogarante;
- IFAP Curto Prazo line, earmarked for financing farming seasons;
- BPI / CAP protocol, which handles the operating subsidy advance payments from the IFAP;
- support line to Agriculture and Forestry (IFAP 2016);
- Pig Farming and Milk line 2016;
- in partnership with the EIB, BPI has been placing a series of financing lines for SME, notably the specific lines for companies in the agricultural and foodstuffs sectors, in the amount of 50 M.€.

In a policy of proximity to farming and agro-industrial enterprises, BPI has sponsored and participated in the sector's principal fairs and events with the object of assisting businessmen and presenting specific solutions for the sector: Feira Nacional da Agricultura, SISAB, 8.º Colóquio Nacional do Milho, Ovibeja and the National Agriculture Award (amongst others).

In the 5th edition of the National Agriculture Award, a joint BPI and COFINA initiative sponsored by the Ministry of Agriculture, Forestry and Urban Development, 1 312 candidacies were received, 29% more than in the 2015 edition.

This growth demonstrates the recognition and importance of this initiative within the national farming business context.

The ceremony for the announcement of the winners of the National Agriculture Award will take place in 2017, with the result that the winners will not be known until then.

BPI-COSEC SOLUTIONS:SUPPORT FOR BUSINESS GROWTH

In 2016 BPI reinforced the leading role in the placing of COSEC credit insurance policies, notably:

- BPI is no. 1 COSEC broker, responsible for 50% of the new Customers, increasing the weight of the portfolio with 31% of the number of policies (+3 p.p.) and of the total insured and 22% in premium volume (+3 p.p.);
- BPI was the distribution channel with the highest growth;
- 89% of the new business via BPI was issued to companies which did not have the product.

COSEC is the leader in Portugal in credit insurance and, through the Euler Hermes network, has the largest international network, providing a geographical coverage of more than 50 countries to support the operations of Portuguese companies in the external markets. COSEC is also responsible on behalf of the Portuguese State for the analysis and management of credit, guarantee and investment risks for countries with political risk.

BPI actively promotes the placing of credit insurance, with the aim of assisting companies to mitigate the credit risk associated with their sales, in their market prospecting (given that it allows for the prior evaluation of the risk of potential Customers) and it improves the ability to obtain from the Bank solutions involving advance payments against their revenues.

In 2016, BPI continued to make available innovative products sold exclusively by BPI, such as the "BPI Exportação Segura" and "BPI Venda Segura" policies, through which companies can cover risk of default in sporadic export or internal market operations, respectively, while not obliging companies to insurance their total invoicing.

The number of operations guaranteed by these products was virtually double that of the preceding year, thereby underscoring the importance of these products for the Bank's corporate Customers.

The simplified management global policy "Negócio Seguro PME" (Secure SME Business), specially conceived for the needs of SME's, already represented more than 45% of the new global policies issued by BPI in 2016. These policies were essentially sold to companies which did not resort to credit insurance, contributing to increasing this insurance product's and management tool's penetration amongst smaller companies, and thereby supporting the secure development of their businesses, especially in external markets.

In the placing of global credit insurance policies, BPI recorded 15% growth in the Customer portfolio brokered by the Bank, as a result of the combined contribution of new policies prospected and a high rate of Customer retention (90%), thereby enabling BPI to boost its prominent position in COSEC's portfolio, broking 31% of its Customers.

In the placing of credit insurance covered by programmes with State guarantee (Credit policies outside the OECD), BPI maintained an active disclosure and placed with its Customers 68% of the operations contracted, which evidenced the support given to companies in the diversification of export markets to countries outside of the European Union.

BANK FOR INNOVATIVE COMPANIES

BPI has pursued a policy of supporting innovation and entrepreneurship, focused on products specially designed for innovative companies, and on the sponsoring of awards and incentives.

Innovative solutions for innovative companies

Since 2013, BPI has pioneered the availability of specific credit lines (with EIF guarantee) for funding innovative companies.

In this respect, the BPI FEI Inovação and BPI FEI Inovação II lines were created, the 1st within the ambit of the "Risk Sharing Instrument" and the 2nd in the context of the InnovFin SME Guarantee (falling within the Horizonte 2020 – an EU framework programme for R&D).

In these instruments aimed at fostering innovation in Portugal, BPI, besides being pioneer, assumed marked proactivity in the distribution: it placed 50% of the Risk Sharing Instrument funds and, up until September 2016, had placed 37% of the InnovFin SME Guarantee funds.

Having terminated the placement of the 2nd line at the end of 2016, still in December BPI submitted to the EIF candidacy for a new line which gives continuity to this important financing instrument for innovative companies.

For the combined two credit lines mentioned, BPI financed around 370 companies in some 480 investment-funding or working-capital operations in a total amount of loans of 360 M.€.

In 2016 BPI signed the BEI Start-ups line, a financing accord amounting to 70 M.€, for making available funds for start-ups not older than 4 years and companies in the initial development phase, with prospects for growth and the creation of work posts.

BPI maintained proactivity in the placement of operations under the Finicia Early Stages and Microcredit programmes. Since the start and up until 31 August 2016 (latest available data) more than 860 operations have been concluded in the amount of 17 M.€.

In the lines supporting Empreendedorismo Microinvest and Invest+, BPI also remained extremely active in the number of operations and the amount contracted (Sociedade Portuguesa de Garantia Mútua).

Globally, since the start and up until 31 August 2016 (latest available data) the Bank had processed some 620 operations in the amount of roughly 20 M.€.

Awards and other initiatives

BPI is associated with COTEC Portugal – Associação Empresarial para a Inovação since its formation in 2003, having played an active role in its creation.

COTEC has as its mission promoting increased competiveness in companies located in Portugal through the development and diffusion of a culture and practice based on innovation, as well as of knowledge resident in the country.

In partnership with COTEC, BPI supports initiatives which encourage Portuguese companies to become more modern and competitive, with the emphasis of SME's, notably: it sponsors the PME Inovação COTEC-BPI Award and backs the dissemination of the Innovator Entrepreneurship Award in the Portuguese diaspora.

BPI also supports the National Creative Industries Award, a Unicer and Fundação de Serralves initiative which has as its object promoting, supporting, accompanying and assisting the implementation of innovative projects in the creative industries field. The projects must demonstrate economic and financial viability, and present the potential to create new employment and produce a catalyst effect on Portuguese intellectual output within the global market context.

BPI supports the INSEAD Entrepreneurship Award, which promotes companies which stand out for their innovation, growth, internationalisation and relevance of their strategy for Portugal, and the manager who is a beacon on the Portuguese economic stage, rewarding his / her management and entrepreneurial skills.

Also for a number of editions BPI has been disseminating and giving visibility to the European Business Promotion Awards, a European Commission initiative, actively executed in Portugal by IAPMEI.

Portugal has been recognised in the European finals for its excellent practices in the various categories.

2016: PME Líder; 2015: "Lisboa Empreende";
2014: "AMS Thinking Ahead", and "FAZ – Ideias de Origem Portuguesa";
2013: "Portuguese Shoes – The sexiest industry in Europe";
2012: "Douro Boys"; 2006: "Empresa na Hora".

COMMUNICATION AND EVENTS WITH CUSTOMERS

BPI bolstered its commitment to communication directed at companies, pursuing a policy of approximation to the strategic segments, promoting, organising and sponsoring numerous measures aimed at supporting national companies.

PME Líder and Excellence

As part of its leadership achieved in the PME Líder and PME Excelência statutes, BPI realised the following initiatives:

- **PME Excelência 2015 Ceremony:** sponsor and participant in the ceremony for the presentation of the PME Excelência 2015.
- **BPI Diplomas:** as part of the choice of BPI as a partner bank for adherence to the statute, personalised diplomas were given to all the PME Líder and PME Excelência firms which adhered to the statute via BPI.

Export and Internationalisation

BPI reinforced its links with business associations, chambers of commerce and other prominent entities associated with the national business community with the aim of maximising the support for companies.

BPI and the Chambers of Commerce

The partnership with the Chambers of Commerce and Industry (Câmaras de Comércio e Indústria – CCI), which seeks to promote economic relations between Portuguese companies and overseas, has been strengthened in order to better support companies operating on the international markets. In this respect, we highlight:

- **CCI Luso-Brasileira:** BPI's participation, in partnership with COSEC in the seminar "Exporting to Brazil", addressing the banking products and services available to lend support to exports and investments in Brazil, placing special emphasis on BPI-COSEC credit insurance;
- **CCI Luso-Espanhola:** BPI's participation in the seminar "Family companies in Portugal and Spain", sharing with members articles and surveys on topics of interest (Portugal 2020, Exports, Agriculture, good practices to improve the relationship with banks, disclosure and promotion of treasury products, amongst others), sponsoring regular publications (updated magazine and electronic newsletter) and participation at various thematic lunches and breakfasts organised by the Chamber;
- **CCI Luso-Francesa:** BPI's participation in the conferences devoted to "Investment in Portugal: creation and acquisition of companies Portugal" and "Portugal, a country to develop the outsourcing of services", showcasing the BPI solutions available for French companies seeking to invest in Portugal;
- **CCI Luso-Mexicana:** BPI support in the dissemination and staging of the workshop for Customers of the conference "Auto Industry Summit México 2016".

BPI and the Business Associations

2016 saw the reinforcement of the protocols and partnerships already forged, in terms of which BPI participated in seminars and events of various associations with guest speakers which, in coordination with BPI's commercial networks, seek to respond to current needs and challenges.

Some of the main initiatives were:

- Associação Comercial e Industrial do Funchal – Câmara de Comércio e Indústria da Madeira (ACIF-CCIM): BPI organised and participated in the debate at the seminar entitled "THE EIB Group, the Juncker Plan", with the object of clarifying the strategic investment opportunities dealt with by the EIB, with the presence of Nuno Ascenso Pires, European Investment Bank Head of Portugal Division, Hubert Cottogni, European Investment Fund Head of Mandate Management and Dominique de Crayencour, The European Long Term Investors Association (ELTI) Secretary General;
- PortugalFoods: BPI participated in a session dedicated to the internationalisation of national companies, where it presented "BPI Compete Já", a product created specifically for obtaining advances against subsidies under Portugal 2020 to present at business fairs and missions. Additionally, BPI has shared with the associates of PortugalFoods information relating to BPI products and services tailored to the agro-foodstuffs, as well as important surveys and data for companies in this sector;
- Associação Portuguesa dos Industriais de Calçado, Componentes, Artigos de Pele e seus Sucedâneos (APICCAPS): BPI presented the national and international context of companies' capitalisation, as well as the existing funding options, at the seminar entitled "Project Evaluation for external Promotion and Banking Finance" which was attended by more than 60 businessmen;
- Associação Empresarial do Baixo Ave (AEBA): sponsor of the 1st Business Forum "AEBA Facility Business Center" and of the "Members' Gala", promoting the interaction between the region's business community;
- Associação Portuguesa da Indústria de Fundição: as part of the XVII National Foundry Congress, BPI participated in the debate "Strategy for the foundry sector", for the purpose of identifying and exposing support solutions for the sector's growth strategies;

- Associação de Fabricantes para a Indústria Automóvel (AFIA) (Motor vehicle manufacturers' association: sponsor of the "Automobile Industry Meeting" where BPI sat on the panel debating the sector's competitiveness and competition, at which more than 260 business people were present.

Agriculture and Agro-Industry

2016 National Agriculture Award

5th edition of the joint initiative of BPI and the COFINA group (Correio de Manhã and Jornal de Negócios), sponsored by the Ministry of Agriculture, Forestry and Rural Development, with the object of promoting, encouraging and rewarding cases of national success in agriculture.

Three seminars were organised which were attended by more than 360 participants, with the aim of publicising the Award and promoting the debate on key issues for the primary sector. These conferences were able to count upon the strong presence of the government: the Prime Minister, Minister of Agriculture, Forestry and Rural Development, as well as the Secretary of State for Agriculture.

The first Think Tank of the National Agriculture Award dedicated to the theme Biological Agriculture was realised. The organisation of this type of debate is aimed at promoting the discussion and sharing of knowledge about specific topics, bringing together renowned specialists and entities. Subsequently a supplement was published (Jornal de Negócios and Correio da Manhã) with the findings, interviews, studies and infographics covering Biological Agriculture.

VISÃO 2020 para a Agricultura Portuguesa route

BPI participated in the three national conferences organised by the Confederação dos Agricultores de Portugal (CAP), which counted with the backing of the Fundação Calouste Gulbenkian and the Fundação Manuel dos Santos. These conferences were honoured with the presence of several prominent entities and personalities linked to the national farming community. The topics discussed centred on the sustainability and efficiency of resources in Portuguese agriculture, the sector's competitiveness and its growth and economic development.

Principal agricultural fairs and events

BPI sponsored and participated actively in the farming sector's principal fairs and events, namely: 8th Colóquio Nacional do Milho (Ponta Delgada, 18 and19 February), SISAB (Lisbon, from 29 February to 2 March), Feira Nacional do Porco Alentejano (Ourique, from 17 to 20 March), Agro 2016 (Braga, from 31 March to 3 April), Ovibeja (Beja, from 21 to 25 April), Wine&Food (Lisbon, from 29 April to 1 May), UniMark (Oporto, 29 and 30 May), Feira Nacional da Agricultura (Santarém, from 4 to 12 June), AgroSemana (Póvoa de Varzim, 1 to 4 September), Dia do Porco Alentejano (Montemor-o-Novo, 2 September) and Agroglobal (Valada do Ribatejo, 7 and 9 September). At the events, besides the brand's strong presence, priority was given to the existence of areas where BPI's commercial network was on hand to meet and present the most suitable products and services to the participants.

BPI has taken part in numerous debates and events, seeking to clarify and support farmers and disseminate BPI solutions for this sector. Amongst these were the Colóquio Nacional de Horticultura Biológica (biological horticulture), as "Conversas de Agricultura" (farming talk) organised by Agrogarante (Santarém, Ponta Delgada and Beja) e "Investir na Agricultura Biológica" (investing in biological farming) by Agrobio (Faro and Porto), amongst other initiatives, such as the competition "24 Horas de Agricultura", a contest for students attending higher agricultural courses around the country.

Economy of the Sea

BPI participated in debates organised in the Oceans Business Week (Lisbon, 3 June), Blue Bio Alliance (Lisbon, 2 June) and II Conferência Jornal Economia do Mar (Estoril, 9 and 10 November), addressing investment opportunities and BPI's specific supports for this sector, in particular with respect to the Mar 2020 project.

In addition, it sponsored the Excellence Mare 2016 Awards, a PwC initiative which seeks to recognise the merit and excellence of entities and personalities who have played a major role in the sustainable economic development of the activities associated with the sea.

Tourism and urban rehabilitation

BPI was the first and only banking entity to sponsor the BTL and thus associate itself with the tourism sector's prime fair. At the event, BPI signed with Turismo de Portugal (Tourism Board), a protocol that makes available the support line for Upgrading Facilities (Linha de Apoio à Qualificação da Oferta 2016).

Within the context of the dynamic promotion of the JESSICA programme, BPI has participated in several initiatives of associations and municipal councils, with the object of presenting the programme and more specifically the BPI JESSICA line.

In parallel, BPI has assisted in the publicising of various awards and initiatives which promote this type of projects, an example of which is the National urban rehabilitations Award, a Vida Imobiliária initiative, two of the nine projects distinguished were funded by the JESSICA BPI programme:

- in the "Social Impact" category: rehabilitation of the Palácio do Raio in Braga;
- in the category "Best Restoration Work" – Restoration and Recoupment of the Igreja and Torre dos Clérigos.

Innovation and Entrepreneurship

BPI and COTEC

Since the formation of COTEC Portugal – Associação Empresarial para a Inovação (COTEC) in 2003, in which BPI has assumed an active role in the initiatives that aim to incentivise Portuguese companies to become more modern and competitive:

- PME Inovação COTEC-BPI Award: has the backing of the newspaper Público and rates companies which, due to their innovation-driven culture and activity, constitute examples for the creation of value for the country. In 2016 the SME's honoured were ERT-Têxtil Portugal and i2S – Informática, Sistemas e Serviços.
- FAZ Empreendedorismo award: 9th edition promoted by COTEC and the Fundação Calouste Gulbenkian, whose winner in 2016 was Augusto Pinho, Chairman of Direct Poultry Inc / Premium Foods in Canada, with an honourable mention of Paulo Rodrigues of the firm Mint Labs in Spain.
- Cooperation between the two entities to support innovative national companies, namely in accessing finance and other assistance.

Indústria 4.0

BPI supported the cycle of forums organised by Norgarante "Portugal 4.0 – Rede de Inovação", an initiative which promoted the reflection upon how to innovate and create value within the context of Indústria 4.0, participating in one of the debating panels and informing about the BPI solutions available for supporting the research, development and innovation projects of SMEs wishing to innovate and create value.

European Business Promotion Awards

A European Commission initiative, handled in Portugal by IAPMEI, which has been able to rely upon BPI support in the dissemination and encouragement of national candidacies.

For the fifth consecutive year, Portugal played a prominent role in the European finals. In this edition, in the category "Improvement in business environment" won the "PME Líder" statute, a seal confirming the reputation of companies that singles out SMEs with outstanding performances. The project is the responsibility of the Instituto de Apoio às Pequenas e Médias Empresas e à Inovação (IAPMEI) in partnership with Turismo de Portugal, involving the Banks which have entered into protocols for the awarding of the statute.

Also in representation of Portugal in the European final was the initiative "Give meaning to Life", of the SAOM (Serviços de Assistência Organizações de Maria) in partnership with IEFP, whose mission is to socially integrate the homeless or people with the grave risk of social exclusion.

INSEAD Entrepreneurship Award

Initiative which distinguishes companies stand out because of their innovation, growth, internationalisation and importance of their strategy for Portugal; they must also display a socio-entrepreneurial initiative which addresses in an innovative, sustainable and effective manner a problem overlooked by Portuguese society.

INSEAD Social Entrepreneurship Award: winning initiative EKUI (Leque) by means of which a line of inclusive sport / didactic material is developed with a universal language and accessible to the entire population.

INSEAD Entrepreneurship Award: prize given to the company Vision Box, which provides biometric solutions for controlling ID and security.

Still on the subject of support for entrepreneurship in Portugal, BPI sponsored the NEW Idea Competition and participated in training and clarification sessions targeted at entrepreneurs.

BPI Site and BPI Empresas Newsletter

During 2016, in view of the ever rising sharing of important information with Customers, specific content was developed and several alterations made to the BPI Empresas website, giving continuity to the marketing strategy initiated in the previous year.

The PME Líder and Portugal 2020 pages (two priority segments for BPI) were reformulated, with structured, aggregated and complete content in order to speed up the results of searches in the internet search engines (Google).

New content capable of being shared via the social networks were created in 2016 (analyses, videos, infographics), such as: (i) Biological Agriculture, aggregating all the information resulting from the Think Tank organised within the ambit of the National Agriculture Award and (ii) the editions of PortugalFoods' news broadcasts, where the principal news items relating to the farming and agro-industrial sector, with special reference to the sharing of experiences and cases of success in Portugal and abroad.

Simultaneously, 2016 was characterised by the drive to share more news which is informative and educational. Besides the details of the details and information about bank products, we have consistently published articles expressing opinions, good practices and complementary analyses covering a variety of topics, such as:

- Portugal 2020 and PDR 2020: disclosure of the opening of new tenders, analyses and clarifications about procedures, the rates and types of support envisaged, characteristics of the beneficiaries, amongst others;
- export: BPI studies of markets, updating of country files which BPI makes available, analyses and good practices relating to the security of international trading relations;
- other themes: analysis of the de *minimis* assistance helping companies to understand its functioning and the calculation method, articles on good practices of information sharing and their impact on the risk evaluation of companies.

These analyses and articles have also been publicised on the sites and information channels of BPI's partners in strategic segments with a view to leveraging the support to companies.

BPI publishes an electronic newsletter about products and services, as well as studies and other key information about current business affairs, namely the abovementioned. In 2016, the newsletter was reformulated in terms of structure and is more attuned to the global trends in this type of communication, more attractive layout and raising the number of recipients to more than 85 thousand companies and businessmen. 10 editions were sent out.

Social networks

In 2016, BPI extended to the companies segment the sharing of content via the social networks. The contents are published on the BPI Empresas website, and were also disseminated via LinkedIn, covering themes such as: Portugal 2020, National Agriculture Award, PME Líder, App BPI Empresas, BPI surveys and reviews.

BPI Net Empresas

BPI's Corporate Internet Banking registered during the year numerous improvements and new functionalities, making cash management more efficient and more integrated in companies' accounts:

- single list of Beneficiaries and Debtors: the same person from a company can be the beneficiary of certain operations (for example transfers) and creditor of others (for example collections), and have various bank accounts associated with the respective entry without the need to record these as belonging to different persons or companies;
- diarising of Social Security payments, with the possibility of defining alerts when executing diarised payments;
- BPI Confirming function for Payer Customers: online creation or upload of payment remittance files (including in SEPA XML format) and consultation of the associated information;
- BPI Confirming functions for Suppliers(payment beneficiaries): consultation of Notices and respective Invoices, and Request for Advances Payments;
- subscription, additional purchase and redemption of the unit trust funds BPI Liquidez, BPI Moderado and BPI Dinâmico: alternatives for the placement of cash surpluses;
- creation of online Transfer files: inclusion of Beneficiaries with overseas accounts (for Banks adhering to SEPA); additional information for Beneficiaries; increase in the maximum number of entries per file (250);
- creation of online Letter-Cheque files: new option;
- online requests for the Commercial Paper Issue: new function for issuer Customers.

These improvements were recognised by companies which acknowledge BPI as the no. 1 in the evaluation of Net Banking, according to the survey by BFin 2016 – Barómetro Serviços Financeiros Empresas[1], of DATA E:

- Net Banking most utilised by Companies;
- no. 1 in the utilisation of Net Banking on mobile phones;
- no. 1 in the evaluation of the Net Banking service.

Moreover the BPI Empresas APP, available for smartphone or tablet, is more complete with the object of better responding to the needs of companies, focusing on the access with the maximum security in any part of the world.

1) "The Companies Financial Services Barometer" (BFin) is a regular survey carried out by DATA E (Business Studies, Consultancy and Management company responsible for the conduct of regular studies in the business area, namely in the automobile, financial and telecommunications sectors) realised since 1987, which analyses the market for financial services in Portugal and portrays the universe of the 343.150 Portuguese mainland companies recorded by the National Statistics Institute (Instituto Nacional de Estatística – INE), with the exception of the companies in the financial and insurance industries.

Bancassurance

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

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

Bancassurance's performance in 2016 is reflected in the following indicators:

- the amount of commissions rose to 44.6 M.€ (+ 8%);
- insurance premiums totalled 158.9 M.€; at the end of the year, which reflects a 4.5% increase relative to 2015 (78.8 M.€ in life assurance and 80.1 M.€ in non-life insurance);
- the number of active insurance policies stood at 431 thousand in life assurance;
- and 425 thousand in non-life insurance;
- the number of cards with associated insurance packages stood at 96 thousand.

Commissions
Intermediation of insurance products

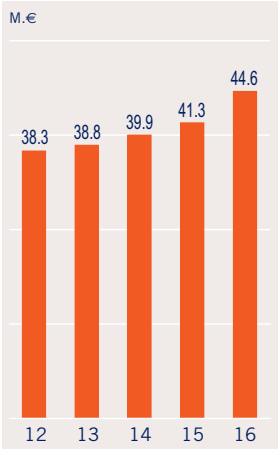


Chart 24

Insurance
Life-risk and non-life

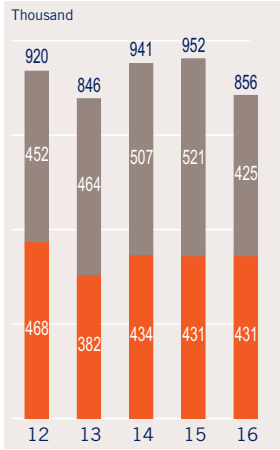


Chart 25

Non-life insurance
Life-risk insurance

Asset management

OVERVIEW OF OPERATIONS

At the end of 2016, BPI Gestão de Activos (Asset Management) had under management 10 330 M.€ of financial assets, representing a decrease of almost 13% relative to 2015.

Assets under management Amounts in M.€

	2015	2016	Δ%
Unit trust (mutual) funds	3 310	3 549	7.2%
Real estate unit trust funds	344	324	(6.0%)
Pension funds	2 419	2 418	0.0%
Capitalisation insurance	5 843	4 164	(28.7%)
Institutional Customers	367	331	(9.8%)
Total[1]	**11 861**	**10 330**	**(12.9%)**

Table 12

BPI Gestão de Activos increased its share by 4.2 p.p. of the unit trust fund management market to 27.5% (second position), while its market share in pension fund management stood at 13.2% (third place) and at 7.3% in the writing of new life assurance business (third position).

Since the beginning of 2014, BPI's Asset Management business has focused on diversified investment solutions (in the form of unit trusts, PPR (retirement savings plans) or unit-link insurance) and on niche products where there is an evident value added in their management. In 2016, the international sales of niche products had their first subscriptions, having captured in the second half of the year about 31 M.€ from international institutional clients.

Assets under management

2012-2016

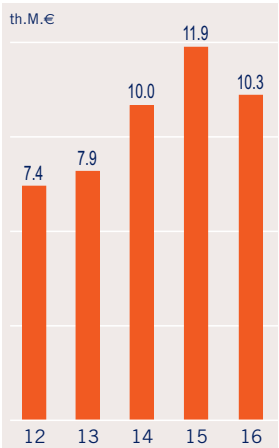


Chart 26

Assets under management breakdown

At 31 Dec. 16

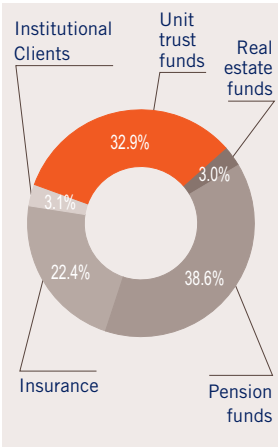


Chart 27

UNIT TRUST FUNDS

The amount of unit trust (mutual) funds under BPI's management increased by around 7% in 2016.

Considering just the national market, BPI Gestão de Activos posted the largest volume of net subscriptions, totalling some 248 M.€, corresponding to 9.4% growth, well above the figure recorded on the national market.

Unit trust funds under management Amounts in M.€

	2015	2016	Δ%
Bonds and money market	1 268	1 595	26%
Capital growth (equities)	655	590	(10%)
Tax efficiency (PPR/E)	1 055	1 069	1%
Diversification	333	295	(11%)
Total	**3 310**	**3 549**	**7%**

Table 13

The trend in the volume under management was not uniform in all the categories, with the Bonds and Money Market category posting the biggest growth of 26%, thanks mainly to the contribution from the BPI Liquidez fund with a net increase of roughly 65%.

Contrary to that noted in the previous year, the capital appreciation class (equities) presented a 10% decrease, motivated by the falls in the BPI Europa fund and in the BPI Iberia and BPI Alternative funds, both domiciled in Luxembourg. However, the BPI Brasil Valor and BPI Opportunities (also domiciled in Luxembourg) posted positive performances.

The Tax Efficiency category (PPR/E and PPA) performed favourably, benefiting from the increase registered by BPI Reforma Segura PPR of approximately 41 M.€.

Finally, the Diversification category was the one which decreased the most due to the falls in the BPI Global e BPI Universal funds. However, it is worth noting the very favourable increases in the BPI Brasil and BPI Metais Preciosos funds, with growth of 29% and 33%, respectively.

1) Adjusted to eliminate duplications.

REAL-ESTATE UNIT TRUST FUNDS

The real-estate unit trust funds presented a 6% decrease, at the same time as the national market registered a 4.3% decline in the total of open-ended funds. BPI's market share in the management of this category of funds stood at 8.7% at the end of 2016, occupying fourth place in the ranking.

INSURANCE

According to information made available at today's date by ASF – Autoridade de Supervisão de Seguros e Fundos de Pensões, the Portuguese life assurance market registered a contraction in 2016, with new business written in this category decreasing by 23.3%. On the other hand, the economic climate continued adverse; on the other, the new regulatory requirements which came into effect on 1 January 2016 led to a readjustment of the products offered by insurance companies.

For the same period, accumulated new business contracted by BPI Vida e Pensões was 488 M.€, which corresponds to a 72.1% decline relative to the same period a year earlier. This contraction is the result not only of the commercial strategy pursued in 2016 having been adapted to the environment of low interest rates, but also the fact that in 2014 and 2015 we had observed extraordinary levels of new business contracted, well above those of previous years. If one compares the pre-2014 years, one can ascertain that the 2016 figure is in line with the figures attained in those periods.

As regards the liabilities of BPI Vida e Pensões in 2016, these posted a decrease of 29.2%.

In terms of positioning in the life assurance market, BPI Vida e Pensões is the Portuguese company with the third biggest new business contracted in 2016, with 7.3% market share.

PENSION FUNDS

At the end of the year, BPI Vida and Pensões was responsible for 36 pension funds of 240 companies with overall net assets of 2 418 M.€.

Although having recorded an increase in the amount under management relating to the open-ended pension funds, there was no change in the total amount relative to the same period last year, while the market registered a slight expansion of 1.2%.

Pension Funds under management — Amounts in M.€

	2015	2016	Δ%
Close-ended pension funds	2 030	2 006	(1.2%)
Open-ended pension funds	390	412	5.8%
Total	**2 419**	**2 418**	**0.0%**

Table 14

BPI Vida e Pensões occupied third place in the ranking of Pension Funds managers in terms of the volume of assets under management at the close of 2016 with a 13.2% market share. In the management of Open-ended Pension Funds, BPI Vida e Pensões occupies second position in the ranking with a market share of 27.4%.

Pension funds under management
2012-2016

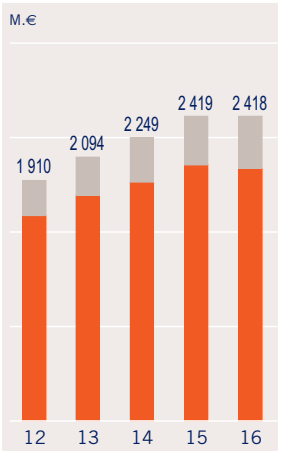


Chart 28

Insurance production

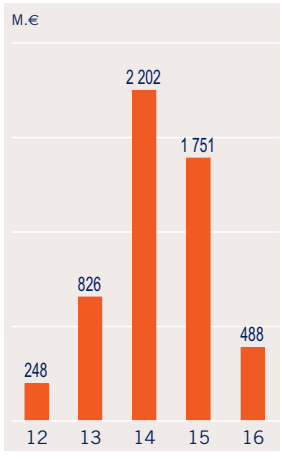


Chart 29

Open-ended pension funds
Close-ended pension funds

Investment banking

CORPORATE FINANCE

Based on the figures reported by Bloomberg relating to the deals announced in 2016 as financial advisor, Mergers and Acquisition activity in Portugal[1] recorded the same number of deals (16) as in 2015. However, in the value of the deals announced, the Portuguese Mergers and Acquisitions market once again contracted when compared to the previous year, reversing the upward trend initiated in 2015.

BPI Corporate Finance was involved in several high profile transactions: advising Ibersol in the preparation for the acquisition of the Eat Out Group, advising the Brodheim group in the acquisition of a majority stake in Optivisão, support to an international financial investor in the attempt to acquire the assets of Ascendi, advising a Canadian pension fund in the valuation of the investment in the Galp Gás Natural Distribuição, and support to a financial investor in the potential acquisition of a piped LPG operator in Portugal.

BPI Corporate Finance also provided financial advisory services to a significant number of other mandates linked to the taking of investment and financing decisions (in Portugal and overseas), economic-financial analysis, valuation or business reorganisation, to various national and international entities, amongst which the valuation and corporate reorganisation of Salvador Caetano, the valuation of Partex's oil & gas assets, sale of Cartosis, opening up of the capital of Brokerslink, consultancy services to Carris, as well as advisory assignments ty the Nors, Ascendum, Sodim, Viacer, Sonae Indústria, China Three Gorges groups, amongst others.

ibersol grupo

Advising on preparation of aquisition of Eat Out Group

2016

BPI

grupo Optivisão

Advising on the acquisition of a majority interest in Optivisão

2016

BPI

GRUPO SALVADOR CAETANO
SEMPRE CONSIGO

Advising on the evaluation and reorganization of participations

2016

BPI

PARTEX
OIL AND GAS

Advising on assets evaluation of Oil & Gas

2016

BPI

brokerslink
A GLOBAL BROKING COMPANY

Advising on capital opening

2016

BPI

TRANSPORTES FIGUEIREDO

Advising on the sale of the company

2016

BPI

1) Operations in which the target and/or purchaser is Portuguese, excluding financial sector, real estate and captive operations.

EQUITIES

Secondary market

In 2016 BPI brokered share dealings worth 3.7 th.M.€ (7.3 th.M.€ in 2015). In online stock brokerage, in which Banco Português de Investimento acts as financial intermediary, BPI was market leader with a share of 21.7%, having brokered 1.5 th.M.€.

Primary market

In 2016 BPI acted as Joint Book-runner in the Accelerated Book-building of 10% of Corticeira Amorim (105 M.€).

Research and sales

BPI continues to be one of the research houses with the largest coverage of quoted companies in the Iberian market, with a total of 69 companies covered in Spain and 20 in Portugal at the end of 2016. It published 642 research reports during 2016.

BPI continued to organise numerous events with the goal of fostering closer relations with companies and the institutional investor community. Amongst these, it is worth noting the XIII Iberian Conference held in Oporto on 7, 8 and 9 September, at which 46 Iberian companies and 70 European and North American institutional investors were present. Furthermore, BPI organised several roadshows with companies forming part of its coverage universe.

At the close of 2016, the Iberian team was composed of 26 Employees, of whom 14 were allocated to the Research team and 12 to Sales and Trading. This team was once again well placed in the rankings of Iberian brokers, with special mention of the Thomson Reuters Analyst Awards (#1 Best Iberian Broker), Extel Survey (#4 Iberian Broker), and the Euronext Lisbon Awards(Most active Research House; Most Active Trading House in Shares – EnterNext).

BPI Capital Africa

BPI Capital Africa, a member of the Johannesburg Stock Exchange, continued to expand its stockbroking business for institutional investors. From its offices in Cape Town, BPI Capital Africa currently covers 70 stocks, including a number of companies quoted on sub-Saharan stock markets (South Africa, Botswana, Ghana, Mauritius, Mozambique, Nigeria, Kenya, Ruanda, Senegal, Tanzania, and Zimbabwe) and maintained active contact with some 210 institutional investors, based in South Africa and in various international markets.

At the end of 2016, the BPI Capital Africa team was composed of 16 staff (from South Africa, England, Mozambique, Nigeria, Portugal and Zimbabwe).

Trading

The principal trading activity was concentrated at BPI Alternative Fund – Iberian Equities Long Short, whose management is subcontracted to Banco Português de Investimento. The fund's good performance since its creation contributed to the increased placing of participation units with the Customer base. At the end of 2016, the fund's under management amounted to 330 M.€, with the BPI Group holding an economic exposure corresponding to 24% of the participation units. In 2016, the fund registered for the first time a negative performance of 1.36% net of commissions.

PRIVATE EQUITY

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

At the end of 2016, the overall portfolio of the Group's private equity assets, comprising its own portfolio and the participating interests in the venture-capital funds, totalled some 87 M.€ at balance sheet values. The participating units in the venture-capital funds corresponded at the end of December 2016 to:

- 17.9% in the capital of the Fundo Pathena SCA SICAR (Fundo Pathena) corresponding to the investment of 10 M.€ made by BPI Private Equity in July 2015. The Fund's investment profile corresponds to information technology companies (in late early stage and expansion / growth) with head office in the European Union and special focus on Portugal. The Fund was created in March 2013, with its final closing taking place in 2015. At the end of December 2016, the Fund had a subscribed capital of some 55.8 M.€, about 37% of which has been paid up.
- the 52% interest in the Fundo Caravela – Fundo de Capital de Risco with a capital of 30 M.€, promoted by BPI and managed by Inter-Risco. This fund is in the disinvestment stage.
- the 46% interest in the Fundo Inter-Risco II, managed by Inter-Risco. In 2015 the investors approved a capital reduction to 69.5 M.€. The Fund has, besides BPI's participation of 32 M.€, other key investors such as the European Investment Fund and the Fundação Calouste Gulbenkian. The fund follows a generalist sectorial approach, focused on buyout and build-up investments in unlisted small and medium-sized Portuguese companies. This Fund entered into the disinvestment phase at the end of 2015.
- the 99.8% interest in the Fundo Inter-Risco II CI, launched in July 2013 with a capital of 30.05 M.€, and with a subsidiary nature of Fundo Inter-Risco II, by way of investments in partnership with the latter. The investment period terminated at the end of 2016 having been realised in the 1st half of the year, the acquisition of 98.7% of ExpressGlass (present in the motor vehicle windscreen repair and replacement sector) and at the end of the 2nd half of the year the acquisition of 40.7% of Catari (company that is dedicated to the production of metallic equipment and structures, namely, scaffolding, formwork and drainage systems). It is worth highlighting that these last two investments refer to the part not subordinated of the Inter Risco II. A Inter-Risco fund, which holds the remaining capital and is the fund manager.
- 9% in the Fundo PVCi, a Fund with 111 M.€ managed by the European Investment Fund, directed at investments in private equity and venture capital funds in Portugal.

Besides the funds referred to, which are succinctly identified next, the BPI Group also owns participating interests in the European Investment Fund managed by the EIB, in F-Hitec managed by ES Ventures, in various FCR's (corporate turnaround funds) managed a number of entities (Oxycapital, ESCapital, Explorer Investments and Capital Criativo), as well as in funds managed by Portugal Capital Ventures.

Private Equity investments[1]

Invested funds

Caravela Fund	**52.0%**	In the disinvestment phase
IR II Fund	**46.0%**	In the disinvestment phase
IR II CI Fund	**99.8%**	Fund with a subsidiary nature of the Fundo IR II and which has as its mission the realisation of investments in partnership with this (non-subordination approved at the end of 2015); Investment period ended on 31.12.2016.
PVCi	**9.0%**	Investment fund in private equity and venture capital funds in Portugal
Pathena Fund	**17.9%**	Investment fund in information technology companies (late early stage and expansion / growth) based in the member states of the European Union, with a focus in Portuguese companies or companies with a significant part of their activity in Portugal.

Equity interests

Inter-Risco, S.A.	**49.0%**	Venture capital fund manager

1) Excludes direct investments in non venture-capital companies, namely, the 9.2% shareholding in Conduril (civil engineering and public works) and the 2.72% shareholding in Corporación Financeira Arco.

International activity

BANCO DE FOMENTO ANGOLA

At the close of 2016, BFA had total assets of 6 925 M.€, a headcount of 2 632 Employees and a distribution network made up of 191 units serving more than 1.6 million Customers.

Resources

Customer resources recorded a 15.4% year-on-year decrease to be situated at 5 804 M.€ in December 2016.

When measured in the respective deposit-taking currencies, the resources in kwanza (which represent roughly 2/3 of total resources) increased by 10% year-on-year, and Customer resources taken in USD (c.1/3 of the total) shrank by 23% year-on-year.

The securities portfolio held by Customers increased 56% in 2016, standing at 1 944 M.€ at the end of the year.

Loans

The loan portfolio, net of provisions, expressed in euro, contracted by 15.0% to 1 269 M.€ in December 2016.

When measured in the respective lending currencies, the loan portfolio's growth was:

- the portfolio of loans advanced in kwanza (roughly 1/2 of the portfolio total) recorded 8% growth;
- the loan portfolio in dollars (roughly 1/2 of the total) decreased 15.0% year-on-year.

At the close of 2016, around 3/4 of the loan and guarantees portfolio corresponded to the corporate segment and the remaining 1/4 to the individuals' segment.

Cards and electronic banking

BFA has a leading position in debit and credit cards in Angola, with more than 1.1 million valid debit cards at the end of 2016, which corresponded to a market share of 24.4%, and with 15 955 active credit cards (Classic and Gold).

The Bank maintained a prominent position in the stock of active POS devices and POS facilities in 2016, closing the year with 9 876 POS terminals corresponding to the top spot with a 26.3% market share, and 382 ATM machines, which corresponds to second position with a 13.4% market share.

Banco de Fomento Angola
Selected indicators

Amounts in M.€

	2015	2016	Δ%
Net total assets	7 954	6 925	(12.9%)
Loans to Customers	1 494	1 269	(15.0%)
Loans to Customers and guarantees	1 879	1 477	(21.4%)
Customer resources	6 860	5 804	(15.4%)
Bonds held by Customers (TBonds and TBills)	1 246	1 944	56.0%
Shareholders' equity	855	934	9.2%
Net profit	282	338	19.9%
Contribution for BPI consolidated result	136	163	19.9%
Employees (no.)	2 610	2 632	0.8%
Branches (no.)	191	191	0.0%
ATM machines (no.)	375	382	1.9%
POS (no.)	9 157	9 876	7.9%
Customers (thousand)	1 381	1 539	11.4%

Table 15

Customer loans

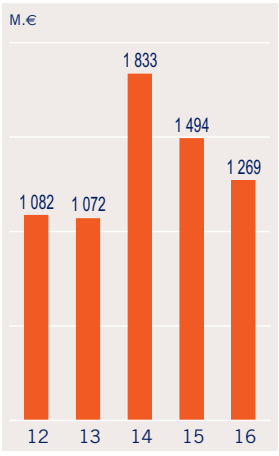


Chart 30

Customer resources

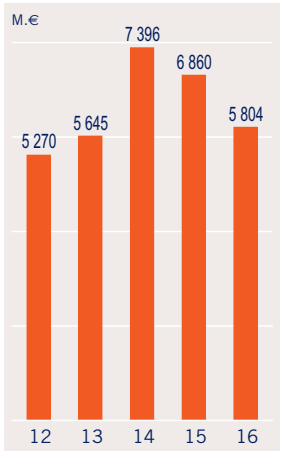


Chart 31

Securities portfolio

BFA's securities portfolio totalled 3 221 M.€ at the end of 2016. Around 50% of the securities portfolio comprised Angolan Treasury Bills, while the other 50% corresponded to Angolan Treasury Bonds with maturities ranging from 1 to 7 years.

Customers

The inflow of new Customers totalled 161 thousand in 2016. At the end of 2016, BFA Customers numbered a total of 1 571 thousand.

The homebanking service has been growing, registering a total of 577 thousand new users in 2016, which represented 37% of the total Customer base.

BFA unveiled the "direct top-ups" functionality on its homebanking platform. This function allows Customers to top-up their mobile phones and TV service through the BFA Net and BFA App, without the need to purchase a recharge or go to an ATM.

Employees

At the end of 2016, BFA's staff complement stood at 2 632, representing an annual increase of 0.8%.

Commercial network

BFA has an extensive and specialised distribution network, with a strong presence in Luanda and which ensures broad coverage of the entire Angolan territory. At the end of 2016 it comprised 166 branches, 9 investment centres and 16 corporate centres.

Insurance / Bancassurance project

BFA has formed a partnership with the insurer Universal in order to make available in the first phase insurance associated with the contracting of motor vehicle finance, home loans and personal loans. The implementation of the Bancassurance project, besides representing a great business opportunity for the Bank, diversifies the range of services available to Customers.

Customers

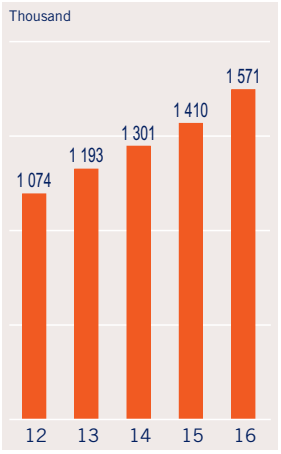


Chart 32

Subscribers of homebanking services

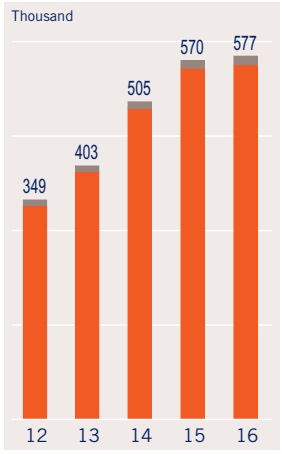


Chart 33

- BFA NET Empresas
- BFA NET Particulares (individuals)

Commercial network

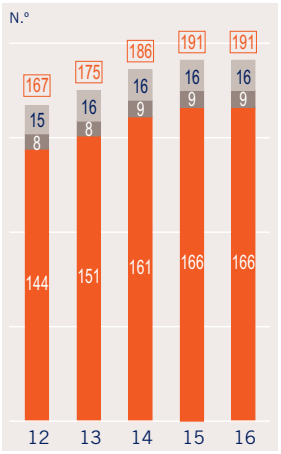


Chart 34

- Corporate centres
- Investment centres
- Retail branches

Employees

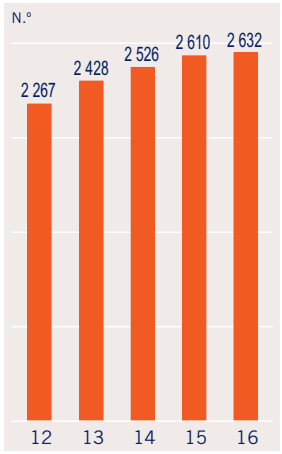


Chart 35

2016 CAMPAIGNS

Road levy

Buy your car stamp here

In its role of authorised agent, BFA realised a campaign in 2016 with the object of promoting the sale of Road Levy stamps relating to 2015. BFA was for the 2nd consecutive year the agent with the biggest number of sales of car stamps.

BFA Net

Your supporting documents with a Click

The primary aim of this campaign was to disseminate the "Digital Documents", with BFA Net's new function that allows the Customer to consult, store and/or print all his/her operations realised via the Bank's Homebanking service.

Kandengue BFA account

Give your children a better future

BFA launched in March 2016 its first junior savings account, a fixed-term placement in Kwanzas, available to Customers between the ages of 0 to 18 years. This campaign had as its prime goal encouraging parents or legal guardians to plan the future of their children.

BFA Net Empresas

Wherever you are, your company never stops

The main aim of this campaign is to publicise the functions available at BFA Net Empresas which permit a more efficient business management at companies, namely the payment of salaries, payment of suppliers' and service providers' invoices, the payment of taxes amongst other services.

Noteworthy was the fact that BFA Net is a multi-user service, which allows that operations are approved even when the company's managers are at different places.

BFA Net / BFA App

It was already fast, now it's direct

The campaign "Carregamentos Directos – Já era rápido, agora é directo" seeks to promote an new function of the Homebanking service. The "Carregamentos Directos" enables Customers to top-up their mobile phones and TV service via the BFA Net, BFA Net Empresas or BFA App, without the need to buy a recharge or to find an ATM.

DIGITAL CAMPAIGNS

March Woman

This month invest in yourself

The Campaign's objective is to commemorate the month of the Woman. The Bank promoted in this campaign BFA's Personal Loans.

Multicaixa card

Now it is much easier to activate your Multicaixa

The campaign's mission is to disseminate the new process for activating the Multicaixa card.

Musical Panda and the Caricas

Participate and win tickets

As sponsor of the show "Musical Panda e os Caricas" and as part of the commemoration of the Universal Children's Day, BFA organised an entertainment event with the object of offering tickets to the Musical Panda e os Caricas kiddies show.

Multicaixa D'Agosto card

1 year to celebrate with you

The purpose of this campaign was to commemorate with members and fans of the Club. The 1st Anniversary of the Multicaixa D'Agosto card. The campaign took place during August and was communicated in different channels.

BFA Net

Now it is easier to sign up to BFA Net

The goal of the campaign was to publicise the new process for adhering to and activating BFA Net.

DP BFA 10%

At BFA your new deposit is worth 10%

With the aim of attracting new funds, BFA added to kitys product range the DP BFA 10% fixed-term account in Kwanzas, with an extremely attractive interest rate. With this investment Customers, individuals and companies, have at their disposal yet another investment opportunity.

BFA RECOGNITION IN 2016

The Banker
Bank of the Year in Angola 2016
BFA was honoured for the third time with the Award "Bank of the Year in Angola 2016" by the magazine The Banker at an official ceremony held in London. "The Banker" is a British magazine dedicated to the financial market since 1926. It is present in more than 180 countries and is one of the principal sources of financial information, relying upon a unique data base with more than 4 000 Banks. At the present time, it is regarded as being one of the chief sources of financial information worldwide.

Sirius Awards
Best Financial Sector Company
BFA was distinguished for the fourth time with the Award "Best Financial Sector Company", in the 6th edition of the Sirius Awards, which was staged at the Hotel Epic Sana, in Luanda. The Jury judged the innovation, quality of products and services, the economic-financial performance and the contribution that BFA has made to encourage the population to resort to banking services.

Magazine EMEA Finance
Most Innovative Bank 2016
BFA was honoured for the first time in the category "Most Innovative Bank". EMEA Finance is a magazine directed at the financial community in Europe, Middle East and Africa, which analyses and classifies the performances of the main banking institutions in several countries.

Magazine EMEA Finance
Best Bank in Angola 2016
BFA was honoured by the magazine EMEA Finance, with the award "Best Bank in Angola" for the eighth time. EMEA Finance is a magazine directed at the financial community in Europe, Middle East and Africa, which analyses and classifies the performances of the main banking institutions in several countries.

Capital Finance Internacional
Best Branch Network
BFA was awarded the prize for the second consecutive year for "Best Branch Network" by the magazine Capital Finance International. This distinction is based on the Bank's vast commercial network, composed of 190 Branches.

International Finance Magazine
Best Corporate Bank in Angola
The International Finance magazine rated BFA "Best Corporate Bank in Angola" for the fourth consecutive year. The International Finance Magazine is a British online publication with an audience of more than 180 countries which annually pays tribute to the best entrepreneurs in the financial sector in their different areas of specialisation.

Banker Africa Magazine
Best Retail Bank
BFA was distinguished with the 2016 Best Retail Bank Award in the Banker Africa, Southern Africa Awards 2016, by the Banker Africa magazine. Banker Africa analyses and rates the performance of the principal banking institutions in several countries.

Superbrands
Brand of Excellence 2016
BFA was distinguished for the sixth consecutive year with the title of Brand of Excellence by Superbrands, an independent international organisation dedicated to the promotion of brands. Superbrands Angola rewards Brands of Excellence for their performance on the national market.

Deutsche Bank

STP Excellence Award

Deutsche Bank awarded BFA for the 14th consecutive year the STP Award (Straight Through Processing).In awarding this accolade, Deutsche Bank bases its selection criterion on the improvement in service levels and the high success rate in the automatic processing of foreign operations realised in 2015.

Global Banking and Finance Review

Best Commercial Bank in Angola

BFA was rated for the fourth consecutive year the "Best Commercial Bank in Angola" by the English portal Global Banking and Finance Review. The prime factors behind the accolade were the diversified range of products and services, the extensive branch network and the Corporate Social Responsibility Programme centred on Education, Health and Social Solidarity.

World Finance Magazine

Best Corporate Management 2016

The magazine World Finance voted BFA for the third year running as the bank with the "Best Corporate Management". In awarding the prize, World Finance used as the chief criteria the consolidation of operations, the contribution to the economic development of Angola and the creation of specific solutions for Customers.

World Finance Magazine

Best Retail Bank 2016

BFA was rated for the second time as the Best Retail Bank 2016 by the magazine Revista World Finance. In awarding this prize, the magazine uses as the evaluation criteria the variety and clarity of its products and services, turnover and growth in the market.

Global Financial Market

Best Retail Bank in Angola

The portal Global Financial Market (GFM) honoured BFA for the first time with the Best Retail Bank in Angola award. GFM is an online portal online, leader in financial news and has as its criterion for awarding prizes excellence, innovation and the best investment strategies in banking.

Global Financial Market

Best Commerial Bank in Angola

The portal Global Financial Market (GFM) rated BFA for the second time the Best Commercial Bank in Angola. GFM is an online portal online, leader in financial news and has as its criterion for awarding prizes excellence, innovation and the best investment strategies in banking.

Global Brands Magazine

Best Banking Brand in West Africa

The Global Brands Magazine distinguished BFA for the third consecutive year with the award for Best Banking Brand in West Africa 2016. This award takes into account as the main factors the activation of the BFA Brand in the Angolan market and the Bank's performance in the implementation of new support services to Customers.

Finance Digest

Best Commercial Bank in Angola 2016

BFA was honoured for the first time with the award "Best Commercial Bank in Angola 2016" by the magazine Finance Digest. Finance Digest is a British online magazine published quarterly, specialising in the financial analysis of banking, business, finance and technology.

BCI – BANCO COMERCIAL E DE INVESTIMENTOS

Total assets decreased 24.5%, totalling 1 923 M.€ at the close of 2016. The trend in assets was strongly influenced by the Metical's 33% depreciation against the Euro. BCI is the leader in the Mozambique banking system, with market shares of 28.5% in assets, 30.3% in loans and 29.2% in deposits. BCI's Customer base numbered some 1.5 million Customers at the end of 2016, up 13.6% on a year earlier, who were served via a distribution network comprised of 193 commercial units and a workforce of 2 987 Employees.

Deposits

Deposits taken from Customers registered in 2016, when measured in euro, a 25.3% contraction to total 1 372 M.€. BCI's deposits portfolio was penalised by the metical's depreciation against the euro.

The market share in deposits was situated at 29.2% at the end of the year (+0.5 p.p. when compared to 2015).

Loans

The loans portfolio when expressed in euro shows a contraction of 20.6% to 1 114 M.€, having been affected by the negative exchange rate effect of the metical's deprecation against the euro. BCI's market share in the loans segment was situated at 30.3% in December 2016 representing 1.0 p.p. expansion relative to December 2015.

Customers

The Bank's Customer base rose by 13.6% to 1.5 million Customers, which represents a net inflow of 175 thousand new Customers.

Distribution network

At the end of 2016, the bank had a total of 193 distribution points (163 traditional branches, 27 Exclusive Centres, 2 Integrated Centres and 1 Business Centre), which corresponded to 31% of Mozambique's banking system's total branch network. BCI expanded its network of ATMs to 642 terminals (53 more than in December 2015) and 9 660 POS (+1 104 units *vs.* December 2015).

Banco Comercial e de Investimentos
Selected indicators

Amounts in M.€

	2015	2016	Δ%
Net total assets	2 546	1 923	(24.5%)
Loans to Customers (net)	1 402	1 114	(20.6%)
Customer deposits	1 838	1 372	(25.3%)
Shareholders' equity	214	149	(30.3%)
Employees (no.)	3 009	2 987	(0.7%)
Branches (no.)	191	193	1.0%
ATM machines (no.)	589	642	9.0%
POS (no.)	8 646	9 660	11.7%
Customers (x thousand)	1 285	1 460	13.6%
Foreign exchange rate EUR / MZN	50.04	75.16	50.2%

Table 16

Customer loans

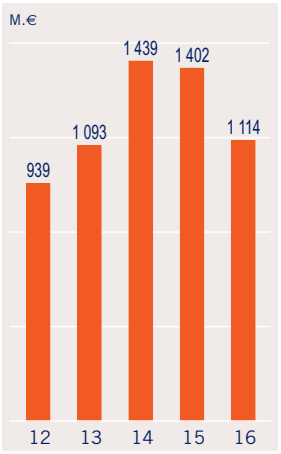


Chart 36

Customer deposits

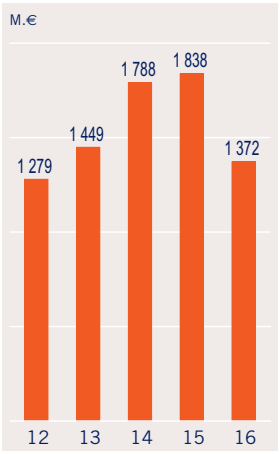


Chart 37

Financial review

Selected indicators Amounts in M.€

	Dec.15			Dec.16		
	Domestic activity	International activity	Consolidated	Domestic activity	International activity	Consolidated
Net profit, efficiency and profitability						
Net income	93.1	143.3	236.4	147.0	166.3	313.2
Earnings per share (EPS)[1]	0.064	0.099	0.163	0.101	0.115	0.216
Cash flow after taxes	232.1	196.9	429.0	237.7	166.3	404.1
Operating income from banking activity	666.2	515.7	1 181.9	715.4	1.1	716.6
Operating income from banking activity per employee (thousands of euro)[2]	112	199	138	124	56	123
Cost-to-income ratio[3]	74.7%	33.6%	56.7%	69.2%	-	69.5%
Adjusted overhead costs-to-commercial banking income [4]	76.3%	46.0%	65.1%	69.3%	-	69.6%
Average total assets	34 070.0	8 189.0	41 659.0	32 537.5	7 167.3	39 054.4
Return on total assets (ROA)	0.3%	3.5%	0.9%	0.5%	4.7%	1.2%
Average shareholders' equity attributable to the shareholders of BPI	1 793.0	470.4	2 263.3	1 901.3	443.8	2 345.0
Return on Shareholders' equity (ROE)[5]	5.2%	30.5%	10.4%	7.7%	37.5%	13.4%
Assets quality						
Credit at risk (consolidation perimeter IAS / IFRS)	1 070.9	87.1	1 158.1	862.6	-	862.6
Ratio of credit at risk (consolidation perimeter IAS / IFRS)[6]	4.5%	5.5%	4.6%	3.7%	-	3.7%
Coverage of credit at risk by impairments (consolidation perimeter IAS / IFRS)[7]	85%	122%	87%	83%	-	83%
Cost of credit risk net of recoveries[8]	0.38%	1.88%	0.48%	0.09%	-	0.09%
Employees' pension liabilities						
Total past service liability	1 279.9		1 279.9	1 463.1		1 463.1
Degree of coverage of pension liabilities[9]	109%		109%	98%		98%
Capital						
Shareholders' equity attributable to the shareholders of BPI	1 927.8	479.0	2 406.9	1 944.6	495.9	2 440.5
Shareholders' equity attributable to the shareholders of BPI and non-controlling interests	1 929.6	905.9	2 835.5	1 946.3	962.2	2 908.5
CRD IV / CRR phasing in						
Common Equity Tier 1 ratio	11.0%	10.6%	10.9%	11.2%	11.9%	11.4%
Leverage ratio			6.9%			7.6%
CRD IV / CRR fully implemented						
Common Equity Tier 1 ratio	9.9%	9.5%	9.8%	10.6%	12.3%	11.1%
Leverage ratio			6.4%			7.4%
Liquidity						
LCR = Liquidity coverage ratio (CRD IV / CRR fully implemented)			113%			161%
NSFR = Net Stable Funding Ratio (CRD IV / CRR fully implemented)			104%			117%
Loans to deposits ratio (Instruction 23 / 2011 BoP)	107%	22%	85%	106%		106%

Note: figures as reported. The figures presented in the Directors' Report are figures "as reported" except where they are expressly indicated as being Pro forma figures. The term "2015 pro forma" reflects the restatement of BFA's contribution to the consolidated net profit in accordance with IFRS 5 (see note to the financial statements "1. Financial Group"). *Table 17*

1) Net income divided by the average number of shares issued net of treasury stock.
2) Taking into consideration the number of Employees of fully consolidated companies.
3) Overhead costs as a percentage of operating income from banking activity.
4) Overhead costs excluding early-retirement costs and gain stemming from the revision of the ACT as a percentage of commercial banking income, where commercial banking income = financial margin + technical result of insurance contracts + net commissions income".
5) In arriving at the ROE, account is taken of shareholders' equity before deducting the fair value reserve relating to the portfolio of available-for-sale financial assets.
6) Calculated in accordance with the definition in *Bank of Portugal Instruction 23 / 2011* and considering the consolidation perimeter in IAS / IFRS, in which BPI Vida e Pensões is consolidated by global integration and its loan portfolio is included in the consolidated loan portfolio (under the supervision perimeter of the Bank of Portugal, BPI Vida e Pensões is consolidated under the equity method). According to the *Instruction 23 / 2011* and considering the supervision perimeter, as of 31 Dec.16, the consolidated credit at risk amounts to 862.6 M.€ and the consolidated credit at risk ratio amounts to 3.9%.
7) Cover by accumulated loans and guarantees impairment allowances in the balance sheet and without considering the effect of associated collaterals.
8) Impairments and net provisions for loans and guarantees in the year, net of loan, interest and expense recoveries, as a percentage of the net loan portfolio.
9) The pension funds' figure taken into account includes the contribution transferred to the pension funds at the start of the following year (1.3 M.€ in 2015 and 75.5 M.€ in 2016).

CONSOLIDATED OVERVIEW

Consolidated net profit

BPI earned a consolidated net profit of 313.2 M.€ in 2016, the second highest figure in its history. When compared to the preceding year, consolidated net profit improved by 32.5%.

BPI's domestic operations posted a substantial improvement in net profit, which rose by 53.9 M.€ (+58%) to 147.0 M.€. This better performance can essentially be ascribed to the expansion of financial margin, the continued rationalisation and gradual optimisation of the cost structure – a process that began in 2007 and which produced a reduction of 114 M.€ on an annual basis –, and the decrease in the cost of credit risk which kept pace with the improvement in the vast majority of BPI's loan quality indicators, as is described in more detail in the section dedicated to domestic operations.

International operations – which refer above all to the business carried on in Angola through BFA and, to a lesser degree, by BCI in Mozambique – contributed with 166.3 M.€ to the 2016 consolidated net profit, which corresponded to a 16.1% increase.

BFA's contribution, relating to the appropriation of 50.1% of its individual profit, climbed 19.9% to 162.7 M.€[1], the highest ever, and also surpasses BFA's contribution when it was wholly controlled by BPI (up until December 2008).

BFA has consistently presented high efficiency and profitability levels (in 2016 the efficiency ratio was situated at 32% and the individual ROE reached 41%), while the advance in its profit in recent years reflects a marked degree of resilience to an economic background in Angola that became more challenging as a consequence of the plunge in the crude-oil prices on the international markets.

Net results

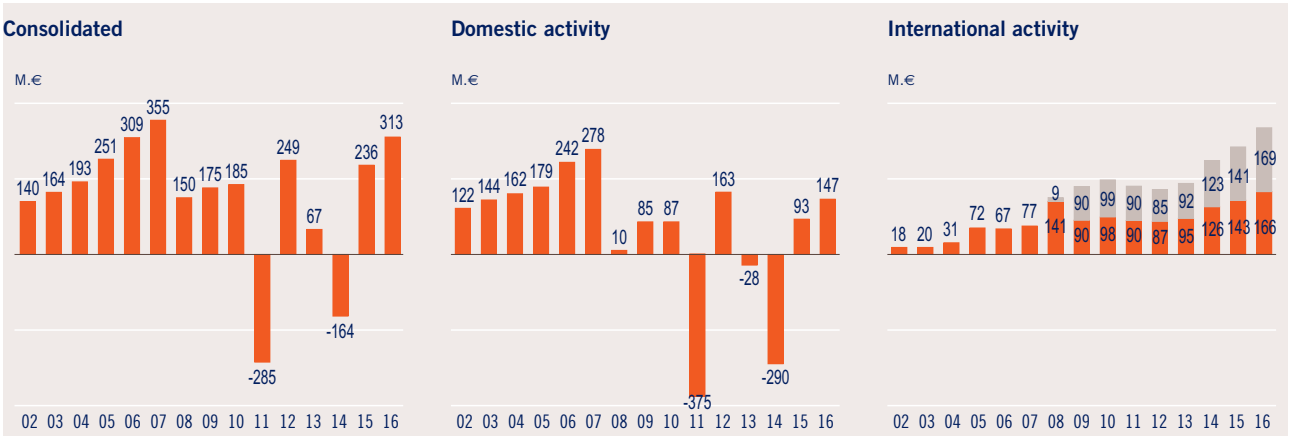


Chart 38

ROE

%	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16
Consolidated	13.5	13.9	15.2	23.7	24.3	24.9	8.9	8.9	8.9	(13.5)	13.1	2.9	(7.3)	10.4	13.4
Domestic activity	13.3	13.1	13.6	18.8	22.1	23.4	0.7	4.9	4.7	(20.4)	10.2	(1.5)	(15.6)	5.2	7.7
International activity	15.2	24.9	38.6	66.8	37.1	32.2	43.1	41.6	42.8	33.8	27.4	28.4	32.7	30.5	37.5

1) BFA's contribution, net of tax on dividends.

Return on consolidated shareholders' equity

The return on consolidated shareholders' equity (ROE) improved from 10.4% in 2015 to 13.4% in 2016.

The ROE on domestic operations, to which 81% of the Group's average shareholders' equity was allocated, rose from 5.2% in 2015 to 7.7% in 2016.

The ROE on international activities, to which 19% of the Group's average capital was allocated, was 37.5%.

ROE by business area

Amounts in M.€

	2015			2016		
	Domestic activity	**International activity**	**BPI Group (consolidated)**	**Domestic activity**	**International activity**	**BPI Group (consolidated)**
Average shareholders' equity attributable to the shareholders of BPI	1 793.0	470.4	**2 263.3**	1 901.3	443.8	**2 345.0**
As % of total	79.2%	20.8%	100.0%	81.1%	18.9%	**100.0%**
Net profit	93.1	143.3	**236.4**	147.0	166.3	**313.2**
Return on Shareholders' equity (ROE)	**5.2%**	**30.5%**	**10.4%**	**7.7%**	**37.5%**	**13.4%**

Table 18

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) excluding the fair value reserve relating to the portfolio of available-for-sale financial assets, was taken into consideration. In determining the capital allocated to international activity, the accounting capital (shareholders' equity) was taken into consideration.

Geographical segmentation of the BPI Group's domestic activity

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 –, and the activities relating to investment banking – conducted by Banco Português de Investimento –, private equity, asset management and insurance.

International operations comprise the activity conducted by Banco Fomento Angola, 50.1% held and consolidated in full, as well as well as the activity of Banco Comercial e de Investimentos (BCI) in Mozambique, in respect of which the appropriation of results by BPI 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 operations' contribution to net profit in 2016 from Banco Fomento Angola amounted to 162.7 M.€, from BCI was 5.4 M.€, from BPI Moçambique was -0.4 M.€ and from BPI Capital África was -1.5 M.€.

Capital

The common equity Tier 1 capital (CET1) ratio calculated according to the CRD IV / CRR rules applicable in 2016 was situated at 11.4% (+0.6% p.p. on 2015), above the SREP requirement of a CET1 of 9.75% set for 2016.

The fully-implemented CET1 capital ratio (that is, without benefiting from the phasing in envisaged in those rules) increased by 1.3 p.p. to 11.1%.

The leverage ratio – ratio between Tier 1 capital and the total value of balance sheet assets and off-balance sheet items (without the application of weighting coefficients) – stood at 7.6% according to the phasing-in rules (6.9% in 2015) and at 7.4% in accordance with the "fully implemented" rules (6.4% in 2015).

Common Equity Tier 1 ratio

According to the CRD IV / CRR rules

Amounts in M.€

		31 Dec.15			31 Dec.16		
		Domestic activity	**International activity**	**BPI Group (consolidated)**	**Domestic activity**	**International activity**	**BPI Group (consolidated)**
CRD IV / CRR phasing in							
CET1 capital	*1*	1 715.7	858.6	2 574.3	1 819.0	935.7	2 754.7
Risk weighted assets	*2*	15 636.8	8 065.5	23 702.3	16 286.2	7 835.9	24 122.1
CET1 ratio	*3*	**11.0%**	**10.6%**	**10.9%**	**11.2%**	**11.9%**	**11.4%**
CRD IV / CRR Fully implemented							
CET1 capital	*4*	1 552.5	760.9	2 313.4	1 709.7	969.1	2 678.8
Risk weighted assets	*5*	15 610.7	8 042.1	23 652.8	16 203.4	7 872.7	24 076.1
CET1 ratio	*6*	**9.9%**	**9.5%**	**9.8%**	**10.6%**	**12.3%**	**11.1%**

Table 19

Consolidated income statement

The consolidated figures in 2016 for most of the cost and income items, as well as assets and liabilities, essentially reflect BPI's domestic activity, given that BFA was recognised in accordance with IFRS 5, BCI Mozambique is equity accounted and BPI Capital África and BPI Moçambique, which fall under the international operations segment (both fully consolidated), are immaterial.

Consolidated income statement

Amounts in M.€

		2015 as reported consolidated	2015 proforma[1] consolidated	2016 as reported			2015 prof. / 2016	
				Domestic activity	International activity	Consolidated	Δ M.€	Δ %
Financial margin	1	663.4	356.2	406.0	1.4	407.4	51.2	14.4%
Technical result of insurance contracts	2	31.8	31.8	24.6	0.0	24.6	(7.2)	(22.6%)
Net commission income	3	324.7	255.2	259.7	(0.3)	259.4	4.2	1.7%
Net income on financial operations	4	194.6	47.9	48.9	0.1	48.9	1.0	2.1%
Net operating income	5	(32.6)	(24.7)	(23.8)	(0.0)	(23.8)	0.9	3.7%
Operating income from banking activity *[= Σ 1 to 5]*	6	**1 181.9**	**666.4**	**715.4**	**1.1**	**716.6**	**50.2**	**7.5%**
Personnel costs	7	385.3	302.4	306.2	1.8	308.0	5.6	1.9%
General administrative costs	8	249.2	178.0	168.0	0.6	168.6	(9.4)	(5.3%)
Depreciation and amortisation	9	36.1	19.9	21.3	0.1	21.4	1.5	7.5%
Overhead costs *[= Σ 7 to 9]*	10	**670.6**	**500.3**	**495.4**	**2.5**	**497.9**	**(2.3)**	**(0.5%)**
Operating profit before impairments and provisions *[= 6 - 10]*	11	**511.3**	**166.1**	**220.0**	**(1.4)**	**218.6**	**52.5**	**31.6%**
Recovery of loans, interest and expenses	12	18.2	16.2	13.7	0.0	13.7	(2.5)	(15.5%)
Impairment losses and provisions for loans and guarantees, net	13	137.0	103.4	33.0	0.0	33.0	(70.4)	(68.1%)
Impairment losses and other provisions, net	14	19.5	15.9	36.5	0.0	36.5	20.6	129.4%
Net income before income tax *[= 11 + 12 -13 -14]*	15	**372.9**	**63.1**	**164.2**	**(1.4)**	**162.9**	**99.8**	**158.1%**
Income tax	16	29.1	2.1	37.5	7.2	44.7	42.6	s.s.
Earnings of associated companies (equity method)	17	33.4	33.4	20.3	5.9	26.2	(7.2)	(21.7%)
Net income from continuing operations *[= 15 - 16 + 17]*	18	**377.2**	**94.4**	**147.0**	**(2.7)**	**144.4**	**50.0**	**52.9%**
Net income from discontinued operations	19	0.0	282.8	0.0	337.7	337.7	54.9	19.4%
Income attributable to non-controlling interests from continuing operations	20	140.8	0.0	0.0	0.0	0.0	0.0	4.1%
Income attributable to non-controlling interests from discontinued operations	21	0.0	140.8	0.0	168.8	168.8	28.0	19.9%
Net Income *[= 18 + 19 - 20 - 21]*	22	**236.4**	**236.4**	**147.0**	**166.3**	**313.2**	**76.9**	**32.5%**

Table 20

1) The designation "2015 proforma" reflects the expression of BFA's contribution to consolidated income in accordance with IFRS 5.

ACCOUNTING FOR BFA IN DECEMBER 2016

The sale by BPI to Unitel of a 2% shareholding in BFA was concluded in January 2017, and was motivated by the need to resolve the situation whereby Banco BPI had exceeded the large exposures limit resulting from BFA's exposure to Angolan public debt. Following that transaction, Banco BPI's holding in BFA's share capital dropped to 48.1%, while that of Unitel rose to 51.9%.

Recognition of the shareholding in BFA at 31 December 2016 in accordance with IFRS 5

The assets, liabilities and BFA's contribution to consolidated net profit at 31 December 2016 were recognised in the financial statements in conformity with IFRS 5 – Non-current assets held for sale and discontinued operations. Thus, in accordance with the said IFRS 5[1]:

- BFA was classified as a discontinued operation;
- BFA's contribution to consolidated net profit (after tax) was recorded in the Income Statement under the caption "Net income from discontinued operations", and deducted from the "Income attributable to non-controlling interests from discontinued operations";
- BFA's assets and liabilities were reclassified to the consolidated balance sheet captions "Non-current assets held for sale and discontinued operations" and "Non-current liabilities held for sale and discontinued operations".

The Directors' report includes a pro forma 2015 income statement which reflects the restatement of BFA's contribution to consolidated net profit in conformity with IFRS 5.

Accounting for the operation involving the sale of 2% of BFA's capital

The operation involving the sale of 2% of BFA's capital and the effects of the loss of control, as explained in Note 4.51 Other events in the notes to the financial statements, in the sub-point "Loss of control over Banco de Fomento Angola, S.A.", will be recognised in the financial statements of the 1st quarter of 2017. In this respect, the 1st quarter of 2017 will present:

- the accounting for the capital gain on the sale of the 2% shareholding in BFA;
- the change to the consolidation method applied to the shareholding in BFA, which henceforth shall be recognised using the equity method.

The capital gain from the sale of 2% of BFA's capital, to be recognised in the 1st quarter 2017 result, amounts to 6.6 M.€, after tax[2].

The loss of control implies the recognition in the results of:

- the impact of the revaluation to the estimated fair value of the 48.1% shareholding in BFA at the moment of the loss of control relative to the book value of the assets and liabilities of the shareholding in BFA. It is estimated there is a nil impact on the net profit on the revaluation to the fair value of the shareholding;
- deferred tax liabilities of 36.8 M.€ associated with the difference between the acquisition costs and the fair value of the 48.1% shareholding in BFA retained by BPI;
- currency differences (accumulated) originated in the consolidation process due to the conversion of BFA's financial statements from kwanzas into euro and which were booked directly in accounting shareholders' equity, in the currency reserve. The recognition in net income of the balance of currency differences (negative) gives rise to a negative impact of 182.1 M.€, but has no impact in accounting shareholders' equity.

1) Except where expressly indicated otherwise.
2) Realised capital gain (before tax) of 9.3 M.€, after deducting tax (2.7 M.€) on the capital gain arrived at in the individual accounts which has as its reference the respective acquisition cost of the investment.

Accordingly, the impact to be recognised in the net profit for the year is a negative 212.3 M.€ – corresponding to the capital gain of 6.6 M.€ realised on the sale of the shareholding and to the negative impact of 218.9 M.€ stemming from the loss of control and change to the accounting treatment of the investment.

The impact on accounting shareholders' equity attributable to BPI shareholders on the sale of 2% of BFA and loss of control is a negative 30.2 M.€.

Impact on net income and on shareholders' equity attributable to BPI shareholders from the sale of 2% of BFA and loss of control

Amounts in M.€

			Impact on net income	Impact on shareholders' equity attributable to BPI shareholders
Capital gain realised in the sale of the 2% stake				
Proceeds from the sale of 2% of BFA capital		*1*	28.0	28.0
(-) Book value of the stake		*2*	(18.7)	(18.7)
Realised capital gains before taxes	*[= 1 + 2]*	*3*	9.3	9.3
(-) Taxes on the capital gains		*4*	(2.7)	(2.7)
Realised capital gains from the sale of the 2% stake (after taxes)	*[= 3 + 4]*	*5*	**6.6**	**6.6**
Impact from the change in the accounting method				
Revaluation of the 48.1% shareholding in BFA				
Fair value of the shareholding		*6*	448.9	448.9
(-) Book value		*7*	(448.9)	(448.9)
Potential capital gain	*[= 6 + 7]*	*8*	0.0	0.0
(-) Deferred taxes on the potential capital gain		*9*	(43.4)	(43.4)
(+) Annulment of deferred taxes on dividends		*10*	6.7	6.7
	[= 9 +.10]	*11*	(36.8)	(36.8)
Recognition in the income for the year of the exchange differences (accumulated) from the translation to euro of the 50.1% shareholding in BFA				
(+) Annulment of foreign exchange differences reserve (negative) recorded directly in shareholder's equity		*12*		182.1
(-) Recognition in the income for the year of the foreign exchange differences (negative)		*13*	(182.1)	(182.1)
	[= 12 + 13]	*14*	(182.1)	0.0
Impact from the change in the accounting method	*[= 8 + 11 + 14]*	*15*	**(218.9)**	**(36.8)**
Total impact	*[= 5 + 15]*	*16*	**(212.3)**	**(30.2)**

Table 21

Consolidated balance sheet

At the close of 2016, consolidated assets totalled 38.3 th.M.€, while consolidated shareholders' equity attributable to BPI shareholders stood at 2.4 th.M.€.

Total assets deployed in domestic operations were 32.0 th.M.€. The domestic operations balance sheet essentially reflects the intermediation business with Customers: Customer resources funded 75% of assets, with Customer loans representing 71% of those assets. In its off-balance sheet accounts, the Bank had under management 4.8 th.M.€ of Customer resources.

Total assets in international operations amounted to 7.0 th.M.€, with 6.9 th.M.€ corresponding to BFA's total assets and 47 th.M.€ to the balance sheet value of the 30% participating interest in BCI (equity accounted). BFA's balance sheet is wholly funded by Customer deposits and shareholders' equity. BFA's business is founded on the capture of Customer deposits and the application of a portion of those resources in loans (22% of deposits), while surplus liquidity is invested in Angolan government securities, in placements at the BNA (Central Bank) and on the international banking market.

Consolidated balance sheet structure in 2016

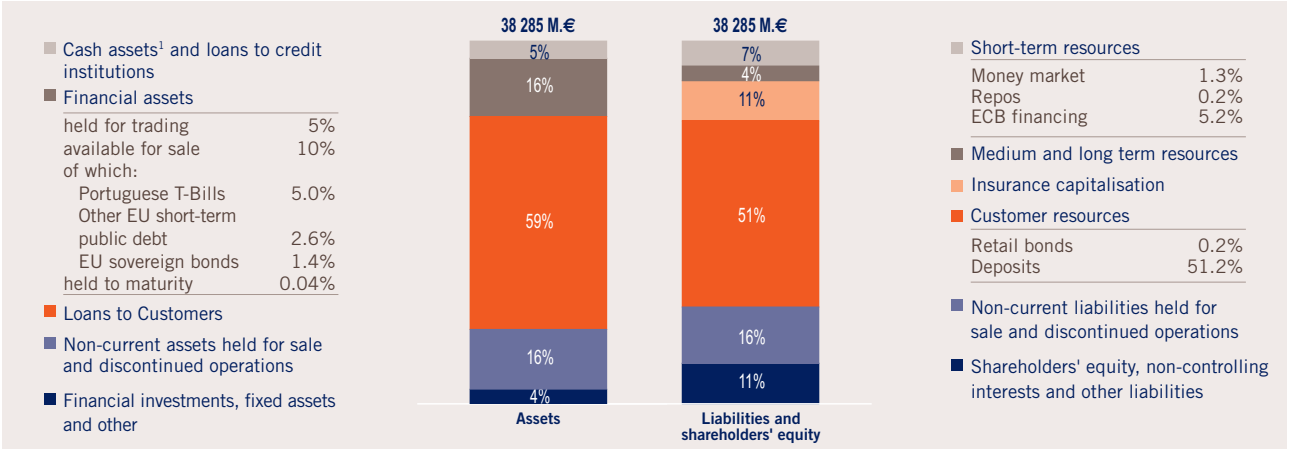


Chart 39

1) Cash and deposits at central banks and at other credit institutions.

Consolidated balance sheet
At 31 December 2016

Amounts in M.€

			Domestic activity[1]	International activity[1]	Consolidated
Assets					
Loans and advances to Customers		*1*	22 735.8		22 735.8
Financial assets portfolio[2]		*2*	6 090.7		6 090.7
Non-current assets held for sale and discontinued operations		*3*		6 924.7	6 295.9
Other assets		*4*	3 160.2	47.3	3 162.3
Total assets	*[= Σ 1 to 4]*	*5*	**31 986.6**	**6 972.0**	**38 284.7**
Liabilities and shareholders' equity					
Deposits		*6*	19 600.8		19 600.8
Other Customer resources[3]		*7*	4 343.9		4 343.9
Non-current liabilities held for sale and discontinued operations		*8*		5 990.3	5 951.4
Other liabilities		*9*	6 095.5	19.6	5 480.0
Shareholders' equity attributable to the shareholders of BPI		*10*	1 944.6	495.9	2 440.5
Non-controlling interests		*11*	1.8	466.3	468.0
Shareholders' equity and non-controlling interests	*[= 10 + 11]*	*12*	**1 946.3**	**962.2**	**2 908.5**
Total liabilities and shareholders' equity	*[= Σ 6 to 11]*	*13*	**31 986.6**	**6 972.0**	**38 284.7**
Guarantees		*14*	1 466.2		1 466.2
Off-balance sheet Customers resources		*15*	4 842.5		4 842.5

Table 22

1) Balances not corrected for operations between these segments.
2) Financial assets held for trading and at fair value through profit or loss, financial assets available for sale and held to maturity investments.
3) Capitalisation insurance, bonds placed with Customers and other on-balance sheet Customers resources.

GROUP CAPITAL

Accounting shareholders' equity

Accounting shareholders' equity attributable to BPI shareholders amounted to 2 440.5 M.€ at the end of 2016. 80% of this figure was allocated to domestic operations and the remaining 20% to international operations.

Accounting shareholders' equity attributable to non-controlling interests amounted to 468 M.€, corresponding in essence to Unitel's 49.9% interest in BFA's share capital (466 M.€).

Accordingly, total accounting shareholders' equity (including non-controlling interests) was 2 908.5 M.€ at the end of 2016, and corresponded to 7.6% of consolidated assets (7.0% in 2015).

Shareholders' equity and non-controlling interests trend in 2016

Amounts in M.€

		Shareholders' equity attributable to the shareholders of BPI	Non-controlling interests	Total
Shareholders' equity and non-controlling interests at 31 December 2015	*1*	**2 406.9**	**428.6**	**2 835.5**
Net Income	*2*	313.2	168.9	482.1
Change in revaluation reserves of financial assets available for sale, net of deferred taxes	*3*	(5.2)		(5.2)
Actuarial deviations, net of deferred taxes[1]	*4*	(155.6)		(155.6)
Foreign exchange translation differences from continuing operations[2]	*5*	(23.0)		(23.0)
Foreign exchange translation differences from discontinued operations[3]	*6*	(87.8)	(88.6)	(176.5)
BFA dividends paid to non-controlling interests	*7*		(40.8)	(40.8)
Other	*8*	(8.0)	(0.1)	(8.0)
[= Σ 2 to 8]	*9*	33.6	39.4	73.0
Shareholders' equity and non-controlling interests at 31 December 2016 *[= 1 + 9]*	*10*	**2 440.5**	**468.0**	**2 908.5**
Of which:				
Domestic activity		1 944.6	1.8	1 946.3
International activity		495.9	466.3	962.2

Table 23

1) Resulted chiefly from the negative deviation on the Employees' pension funds' return relating to the discount rate, and the decrease at the end of the year of the discount rate from 2.5% to 2.0%.
2) Refers essentially to the reserve associated with the currency revaluation of the shareholding in BCI, which was a negative 21.6 M.€ in 2016 by virtue of the metical's 33% depreciation against the euro.
3) Reserves associated with the currency revaluation of the shareholding in BFA. The figure in 2016 is explained by the kwanza's 20% depreciation against the euro.

Capital ratios

At 31 December 2016, the common equity Tier 1 capital (CET1) calculated according to the CRD IV / CRR rules applicable in 2016 totalled 2 755 M.€, which corresponded to a CET1 ratio of 11.4%. The CET1 capital in domestic operations amounted to 1 819 M.€ and corresponded to a ratio of 11.2%.

Fully-implemented CET1 capital (that is, without benefiting from the phasing in envisaged in those rules) amounted to 2 679 M.€, while the CET1 ratio was 11.1%. In domestic operations, the fully-implemented CET1 capital amounted to 1 710 M.€ and the CET1 ratio was 10.6%.

The 1.3 p.p. improvement in the fully-implemented Common Equity Tier 1 ratio relative to December 2015 can be attributed to the 365 M.€ increase in CET1, with a +1.5 p.p. impact on the ratio, while the 1.8% increase in risk-weighted assets (+423 M.€) had an impact on the ratio of -0.2 p.p.

Common Equity Tier 1 ratio
At 31 December 2016

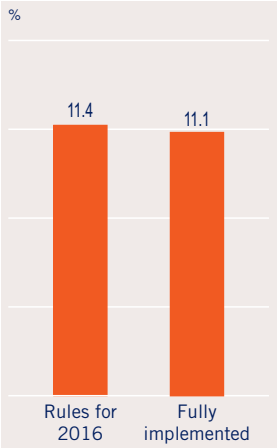


Chart 40

Risk-weighted assets
Fully implemented

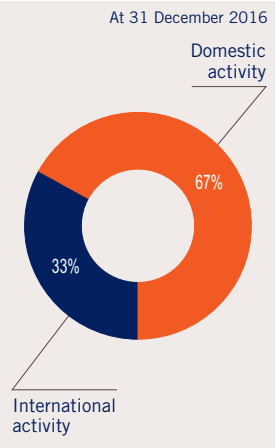


Chart 41

Common Equity Tier 1 ratio
According to CRD IV / CRR rules

Amounts in M.€

		CRD IV / CRR Phasing in		CRD IV / CRR Fully implemented	
		31 Dec.15 (rules 2015)	31 Dec.16 (rules 2016)	31 Dec. 15	31 Dec.16
Share capital, premiums and reserves	1	2 393.9	2 434.0	2 407.0	2 440.6
Minority interests net of dividends payable	2	375.5	399.6	375.5	399.6
Minority interests not eligible	3	(8.6)	(17.1)	(99.8)	(9.6)
[Σ 1 to 3]	4	**2 760.7**	**2 816.6**	**2 682.7**	**2 830.7**
Intangible assets	5	(11.7)	(19.6)	(29.1)	(32.7)
Taxes losses	6	(32.9)	(18.3)	(103.6)	(30.6)
Surplus pension fund funding	7	(43.8)	0.0	(109.5)	0.0
Other	8	(3.6)	(11.1)	(9.0)	(16.9)
[Σ 4 to 8]	9	**2 668.8**	**2 767.5**	**2 431.4**	**2 750.5**
Deductions of shareholdings in CIs and Insurers < 10%	10	0.0	0.0	0.0	0.0
Deductions of shareholdings in CIs and Insurers > 10%	11	(36.8)	(6.5)	(118.0)	(17.8)
Deductions of deferred tax assets	12	0.0	0.0	0.0	0.0
Deduction shareholdings in CIs and Insurers > 10% + deferred tax assets	13	0.0	(23.6)	0.0	(54.0)
Negative components of AT1 capital	14	(79.2)	(34.7)	0.0	0.0
National filters	15	21.6	52.0	0.0	0.0
Common Equity Tier 1 *[= Σ 9 to 15]*	16	**2 574.3**	**2 754.7**	**2 313.4**	**2 678.8**
Additional Tier 1	17	(79.2)	(34.7)	58.7	0.0
Tier II	18	(33.1)	(13.9)	41.7	7.5
Total own funds	19	**2 574.3**	**2 754.7**	**2 413.8**	**2 686.3**
Risk-weighted assets	20	**23 702.3**	**24 122.1**	**23 652.8**	**24 076.1**
CT1 ratio	21	10.9%	11.4%	9.8%	11.1%
T1 ratio	22	10.9%	11.4%	10.0%	11.1%
Total capital ratio	23	10.9%	11.4%	10.2%	11.2%

Note: minimum own funds requirements (phasing in) laid down by the ECB for 2016 were 9.75% for the consolidated CET1, T1 and total ratios, with the result that BPI complied with the said capital requirements.

Table 24

CET1 fully-implemented capital

The CET1 fully-implemented capital recorded an increase of 365 M.€ in 2016.

The increase in CET1 fully-implemented capital, when the accounting shareholders' equity attributable to BPI shareholders increased by 34 M.€, is explained by the following aspects:

- the negative actuarial deviations registered directly in accounting shareholders' equity (-155.6 M.€, net of deferred taxes) only had a partial impact on CET1 capital, to the extent that it consumed the surplus funding of pension liabilities existing at the close of 2015, which is written off in the computation of CET1 capital (109.5 M.€ at the end of 2015);
- the minority interests eligible for CET1 increased by 114 M.€ which is explained primarily by the change to the minimum requirement for calculating eligible minority interests in line with the defined SREP ratio (Supervisory Review and Evaluation Process)[1], when previously a ratio of 7% was considered;
- within the framework of the change to the accounting standard applicable to the individual financial statements of entities subject to Bank of Portugal supervision (*Notice 5 / 2015*)[2], and of its respective adaptation for tax purposes by way of the treatment laid down in *Regulatory Decree no. 5 / 2016*, it has been transitionally permitted to offset the difference between provisions and impairments against the tax losses carried forward from previous years, which has given rise to a decrease in deferred tax assets from tax losses, with a corresponding increase in deferred tax assets from timing differences;
- the decrease in deductions from CET1 relating to the investments in credit and insurance institutions in excess of 10%. This reduction is explained by the increase in the reference amount of the CET1 capital for calculating those deductions, by the receipt of dividends from those investments, and moreover, by the effect of the metical's devaluation on the value of the investment in BCI.

It is worth noting that the negative impact on accounting shareholders' equity of the currency revaluation of the shareholdings in the African banks (-110.9 M.€), by virtue of the depreciation of the kwanza and the metical against the euro, was to a large extent offset by the decrease in BFA's risk-weighted assets and the deduction from CET1 of the investment in BCI by way of the same currency effect.

SPECIAL REGIME APPLICABLE TO DEFERRED TAX ASSETS

BPI approved at the Bank's General Meeting held on 17 October 2014 adherence to the special regime applicable to deferred tax assets embodied in *Law no. 61 / 2014* of 26 August. This Special Regime covers the deferred tax assets which have resulted from the non-deduction of costs and negative net asset changes arising from loan-impairment losses and post-employment or long-term employee benefits.

The regime, whose application began on 1 January 2015, permits the inclusion of those deferred taxes in Common Equity Tier 1 capital, without the application of the eligibility limits.

In 2016, with the publication of *Law no. 23 / 2016* of 19 August, a time-based delimitation was applied to the Special regime. With the entry into force of that Law, the Special Regime no longer applies to the costs and negative net asset changes booked in the tax periods commencing on or after 1 January 2016, nor to the deferred tax assets associated therewith.

At 31 December 2016, the amount of deferred tax assets covered by the regime was 233 M.€.

	M.€
Loan provisions and impairments	126
Pension liabilities	107
Early retirements	19
Actuarial deviations	88
Total	**233**

Table 25

The corresponding impact on the CET1 fully-implemented ratio is +1.0 p.p. On the CET1 phasing-in ratio (2016 rules) the impact is +0.5 p.p.

1) The minority interests are eligible for the CET1 up to the amount of the required capital proportional to the value of the shareholding. Accordingly, the minority interests in BFA eligible for CET1 = BFA's RWA x % of capital held by minorities (49.9%) x required capital level.
2) All the BPI Group companies are taxed individually.

Risk-weighted assets

BPI utilises the standard method for purposes of determining the assets weighted by credit risk, which constitutes the most expressive risk, representing roughly 81% of risk-weighted assets. In calculating capital requirements for hedging operational risk (which represents 9% of risk-weighted assets) the Bank utilises the basic indicator method.

At the close of 2016, risk-weighted assets amounted to 24.1 th.M.€ (fully implemented) and represented 63% of total consolidated assets. In domestic operations, risk-weighted assets amounted to 16.2 th.M.€ which corresponded to 51% of the respective net total assets. It is worth noting that BPI had a portfolio of Euro-area public-debt securities denominated in euro[1], and therefore subject to a weighting coefficient of zero, which corresponded to 9% of consolidated assets (11% of net assets in domestic operations).

Risk-weighted assets
According to CRD IV / CRR fully implemented rules

Amounts in M.€

	2015			2016		
	Assets (net book value)	Average weighting coefficient	Risk-weighted assets	Assets (net book value)	Average weighting coefficient	Risk-weighted assets
Liquid assets	3 213.0	48%	1 541.5	2 649.3	53%	1 411.1
Loans to credit institutions	647.8	32%	209.5	358.0	53%	189.0
Loans to Customers	22 557.3	57%	12 940.5	22 714.5	58%	13 219.1
Bonds, equities and investments portfolio	6 822.3	58%	3 956.7	5 479.3	45%	2 446.3
Tangible assets	195.1	100%	195.1	154.9	100%	154.9
Other assets	1 138.4	58%	655.0	1 147.9	75%	857.0
Assets	**34 573.8**	**56%**	**19 498.2**	**32 503.8**	**56%**	**18 277.4**
Derivatives and repos			331.3			245.0
Off-balance sheet			1 009.9			947.8
Credit and counterparty risk			**20 839.4**			**19 470.2**
Market risk (position, currency and commodities)			804.6			2 365.1
Operational risk			1 975.9			2 202.6
Other			32.9			38.3
Risk-weighted assets			**23 652.8**			**24 076.1**

Table 26

Leverage ratios (CRD IV / CRR)

The leverage ratio is the ratio calculated between Tier 1 capital and the total value of balance sheet assets and off-balance sheet items, and therefore not subject to weighting coefficients as is the case when calculating risk-weighted assets.

At 31 December 2016 the following are the leverage ratios:

- phasing-in leverage ratio: 7.6% (6.9% in 2015);
- "fully implemented" leverage ratio: 7.4% (6.4% in 2015).

1) Consisting of short-term (2 895 M.€) and medium-long-term securities of Portugal (339 M.€) and Italy (195 M.€).

SREP CAPITAL RATIOS FOR 2017

The supervision authorities regularly evaluate and measure the risks each bank is exposed to by means of the so-called Supervisory Review and Evaluation Process (SREP for short). Banco BPI learnt in December 2016 of the European Central Bank's (ECB) decision concerning the minimum prudential requirements that it must comply with effective from 1 January 2017, a decision which is based on the "SREP" results.

The decision in question (SREP Decision) defines, as regards the minimum own funds requirements to be observed with effect from that date, the following ratios, determined according to the total value of the risk-weighted assets (RWA):

Minimum requirements for 2017

Phasing-in	Consolidated					Individual
	Total	Of which:				Total
		Pillar 1	Pillar 2	Buffers[1]	Guidance Pillar 2	
CET1	9.25%	4.50%	2.50%	1.25%	1.0%	8.25%[2]
T1	9.75%	6.00%	2.50%	1.25%	-	9.75%
Total capital ratio	11.75%	8.00%	2.50%	1.25%	-	11.75%

Table 27

In evaluating BPI's SREP, the statutory limitation to the counting of votes cast by the same shareholder which exceed 20% of the total votes corresponding to the share capital, and the breaching of the large exposures limit by Banco BPI resulting from BFA's exposure to Angolan public debt, constituted factors that weighed heavily. These issues have in the meantime been overcome. The Shareholders' General Meeting of 21 September 2016 approved the suppression of the statutory limit to the counting of votes and, in January 2017, the sale by BPI to Unitel of a shareholding of 2% in BFA was concluded, which was aimed at resolving the breaching of the large exposures limit.

In light of the "SREP" requirements for 2017, and taking into account the figures observed at the end of 2016, adjusted for the phasing-in 2017 factors and the sale of 2% of BFA, the Bank complies with the new minimum ratios required with respect to CET1 (Common Equity Tier 1) and Tier 1 capital. As concerns the total capital ratio, in order to attain a 12% ratio, complying with the minimum SREP requirement (11.75%) and considering an additional buffer of 0.25%, it would be necessary to issue subordinated debt in the minimum amount of 206 M.€. Banco BPI decided to float an issue of 300 M.€ of subordinated debt eligible for Tier II capital to be realised in the 1st quarter of 2017.

(Excess) / Need of capital against the minimum requirements for 2017

	Consolidated			Banco BPI individual		
	31 Dec.16 proforma[3]	SREP requirements for 2017	(Excess) / Need of capital against the minimum require-ments + 0.25% buffer (M.€)	31 Dec.16 proforma[3]	SREP requirements for 2017	(Excess) / Need of capital against the minimum require-ments + 0.25% buffer (M.€)
CET1	11.0%	9.25%	(248)	10.7%	8.25%	(354)
T1	11.0%	9.75%	(166)	10.7%	9.75%	(114)
Total capital ratio	11.0%	11.75%	162	10.7%	11.75%	206

Table 28

1) As determined by the Bank of Portugal, the capital conservation buffer for 2017 was set at 1.25%, the counter-cyclical buffer is currently 0% and the O-SII buffer is zero in 2017.
2) The Pillar 2 guidance only applies to consolidated CET1. The Pillar 2 guidance is not relevant for the Maximum Distributable Amount (MDA) calculation.
3) Ratios at 31 December 2016, calculated with phasing-in 2017 factors and after sale of 2% of BFA.

DOMESTIC OPERATIONS

OVERVIEW – RESULTS OF DOMESTIC OPERATIONS

BPI's domestic operations posted a 58% increase in net profit, from 93.1 M.€ in 2015 to 147.0 M.€ in 2016.

This improvement is mainly explained by the following contributions:

- the expansion of financial margin by 50.8 M.€ (+14.3%), chiefly explained by the decrease in the cost of time deposits, where the average spread relative to Euribor improved from 0.96% in 2015 to 0.36% in 2016;
- the 0.4% reduction in overhead costs. Excluding early-retirement costs and the gain derived from the revision of the Collective Employment Agreement (ACT), the decrease in overhead costs is 2.5% (-12.2 M.€);
- the lower cost of credit risk net of recoveries[1], down 67.8 M.€. The cost of credit risk, net of recoveries, as a percentage of the loan portfolio fell from 0.38% in 2015 to 0.09% in 2016, an indicator which compares with the historical average level of 0.27%[2].

Domestic activity net profit

Chart 42

Domestic activity ROE

Chart 43

BPI records in domestic activity and for the second consecutive year an improvement in efficiency levels based on the expansion of the income base, coupled with the gradual implementation of cost-rationalisation measures. The efficiency ratio[3] improved (decreased) by 5.4 p.p. in 2016, to be situated at 69.2%. Operating profit (before impairments and provisions) was up by 51.2 M.€ (+30.3%) to 220.0 M.€.

The decrease in the cost of credit risk, net of recoveries, (to 0.09% in 2016) was part of the general improvement in the loan portfolio's quality indicators in domestic activity. The credit-at-risk ratio[4] declined from 4.5% in 2015 to 3.7% in 2016, while the credit-at-risk cover by impairment allowances[4] stood at 83% (85% in 2015) and the portfolio of foreclosed properties, net of impairments, is minimal at 101 M.€ at the end of 2016 (126 M.€ in 2015).

Total impairments and provisions (net of recoveries of loans, interest and expenses) contracted from 103.0 M.€ in 2015 to 55.8 M.€, absorbing 25% of the operating profit in 2016 (61% in 2015). In this manner, pre-tax net profit was 164.2 M.€, which represents an increase of 98.4 M.€.

Net profit, which includes additionally the impact of the taxes and earnings of equity-accounted associated companies, advanced by 53.9 M.€ to 147.0 M.€.

It should be mentioned that the net profit from BPI's domestic operations is penalised by specific charges applied to the banking system, which totalled 30.6 M.€ after tax[5] in 2016, i.e. relating to the contribution to the Single Resolution Fund (-10.8 M.€), the contribution to the National Resolution Fund (-2.3 M.€) and to the extraordinary contribution levied on the banking sector (-17.8 M.€).

The return on average shareholders' equity employed in domestic activity stood at 7.7%, which corresponds to a 2.5 p.p. improvement on the preceding year.

1) Impairment losses and provisions for loans and guarantees, net of recoveries of loans, interest and expenses.
2) Average indicator in the 10 years from 2002 to 2011, period prior to the peaks attained in 2012 (0.91%) and 2013 (0.98%).
3) Overhead costs as a percentage of operating income from banking activity.
4) Considering the consolidation scope under IAS / IFRS.
5) The contributions to the Single Resolution Fund and to the National Resolution Fund are recorded under the captions "Operating income and expenses" (-14.9 M.€ and -3.2 M.€ before taxes, respectively, and the extraordinary contribution levied on the banking sector is recorded under the caption "Corporate income tax".

Domestic activity income statement

Amounts in M.€

		2015	2016	Δ M.€	Δ %
Financial margin (narrow sense)	*1*	316.4	362.9	46.5	14.7%
Gross margin on unit links	*2*	13.0	13.5	0.5	3.8%
Income from equity instruments	*3*	4.7	8.5	3.8	80.0%
Net commissions relating to amortised cost	*4*	21.1	21.2	0.1	0.5%
Financial margin *[= Σ 1 to 4]*	*5*	**355.2**	**406.0**	**50.8**	**14.3%**
Technical result of insurance contracts	*6*	31.8	24.6	(7.2)	(22.6%)
Net commission income	*7*	255.9	259.7	3.7	1.5%
Net income on financial operations	*8*	47.9	48.9	0.9	1.9%
Net operating income	*9*	(24.7)	(23.8)	0.9	3.7%
Operating income from banking activity *[= Σ 5 to 9]*	*10*	**666.2**	**715.4**	**49.3**	**7.4%**
Personnel costs	*11*	300.2	306.2	5.9	2.0%
General administrative costs	*12*	177.3	168.0	(9.4)	(5.3%)
Depreciation and amortisation	*13*	19.8	21.3	1.5	7.7%
Overhead costs *[= Σ 11 to 13]*	*14*	**497.3**	**495.4**	**(1.9)**	**(0.4%)**
Operating profit before impairments and provisions *[= 10 - 14]*	*15*	**168.8**	**220.0**	**51.2**	**30.3%**
Recovery of loans, interest and expenses	*16*	16.2	13.7	(2.5)	(15.5%)
Impairment losses and provisions for loans and guarantees, net	*17*	103.4	33.0	(70.4)	(68.1%)
Impairment losses and other provisions, net	*18*	15.9	36.5	20.6	129.4%
Net income before income tax *[= 15 + 16 -17 -18]*	*19*	**65.8**	**164.2**	**98.4**	**149.5%**
Income tax	*20*	(4.2)	37.5	41.7	s.s.
Earnings of associated companies (equity method)	*21*	23.1	20.3	(2.8)	(12.2%)
Net income from continuing operations *[= 19 - 20 + 21]*	*22*	**93.1**	**147.0**	**53.9**	**57.8%**
Net income from discontinued operations	*23*	0.0	0.0	0.0	0.0%
Income attributable to non-controlling interests from continuing operations	*24*	0.0	0.0	0.0	4.1%
Income attributable to non-controlling interests from discontinued operations	*25*	0.0	0.0	0.0	0.0%
Net income *[= 22 + 23 - 24 - 25]*	*26*	**93.1**	**147.0**	**53.9**	**57.9%**
Cash flow after taxes *[= 26 + 13 + 17 + 18]*	*27*	**232.1**	**237.7**	**5.6**	**2.4%**

Table 29

Income

Operating income from banking activity grew by 49.3 M.€ to 715.4 M.€ in 2016, chiefly due to the rise in financial margin.

Commercial banking income – which includes the items financial margin, technical result of insurance contracts and net commissions – climbed 47.4 M.€ (+7.4%) to 690.3 M.€. Commercial banking income represented 96% of total income (97% in 2015).

Financial margin

Narrow financial margin rose by 14.7% (+46.5 M.€) which is primarily explained by the reduction of the average cost of time deposits within the context of the rebound in the demand for credit, as borne out by the portfolio's slight expansion.

The intermediation margin – defined as the spread between the lending interest rate and the cost of deposits – improved by 0.3 p.p., from 1.3% to 1.6%. Narrow financial margin as a percentage of ATA was situated at 1.1% in 2016 (0.9% in 2015).

Financial margin and technical result of insurance contracts

Amounts in M.€

		2015	2016	Δ M.€	Δ %
Financial margin (narrow sense)	*1*	316.4	362.9	46.5	14.7%
Gross margin on unit links	*2*	13.0	13.5	0.5	3.8%
Income from equity instruments	*3*	4.7	8.5	3.8	80.0%
Net commissions relating to amortised cost	*4*	21.1	21.2	0.1	0.5%
Financial margin *[= Σ 1 to 4]*	*5*	**355.2**	**406.0**	**50.8**	**14.3%**
Technical result of insurance contracts	*6*	31.8	24.6	(7.2)	(22.6%)
Total *[= 5 + 6]*	*7*	**387.0**	**430.7**	**43.7**	**11.3%**

Table 30

The increase in financial margin (narrow sense) is essentially explained by the following factors:

With positive impact,

- the decrease in the average cost of time deposits, from 0.96% to 0.36% above Euribor, which constituted the prime factor for the improvement in narrow financial margin, having generated a positive price effect of roughly 70 M.€. Currently, the interest rates on time deposits are already close to zero;
- the expansion of loans to large and medium-sized Portuguese companies of 9.3%[1], with a loan spread (portfolio average) of 2.45% in 2016, and the expansion of loans to small business of 11.8%[1], with a loan spread of 3.25% (portfolio average). The volume effect (including residual effect) on narrow financial margin was a positive 14 M.€;
- the contracting of new home loans with an average spread of 2.1%, which is higher than the average spread on loans repaid which refer primarily to loan operations contracted some time ago (the average spread for the whole portfolio is situated at 1.2%), while the portfolio's volume registers stabilisation;

With negative impact,

- the decrease in the loan spreads in the companies and small business segments, in particular in the lower risk segments, with a negative price effect of 21.3 M.€. The average spread on the loan portfolio relating to large and medium-sized Portuguese companies narrowed by 0.43 p.p. to 2.45% in 2016, while the small business loan book average spread contracted by 0.36 p.p. to 3.25%;
- the decline in market interest rates (the annual average 3-month Euribor rate fell from -0.02% in 2015 to -0.26% in 2016) which automatically reflected itself in a negative spread in sight deposits (relative to Euribor), whose remuneration is zero and therefore not subject to adjustments, and the decrease in market yields of short-term public debt to values close to zero and even negative, with the result that the contribution from the public-debt portfolio to the financial margin is quite insignificant.

1) Change in the portfolio's average balance.

The contribution from capitalisation insurance[1] was 15.0% lower (-6.7 M.€), due essentially to the contraction of these resources' portfolio (with an average spread of 0.8% in 2016). The aggregate financial margin and technical result of insurance contracts was up 11.3%.

Average interest rates on remunerated assets and liabilities

Amounts in M.€

		2015			2016		
		Average balance	Interest	Average interest rate	Average balance	Interest	Average interest rate
Loans to Customers							
Companies, institutionals and project finance	1	7 260.5	193.0	2.7%	7 437.1	163.3	2.2%
Mortgage loans	2	10 504.3	125.3	1.2%	10 407.4	107.5	1.0%
Other loans to individuals	3	803.0	56.5	7.0%	868.9	59.3	6.8%
Loans to small businesses	4	1 539.7	57.3	3.7%	1 721.5	54.1	3.1%
Other	5	855.9	15.4	1.8%	753.8	11.4	1.5%
[= Σ 1 to 5]	6	20 963.5	447.5	2.1%	21 188.6	395.5	1.9%
Customer deposits and other resources[2]	7	20 435.4	164.6	0.8%	20 242.7	50.3	0.2%
Other income and costs	8		33.5			17.6	
Financial margin (narrow sense) *[= 6 - 7 + 8]*	9		**316.4**			**362.9**	
Interest-earning assets[3]	10	26 213.3			25 429.0		
Interest-bearing liabilities[3]	11	26 235.2			25 306.5		
Unitary interest margin (narrow sense) *[= 9 / 10]*	12			**1.21%**			**1.43%**
Intermediation margin (= interest rate on loans – interest rate on deposits) *[= 6 - 7]*	13			1.33%			1.62%
Financial margin (narrow sense) as % of ATA	14			0.93%			1.12%
Euribor 3 months (annual average)	15			(0.02%)			(0.26%)
Euribor 3 months (3 month moving average)	16			0.00%			(0.24%)

Table 31

Trend in financial margin and results from capitalisation insurance

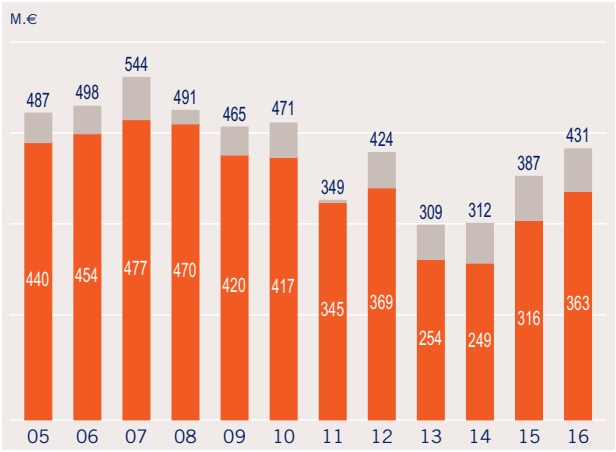


Chart 44

Capitalisation insurance and other income
Financial margin (narrow sense)

Loans and deposits spread
Quarterly average interest rates

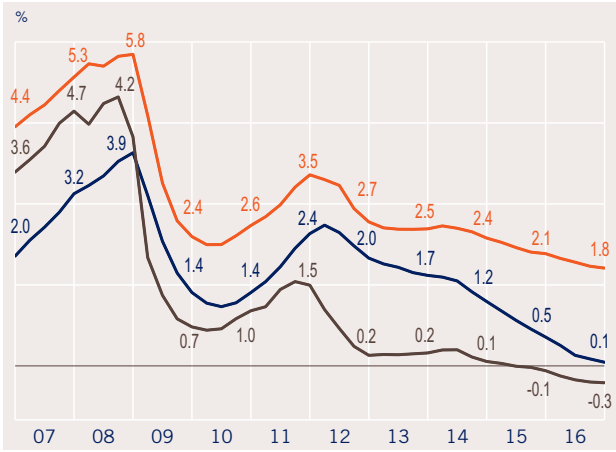


Chart 45

Loans
Deposits
Euribor 3-months

1) The margin earned on capitalisation insurance is essentially recorded under the captions "gross margin on unit links" and "technical result of insurance contracts".
2) Deposits, cheques, payment orders and other resources.
3) Does not include the average balances of BPI Vida e Pensões's remunerated assets and liabilities (namely, on the assets' side, debt certificates and the securities portfolio recorded in the caption Financial assets held for trading, and on the liabilities' side, capitalisation insurance) and corresponding interest, given that the margin earned on capitalisation insurance is essentially recorded under the captions "gross margin on unit links" and "technical result of insurance contracts".

Net commissions

Net commissions income increased 1.5% (+3.7 M.€) in 2016.

Net commissions income from commercial banking, which account for about 82% of the total commissions earned in domestic operations, posted 3.7% growth (+7.5 M.€).

Contributing to the performance was the expansion of bancassurance business, as reflected in the rise in insurance brokerage commissions, the 8.2% increase in the commissions on deposits and associated services and the 23.4% rise in commissions derived from securities operations, which include in 2016 commissions of 13.1 M.€ with the placing of Variable Rate Treasury Bonds (OTVR) with Customers via the retail network.

Net commissions earned from asset management, which represent around 16% of the total commission, decreased by 2.3% in 2016.

Net commission income — Amounts in M.€

		2015	2016	Δ%
Commercial banking				
Cards	1	59.0	57.8	(2.0%)
Intermediation of insurance products	2	42.1	45.6	8.2%
Loans and guarantees	3	32.0	29.2	(8.9%)
Deposits and related services	4	29.7	32.1	8.2%
Securities operations	5	20.3	25.1	23.4%
Banking services	6	8.1	7.3	(9.5%)
Securitised loans	7	6.5	5.0	(22.4%)
Other	8	6.5	9.6	47.4%
[= Σ 1 to 8]	9	**204.2**	**211.7**	**3.7%**
Asset management	10	**42.5**	**41.5**	**(2.3%)**
Investment banking	11	**9.2**	**6.5**	**(29.9%)**
Total *[= 9 + 10 + 11]*	12	**255.9**	**259.7**	**1.5%**

Table 32

Net income on financial operations

Net income on financial operations amounted to 48.9 M.€ in 2016, which corresponded to 6.8% of operating income from banking activity (7.2% in 2015).

Net income on financial operations in 2016 include a gain in available-for-sale financial assets of 22.9 M.€ (before tax)[1] from the sale of an interest in Visa Europe, as part of the public offer for acquisition (tender offer) launched by Visa Inc for Visa Europe. It should be mentioned that at the end of 2015, following the launch of that tender offer, Banco BPI recognised directly in shareholders' equity, under the revaluation reserve, the estimated gain to be realised on the projected takeover bid. The recognition in the income statement occurred in June 2016, with the realisation of the aforementioned operation and the consequent sale by BPI.

Net income on financial operations — Amounts in M.€

		2015	2016	Δ M.€
Operations at fair value				
Equities[2]	1	15.1	10.6	(4.5)
Interest rate	2	13.9	(1.8)	(15.7)
Structured products[3]	3	2.3	0.5	(1.7)
Hedge funds	4	0.9	(0.0)	(0.9)
Currency[4]	5	8.9	11.0	+2.1
Repurchase of own debt, securitisations and other gains in bonds	6	12.6	3.6	(9.0)
[= Σ 1 to 6]	7	**53.6**	**23.9**	**(29.7)**
Financial assets available for sale				
Equities	8	0.5	23.0	+22.5
Debt instruments	9	(5.6)	0.5	+6.1
Other	10	(1.0)	0.3	+1.3
[= Σ 8 to 10]	11	**(6.1)**	**23.9**	**+30.0**
Subtotal *[= 7 + 11]*	12	**47.5**	**47.8**	**+0.3**
Financial income from pensions				
Expected fund income calculated based on the discount rate	13	31.8	33.4	+1.6
Interest cost with pension liabilities	14	(31.4)	(32.4)	(1.0)
[= 13 + 14]	15	**0.4**	**1.0**	**+0.6**
Total *[= 12 + 15]*	16	**47.9**	**48.9**	**+0.9**

Table 33

1) After-tax gain of 16.7 M.€. In addition, the contribution from the shareholding in Unicre, which is equity accounted, includes an after-tax gain of 8.6 M.€ relating to the acquisition of Visa Europe by Visa Inc.
2) Relating to a long-short equities portfolio and a PSI-20 futures arbitrage portfolio.
3) Bonds whose yield is indexed to the equities, commodities and other markets, with total or partial protection of the capital invested at the end of the period.
4) Gains resulting from the currency margin on operations carried out with the Customer commercial network.

Operating income and expenses

The caption "operating income and expenses" which in 2016 presents a negative figure of 23.8 M.€ (+0.9 M.€ than in 2015), essentially refers to the cost items: contribution to the Single Resolution Fund within the framework of the European Single Resolution Mechanism (-14.9 M.€), contribution to the National Resolution Fund (-3.2 M.€), subscriptions and donations (-5.0 M.€) and levies (-6.7 M.€).

Net operating income / (expenses) Amounts in M.€

		2015	2016	Δ M.€
Contributions to the deposit guarantee fund	1	(0.7)	(0.0)	+0.7
Contributions to the National Resolution Fund	2	(2.9)	(3.2)	(0.3)
Contributions to the European Resolution Fund	3	(14.4)	(14.9)	(0.6)
Subscriptions and donations	4	(4.9)	(5.0)	(0.1)
Taxes	5	(6.7)	(6.7)	+0.0
Income from non-financial assets	6	(0.6)	2.7	+3.3
Other	7	5.5	3.4	(2.1)
Total *[= Σ 1 to 7]*	8	**(24.7)**	**(23.8)**	**+0.9**
Note:				
Contribution over the banking sector[1]	9	(13.0)	(17.8)	(4.8)

Table 34

Overhead costs

Overhead costs – personnel costs, general administrative costs, depreciation and amortisation – decreased 0.4% in 2016.

In 2016, overhead costs included the following impacts that represented a net cost of 16.8 M.€:

- early-retirement costs of 59.7 M.€ relating to 322 early retirements, most of which occurred in the fourth quarter;
- income of 42.9 M.€ which resulted, within the revision of the Collective Employment Agreement for the Banking Sector, from alterations to the conditions of the pension plan and from the extinction of the long-service award and creation of the end-of-career award.

Excluding early-retirement costs and the gain from the revision of the ACT, overhead costs declined by 2.5% (-12.2 M.€).

Operating income from banking activity

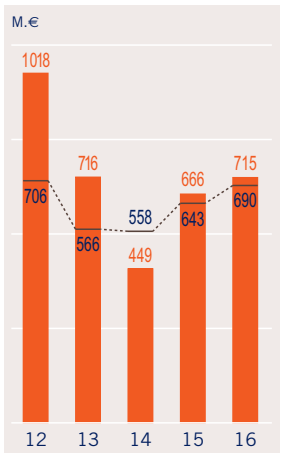


Chart 46

- Operating income from banking activity
- Commercial banking income[2]

Overhead costs

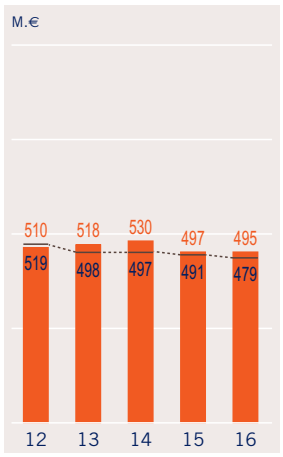


Chart 47

- Overhead costs
- Adjusted overhead costs[3]

Efficiency ratios

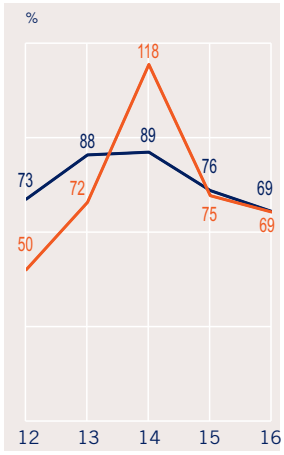


Chart 48

- Cost-to-income ratio[4]
- Adjusted overhead costs-to-commercial banking income

Operating profit

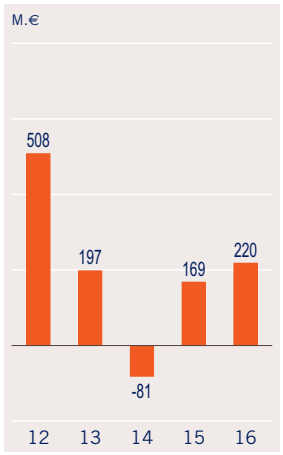


Chart 49

1) The Extraordinary Contribution levied on the Banking Sector is recorded under the caption "Corporate income tax". With the creation of the National Resolution Fund (*Decree-Law no. 31-A / 2012* of 10 February) the extraordinary contribution levied on the banking sector is now allocated to the funding of the Resolution Fund.
2) Commercial banking income = Financial margin + technical result of insurance contracts + net commissions income.
3) Overhead costs, excluding early-retirement costs and gains stemming from alterations to the plan (death subsidy) and the revision of the ACT.
4) Overhead costs as a percentage of operating income from banking activity.

Within the scope of the rationalisation and optimisation measures which BPI has implemented in Portugal, 50 branches were closed in 2016, which corresponds to a 8.0% reduction in the distribution network in Portugal, at the same time as the workforce employed in domestic activity decreased by 392 staff (-6.6%), whose effective departure due to early retirement occurred mainly in the 4th quarter. The positive impact on earnings will only be fully felt in 2017, whereas the cost of those measures was recognised immediately, thus affecting net profit in 2016.

The indicator "overhead costs as a percentage of operating income from banking activity" (efficiency ratio) improved (decreased) 5.4 p.p., from 74.7% in 2015 to 69.2% in 2016.

The ratio "adjusted overhead costs[1] as a percentage of commercial banking income" declined 7.0 p.p., to 69.3% in 2016. The gradual reduction in costs since 2007 and, more recently, the recovery of the income base (commercial banking income), permitted imposing an improving trajectory in efficiency levels since 2014, year in which it reached its worst level (89.0%[2]).

Overhead costs

Amounts in M.€

		2015	2016	Δ M.€	Δ %
Personnel costs	*1*	300.2	306.2	+5.9	2.0%
General administrative costs	*2*	177.3	168.0	(9.4)	(5.3%)
Depreciation and amortisation	*3*	19.8	21.3	+1.5	7.7%
Overhead costs *[= Σ 1 to 3]*	*4*	**497.3**	**495.4**	**(1.9)**	**(0.4%)**
Of which:					
Costs with early-retirements	*5*	6.5	59.7	+53.2	
Gains with the revision of the Collective Labour Agreement (ACT)	*6*	0.0	(42.9)	(42.9)	
Overhead costs, excluding costs with early-retirements and gains with the revision of the ACT					
Personnel costs, excluding costs with early-retirements and gains with the revision of the ACT *[= 1 - 5 - 6]*	*7*	293.8	289.4	(4.4)	(1.5%)
General administrative costs *[= 2]*	*8*	177.3	168.0	(9.4)	(5.3%)
Depreciation and amortisation *[= 3]*	*9*	19.8	21.3	+1.5	7.7%
Overhead costs, excluding costs with early-retirements and gains with the revision of the ACT *[= Σ 7 to 9]*	*10*	**490.8**	**478.6**	**(12.2)**	**(2.5%)**
Cost-to-income ratio[3]	*11*	74.7%	69.2%		
Adjusted overhead costs-to-commercial banking income ratio[4]	*12*	76.3%	69.3%		

Table 35

1) Overhead costs excluding early-retirement costs and gain stemming from the revision of the ACT.
2) Indicator "adjusted overhead costs as a percentage of commercial banking income" in 2014.
3) Overhead costs as a % of Operating income from banking activity.
4) Overhead costs excluding costs with early-retirements and gains with the revision of the ACT as a % of commercial banking income. Being the Commercial banking income = Financial margin + technical result of insurance contracts + net commission income.

Personnel costs

Remuneration and pension costs (excluding early-retirement costs and a gain arising from the revision of the ACT) decreased 1.5% to 289.4 M.€ in 2016.

The main factors behind the lower personnel costs (excluding early retirements and the gain on the revision of the ACT) were:

- reduction of 2.7%[1] in the average headcount employed in domestic operations;
- revision of the salary table in Portugal of 0.75% laid down in the Vertical Collective Employment Agreement (Acordo Colectivo de Trabalho Vertical – ACTV) for the banking sector;
- a decrease in the accounting charge relating to the variable remuneration[2] despite having considered, with respect to the year, the granting of an identical variable remuneration to Employees as that awarded in 2015.

Personnel costs Amounts in M.€

		2015	2016	Δ%
Remunerations				
Fixed remunerations	*1*	203.6	202.3	(0.6%)
Variable remunerations[2]	*2*	21.4	19.8	(7.7%)
Other[3]	*3*	7.2	7.3	2.3%
Remunerations *[= Σ 1 to 3]*	*4*	**232.3**	**229.5**	**(1.2%)**
Pension costs and social charges[4]	*5*	61.5	59.9	(2.6%)
Remunerations and pension costs *[= 4 + 5]*	*6*	**293.8**	**289.4**	**(1.5%)**
Costs with early-retirements	*7*	6.5	59.7	
Gains with the revision of the Collective Labour Agreement	*8*		(42.9)	
Total *[= 6 + 7 + 8]*	*9*	**300.2**	**306.2**	**2.0%**

Table 36

Overhead costs
In 2016

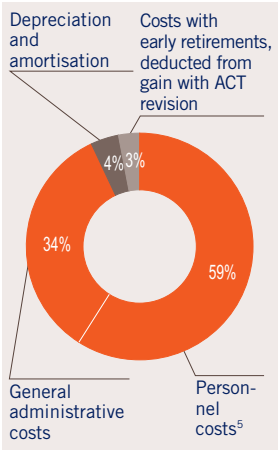


Chart 50

Personnel costs[5]

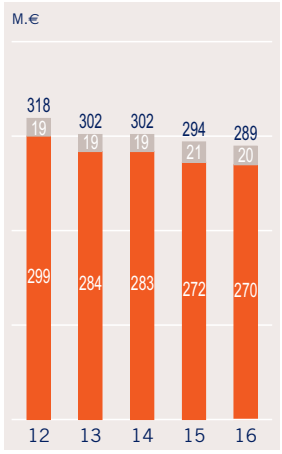


Chart 51

Variable remunerations
Fixed remunerations, social charges and pension costs

1) The average staff headcount decreased by 2.7%, from 5 945 Employees to 5 784 in 2016. At the end of 2016, the staff headcount stood at 5 507 Employees (-6.6% when compared to 5 899 Employees at the end of the preceding year).
2) Includes costs recorded in 2015 (2.5 M.€) and in 2016 (1.0 M.€) with variable remuneration related to previous years. These amounts refer to adjustments between the amount actually attributed and the estimate recognized in the accounts and the amount in 2015 also includes the adjustment by the awarding (in 2015) of the variable remuneration of 2014 having been made wholly in cash giving full recognition of its cost, whereas in the 2014 accounts the accrual of the cost of the RVA incentive was assumed.
3) Includes bonuses and motivation incentives for the commercial network, length-of-service awards, cost of loans to Employees and others.
4) Includes current service cost, other welfare charges, the amortisation of alterations to the pension plan conditions.
5) Excluding early-retirement costs and gains derived from alterations to the plan (death subsidy) and revision of the ACT.

TREND IN OVERHEAD COSTS IN DOMESTIC OPERATIONS BETWEEN 2007 AND 2016

Since the first signs of the international financial crisis in 2007, the Bank has directed efforts at a rationalisation of the operational structure, involving a gradual reduction in the branch network and staff complement deployed in operations in Portugal, in parallel with the stringent control over costs.

Overhead costs in 2016 (excluding early-retirement costs and the gain on the revision of the ACT) represent a nominal decline of 19% when compared with the respective figures in 2007, which correspond to a saving of 114 M.€ on an annual basis.

Since 2007 the reduction in costs in real terms (adjusted for the movement in prices) was 27%, whilst the Consumer Price Index climbed 10.3% in the same period.

Overhead costs

Amounts in M.€

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Δ 07 / 16 M.€	Δ 07 / 16 %
Personnel costs[1]	352.8	349.3	356.7	345.8	325.2	318.5	302.5	302.1	293.8	289.4	(63.4)	(18.0%)
General administrative costs	203.0	196.0	181.3	186.3	182.6	179.9	177.9	178.5	177.3	168.0	(35.1)	(17.3%)
Depreciation and amortisation	36.4	40.5	39.5	34.0	25.6	20.4	18.1	16.7	19.8	21.3	(15.1)	(41.5%)
Overhead costs[1]	**592.2**	**585.8**	**577.5**	**566.1**	**533.4**	**518.8**	**498.5**	**497.2**	**490.8**	**478.6**	**(113.6)**	**(19.2%)**

Table 37

Between 2007 and 2016, the workforce deployed in domestic operations was reduced by 2 117 Employees (-28%) and the distribution network in Portugal cut by 220 units (-29%). Since the maximum figures attained in 2008, the workforce has been reduced by 2 260 Employees (-29%) and the distribution network by 272 units (-34%).

Amounts in M.€

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Δ 07 / 16 M.€	Δ 07 / 16 %
Employees	7 624	7 767	7 428	7 297	6 658	6 400	6 274	5 962	5 899	5 507	(2 117)	(27.8%)
Distribution network in Portugal	755	807	804	803	746	734	683	636	585	535	(220)	(29.1%)

Table 38

Domestic activity employees

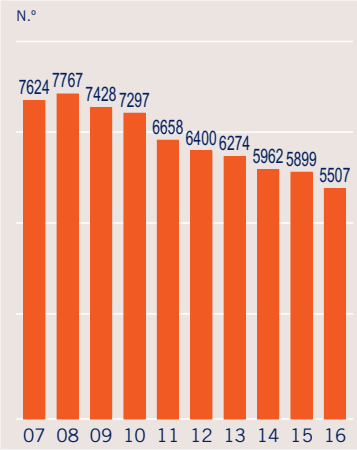


Chart 52

Distribution network in Portugal

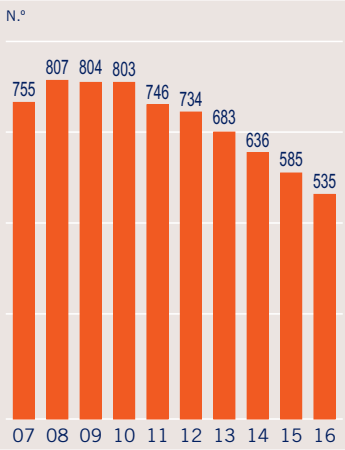


Chart 53

Overhead costs[1]

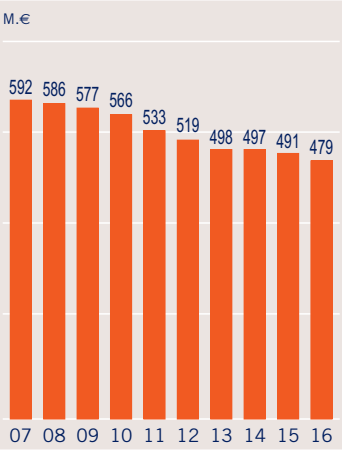


Chart 54

1) Excluding early-retirement costs and, in 2012 and 2013, gains related to the amortisation of alterations to the plan – death subsidy and in 2016, the gain arising from the revision of the Collective Employment Agreement (ACT).

The domestic operations' balance sheet deleveraging was reflected in the 16% decrease in assets since 2007 (or -27% since its maximum value in 2009) and -17% in loans and guarantees (-22% since 2009).

Even so, the productivity indicators have posted an improvement during this period as a consequence of the implementation of rationalisation measures: the assets and business volume per Employee increased by 16% and 27% respectively since 2007.

However, commercial banking income – financial margin, technical result of insurance contracts and net commissions – per employee advanced very moderately. Commercial banking income per Employee in 2016 is 3% higher than the figure in 2007, and represents a substantial recovery when compared with the minimum amount reached in 2013 (which was 23% below that of 2007). This performance is explained primarily by the decrease in financial margin (narrow sense) as % of ATA, which fell from 1.30% in 2007 to 0.66% in 2013, as a consequence of the higher cost of time deposits and a backdrop of Euribor rates at minimum levels, and recovers in recent years to 1.12% in 2016.

Selected indicators by branch and by Employee

Amounts in thousands of €

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Δ 07 / 16
By Employee											
Assets	5 020	5 040	5 876	5 656	5 756	6 197	5 952	5 845	5 640	5 808	16%
Business turnover	7 516	7 716	8 132	8 380	8 765	8 559	8 553	9 019	9 089	9 574	27%
Commercial banking income[1]	116	97	96	99	85	107	89	91	108	119	3%
Overhead costs[2]	82	76	77	76	76	79	78	81	83	83	1.1%
By branch											
Assets	49 773	47 679	53 426	50 574	50 494	53 091	53 657	53 692	55 730	58 691	18%
Business turnover	74 515	72 995	73 934	74 941	76 890	73 333	77 097	82 852	89 808	96 743	30%

Table 39

Business turnover by Employee

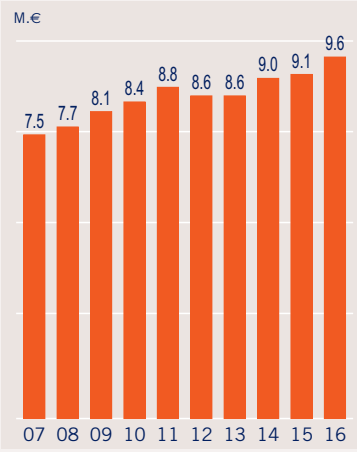


Chart 55

Operational income and costs by Employee

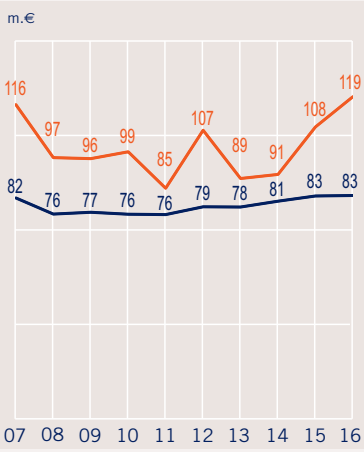


Chart 56

— Commercial banking income[1]
— Adjusted overhead costs[2]

Adjusted overhead costs[2] as % of commercial banking income

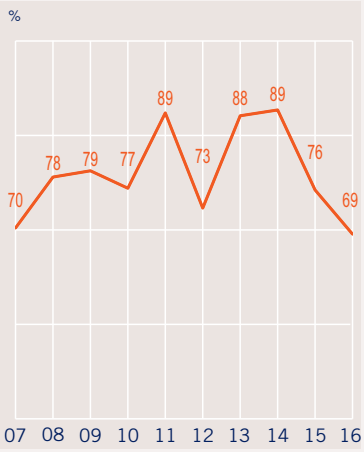


Chart 57

1) Financial margin, technical result of insurance contracts and net commission income.
2) Excluding early-retirement costs and, in 2012 and 2013, gains related to the amortisation of alterations to the plan – death subsidy and in 2016, the gain arising from the revision of the Collective Employment Agreement (ACT).

Employee pension liabilities

At 31 December 2016, the present value of the Bank Employees' pension liabilities for past services amounted to 1 463 M.€. The net assets of the Employees' pension funds, including the contribution of 75.5 M.€ transferred to the pension fund in January 2017, amounted to 1 431 M.€ which guaranteed the funding of 97.8% of pension liabilities (100% of the liabilities for current pensions and 95% of the liabilities of current Employees on the payroll[1]).

Employees' pension liabilities and pension funds

Amounts in M.€

		31 Dec. 15	31 Dec. 16
Total past service liability	*1*	1 279.9	1 463.1
Pension funds			
Net assets of the pension funds	*2*	1 391.1	1 355.4
Contributions to be transferred to the pension fund	*3*	1.3	75.5
[= 2 + 3]	*4*	1 392.3	1 430.8
Excess / (insufficient) cover *[= 4 - 1]*	*5*	112.4	(32.3)
Degree of coverage of pension liabilities *[= 4 / 1]*	*6*	**108.8%**	**97.8%**
Total actuarial deviations[2]	*7*	(40.5)	(244.0)
Pension fund return	*8*	14.0%	(1.2%)

Table 40

Pension funds' returns

In 2016, the Bank's pension funds recorded a return of -1.2%, which was below the discount rate[3] and therefore gave rise to a negative actuarial income deviation of 48.4 M.€.

It should be noted that, up till the end of 2016, Banco BPI's pension fund's actual income return over the past 25 years, that is, since its creation in 1991 was 9.1% *per annum*, on average, and that in the last ten, five and three years, the actual annual returns were 5.9%, 11.6% and 7.0%, respectively.

Financing of Employees pension liabilities

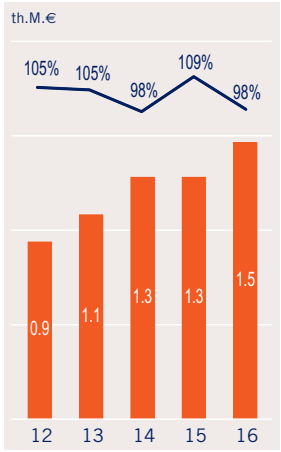


Chart 58

Total past service liability
Coverage by the pension funds' assets

Banco BPI pension funds' portofolio
At 31 December 2016

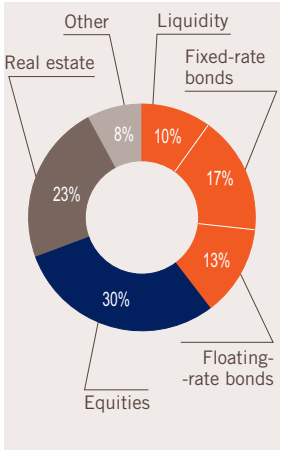


Chart 59

Actuarial assumptions

In June 2016, Banco BPI adopted a single discount rate for pension liabilities of 2.5%, which was similar to the utilisation up until that date of a discount rate of 2.83% for the liabilities relating to current Employees and of 2.00% for liabilities to retirees.

At the end of 2016, the discount rate was altered from 2.5% to 2.0% which resulted in an increase in total liabilities for Employees' past services of 129.4 M.€ (negative actuarial deviation).

The following table presents the actuarial assumptions utilised in the calculation of pension-related liabilities.

1) Minimum cover levels for pension liabilities required by the Bank of Portugal.
2) The amount of the negative actuarial deviations is written off directly from shareholders' equity according to IAS 19.
3) The discount rate of 2.5% (prior to the change to 2.0% at the end of the year) was considered for this purpose.

Actuarial assumptions (financial and demographic)

	2015		2016		
	Beginning of year	End of year	Beginning of year	Jun. 16	End of year
Discount rate at Banco BPI[1]	2.5%	2.5%	2.5%	2.5%	2.0%
Current Employees	2.8%	2.8%	2.8%	2.5%	2.0%
Retirees	2.0%	2.0%	2.0%	2.5%	2.0%
Discount rate at other companies	2.5%	2.5%	2.5%	2.5%	2.0%
Pensionable salary increase rate	1.0%	1.0%	1.0%	1.0%	1.0%
Pensions increase rate	0.5%	0.5%	0.5%	0.5%	0.5%
Mortality table			TV 73 / 77-M – 2 years[2] TV 88 / 90-W – 3 years[2]		

Table 41

Actuarial deviations

The balance on actuarial deviations (accumulated) recognised directly in accounting shareholders' equity climbed from a negative 40.5 M.€ at the end of 2015 to a negative 244.0 M.€ at the end of 2016.

The negative deviations generated in the year (-203.5 M.€) are mainly explained by the reduction in the discount rate of 0.5 p.p. (-129.4 M.€) and by the negative deviation in the funds' return (-48.4 M.€).

It is worth noting that the impact of those actuarial deviations on CET1 capital was in part offset by smaller deductions by virtue of the decrease in the surplus funding of the pension liabilities, which is written off in the computation of CET1 capital.

Actuarial deviations in 2016 — Amounts in M.€

Balance of actuarial deviations at 31 Dec. 15	*1*	**(40.5)**
Change in the discount rate from 2.5% to 2%	*2*	(129.4)
Deviation in pension fund income	*3*	(48.4)
Other	*4*	(25.6)
Balance of actuarial deviations at 31 Dec. 16 *[= Σ 1 to 4]*	*5*	**(244.0)**

Table 42

IMPAIRMENTS AND PROVISIONS

Total impairment charges and provisions in the year, after deducting recoveries of loans, interest and expenses, were 55.8 M.€ in 2016 and corresponded to:

- impairment losses and provisions for loans and guarantees (net of recoveries) of 19.3 M.€;
- impairment losses and other provisions (net) of 36.5 M.€.

Operating income from banking activity and total impairments and provisions[3]

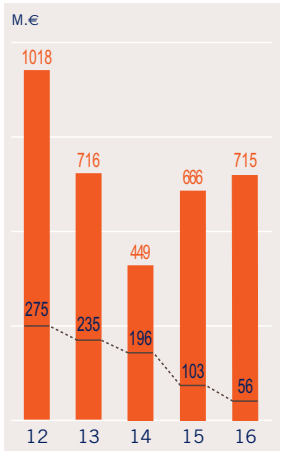


Chart 60

- Operating income from banking activity
- Total impairments and provisions[3]

Total impairments and provisions[3]

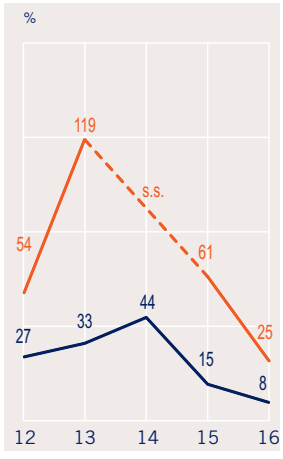


Chart 61

- As % of operating income from banking activity
- As % of operating profit

1) At Banco BPI, up until June 2016 distinct discount rates were considered for current Employees and retirees, which was similar to the result obtained had the single discount rate of 2.5% been utilised for the entire population.
2) For the population covered, the age taken into consideration is 2 years less than the beneficiaries' actual age in the case of males (M) and 3 years in the case of females (F), which is equivalent to considering a longer life expectancy.
3) Net of loan recoveries.

Impairment losses and provisions for loans and guarantees

The cost of credit risk[1], net of recoveries of loans, interest and expenses, decreased by 67.8 M.€, from 87.1 M.€ in 2015 to 19.3 M.€. in 2016.

As a percentage of the loan portfolio's average balance, the cost of credit risk net of recoveries decreased from 0.38% in 2015 to 0.09% in 2016, a figure that is situated significantly below its average for the 10 years up till 2010[2], which was 0.27%.

Cost of credit risk[1]

Charges in the year

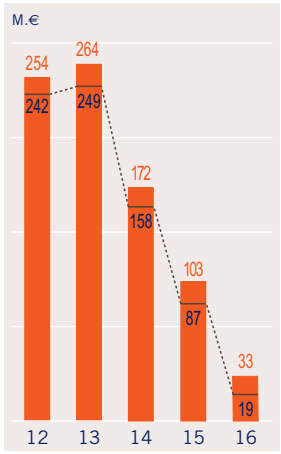


Chart 62

As % of loan portfolio

Chart 63

– Cost of credit risk
– Cost of credit risk net of recoveries

The decrease in the cost of credit risk reflects an improvement in the loan portfolio's quality indicators and a drop in the stream of new situations evidencing impairment, a high level of cover by impairment allowances and the use, in the impairment estimate models, of statistical data which gradually reflect the recent period marked by a more favourable economic landscape.

The credit-at-risk ratio (consolidation perimeter in IAS / IFRS) declined from 4.5% in 2015 to 3.7% in 2016, while credit-at-risk cover by accumulated impairment allowances in the balance sheet (consolidation perimeter in IAS / IFRS), not considering the value of real guarantees, stood at 83% at the end of 2016 (85% in 2015).

At the end of 2016, the credit-at-risk ratios and impairment cover (consolidation perimeter in IAS / IFRS) in the principal segments were as follows:

- companies, project finance and institutional banking – credit-at-risk ratios of 4.7% and 98% cover;
- small businesses – credit-at-risk ratios of 5.7% and 86% cover;
- mortgage – credit-at-risk ratios of 3.1% and 61%[3] cover.

Impairment losses and provisions for loans and guarantees, net

Amounts in M.€

		2015				2016			
		Impairments and provisions	As % of loan portfolio[4]	Impairments and provisions net of recoveries	As % of loan portfolio[4]	Impairments and provisions	As % of loan portfolio[4]	Impairments and provisions net of recoveries	As % of loan portfolio[4]
Corporate banking, institutional banking and project finance	*1*	94.6	1.29%	89.4	1.22%	34.3	0.46%	31.5	0.42%
Individuals and small businesses									
Mortgage loans	*2*	1.9	0.02%	0.2	0.00%	(4.2)	(0.04%)	(6.1)	(0.06%)
Loans to individuals – other purposes	*3*	3.6	0.43%	0.5	0.06%	11.3	1.24%	8.8	0.97%
Loans to small businesses	*4*	1.0	0.07%	(5.2)	(0.34%)	(6.3)	(0.37%)	(12.8)	(0.75%)
[= Σ 2 to 4]	*5*	6.5	0.05%	(4.5)	(0.03%)	0.7	0.01%	(10.2)	(0.08%)
Other	*6*	2.2	0.10%	2.2	0.10%	(2.0)	(0.12%)	(2.0)	(0.12%)
Total *[= 1 + 5 + 6]*	*7*	**103.4**	**0.45%**	**87.1**	**0.38%**	**33.0**	**0.15%**	**19.3**	**0.09%**

Table 43

1) Impairment losses and provisions for loans and guarantees, net.
2) Period prior to the maximum values attained in 2012 (0.91%) and 2013 (0.98%).
3) The average loan-to-value ratio for the total mortgage-loan portfolio (weighted by the balance on performing loan operations) was 66.9% at the end of 2016.
4) Average balance of performing loans.

Impairment losses and other provisions
The impairment losses and other provisions (net) totalled 36.5 M.€ in 2016, that is, 20.6 M.€ more than in the previous year, which is mainly explained by including in 2016 impairments to PT International Finance bonds (OI Group) in the amount of 18.3 M.€.

Corporate income tax

In 2016 the caption "Corporate income tax" amounted to 37.5 M.€ which is explained by:

- a corporate income tax charge of 42.2 M.€ which corresponded to an average income tax rate of 26%;
- a cost relating to the Extraordinary Levy on the Banking Sector of 17.8 M.€. Since the creation of the National Resolution Fund (*Decree-Law no. 31-A / 2012*, of 10 February) the extraordinary levy is now earmarked for financing that fund;
- an income item of 22.4 M.€ stemming from the application of *Regulatory-Decree no. 5 / 2016* (taxation treatment of impairments).

Income tax Amounts in M.€

			2015	2016
Income tax charge		1	15.4	42.2
Average income tax rate	*[= 1 / 7]*	2	23%	26%
Contribution over the banking sector		3	13.0	17.8
Deferred tax assets related to 2011 tax losses[1]		4	(32.6)	
Decree-Law 5 / 2016 (impairments fiscal framework)		5		(22.4)
Total	*[= 1+ Σ 3 to 5]*	6	**(4.2)**	**37.5**
Net income before income tax		7	65.8	164.2

Table 44

Earnings of associated companies (equity method)

The contribution from equity-accounted subsidiaries to net profit from domestic operations was 20.3 M.€ in 2016 (-2.8 M.€ relative to the previous year).

The contribution from the insurance subsidiaries was 7.9 M.€, 6.8 M.€ less than in the previous year. Allianz Portugal contributed with 3.8 M.€ (-5.4 M.€ than in 2015) and Cosec with 4.1 M.€ (-1.4 M.€ than in 2015).

Unicre contributed with 12.3 M.€ in 2016 and includes a gain of 8.6 M.€ stemming from the operation involving the acquisition of Visa Europe by Visa Inc.

Earnings of associated companies (equity method) Amounts in M.€

			2015	2016	Δ M.€
Allianz Portugal		1	9.3	3.8	(5.4)
Cosec		2	5.5	4.1	(1.4)
	[= 1 + 2]	3	14.8	7.9	(6.8)
Unicre		4	8.4	12.3	+4.0
Other		5	0.00	0.04	+0.0
Total	*[= Σ 3 to 5]*	6	**23.1**	**20.3**	**(2.8)**

Table 45

1) In 2014 BPI wrote off 50.9 M.€ of deferred tax assets relating to 2011 tax losses (with a negative impact on 2014 net profit), given that at that date there was no prospect of the utilisation of the tax loss carryforward within the legally-prescribed period which terminated in 2015. In 2015, Banco BPI presented a taxable profit, with the result that it was possible to utilise 155 M.€ of 2011 tax losses. In this manner, BPI recognised income from deferred tax assets of 33 M.€.

DOMESTIC OPERATIONS BALANCE SHEET

Total assets employed in domestic operations amounted to 32.0 th.M.€ at the close of 2016.

The domestic operations' balance sheet reflects mainly the commercial banking business carried on in Portugal. At the end of 2016, Customer loans in the amount of 22.7 th.M.€ represent 71% of assets, while Customer resources (23.9 th.M.€) constitute the chief source of balance sheet funding (75% of assets).

The transformation of deposits into loans ratio in domestic operations, calculated in accordance with *Instruction 16 / 2004*, was situated at 106% at the end of 2016.

BPI maintains a comfortable liquidity position and balanced funding situation:

- BPI has a portfolio of public-debt securities of euro-zone countries of 3.4 th.M.€, of which 2.9 th.M.€ are short-term securities, 339 M.€ of Portuguese M/LT debt and 195 M.€ is M/LT Italian debt;
- at the end of 2016, funds raised from the ECB amounted to 2.0 th.M.€;
- the Bank has a portfolio of assets eligible for additional ECB funding worth 6.1 th.M.€;
- the debt refinancing requirements in the next few years are minimal (0.6 th.M.€ in 2017, 0.1 th.M.€ in 2018), corresponding primarily to funding obtained from the EIB;
- 2019 will see a release of liquidity of 0.7 th.M.€, via the redemption of medium and long-term sovereign bonds held by BPI in portfolio;
- at the end of 2016, the liquidity coverage ratio (LCR) was 181% (161% in the consolidated accounts) while the net stable funding ratio (NSFR) was 110% (117% in consolidated terms), both based on the rules for fully-implemented CET1 capital.

Domestic activity balance sheet structure in 2016

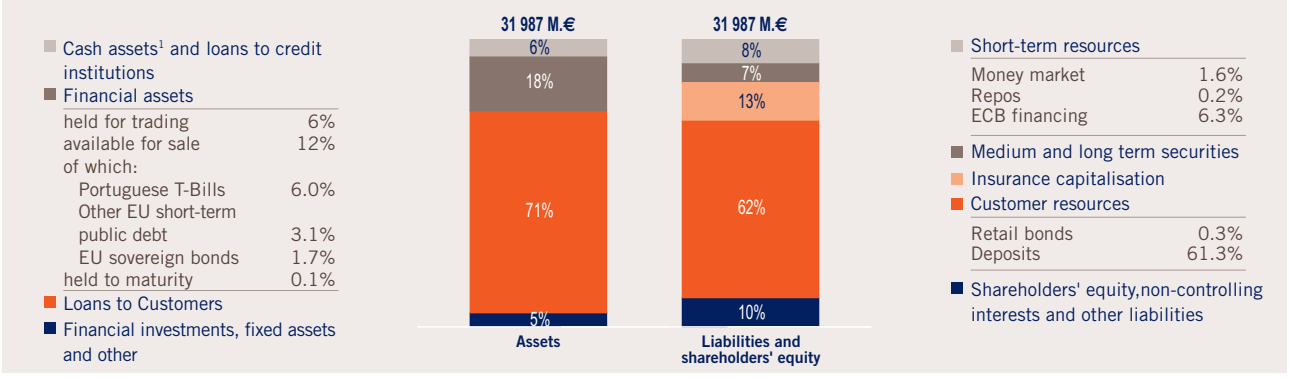


Chart 64

1) Cash and deposits at central banks and at other credit institutions.

Domestic activity balance sheet

Amounts in M.€

			31 Dec. 15	31 Dec. 16	Δ%
Assets					
Cash and deposits at central banks		*1*	997.7	876.6	(12.1%)
Deposits at other credit institutions		*2*	434.4	300.2	(30.9%)
Loans and advances to credit institutions		*3*	732.5	636.5	(13.1%)
Loans and advances to Customers		*4*	22 788.1	22 735.8	(0.2%)
Financial assets held for trading and at fair value through profit or loss		*5*	3 147.1	2 197.9	(30.2%)
Financial assets available for sale		*6*	3 723.0	3 876.4	4.1%
Held to maturity investments		*7*	22.4	16.3	(27.2%)
Investments in associated companies and jointly controlled entities		*8*	146.1	130.8	(10.5%)
Non-current assets held for sale and discontinued operations		*9*			
Other assets		*10*	1 279.7	1 216.0	(5.0%)
Total assets	*[= Σ 1 to 10]*	*11*	**33 271.0**	**31 986.6**	**(3.9%)**
Liabilities and shareholders' equity					
Resources of central banks		*12*	1 520.7	2 000.0	31.5%
Resources of other credit institutions		*13*	1 895.7	1 724.5	(9.0%)
Resources of Customers and other debts		*14*	21 264.8	21 967.7	3.3%
Debt securities		*15*	1 077.4	506.8	(53.0%)
Technical provisions		*16*	3 663.1	2 048.8	(44.1%)
Financial liabilities relating to transferred assets		*17*	689.5	555.4	(19.5%)
Non-current liabilities held for sale and discontinued operations		*18*			
Other subordinated debt and participating bonds		*19*	69.5	69.5	(0.0%)
Other liabilities		*20*	1 160.6	1 167.6	0.6%
Shareholders' equity attributable to the shareholders of BPI		*21*	1 927.8	1 944.6	0.9%
Non-controlling interests		*22*	1.8	1.8	(1.5%)
Shareholders' equity and non-controlling interests	*[= 21 + 22]*	*23*	**1 929.6**	**1 946.3**	**0.9%**
Total liabilities and shareholders' equity	*[= Σ 12 to 22]*	*24*	**33 271.0**	**31 986.6**	**(3.9%)**
Note: guarantees		*25*	1 443.0	1 466.2	1.6%
Off-balance sheet Customer resources		*26*	4 474.2	4 842.5	8.2%

Table 46

Customer loans

The domestic operations' loan portfolio in 2016 evidences a moderate upswing in the demand for loans in the corporate, small business and individuals' segments, signalling an about-turn in the contraction of new loans that has been noted since 2010.

Even so, the domestic operations loan portfolio records a virtually nil change (-0.2%) in 2016, given that the portfolio's performance is penalised by the 25% reduction (-430 M.€) in BPI Vida e Pensões's debt securities portfolio composed essentially of bonds and commercial paper issued by large Portuguese companies.

Noteworthy was the 12.2% year-on-year growth of the companies' loan portfolio, the 8.5% expansion of the small business loan portfolio, the stabilisation of the mortgage-loan portfolio (-0.1%), and the 12.5% increase in loans to individuals (consumer credit, motor car finance and credit card outstandings).

The loans granted by the Bank to medium-sized and large companies in Portugal expanded 12.2% (+468 M.€), accelerating the growth posted in the previous year of 4.9%.

The Madrid branch's loan portfolio decreased 19% (-180 M.€). The portfolio's behaviour reflects above all ordinary and early repayments by virtue of the Bank's decision not to enter into new syndicated operations in Spain.

The Public Sector and State Business Sector's loan portfolio recorded modest growth of 4.3% (+59 M.€).

Loans to individuals and small businesses were 1.8% higher as a result of the mortgage-loan portfolio's stabilisation and the expansion of the consumer credit, motor car finance and loans to small businesses:

- the mortgage-loan portfolio stabilises in 2015 with the revival in demand for credit. The amount of home loans contracted climbed by 52% to 896 M.€ in 2016, equalling the value of the repayments made in the year;
- consumer loans, motor car finance and credit card outstandings grew by 12.5% (+110 M.€);
- loans to small businesses rose by 8.5% (+142 M.€).

Loans to Customers
2012 to 2016

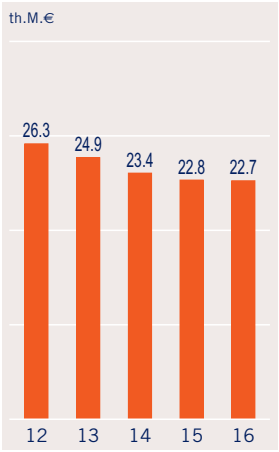


Chart 65

Loan portfolio
Breakdown at 31 Dec. 2016

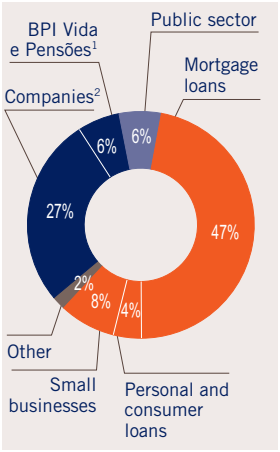


Chart 66

1) Securitised loans held by BPI Vida e Pensões. Corresponds essentially to bonds and commercial paper issued by large Portuguese companies.
2) Corporate Banking, project finance, portfolio of the Madrid branch.

Loans and advances to Customers portfolio Amounts in M.€

		2015	2016	Δ%
Corporate banking				
Large companies	*1*	1 445.5	1 733.6	19.9%
Medium-sized companies	*2*	2 386.2	2 566.4	7.6%
[= Σ 1 to 2]	*3*	**3 831.7**	**4 300.0**	**12.2%**
Project Finance – Portugal	*4*	**1 161.0**	**983.8**	**(15.3%)**
Madrid branch				
Project Finance	*5*	557.3	444.3	(20.3%)
Corporates	*6*	386.3	319.1	(17.4%)
[= Σ 5 to 6]	*7*	**943.6**	**763.4**	**(19.1%)**
Public Sector				
Central Administration	*8*	204.8	189.5	(7.5%)
Regional and local administrations	*9*	774.6	780.8	0.8%
State Corporate Sector – in the budget perimeter	*10*	51.8	51.8	(0.0%)
State Corporate Sector – outside the budget perimeter	*11*	267.4	365.6	36.7%
Other institutional	*12*	60.2	29.6	(50.8%)
[= Σ 8 to 12]	*13*	**1 358.8**	**1 417.3**	**4.3%**
Individuals and Small Businesses Banking				
Mortgage loans to individuals	*14*	10 813.9	10 800.3	(0.1%)
Consumer credit / other purposes	*15*	576.2	663.0	15.1%
Credit cards	*16*	164.7	158.2	(4.0%)
Car financing	*17*	136.2	166.0	21.9%
Small businesses	*18*	1 673.5	1 815.5	8.5%
[= Σ 14 to 18]	*19*	**13 364.4**	**13 603.0**	**1.8%**
BPI Vida e Pensões[1]	*20*	**1 724.9**	**1 295.4**	**(24.9%)**
Loans in arrears net of impairments	*21*	**(30.0)**	**(4.4)**	**(85.4%)**
Other	*22*	**433.6**	**377.4**	**(13.0%)**
Total *[= 3 + 4 + 7 + 13 + Σ 19 to 22]*	*23*	**22 788.1**	**22 735.8**	**(0.2%)**
Note:				
Bank guarantees	*24*	1 443.0	1 466.2	1.6%

Table 47

1) Securitised loans held by BPI Vida e Pensões (fully consolidated), the BPI Group entity which manages capitalisation insurance. The securitised loans portfolio of BPI Vida e Pensões corresponds, mainly, to bonds and commercial paper issued by large companies.

Securities and financial investments portfolio
The securities and financial investments portfolio amounted to 6 221 M.€ at the end of 2016. This portfolio includes, besides financial assets available for sale (3 876 M.€), those held for trading and at fair through profit and loss (2 198 M.€), corresponding in essence to BPI Vida e Pensões' portfolio (1 617 M.€) allocated to covering capitalisation insurance and an equities portfolio[1] (291 M.€), as well as investments held to maturity (16 M.€) and participating interests (131 M.€).

The following were the most salient aspects of the behaviour of the available-for-sale assets portfolio in 2016:

- reduction of roughly 1/3 of the exposure to medium and long-term sovereign debt with the sale of Italian public debt with a nominal value of 313 M.€. At the end of 2016, the position held in medium and long-term public-debt securities totalled 533.4 M.€ (balance sheet value) and has a residual average maturity of around 2.3 years. This portfolio was composed of Portuguese public debt (338.5 M.€) and Italian public debt (194.8 M.€);
- increase in the short-term public-debt portfolio, from 2.3 th.M.€ at the end of 2015 to 2.9 th.M.€ at the end of 2016, chiefly due to the increase in the portfolio of Portuguese Treasury Bills. At the end of 2016, the Treasury Bills portfolio totalled 1 909 M.€, while the short-term Spanish and Italian public-debt portfolios amounted to respectively, 501 M.€ and 485 M.€.

At the end of 2016, the portfolio of available-for-sale financial assets presented unrealised gains of 13.7 M.€ (before tax).

Financial assets available-for-sale
2012 to 2016

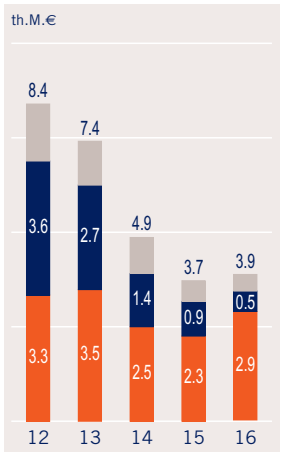


Chart 67

Financial assets available-for-sale
Portfolio at 31 Dec. 2016

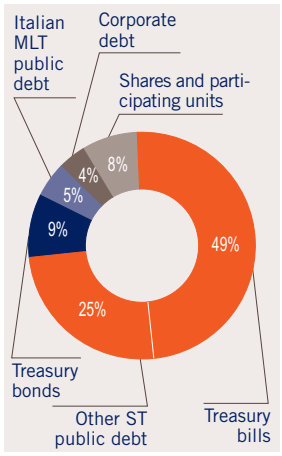


Chart 68

1) Associated with trading activity through the investment in and the management of the BPI Alternative Fund: Iberian Equities Long Short (Lux) and the management of an arbitrage portfolio carried out at Banco Português de Investimento.

Financial assets available for sale portfolio

Amounts in M.€

		31 Dec. 15					31 Dec. 16				
		Acquisition cost	Book value	Gains (losses)[1]			Acquisition cost	Book value	Gains (losses)[1]		
				in the securities	in derivatives	Total			in the securities	in derivatives	Total
Bonds – public debt											
Short term	*1*	2 256.1	2 257.0	0.4		0.4	2 895.1	2 895.2	0.5		0.5
Of which:											
Portugal		1 426.3	1 426.6	(0.1)		(0.1)	1 908.7	1 909.0	0.2		0.2
Italy		389.9	390.2	0.2		0.2	500.8	500.7	0.2		0.2
Spain		439.9	440.2	0.3		0.3	485.6	485.5	0.2		0.2
Medium and long term	*2*	825.2	912.5	95.2	(99.3)	(4.1)	504.7	533.4	39.6	(43.1)	(3.5)
Of which:											
Portugal		320.2	350.9	34.2	(35.8)	(1.6)	319.2	338.5	24.7	(27.4)	(2.6)
Italy		505.0	561.5	60.9	(63.5)	(2.5)	185.5	194.8	14.9	(15.7)	(0.9)
[=1 +2]	*3*	3 081.3	3 169.4	95.6	(99.3)	(3.7)	3 399.8	3 428.6	40.1	(43.1)	(3.0)
Corporate bonds	*4*	234.0	227.0	(14.9)	(6.3)	(21.2)	158.2	154.4	(9.6)	(0.4)	(10.0)
Equities	*5*	134.1	132.8	45.7		45.7	137.4	117.0	26.5		26.5
Other	*6*	243.9	193.8	(0.5)		(0.5)	231.6	176.5	0.2		0.2
Total *[= Σ 3 to 6]*	*7*	**3 693.3**	**3 723.0**	**126.0**	**(105.6)**	**20.3**	**3 927.0**	**3 876.4**	**57.2**	**(43.4)**	**13.7**
Note:											
Fair value reserve after deferred tax						21.8					16.6

Table 48

1) Revaluation reserve resulting from the fair value valuation of available-for-sale financial assets, before deferred taxes, including the impact of the hedging of interest rate risk.

Customer resources

Total Customer resources – on and off the balance sheet – registered a 2.4% year-on-year decrease (-677 M.€), to 27.8 th.M.€ at the end of 2016.

In assessing this trend, one must take into account the placing by BPI with its Customer base, through its distribution network, of 1 185 M.€ of Variable Income Treasury Bonds (third-party financial products), since these do not form part of the aggregate Total Customer resources.

The aggregate "Global Customer resources", which also includes Customers' investments in third-party financial products, records a slight decrease of 0.1%, totalling 32.0 th.M.€ at the end of 2016.

Customer deposits expanded by 4.4% (+824 M.€). Against a backdrop of the downward adjustment of the remuneration of term deposits, sight deposits have gained weight relative to total deposits, with these having climbed from more than 1/3 of total deposits at the end of 2013 to roughly half at the end of 2016.

On-balance sheet Customer resources fell by 4.2% (-1.0 th.M.€) due to the 44% contraction in capital-guaranteed insurance capitalisation, which is consistent with the change in commercial focus which began to give priority to the placing of other savings products.

Off-balance sheet resources (unit trust funds and retirement-savings and equities-savings plans) grew by 8.2% (+368 M.€), totalling 4.8 th.M.€ at the end of 2016.

Total Customer resources
2012 to 2016

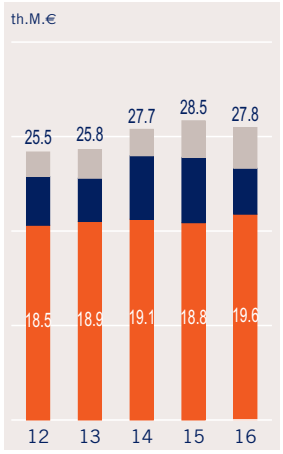


Chart 69

Total Customer resources
Breakdown at 31 Dec. 2016

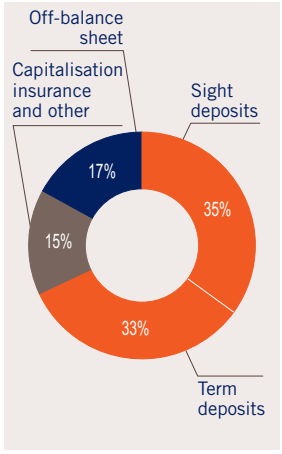


Chart 70

Customer resources portfolio

Amounts in M.€

			2015	2016	Δ%
On-balance sheet resources					
Customers' deposits					
Sight and other deposits		*1*	8 851.9	10 335.5	16.8%
Term and savings deposits		*2*	9 925.3	9 265.3	(6.6%)
	[= 1 + 2]	*3*	18 777.2	19 600.8	4.4%
Bonds placed with Customers[1]		*4*	336.2	94.4	(71.9%)
Subtotal	*[= 3 + 4]*	*5*	**19 113.3**	**19 695.1**	**3.0%**
Capitalisation insurance and PPR (BPI Vida e Pensões) and other					
Unit links capitalisation insurance		*6*	1 957.4	1 930.4	(1.4%)
"Aforro" capitalisation insurance products and other[2]		*7*	3 691.0	2 069.6	(43.9%)
Participating units in consolidated unit trust funds		*8*	227.0	249.6	10.0%
	[= 6 + 7 + 8]	*9*	5 875.4	4 249.6	(27.7%)
On-balance sheet resources	*[= 5 + 9]*	*10*	**24 988.7**	**23 944.7**	**(4.2%)**
Off-balance sheet resources[3]		*11*	4 474.2	4 842.5	8.2%
Corrections for double counting[4]		*12*	(654.0)	(587.2)	
Deduction of placements of pension funds under management[5]		*13*	(304.6)	(372.2)	
Total Customer resources – on and off balance sheet[6]	*[= Σ 10 to 13]*	*14*	**28 504.3**	**27 827.7**	**(2.4%)**
Other Customer resources					
Public offerings		*15*	396.5	1 304.3	229.0%
Third-party unit trust funds placed with Customers		*16*	455.8	506.0	11.0%
Other third-party securities held by Customers		*17*	2 622.6	2 319.9	(11.5%)
Global Customer resources	*[= Σ 14 to 17]*	*18*	**31 979.1**	**31 957.9**	**(0.1%)**
Pension funds under management[7]		*19*	2 419.1	2 418.3	(0.0%)
BPI Group		*20*	1 433.7	1 397.5	(2.5%)
Other		*21*	985.3	1 020.8	3.6%

Table 49

1) Structured products (bonds with yield indexed to the equities, commodities and other markets, and with total or partial capital protection at the end of the term), fixed-rate bonds and subordinated bonds issued by the BPI Group and placed with Customers.
2) Includes insurance capitalisation products that guarantee the invested capital and whose remuneration corresponds to the participation in the results and it also includes guaranteed rate and guaranteed retirement capitalisation products.
3) Unit trust funds, PPR and PPA managed by BPI.
4) Placements of the unit trust funds managed by the BPI Group in deposits and structured products.
5) Placements of pension funds under management in on-balance sheet and off-balance sheet resources.
6) Corrected for double counting and deducted of placements of pension funds under management.
7) Includes the BPI Group's Employee pension funds.

INTERNATIONAL OPERATIONS

RESULTS OF INTERNATIONAL OPERATIONS

The contribution from international operations to consolidated net profit was 166.3 M.€ in 2016, which corresponds to 16.1% growth when compared to the 143.3 M.€ contribution recorded in the previous year.

The main contributions to the profit from international activity corresponded:

- to Banco de Fomento Angola's (BFA) contribution of 162.7 M.€, relating to the 50.1% appropriation of its individual profit, which corresponds to a 20% improvement on the 2015 figure;
- to Banco Comercial e de Investimentos's (BCI) contribution of 5.4 M.€, relating to the appropriation of 30% of its individual net profit (equity accounted), which corresponds to a 43% year-on-year decrease.

The return on average capital allocated to international operations, after consolidation adjustments, namely, the impact of the taxation on dividends to be distributed, stood at 37.5% in 2016 (30.5% in 2015).

International activity contribution to consolidated net income

Amounts in M.€

		2015	2016	Δ M.€	Δ%
BFA contribution	*1*	135.7	162.7	27.0	19.9%
BCI contribution	*2*	9.4	5.4	(4.0)	(42.9%)
Other[1]	*3*	(1.9)	(1.8)	0.0	2.1%
Total *[= Σ 1 to 3]*	*4*	**143.3**	**166.3**	**23.0**	**16.1%**

Table 50

International activity contribution to net profit

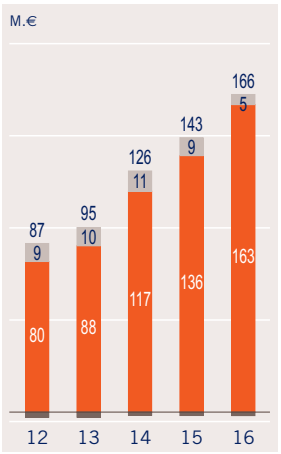


Chart 71

BCI
BFA
Other

International activity ROE

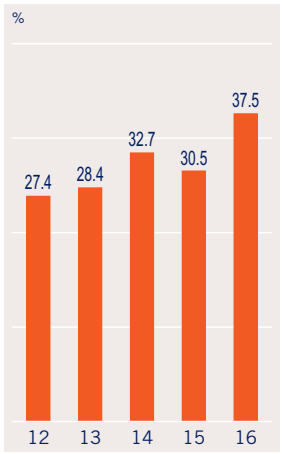


Chart 72

1) BPI Capital África and BPI Moçambique contributions.

BFA INDIVIDUAL

Individual income statement

BFA earned in its individual accounts a net profit of 338.3 M.€, which corresponds to a 19.9% increase relative to 2015.

BFA has consistently presented high efficiency and profitability levels.

The following were the salient indicators in 2016:

- the efficiency ratio was situated at 32% (33% in 2015);
- the cost of credit risk net of recoveries was 1.05% (1.88% in 2015);
- the credit-at-risk ratio stood at 5.4% (5.5% in 2015) and credit-at-risk cover by impairment allowances was situated at 108% (122% in 2015);
- total impairments and provisions, net of recoveries, absorbed 5.1% of operating profit before impairments and provisions (10.3% in 2015);
- BFA's individual profit represented 64% of its operating income from banking activity (55% in 2015);
- the return on BFA's individual shareholders' equity was 41.4% (33.6% in 2015).

The net profit attributable to non-controlling interests was 168.8 M.€ in 2016, with the result that BFA's contribution (after deducting deferred tax on dividends to be distributed by BFA to BPI) was 162.7 M.€ in 2016 (+20% than in 2015).

BFA net profit

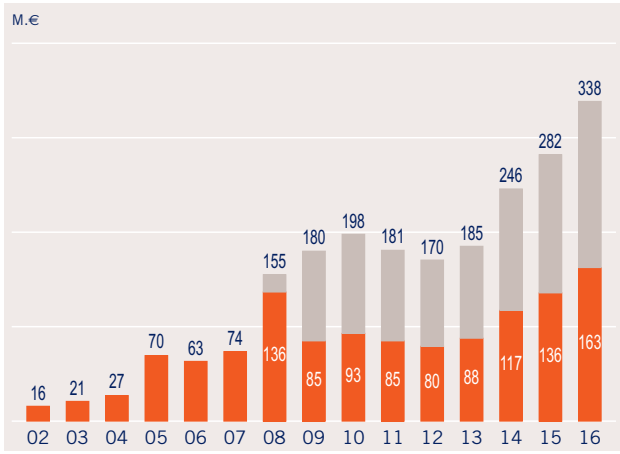


Chart 73

BFA net profit
BFA net profit attributable to BPI

Return on BFA's individual shareholders' equity

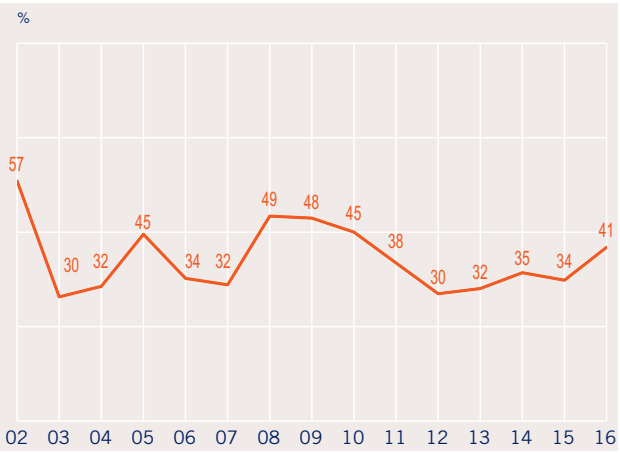


Chart 74

BFA individual income statement

Amounts in M.€

			2015	2016	Δ M.€	Δ%
Financial margin		*1*	308.6	364.9	56.4	18.3%
Technical result of insurance contracts		*2*	0.0	0.0	0.0	0.0%
Net commission income		*3*	67.5	65.8	(1.7)	(2.4%)
Net income on financial operations		*4*	146.7	124.7	(22.0)	(15.0%)
Net operating income		*5*	(7.9)	(27.7)	(19.8)	(249.5%)
Operating income from banking activity	*[= Σ 1 to 5]*	*6*	**514.9**	**527.8**	**12.9**	**2.5%**
Personnel costs		*7*	82.9	92.0	9.2	11.0%
General administrative costs		*8*	71.2	63.0	(8.3)	(11.6%)
Depreciation and amortisation		*9*	16.2	13.0	(3.3)	(20.1%)
Overhead costs	*[= Σ 7 to 9]*	*10*	**170.3**	**168.0**	**(2.4)**	**(1.4%)**
Operating profit before impairments and provisions	*[= 6 - 10]*	*11*	**344.5**	**359.8**	**15.3**	**4.4%**
Recovery of loans, interest and expenses		*12*	1.9	2.2	0.3	13.5%
Impairment losses and provisions for loans and guarantees, net		*13*	33.6	15.8	(17.9)	(53.1%)
Impairment losses and other provisions, net		*14*	3.6	4.9	1.2	34.5%
Net income before income tax	*[= 11 + 12 - 13 - 14]*	*15*	**309.2**	**341.4**	**32.2**	**10.4%**
Income tax		*16*	27.0	3.0	(24.0)	(88.7%)
BFA individual net profit	*[= 15 - 16]*	*17*	**282.2**	**338.3**	**56.1**	**19.9%**
Taxes on dividends		*18*	5.7	6.8	1.1	19.9%
Income attributable to non-controlling interests		*19*	140.8	168.8	28.0	19.9%
BFA contribution to consolidated net income	*[= 17 - 18 - 19]*	*20*	**135.7**	**162.7**	**27.0**	**19.9%**

Table 51

Following the sale in January 2017 by BPI to Unitel of a 2% shareholding in BFA, the assets, liabilities and BFA's contribution to consolidated net profit at 31 December 2016 were recognised in the consolidated accounts in conformity with IFRS 5 – Non-current assets held for sale and discontinued operations (see note 4.9 to the financial statements 4.9 Discontinued operations).

As a result of the application of IFRS 5, BFA is classified as a discontinued operation and its contribution to consolidated net profit, its assets and liabilities are presented in the consolidated financial statements in aggregate[1] form.

For purposes of the analysis of the trend in BFA's earnings and its financial position, it is presented in this section the individual financial statements, after conversion into euro (consolidation currency) and after adjustments relating to the transposition to the International Financial Reporting Standards (IAS / IFRS), and an analysis of the trend in the principal income statement and balance sheet items.

1) BFA's contribution to consolidated net profit (after tax) was recorded in the consolidated income statement under the caption "Net income from discontinued operations", being deducted from "Income attributable to non-controlling interests from discontinued operations".
BFA's assets and liabilities were reclassified to the consolidated balance sheet captions "Non-current assets held for sale and discontinued operations" and "Non-current liabilities held for sale and discontinued operations", respectively.

CONVERSION OF BFA'S FINANCIAL STATEMENTS INTO EURO

BFA's financial statements in local currency

Angola's national currency is the kwanza, although the high utilisation of the American dollar in the Angolan economy explains why a large portion of the business transacted with Banco de Fomento Angola's Customers is expressed in US dollars. At the end of 2016, 24% of assets were denominated in dollars (31% when one also considers the assets in kwanza indexed to the dollar), 43% of loans and 31% of deposits. A substantial part of the income and costs are thus generated in the American currency or are indexed to it, as is the case of personnel costs, with the result that the behaviour of the kwanza / dollar exchange rate has an influence on the behaviour of BFA's income and costs when expressed in local currency.

In addition, the gains arising from the revaluation of the positions in foreign currency recorded in BFA's balance sheet are accounted for under the net income on financial operations caption.

At the close of 2016, BFA's balance sheet presented a long position in foreign currencies (essentially dollars) of 349 M.€ (short in kwanza).

Conversion of BFA's financial statements into Euro

The inclusion of Banco de Fomento Angola's financial statements in the consolidated financial statements is preceded by the conversion of the results and balances in local currency (kwanza) into euro in accordance with IAS 21[1], based on the reference exchange rates disclosed on an indicative basis by the Banco Nacional de Angola (Central Bank). The gains or losses resulting from this conversion are recognised directly in consolidated shareholders' equity, under the caption revaluation reserves.

Consolidation of BFA

The gains or losses resulting from the conversion of BFA's financial statements from kwanza into euro are recognised directly in consolidated shareholders' equity, under the caption revaluation reserves.

Following the sale in January 2017 by BPI to Unitel of a 2% shareholding in BFA, after which Banco BPI was left with a minority position of 48.1% in BFA's share capital, the recognition of BFA's financial statements at 31 December 2016 was done in conformity with IFRS 5 – Non-current assets held for sale and discontinued operations (see note 4.9 to the financial statements – Discontinued operations).

Trend in AKZ / dollar and AKZ / euro exchange rates

The kwanza registered a depreciation of 18% against the dollar in 2016 (23% appreciation of the dollar) and of 20% against the euro (25% appreciation of the euro), based on the kwanza exchange rates published on Banco Nacional de Angola's website. When considering the year's average exchange rate, the kwanza's depreciation against the dollar was 26% (36% appreciation of the dollar) and in relation to the euro it was 27% (37% appreciation of the euro).

The dollar / euro cross rate implicit in the kwanza exchange rates published by the Banco Nacional de Angola remained relatively unchanged (2.3% depreciation of the dollar against the euro in terms of the year-end exchange rate).

The following table presents the kwanza exchange rate against the euro and the United States dollar, published on the Banco Nacional de Angola (BNA) website on 31 December 2015 and 2016 which were used in the incorporation into the 2016 consolidated financial statements of BFA's results relating to the month of December of each year and its financial position as at the end of 2015 and 2016. The following table also presents the average exchange rates used for the conversion into euro of BFA's income and costs generated during the year.

Kwanza exchange rate

	End of the year[2]			Average of the year[3]		
	2015	2016	Δ%	2015	2016	Δ%
AKZ / 1 USD	135.3	165.9	23%	121.0	164.0	36%
AKZ / 1 EUR	147.8	185.4	25%	133.7	182.9	37%
USD / 1 EUR[4]	1.09	1.12	2%	1.11	1.12	1%

Table 52

1) The revenues and costs generated in each of the months are converted to euros at the exchange rate of the month in which they are recognized. For assets and liabilities the exchange rate at the end of the year is used.
2) BNA (Central Bank of Angola) reference exchange rates published on its website at 31 December 2015 and 2016.
3) Average of the prevailing rates at the end of each month.
4) Foreign exchange rate implicit in the AKZ / USD and AKZ / EUR exchange rates disclosed by the BNA.

Income

The operating income from banking activity of international operations grew by 2.5% (+12.9 M.€) in 2016, given that the 18.3% expansion in financial margin offset the decrease registered in the other components of operating income from banking activity.

BFA's operating income from banking activity expressed in kwanza grew by 39.4%. When expressed in the consolidation currency, by virtue of the 27% depreciation against the euro (average exchange rate), the improvement was 2.5%.

Operating income from banking activity

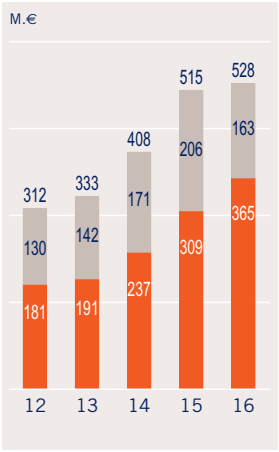


Chart 75

Financial margin generation in 2016[1]

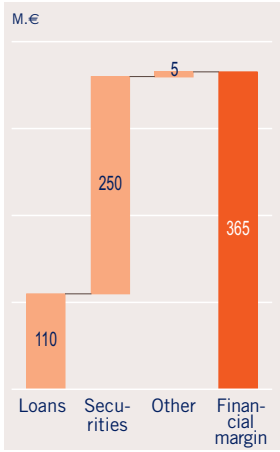


Chart 76

BFA operating income from banking activity

		In million €, consolidation currency (M.€)				In million AKZ, local currency in Angola (M.AKZ)			
		Dec. 15	Dec. 16	Δ M.€	Δ%	Dec. 15	Dec. 16	Δ M.AKZ	Δ%
Financial margin	*1*	308.6	364.9	56.4	18.3%	41 070	66 945	25 876	63.0%
Net commission income	*2*	67.5	65.8	(1.7)	(2.4%)	9 127	12 081	2 954	32.4%
Net income on financial operations	*3*	146.7	124.7	(22.0)	(15.0%)	19 868	22 435	2 567	12.9%
Net operating income	*4*	(7.9)	(27.7)	(19.8)	(249.5%)	(921)	(5 100)	(4 179)	(453.8%)
Total *[= Σ 1 to 4]*	*5*	**514.9**	**527.8**	**12.9**	**2.5%**	**69 143**	**96 361**	**27 218**	**39.4%**

Table 53

Financial margin

BFA's financial margin rose by 56.4 M.€ (+18.3%) in 2016.

The increase in financial margin is essentially explained by the positive price effect of 91.4 M.€ with the expansion of the unitary interest margin, from 5.3% to 7.0%, which offset the negative volume effect (-50.0 M.€) of the decrease in liabilities and remunerated assets of 15% (-1.0 th.M.€).

The increase in unitary interest margin of 1.8 p.p. results mainly from the higher average remuneration of the Angolan public-debt portfolio of 2.6 p.p to 10.1% in 2016, and of the loan portfolio, of 0.8 p.p. to 10.1%, while the cost of deposits remained stable at 1.5%.

Factors influencing the trend in BFA financial margin

Amounts in M.€

		2015			2016			Change in financial margin				
								Volume effect and residual effect			Price effect	Total
		Average balance	Average rate	Interest (income / costs)	Average balance	Average rate	Interest (income / costs)	Volume effect	Residual effect	Total		
Interest-earning assets												
Placements with credit institutions	*1*	1 367.2	2.2%	30.2	975.8	1.8%	18.0	(8.7)	1.4	(7.2)	(5.0)	(12.2)
Loans and advances to Customers	*2*	1 665.9	9.3%	154.6	1 276.1	10.1%	128.9	(36.2)	(3.2)	(39.4)	13.6	(25.7)
Financial assets	*3*	3 081.9	7.5%	230.6	2 899.7	10.1%	293.3	(13.6)	(4.8)	(18.4)	81.0	62.6
Interest-earning assets[1] *[= Σ 1 to 3]*	*4*	**6 115.0**	**6.8%**	**415.5**	**5 151.6**	**8.5%**	**440.2**	**(58.5)**	**(6.6)**	**(65.0)**	**89.7**	**24.7**
Interest-bearing liabilities												
Customer deposits	*5*	7 030.7	1.5%	107.1	6 047.2	1.5%	90.5	(15.0)	0.3	(14.7)	(1.9)	(16.6)
Other interest-bearing liabilities	*6*	15.9	1.1%	0.2	3.5	2.3%	0.1	(0.1)	(0.1)	(0.3)	0.2	(0.1)
Interest-bearing liabilities[1] *[= 5 + 6]*	*7*	**7 046.6**	**1.5%**	**107.3**	**6 050.7**	**1.5%**	**90.6**	**(15.1)**	**0.1**	**(15.0)**	**(1.7)**	**(16.7)**
Subtotal *[= 4 - 7]*	*8*			**308.2**			**349.6**	**(43.4)**	**(6.7)**	**(50.0)**	**91.4**	**41.4**
Other income	*9*			9.5			18.1					8.6
Other costs	*10*			9.1			2.8					(6.3)
Financial margin *[= 8 + 9 - 10]*	*11*			**308.6**			**364.9**					**56.4**
Average spread (between interest-earning assets and interest-bearing liabilities)	*12*		5.3%			7.0%						

Table 54

Net commissions

Net commissions income amounted to 65.8 M.€ in 2016 (-2.4% relative to 2015).

Net income on financial operations

In 2016, net income on financial operations fell by 22 M.€ (-15%) explained by the decrease of 23.1 M.€ in currency gains from the purchase and sale of currency against a backdrop of the scarcity of dollars in the Angolan economy caused by the lower inflow of dollars into the country in the wake of the drop in oil prices.

The amount of net income on financial operations in 2016 of 124.7 M.€ corresponds to:

- gains of 45.7 M.€ (68.8 M.€ in 2015) derived from the purchase and sale of currencies stemming from commercial operations with Customers;
- gains in securities of 25.5 M.€ (28.3 M.€ in 2015);
- gains of 53.5 M.€ (49.6 M.€ in 2015) from the revaluation of the long position in dollars (short in kwanzas) as a result of the kwanza's depreciation against the dollar.

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

Overhead costs

Overhead costs expressed in the consolidation currency (euro) decreased 2.4 M.€ (-1.4%) in 2016.

BFA's personnel costs are indexed to the behaviour of the dollar and an expressive part of general administrative costs are predominantly in euro and dollars, by virtue of the Angolan economy presenting a substantial dependence on the imports of goods and services.

When expressed in USD, overhead costs decreased by 0.5%. It should be noted that the size of the operating structure remained relatively stable in 2016: the distribution network closed the year with the same number of commercial units (191), while the staff headcount increased by 1.7%. Personnel costs were up 12.1%, general administrative costs declined 10.8% while depreciation and amortisation were down 19.3%.

The indicator "overhead costs as a percentage of operating income from banking activity" was situated at 32% in 2016 (33% in 2015).

Operating income from banking activity and overhead costs

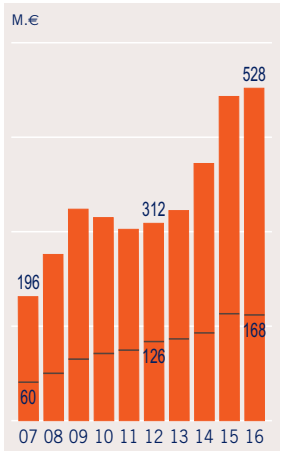


Chart 77

Operating income from banking activity
Overhead costs

Cost to income ratio

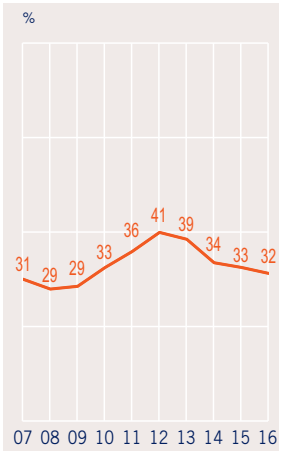


Chart 78

BFA overhead costs

		In million €, consolidation currency (M.€)				In million USD (M.US$)				In million AKZ (M.AKZ)			
		Dec. 15	Dec. 16	Δ M.€	Δ%	Dec. 15	Dec. 16	Δ M. USD	Δ%	Dec. 15	Dec. 16	Δ M. AKZ	Δ%
Personnel costs	*1*	82.9	92.0	9.2	11.0%	91.6	102.7	11.1	12.1%	11 113	16 854	5 741	51.7%
General administrative costs	*2*	71.2	63.0	(8.3)	(11.6%)	78.7	70.2	(8.5)	(10.8%)	9 523	11 518	1 995	21.0%
Depreciation and amortisation	*3*	16.2	13.0	(3.3)	(20.1%)	17.9	14.5	(3.4)	(19.3%)	2 165	2 372	207	9.6%
Total *[= Σ 1 to 3]*	*4*	**170.3**	**168.0**	**(2.4)**	**(1.4%)**	**188.2**	**187.3**	**(0.9)**	**(0.5%)**	**22 800**	**30 744**	**7 943**	**34.8%**
Cost-to-income ratio[1]	*5*	33.1%	31.8%										

Table 55

1) Overhead costs as percentage of Operating income from banking activity.

Impairment losses and provisions for loans and guarantees

Impairment losses and provisions for loans and guarantees decreased from 33.6 M.€ in 2015 to 15.8 M.€ in 2016. As a percentage of the average loan portfolio, impairment losses and provisions for loans and guarantees fell from 1.99% in 2015 to 1.21% in 2016.

Impairment losses and provisions for loans and guarantees, net of recoveries of loans, interest and expenses, amounted to 13.6 M.€ in 2016 and represented 1.05% of the average loan portfolio (1.88% in 2015).

At the end of 2016, credit-at-risk at stood at 72.7 M.€ which corresponded to 5.4% of the gross loan portfolio (5.5% in 2015). Credit-at-risk cover by impairments for loans and guarantees accumulated on the balance sheet stood at 108% at the end of 2016 (122% in 2015).

Total impairments and provisions[1] as % of net operating profit

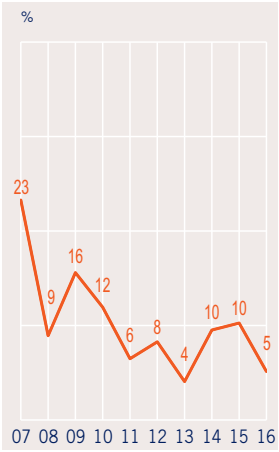


Chart 79

Cost of credit risk[1] as % of loan portfolio

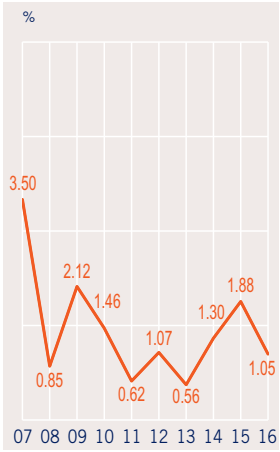


Chart 80

Impairment losses and provisions for loans and guarantees, net

		In million €, consolidation currency (M.€)				In million AKZ, local currency in Angola (M.AKZ)			
		2015	% of loan portfolio[2]	2016	% of loan portfolio[2]	2015	% of loan portfolio[2]	2016	% of loan portfolio[2]
Impairment losses and provisions for loans and guarantees, net	*1*	33.6	1.99%	15.8	1.21%	4 587	2.07%	2 758	1.17%
(-) Recovery of loans, interest juros e despesas	*2*	1.9	0.11%	2.2	0.17%	253	0.11%	390	0.17%
Impairment losses and provisions for loans and guarantees (net), after deducting the recovery of loans, interest and expenses *[= 1 - 2]*	*3*	**31.7**	**1.88%**	**13.6**	**1.05%**	**4 334**	**1.96%**	**2 368**	**1.01%**

Table 56

1) Net of recoveries of loans, interest and expenses.
2) Average balance of performing loans.

INTERNATIONAL OPERATIONS BALANCE SHEET

BFA has an extremely liquid balance sheet, with Customer resources (5 804 M.€) funding 84% of assets at the end of 2016. Customer resources coupled with own funds practically guaranteed the funding of total assets.

The Customer loans portfolio represented 18% of assets while the transformation of deposits into loans ratio was situated at 22% at the end of 2016.

The BFA balance sheet's surplus liquidity, defined as the total of deposits and shareholders' equity not allocated to the funding of loans, compulsory reserves or financing fixed assets, amounted to 4.1 th.M.€ at the end of December 2016.

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

At 31 December 2016, 69% of assets was expressed in kwanza and 31%[1] expressed in foreign currencies – essentially in dollars (24%) while the positions in other currencies are at residual levels.

BFA's balance sheet presented at the end of 2016 a long position in foreign currencies (essentially dollars) of 349 M.€ (short kwanza).

BFA balance sheet by currency

Amounts in M.€

	31 Dec. 2015			31 Dec. 2016		
	Exposure in AKZ	Exposure in USD and other currencies	Total	Exposure in AKZ	Exposure in USD and other currencies	Total
Assets						
Exposure to the Angolan Central Bank (BNA)	1 355	173	1 528	1 172	207	1 379
Of which: minimum cash reserve in deposits at BNA	578	88	666	573	63	636
Exposure to the Angolan State	2 688	982	3 670	2 627	904	3 531
Minimum cash reserve in securities	325	301	625	321	250	571
Securities portfolio	2 344	320	2 664	2 282	358	2 639
Loans	19	361	380	24	296	321
Loans and advances to Customers[2]	816	297	1 113	697	252	949
Deposits at other banks	72	1 049	1 121	57	700	757
Other assets	326	197	523	252	56	308
Total assets	**5 257**	**2 698**	**7 954**	**4 805**	**2 120**	**6 925**
Liabilities						
Customer deposits	4 298	2 582	6 881	3 769	2 055	5 824
Other liabilities	108	92	201	79	81	161
Total liabilities	**4 407**	**2 675**	**7 081**	**3 848**	**2 137**	**5 985**
Forwards and other assets		(361)			(98)	
Assets(net position) in AKZ indexed to the USD		570			464	
Currency position		**232**			**349**	

Table 57

1) 39% considering the assets expressed in USD and in AKZ indexed to the USD.
2) Excludes loans to the Angolan State.

BFA individual balance sheet

Amounts in M.€

		31 Dec. 15	31 Dec. 16	Δ%
Assets				
Cash and deposits at central banks	1	1 730.5	1 505.9	(13.0%)
Deposits at other credit institutions	2	345.3	205.2	(40.6%)
Loans and advances to credit institutions	3	913.2	578.3	(36.7%)
Loans and advances to Customers	4	1 493.6	1 269.4	(15.0%)
Financial assets held for trading and at fair value through profit or loss	5	527.5	1 823.0	245.6%
Financial assets available for sale	6	2 786.4	1 398.1	(49.8%)
Other tangible assets	7	128.9	103.9	(19.4%)
Intangible assets	8	3.6	7.1	93.7%
Tax assets	9	8.3	9.7	17.0%
Other assets	10	17.1	24.2	41.6%
Total assets *[= Σ 1 to 10]*	11	**7 954.4**	**6 924.7**	**(12.9%)**
Liabilities and shareholders' equity				
Resources of central banks	12			
Financial liabilities held for trading	13	25.7	8.1	(68.3%)
Resources of other credit institutions	14	0.1	0.1	1.2%
Resources of Customers and other debts	15	6 913.0	5 842.8	(15.5%)
Debts securities	16			
Provisions	17	26.4	23.6	(10.5%)
Tax liabilities	18	30.7	23.7	(22.8%)
Other subordinated debt and participating bonds	19			
Other liabilities	20	103.2	91.9	(10.9%)
Shareholders' equity	21	**855.4**	**934.4**	**9.2%**
Total liabilities and shareholders' equity *[= Σ 12 to 21]*	22	**7 954.4**	**6 924.7**	**(12.9%)**

Table 58

BFA balance sheet structure in 2016

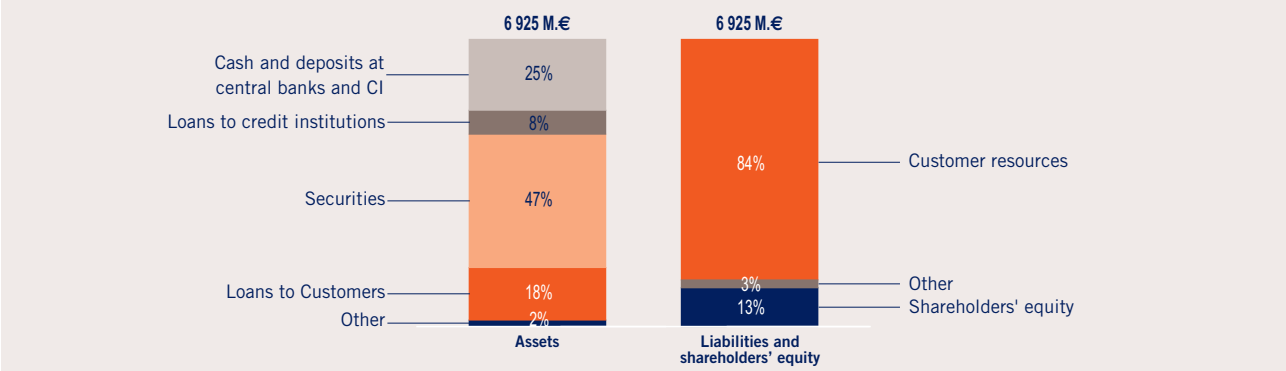


Chart 81

Customer loans

The following was the behaviour of BFA loan portfolio in 2016, measured in the respective currencies advanced:

- the loan portfolio in kwanza (57% of the total of the portfolio in 2016) increased by 8.4%;
- the loan portfolio in dollars (43% of the portfolio in 2016) shrank 14.6%.

Loans to Customers
2012 to 2016

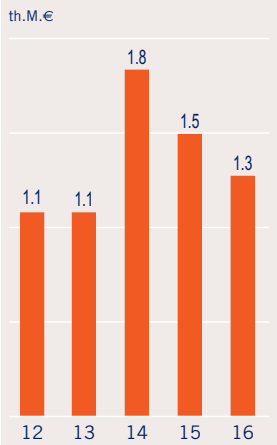


Chart 82

Loan portfolio
By currency at 31 Dec. 2016

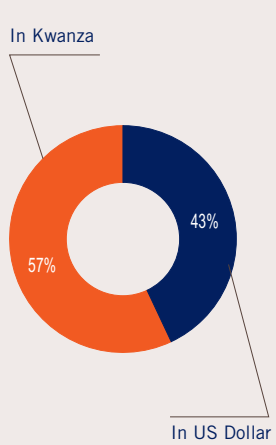


Chart 83

The behaviour of the loan portfolio in the consolidation currency, the euro, is negatively affected by the kwanza's 20% depreciation against the euro. The loan portfolio component in kwanzas when expressed in euro presents a negative year-on-year change of 13.6%.

Expressed in euro, BFA's total Customer loans portfolio decreased by 15.0%, to 1 269 M.€ at the close of 2016.

Customer loans portfolio

		2015	2016	Δ%
Expressed in the respective currencies of the loans advanced				
Loans in AKZ (in M.AKZ)	*1*	123 423	133 771	8.4%
Loans in USD (in M.US$)	*2*	716.4	611.9	(14.6%)
Loans in EUR (in M.€)	*3*	2.9	0.1	(95.7%)
Expressed in M.€ (consolidation currency)				
Loans in AKZ	*4*	834.9	721.6	(13.6%)
Loans in USD	*5*	655.7	547.6	(16.5%)
Loans in EUR and other currencies	*6*	2.9	0.1	(95.7%)
Total loan portfolio *[= Σ 4 to 6]*	*7*	**1 493.6**	**1 269.4**	**(15.0%)**
Bank guarantees	*8*	385.7	208.1	(46.0%)

Table 59

Securities portfolio

The securities portfolio at the end of 2016 amounted to 3 221.1 M.€ (-2.8% relative to 2015).

The structure of the securities portfolio changed in 2016, with the weight of the component short-term public-debt securities increasing – Angolan Treasury Bills, with maturities of up to one year, expressed in kwanzas – at the expense of the Angolan Treasury Bonds portfolio with maturities of 1 to 6 years.

Portfolio of Angolan Treasury Bills and TBC

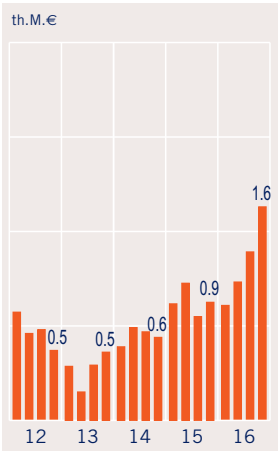


Chart 84

Portfolio of Angolan Treasury Bonds

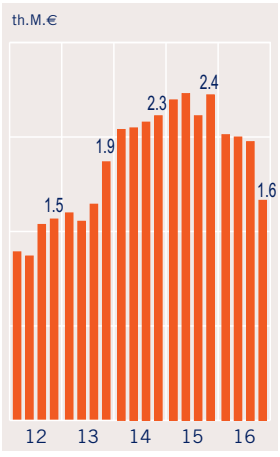


Chart 85

The Treasury Bills portfolio grew 81%, and its relative weight on the total portfolio increases from 26% in 2015 to 49% in 2016, while the Treasury Bonds portfolio shrank 33% (representing 51% of the total portfolio at the close of 2016).

Securities portfolio Amounts in M.€

		2015	2016	Δ%
Securities in AKZ	1	2 120.2	2 145.2	1.2%
Securities in AKZ indexed to the USD	2	570.4	465.0	(18.5%)
Securities in USD	3	623.3	610.9	(2.0%)
Total [= Σ 1 to 3]	4	**3 313.9**	**3 221.1**	**(2.8%)**
Of which:				
Angolan Treasury Bills (BT)	5	876.2	1 583.0	80.7%
Angolan Treasury Bonds (OT)	6	2 412.9	1 627.4	(32.6%)
Other	7	24.8	10.7	(57.0%)

Table 60

Customer resources

The growth in 2016 in deposits measured in the respective deposit-taking currencies was as follows:

- deposits in kwanza (65% of the total deposits in 2016) expanded 9.9%;
- deposits in dollars (31% of the total deposits in 2016) decreased 23.2%.

The trend in deposits expressed in euro is influenced by the behaviour of the kwanza / euro exchange rates[1].

Expressed in euro (consolidation currency), the deposits in kwanza component decreased 12.4% and the deposits in dollars component declined 24.9%, which resulted in a negative change of 15.4% for BFA's total deposits portfolio.

At the end of 2016, the deposits portfolio totalled 5 804 M.€. Sight deposits represented 57% of the total and time deposits the remaining 43%.

BFA had registered off balance sheet 1 944 M.€ relating to the securities portfolios held by Customers at the end of 2016, which corresponds to year-on-year growth of 56%.

Customer resources portfolio

		2015	2016	Δ%
Expressed in the respective deposit-taking currency				
Deposits in AKZ (in M.AKZ)	1	634 253	697 064	9.9%
Deposits in USD (in M.US$)	2	2 641.0	2 027.8	(23.2%)
Deposits in EUR (in M.€)	3	143.5	221.0	54.0%
Expressed in M.€ (consolidation currency)				
Deposits in AKZ	4	4 290.4	3 760.2	(12.4%)
Deposits in USD	5	2 417.4	1 814.8	(24.9%)
Deposits in EUR and other currencies	6	152.2	229.4	50.8%
Total deposits [= Σ 4 to 6]	7	**6 860.0**	**5 804.4**	**(15.4%)**
Note:				
Sight deposits	8	4 045.3	3 316.8	(18.0%)
Term deposits	9	2 814.7	2 487.6	(11.6%)
Securities held by Clients[2]	10	1 246.4	1 943.8	56.0%

Table 61

Total Customer resources
2012 to 2016

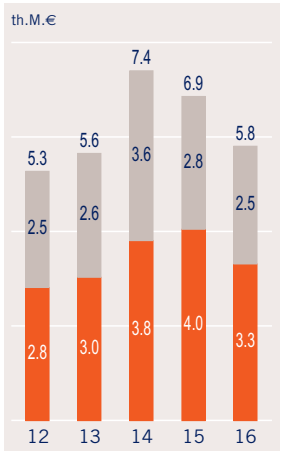


Chart 86

Term deposits
Sight deposits

Total Customer resources
By currency at 31 Dec. 2016

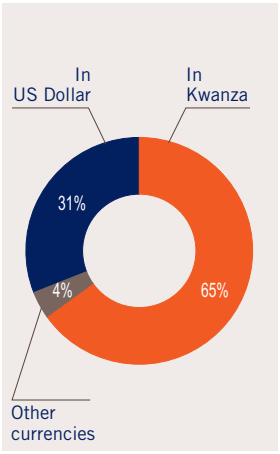


Chart 87

1) The kwanza depreciated 20% against the euro.
2) Recorded off-balance sheet.

BCI MOZAMBIQUE

BCI's contribution in Mozambique to BPI's consolidated net profit, which reflects the appropriation of 30% of its individual net profit (recognised in BPI's consolidated accounts using the equity method[1]), was 5.4 M.€ in 2016 (9.4 M.€ in 2015). The metical recorded in 2016 a 33% depreciation against the euro (euro appreciation of 50%), considering the exchange rate at the end of the year.

Expressed in euro (consolidation currency), BCI net total assets decreased by 24.5%. Customer deposits were down 25.3% to 1 372 M.€ at the end of 2016, while the loan portfolio was 20.6% lower to 1 114 M.€. The number of Customers increased 13.6% to 1 460 thousand. At the end of 2016 BCI had a distribution network with 193 units (+ 2 than in 2015) and a workforce of 2 987 Employees (-0.7% relative to 2015).

BCI's contribution to consolidated net profit
2007 to 2016

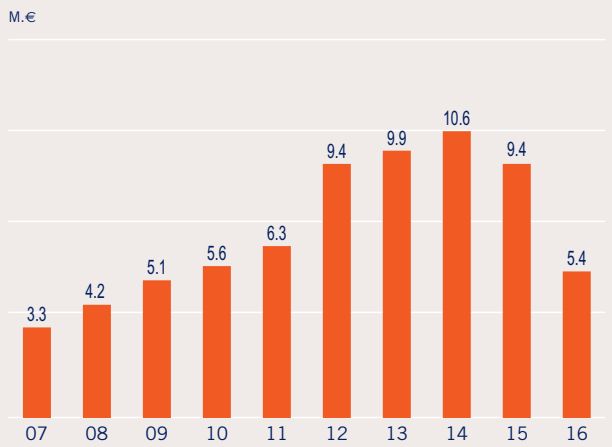


Chart 88

Shareholding in BCI (30% held) Amounts in M.€

		2015	2016	Δ%
Equity accounted earnings (earnings of associated companies)	*1*	10.3	5.9	(42.9%)
Taxes on dividends	*2*	0.9	0.5	
Contribution to consolidated net income *[= 1 - 2]*	*3*	9.4	5.4	(42.9%)
Shareholding book value	*4*	64.3	44.8	(30.3%)
Exchange rate Metical / 1 EUR				
End of year		50.0	75.2	50.2%
Average rate		44.7	70.4	57.6%

Table 62

1) Deferred tax assets (recorded in the caption "Corporate income tax") related to BCI's distributable results (0.9 M.€ in 2015 and 0.5 M.€ in 2016) were written off against the equity-accounted net earnings corresponding to the appropriation of 30% of BCI's individual net profit (10.3 M.€ in 2015 and 5.9 M.€ in 2016).

Profitability, efficiency, loan quality and solvency consolidated indicators according to Bank of Portugal Notice 16 / 2004

	31 Dec. 15 as reported	31 Dec. 15 proforma	31 Dec. 16 as reported
Operating income from banking activity and results of equity accounted subsidiaries / ATA	2.9%	1.7%	1.9%
Profit before taxation and income attributable to non-controlling interests / ATA	1.0%	0.9%	1.3%
Profit before taxation and income attributable to non-controlling interests / average shareholders' equity (including non-controlling interests)	15.1%	14.1%	19.0%
Personnel costs / Operating income from banking activity and results of equity accounted subsidiaries[1]	31.2%	42.3%	39.2%
Overhead costs / Operating income from banking activity and results of equity accounted subsidiaries[1]	54.6%	70.6%	64.8%
Loans in arrears for more than 90 days + doubtful loans / loan portfolio (gross)	3.9%	3.9%	3.2%
Loans in arrears for more than 90 days + doubtful loans, net of accumulated loan impairments / loan portfolio (net)	(0.2%)	(0.2%)	0.1%
Credit at risk as % of total loans (gross)[2]	4.9%	4.9%	3.9%
Credit at risk[2], net of accumulated loan impairments as % of total loans (net)	0.8%	0.8%	0.8%
Restructured loans as % of total loans (gross)[3]	6.6%	6.6%	6.5%
Restructured loans not included in credit at risk as % of total loans (gross)[3]	4.6%	4.6%	4.8%
Total capital ratio	10.9%[4]	10.9%[4]	11.4%[5]
Tier 1 ratio	10.9%[4]	10.9%[4]	11.4%[5]
Common equity Tier 1 ratio	10.9%[4]	10.9%[4]	11.4%[5]
Loans (net) to deposits ratio	85%	85%	106%

Table 63

Note: In the calculation of the indicators above, the perimeter of the Group subject to the supervision of the ECB is considered, i.e., BPI Vida e Pensões is recognized by the equity method (in the consolidated accounts, according to IAS / IFRS, that entity is consolidated by global integration).

1) Excluding costs with early-retirements and changes to the plan (personnel costs).

2) Credit-at-risk corresponds to the sum of (1) the total outstanding value of loans which have principal or interest instalments in arrears for more than 90 days; (2) the total outstanding value of loans which have been restructured after having been in arrears for a period of 90 days or more, without having adequately reinforced the guarantees given (these must be sufficient to cover the total value of outstanding principal and interest; (3) the total value of loans with principal or interest instalments in arrears for less than 90 days, but in respect of which there is evidence that justify their classification as credit at risk, namely the debtor's insolvency or liquidation.

3) According to *Bank of Portugal Instruction 32 / 2013*.

4) According to the phasing-in CRD IV / CRR rules applicable in 2015.

5) According to the phasing-in CRD IV / CRR rules applicable in 2016.

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 a higher level, there still exists the Credit Risks Executive Committee, which focuses its attention on the analysis of high profile 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 Basel 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. The attribution of ratings is the responsibility of this Division's Ratings Area, with the Rating Committee being empowered to give ratings for Customers with the biggest exposures (reviewed by the Credit Risks Executive Committee). There are quantitative and expert analysis models on which to base the attribution of ratings, produced by the Risk Analysis and Control Division.

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 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 risks is entrusted to the Operational Risks Management Area of the Organisation and Quality Division – dedicated solely to this matter – and to the Employees specifically nominated at each of the Group's divisions, who are responsible for the identification, monitoring and mitigation of operational risks within their sphere of work. The management of operational risks also encompasses the management of Business Continuity and Information Security, observing the same governance model. There are three committees for overseeing Operational Risks, i.e. the Operational Risks, the Business Continuity and the Information Security Committees.

The BPI Group's Compliance Division 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. Compliance risks comprise, besides the risk of legal breach, market abuse risk and the risk of money laundering and financing of terrorism.

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), Rating for Corporates and Project Finance 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 Small Businesses **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**: overall strategy **CECA**, **CERC**: approval of substantial operations **Credit Board**, **DRC**, **DRCP**: approval of operations	**CA** (with CR advisory) **CECA**, **CERC**, **Credit Board**, **DRC**, **DRCP**, **DACR**: limits **CA** (with CR advisory), **CECA**, **CACI**, **CERC**, **Credit Board**, **DACR**, **DO**, **Internal and external Auditors**[1], **Supervisory Board**, **Bank of Portugal**: control	**DRCE**: Companies **DRCP**: Individuals and Small Businesses	**CECA**, **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**: overall strategy **DF**, **DA**: operations	**CA** (with CR advisory) **CECA**, **CACI**, **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**: overall strategy **DF**, **DA**: operations	**CA** (with CR advisory) **CECA**, **CERG**, **DACR**, **DF**, **DA**: limits **CECA**, **CACI**, **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**: overall strategy	**CA** (with CR advisory) **CECA**, **CACI**, **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**, **DORG**, **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**: analysis of compliance risks (= legal default, market abuse, money laundering and financing terrorism)	**CECA**: compliance	**CECA**, **CACI**, **DJ**, **DC**, **Internal and external Auditors**[1], **Supervisory Board**, **Bank of Portugal**: control		

CA – Conselho de Administração (Board of Directors): **CACI** – Comissão de Auditoria e de Controlo Interno (Audit and Internal Control Committee); **CECA** – Comissão Executiva do Conselho de Administração (Board of Directors Executive Committee); **CERC** – Comissão Executiva de Riscos de Crédito (Credit Risks Executive Committee); **CR** – Comissão de Riscos (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 Qualidade (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 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 risks arising from BPI's operations, namely liquidity, interest rate, exchange rate, market and credit risks, operacional and reputation risks, as well as monitoring the Company's pension-fund management policy.

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

As concerns risk management, 2016 saw the introduction of the Risk Appetite Framework / Risk Appetite Statement, which is all-encompassing and prospective tool used by the board to determine the types and limits of risk that it is willing to assume in the fulfilment of strategic goals.

RISK APPETITE FRAMEWORK

Background

After the 2008 crisis, the regulators reinforced the need for financial institutions to possess a Risk Appetite Framework which defines control systems, metrics and limits for the material risks to which they are exposed.

The Risk Appetite Framework ("RAF" or Framework), was thus developed as a response to the need for a single document which brings together, monitors and communicates the major risks faced by the institution, while also laying down who is responsible for the management and control of those risks.

The Financial Stability Board published in November 2013 the document which set out the principal guidelines to be followed by financial institutions. This document also contains the guidelines for the responsibilities of the Board of Directors and of the other Risk Management bodies. Later, the European Banking Authority and the Single Supervisory Mechanism endorsed these recommendations, and now constitute one of the factors when evaluating the quality of corporate governance, with the ECB including them in the Supervisory Review and Evaluation Process (SREP).

In the first quarter of 2016, BPI, keeping abreast of the best practices in risk management, prepared two documents in which it sets out the types and risk levels that it is prepared to assume in pursuance of its objectives, taking into consideration the Group's risk strategy and business.

These documents, fundamental for their assessment and formalisation, are the Risk Appetite Framework which defines the risk appetite, and the Risk Appetite Statement which measures and limits the risks defined.

Description of the framework

BPI, in a process consistent with the other strategic documents – Funding and Capital Plan, Recovery Plan or Internal Capital Adequacy Assessment Process – defined its risk-appetite directives, which are incorporated into the Bank's culture and strategy and are at the core of all its activities. In line with the sector's best practices, the Board of Directors approved a set of risk-appetite directives in which it summaries the principles by which the Bank must govern itself:

Solid balance sheet

BPI has as its objective maintaining a medium-low risk profile, with a solid balance sheet and a comfortable level of capital that allows it to confront stress situations and withstand potential future losses.

Strong market position, with stable or rising profitability

In order to maintain high quality assets and acceptable and growing returns over the short and medium term, the Bank laid down a set of objectives in its Framework, such as the return on shareholders' equity or the credit-at-risk ratio.

Confidence of the stakeholders

BPI is committed to comply with the highest standards of governance and risk management, complying strictly with all the laws and regulations, while also guaranteeing an adequate return on capital and avoiding operating losses that could adversely affect its stakeholders.

The Board of Directors has as its function the approval, monitoring and possible correction of the Framework's metrics. The tracking of the metrics is aided by a set of objectives, tolerance levels and limits laid down by the Board of Directors:

- **Objective:** optimum risk level, aligned with the return sought by the Bank or strategic goal pursued.
- **Tolerance:** risk level considered by the Bank, which should originate a discussion and in which the corrective action should be assessed.

- **Limit:** indicates the level of risk that represents a serious threat to the Bank's business and which requires immediate remedial action, with an action plan prepared by the area responsible for risk control.

There is a set of traffic lights which serve as an alert system:

- **Green light:** the risk is within the desired levels and the metric is within the tolerance level – no action needs to be taken.
- **Yellow light:** alert within the tolerance level – a remedial plan must be proposed within a month, to be reviewed and approved by the Board of Directors Executive Committee and by the Board of Directors.
- **Red light:** default – a remedial plan must be proposed within 15 days, to be reviewed and approved by the Board of Directors Executive Committee and by the Board of Directors.

BPI also has a Framework for the bank's units which face significant risks in their day-to-day activities. More detailed metrics are defined in this document which permit each unit to manage risk in accordance with the specifics of each one of them.

Monitoring and Governance of the Risk Appetite Framework

The Risk Appetite Framework team is responsible for its updating, monitoring and reporting, under the direction of the Board of Directors.

In order to ensure that the Framework conforms to the best international practices, a reporting structure was established which permits the exhaustive monitoring on the part of responsible divisions and bodies.

The monitoring is effected according to a specific timetable:

- monthly presentation to the Executive Committee of the Board of Directors, after review by the CRO and the risk areas in such a manner as to evaluate, review and discuss the current risk situation, the occurrence of overstepping limits / tolerances and the current situation relating to individual metrics;
- quarterly presentation to the Executive Committee of the Board of Directors, the Audit and Internal Control Committee, the Risks Committee and the Finance Committee, in order to review and discuss the overall risk performance, assessing the situation of breached metrics, discussing the situation of individual metrics, as well as the verification of the continued efficacy and adequacy of the RAS and RAF;
- half-yearly presentation to the Board of Directors, with the object of reviewing and discussing BPI's overall risk performance and deciding upon critical situations.

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 policy for evaluating and managing collateral, see the report "Market Discipline" published on the Investor Relations website.

In **project finance or structured finance**, the clear identification and allocation of the principal attendant risks is fundamental, isolating the project and its risk assets from the Promoters or Shareholders ("ring-fencing"), focusing on their perceived or actual cash-flow generating capability, whether it be as the source of debt repayment or as the security for loans. The loan contract typically contains far-reaching oversight powers and 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 policy for evaluating and managing collateral, see the report "Market Discipline" published on the Investor Relations website.

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.

À posteriori, the Bank maintains constant vigilance over the behaviour of its exposure to different counterparties, and over the trend of its portfolio (diversification by geographical area, sector of activity, loan segment, counterparty, currency and maturity). A more detailed description of the topic dealing with risk concentration is in the report "Market Discipline" which is available for consultation on the Investor Relations website.

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

Problematic loans, provisioning cover indices, write-offs and recoveries are also analysed monthly.

Recovery procedures are duly identified with a view to assessing on a case-by-case basis the choice of option that prospectively allows maximising the amount recovered.

In the case of Companies or Small Businesses, the Bank seeks as a rule a non-judicial restructuring of the debt which, when credible, could involve extending the maturity period and possibly even the pardon of principal with the payment of arrear interest and reinforced security. Also as a rule, the Bank does not reinforce its exposure, neither does it accept payment in specie and nor does it convert debt into principal. Once a restructuring operation has been realised, the process is duly monitored. Non-compliance with the agreed plan sets into motion the judicial recovery of the debt. Where the debt restructuring is not feasible, the loan is subjected to judicial execution.

In the case of Individuals, the restructuring or renegotiation agreements are also a preferred path for recovery providing that there is the minimum prospect of their being complied with. The choice is largely dependent on the period of default and the loan product, which could entail extending the maturity period and implementing a payment plan of outstanding and unpaid instalments, amongst other modes. There also exists a system that alerts to default of the restructuring agreement, triggering a subsequent action.

In the case of defaulting operations, but also for operations with incidents or performing loans, the Bank makes an estimate of the provisions for impairments, which entails not only a statistical calculation but also an assessment by an expert system of the same impairment, for all of the most significant loans. Impairments and provisions are evaluated monthly by the Board of Directors' Executive Committee (Executive Committee for Credit Risks), and are reviewed half-yearly by the external auditors and analysed regularly by the Financial Risks Committee.

Functioning as agents controlling this entire management process, in addition to the Board of Directors, the Financial Risks Committee, 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 supervision authority.

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 MEDTHODOLOGY FOR CALCULATING IMPAIRMENTS

Financial assets or off-balance sheet operations (loans, guarantees given, irrevocable commitments, underwriting of commercial paper, derivatives, others) are in an impaired situation when events take place after the asset's initial recognition that change the expectations in relation to the future cash flows associated with that asset. The impairment corresponds to the difference between the financial asset's balance sheet value and the present value of its estimated future cash flows. The recording of provisions for the losses already incurred but not yet observed is also foreseen (IBNR – Incurred but not reported).

In the case of loans to individual Customers the portfolio is segmented according to the type of products and a collective analysis of impairments is carried out. The individual analysis in the case of Individuals only occurs for exposures of 250 th.€ or more (Private Banking and International Private Banking).

In the case of Corporate Banking, Project Finance, Institutional Banking and the State Business Sector, size-related and other complementary criteria are utilised for determining the type of analysis to be carried out, while all companies are subject to individual analysis. In the case of the Small Business and Sole Proprietors' segment, those groups with more significant exposures (250 th.€ or more) are also subjected to individual analysis, as are operations involving the following products or categories of products – Commercial Loans, Bank Guarantees, Factoring, Confirming and other debit balances. The analysis is performed on a collective basis for less significant exposures. In the Small Businesses segment, collective analyses are undertaken separately for the following portfolios – Equipment Leasing, Real Estate Leasing and Commercial Loans.

The impairment losses relating to the operations recorded in the loan portfolio are calculated by means of individual analysis, and these are monitored by the Finance Division.

As a general rule, in the case where no provisions are set aside after individual analysis, provisions are created based on the collective analysis.

The calculation of individual impairment is done operation by operation. The following constitute objective indices, amongst others, of the existence of individual impairment:

- Incidents and defaults (not accidental);
- Record of Incidents in the BdP's CRC;
- Risk warnings which indicate significant degradation of the situation of individuals and of the Group / companies;
- Attachment / seizure of account;
- Applications for insolvency;
- Income Tax and Social Security debts;
- Increase in the probability of default (including Scoring / Rating situations beyond the prescribed threshold and restructured / renegotiated debts arising from risk deterioration);
- Depreciation in the value of the collateral.

The final calculation of individual impairment is based on the empirical estimate (educated guess) of the product of a 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 non-performing loans).

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

Properties pledged as security are obligatorily valued in loco prior to the process being closed definitively. The valuation of foreclosed properties is entrusted by Banco BPI to duly accredited external valuers independent of the Bank who must mandatorily visit the interior of the property. The object of these valuations effected for Banco BPI is to establish the "market value" of a given property, according to the principles defined by:

- IVSC – International Valuation Standards Council in the International Valuation Standards publication (edition of 2013);
- *Bank of Portugal Notice 5 / 2006* (Valuation of Mortgaged Properties pledged as Guarantee for Mortgage Bond Loans);
- *Bank of Portugal Notice 5 / 2007* (Own Funds Adequacy).

The "Market Value" of a property is the price for which an assets can be sold under a contract between an interested seller and a buyer with the means to realise the transaction at the valuation date, on the assumption that the property is placed publically for sale, that the market conditions permit a normal transfer and that there is a normal period, taking into account the nature of the property for negotiation of the sale. In determining Market Value it is possible to resort to three valuation methods: "Market method", "Income method" and "Cost method".

The manner for calculating collective provisions in the most important portfolios (Home loans, Company and Small Business loans), entails the separation of the portfolios according to three classifications: without signs, with signs and default. Impairment signs are those where:

- there exists negative information at the Bank of Portugal's Liabilities Centre and on the List of Risky Cheque Users;
- there exists a Special Revitalisation Process;
- there is a restructuring situation due to financial difficulties, as defined by *Bank of Portugal Instruction No. 32 / 2013*;
- there are loans in arrears for more than 30 days.

As a general rule, the default situation is characterised by the existence of delays of more than 90 days or the existence of legal proceedings. In order to exit the default situation, it is necessary to observe a period of remedy of 12 months after the settlement of the overdue amounts. In the credit cards segment, the default is an absorbing state, so that the concept of a remedial period is not applicable.

Segments	Without signs	With signs	Default
Corporate Banking **Small Businesses** **Personal Loan** **Motor Car Finance** **Home Loans**	Performing loans or delays up to 30 days, as long as it is not observed any signs of defined impairment.	Delays exceeding 30 days (and up to 90 days, without litigation and / or verification of at least one of the following: ▪ negative information in CRC or LUR; ▪ existence of PER; ▪ restructured loans due to financial difficulties (according to Instruction no. 32 / 2013 of Bank of Portugal).	Delays of more than 90 days or in litigation. Credits to complete the healing period (12 months).
Credit Cards	Performing loans (status AA) or miscellaneous (inactive, cheques, etc.), as long as it is not observed any signs of defined impairment.	Delinquencies (status D01, D02 and D03) and / or verification of at least one of the following: ▪ negative information in CRC or LUR; ▪ existence of PER; ▪ restructured loans due to financial difficulties (according to Instruction no. 32 / 2013 of Bank of Portugal).	Default (status CG) or litigation

Based on the abovementioned separations, sign probabilities are calculated over an emergency period of 6 months and subsequent transition to a default situation (in arrears for 90 days or litigation), up until the final maturity (or during 1 year after the sign, in less important segments).

As a general rule, the sign probability curves are constructed on the basis of the time elapsed since the observation of the loans (corresponds to the beginning of the operations or beginning of the observation in the history of the information considered), since the settlement of the sign, delay or Default. As a rule, the probabilities are less the longer the operation continues without signs and the distance *vis-à-vis* the moment of the initial observation increases.

Different transition probability curves are also built depending on the gravity of the sign and based on the time elapsed since it was first observed. The probability is marginally smaller the bigger the distance from the observation of the sign and as long as the operation / Customer does not enter into default.

In case of default, an estimate is made of an economic loss. Based on the historical data for each segment, the payments made by the Customers after the default are identified, after deducting the direct costs of the recovery process. These flows are discounted at the rate of interest applicable to the operations and compared (%) with the exposure at the time of the default. Different recovery curves are estimated for operations which are in default for different periods (based on the amount outstanding after t months of the operations / Customers which / who remain in default in that month). In the Real Estate Leasing and Home Loan segment, in which the recovery processes are more protracted due to the property foreclosure, the

recoveries include an estimate of the recovery via judicial proceedings (execution / repossession of the asset, based on the past records available relating to those situations (probability of recovery via judicial proceedings multiplied by the percentage of the estimated recovery via judicial proceedings).

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 (LGD): Economic loss of the operations in case of default.	✓	✓	✓

The balance sheet value considered in the calculation of impairments corresponds to the sum of the book value of the principal not yet due, the principal overdue, interest overdue, other overdue loan expenses and accrued interest. The off-balance sheet liabilities subject to the impairment calculation are treated as principal not yet due. According to the situation of the loans, the impairments resulting from collective analysis are calculated in a differentiated manner. The calculation formulae considered in the most important segments are presented next:

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

$$\text{Impairment} = \sum_{j} \left(\text{Book Value}_{j} \times LGD_{j} \right)$$

Where:

ECF = expected cash flow
SP = sign probability
TP = transition probability
LGD = default loss
DS = degree of sign (e.g. 12-30 days, 30-60 days, etc.)
H = history of operations / Customers without signs (without problems in the past: signs or 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 a view to deciding case-by-case on the choice of option which hopefully permits maximising the amount recovered.

In the case of Companies and Small Businesses, the Bank endeavours as a rule to achieve a non-judicial restructuring of the debt which, if credible, could involve extending the term and possibility the deferment of principal with the payment of the overdue interest or the appropriate reinforcement of the security pledged, depending on the characteristics of each specific case. Also as a rule, the Bank does not raise its exposure, neither does it accept payment in specie nor does it convert debt into principal. Having realised the restructuring, the process is duly monitored. Non-compliance with the agreed plan sets into motion the judicial debt execution process. Where the debt restructuring proves not to be feasible, the debt is subjected to immediate judicial execution.

In the case of Individuals, the restructuring or renegotiation agreements are also a preferred path for recovery providing that there is the minimum prospect of being complied with. The choice is largely dependent on the default period and the loan product, which could entail extending the maturity period and implementing a payment plan of outstanding and unpaid instalments, amongst other modes. There also exists a system that alerts to default of the restructuring agreement, triggering a 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 31 December 2016

Risk classes		Value (M.€)[1]	% of portfolio amount	One-year default probability[2]
E1	*1*	40.3	0.6%	0.06%
E2	*2*	350.7	5.2%	0.08%
E3	*3*	1.017.8	14.9%	0.09%
E4	*4*	1.270.2	18.7%	0.14%
E5	*5*	1.236.7	18.2%	0.26%
E6	*6*	954.4	14.0%	0.31%
E7	*7*	539.1	7.9%	0.74%
E8	*8*	402.0	5.9%	2.32%
E9	*9*	202.0	3.0%	5.27%
E10	*10*	169.8	2.5%	11.26%
Without rating	*11*	29.4	0.4%	-
ED1	*12*	5.8	0.1%	19.76%
ED2	*13*	0.0	0.0%	-
ED3 (default)	*14*	590.1	8.7%	100.00%
Total *[= Σ 1 to 14]*	*15*	**6 808.0**	**100%**	**0.94%**

Table 64

The average probability of default in the Companies' portfolio over 1 year, weighted by the value of the liabilities at 31 December 2016, was 0.94%. The loss in the event of default in this segment[3] is on average 40.49%. The expected loss is on average is 0.38% 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
at 31 December 2016

Risk classes		Value (M.€)	% of portfolio amount
Strong	*1*	184.4	10.3%
Good	*2*	1 113.5	62.0%
Satisfactory	*3*	303.5	16.9%
Weak	*4*	0	0.0%
Default	*5*	193.4	10.8%
ND	*6*	0	0.0%
Total *[= Σ 1 to 6]*	*7*	**1 794.8**	**100.0%**

Table 65

The segment of small businesses is still at an initial stage of a rating evaluation process. Notwithstanding this fact, it is possible to estimate an average default probability over a one-year period in the case of this portfolio, and a loss in the event of default of 3.73% and 43.04%, respectively.

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.

Exposure concentration indices are also analysed. In overall terms, in a qualitative appraisal, the portfolio reveals an average / high degree of concentration by counterparties or groups (including conservative compliance with the regulation regarding "large exposures") and a reduced concentration by sectors.

According to the Bank of Portugal's calculation methodology, the individual concentration indicator is 0.35% while the sectorial concentration is 8.4%. The concentration in geographical terms is inherent to the location of the Group's business operations.

1) Includes bonds, bank guarantees and commercial paper of the corporate segment and excludes 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 default probabilities presented are point-in-time.
3) The calculation of loss in the case of default was not revised relative to the definition of default (CRR).

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 (1.06%). This favourable trend is due to the natural decline in default probabilities on older loans (the portfolio's average age is 8.7 years while the peak of default probabilities in their lifespan is situated between the second and the third years).

Default probabilities of loans to individuals
At 31 December 2016

Risk classes	Probability of default within a year[1,2,3]	Loss given default	Expected loss
Mortgage loans	1.056%	12.33%	0.13%
Personal loans	2.582%	33.55%	0.87%
Motor car finance	1.017%	22.47%	0.23%
Credit cards	0.942%	48.52%	0.46%

Table 66

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 enforcement orders and, at times, financial collateral, also facilitates the recovery of amounts (relatively low) advanced in the form of personal loans.

Loan-to-value ratio in housing loans

	2015	2016
New loans contracted[4]	70.6%	73.6%
Housing loan portfolio	71.3%	66.9%
Loans in default (more than 90 days)	91.3%	86.3%

Note: The methodology for calculating loan / security ratios was revised during 2016.

Table 67

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. The investment portfolio is predominantly composed of the securities of euro-area sovereign issuers (more details in the notes to the accounts) and its management is above all linked to the management of liquidity risk (maintenance of a portfolio of high-quality assets).

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.
4) Loans granted in December 2016.

Bonds and fixed-interest securities' investment portfolio[1]

Amounts in M.€

Rating	2015	%	2016	%
AAA	0	0.0%	17	0.3%
AA	0	0.0%	0	0.0%
A	73	1.7%	71	1.3%
BBB	1 394	32.8%	1 183	21.8%
BB	1 840	43.3%	2 283	42.1%
B	53	1.2%	53	1.0%
CCC	0	0.0%	0	0.0%
Commercial paper with guarantees from credit institutions	168	4.0%	205	3.8%
Commercial paper without guarantees	495	11.7%	618	11.4%
Without rating	226	5.3%	988	18.2%
Total	**4 249**	**100%**	**5 418**	**100%**

Table 68

Equities and participating interests' portfolio

The risks inherent in the structural position of the equities and participating interests portfolio not easily measurable by traditional methodologies (such as VaR), given the investment's time horizon, the importance of the positions, or even its lack of a quotation on the market. According to the Basel Accord, this risk is treated as credit risk, with the positions, according to regulatory-defined criteria, added to assets and weighted or written off from own funds.

The management and control of those positions and the inherent risks is undertaken directly by the Bank's Management bodies.

Derivatives

The analysis of counterparty credit risk arising from operations in derivatives is based on the replacement value (exposure equivalent to loans) and on the probabilities of default and the amount of losses in the case of default inherent in the counterparty and the operation, respectively.

The compensation and collateralisation contracts established naturally have an impact on the exposure calculation. These agreements, which permit the offsetting of operations integrated therein and imply the receipt (and payment) of collateral amounts to hedge the risk between the counterparties permitted, at the end of December 2016, a reduction in the replacement amount of the derivatives portfolio from 234.7 M.€ (gross amount) to 159.4 M.€ (net figure after set-off, value correction and collateralisation). It should be noted that, for this analysis, BFA's derivatives were excluded.

Counterparty credit risk

Net exposure to OTC derivatives by type of counterparty

Amounts in M.€

	2015	%	2016	%
Over-the-counter market (OTC)				
Financial institutions	8.3	4.6%	2.1	1.3%
Local and administrative public sector	0.3	0.2%	0.3	0.2%
Other financial intermediaries	1.0	0.5%	0.3	0.2%
Companies	169.2	94.3%	156.5	98.2%
Unit trust funds and pension funds	0.3	0.2%	0.0	0.0%
Individuals	0.4	0.2%	0.3	0.2%
Total	**179.5**	**100.0%**	**159.4**	**100.0%**

Excludes BFA operations.

Table 69

This form of risk exposure is complemented by the regulatory approach (own fund regulatory requirements for counterparty credit risk and for CVA).

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

Default levels, provisioning and recovery

CONSOLIDATED

BPI registered a decrease in the flow of new default situations, an improvement in loan quality indicators and a reduction in the cost of credit risk.

Next, we detail the principal consolidated ratios for loans in arrears, credit at risk, cost of risk and impairments cover:

- **Loans in arrears ratio (+90 days):** the consolidated ratio for loans in arrears for more than 90 days improved from 3.6% at the end of 2015 to 2.9% at the end of 2016.
- **Credit-at-risk ratio (IAS / IFRS consolidation perimeter[1]):** the consolidated credit-at-risk ratio according to the Bank of Portugal's definition and considering the IAS / IFRS consolidation perimeter, improved from 4.6% at the end of 2015 to 3.7% at the close of 2016.
- **Cost of credit risk net of recoveries:** impairments and provisions for loans and guarantees in the year, net of recoveries of loans, interests and expenses, represented 0.09% of the loan portfolio in 2016, which represents a significant reduction when compared with the 0.48% indicator recorded in the preceding year.
- **Impairment cover:** accumulated loans and guarantees impairment allowances in the balance sheet at the end of 2016 stood at 718 M.€. This figure corresponded to 83% of credit-at-risk[1], not taking into account the effect of risks covered by collateral.

RECOGNITION OF THE SHAREHOLDING IN BFA IN ACCORDANCE WITH IFRS 5

BFA's assets and liabilities (50.1% held by Banco BPI at the end of 2016) and its contribution to the consolidated net profit were recognised in the consolidated accounts at 31 December 2016 in accordance with IFRS 5 – Non-current assets held for sale and discontinued operations (see Notes to the financial statements – "1. Financial Group").

According to the aforesaid standard IFRS 5, BFA's assets and liabilities were reclassified to the consolidated balance sheet captions "Non-current assets held for sale and discontinued operations" and "Non-current liabilities held for sale and discontinued operations", and BFA's contribution to consolidated net profit (after taxation) was recorded in the Income Statement under the caption "Net income from discontinued operations", and deducted from "Income attributable to non-controlling interests from discontinued operations".

In this manner, the consolidated figures at 31 December 2016 for the vast majority of the cost / income captions, as well as the assets and liabilities essentially reflect BPI's domestic operations given that BCI Mozambique is equity accounted and BPI Capital África and BPI Moçambique, which form part of the international operations segment (both fully consolidated) are immaterial.

1) Calculated in accordance with *Bank of Portugal Instruction no. 23 / 2011* and considering the consolidation scope in IAS / IFRS, with the result that BPI Vida e Pensões is fully consolidated and its portfolio is included in the consolidated loan portfolio (in Bank of Portugal's supervision scope, BPI Vida e Pensões is equity accounted). According to *Instruction 23 / 2011* and considering the supervision scope, at 31 Dec. 2016 the credit at risk amounted to 862.6 M.€ while the credit-at-risk ratio stood at 3.9%.

Loans in arrears and impairments

Amounts in M.€

		Consolidated				
		2012	2013	2014	2015	2016
Customer loan portfolio (gross)	1	28 129	26 897	26 306	25 260	23 431
Loans in arrears, falling due loans and impairments						
Credit at risk (consolidation perimeter IAS / IFRS)[1]	2	1 157.4	1 277.0	1 304.0	1 158.1	862.6
Loan impairments and guarantees (accumulated in the balance sheet)	3	824.4	978.7	1 075.2	1 012.8	717.7
Loans in arrears for more than 90 days	4	891.9	976.3	1 008.3	908.2	685.3
Loans in arrears for more than 30 days	5	917.4	997.2	1 043.7	922.5	690.8
Ratios (as % of total loans)						
Credit at risk as % of loan portfolio (IAS / IFRS consolidation perimeter)[1,2]	6	4.1%	4.7%	5.0%	4.6%	3.7%
Impairments and provisions for loans and guarantees (accumulated in the balance sheet) as % of loan portfolio *[= 3 / 1]*	7	2.9%	3.6%	4.1%	4.0%	3.1%
Loans in arrears for more than 90 days as % of loan portfolio *[= 4 / 1]*	8	3.2%	3.6%	3.8%	3.6%	2.9%
Loans in arrears for more than 30 days as % of loan portfolio *[= 5 / 1]*	9	3.3%	3.7%	4.0%	3.7%	2.9%
Impairments and provisions for loans and guarantees (accumulated in the balance sheet) as % of credit at risk (consolidation perimeter IAS / IFRS) *[= 3 / 2]*	10	71%	77%	82%	87%	83%
Impairments and provisions for loans and guarantees (accumulated in the balance sheet) as % of loans in arrears for more than 90 days *[= 3 / 4]*	11	92%	100%	107%	112%	105%
Write-offs and sales of loans in arrears	12	81.3	93.4	106.5	169.3	186.1
Cost of credit risk net of recoveries						
Impairment losses and provisions for loans and guarantees for the year	13	269.4	272.6	193.2	137.0	33.0
Recovery of loans, interest and expenses	14	15.5	17.6	16.5	18.2	13.7
Impairment losses and provisions for loans and guarantees, deducted of recoveries of loans, interest and expenses *[= 13 - 14]*	15	253.9	255.0	176.7	118.8	19.3
Impairment losses and provisions for loans and guarantees, deducted of recoveries of loans, interest and expenses as % of the loan portfolio (average balance)	16	0.92%	0.96%	0.70%	0.48%	0.09%

Table 70

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

2) Considering the consolidation scope in IAS / IFRS, with the result that BPI Vida e Pensões is fully consolidated and its portfolio is included in the consolidated loan portfolio (in Bank of Portugal's supervision scope, BPI Vida e Pensões is equity accounted). According to *Instruction 23 / 2011* and considering the supervision scope, at 31 Dec. 2016 the credit at risk amounted to 862.6 M.€ while the credit-at-risk ratio stood at 3.9%.

DOMESTIC OPERATIONS

Domestic operations presented the following main indicators relating to loan quality and cover at the end of 2016:

- **Loans in arrears ratio (+90 days):** the ratio of loans in arrears for more than 90 days was 2.9% (3.6% in 2015).
- **Credit-at-risk ratio (IAS / IFRS consolidation perimeter[1]):** the credit-at-risk ratio, according to the Bank of Portugal's definition and considering the IAS / IFRS consolidation perimeter, was 3.7% (4.5% in 2015).
- **Cost of credit risk net of recoveries:** impairments and provisions for loans and guarantees in the year, net of reovery of loans, interest and expenses represented 0.09% of the loan portfolio in 2016 (0.38% in 2015).
- **Impairments cover:** accumulated impairments and provisions for loans and guarantees in the domestic operations balance sheet amounted to 718 M.€ at the close of 2016, which covered 83% of the credit at risk[1], not considering the effect of risk cover by collateral.

  Accumulated loan impairment allowances in the balance sheet for non-performing loans[2] and guarantees (real and personal) represented 100% cover for the total exposure to operations with principal or interest in arrears for more than 30 days, including the associated loans falling due.

- **Foreclosed properties:** properties repossessed in loan recovery operations totalled 131.7 M.€, in terms of gross balance sheet value. The balance sheet value net of accumulated impairments was 100.7 M.€, which compares with their market value of 128.1 M.€.

Credit at risk

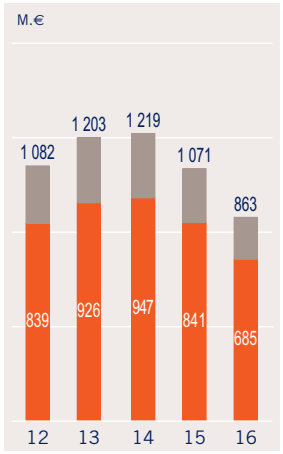


Chart 89

- Credit at risk
  Of which:
  - Loans in arrears for more than 90 days

Ratio of credit at risk and loans in arrears for more than 90 days

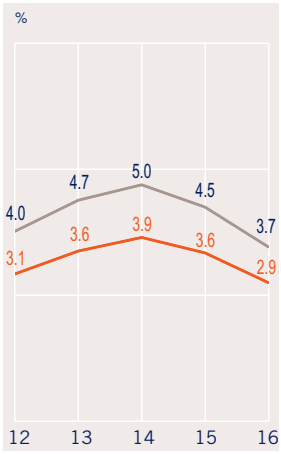


Chart 90

- Credit at risk
- Loans in arrears for more than 90 days

Impairments coverage
Not considering collaterals

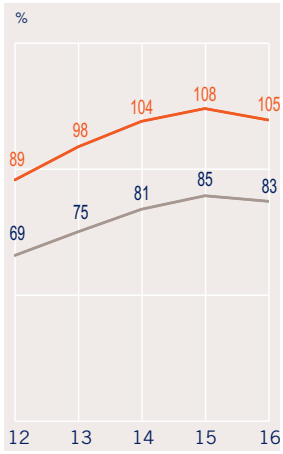


Chart 91

Coverage of:
- Credit at risk
- Loans in arrears for more than 90 days

Property repossessed from loans recovery
Gross value

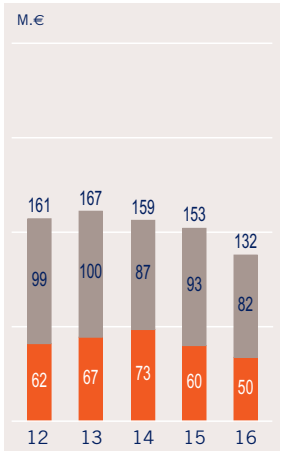


Chart 92

- Other
- Housing loans

1) Calculated in accordance with *Bank of Portugal Instruction no. 23 / 2011* and considering the consolidation scope in IAS / IFRS, with the result that BPI Vida e Pensões is fully consolidated and its portfolio is included in the consolidated loan portfolio (in Bank of Portugal's supervision scope, BPI Vida e Pensões is equity accounted).
2) In addition, BPI had impairment allowances of 263 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 128%.

Domestic activity – Loans in arrears and impairments

Amounts in M.€

		2012	2013	2014	2015	2016
Customer loan portfolio (gross)	1	26 973	25 756	24 395	23 668	23 431
Loans in arrears, falling due loans and impairments						
Credit at risk (consolidation perimeter IAS / IFRS)[1]	2	1 082.5	1 203.3	1 219.1	1 070.9	862.6
Loan impairments and guarantees (accumulated in the balance sheet)	3	745.4	904.0	988.5	906.7	717.7
Loans in arrears for more than 90 days	4	838.8	925.9	947.1	841.4	685.3
Loans in arrears for more than 30 days	5	862.2	945.3	979.9	850.0	690.8
Ratios (as % of total loans)						
Credit at risk as % of loan portfolio (IAS / IFRS consolidation perimeter)[1,2]	6	4.0%	4.7%	5.0%	4.5%	3.7%
Impairments and provisions for loans and guarantees (accumulated in the balance sheet) as % of loan portfolio [= 3 / 1]	7	2.8%	3.5%	4.1%	3.8%	3.1%
Loans in arrears for more than 90 days as % of loan portfolio [= 4 / 1]	8	3.1%	3.6%	3.9%	3.6%	2.9%
Loans in arrears for more than 30 days as % of loan portfolio [= 5 / 1]	9	3.2%	3.7%	4.0%	3.6%	2.9%
Impairments and provisions for loans and guarantees (accumulated in the balance sheet) as % of credit at risk (consolidation perimeter IAS / IFRS) [= 3 / 2]	10	69%	75%	81%	85%	83%
Impairments and provisions for loans and guarantees (accumulated in the balance sheet) as % of loans in arrears for more than 90 days [= 3 / 4]	11	89%	98%	104%	108%	105%
Write-offs and sales of loans in arrears	12	65.5	84.8	90.0	162.0	186.1
Cost of credit risk net of recoveries						
Impairment losses and provisions for loans and guarantees for the year	13	254.4	264.3	172.5	103.4	33.0
Recovery of loans, interest and expenses	14	12.8	15.3	14.0	16.2	13.7
Impairment losses and provisions for loans and guarantees, deducted of recoveries of loans, interest and expenses [= 13 - 14]	15	241.6	249.0	158.5	87.1	19.3
Impairment losses and provisions for loans and guarantees, deducted of recoveries of loans, interest and expenses as % of the loan portfolio (average balance)	16	0.91%	0.98%	0.66%	0.38%	0.09%

Table 71

Trend in defaulting loans and impairments in the year

The international financial crisis which began in 2007 and which was subsequently followed by a sovereign debt crisis that affected the countries of southern Europe – leading in Portugal's case to a request for an international bailout and to the implementation of a stringent financial stabilisation programme – originated far-reaching impacts in the real economy that resonated strongly in Banco BPI's domestic operations.

Since 2007, BPI has registered in domestic operations a deterioration in default indicators and a rise in the cost of credit risk net of recoveries which attained a historical peak in 2013 (249 M.€ corresponding to 0.98% of the average loan portfolio). Despite the cost of credit risk (net of recoveries) having remained at relatively good levels, that increase strongly penalised the return on domestic operations.

From 2013 onwards BPI has witnessed a progressive slowdown in the stream of new default situations in domestic activity, having recorded from the following year the continuing reduction in the cost of credit risk.

In 2016, BPI attained in domestic activity the best (lowest) indicators of the last 10 years, in both the stream of new default situations and in terms of the cost of credit risk:

- the change in loans in arrears for more than 90 days, adjusted for write-offs and sale of loans and after deducting recoveries, was 16 M.€ (0.07% of the loan portfolio);
- the change in credit at risk, adjusted for write-offs and sale of loans and after deducting recoveries, was -36 M.€ (-0.16% of the loan portfolio);
- the cost of credit risk net of recoveries was 19 M.€ in 2016 (0.09% of the loan portfolio).

1) Calculated according to the definition in *Bank of Portugal Instruction 23 / 2011* and considering the consolidation scope under IAS / IFRS, with the result that BPI Vida e Pensões is consolidated by the full integration method and its portfolio is included in the consolidated loan portfolio (in the Bank of Portugal's supervision scope BPI Vida e Pensões is equity accounted).

2) Impairment losses and provisions for loans and guarantees, deducted from recovery of loans, interest and expenses as a percentage of the loan portfolio (average balance).

Last 10 years' trend in defaulting loans (for more than 90 days)

From 2004 up until 2007, the new cases of loans in arrears for more than 90 days (measured by the change in the balance of arrear loans adjusted for write-offs and sales of loans and net of recoveries) amounted in domestic activity to an annual average figure of around 40 M.€, which represented roughly 0.20% of the loan portfolio.

Since 2007, mirroring the economic repercussions of the international financial crisis that emerged halfway through that year, there was an increase in non-performing loan situations in domestic operations. In annual average terms, the new entries of arrear loans for more than 90 days (change in the balance of arrear loans adjusted for write-offs and sales of loans and net of recoveries) increased to 117 M.€ (0.42% of the loan portfolio) between 2008 and 2010.

The stream of non-performing loan situations became more pronounced with effect from 2010, as a consequence of the repercussions in the Portuguese economy of the implementation, in a short space of time, of a demanding programme aimed at correcting the macroeconomic imbalances. In 2012, a maximum of 263 M.€ was reached, which corresponded to 0.99% of the loan portfolio.

With effect from 2012, there have been four consecutive years of decline in the number of new cases of loan defaults, amounting to 16 M.€ in 2016 (0.07% of the loan portfolio).

Annual change in loans in arrears (+90 days), adjusted by write-offs and sales of loans and deducted of recoveries

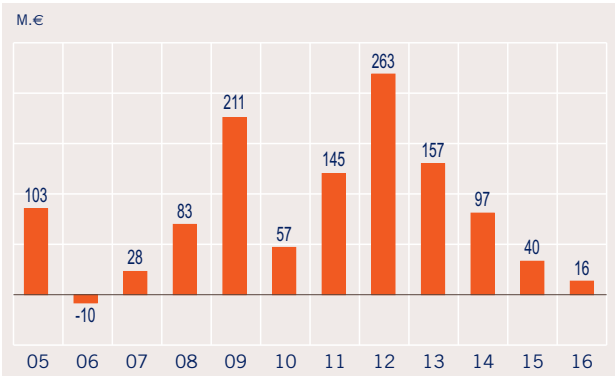


Chart 93

Impairments and provisions for loans and guarantees for the year, net of recoveries

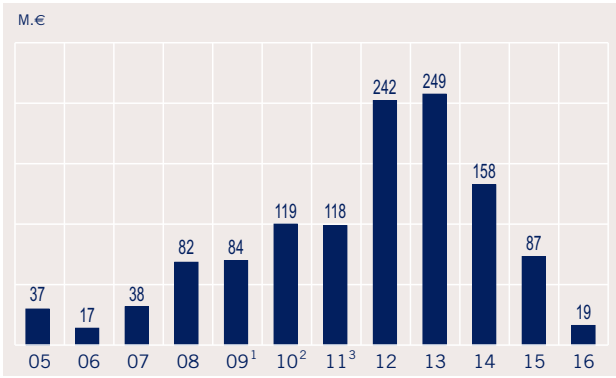


Chart 94

Annual change in loans in arrears (+90 days), adjusted by write-offs and sales of loans and deducted of recoveries
As % of average loan portfolio

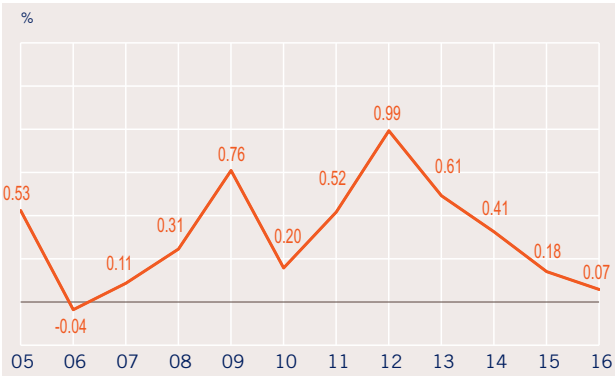


Chart 95

Impairments and provisions for loans and guarantees for the year, net of recoveries
As % of average loan portfolio

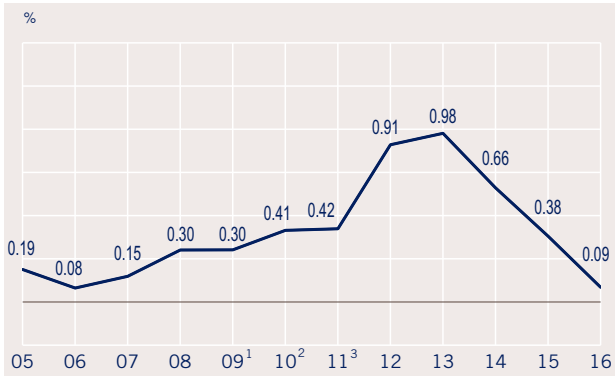


Chart 96

1) In 2009, it was considered the impairment charges for the year excluding the extraordinary charge made in December of that year (of 33.2 M.€).
2) In 2010 the utilisation of the extraordinary charge made in December 2009 (of 33.2 M.€) was added to the impairment charges for the year.
3) In 2011, loan impairment charges for Greek sovereign debt of 68.3 M.€ were excluded from impairments charges for the year.

Credit-at-risk

The trend in credit-at-risk adjusted for write-offs and net of recoveries is similar to that for arrear loans (for more than 90 days). In 2016, credit-at-risk (adjusted for write-offs and net of recoveries) in domestic operations registered a decrease of 36 M.€ (corresponding to -0.16% of the loan portfolio), whilst in 2012 it reached a maximum amount of 299 M.€ (1.13% of the loan portfolio).

New entries of loans in arrears (for more than 90 days) and credit-at-risk, net of recoveries[1] Amounts in M.€

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Loans in arrears for more than 90 days									
Annual change in loans in arrears for more than 90 days	109	229	70	162	276	172	111	56	30
as % of the loan portfolio (average balance)	0.40%	0.83%	0.24%	0.58%	1.04%	0.67%	0.46%	0.25%	0.13%
(-) Recovery of loans, interest and expenses	26	18	14	17	13	15	14	16	14
Annual change in loans in arrears for more than 90 days[2] deducted of recoveries of loans, interest and expenses	**83**	**211**	**57**	**145**	**263**	**157**	**97**	**40**	**16**
as % of the loan portfolio (average balance)	**0.31%**	**0.76%**	**0.20%**	**0.52%**	**0.99%**	**0.61%**	**0.41%**	**0.18%**	**0.07%**
Credit at risk									
Annual change in credit at risk[2]	137	225	107	184	312	206	106	14	(22)
as % of the loan portfolio (average balance)	0.50%	0.81%	0.37%	0.66%	1.17%	0.81%	0.44%	0.06%	(0.10%)
(-) Recovery of loans, interest and expenses	26	18	14	17	13	15	14	16	14
Annual change in credit at risk[2] deducted of recoveries of loans, interest and expenses	**111**	**207**	**93**	**166**	**299**	**190**	**92**	**(2)**	**(36)**
as % of the loan portfolio (average balance)	**0.41%**	**0.74%**	**0.32%**	**0.60%**	**1.13%**	**0.75%**	**0.38%**	**(0.01%)**	**(0.16%)**
Note:									
Performing loan portfolio (average balance)	**27 189**	**27 804**	**28 792**	**27 836**	**26 546**	**25 500**	**23 984**	**22 860**	**22 596**

Table 72

Impairments for the year net of recoveries

The cost of credit risk net of recoveries, measured by impairments and provisions for loans and guarantees and net of recoveries, amounted to 19 M.€ in domestic operations in 2016, representing a 230 M.€ decrease relative to the maximum value of 249 M.€ recorded in 2013.

The cost of credit risk net of recoveries in domestic activity corresponded to 0.09% of the average performing loans portfolio in 2016. This indicator's average figure in the 10-year period up till 2010 (before the maximum values recorded in 2012 and 2013) was 0.27%.

Loan impairment charges for the year net of recoveries Amounts in M.€

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Impairment losses and provisions for loans and guarantees, net	108	102	133	135	254	264	172	103	33
as % of the loan portfolio (average balance)	0.40%	0.37%	0.46%	0.49%	0.96%	1.04%	0.72%	0.45%	0.15%
(-) Recovery of loans, interest and expenses	26	18	14	17	13	15	14	16	14
Impairment losses and provisions for loans and guarantees, deducted of recoveries of loans, interest and expenses	**82**	**84**	**119**	**118**	**242**	**249**	**158**	**87**	**19**
as % of the loan portfolio (average balance)	**0.30%**	**0.30%**	**0.41%**	**0.42%**	**0.91%**	**0.98%**	**0.66%**	**0.38%**	**0.09%**
Performing loan portfolio (average balance)	27 189	27 804	28 792	27 836	26 546	25 500	23 984	22 860	22 596

Table 73

1) Change in loans in arrears (for more than 90 days) and in credit-at-risk, adjusted for write-offs and sale of loans in arrears in 2016, net of recoveries of loans, interest and expenses.
2) Adjusted for write-offs and sales of loans.

Trend in credit risk and impairments by segments

The decrease in 2016 of amounts set aside for impairments and provisions for loans and guarantees, and in the flow of new credit risk situations (annnual change of the balance of credit at risk, adjusted for write-offs and sales of loans) was transversal to the main segments of the loan portfolio.

New entries in credit at risk[1] and impairments for the year, deducted of recoveries, by market segment

Amounts in M.€

		New entries in credit at risk, deducted of recoveries					Impairments for the year, deducted of recoveries				
		2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Companies in Portugal[2]	1	129.0	106.9	103.5	6.5	(23.3)	119.1	84.6	76.1	64.9	20.5
Madrid branch[3]	2	41.0	91.1	(18.4)	31.5	8.6	11.7	94.8	52.7	27.9	11.6
Public Sector	3	3.6	(4.0)	(4.8)	(30.4)	(0.7)	9.0	(2.3)	(0.9)	(3.4)	(0.6)
Individuals and Small Businesses Banking											
Mortgage loans to individuals	4	81.2	(15.3)	20.8	(6.1)	(14.4)	69.0	50.2	34.0	0.2	(6.1)
Other loans to individuals[4]	5	13.8	5.9	5.6	(1.2)	3.4	12.9	6.3	5.5	0.5	8.8
Small businesses	6	27.5	7.6	(11.7)	(2.5)	(11.3)	19.6	9.1	(0.8)	(5.2)	(12.8)
[= Σ 4 to 6]	7	122.6	(1.8)	14.7	(9.9)	(22.3)	101.5	65.7	38.7	(4.5)	(10.2)
Other	8	2.7	(1.9)	(3.2)	(0.0)	1.8	0.4	6.3	(8.2)	2.2	(2.0)
Total *[= Σ (1 to 3) + 7 + 8]*	9	**298.8**	**190.3**	**91.8**	**(2.4)**	**(35.9)**	**241.6**	**249.0**	**158.5**	**87.1**	**19.3**

Table 74

Credit-at-risk and impairment cover by segments

The balance on credit-at-risk in domestic operations decreased from 1 071 M.€ at the end of 2015 to 863 M.€ at the close of 2016. The credit-at-risk ratio (IAS / IFRS consolidation perimeter) records a decrease from 4.5% in 2015 to 3.7% in 2016.

Credit-at-risk cover by impairments in domestic operations, disregarding collaterals, reached 83% at the end of 2016.

Credit-at-risk cover by impairment allowances and provisions for loans and guarantees (disregarding associated collaterals) in the main loan segments at the end of 2016 was:

- 96% in company loans in Portugal;
- 110% in loans to Spanish companies (Madrid branch portfolio);
- 86% in small business loans;
- 61% in mortgage loans. It should be noted that in this segment the average loan / value ratio for the total portfolio was 66.9% at the end of 2016.

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

1) Annual change in outstanding credit-at-risk, adjusted by write-offs.
2) Corporate Banking and Project Finance in Portugal.
3) Loan portfolio of Madrid Branch (corporates and project finance).
4) Consumer credit, credit cards and car financing.

Credit-at-risk and coverage by impairments accumulated in the balance sheet, by segment

		2015				2016			
		Loan portfolio (gross), as % of total	Credit at risk (M.€)	Credit at risk ratio	Impairments cover	Loan portfolio (gross), as % of total	Credit at risk (M.€)	Credit at risk ratio	Impairments cover
Companies in Portugal	1	22%	408	7.7%	99%	24%	320	5.8%	96%
Madrid branch	2	4%	116	11.2%	87%	3%	41	5.3%	110%
Public Sector	3	6%	0	0.0%	s.s.	6%	0	0.0%	s.s.
Individuals and Small Businesses Banking									
Mortgage loans to individuals	4	47%	375	3.4%	62%	47%	348	3.1%	61%
Other loans to individuals	5	4%	40	4.4%	101%	4%	40	4.0%	114%
Small businesses	6	8%	128	7.2%	89%	8%	109	5.7%	86%
[= Σ 4 to 6]	7	58%	543	3.9%	71%	60%	497	3.5%	71%
Other	8	9%	3	0.1%	s.s.	7%	4	0.3%	s.s.
Total *[= Σ (1 to 3) +7 + 8]*	9	**100%**	**1 071**	**4.5%**	**85%**	**100%**	**863**	**3.7%**	**83%**

Table 75

Restructured loans

The amount of restructured loans (consolidated) totalled 1 427.5 M.€ at the close of 2016. Of this amount, 367.7 M.€ is included in the credit-at-risk balance.

The amount of restructured loans not included in credit-at-risk therefore totals 1 059.8 M.€, which corresponds to 4.5% of the gross loan portfolio.

Restructured loans Amounts in M.€

		2015	as % of gross loan[1]	2016	as % of gross loan[1]
Amount included in the credit-at-risk	1	452.5	1.8%	367.7	1.6%
Performing loans	2	1 096.5	4.3%	1 059.8	4.5%
Total *[= 1 + 2]*	3	**1 549.0**	**6.1%**	**1 427.5**	**6.1%**

Table 76

Impairments cover for defaulting loans

At the end of 2016, the total exposure to loans with arrear instalments of principal or interest amounted to 931 M.€ in domestic terms and corresponded to:

- total arrear loans (principal or interest instalments in arrears for more than 30 days) of 691 M.€ which represented 2.9% of the gross loan portfolio;
- portion not yet due in those loan operations of 240 M.€.

In average terms, the total exposure to the aforesaid loans (arrear loans and associated instalments falling due) was fully covered by individual impairments set aside specifically for those loans (454.5 M.€) and by the value of real guarantees (478 M.€).

Loans in arrears and performing loans associated with loans in arrears Amounts in M.€

		31 Dec. 2016		
		Loans with collateral	Loans without collateral	Total
Loans				
In arrears	1	377.0	313.8	690.8
Falling due loans[2]	2	187.5	52.3	239.8
Loans *[= 1 + 2]*	3	**564.5**	**366.1**	**930.6**
Real guarantees[3] (mortgages and other[4])	4	478.0		478.0
Impairments[5]	5	235.6	218.9	454.5
Loans coverage by collateral and impairments *[= (4 + 5) / 3]*	6	**126%**	**60%**	**100%**

Table 77

1) Restructured loans in accordance with *Bank of Portugal Instruction 32 / 2013* and considering the consolidation scope in IAS / IFRS, with the result that BPI Vida e Pensões is fully consolidated and its portfolio is included in the consolidated loan portfolio (in Bank of Portugal's supervision scope, BPI Vida e Pensões is equity accounted).
2) Performing loans associated with loans in arrears.
3) The amount outstanding was considered when this is lower than the fair value of the real guarantees.
4) Include liens over bank deposits and securities.
5) 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.

Foreclosed properties

At the end of 2016, BPI had a portfolio of foreclosed properties with a gross balance carrying amount of 131.7 M.€. Of this figure, 50.1 M.€ refers to properties repossessed for home-loan recoveries and 81.6 M.€ refers to properties repossessed for the recoupment of other loans.

At 31 December, the accumulated amount of impairments for foreclosed properties amounted to 31.0 M.€, which corresponded to 24% of the gross balance sheet value. Accordingly, the net balance sheet value of these properties was 100.7 M.€, which compares with their market value of 128.1 M.€.

Foreclosed properties

Amounts in M.€

			2015			2016		
			Home	Other	Total	Home	Other	Total
Gross amount		*1*	59.9	93.2	153.1	50.1	81.6	131.7
Impairments		*2*	2.6	24.7	27.3	1.7	29.3	31.0
Impairments cover	*[= 2 / 1]*	*3*	4%	26%	18%	3%	36%	24%
Net amount	*[= 1 - 2]*	*4*	57.3	68.6	125.9	48.4	52.3	100.7
Fair value		*5*	71.4	81.7	153.1	61.2	66.9	128.1

Table 78

BANCO DE FOMENTO ANGOLA (BFA)

BFA's individual loan portfolio, which represents 18% of its net total assets, presents good credit-risk indicators without evidencing deterioration despite the difficult economic environment for banking in Angola.

We highlight the following individual BFA indicators:

- **Ratio of arrears loans (+90 days):** loans in arrears for more than 90 days totalled 55.8 M.€ in 2016, which corresponded to 4.1% of the gross loan portfolio (4.2% in 2015).
- **Credit-at-risk ratio:** credit at risk amount to 72.7 M.€ which corresponded to a credit-at-risk ratio of 5.4% (5.5% in 2015).
- **Cost of credit risk:** impairments and provisions for loans and guarantees in the year, net of loan recoveries, represented 1.05% of the loan portfolio in 2016 (1.88% in 2015).
- **Cover by impairments:** Accumulated impairments and provisions for loans and guarantees in the balance sheet provided 141% cover for loans in arrears for more than 90 days and 108% for credit at risk.

BFA – Loans in arrears and impairments

Amounts in M.€

		2012	2013	2014	2015	2016
Customer loan portfolio (gross)	1	1 155	1 141	1 911	1 592	1 346
Loans in arrears, falling due loans and impairments						
Credit at risk[1]	2	74.9	73.8	84.9	87.1	72.7
Loan impairments and guarantees (accumulated in the balance sheet)	3	79.1	74.7	86.7	106.1	78.7
Loans in arrears for more than 90 days	4	53.0	50.4	61.2	66.8	55.8
Loans in arrears for more than 30 days	5	55.2	52.0	63.8	72.4	62.8
Ratios (as % of total loans)						
Credit at risk as % of loan portfolio[1]	6	6.5%	6.5%	4.4%	5.5%	5.4%
Impairments and provisions for loans and guarantees (accumulated in the balance sheet) as % of loan portfolio [= 3 / 1]	7	6.8%	6.5%	4.5%	6.7%	5.8%
Loans in arrears for more than 90 days as % of loan portfolio [= 4 / 1]	8	4.6%	4.4%	3.2%	4.2%	4.1%
Loans in arrears for more than 30 days as % of loan portfolio [= 5 / 1]	9	4.8%	4.6%	3.3%	4.6%	4.7%
Impairments and provisions for loans and guarantees (accumulated in the balance sheet) as % of credit at risk [= 3 / 2]	10	106%	101%	102%	122%	108%
Impairments and provisions for loans and guarantees (accumulated in the balance sheet) as % of loans in arrears for more than 90 days [= 3 / 4]	11	149%	148%	142%	159%	141%
Impairments and provisions for loans and guarantees (accumulated in the balance sheet) as % of loans in arrears for more than 30 days [= 3 / 5]	12	143%	144%	136%	146%	125%
Write-offs and sales of loans in arrears	13	15.9	8.6	16.5	7.3	30.4
Cost of credit risk net of recoveries						
Impairment losses and provisions for loans and guarantees for the year	14	14.9	8.4	20.7	33.6	15.8
Recovery of loans, interest and expenses	15	2.7	2.3	2.5	1.9	2.2
Impairment losses and provisions for loans and guarantees, deducted of recoveries of loans, interest and expenses [= 14 - 15]	16	12.2	6.1	18.2	31.7	13.6
Impairment losses and provisions for loans and guarantees, deducted of recoveries of loans, interest and expenses as % of the loan portfolio (average balance)	17	1.07%	0.56%	1.30%	1.88%	1.05%

Table 79

1) According to *Bank of Portugal Instruction 16 / 2004*, includes loans in arrears for more than 90 days, associated loans not yet due, restructured loans (previously with instalments in arrears for more than 90 days and in respect of which the debtor had not adequately reinforced the guarantees furnished or paid in full the interest and other charges overdue) and insolvency situations still not contemplated in loans in arrears for more than 90 days.

COUNTRY RISK

Management process

Country risk 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 individual risk evaluation of each country is done with the support of external ratings, external studies (IIF and others) and in-house surveys compiled by the specialised team which was part of the Finance Division at the end of 2016. At the beginning of 2017 this team integrated into the Credit Risks Division, bringing the country-risk management process closer to that for credit risk.

Following a proposal prepared by the abovementioned team, the Board of Directors Executive Committee approves the list of countries for which country risk exposure is authorised and the respective limits. The list is divided into two groups (A and B) according to the degree of risk, with group A being composed of the countries with country risks considered to be immaterial.

The exposure to country risk is overseen and controlled by the Risk Analysis and Control Division and by the Board of Directors advisory committee within that established in the risk appetite statement (RAS).

It should be noted that an important part of risk exposure to Group A countries results from the exposure to the sovereign debt of euro-zone countries. As regards the exposure to group B countries, the main ones refer to the State of Angola and Cape Verde with guarantee of the Portuguese Republic (see table). Of the remainder, a good part refer to trade finance operations and/or loans to Portuguese emigrants in the country concerned (in both cases with mitigated country risk).

Country risk exposure
At 31 December 2016

Amounts in M.€

Country	Rating	Gross exposure	Personal guarantees	Tangible guarantees	Exposure net of guarantees
Countries from Group A					
Euro Zone		2 412.6	28.4	(90.7)	2 350.2
	AAA	326.8	4.9	(26.7)	305.0
	AA	122.2	6.8	(3.7)	125.2
	A	45.5	(1.9)	0.0	43.5
	BBB	1 918.0	18.7	(60.2)	1 876.5
	CCC	0.0	0.0	0.0	0.0
Other EU countries		80.0	7.7	(1.1)	86.6
	AAA	4.8	0.0	(0.7)	4.1
	AA	73.2	7.7	(0.4)	80.6
	A	1.9	0.0	0.0	1.9
	BBB	0.0	0.0	0.0	0.0
	BB	0.0	0.0	0.0	0.0
Switzerland	*AAA*	29.2	26.4	(2.1)	53.5
USA	*AAA*	31.0	4.7	(0.5)	35.2
Other		26.2	0.0	(2.6)	23.5
Offshores		13.1	0.0	0.0	13.1
		2 592.0	**67.2**	**(97.0)**	**2 562.2**
Countries from Group B					
Brazil	*BB*	6.0	0.0	(1.9)	4.1
Angola	*B*	202.3	(111.2)	(20.0)	71.2
Russia	*BB*	0.1	0.0	0.0	0.1
Turkey	*BB*	1.3	0.0	0.0	1.3
Mexico	*BBB*	53.3	0.0	0.0	53.3
Mozambique	*CC*	42.6	0.0	(1.8)	40.8
Venezuela	*CCC*	9.8	0.0	(5.1)	4.7
Cape Verde	*B*	78.8	(78.7)	(0.1)	0.1
South Africa	*BBB*	3.6	0.0	(2.0)	1.6
Other		18.1	(0.7)	(0.4)	17.0
		415.9	**(190.6**	**(31.3)**	**194.1**
Subsidiaries					
Angola (BFA)		468.1	0	0	468.1
Mozambique (BCI)		44.8	0.0	0.0	44.8
		513.0	**0.0**	**0.0**	**513.0**
Total		**3 520.9**	**(123.4)**	**(128.3)**	**3 269.3**

Notes: The exposure includes balance sheet (actual) and off-balance sheet (potential) operations. *Table 80*
The exposure values are all gross of impairments.
The personal and financial guarantees considered in the preparation of this schedule are those classified as eligible in accordance with *Regulation 575 / 2013*.
The regulatory Credit Conversion Factors (CCF) were applied to the off-balance sheet figures.

MARKET RISKS

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.

Since trading activity is a bet on the behaviour oif prices, market risk is the fundamental element for this portfolio. But the management and mitigation of market risks are equally important facets of the management of the banking portfolio.

TRADING POSITIONS

Management process

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 of types of exposure limits, including limits on nominal trades, on the value-at-risk (VaR), stop-loss limits, etc.

The Bank has a policy of keeping minimal positions in purchase options and not to open positions in sale options.

Evaluation of exposure to market risk – trading

In the case of the evaluation of exposure in trading operations, a routine VaR – Value at Risk – calculation is done daily according to standard assumptions. The exposure due to options is controlled using specific models. The information obtained from the Risk Evaluation and Control System is available to authorised users.

The Bank's trading portfolio is currently very small and the figures for the control metrics found (such as the figure for the VaR, presented here) show that the exposure levels in trading are materially irrelevant.

Market risk in trading books[1]

Amounts in M.€

	2015		2016	
	Average VaR	Maximum VaR	Average VaR	Maximum VaR
Interest rate risk	1.3	4.3	1.4	5.7
Currency risk	0.2	2.5	0.0	0.2
Equities risk	1.8	4.8	0.8	2.9
Commodities risk	0.0	0.0	0.0	0.0

Table 81

INTEREST RATE RISK IN THE BANKING PORTFOLIO

Management process

The management of interest rate positions in the banking portfolio (therefore excluding trading activity) is delegated to the Finance Division, within the limits defined by the Executive Committee of the Board of Directors.

The current policy has as its most salient aspect the systematic hedging of risk arising from interest rate positions for longer than 1 year. The monitoring and control of this risk is done by the Risk Analysis and Control Division.

Evaluation of exposure to interest rate risk

The evaluation and control of positions subject to interest rate risk (long term), is based on gap tables. In addition, various stress tests are carried out.

At 31 December 2016, the repricing gap (of interest rates) accumulated up to 1 year of EUR was 5.1 th.M.€.

Interest rate risk

Structural position, at 31 December 2016

Amounts in M.€

	Up to 1 year	1 to 2 years	2 to 5 years	5 to 7 years	7 to 15 years	> 15 years
Accumulated gap	5 085	5 351	3 657	2 865	2 233	2 363

Table 82

The Bank is structurally exposed to the risk of a fall in interest rates. A classical stress test to a 200 b.p. change in interest rates points to a loss in net interest income of 62.4 M.€[2].

1) Potential maximum loss, with a 99% confidence level, resulting from an unfavourable trend in prices, indices and interest rates over a time span of two weeks, considering in the calculation of overall risk the effect of the correlation of returns. A normal distribution of returns is assumed. Maximum VaR extracted from daily calculations.

2) This standard test entails the simulation of a 200-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.

EXCHANGE RATE RISK

Management process

The management of currency risk is delegated to the Finance Division, within the action lines outlined by management. It is the Bank's current policy to take substantial cover for existing currency positions.

The structural currency positions resulting from investments or participating interests are viewed separately and managed according to specific directives laid down by the Executive Committee of the Board of Directors. The "hedge" or "non hedge" are options to be decided according to the outlook for the behaviour of exchange rates and the risk level involved.

In the currency domain, the consolidation of BFA's business originated a position in the Group, above all in kwanzas, which attained a substantial figure.

A stress test to the BPI Group's position was carried out as at 31 December 2016, excluding the trading portfolio, with a 30% shock in Kwanzas and 20% in the remaining currencies. As this was a prospective exercise, the impact of BFA on the Group's position was ignored, making the residual position very minor, as can be seen in the table.

Foreign exchange rate risk

Structural position, at 31 December of 2016 (prudential consolidation perimeter)

Amounts in M.€

Type of financial instrument	Assets and liabilities by currency				
	EUR	USD	AKZ	Other	Total
Assets					
Cash and liquid assets	1 076	20	0	39	1 135
Financial assets held for dealing and at fair value through profit and loss	318	15	0	0	333
Financial assets available for sale	3 703	59	0	0	3 762
Loans and advances to credit institutions	314	149	0	32	495
Loans and advances to Customers	21 324	91	0	30	21 445
Investments held to maturity	0	0	0	0	0
Hedging derivatives	24	2	0	0	26
Non-current assets held for sale	13	1 941	4 339	3	6 296
Tangible and intangible assets	76	0	0	1	77
Investments in associates and jointly-controlled entities	267	1	0	45	312
Tax assets	471	0	0	1	472
Other assets[1]	578	12	0	11	601
Foreign exchange operations pending settlement and forward position operations	(1 348)	1 283	0	80	14
Foreign exchange operations pending settlement	(1 348)	1 285	0	80	16
Non-revalued currency position	0	(2)	0	0	(2)
	26 815	**3 573**	**4 339**	**240**	**34 968**
Liabilities					
Resources of central banks	2 000	0	0	0	2 000
Financial liabilities held for dealing	210	4	0	0	214
Credit institutions' resources	1 029	65	0	2	1 096
Clients' resources and other loans	18 861	1 389	0	167	20 417
Debts evidenced by certificates	853	4	0	0	857
Financial liabilities associated to transferred assets	555	0	0	0	555
Hedging derivatives	97	1	0	0	98
Non-current liabilities held for sale	257	1 933	3 754	8	5 951
Provisions	70	0	0	0	70
Technical provisions	0	0	0	0	0
Tax liabilities	20	0	0	0	20
Other subordinated liabilities and participating units	22	0	0	0	22
Other liabilities	747	9	0	2	758
	24 722	**3 404**	**3 754**	**179**	**32 059**
Shareholders' equity attributable to BPI shareholders	**1 929**	**(9)**	**468**	**52**	**2 441**
Non controlling interests	2	0	466	0	468
Foreign exchange position	162	178	(349)	9	0
Stress position[2]		(5)	0	7	
Stress test		1	0	1	2

Table 83

1) Excludes the amounts recorded in Foreign exchange operations pending settlement and forward position operations.
2) Excludes trading book and positions in Banco de Fomento Angola.

LIQUIDITY RISK

Management process

At global level, the liquidity-risk management strategy at Banco BPI is the responsibility of the Executive Committee and executed by the Group's Finance Division, being founded on the constant vigilance of exposure by the Risk Analysis and Control Division (DACR) and the object of close oversight by the Board of Directors Financial Risks Committee.

In line with the objective of raising the standards of risk management, the Bank formalised at the beginning of this year its risk-appetite policy, approving two documents which describe the framework and risk metrics to be assumed by the bank (RAF – Risk Appetite Framework and RAS – Risk Appetite Statement), including here liquidity risk. The control of the RAS was entrusted to the Board of Directors advisory committee.

In order to ensure that its liquidity level is appropriate to the maintenance of its future commitments, the Bank has been implementing major improvements to its internal process for evaluating the adequacy of liquidity (process known as ILAAP in its English acronym). Accordingly the DACR developed internal stress tests founded on idiosyncratic and market scenarios, which endeavour to assess the robustness of the liquidity situation.

Banco BPI thus has an independent structure to deal with the analysis and control of liquidity risks, in accordance with the best practices and regulatory requirements.

Liquidity risk is managed and overseen in its various facets: i) the ability to keep pace with the growth in assets and to satisfy treasury needs without incurring abnormal losses; ii) the maintenance in portfolio of tradable assets which constitute an adequate liquidity reserve; iii) in compliance with various regulatory requirements within the scope of liquidity risk.

Insofar as the asset portfolio is concerned, 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.

Liquidity management seeks to optimise the balance sheet structure so as to maintain the time-based structure of maturities between assets and liabilities under control, taking into account the projected growth and the various market scenarios. The management is also influenced by the need to maintain an adequate level of liquidity reserves so as to maintain levels of liquidity-cover requirements in order to comply with prudential and internal requirements.

Liquidity and funding

The Bank maintained a balanced liquidity position throughout 2016:

- Customer resources constitute the principal source of funding. The transformation of deposits into loans ratio was situated at 106% in domestic operations;
- the Bank increased the amount of funds obtained from the ECB by 0.5 billion euro (th.M.€), raising the total amount to 2 th.M.€ at the end of the year, so as to take advantage of the favourable conditions attaching to the new lines made available;
- the Bank had at the end of the year a portfolio of public debt of Eurozone countries amounting to 3.4 th.M.€, of which 2.9 th.M.€ of short term (1.9 th.m.€ in Treasury Bills issued by the Portuguese Republic, 0.5 th.M.€ issued by the Italian Republic and 0.5 th.M.€ issued by the Kingdom of Spain). This portfolio is fully discountable at the ECB for liquidity raising operations;
- the portfolio of assets eligible for funding from the Eurosystem stood at 9.0 th.M.€ at the end of the year. Of this figure, the amount not yet utilised and the therefore capable of being converted into immediate liquidity at the ECB was 6.1 th.M.€;
- the net requirements for the refinancing of medium and long-term debt to take place in the next few years are extremely minor: 51 million euro from 2017 to 2021. It is also worth pointing out that there will be a significant release of liquidity in 2019 through the redemption of 0.5 th.M.€ of Portuguese and Italian medium and long-term bonds held by BPI in portfolio.

Short-term Gap

BPI's short-term funding Gap (domestic operations) swung from -1.4 th.M.€ in December 2015 to -2.0 th.M.€ in December 2016 (considering the funding from the ECB – TLTRO). The chief factors explaining this trend were:

- positive change in the commercial Gap of 0.3 th.M.€;
- sale of medium-term public debt in portfolio, namely Italian (0.2 th.M.€);
- increase of 0.6 th.M.€ in the Treasury bills portfolio;
- redemption and repurchase of own issues 0.4 th.M.€.

Trend in short-term funding GAP	Amounts in M.€
Initial GAP (31 Dec.15)	**(1 446)**
Change in commercial liquidity GAP	322
Redemption of own debt	(437)
New debt issued	0
Redemption of bonds held	10
Sales of Treasury Bonds	175
Change in the Treasury Bills' portfolio	(622)
Final GAP (31 Dec.16)	**(1 998)**

Table 84

At the end of 2016, short-term funding was broken down as follows:

- net creditor position on the money market of 62 M.€ and security repos of 61 M.€;
- funding from the ECB of 2.0 th.M.€.

Financing of short term liquidity position

Amounts in M.€

			2015	2016
Short term lending				
Loans to credit institutions		1	596	569
	[= 1]	2	**596**	**569**
Short term borrowing				
Money market		3	(489)	(507)
Repos		4	(39)	(61)
	[= 3 + 4]	5	**(527)**	**(568)**
Euro commercial paper		6	(0)	(0)
Funding from the ECB (net of deposits)		7	(1 514)	(2 000)
	[= Σ 5 to 7]	8	**(2 042)**	**(2 568)**
Total short term gap	*[= 2 + 8]*	9	**(1 446)**	**(1 998)**

Table 85

ECB funding

The Bank had at the end of 2016, 2.0 th.M.€ of own funds raised from the ECB. This figure is composed entirely of funds raised within the ambit of the TLTRO I and II, 4-year fixed-rate operations, under special conditions, launched by the ECB for the purpose of promoting the granting of credit to the economy.

Portfolio of eligible assets for the Eurosystem

At the end of 2016, BPI had a portfolio of eligible assets for the Eurosystem of 9.0 th.M.€ (figure net of capital appreciation and haircuts).

Assets eligible for the Eurosystem funding

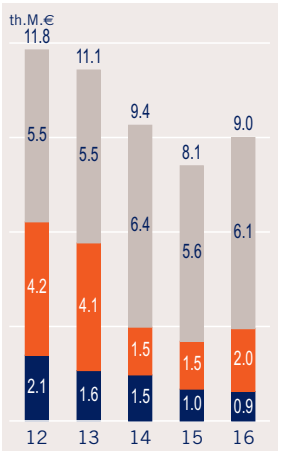


Chart 97

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

Net financing with the ECB

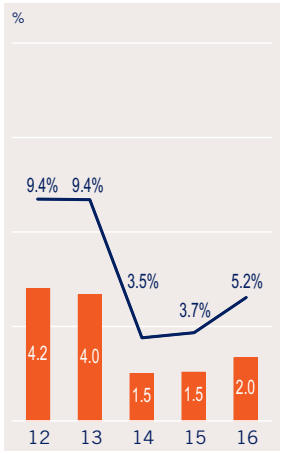


Chart 98

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

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 6.1 th.M.€.

Assets eligible for the Eurosystem

Amounts in M.€

			2015	2016
Total eligible assets[1]		1	**8 102**	**9 022**
of which: assets given as collateral[2]		2	1 007	935
Net eligible assets	*[= 1 - 2]*	3	**7 094**	**8 087**
Used as collateral in funding with ECB		4	1 521	2 001
Available eligible assets	*[= 3 - 4]*	5	**5 573**	**6 086**

Table 86

1) Total eligible assets, net of valuation and haircuts and before utilisations.
2) Assets given as collateral to entities other than the ECB.

The eligible assets portfolio increased during 2016 920 M.€, fruit of the active policy of taking advantage of balance sheet assets for issues capable of being discounted at the Central Bank.

Prospects for the liquidity situation in 2017

The expansionist monetary policy implemented by the ECB, not only in medium-term funding operations, but also in the purchase on the market of debt issues, should still remain in 2017. However, a gradual reduction of monetary stimulus is expected to the extent that the policy begins to impact the economy.

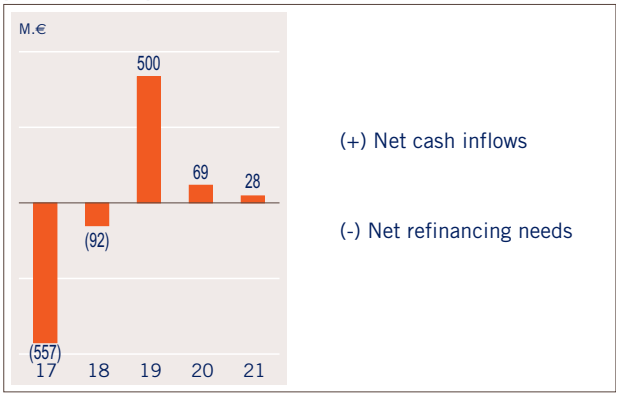
Against this backdrop, one cannot foresee any meaningful change in liquidity conditions, with the Bank having to pursue its policy of focusing the funding of its assets via Customer deposits.

The ECB will make available up till March 2017 access to funds maturing in 2021 within the ambit of the second TLTRO at fixed costs and the same rate as the reference rate, to which the Bank has the option to resort to in the event of need.

Between 2017 and 2021 the net medium and long-term refinancing needs arising in that period are 51 M.€ and result from the redemption of own debt in the amount of 0.8 th.M.€ on the one hand, and the redemption of bonds in portfolio of 0.7 th.M.€. on the other.

In 2017 the maturity of own medium-term issues amounts to 0.6 th. M.€.

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



Repayment of medium and long-term debt issued by BPI

Bonds portfolio redemptions
(available for sale portfolio)

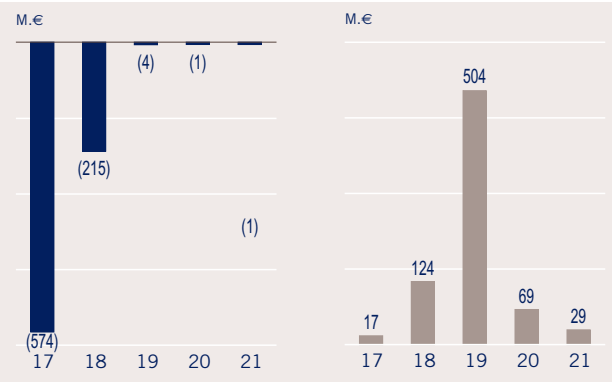


Chart 99

OPERATIONAL RISKS

Management process

Operational risk – defined as the risk of incurring financial losses provoked by deficiencies (shortcomings) in the definition or execution of procedures, failures in the information systems or as a consequence of external factors – is inherent to the activities of all institutions. This definition includes legal risk and excludes strategic and reputational risks.

The management of operational risk has as its goals promoting the ongoing improvement in processes (maximising the quality of service rendered to the Customer), minimising operating losses, ensuring business continuity and the efficient management of assets.

The operational-risk management model implemented at the BPI Group is founded on three pillars: identification of operational risks, through a self-assessment process, analysis of the in-house database of operational risk events and the implementation of mitigation measures, which is an integral part of the internal control system.

The risk self-assessment, which is the responsibility of all the Divisions, permits knowledge of the processes and their exposure to operational risk, evaluated through the association with each risk identified of the probability and expected impact.

The operational-risks database is fed by the Divisions, and analysed by these and by the central unit for supporting operational-risk management with a view to mitigating the underlying risks. This database contains all the information about operational-risk events, including their description, the identification of the principal causes and their financial impacts.

The operational risks identified in the self-assessment process and the operational-risk events reveal the BPI Group's risk profile, permitting the taking of decisions by the Divisions and the identification and adoption of measures aimed at reducing risks exposure, curbing the frequency of events and/or their impacts.

The operational-risk management model guarantees the involvement of all of BPI structures, simultaneously promoting the dissemination of the risk-management culture. The Group's Divisions are responsible for the direct management of operational risk. The central operational-risk management unit ensures the operability of the management model and promotes amongst the Divisions the identification and mitigation of risk. The monitoring of the activity of the various units and of the central team is guaranteed by the defined reporting system, notably the regular communication with the specialist committees: Operational Risk Committee, Business Continuity Committee and the Information Security Committee.

Additionally, the monitoring of operational risk is done within the scope of the risk appetite framework, with specific metrics having been set for periodic follow-up.

Operational risk events

The operational risk events recorded in the internal database are analysed by the various parties involved. In order to streamline this process, the analysis can be done based on differing attributes, including the classification by type defined in the regulations.

The distribution of the operational-risk events recorded in 2016, by type of cause, was as follows[1]:

Events of operational risk in 2016
Breakdown of financial impact by type of cause

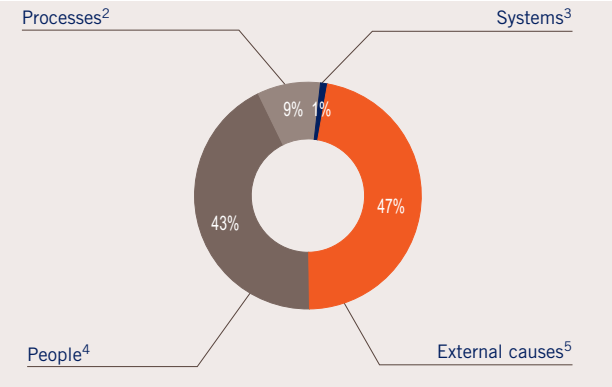


Chart 100

1) Data valid at the date of compiling the report, while being liable to alteration according to the evolution of each process.
2) Failures in the definition of policies and/or procedures.
3) Failures in computer and communications systems.
4) Human failure in the execution of tasks and employees' unauthorised intentional behaviour.
5) External criminal activity, failures in the provision of contracted services and natural disasters.

Events of operational risk in 2016
Breakdown of frequency by type of cause

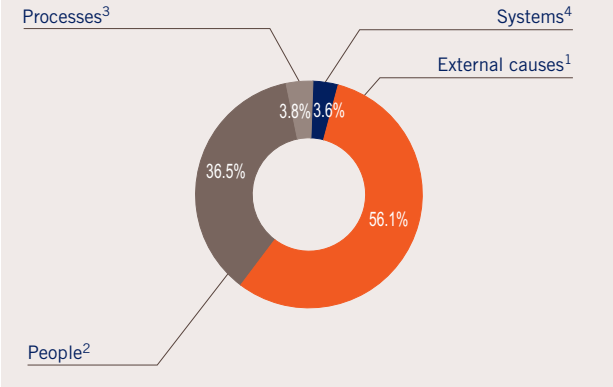


Chart 101

Business continuity

The Business Continuity Plans are a particular case of operational-risk mitigation measures, defined as a set of procedures and alternative resources with a view to avoiding or reducing the interruption time to activity or its impact. The Business Continuity Plans lay down BPI's response to disruptive events, guaranteeing the recoupment of activity to pre-defined levels.

Adhering to the market's best practices, the BPI Group has Business Continuity Plans for all the activities classified as critical. Maintaining the Plans up to date is guaranteed by the management model implemented and its accessibility through its availability in independent IT systems of the internal systems.

In 2016 the BPI Group continued to improve the Business Continuity Plans so as to guarantee the efficacy of the response in adverse situations, strengthening the verification exercises for their applicability and the alternative resources, e.g. Contingency rooms.

In the first quarter of 2016, the implementation of a local data contingency system for all the IT platforms which support critical applications for the business was concluded. In the disaster recovery plan, the study and proposal for the revision of the technological solution of the Bank's central system was completed, in accordance with the regulators' recommendations and the recovery times set as objectives by the Divisions.

For the certification of the local contingency and remote solutions and of the technical procedures in the recovery of the platforms, trials were carried out on the principal technological and telecommunication platforms. Besides the certification tests, real switches were also realised with some of the platforms.

Information security

The existence of operations' teams dedicated to Information Security ensures permanent monitoring, both as regards the aspect of risk evaluation and the implementation of mitigation measures and in terms of the response to any incidents.

The management of information-security risks is integrated into the management model for the operational risks with the closest link to the information systems.

In 2016 BPI's Information Security continued to merit particular attention, as borne out by the dedication of its human resources and by the investment in new information-protection solutions, as well as improvements to the existing ones.

The activities carried out included the permanent assessment of the threats to information security and, in light of subsequent risk assessments, to the implementation of the necessary measures for their mitigation. Continuity was given to the reinforcement of the means for the advance detection of vulnerabilities at both application level in an integrated manner in the respective development cycles and at the level of the support infrastructure. Improvements were made to the control systems and the management of accesses to IT applications, and the reinforced involvement and accountability of the entire organisation.

In informing about and raising Employee and Customer awareness of good information-security practices, particular emphasis was placed in 2016 on the protection of data in mobility and safeguarding against phishing attacks.

In order to boost the capacity to respond to eventual incidents involving information security, the respective processes and action procedures were revised and strengthened.

1) External criminal activity, failures in the provision of contracted services and natural disasters.
2) Human failure in the execution of tasks and employees' unauthorised intentional behaviour.
3) Failures in the definition of policies and/or procedures.
4) Failures in computer and communications systems.

LEGAL AND COMPLIANCE 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.

Compliance risk encompasses, besides the risk of legal default arising from a mistake or incorrect transposition into internal rules of legal provisions, the risk of market abuse and the risk of money laundering and financing of terrorism.

The scale of the Compliance risk which translates into legal or regulatory sanctions, financial or reputational loss as a consequence of the failure to comply with the application of laws, regulations, code of conduct and good banking practices, is assured and monitored by means of:

- the regular internal dissemination of news of a legal nature (national and European Union standards and regulations, as well as public consultations and other legislative initiatives) by the principal interlocutors of each division affected;

- the Compliance Division's assignment of the monitoring of the analysis of its impact on the Bank and the need for the transposition / updating of the internal rules to the Division where the new legal disposition in question has the most relevance.

This procedure is complemented by the Compliance Division's regular monitoring of the adequacy of the internal rules *vis-à-vis* the applicable legal provisions and the permanent monitoring of the transposition to the internal rulebook of new pieces of legislation, as referred to above.

As concerns the risk of market abuse, Banco BPI, as a complement to the provisions dealing with this subject contained in the Code of Conduct, defined in an internal regulation in a very stringent and detailed manner the rules and limitations applicable to personal operations realised by key persons, ensuring: i) the existence of a permanently updated list of the universe of those persons who should be regarded as being key persons; ii) as well as the communication to those people of their status and of the limitations stemming therefrom with respect to the personal operations involving financial instruments realised by them; iii) and, finally, the recording of all the personal operations realised by the key persons.

The BPI Group also has a policy for the prevention of money laundering and the financing of terrorism and has procedures implemented at each one of the entities making up the Group to manage this risk in an appropriate manner. These procedures consist of a constant monitoring of all the transactions realised via the accounts and in a regular filtering of the persons and entities who integrate at any moment the official lists of terrorists and/or subject to restrictive measures with the ultimate object of identifying any suspect. Several communications were made in 2015 of suspicious situations to the competent official entities.

Moreover, BPI has a policy for identifying and accepting Customers, which makes provision for the possibility of the refusal of the establishment of any banking relationship, namely in cases where there exists incomplete identification details or in which the purpose and/or the nature of an economic, financial or partnership relationship is unclear. The opening of anonymous or numbered accounts is not allowed, as well as the establishment of direct or indirect relations with "shell banks".

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 2016.

Recommendation Summary	Cross-reference for Annual Report 2016
I. BUSINESS MODEL 1. Description of the business model	*DR – Financial and business structure, page 16.*
2. Description of strategies and objectives	*DR – Presentation of the report, page 7; Financial review, page 73; Risk Management, page 122.*
3. Description of the importance of the operations carried out and the respective contribution to business	*DR – Domestic Commercial Banking, page 44; Bancassurance, page 60; Asset management, page 61; Investment banking, page 63; International activity, page 66; Financial review, page 73;* *NFS – 3. Segment reporting, page 194.*
4. Description of the type of activities undertaken	*DR – Domestic Commercial Banking, page 44; Bancassurance, page 60; Asset management, page 61; Investment banking, page 63; International activity, page 66; Background to operations, page 33; Financial review, page 73; Risk Management, page 122.*
5. Description of the objective and extent of the institution's involvement relating to each activity undertaken	
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	*DR – Risk Management, page 122;* *NFS – 4.47. Financial Risks, page 269 and following.*
7. Description of major risk-management practices in operations	*DR – Risk Management, page 122;* *NFS – 4.47. Financial Risks, page 269 and following;* *CGovR – C. Internal organisation, III. Internal Control and Risk Management, page 379.*
III. IMPACT OF THE FINANCIAL TURBULENCE PERIOD ON RESULTS 8. Qualitative and quantitative description of the results	*DR – Financial review, page 73.*
9. Breakdown of the "write-downs" / losses by types of products and instruments affected by the period of turbulence	*NFS – 4.5. Available-for-sale financial assets, page 204, 4.7. Loans to Customers, page 210, 4.21. Provisions and impairments, page 241, 4.39. Net gains / losses from financial operations, page 260, 4.47. Financial Risks, page 269.*
10. Description of the reasons and factors responsible for the impact suffered	*DR – Financial review, page 73; Background to operations, page 33.*
11. Comparison of the i) impacts between (relevant) periods and ii) financial statements before and after the turbulent period	*DR – Financial review, page 73.*
12. Breakdown of the write-downs between realised and unrealised amounts	*DR – Financial review, page 73;* *NFS – 4.5. Available-for-sale financial assets, page 204; 4.7. Loans to Customers, page 210; 4.21. Provisions and impairments, page 241 and 4.39. Net gains / losses from financial operations, page 260.*
13. Description of the influence of the financial turbulence on the behaviour of Banco BPI shares	*DR – Banco BPI Share, page 156.*
14. Disclosure of the maximum loss risk	*DR – Risk Management, page 122;* *NFS – 4.47. Financial Risks, page 269 and following.*
15. Disclosure of the impact that the trend in spreads associated with the institution's own liabilities had on earnings	*DR – Financial review, pages 88, 89 and 113.* *The Bank did not revalue its liabilities.*

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

Recommendation Summary	Cross-reference for Annual Report 2016
IV. EXPOSURE TYPES AND LEVELS AFFECTED BY THE TURBULENT PERIOD 16. Nominal value (or amortised cost) and fair value of exposures	*NFS – 4.47. Financial Risks, page 269 and following and 4.5 Available-for-sale financial assets, page 204.*
17. Information about credit risk mitigation and respective effects on existing exposures	*DR – Risk Management, page 122 and following.*
18. Detailed disclosure of exposures	*DR – Risk Management, page 122;* *NFS – 4.47. Financial Risks, page 269 and following, 4.5. Available-for--sale financial assets, page 204 and 4.7. Loans to Customers, page 210.*
19. Movements which occurred in the exposures between the relevant reporting periods and the underlying reasons for these variations (sales, write-downs, purchases, etc.)	*DR – Financial review, page 73;* *NFS – 4.7. Loans to Customers, page 210.*
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 IFRS 10,11, IAS 28, IFRS 3 and IFRS 5. No changes were made to the BPI Group's consolidation scope as a consequence of the turbulent period in the financial markets.*
21. Exposure to "mono-line" insurers and quality of insured assets	*At 31 December 2016, BPI didn't have any exposure to mono-line insurers.*
V. ACCOUNTING AND VALUATION POLICIES 22. Classification of transactions and structured products for accounting purposes and the respective accounting treatment	*NFS – 2.3. Financial assets and liabilities, page 181; 2.3.3. Available-for--sale financial assets, page 182; 2.3.4. Loans and other receivables, page 183; 4.20. Financial liabilities associated with transferred assets, page 239.*
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	*NFS – 4.47. Financial Risks, page 269 and following.*
25. Description of the modelling techniques utilised for valuing financial instruments	*NFS – 2.3. Financial assets and liabilities, page 181 and 4.47. Financial Risks, page 269 and following.*
VI. OTHER IMPORTANT DISCLOSURE ASPECTS 26. Description of disclosure policies and principles which are used in financial reporting	*CGovR – C. Internal organisation, IV. Investor Relations, page 382.*

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

Banco BPI Shares

STOCK MARKET PERFORMANCE

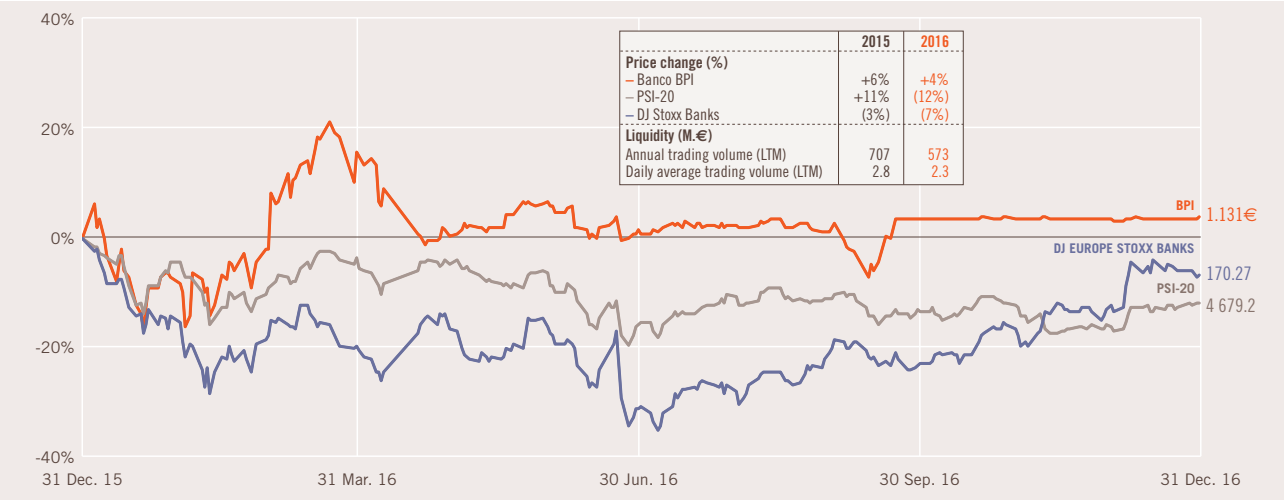
Banco BPI shares closed 2016 at 1.131 euro, posting a gain of 3.7% over the period. In the same period, the Portuguese PSI-20 index dropped by 11.9%. The European banking sector, represented by the DJ Euro Stoxx Banks, turned in a more negative performance and with greater volatility throughout the 1st half of the year, with steeper falls in the wake of the result of the British referendum in favour of the United Kingdom's exit from the EU, whilst in the 2nd half it traced a rising trajectory which permitted recouping part of those losses, closing the year with a 6.8% fall.

The improvement in the economic outlook for the European and US economies contributed to the more positive trend, in general terms, in the stock markets in the latter half of the year. Aspects of a political nature – namely elections in key countries in Europe, the process of the United Kingdom's departure from the EU and the conduct of policy of the new Administration in the US – will continue to be crucial factors of uncertainty and volatility on the equity markets in 2017.

BPI shares behaved positively in the 1st quarter of 2016 in contrast to the European banking sector, which can be ascribed to the expectation of an agreement between the two largest shareholders – CaixaBank and Santoro Finance – with respect to a solution for overcoming the breaching of the large exposures limit which Banco BPI was confronted as from January 2015 through BFA's exposure to Angolan public debt, as a consequence of the loss of equivalent supervision status that Angola had hitherto enjoyed.

In April, after the disclosure to the market of the failure of the negotiations between the two main shareholders, CaixaBank made public the preliminary announcement relating to the launching of a general tender offer for Banco BPI's shares at a price of 1.113 euro per share, which has influenced the share price since then. On 21 September 2016, the elimination of the statutory limit to the counting of votes by any single shareholder was approved in General Meeting, which led to the change in the nature of the tender offer, from voluntary to mandatory. As a consequence, CaixaBank publicised on that date the preliminary announcement of a General and Mandatory takeover, with the alterations stemming from the modification of the takeover and offering a consideration of 1.134 euro per share.

The results of the Public Tender Offer were ascertained and disclosed on 8 February 2017. Following the Offer, CaixaBank's holding in Banco BPI's share capital increased from 45.5% to 84.51%.



	2015	2016
Price change (%)		
– Banco BPI	+6%	+4%
– PSI-20	+11%	(12%)
– DJ Stoxx Banks	(3%)	(7%)
Liquidity (M.€)		
Annual trading volume (LTM)	707	573
Daily average trading volume (LTM)	2.8	2.3

Chart 102

Codes and tickers:
ISIN and Euronext code: PTBPI0AM0004
Reuters: BBPI.LS
Bloomberg: BPI PL

Listing on the Euronext Lisbon
On February 8, 2017, Euronext announced the decision to exclude Banco BPI shares from the PSI-20 index, effective on 10 February 2017.

Note: 31 December 2016 Banco BPI's share capital was 1 293 063 324.98 euro, represented by 1 456 924 237 ordinary shares, with no par value, nominative and dematerialised. All the shares are admitted to trading on the Euronext market.

Banco BPI shares
Selected indicators

	2012[1]	2013	2014	2015	2016
Banco BPI share price (€)					
Closing price	0.943	1.216	1.026	1.091	1.131
Price annual change	100.3%	29.0%	(15.6%)	6.3%	3.7%
Maximum price	0.994	1.380	2.060	1.570	1.342
Minimum price	0.338	0.745	0.942	0.760	0.863
Average price	0.639	1.094	1.538	1.141	1.113
Data per share (€)					
Cash flow after taxes	0.510	0.259	0.074	0.296	0.278
Net income	0.216	0.048	(0.115)	0.163	0.216
Dividends	-	-	-	-	-
Book value	1.235	1.389	1.467	1.659	1.681
Weighted average no. of shares (in millions)	1 154.6	1 383.7	1 422.3	1 450.4	1 451.0
Market valuation indicators					
Price as a multiple of:					
Cash flow after taxes (PCF)	1.9	4.7	13.8	3.7	4.1
Net profit (P/E)	4.4	25.2	(8.9)	6.7	5.2
Book value (PBV)	0.8	0.9	0.7	0.7	0.7
Earnings yield[2]	45.8%	5.1%	(9.5%)	15.9%	19.8%
Stock market capitalisation (M.€)	1 311	1 690	1 494.8	1 589.5	1 647.8
Liquidity					
Annual traded value (M.€)	175.1	477.8	1,068.3	707.4	572.8
Average daily traded value (M.€)	0.7	1.9	4.2	2.8	2.3

Table 87

TREASURY SHARES

Banco BPI manages a portfolio of own shares created for the purpose of executing the variable-remuneration scheme (Portuguese initials RVA) for employees and executive directors. In this regard, the transactions referred to below were realised in 2016. At the end of 2016, Banco BPI held 5 227 514 treasury shares (0.36% of capital).

Treasury shares transactions in 2016

Amount and price in euro

	No. shares held (31 Dec. 15)	Acquisition			Disposal			Total turnover (amount)	N.º shares held (31 Dec. 16)[4]
		Quantity	Amount	Average Price	Quantity	Amount	Average Price		
Banco BPI[3]	5 947 872	1 683	2 710	1.610	722 041	866 847	1.201	723 724	5 227 514
% of share capital	0.41%	0.0001%			0.05%			0.05%	0.36%

Table 88

1) Amounts adjusted for capital increases with cash contribution in June 2012 and through the incorporation of reserves in May 2011.
2) Earnings per share recorded in the year divided by the BPI share price at 31 December of the preceding year.
3) Includes only over the counter transactions.
4) The balance of treasury shares at the end of December 2016 does not include:
   - 168 917 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;
   - 148 538 shares held in the securities portfolios of the insurance capitalization unit links of BPI Vida e Pensões.

Rating

Following the results of Caixabank's Public Tender Offer, the rating agencies revised their ratings for Banco BPI so as to reflect BPI's integration into the Caixabank Group. In the case of Fitch, the long-term rating attributed to BPI was raised to BBB-, the first level of investment grade and above that of the Portuguese Republic.

The Bank's current long and short-term ratings and respective Outlook are as follows:

- Fitch: BBB-/F3with stable Outlook;
- Moody's: Ba3/Not Prime with stable Outlook;
- S&P: BB+/B with stable Outlook.

	FitchRatings	Moody's	Standard & Poor's
Banco BPI credit ratings			
Long term	BBB-	Ba3	BB+
Short term	F3	Not prime	B
Outlook	Stable	Stable	Stable
Individual Rating	Viability rating bb	Baseline Credit Assessment b1	Stand-alone credit profile (SACP) bb-
Senior collateralised debt			
▪ Mortgage		A2	
▪ Public sector		A3	
Non-collateralised senior debt		Ba3	BB+
▪ Long term	BBB-		
▪ Short term	F3	Not prime	B
Subordinated debt	BB+	B1	B+
Junior subordinated debt		B2	
Commercial paper	F3	Not prime	B
Other short-term debt	F3	Not prime	B
Preference shares	B+	B3 (hyb)	B-
Portuguese Republic sovereign debt[1]			
Long term	BB+	Ba1	BB+u
Short term	B	Not prime	Bu
Outlook	Stable	Stable	Stable

Figure 4

Fitch Ratings: rating decision on 9 February 2017. Fitch Ratings revised upwards it credit ratings (LT/ST) from BB/B to BBB-/F3, withdrew the status "Rating Watch Evolving" and attributed a stable Outlook.

Moody's: credit rating decision (LT/ST) on 28 March 2012. On 18 January 2017 Moody's reaffirmed the credit ratings (LT/ST), raising the subordinated debt, junior subordinated debt and the preference share ratings, while maintaining the stable Outlook.

Standard & Poor's: rating decision on 13 February 2017. Standard & Poor's revised upwards the long-term rating from BB- to BB+ and affirmed the B short-term rating. Simultaneously, it withdrew the CreditWatch status with positive implications and attributed a Stable Outlook.

1) The ratings attributed by S&P to the Portuguese Republic are unsolicited ("u").

Proposed application of results

Whereas:

a) Banco BPI, S.A. reported a net profit of € 313 229 709 in its consolidated accounts, and a net profit of € 255 810 717.62 in its individual accounts for the financial year of 2016;

b) Banco BPI's net worth, as evidenced in its individual balance sheet as at 31 December 2016, which forms part of the report and accounts to be considered under item 1 on the agenda of the General Meeting to be held on 26 April 2017, includes gains brought forward totalling € 4 291 465.31 as a result of the impact of the application of Notice nr. 5 / 2015 of the Bank of Portugal, recorded in 2016;

c) under these circumstances, and for the purpose of adopting a conservative and cautious position on the appropriation of net income for the year, it is considered appropriate that the Bank should increase its own funds;

In view of the above, the Board of Directors proposes:

1. that the net profit for the year 2016 posted in Banco BPI's individual accounts be applied as follows:

Legal reserve*	€ 25 581 071.76
Other reserves:	€ 230 229 645.86
Total:	€ 255 810 717.62

2. the amount of € 4 291 465.31 referred to in b) included in item "Retained earnings" be transferred to item "Other reserves".

Lisbon, 17 March 2017

The Board of Directors

* Under Article 97 (1) of the Legal Framework of Credit Institutions and Financial Companies.

Final acknowledgements

2016 was marked by several alterations to the composition of Banco BPI's Governing Bodies.

We commence by highlighting two non-executive members of the Board of Directors – Tomaz Jervell and Armando Leite de Pinho – who ceased functions by renouncement, respectively in January 2016 and in February 2017 – they exercised management functions for some 30 years, that is, since the entry into force of the new corporate governance regime for commercial companies which BPI adopted. We manifest the greatest recognition for their permanent and historical commitment since the draft SPI / BPI project, whose trajectory and growth process they always supported in a determined and enlightened manner.

We must also underline that in November 2016 the non-executive director Isidro Fainé Casas, following his resignation, ceased the functions he had performed since 1996. BPI is greatly indebted to his stimulating support in the biggest growth phase, as well as in the most challenging moments of the Bank's history.

We must also mention that, also last November, the non-executive director Marcelino Armenter ceased functions due to his resignation, and the invaluable contribution he made to the Board and in particular to the Financial Risks Committee should be highlighted.

On 30 June 2016 the Vice-Chairman of the Executive Committee António Domingues resigned in order to accept the invitation addressed to him by the Portuguese government to assume the post of Chairman of the Caixa Geral de Depósitos. He was elected for the first time in November 1995, having become the Vice-Chairman of the Executive Committee as from April 2005, all very senior positions, having served with great competence, dedication and hard work and contributing substantially to the Bank's performance.

In October the non-executive director Edgar Alves Ferreira resigned, having been co-opted to this board in October 2005 to substitute Manuel Oliveira Violas, following the separation of the business and net asset interests of the shareholders of the Violas Group, and who had also been a founder of SPI / BPI.

At the end of March 2017 the non-executive director Mário Leite da Silva, who had been elected in April 2009, resigned following Santoro's exit from Banco BPI's shareholder structure.

Finally, the non-executive director Carlos Moreira da Silva ceased functions at the end of February 2017, following his resignation motivated by the impossibility of reconciling his professional commitments with the legal regime relating to the accumulation of management positions at credit institutions. Elected as an independent member in April 2006, the Board benefited greatly from his free and unremitting involvement.

Finally, as concerns changes to the Shareholders' Meeting Committee, it is with great sadness that BPI records the death on 14 November 2016 of Dr. Miguel Veiga, who served as Chairman of the Committee since 2011, which post he was forced to renounce in July 2016 for health reasons. BPI benefited immensely from the prestigious and extremely competent, unbiased and independent manner in which this renowned lawyer exercised this important office.

In solidarity with Dr. Miguel Veiga, the Vice-Chairman Dr. Manuel Cavaleiro Brandão also renounced his position in July 2016, which having been elected in 2008, he exercised with great integrity, rigour and impartiality, as well as acting as Chairman of the Committee in the period that Dr. Miguel Veiga was incapacitated to do so.

Lisbon, 17 March 2017

Board of Directors

Annex

ALTERNATIVE PERFORMANCE MEASURES

The European Securities and Markets Authority or ESMA published on 5 October 2015 a set of guidelines relating to the disclosure of Alternative Performance Measures by entities (ESMA / 2015 / 1415). These guidelines are to be applied obligatorily with effect from 3 July 2016.

BPI utilises a number of indicators when analysing performance and financial position, which are classified as Alternative Performance Measures, in accordance with the abovementioned ESMA guidelines.

The information relating to those indicators has already been the object of disclosure, as required by the ESMA guidelines[1].

In the present report, the information previously disclosed is inserted by way of cross-reference. A summarised list of the Alternative Performance Measures is presented next.

Alternative Performance Measures (APM)
Earnings, efficiency and profitability indicators **Return on Equity (ROE)** = Net income for the period, in annualized terms[2] / Average value[3] in the period of shareholders' equity attributable to BPI shareholders after deduction of the fair value reserve (net of deferred taxes) related to available-for-sale financial assets.
Individual ROE = Individual net income for the period, in annualized terms[2] / Average value[3] in the period of individual shareholders' equity.
Return on total assets (ROA) = (Net income attributable to BPI shareholders + Income attributable to non-controlling interests - preference shares dividends pay) in annualized terms[2] / Average value[3] in the period of total net assets.
Loan spread (margin) = Interest rate in the loan operation - Respective benchmark. Note: For the purpose of calculating the spread, the selection of the respective interest rate benchmark for each operation takes into account, in particular, the contractual maturity of the credit operation and the currency in which it is contracted.
Spread (margin) on resources = Market reference interest rate - Interest rate of resources. In the case of time deposits, the Euribor rates with maturities similar to the contractual maturity of the deposit are used as the reference interest rate. Note: The spread (margin) can be indicated in module.
Intermediation margin = Loan portfolio average interest rate - Deposits average interest rate
Financial margin (narrow sense) as % of ATA = Financial margin (narrow sense)[2] / Average total assets[3]
Unitary interest margin (narrow sense) = Average interest rate of interest earning assets - Average interest rate of interest bearing liabilities Interest-earning assets: Corresponds essentially to loans and advances to Customers, credit and investments in other credit institutions and debt securities held in the trading portfolio, held for sale portfolio and in the held-to-maturity investments. Interest-bearing liabilities: corresponds essentially to Customer resources, debt securities, financial liabilities relating to transferred assets, subordinated debt, resources from central banks and other credit institutions and financial liabilities held for trading excluding derivatives.
Commercial banking income = financial margin + technical result of insurance contracts + net commissions income
Overhead costs, excluding costs with early-retirements and gains with the revision of the Collective Labour Agreement (ACT) = Personnel costs excluding early retirement costs and gains with the revision of the Collective Labour Agreement (ACT) + General administrative costs + Depreciation and amortisation Being, Personnel costs excluding early retirement costs and gains with the revision of the Collective Labour Agreement (ACT) = Personnel costs - (costs with early retirements - Gains with changes in the conditions of the pension plan following the revision of the ACT - Gain with the extinction of the long service premiums and constitution of the final career premium following the revision of the ACT) ACT: Collective Labour Agreement

1) The information about Alternative Performance Measures was disclosed in the annex to the consolidated quarterly information relating to 30 September 2016, published on 30 November 2016 and available on the CMVM website (www.cmvm.pt) and on the BPI Investor Relations website (www.ir.bpi.pt), in the annex to the base prospectus dated 17 February 2017 of the Euro Medium Term Notes (EMTN) programme of 7 thousand million euro, available on the Luxembourg Stock Exchange website (www.bourse.lu) and on the BPI Investor relations website (www.ir.bpi.pt). On the BPI Investor Relations website, there is also aggregate information (www.ir.bpi.pt) available about those indicators.
2) Annualized value = value in the 1st quarter, 1st semester or in the 9 months of the year (Jan. to Sept.), depending on the case, multiplied by 4, 2 or 4/3, respectively.
3) Average value = average of the average monthly balance obtained by the simple average of the beginning and ending balances of the month.

Cost-to-income ratio (efficiency ratio) = Overhead costs / Operating income from banking activity

Adjusted overhead costs-to-commercial banking income = Overhead costs, excluding costs with early-retirements and gains with the revision of the Collective Labour Agreement (ACT) and with the change in the pension plan conditions (death subsidy) / Commercial banking income

Operating profit before impairments and provisions = Operating income from banking activity - Overhead costs

(Corporate) income tax = (Income tax - Contribution over the banking sector) / Net income before income tax

Balance sheet and funding indicators

On-balance sheet Customer resources = Sight deposits and other + Time and savings deposits + Bonds placed with Customers + Unit links insurance capitalisation + "Aforro" insurance capitalisation and others + Participating units in consolidated unit trust funds

Being:

- Sight deposits and other = Demand deposits + Compulsory deposits
- Time and savings deposits = Time deposits + Savings deposits
- Bonds placed on Customers = Fixed / variable rate bonds placed with Customers + Structured products (bonds with indexed remuneration to the equities market, commodities and other markets, with full or partial capital protection at the end of the term) + Deposits certificates + Subordinated bonds placed with Customers
- "Aforro" capitalization insurance and others = Technical provisions + Guaranteed rate and guaranteed retirement insurance capitalisation.

Off-balance sheet Customer resources = Unit trust funds + Real estate investment funds + Retirement-savings and equity-savings plans (PPR and PPA) + Hedge funds + Funds assets under BPI Suisse management
Note: Amounts deducted from participating units in the Group banks' portfolios and from off-balance sheet products investments in other off-balance sheet products, in order to eliminate duplication of balances.

Total Customer Resources = On-balance sheet Customer Resources + Off-balance Sheet Customer Resources - Double counting and pension fund investments

Being,

Double counting and pension fund investments = Placements of off-balance sheet products in on-balance sheet resources + Placements of pension funds in on-balance and off-balance sheet resources

Global Customer resources = Total Customer resources + Customers subscriptions in third parties' public offerings + Third-party unit trust funds placed with Customers + Other third-party securities held by Customers

Loans-to-deposits ratio = Net loans to Customers / Customer deposits

Asset quality indicators

Cost of credit risk = Impairment losses and provisions for loans and guarantees (net), in annualized terms[1] / Average value[2] in the period of the performing loan portfolio.
Cost of credit risk net of recoveries = (Impairment losses and provisions for loans and guarantees, net - Recovery of loans, interest and expenses), in annualized terms[1] / Average value[2] of the performing loan portfolio period.
Performing Loan = gross Customer loans - (Overdue loans and interest + Accrued interest and other)

Total impairments and provisions, net of recoveries, as % of Operating income from banking activity = (Impairment losses and provisions for loans and guarantees, net + Impairment losses and other provisions, net – Recovery of loans, interest and expenses) / Operating income from banking activity

Total impairments and provisions, net of recoveries, as % of Operating profit before impairments and provisions = (Impairment losses and provisions for loans and guarantees, net + Impairment losses and other provisions, net – Recovery of loans, interest and expenses) / Operating profit before impairments and provisions

Credit at risk ratio (consolidation perimeter IAS / IFRS) = Credit at risk / Gross loan portfolio

Note: the consolidated financial information prepared in accordance with IAS / IFRS rules is used in the calculation of the indicator.
For the disclosure of the indicators defined in Bank of Portugal Instruction 16 / 2004, the Bank of Portugal's supervision perimeter is considered in their calculation, which, in the case of BPI, implies that BPI Vida e Pensões be recognised through the equity method (whereas under IAS / IFRS accounting rules that company is fully consolidated).

Coverage of credit at risk by impairments (IAS / IFRS perimeter) = (Loans impairments + Impairments and provisions for guarantees and commitments) / Credit at risk

Note: the consolidated financial information prepared in accordance with IAS / IFRS rules is used in the calculation of the indicator.

1) Annualized value = value in the 1st quarter, 1st semester or in the 9 months of the year (Jan. to Sept.), depending on the case, multiplied by 4, 2 or 4/3, respectively.
2) Average value = average of the average monthly balance obtained by the simple average of the beginning and ending balances of the month.

Loans in arrears for more than 90 days = Loans and interests overdue for more than 90 days / Gross loan portfolio
Impairments cover of loans in arrears for more than 90 days = (Loan impairments + Impairment losses and provisions for guarantees and commitments / Loans in arrears for more than 90 days
Change in loans in arrears for more than 90 days, adjusted for write-offs and sales of loans = Balance of loans in arrears (for more than 90 days) at the end of the period - Balance of loans in arrears (for more than 90 days) at the beginning of the period + Write-offs and adjustment for the sale of loans in the period **Change in loans in arrears for more than 90 days, adjusted for write-offs and sales of loans and after deducting recoveries** = Change in loans in arrears for more than 90 days, adjusted for write-offs and sales of loans – Recovery of loans, interest and expenses **Change in loans in arrears for more than 90 days, adjusted for write-offs and sales of loans (and after deducting recoveries) as % of the loan portfolio** = Change in loans in arrears for more than 90 days, adjusted for write-offs and sales of loans (and after deducting recoveries), in annualised terms[1] / Average value[2] in the period of the performing loan portfolio
Change in credit at risk, adjusted for write-offs and sales of loans = Balance of credit at risk at the end of the period - Balance of credit at risk at the beginning of the period + Write-offs and adjustment for the sale of loans in the period **Change in credit at risk, adjusted for write-offs and sales of loans and after deducting recoveries** = Change in credit at risk, adjusted for write-offs and sales of loans – Recovery of loans, interest and expenses **Change in credit at risk, adjusted for write-offs and sales of loans (and after deducting recoveries) as % of the loan portfolio** = Change in credit at risk, adjusted for write-offs and sales of loans (and after deducting recoveries), in annualised terms[1] / Average value[2] in the period of the performing loan portfolio
Impairments cover of foreclosed properties = Impairments for foreclosed properties / Gross value of foreclosed properties
Market indicators **Earnings per share (EPS)** = Net income / Weighted average no. of shares in the period (basic or diluted) The earnings per shares (basic or diluted) is calculated in accordance with IAS 33 - Earnings per share.
Cash-flow after taxes (CF per share or CFPS) = Cash-flow after taxes / Weighted average no. of shares in the period. Note: the denominator corresponds to the weighted average no. of shares used in the calculation of earnings per share (basic or diluted).
Book value per share (BV per share or BVPS) = Shareholders' equity attributable to BPI shareholders / No. of shares at the end of the period Note: the denominator corresponds to the outstanding number of shares after deducting the treasury stocks portfolio and is adjusted for capital increases, whether by incorporation of reserves (bonus issue) or subscription reserved for shareholders (rights issue), amongst other events, in a similar way to the calculation of earnings per share.
Price to earnings ratio (PER) = Stock market share price / Earnings per share (EPS)
Price to cash flow (PCH) = Stock market share price / Cash-flow after taxes per share (CFPS)
Price to book value (PBV) = Stock market share price / Book value per share (BVPS)
Earnings yield = Earnings per share (EPS) in the year / Stock market share price (at beginning or end of the year)
Dividend yield = Dividend per share relating to the year / Stock market share price (at beginning or end of the year)

1) Annualized value = value in the 1st quarter, 1st semester or in the 9 months of the year (Jan. to Sept.), depending on the case, multiplied by 4, 2 or 4/3, respectively.
2) Average value = average of the average monthly balance obtained by the simple average of the beginning and ending balances of the month.

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Consolidated financial statements

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2016 AND 2015

(Translation of statements originally issued in Portuguese – note 5)
(Amounts expressed in thousands of euro)

	Notes	31 Dec. 16			31 Dec. 15
		Amounts before impairment, depreciation and amortisation	Impairment, depreciation and amortisation	Net	Net
ASSETS					
Cash and deposits at central banks	4.1	876 621		876 621	2 728 185
Deposits at other credit institutions	4.2	300 190		300 190	612 055
Financial assets held for trading and at fair value through profit or loss	4.3 / 4.4	2 197 913		2 197 913	3 674 604
Financial assets available for sale	4.5	3 983 429	106 995	3 876 434	6 509 388
Loans and advances to credit institutions	4.6	637 607		637 607	1 230 043
Loans and advances to Customers	4.7	23 430 958	695 200	22 735 758	24 281 622
Held to maturity investments	4.8	16 317		16 317	22 417
Hedging derivatives	4.4	25 802		25 802	91 286
Non-current assets held for sale and discontinued operations	4.9	6 295 910		6 295 910	
Other tangible assets	4.10	431 991	381 036	50 955	195 095
Intangible assets	4.11	118 699	93 070	25 629	29 138
Investments in associated companies and jointly controlled entities	4.12	175 678		175 678	210 447
Tax assets	4.13	471 848		471 848	420 214
Other assets	4.14	631 759	33 769	597 990	668 798
Total assets		**39 594 722**	**1 310 070**	**38 284 652**	**40 673 292**
LIABILITIES					
Resources of central banks	4.15			2 000 011	1 520 735
Financial liabilities held for trading	4.16 / 4.4			212 713	294 318
Resources of other credit institutions	4.17			1 096 439	1 311 791
Resources of Customers and other debts	4.18			21 967 681	28 177 814
Debt securities	4.19			506 770	1 077 381
Financial liabilities relating to transferred assets	4.20			555 385	689 522
Hedging derivatives	4.4			97 756	161 556
Non-current liabilities held for sale and discontinued operations	4.9			5 951 398	
Provisions	4.21			70 235	99 864
Technical provisions	4.22			2 048 829	3 663 094
Tax liabilities	4.23			22 006	92 050
Other subordinated debt and participating bonds	4.24			69 500	69 512
Other liabilities	4.25			777 404	680 156
Total liabilities				**35 376 127**	**37 837 793**
SHAREHOLDERS' EQUITY					
Subscribed share capital	4.27			1 293 063	1 293 063
Other equity instruments	4.28			4 309	5 194
Revaluation reserves	4.29			(21 514)	(87 564)
Other reserves and retained earnings	4.30			1 044 319	972 587
(Treasury shares)	4.28			(10 809)	(12 797)
Other accumulated comprehensive income related to discontinued operations	4.9			(182 121)	
Consolidated net income of the BPI Group	4.45			313 230	236 369
Shareholders' equity attributable to the shareholders of BPI				**2 440 477**	**2 406 852**
Non-controlling interests	4.31			468 048	428 647
Total shareholders' equity				**2 908 525**	**2 835 499**
Total liabilities and shareholders' equity				**38 284 652**	**40 673 292**
OFF BALANCE SHEET ITEMS					
Guarantees given and other contingent liabilities	4.32			1 466 208	1 828 781
Of which:					
[Guarantees and sureties]				[1 294 856]	[1 497 070]
[Others]				[171 352]	[331 711]
Commitments	4.32			3 392 479	3 372 509

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

The Accountant

The Board of Directors

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 PROFORMA

(Translation of statements originally issued in Portuguese – note 5)
(Amounts expressed in thousands of euro)

	Notes	31 Dec. 16	31 Dec. 15 Proforma
Interest and similar income		518 935	689 453
Interest and similar expenses		(154 724)	(372 090)
Financial margin (narrow sense)	**4.33**	**364 211**	**317 363**
Gross margin on unit links	4.34	13 454	12 967
Income from equity instruments	4.35	8 528	4 739
Net commission relating to amortised cost	4.36	21 216	21 115
Financial margin		**407 409**	**356 184**
Technical result of insurance contracts	4.37	24 613	31 804
Commissions received		260 293	260 671
Commissions paid		(29 766)	(32 571)
Other income, net		28 861	27 058
Net commission income	**4.38**	**259 388**	**255 158**
Gain and loss on operations at fair value		23 994	53 621
Gain and loss on assets available for sale		23 876	(6 114)
Interest and financial gain and loss with pensions		1 040	413
Net income on financial operations	**4.39**	**48 910**	**47 920**
Operating income		20 613	23 124
Operating expenses		(37 483)	(40 865)
Other taxes		(6 898)	(6 942)
Operating income and expenses	**4.40**	**(23 768)**	**(24 683)**
Operating income from banking activity		**716 552**	**666 383**
Personnel costs	4.41	(307 996)	(302 370)
General administrative costs	4.42	(168 571)	(178 011)
Depreciation and amortisation	4.10 / 4.11	(21 370)	(19 887)
Overhead costs		**(497 937)**	**(500 268)**
Recovery of loans, interest and expenses		13 733	16 249
Impairment losses and provisions for loans and guarantees, net	4.21	(33 009)	(103 367)
Impairment losses and other provisions, net	4.21	(36 483)	(15 903)
Net income before income tax		**162 856**	**63 094**
Income tax	4.43	(44 690)	(2 130)
Earnings of associated companies (equity method)	4.44	26 190	33 433
Net income from continuing operations		**144 356**	**94 397**
Net income from discontinued operations		337 739	282 821
Income attributable to non-controlling interests from continuing operations	4.31	(45)	(43)
Income attributable to non-controlling interests from discontinued operations	4.9	(168 820)	(140 806)
Income attributable to non-controlling interests	**4.45**	**(168 865)**	**(140 849)**
Consolidated net income of the BPI Group	**4.45**	**313 230**	**236 369**
Earnings per share (in Euro)			
Basic	4.45	0.216	0.163
Diluted	4.45	0.215	0.162
Earnings per share from continuing operations (in Euro)			
Basic	4.45	0.099	0.065
Diluted	4.45	0.099	0.065
Earnings per share from discontinued operations (in Euro)			
Basic	4.45	0.117	0.098
Diluted	4.45	0.116	0.097

The accompanying notes form an integral part of these statements.

The Accountant

The Board of Directors

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 PROFORMA

	31 Dec. 16		
	Attributable to shareholders of the BPI Group	Attributable to non-controlling interest	Total
Consolidated net income	**313 230**	**168 865**	**482 095**
Income not included in the consolidated statements of income related to continued operations:			
Items that will not be reclassified to net income:			
Actuarial deviations	(211 692)		(211 692)
Tax effect	56 123		56 123
	(155 569)		**(155 569)**
Items that may be reclassified subsequently to net income:			
Foreign exchange translation differences	(23 036)		(23 036)
Revaluation reserves of financial assets available for sale:			
Revaluation of financial assets available for sale	(8 539)		(8 539)
Tax effect	1 907		1 907
Transfer to income resulting from sales	(22 495)		(22 495)
Tax effect	6 171		6 171
Transfer to income resulting from impairment recognized in the period	24 471		24 471
Tax effect	(6 705)		(6 705)
Valuation of assets of associated companies	(8 932)		(8 932)
Tax effect	2 032		2 032
	(35 126)		**(35 126)**
Income not included in the consolidated statements of income related to discontinued operations:			
Items that may be reclassified subsequently to net income:			
Foreign exchange translation differences	(87 845)	(88 616)	(176 461)
Income not included in the consolidated statements of income	**(278 540)**	**(88 616)**	**(367 156)**
Consolidated comprehensive income	**34 690**	**80 249**	**114 939**

The Accountant

	31 Dec. 15 Proforma		
	Attributable to shareholders of the BPI Group	Attributable to non-controlling interest	Total
	236 369	**140 849**	**377 218**
	144 783		144 783
	(42 263)		(42 263)
	102 520		**102 520**
	(10 899)		(10 899)
	38 370		38 370
	(10 692)		(10 692)
	7 089		7 089
	(1 972)		(1 972)
	10 019		10 019
	(2 290)		(2 290)
	(12 817)		(12 817)
	2 303		2 303
	19 111		**19 111**
	(66 046)	(66 218)	(132 264)
	55 585	**(66 218)**	**(10 633)**
	291 954	**74 631**	**366 585**

The accompanying notes form an integral part of these statements.

The Board of Directors

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 PROFORMA

	Subscribed share capital	Other equity instruments	Revaluation reserves
Balance at 31 December 2014 Proforma	**1 293 063**	**5 270**	**(51 143)**
Appropriation of net income for 2014 to reserves			
Dividends paid on preference shares			
Dividends paid to non-controlling interests			
Variable Remuneration Program (RVA)		(76)	
Comprehensive income for 2015			(36 421)
Other			
Balance at 31 December 2015	**1 293 063**	**5 194**	**(87 564)**
Other accumulated comprehensive income related to discontinued operations at 31 December 2015			94 276
Appropriation of net income for 2015 to reserves			
Dividends paid on preference shares			
Dividends paid to non-controlling interests			
Variable Remuneration Program (RVA)		(885)	
Sale / acquisition of preference shares			
Other comprehensive income related to discontinued operations			
Comprehensive income for 2016			(28 226)
Other			
Balance at 31 December 2016	**1 293 063**	**4 309**	**(21 514)**

The Accountant

(Translation of statements originally issued in Portuguese – note 5)
(Amounts expressed in thousands of euro)

Other reserves and retained earnings	Treasury shares	Other accumulated comprehensive income related to discontinued operations	Net income	Non-controlling interests	Shareholders' equity
1 042 087	**(13 828)**		**(164 558)**	**418 269**	**2 529 160**
(164 558)			164 558		
				(46)	(46)
				(64 207)	(64 207)
249	1 031				1 204
92 006			236 369	74 631	366 585
2 803					2 803
972 587	**(12 797)**		**236 369**	**428 647**	**2 835 499**
		(94 276)			
236 369			(236 369)		
				(43)	(43)
				(40 775)	(40 775)
(537)	1 988				566
				(30)	(30)
		(87 845)		(88 616)	(176 461)
(162 469)			313 230	168 865	291 400
(1 631)					(1 631)
1 044 319	**(10 809)**	**(182 121)**	**313 230**	**468 048**	**2 908 525**

The accompanying notes form an integral part of these statements.

The Board of Directors

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 PROFORMA

	31 Dec. 16		
	Continued operations	Discontinued operations	Total
Operating activities			
Interest, commissions and similar income received	1 282 110	531 872	1 813 982
Interest, commissions and similar expenses paid	(729 104)	(134 302)	(863 406)
Recovery of loans and interest in arrears	13 733	2 172	15 905
Payments to personnel and suppliers	(507 795)	(164 201)	(671 996)
Net cash flow from income and expenses	58 944	235 541	294 485
Decrease (increase) in:			
Financial assets held for trading, available for sale and held to maturity	778 326	66 796	845 122
Loans and advances to credit institutions	95 717	335 697	431 414
Loans and advances to Customers	(150 162)	196 256	46 094
Other assets	198 737	(5 040)	193 697
Net cash flow from operating assets	922 618	593 709	1 516 327
Increase (decrease) in:			
Resources of central banks and other credit institutions	309 984	(28 774)	281 210
Resources of Customers	(766 595)	(1 069 497)	(1 836 092)
Financial liabilities held for trading	(55 907)	(17 548)	(73 455)
Other liabilities	8 421	(3 698)	4 723
Net cash flow from operating liabilities	(504 097)	(1 119 517)	(1 623 614)
Contributions to the Pension Funds	(11 414)		(11 414)
Income tax paid	(86 433)	(11 473)	(97 906)
	379 618	**(301 740)**	**77 878**
Investing activities			
Sale of participating units of BPI Strategies	14 361		14 361
Sale of Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.			
Subscribed to the capital increase in Banco Comercial e de Investimentos, S.A.R.L.			
Purchase of other tangible assets and intangible assets	(18 341)	(18 816)	(37 157)
Sale of other tangible assets	8 766		8 766
Dividends received and other income	39 335		39 335
	44 121	**(18 816)**	**25 305**

The Accountant

	31 Dec. 15		
	Continued operations	**Discontinued operations**	**Total**
	1 990 581	503 521	2 494 102
	(1 373 309)	(149 375)	(1 522 684)
	16 248	1 914	18 162
	(473 082)	(144 597)	(617 679)
	160 438	211 463	371 901
	1 178 748	(399 217)	779 531
	270 387	1 086 144	1 356 531
	394 449	323 985	718 434
	350 604	90	350 694
	2 194 188	1 011 002	3 205 190
	69 845	(155 405)	(85 560)
	136 045	(529 311)	(393 266)
	(55 894)	23 427	(32 467)
	(327 066)	4 192	(322 874)
	(177 070)	(657 097)	(834 167)
	(7 798)		(7 798)
	(31 217)	(3 405)	(34 622)
	2 138 541	**561 963**	**2 700 504**
	11 604		11 604
	(12 988)		(12 988)
	(29 340)	(27 719)	(57 059)
	39		39
	32 365		32 365
	1 680	**(27 719)**	**(26 039)**

The accompanying notes form an integral part of these statements.

The Board of Directors

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 PROFORMA (CONTINUATION)

	31 Dec. 16		
	Continued operations	Discontinued operations	Total
Financing activities			
Liability for assets not derecognised	(134 137)		(134 137)
Issuance of debt securities and subordinated debt	668 419		668 419
Redemption of debt securities	(577 170)		(577 170)
Purchase and sale of own debt securities and subordinated debt	(658 206)		(658 206)
Purchase and sale of preference shares	(30)		(30)
Interest on debt securities and subordinated debt	(10 722)		(10 722)
Dividends paid on preference shares	(43)		(43)
Dividends paid to BPI Group	32 232	(32 232)	
Dividends paid to non-controlling interests		(40 775)	(40 775)
Purchase and sale of treasury shares	566		566
	(679 091)	**(73 007)**	**(752 098)**
Net increase (decrease) in cash and equivalents	**(255 352)**	**(393 563)**	**(648 915)**
Cash and equivalents at the beginning of the tear	1 432 163	1 908 074	3 340 237
Cash and equivalents at the end of the year	**1 176 811**	**1 514 511**	**2 691 322**
Cash and deposits at central banks	876 621	1 505 858	2 382 479
Deposits at other credit institutions	300 190	8 653	308 843
Cash and equivalents	**1 176 811**	**1 514 511**	**2 691 322**
Cash and equivalents by currencies			
EUR	1 117 797	1 391	1 119 188
USD	20 249	242 264	262 513
AKZ		1 268 521	1 268 521
Other currencies	38 765	2 335	41 100
Cash and equivalents	**1 176 811**	**1 514 511**	**2 691 322**

The Accountant

Alberto Pitôrra

	31 Dec. 15		
	Continued operations	Discontinued operations	Total
	(358 653)		(358 653)
	51 766		51 766
	(1 176 408)		(1 176 408)
	(11 892)		(11 892)
	(50 653)		(50 653)
	(46)		(46)
	32 232	(32 232)	
		(64 207)	(64 207)
	1 204		1 204
	(1 512 450)	**(96 439)**	**(1 608 889)**
	627 771	**437 805**	**1 065 576**
	804 392	1 470 269	2 274 661
	1 432 163	**1 908 074**	**3 340 237**
	997 645	1 730 534	2 728 179
	434 518	177 540	612 058
	1 432 163	**1 908 074**	**3 340 237**
	1 340 424	5 621	1 346 045
	48 915	461 086	510 001
		1 440 063	1 440 063
	42 824	1 304	44 128
	1 432 163	**1 908 074**	**3 340 237**

The accompanying notes form an integral part of these statements.

The Board of Directors

Chairman	Artur Santos Silva
Deputy-Chairman	Fernando Ulrich
Members	Alfredo Rezende de Almeida
	António Lobo Xavier
	Carla Bambulo
	Ignacio Alvarez-Rendueles
	João Pedro Oliveira e Costa
	José Pena do Amaral
	Lluís Vendrell Pí
	Manuel Ferreira da Silva
	Maria Celeste Hagatong
	Mário Leite da Silva
	Pedro Barreto
	Tomás Jervell
	Vicente Tardio Barutel

Notes to the consolidated financial statements as of 31 December 2016 and 2015

(Unless otherwise indicated, all amounts are expressed in thousands of euro – th. euro)
(These notes are a translation of notes originally issued in Portuguese – note 5)

1. THE FINANCIAL GROUP

Banco BPI is the central entity of a multi-specialised financial group dedicated to banking, which provides a broad range of banking services and products to companies, institutional investors and private individuals. Banco BPI has been listed on the Stock Exchange since 1986.

The BPI Group started operating in 1981 with the foundation of SPI – Sociedade Portuguesa de Investimentos, S.A.R.L. By public deed dated December 1984, SPI – Sociedade Portuguesa de Investimentos, S.A.R.L. changed its corporate name to BPI – Banco Português de Investimento, S.A., which was the first private investment bank created after the re-opening, in 1984, of the Portuguese banking sector to private investment. On 30 November 1995 BPI – Banco Português de Investimento, S.A. (BPI Investimentos) was transformed into BPI – SGPS, S.A., which operated exclusively as the BPI Group's holding company, and BPI Investimentos was founded to act as the BPI Group's investment banking company. On 20 December 2002, BPI SGPS, S.A. incorporated, by merger, the net assets and operations of Banco BPI and changed its corporate name to Banco BPI, S.A.

At 31 December 2016 the Group's banking operations were carried out mainly through Banco BPI in the commercial banking area and through BPI Investimentos in the investment banking area. At 31 December 2016 The BPI Group is also the holder of a 50.1% participation in the share capital of Banco de Fomento Angola, S.A. which operates as a commercial bank in Angola.

At 7 October 2016, Banco BPI, S.A. entered into an agreement for the sale of 2% of the share capital of Banco de Fomento Angola, S.A. (BFA), the implementation of which implies a reduction of the Group's participation in BFA from 50.1% to 48.1%. The implementation of such agreement was dependent upon the fulfilment of a set of conditions, having the sale operation occurred on 5 January 2017. In this context, by the end of 2016 BFA's operations were classified as discontinued operations, according to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, with the comparative balances of the Consolidated Statements of Income and Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015 being restated. Also in accordance with IFRS 5, BFA's total assets and liabilities as of 31 December 2016 are presented in the captions NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS however, this reclassification is not reflected in the comparative balances as of 31 December 2015. In accordance with IFRS 5, this participation continues to be consolidated by the full consolidated method, since as of 31 December 2016, Banco BPI maintains control over BFA (note 4.9).

In the second half of 2016, Banco BPI ceased to having control over BPI Obrigações Mundiais – Fundo de Investimento Aberto de Obrigações, as it became holder of less than 20% of the participating units of the fund. For this reason, BPI Obrigações Mundiais Fund ceased being consolidated in accordance with the full consolidated method.

In the first half of 2016 Banco BPI ceased having control over BPI Strategies, Ltd., as it holds less than 20% of the participating units in these fund. For this reason, the fund BPI Strategies, Ltd. ceased being to consolidate in accordance with the full consolidated method.

In the second half of 2015 Banco BPI ceased having control over Imofomento – Fundo de Investimento Imobiliário, as it became holder of less than 20% of the participating units in the fund. Consequently, the fund Imofomento – Fundo de Investimento Imobiliário ceased being consolidated in accordance with the full consolidated method.

During the second half of 2015 BPI Locação de Equipamentos, Lda., a wholly owned subsidiary of Banco BPI, S.A., was liquidated.

During the first half of 2015 Banco BPI subscribed the amount of 12 988 th. euro in the share capital increase of Banco Comercial de Investimentos, maintaining its 30% participation in that company.

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. In 2016 and in 2015, the BPI Group held 100% of the equity pieces of these vehicles and so they were consolidated in accordance with the full consolidation method.

At 31 December 2016 the BPI Group was made up of the following companies:

	Head office	Share-holders' equity[4]	Total assets	Net Income (loss) for the year	Direct partici-pation	Effective partici-pation	Consolidation / Recognition method
Banks							
Banco BPI, S.A.	Portugal	1 806 848	32 638 695	255 811			
Banco Português de Investimento, S.A.	Portugal	27 533	34 053	(1 518)	100.00%	100.00%	Full consolidation
Banco Comercial e de Investimentos, S.A.R.L.	Mozambique	149 481	1 913 491	18 026	30.00%	30.00%	Equity method
Banco de Fomento Angola, S.A.[1]	Angola	933 341	7 082 137	332 901	50.09%	50.10%	Full consolid. (IFRS5)
Banco BPI Cayman, Ltd.	Cayman Islands	159 544	352 118	9 594		100.00%	Full consolidation
Asset management							
BPI Gestão de Activos – Sociedade Gestora de Fundos de Investimento Mobiliários, S.A.	Portugal	13 443	29 836	4 672	100.00%	100.00%	Full consolidation
BPI – Global Investment Fund Management Company, S.A.	Luxembourg	2 361	6 625	1 760	100.00%	100.00%	Full consolidation
BPI (Suisse), S.A.	Switzerland	12 044	12 998	2 986	100.00%	100.00%	Full consolidation
BPI Alternative Fund: Iberian Equities Long / Short Fund (Lux)[2]	Luxembourg	330 633	338 414	(5 996)	5.88%	24.51%	Full consolidation
Venture Capital							
BPI Private Equity – Sociedade de Capital de Risco, S.A.	Portugal	33 514	40 468	(240)	100.00%	100.00%	Full consolidation
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	1 139	1 540	84		49.00%	Equity method
Insurance							
BPI Vida e Pensões – Companhia de Seguros, S.A.	Portugal	116 748	4 221 449	15 509	100.00%	100.00%	Full consolidation
Cosec – Companhia de Seguros de Crédito, S.A.	Portugal	46 808	106 807	5 560	50.00%	50.00%	Equity method
Companhia de Seguros Allianz Portugal, S.A.	Portugal	184 509	1 240 680	10 084	35.00%	35.00%	Equity method
Other							
BPI Capital Finance Ltd.[3]	Cayman Islands	1 810	1 816	45	100.00%	100.00%	Full consolidation
BPI Capital Africa (Proprietary) Limited	South Africa	(5 404)	1 348	(1 600)		100.00%	Full consolidation
BPI, Inc.	U.S.A	804	806	(39)	100.00%	100.00%	Full consolidation
BPI Madeira, SGPS, Unipessoal, S.A.	Portugal	161 564	168 111	8 433	100.00%	100.00%	Full consolidation
BPI Moçambique – Sociedade de Investimento, S.A.	Mozambique	346	1 136	(304)	98.40%	100.00%	Full consolidation
Unicre – Instituição Financeira de Crédito, S.A.	Portugal	83 418	339 037	60 545	21.01%	21.01%	Equity method

Note: Unless otherwise indicated, all amounts are as of 31 December 2016 (accounting balances before consolidation adjustments). The financial statements of subsidiaries, associates and jointly controlled entities are pending approval by their respective governing bodies. However, the Board of Directors of Banco BPI believes that there will be no changes with significant impact on the consolidated net income of the Bank.

1) As mentioned before, as of 31 December 2016, the 50.1% participation held by Banco BPI in BFA was classified as a discontinued operation, therefore BFA's assets and liabilities were reclassified to NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS, respectively, and the corresponding contribution to the consolidated profit (after taxes) is presented in a single line in the Statements of Income (NET INCOME FROM DISCONTINUED OPERATIONS). In accordance with IFRS 5, this participation continues to be consolidated by the full consolidated method, since as of 31 December 2016, Banco BPI maintains control over BFA.
2) Fund managed by an asset management company controlled by BPI Group.
3) Share capital is made up of 5 000 ordinary shares of 1 Euro each, and 1 786 000 non-voting preference shares of 1 Euro each. Considering the total share capital of the company, the effective participation of the BPI Group in this company corresponds to 0.28%.
4) Includes net income for the year.

2. BASIS OF PRESENTATION AND MAIN ACCOUNTING POLICIES

A) BASIS OF PRESENTATION

The consolidated financial statements were prepared from the accounting records of Banco BPI and its subsidiary and associated companies in conformity with International Accounting Standards / International Financial Reporting Standards (IAS / IFRS), as endorsed by the European Union in accordance with *Regulation (EC) 1606 / 2002* of 19 July of the European Parliament and Council, incorporated into Portuguese legislation through *Bank of Portugal Notice 1 / 2005* of 21 February.

The consolidated financial statements have been prepared on a going concern basis, as provided for in IAS 1 – Presentation of financial statements.

The consolidated financial statements as of 31 December 2016 and 2015 were approved by the Board of Directors on 17 March 2017.

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 31 December 2016, are as follows:

- Improvements to international financial reporting standards – 2010-2012 Cycle: this process included the review of 7 accounting standards. The improvements include the clarification of some aspects relating to: (i) IFRS 2 – Share-based payment: definition of 'vesting condition'; (ii) IFRS 3 – Business combinations: recording of contingent payments; (iii) IFRS 8 – Operating Segments: disclosure of the judgements used in relation to the aggregation of segments and clarification regarding the need to reconcile total assets by segment to the assets in the financial statements; (iv) IAS 16 – Property, plant and equipment and IAS 38 – Intangible assets: need to restate proportionately the accumulated depreciation in the case of the revaluation of fixed assets; (v) IAS 24 – Related party disclosures: clarifies that an entity that provides management services to the company or its parent is a related party; and (vi) IFRS 13 – Fair value measurement: clarifications relating to the measurement of short-term receivables and payables. These amendments are of mandatory application for years beginning on or after 1 February 2015.

- IAS 19 – Employee Benefits: Defined benefit plans – Employee contributions: this standard was amended to clarify the requirements regarding the way in which contributions from Employees relating to services rendered must be linked to the periods of service. In addition, if the amount of the contributions is independent of the number of years in which the service is rendered, it allows the contributions to be recognized as a deduction from current service cost in the period in which the related service is rendered. These amendments are of mandatory application for years beginning on or after 1 February 2015.

- Improvements to international financial reporting standards – 2012-2014 Cycle: this process included the review of 4 accounting standards. The improvements involve the clarification of some aspects relating to: (i) IFRS 5 – Non-current Assets held for sale and discontinued operations: introduces guidance on how to proceed in the case of changes regarding the expected method of realization (sale or distribution to shareholders); (ii) IFRS 7 – Financial instruments: Disclosures: clarifies the impact of servicing contracts of assets for the purpose of determining the disclosures required relating to the continued involvement of derecognized assets and exempts condensed interim financial statements from the disclosures required regarding the compensation of financial assets and liabilities; (iii) IAS 19 – Employee benefits: clarifies that the high quality corporate bonds used in estimating the discount rate to be used for post-employment benefits should be in the same currency as the benefits to be paid; and (iv) IAS 34 – Interim financial reporting – clarification regarding the procedures to be used when the information is available in other documents issued together with the interim financial statements. These amendments are of mandatory application for years beginning on or after 1 January 2016.

- IFRS 11 – Joint arrangements: this change relates to the acquisition of interests in joint operations. It establishes the mandatory application of IFRS 3 when the joint operation acquired constitutes a business combination in accordance with IFRS 3. When the joint operation in question is not a business, the transaction should be recorded as an acquisition of assets. This amendment is applied prospectively for new acquisitions of interests. This amendment is of mandatory application for years beginning on or after 1 January 2016.

- IAS 1 – Presentation of financial statements: this amendment clarifies some aspects relating to the disclosure initiative, namely: (i) the entity should not make it difficult to understand financial statements by aggregating material items with immaterial items or by aggregating material items of different natures; (ii) the specific disclosures required by IFRS need only be made if the information in question is material; (iii) the line items to be presented in the financial statements specified in IAS 1 can be aggregated or segregated, as is most significant for purposes of the financial report; (iv) other comprehensive income resulting from the application of the equity method in associates and joint arrangements must be presented separately from the other components of other comprehensive income, also segregating the items that are likely to be reclassified to net results from those that will not be reclassified; (v) the structure of the notes should be flexible, respecting the following order: (a) a statement of compliance with IFRSs in the first section of the notes; (b) a description of the significant accounting policies in the second section; (c) supporting information for items in the financial statements in the third section; and (iv) other information on the fourth section. This amendment is of mandatory application for years beginning on or after 1 January 2016.

- IAS 16 – Property, plant and equipment and IAS 38 – Intangible assets: this amendment establishes a presumption (which may be rebutted) that revenue is not an appropriate basis for amortizing an intangible asset and prohibits the use of revenue as a basis for depreciating tangible fixed assets. The presumption established for amortization of intangible assets can only be rebutted if the intangible asset is expressed in terms of revenue generated or when the use of economic benefits is highly related to the revenue generated. This amendment is of mandatory application for years beginning on or after 1 January 2016.

- IAS 27 –Separate financial statements: this amendment introduces the possibility of measuring interests in subsidiaries, joint arrangements and associates in separate financial statements by the equity method, in addition to the existing measurement methods. This amendment applies retrospectively. This amendment is of mandatory application for years beginning on or after 1 January 2016.

- IFRS 10 – Consolidated financial statements, IFRS 12 – Disclosure of interests in other entities and IAS 28 – Investment in associates and joint ventures: These amendments include the clarification of several issues related to the application of the consolidation exemption by investment entities. The application of these amendments is of mandatory application for years beginning on or after 1 January 2016.

The adoption of the amendments to the standards referred to above did not have a significant impact on the accompanying financial statements.

As of 31 December 2016, the following standards (new and revised) and interpretations, already adopted by the European Union, were available for early adoption:

- IFRS 9 – Financial instruments (and subsequent amendments): this standard, initially published by the IASB on November 2009 and subsequently republished on July 2014, is included in the review project of IAS 39 and establishes the new requirements for recognition and measurement of financial assets and liabilities, for the methodology of impairment calculation and for the application of the hedge accounting rules. It is of mandatory application for years beginning on or after 1 January 2018.

- IFRS 15 – Revenue from contracts with Customers: this standard introduces a principles-based revenue recognition framework based on a model to be applied to all contracts with Clients, replacing IAS 18 – Revenue, IAS 11 – Construction Contracts, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the construction of real estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue – Barter transactions involving advertising services. It is of mandatory application for years beginning on or after 1 January 2018.

These standards, although endorsed by the European Union, were not adopted by the BPI Group as of 31 December 2016, as their application is not yet mandatory. In order to adopt IFRS 9, a multidisciplinary team was set up in 2015 at Banco BPI, combining members from different departments and management bodies of the Bank. Following the conceptual design of methodologies and processes, the Bank is in an implementation phase for the complete and timely adoption of the IFRS 9. The Bank considers advisable that disclosure of quantitative impacts should be made available only when the work development allows it to obtain stable and reliable estimates (note 4.47).

B) MAIN ACCOUNTING POLICIES

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

2.1. Comparability of the information

At 6 October 2016, Banco BPI, S.A. entered into an agreement for the sale of 2% of the share capital of Banco de Fomento Angola, S.A. (BFA), the implementation of which implies a reduction of the Group's participation in BFA from 50.1% to 48.1%. The implementation of such agreement was dependent upon the fulfilment of a set of conditions, having the sale operation occurred on 5 January 2017. In this context, by the end of 2016 BFA's operations were classified as discontinued operations, according to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, with the comparative balances of the Consolidated Statements of Income and Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015 being restated. Also in accordance with IFRS 5, BFA's total assets and liabilities as of 31 December 2016 are presented in the captions NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS, however, this reclassification is not reflected in the comparative balances as of 31 December 2015. In accordance with IFRS 5, this participation continues to be consolidated by the full consolidated method, since as of 31 December 2016, Banco BPI maintains control over BFA.

Thus, with respect to the notes associated with the balance sheet items, the amounts presented are not directly comparable between years for the reasons presented above, and it is therefore necessary to consider the information presented in note 4.9 – Discontinued operations in order to obtain a correct understanding regarding the evolution of these balances.

Due to the fact that BFA's participation has been classified as a discontinued operation, its contribution to the consolidated profit (after taxes) is shown in a single line of the Statements of Income (NET INCOME FROM DISCONTINUED OPERATIONS), with comparative periods being restated accordingly.

The detail of the captions NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS, NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS and NET INCOME FROM DISCONTINUED OPERATIONS is presented in note 4.9 Discontinued operations.

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, which 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 non-controlling interest caption, 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, 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 related to associated companies is included in the book value of the investment. The book value of associated companies (including goodwill) is subject to impairment tests in accordance with IAS 36 and IAS 39.

In the case of associated companies acquired in stages, goodwill is calculated at the time that the acquired company becomes an associate, being determined by the difference between the total acquisition cost of the investment and the proportion held of the fair value of the identifiable assets and liabilities of the associate as of that date. As provided for in IAS 28, total acquisition cost corresponds to the fair value of the original investment on the date that significant influence is achieved, plus the amount paid for the additional participation. In accordance with the policy established by the BPI Group, gains or losses on the revaluation to fair value of the original investment are recognised in the statement of income on the date the acquired company becomes an associate.

Following the loss of significant influence over an associated company (it is presumed that participation is less than 20%) and in accordance with IAS 28, the participation held is reclassified from the Investments in Associated Companies portfolio to the Financial Assets Available for Sale portfolio, being recorded at its fair value as of the date of the loss of significant influence. The difference between the fair value of the participation held and the cost of investment at that date is recognised in the statement of income.

In accordance with IFRS 1 and the BPI Group's accounting policies up to the date of transition to IAS / IFRS, goodwill on investments acquired up to 1 January 2004 was deducted in full from shareholders' equity.

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

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

Consolidated net income is the sum of the individual net income of Banco BPI and the percentage of the net income 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 and, in the case of BFA and BCI, by the Central Banks of Angola and Mozambique, respectively:

- 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.

When a foreign entity is sold, the accumulated exchange difference is recognized in the statement of income as a gain or loss on disposal.

The exchange rates used for the translation to euros of the accounts of foreign subsidiaries and associated companies were as follows:

	31 Dec. 16	31 Dec. 15
Kwanza – Angola	185.3790	147.8320
Metical Mozambique	75.1600	50.0400
Swiss Franc	1.0739	1.0835
South Africa Rand	14.4570	16.9530
USA dollar	1.0541	1.0887

The consolidated balance sheet of the BPI Group includes a significant portion of assets and liabilities in kwanzas, as shown in note 4.46 Financial Risks – Foreign exchange risk. Financial information expressed in this currency disclosed in the consolidated financial statements and accompanying notes has been translated to euros for presentation purposes based on the above criteria. The amounts should not be interpreted as representing that the amounts in kwanzas could have been, or could be, converted to euros.

In preparing the consolidated financial statements of Banco BPI for 2015, the inclusion of the results of BFA for the month of December 2015 and its financial position as of 31 December 2015 were determined taking into account the exchange rates of kwanzas to other currencies, particularly to the Euro and the USA dollar, published by the National Bank of Angola (BNA) at 31 December 2015.

The exchange rates of the kwanza in relation to other currencies published by BNA at the opening day of 4 January 2016, the first business day after 31 December 2015, show a devaluation of the kwanza in relation to the Euro and USA dollar of about 15%.

	Official exchange rates on 31 Dec. 15	Official exchange rates on 4 Jan. 16	Change
AKZ / 1 USD	135.3	155.6	**15%**
AKZ / 1 EUR	147.8	169.7	**15%**

Considering the requirements of IAS 21 – "The effects of changes in exchange rates", Banco BPI decided to use the exchange rates published in BNA's Internet site at 31 December 2015. In this respect, it should also be mentioned the position informed by BNA that in Angola the financial statements for 2015 should be prepared based on these exchange rates.

The use of the kwanza exchange rates published by the BNA on 4 January 2016 results in a positive impact on the consolidated net income of Banco BPI, after tax, of about 9 million euro, and a negative impact on total equity attributable to the shareholders of the Bank of about 44 million euro. These impacts were recorded in the consolidated financial statements of Banco BPI for the year 2016, in connection with the currency conversion of BFA financial statements from Kwanzas to euro.

Consolidated amounts in millions of Euro

	31 Dec. 15 as reported	Proforma considering the exchange rate on 4 Jan. 16	Change
Net income	236	245	+9
Assets	40 673	40 076	(597)
Loans	24 282	24 176	(106)
Customer resources and other liabilities	28 178	27 628	(550)
Non-controlling interests	429	384	(44)
Shareholders' equity	2 407	2 363	(44)

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 1 November 2008, the reference date of the changes made by the BPI Group was 1 July 2008. The reclassifications made on or after 1 November 2008 are effective only as from the reclassification date.

In note 4.47 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 derivatives embedded in financial assets and liabilities), except for those designated as hedging instruments under hedge accounting (note 2.3.7).

Such assets and liabilities are valued daily at fair value, 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 declared 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 2.3.7. Hedge Accounting – derivatives and hedged instruments.

2.3.4. Loans and other receivables

Loans and other receivables include loans and advances made by the Bank to Customers and to credit institutions, including finance lease operations, factoring operations, participation in syndicated loans and securitised loans (commercial paper and bonds issued by companies) that are not traded on an active market and which are not intended to be sold.

Loans and securitised loans traded on active markets are included in the caption FINANCIAL ASSETS AVAILABLE FOR SALE.

At the inception date, loans and other receivables are recognised at fair value. In general, fair value at the inception date corresponds to the amount of the transaction and includes commission, taxes and other costs and income related to the 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 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 2.3.7. Hedge Accounting – derivatives and hedged instruments.

Finance leasing (IAS 17)

Lease operations in which the Bank transfers substantially all the risks and rewards of ownership of an asset to a Customer or to a third party, are reflected on the balance sheet, at the inception date, as loans granted, at the net amount paid to acquire the leased asset. Lease instalments are composed of an interest income component and a principal repayment component. The interest income component for each period reflects an effective interest rate of return on the outstanding amount of principal.

Factoring

Assets resulting from factoring operations with recourse are recorded on the balance sheet as loans granted, by the amount advanced on account under the terms of the corresponding contracts.

Assets resulting from factoring operations without recourse are recorded on the balance sheet as loans granted, by the amount of the credit taken, with a corresponding entry to the liability caption CREDITORS FOR FACTORING OPERATIONS. Amounts advanced under the contracts are debited to the caption CREDITORS FOR FACTORING OPERATIONS.

Invoices received under factoring contracts with recourse, in which amounts are not advanced, are recorded in the off-balance sheet caption, CONTRACTS WITH RECOURSE – INVOICES NOT FINANCED, by the amount of the invoices received. The balance of this caption is reduced as the invoices are settled.

Commitments resulting from unused credit lines negotiated with Customers are recorded as off-balance sheet items.

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 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.

All the exposures included in the following segments are subject to individual assessment:

- Corporate Banking, Project Finance, Institutional Banking and the State Business Sector;
- Groups with exposures of more than 250 th. euro in operations in the Commercial Loans, Credit by Signature, Mobile Item Leasing, Real Estate Leasing, Factoring, Confirming and other debtor balances (including derivatives) included in the Private individual and small business segment;
- Customers with exposures equal to or exceeding 250 th. euro included in the Private Banking and International Private Banking segments;
- Loan operations monitored by the Finance Department;

The Bank ensures that the mentioned analysis is carried out at least once a year for all exposures referred to above and whenever the credits show signs of impairment or are in default.

The loan operations included in the aforementioned segments, which from the individual analysis did not reveal the need to record impairment losses, as well as the operations recorded in other segments not subject to individual analysis, are subject to collective analysis in order to determine the corresponding amount of 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 the Customer's management, 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.

The amount of the loss results from a comparison of the book value with the present value of the estimated future cash flows. The interest rate of the operations at the date of each assessment is used to calculate the present value of the future cash flows.

2.3.5. Deposits and other resources
After initial recognition, deposits and other financial resources of Customers and credit institutions are valued at amortised cost, using the effective interest rate.

This category includes life capitalisation insurance without a discretionary participation feature.

Deposits designated as hedged liabilities are valued as explained in note 2.3.7. Hedge Accounting – derivatives and hedged instruments.

2.3.6. Debt securities issued by the Bank
Debt securities issued by the Bank are recorded under the captions 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 2.3.7. Hedge Accounting – derivatives and hedged instruments.

Bonds issued by the Bank can be listed, or not, on the Stock Exchange.

Secondary market transactions
The Bank repurchases bonds issued in 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. 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.

2.3.8. Foreign currency financial assets and liabilities
Foreign currency financial assets and liabilities are recorded in conformity with the multi-currency system that is in their original currencies.

Foreign currency assets and liabilities are translated to Euro at the official market rates published by the Bank of Portugal.

Foreign currency income and expenses are translated to Euro at the exchange rates in force on the dates they are recognised.

2.4. Tangible assets (IAS 16)
Tangible assets used by the Bank in its operations are stated at cost (including directly attributable costs) less accumulated depreciation and impairment losses.

Depreciation of tangible assets is recorded on a straight-line basis over their estimated useful lives, which corresponds to the period the assets are expected to be available for use:

	Useful life (years)
Property	20 to 50
Improvements in owned property	10 to 50
Non-recoverable expenditure capitalised on leasehold buildings	3 to 10
Equipment	3 to 12
Other tangible assets	3 to 10

Non-recoverable expenditure on improvements in leasehold buildings is depreciated in accordance with its estimated useful life or the remaining period of the lease contract.

As established in IFRS 1, tangible assets acquired by the BPI Group up to 1 January 2004 have been recorded at their book value at the date of transition to IAS / IFRS, which corresponds to cost adjusted for revaluations recorded in accordance with legislation, based on price level indices. In accordance with current tax legislation, 40% of the additional depreciation charge resulting from such revaluations is not deductible for income tax purposes, the resulting deferred tax liability being recognised.

Tangible assets acquired under finance lease
Tangible assets acquired under finance lease operations, in which the Bank has all the risks and rewards of ownership, are depreciated in accordance with the procedures explained in the preceding section.

Lease instalments comprise an interest charge and a principal repayment component. The liability is reduced by the amount corresponding to the principal repayment component of each of the instalments and the interest is reflected in the statement of income over the term of the lease.

2.5. Assets received in settlement of defaulting loans and non-current assets held for sale and discontinued operations (IFRS 5)

Assets received in settlement of defaulting loans

Assets (property, equipment and other assets) received in settlement of defaulting loans 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" (Portuguese Securities Market Code). Unrealized gains on these assets are not recognised in the balance sheet.

Non-current assets held for sale and discontinued operations (IFRS 5)

Tangible assets available for sale are not depreciated.

IFRS 5 – Non-current assets held for sale and discontinued operations applies to separate assets but also to disposal groups of assets and liabilities, when the entity intends to dispose of a group of assets with certain directly associated liabilities, together in a single transaction.

Non-current assets, or disposal groups of assets and liabilities, are classified as held for sale whenever it is expected that their book value will be recovered through sale rather than through their continued use. In order to be classified as such, an asset (or a disposal group of assets and liabilities) must meet the following conditions:

- its sale must be highly probable;
- the asset must be available for immediate sale in its present condition;
- the sale must be expected to be realized within one year from the date of classification in this caption.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and (i) represents either a separate major line of business or a geographical area of operations, (ii) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or (iii) is a subsidiary acquired exclusively with a view to resale.

Assets classified in this caption are not amortized, being valued at the lower of cost and fair value, less costs to be incurred with the sale.

If book value is greater than fair value less costs to sell, an impairment loss is recognized in the caption IMPAIRMENT LOSSES AND OTHER PROVISIONS, NET.

In 2016, as a result of the agreement established between Banco BPI and Unitel for the sale of 2% of the share capital of Banco de Fomento Angola,S.A. (BFA), BFA's assets and liabilities were reclassified to the captions NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS, respectively, in accordance to IFRS 5 – Non-current assets held for sale and discontinued operations.

2.6. Intangible assets (IAS 38)

The Bank recognises, in this caption, expenses relating to the development stage of projects implemented and to be implemented, as well as the cost of acquiring software, in both cases where the impact extends beyond the financial year in which the cost is incurred.

Intangible assets are amortised on a straight-line monthly basis over the estimated period of useful life of the assets which, in general, corresponds to a period of three years.

To date the Bank has not recognised any intangible assets generated internally.

2.7. Retirement and survivor pensions (IAS 19)

2.7.1. Employees of domestic operations

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 31 December 2010 the majority of Employees of the BPI Group was not covered by the Portuguese Social Security system. With the publication of *Decree-Law 1-A / 2011* of 3 January, all the bank Employees that benefit from CAFEB – Caixa de Abono de Família dos Empregados Bancários were incorporated into the General Social Security Regime as from 1 January 2011, becoming covered by this regime as regards old age pensions and possible maternity, paternity and adoption, the cost of which the Bank no longer covers. Given the complementary nature of the rules of the Collective Labour Agreement for the Portuguese Banking Sector, the Bank will continue to cover the difference between the amount of the benefits paid under the General Social Security Regime for the items covered and the benefits established in the Collective Labour Agreement.

Incapacity and survivor pensions and sickness subsidy of these Employees will continue to be the Bank's responsibility.

Following the Three Party Agreement between the Government, the Credit Institutions and the Labour Unions for the Banking Sector, *Decree-Law 127 / 2011* of 31 December was published, which establishes transfer to the Social Security of the liability for retirement and survivor pensions of retirees and pensioners which at 31 December 2011 were in that situation and were covered by the substitute social security regime included in 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 – SAMS); (iv) death subsidy; (v) survivor pensions to children and surviving spouse related to the same Employee and (vi) survivor pension due to the family of a retired Employee, in which the conditions for being granted occurred as from 1 January 2012.

The value of the pension fund assets transferred to the Portuguese State was 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 31 December 2011, the amount equivalent to 55% of the provisional present value of the liabilities; (ii) by 30 June 2012, the remaining amount to complete the current definitive amount of the liabilities, as a result of the final determination of the liabilities transferred, made by an expert independent entity hired for the purpose by the Ministry of Finance.

Since the transfer to the Social Security corresponds to settlement, with extinction of the corresponding liability of Banco BPI, the difference between the amount of the pension fund assets transferred to the Portuguese State and the amount of the liabilities transferred based on the actuarial assumptions used by Banco BPI was recorded in the statement of income caption OPERATING GAINS AND LOSSES, as provided for in paragraph 110 of IAS 19.

In accordance with the *Decree-Law 127 / 2011* of 31 December the cost incurred as a result of the transfer of the liability for retirement and survivor pensions of retired personnel and pensioners to the Social Security is tax deductible, in equal amounts, in the tax years beginning on or after 1 January 2012 based on the estimated average number of years of life expectancy of the pensioners whose liabilities were transferred, which is estimated at 18 years, and so the corresponding deferred tax asset relating to the amount settled was recognised in the statement of income.

On 14 June 2016 a new Collective Labour Agreement (ACT) was signed with the labour unions. It was published in the Labour and Employment Bulletin ("*Boletim do Trabalho e do Emprego*") on 8 August 2016 and entered into force on the following day.

The new ACT maintained the pension regime as well as the supplementary health system (SAMS) applicable to Employees and pensioners of Banco BPI unchanged, having, however, established new rules for the financing of SAMS for which financial institutions are responsible.

Following this change the BPI Group's SAMS liability with respect to retirees and pensioners changed from a percentage (6.5%) over the amount of the pension to a fixed per capita amount for each type of beneficiary (retired or survivor pensioner).

The impact of this change was a decrease in the past service liability in the amount of 22 215 th. euro. To the extent that is a change in the benefits of the pension plan, this impact was recorded in the statement of income caption PERSONNEL COSTS, as provided for in paragraph 103 of IAS 19 (note 4.41).

Additionally, with the new ACT mandatory promotions due to time of service were eliminated, except for the next promotion for Employees that have been promoted up to 31 December 2014. The impact of the elimination of mandatory promotions due to time of service resulted in a reduction of 9 593 th. euro in the past service liability, which was recorded by corresponding entry to equity (actuarial deviations) (note 4.30), since the mandatory promotions due to time of service were incorporated into the salary growth assumption used by Banco BPI.

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, 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, as of the date of the financial statements. An analysis of the actuarial assumptions and, if applicable, their corresponding change, is carried out by the BPI Group as of 30 June and

31 December of each year. In 2016 the BPI Group changed the assumptions (discount rate) as of 31 December. The update of the referred assumption is reflected in the determination of the actuarial deviations and prospectively in pension costs. As of 31 December 2015 the BPI Group did not change the actuarial assumptions because it considered that the assumptions regarding the current market conditions and expectations at the balance sheet date were still applicable. 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.

The above components are recognised in personnel costs, except the cost of the interest of all liabilities and expected return on pension funds that are recorded in net income on financial operations – interest and financial gain and loss with pensions.

At the transition date to IAS / IFRS, the BPI Group adopted the option, allowed under IFRS 1, of not recomputing actuarial gains and losses deferred since the inception of the pension plans (reset option). Consequently, deferred actuarial gains and losses reflected in the BPI Group's financial statements as of 31 December 2003 were reversed by corresponding entry to retained earnings at the transition date (1 January 2004).

2.7.2. Employees of BFA

BFA's Employees are covered by *Law 7 / 04* of 15 October, which regulates the Social Security system in Angola, and provides for the granting of pensions to all Angolan Employees covered by Social Security. The amount of these pensions is calculated based on a table proportionate to the number of years of work, applied to the average gross monthly salary received in the periods immediately preceding the date on which the Employee ceases his / her functions. In accordance with *Decree 38 / 08* of 9 June the rates of the system are 8% for the employer and 3% for the Employees.

In compliance with Article 262 of *Law 2 / 00* of 11 February (General Labour Law), BFA has recorded a provision for the liability relating to "Retirement income", calculated based on 25% of the base monthly salary on the date the Employee reaches legal retirement age, times the number of years of long service at that date. The total amount of the past service liability is determined on an annual basis by experts, using the "Projected Unit Credit" method for past service liabilities.

On 15 September 2015 *Law 7 / 15* of 15 June (New General Labour Law) came into force, which revoked *Law 2 / 00* of 11 February. The New General Labour Law does not refer to the requirement to record a provision for "Retirement income". However, despite the revoking of *Law 2 / 00* of 11 February, BFA continues to record a provision for "Retirement income" on the same basis.

In addition, BFA granted its hired locally Employees and their families the right to retirement benefits for retirement due to age, disability and survivor pension. Therefore as from 1 January 2005 it created a defined contribution "Supplementary Pension Plan" covered by BFA's Pension Fund (as from 2013).

BFA's contribution to the BFA Pension Fund consists of a fixed percentage of 10% of the salary subject to discounts for Angolan Social Security, applied to fourteen salaries. In addition to the amount of the contributions, the profit of the investments made, net of any taxes, is added.

2.8. Long service premiums and final career premium (IAS 19)

Up to June 2016, under the Collective Labour Agreement for the banking sector there was a commitment to pay Employees (of domestic operations) 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 was attributed).

With the entry into force of the new ACT, the long service premium was eliminated. However, the new ACT established the payment of the proportional part of the long service premium for the current 15, 25 or 30 years anniversary of banking service corresponding to the time of good and effective service in the banking sector at the time of the entry into force of the new ACT.

The new ACT provides for the payment of a final career premium corresponding to 1.5 times the effective monthly remuneration of the Employee at the time of termination of the labour contract due to retirement. Considering that the final career premium corresponds to a post-employment benefit in accordance with IAS 19, the corresponding actuarial deviations are recognized in equity.

The net impact of the elimination of the long service premium and the creation of the final career premium corresponded to a decrease of 20 673 th. euro in the past service liability. To the extent that this is a change of benefits of the pension plan, this impact was recorded in the statement of income caption PERSONNEL COSTS, as provided for in paragraph 103 of IAS 19 (note 4.41).

Annually, the BPI Group determines the present value of the liability for long service premiums (until June 2016) and for final career 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 (up to June 2016) and for final career premiums is reflected under the caption OTHER LIABILITIES (note 4.25).

The following costs relating to the liability for long service premiums (until June 2016) and for final career 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.

Long service premiums and final career premiums are only paid to Employees of domestic operations.

2.9. Treasury shares (IAS 32)

Treasury shares are recorded at cost in equity captions and are not subject to revaluation. Realised gains and losses, as well as the resulting taxes, are recorded directly in shareholders' equity, not affecting net income for the year.

2.10. Share-based payments (Remuneração variável em acções – RVA) (IFRS 2)

The share-based payment programme (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 programme varies between 10% and 50%, the percentage increasing with the responsibility level of the beneficiary.

The only exception to this rule relates to the remuneration of the Employees responsible for control functions which, in spite of being based principally on a fixed remuneration component, may include variable remuneration provided that it does not exceed 25% of their total remuneration which, however, will always be paid in cash.

As regards Executive Directors, the RVA, which is equal to 50% of the variable remuneration, is deferred for a 3 year period after the grant date and is subject to the following suspensive condition: Banco BPI's consolidated shareholders' equity, based on the consolidated accounts for the third year following that to which the variable remuneration relates, must be greater than Banco BPI's consolidated shareholders' equity for the year to which the variable remuneration relates, taking into account the assumptions established in the RVA Regulations. After the deferral period of 3 years and the conditions being complied with the shares are transferred to the respective Employees and the BPI share options fall due, and may be exercised within 3 years from the date of conclusion of the deferral period.

As regards Employee Holders of Essential Functions, as defined by law (General Regime for Credit Institutions and Financial Companies ("RGICSF") and *Delegated Regulation (EU) 604 / 2014* of the Commission, of 4 March 2014), the share-based payment programme is identical to that applicable to Executive Directors. In accordance with the Remuneration Policy approved for this group of Employees, by specific resolution each year, the Executive Commission of the Board of Directors is able to exclude from the deferral rule Employee Holders of Essential Functions with variable remuneration of less than 50 000 euro or less than 30% of the total remuneration of the previous year.

As regards the remaining Employees, the shares granted under the RVA programme are transferred in full at the grant date, but transmission of 75% of the shares in question is subject to a resolution condition relating to the maintenance of the employment relationship in accordance with the RVA Regulation. This resolution condition ends on a linear basis over the three years following the grant date (25% per 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 the BPI Group also affects the due date or term for the exercise of the options granted, in accordance with the RVA Regulation.

The rules relating to the resolution condition and term defined in the RVA Regulation applicable to the majority of Employees apply, with the necessary modifications, to the remaining Executive Directors and Employee Holders of Essential Functions.

Costs relating to the share-based payment programme (RVA programme) 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 programme (1 January) to the moment they become available to the Employees.

For the purpose of share-based payments, the Bank has created a portfolio of BPI shares transferring ownership of the shares to Employees on the grant date (in the case of Executive Directors, after verifying the suspension 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 PROGRAMME, 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 programme, 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 programme, as well as the related taxes, are recorded directly in shareholders' equity, not affecting net income for the year.

2.11. Technical provisions (IFRS 4)

The BPI Group sells capitalisation life insurance products through its subsidiary BPI Vida. Capitalisation insurance products without discretionary participation features are recorded in accordance with IAS 39 and included in the caption RESOURCES OF CUSTOMERS AND OTHER DEBTS. Capitalisation insurance products with discretionary participation features are recorded in accordance with IFRS 4, in the caption TECHNICAL PROVISIONS.

The technical provisions recorded for life insurance contracts represent, collectively, the liability to the insured Customers and include:

- Mathematical provisions determined using prospective actuarial methods in accordance with the technical bases of each product.

  They also include a provision for rate commitments, which is recorded when the effective profitability rate of the assets which represent the mathematical provisions of a certain product is lower than the technical interest rate used to calculate the mathematical provisions.

- Provision for participation in profits to be attributed to the contracts in force at the end of each year. The amount is calculated in accordance with the technical bases of each contract, duly approved by the Portuguese Insurance Institute (Instituto de Seguros de Portugal), using the profitability rates for investments covering the respective mathematical provisions.

- Provision for claims to cover indemnities payable relating to claims incurred but not yet settled. Since the BPI Group does not commercialise risk insurance, no provision has been recorded for claims incurred but not yet reported (IBNR).

2.12. Provisions for other risks and charges (IAS 37)

This caption includes provisions to cover other specific risks, namely tax contingencies, legal processes and other losses arising from the operations of the BPI Group.

2.13. Income taxes (IAS 12)

All the Group companies are taxed individually.

2.13.1. Domestic operations

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.

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 recognize deferred tax assets and liabilities for deductible or taxable temporary differences relating to investments in subsidiaries as it is unlikely that such differences will be reversed in the foreseeable future, except for the deferred tax liability relating to taxation in Angola of the dividends to be distributed to the companies of the BPI Group, in the following year, over the net result for the year of Banco de Fomento Angola.

The BPI Group does not recognize deferred tax assets and liabilities for deductible or taxable temporary differences relating to investments in associated companies, as the participation held by the BPI Group exceeds 5% for more than two years, which enables it to be considered in the Participation Exemption regime, except for Banco Comercial e de Investimentos, in which the deferred tax liability relating to taxation in Mozambique of all the distributable profits are recognized.

Net income distributed to Banco BPI by subsidiary and associated companies in Portugal are not taxed in Banco BPI as a result of application of the regime established in article 51 of the Corporation Income Tax Code, which provides for the elimination of double taxation of net income distributed.

2.13.2. Banco de Fomento Angola

BFA is subject to industrial tax and capital income tax ("Imposto de aplicação de capitais").

BFA is subject to Industrial Tax, being considered for tax purposes as a Group A taxpayer. On 1 January 2015 the new Industrial Tax Code, approved by Law 19 / 2014 of 22 October came into force, which established the Industrial Tax rate at 30%.

The new Industrial Tax Code provides that income subject to Capital Income Tax ("IAC") is deducted for determining taxable profit for Industrial Tax purposes.

Income from Treasury Bonds and Treasury Bills issued by the Angolan State after 1 January 2013 is subject to Capital Income Tax ("IAC"), at the rate of 10% (5% in the case of debt securities traded on a regulated market with maturities equal to or more than three years) or Industrial Tax in the case of capital gain or loss obtained (including possible exchange revaluation of the principal component).

2.14. Preference shares (IAS 32 and IAS 39)

Preference shares are classified as equity instruments when:

- There is no contractual obligation for the BPI Group to redeem the preference shares acquired by a holder (in cash or in another financial asset);
- Remission or early redemption of the preference shares can only be made at the option of the BPI Group;
- Dividends distributed by the BPI Group to the preference shareholders are discretionary.

The BPI Group classified the preference shares issued by BPI Capital Finance Ltd. as equity instruments. The payment of dividends and redemption of the shares are guaranteed by Banco BPI.

The preference shares classified as equity instruments, held by third parties, are presented in the consolidated financial statements in the caption NON-CONTROLLING INTEREST.

Realized gain and loss on the repurchase and sale of preference shares classified as equity instruments, as well as the corresponding tax effect, are recorded directly in shareholders' equity, not affecting net result for the year.

2.15. Insurance and reinsurance brokerage services

Banco BPI is duly authorized by the Portuguese Insurance Institute to provide insurance brokerage services in the Insurance Brokerage Services area, in accordance with the article 8, paragraph a), subparagraph i) of *Decree-Law 144 / 2006* of 31 July and operates in the life and non-life insurance brokerage areas.

In the insurance brokerage services area, Banco BPI sells insurance contracts. As remuneration for 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 31 January).

Commission received for insurance brokerage services are recognized 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 recognized relating to the insurance brokerage services rendered by Banco BPI, from those already referred to.

2.16. Main estimates and uncertainties regarding the application of the accounting policies

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.

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.

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.

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. It also includes the Private Banking area which is responsible for implementing strategies and investment proposals presented to Customers and ensures the management of their financial assets.
- **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 home banking services adapted to the business needs.

Investment banking

Investment banking covers the following business areas:

- **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.
- **Share department** – Includes trading activities, financial instrument primary market, brokerage and research.
- **Portfolio management** – Includes services rendered to BPI Global Investment Fund Management Company, S.A. in the management of BPI Alternative Fund – Iberian Equities Long Short.

Equity investments and others

This segment includes essentially Financial Investments and Private Equity activities. The BPI Group Private Equity area invests essentially in unlisted companies with the following objectives: the development of new products and technologies, financing of investments in working capital, acquisitions and the strengthening of financial autonomy.

This segment also includes the Bank's residual activity, such segments representing individually less than 10% of total income, net profit and the Group's assets.

Inter-segment operations are presented based on the effective conditions of the operations and application of the accounting policies used to prepare the BPI Group's consolidated financial statements.

The reports used by Management consist essentially of accounting information based on IFRS.

The BPI Group's balance sheet as of 31 December 2016 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 (BFA)	Others	**Total**		
ASSETS										
Cash and deposits at central banks	876 621				876 621					876 621
Deposits at other credit institutions	553 730	47 600	11 453	(312 594)	300 189		1	1		300 190
Financial assets held for trading and at fair value through profit or loss	1 951 317	251 777		(5 181)	2 197 913					2 197 913
Financial assets available for sale	3 811 436	612	64 386		3 876 434					3 876 434
Loans and advances to credit institutions	975 757	58 999	2 895	(401 169)	636 482		1 125	1 125		637 607
Loans and advances to Customers	23 087 252			(351 494)	22 735 758					22 735 758
Held to maturity investments	28 530			(12 213)	16 317					16 317
Hedging derivatives	26 322			(520)	25 802					25 802
Non-current assets held for sale and discontinued operations						6 924 678		6 924 678	(628 768)	6 295 910
Other tangible assets	49 955	889			50 844		111	111		50 955
Intangible assets	25 387	229			25 616		13	13		25 629
Investment in associated companies and jointly controlled entities	67 951		62 883		130 834		44 844	44 844		175 678
Tax assets	469 933	1 735	(554)		471 114		734	734		471 848
Other assets	702 391	5 134	155	(65 015)	642 665		497	497	(45 172)	597 990
Total assets	**32 626 582**	**366 975**	**141 218**	**(1 148 186)**	**31 986 589**	**6 924 678**	**47 325**	**6 972 003**	**(673 940)**	**38 284 652**
LIABILITIES										
Resources of central banks	2 000 011				2 000 011					2 000 011
Financial liabilities held for trading	214 845	2 157		(4 289)	212 713					212 713
Resources of other credit institutions	1 734 950	(182)	26 818	(37 134)	1 724 452		755	755	(628 768)	1 096 439
Resources of Customers and other debts	22 420 009	249 581		(701 909)	21 967 681					21 967 681
Debt securities	856 942			(350 172)	506 770					506 770
Financial liabilities relating to transferred assets	555 385				555 385					555 385
Hedging derivatives	97 849			(93)	97 756					97 756
Non-current liabilities held for sale and discontinued operations						5 990 262		5 990 262	(38 864)	5 951 398
Provisions	67 031		3 204		70 235					70 235
Technical provisions	2 048 829				2 048 829					2 048 829
Tax liabilities	10 132	358	(510)		9 980	6 693	5 333	12 026		22 006
Other subordinated debt and participating bonds	83 504			(14 004)	69 500					69 500
Other liabilities	804 456	6 104	6 954	(40 585)	776 929		6 783	6 783	(6 308)	777 404
Total liabilities	**30 893 943**	**258 018**	**36 466**	**(1 148 186)**	**30 040 241**	**5 996 955**	**12 871**	**6 009 826**	**(673 940)**	**35 376 127**
SHAREHOLDERS' EQUITY										
Shareholders' equity attributable to the shareholders of BPI	1 730 865	108 957	104 752		1 944 574	461 449	34 454	495 903		2 440 477
Non-controlling interests	1 774				1 774	466 274		466 274		468 048
Total shareholders' equity	**1 732 639**	**108 957**	**104 752**		**1 946 348**	**927 723**	**34 454**	**962 177**		**2 908 525**
Total liabilities and shareholders' equity	**32 626 582**	**366 975**	**141 218**	**(1 148 186)**	**31 986 589**	**6 924 678**	**47 325**	**6 972 003**	**(673 940)**	**38 284 652**
Investments made in:										
Property	781				781	824		824		1 605
Equipment and other tangible assets	9 124				9 124	11 482	11	11 493		20 617
Intangible assets	8 414				8 414	6 511	10	6 521		14 935

The column "Inter segment operations" of the Non-current assets held for sale and discontinued operations caption corresponds to applications of BFA in Banco BPI and BPI Cayman in USD, EUR and GBP remunerated at an average interest rate of 0.5%. The caption OTHER ASSETS – INTER SEGMENT OPERATIONS at 31 December 2016 includes 38 864 th. euro relating to dividends payable by BFA to Banco BPI for the year 2015. These dividends were received in January 2017.

The BPI Group's income statement for the period ended 31 December 2016, by segment, is as follows:

	Domestic operations					International operations			Inter segment operations	BPI Group
	Commercial banking	Investment banking	Equity investments and others	Inter segment operations	**Total**	Angola (BFA)	Others	**Total**		
Interest and similar income	520 359	(20)	73	(1 110)	519 302		78	78	(445)	518 935
Interest and similar expenses	(156 218)	(1 344)		1 110	(156 452)		(544)	(544)	2 272	(154 724)
Financial margin (narrow sense)	**364 141**	**(1 364)**	**73**		**362 850**		**(466)**	**(466)**	**1 827**	**364 211**
Gross margin on unit links	13 454				13 454					13 454
Income from equity instruments	6 475		2 053		8 528					8 528
Net commission relating to amortised cost	21 216				21 216					21 216
Financial margin	**405 286**	**(1 364)**	**2 126**		**406 048**		**(466)**	**(466)**	**1 827**	**407 409**
Technical result of insurance contracts	24 613				24 613					24 613
Commissions received	296 943	12 173		(48 529)	260 587		956	956	(1 250)	260 293
Commissions paid	(68 183)	(10 109)	(3)	48 529	(29 766)					(29 766)
Other income, net	28 889	(28)			28 861					28 861
Net commission income	**257 649**	**2 036**	**(3)**		**259 682**		**956**	**956**	**(1 250)**	**259 388**
Gain and loss on operations at fair value	13 365	10 570			23 935		59	59		23 994
Gain and loss on assets available for sale	23 786	42	48		23 876					23 876
Interest and financial gain and loss with pensions	1 050	(10)			1 040					1 040
Net income on financial operations	**38 201**	**10 602**	**48**		**48 851**		**59**	**59**		**48 910**
Operating income	20 481				20 481		132	132		20 613
Operating expenses	(37 473)	(7)			(37 480)		(3)	(3)		(37 483)
Other taxes	(5 646)	(1 119)	(1)		(6 766)		(132)	(132)		(6 898)
Net operating expenses	**(22 638)**	**(1 126)**	**(1)**		**(23 765)**		**(3)**	**(3)**		**(23 768)**
Operating income from banking activity	**703 111**	**10 148**	**2 170**		**715 429**		**546**	**546**	**577**	**716 552**
Personnel costs	(299 774)	(6 200)	(214)		(306 188)		(1 808)	(1 808)		(307 996)
General administrative costs	(164 502)	(3 432)	(26)		(167 960)		(611)	(611)		(168 571)
Depreciation and amortisation	(21 115)	(170)			(21 285)		(85)	(85)		(21 370)
Overhead costs	**(485 391)**	**(9 802)**	**(240)**		**(495 433)**		**(2 504)**	**(2 504)**		**(497 937)**
Recovery of loans, interest and expenses	13 733				13 733					13 733
Impairment losses and provisions for loans and guarantees, net	(33 009)				(33 009)					(33 009)
Impairment losses and other provisions, net	(34 471)	(15)	(1 997)		(36 483)					(36 483)
Net income before income tax	**163 973**	**331**	**(67)**		**164 237**		**(1 958)**	**(1 958)**	**577**	**162 856**
Income tax	(37 467)	(585)	514		(37 538)	(6 780)	(372)	(7 152)		(44 690)
Earnings of associated companies (equity method)	3 802		16 516		20 318		5 872	5 872		26 190
Net income from continuing operations	**130 308**	**(254)**	**16 963**		**147 017**	**(6 780)**	**3 542**	**(3 238)**	**577**	**144 356**
Net income from discontinued operations						**338 316**		**338 316**	**(577)**	**337 739**
Income attributable to non-controlling interests from continuing operations	(45)				(45)					(45)
Income attributable to non-controlling interests from discontinued operations						(168 820)		(168 820)		(168 820)
Income attributable to non-controlling interests	**(45)**				**(45)**	**(168 820)**		**(168 820)**		**(168 865)**
Consolidated net income of the BPI Group	**130 263**	**(254)**	**16 963**		**146 972**	**162 716**	**3 542**	**166 258**		**313 230**
Cash flow after taxes	218 858	(69)	18 960		237 749	162 716	3 627	166 343		404 092

The BPI Group's balance sheet as of 31 December 2015 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 (BFA)	Others	**Total**		
ASSETS										
Cash and deposits at central banks	997 650				997 650	1 730 534	1	1 730 535		2 728 185
Deposits at other credit institutions	618 324	101 568	12 648	(298 102)	434 438	345 267	77	345 344	(167 727)	612 055
Financial assets held for trading and at fair value through profit or loss	2 916 392	236 279		(5 608)	3 147 063	527 541		527 541		3 674 604
Financial assets available for sale	3 673 603	1 716	47 677		3 722 996	2 786 392		2 786 392		6 509 388
Loans and advances to credit institutions	1 226 368	80 178	2 895	(576 896)	732 545	913 238	792	914 030	(416 532)	1 230 043
Loans and advances to Customers	23 293 723			(505 661)	22 788 062	1 493 560		1 493 560		24 281 622
Held to maturity investments	34 638			(12 221)	22 417					22 417
Hedging derivatives	92 554			(1 268)	91 286					91 286
Other tangible assets	65 085	925			66 010	128 863	222	129 085		195 095
Intangible assets	25 141	336			25 477	3 645	16	3 661		29 138
Investment in associated companies and jointly controlled entities	77 843		68 284		146 127		64 320	64 320		210 447
Tax assets	409 808	1 456	(245)		411 019	8 308	887	9 195		420 214
Other assets	765 671	9 739	105	(89 625)	685 890	17 089	992	18 081	(35 173)	668 798
Total assets	**34 196 800**	**432 197**	**131 364**	**(1 489 381)**	**33 270 980**	**7 954 437**	**67 307**	**8 021 744**	**(619 432)**	**40 673 292**
LIABILITIES										
Resources of central banks	1 520 735				1 520 735					1 520 735
Financial liabilities held for trading	274 261	85		(5 725)	268 621	25 697		25 697		294 318
Resources of other credit institutions	1 934 507	3 012	8 504	(50 288)	1 895 735	58	256	314	(584 258)	1 311 791
Resources of Customers and other debts	21 953 022	167 534		(855 761)	21 264 795	6 913 020		6 913 020	(1)	28 177 814
Debt securities	1 577 967			(500 586)	1 077 381					1 077 381
Financial liabilities relating to transferred assets	689 522				689 522					689 522
Hedging derivatives	161 840			(284)	161 556					161 556
Provisions	70 300		3 204		73 504	26 360		26 360		99 864
Technical provisions	3 663 094				3 663 094					3 663 094
Tax liabilities	51 738	30	(473)		51 295	35 881	4 874	40 755		92 050
Other subordinated debt and participating bonds	83 525			(14 013)	69 512					69 512
Other liabilities	600 815	59 279	8 238	(62 724)	605 608	103 154	6 567	109 721	(35 173)	680 156
Total liabilities	**32 581 326**	**229 940**	**19 473**	**(1 489 381)**	**31 341 358**	**7 104 170**	**11 697**	**7 115 867**	**(619 432)**	**37 837 793**
SHAREHOLDERS' EQUITY										
Shareholders' equity attributable to the shareholders of BPI	1 613 672	202 257	111 891		1 927 820	423 422	55 610	479 032		2 406 852
Non-controlling interests	1 802				1 802	426 845		426 845		428 647
Total shareholders' equity	**1 615 474**	**202 257**	**111 891**		**1 929 622**	**850 267**	**55 610**	**905 877**		**2 835 499**
Total liabilities and shareholders' equity	**34 196 800**	**432 197**	**131 364**	**(1 489 381)**	**33 270 980**	**7 954 437**	**67 307**	**8 021 744**	**(619 432)**	**40 673 292**
Investments made in:										
Property	18				18	9 350		9 350		9 368
Equipment and other tangible assets	18 478	437			18 915	15 265	17	15 282		34 197
Intangible assets	10 275	95			10 370	3 106	18	3 124		13 494

The column "Inter segment operations" of the Loans and advances to credit institutions caption corresponds to applications of BFA in Banco BPI and BPI Cayman in USD and in EUR remunerated at an average interest rate of 0.3%. At 31 December 2015 the caption OTHER ASSETS – INTER SEGMENT OPERATIONS includes 29 801 th. euro relating to 50% of the dividends payable by BFA to Banco BPI relating to 2014 profits. These dividends were received in December 2016.

The BPI Group's income statement for the period ended 31 December 2015, by segment, is as follows:

	Domestic operations					International operations			Inter segment operations	BPI Group
	Commercial banking	Investment banking	Equity investments and others	Inter segment operations	**Total**	Angola (BFA)	Others	**Total**		
Interest and similar income	703 106	654		(13 969)	689 791		93	93	(431)	689 453
Interest and similar expenses	(385 601)	(1 150)	(628)	13 969	(373 410)		(486)	(486)	1 806	(372 090)
Financial margin (narrow sense)	**317 505**	**(496)**	**(628)**		**316 381**		**(393)**	**(393)**	**1 375**	**317 363**
Gross margin on unit links	12 967				12 967					12 967
Income from equity instruments	2 424		2 315		4 739					4 739
Net commission relating to amortised cost	21 115				21 115					21 115
Financial margin	**354 011**	**(496)**	**1 687**		**355 202**		**(393)**	**(393)**	**1 375**	**356 184**
Technical result of insurance contracts	31 804				31 804					31 804
Commissions received	301 422	22 424		(62 399)	261 447		1 244	1 244	(2 020)	260 671
Commissions paid	(78 772)	(16 189)	(9)	62 399	(32 571)					(32 571)
Other income, net	27 064	(6)			27 058					27 058
Net commission income	**249 714**	**6 229**	**(9)**		**255 934**		**1 244**	**1 244**	**(2 020)**	**255 158**
Gain and loss on operations at fair value	38 425	15 193			53 618		3	3		53 621
Gain and loss on assets available for sale	(6 222)		108		(6 114)					(6 114)
Interest and financial gain and loss with pensions	425	(12)			413					413
Net income on financial operations	**32 628**	**15 181**	**108**		**47 917**		**3**	**3**		**47 920**
Operating income	22 809	49			22 858		266	266		23 124
Operating expenses	(40 516)	(345)			(40 861)		(4)	(4)		(40 865)
Other taxes	(5 884)	(793)	(1)		(6 678)		(264)	(264)		(6 942)
Net operating expenses	**(23 591)**	**(1 089)**	**(1)**		**(24 681)**		**(2)**	**(2)**		**(24 683)**
Operating income from banking activity	**644 566**	**19 825**	**1 785**		**666 176**		**852**	**852**	**(645)**	**666 383**
Personnel costs	(291 204)	(8 828)	(210)		(300 242)		(2 128)	(2 128)		(302 370)
General administrative costs	(172 599)	(4 699)	(26)		(177 324)		(687)	(687)		(178 011)
Depreciation and amortisation	(19 674)	(92)			(19 766)		(121)	(121)		(19 887)
Overhead costs	**(483 477)**	**(13 619)**	**(236)**		**(497 332)**		**(2 936)**	**(2 936)**		**(500 268)**
Recovery of loans, interest and expenses	16 249				16 249					16 249
Impairment losses and provisions for loans and guarantees, net	(103 367)				(103 367)					(103 367)
Impairment losses and other provisions, net	(9 701)	43	(6 245)		(15 903)					(15 903)
Net income before income tax	**64 270**	**6 249**	**(4 696)**		**65 823**		**(2 084)**	**(2 084)**	**(645)**	**63 094**
Income tax	4 768	(2 023)	1 440		4 185	(5 654)	(661)	(6 315)		(2 130)
Earnings of associated companies (equity method)	9 250		13 891		23 141		10 292	10 292		33 433
Net income on continuing operations	**78 288**	**4 226**	**10 635**		**93 149**	**(5 654)**	**7 547**	**1 893**	**(645)**	**94 397**
Net income on discontinued operations						**282 176**		**282 176**	**645**	**282 821**
Income attributable to non-controlling interests from continuing operations	(43)				(43)					(43)
Income attributable to non-controlling interests from discontinued operations						(140 806)		(140 806)		(140 806)
Income attributable to non-controlling interests	**(43)**				**(43)**	**(140 806)**		**(140 806)**		**(140 849)**
Consolidated net income of the BPI Group	**78 245**	**4 226**	**10 635**		**93 106**	**135 716**	**7 547**	**143 263**		**236 369**
Cash flow after taxes	210 987	4 275	16 880		232 142	135 716	7 668	143 384		375 526

4. NOTES

4.1. Cash and deposits at central banks

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Cash	219 778	520 524
Demand deposits at the Bank of Portugal	653 066	738 402
Demand deposits at foreign central banks	3 777	1 469 253
Accrued interest		6
	876 621	**2 728 185**

The caption DEMAND DEPOSITS AT THE BANK OF PORTUGAL includes deposits made to comply with the minimum cash reserve requirements of the Eurosystem. Currently, the component of these deposits made to comply with the minimum cash reserve requirements is remunerated at 0% and the surplus funds have an interest rate of -0.40%. The minimum cash reserve corresponds to 1% of the amount of 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 cash reserve system and the liabilities to the European Central Bank and national central banks that participate in the euro.

At 31 December 2015, 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 compulsory cash reserves. These deposits do not bear interest.

Compulsory cash reserves of Banco de Fomento de Angola on BNA at 31 December 2015 are calculated in accordance with the terms of *BNA Instruction 16 / 2015* of 22 July and are held in kwanzas and in dollars, based on the currency of the liabilities which serve as a basis for determining the amount and must be maintained during the whole period to which they refer. At 31 December 2015 the requirement to maintain compulsory cash reserves was calculated by application of the rate of 25% to the mathematical average of the eligible liabilities in kwanzas and 15% to the mathematical average of the eligible liabilities in other currencies. Compulsory cash reserves in kwanzas can be made up to 10% of the liability in Treasury Bonds, provided that they are issued as from January 2015.

4.2. Deposits at other credit institutions

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Domestic credit institutions		
Demand deposits	13 365	34 441
Cheques for collection	62 299	70 123
Other	257	337
Foreign credit institutions		
Demand deposits	221 487	502 960
Cheques for collection	2 782	4 197
Impairment		(3)
	300 190	**612 055**

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.

The changes in impairment losses and provisions in 2016 and 2015 are presented in note 4.21.

4.3. Financial assets held for trading and at fair value through profit or loss

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
FINANCIAL ASSETS HELD FOR TRADING		
Debt instruments		
Bonds issued by Portuguese government entities	27 009	33 322
Bonds issued by foreign government entities	51 090	513 721
Bonds issued by other Portuguese entities		
Non-subordinated debt	9 870	12 751
Subordinated debt	108	
Bonds issued by foreign financial entities		372
Bonds issued by other foreign entities		
Non-subordinated debt	14 534	59 190
Subordinated debt	294	
	102 905	**619 356**
Equity instruments		
Shares issued by Portuguese entities	121 368	173 978
Shares issued by foreign entities	169 550	184 541
	290 918	**358 519**
Other securities		
Participating units issued by Portuguese entities	208	140
Participating units issued by foreign entities	2	2
	210	**142**
	394 033	**978 017**
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Debt Instruments		
Bonds issued by Portuguese government entities	129 760	39 002
Bonds issued by foreign government entities	365 038	1 299 163
Bonds issued by other Portuguese entities		
Non-subordinated debt	138 759	74 565
Bonds issued by foreign financial entities	61 864	22 060
Bonds issued by other foreign entities		
Non-subordinated debt	238 664	173 340
Subordinated debt	4 702	1 104
	938 787	**1 609 234**
Equity instruments		
Shares issued by Portuguese entities	91	735
Shares issued by foreign entities	132	17 030
	223	**17 765**
Other securities		
Participating units issued by Portuguese entities	92 845	99 644
Participating units issued by foreign entities	592 104	716 037
	684 949	**815 681**
	1 623 959	**2 442 680**
DERIVATIVE INSTRUMENTS WITH POSITIVE FAIR VALUE (NOTE 4.4)	**179 921**	**253 907**
	2 197 913	**3 674 604**

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

	31 Dec. 16	31 Dec. 15
Debt instruments		
Of public entities	494 798	1 338 166
Other entities	443 989	270 907
Equity instruments	367	18 069
Other securities	678 203	768 718
Derivative instruments with positive fair value		3 107
	1 617 357	**2 398 967**

4.4. Derivatives

The caption DERIVATIVE INSTRUMENTS HELD FOR TRADING (notes 4.3 and 4.16) is made up as follows:

	31 Dec. 16			31 Dec. 15		
	Notional value[1]	Book value		Notional value[1]	Book value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate contracts						
Futures	2 010	21		500	3	
Options				67		
Exchange rate swaps and forwards	1 099 467	1 906	139	1 989 721	22 187	26 701
Interest rate contracts						
Futures	40 821	2	5	3 249	42	
Options	530 759	3 153	3 151	374 914	1 617	1 217
Swaps	4 581 330	165 415	194 127	5 329 039	186 081	212 459
Contracts over shares						
Futures	10 759		172	7 156	35	89
Swaps	388 401	1 005	12 478	412 332	5 274	22 000
Options	44			996 416	2 675	47
Contracts over other underlying items						
Futures	180 629			151 550		
Other						
Options[2]	468 566	2 267	2 641	859 473	31 821	31 805
Other[3]	1 507 533	3 705		1 660 502	4 074	
Overdue derivatives		2 447			98	
	8 810 319	**179 921**	**212 713**	**11 784 919**	**253 907**	**294 318**

1) In the case of swaps and forwards only the asset amounts were considered.
2) Part 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 HEDGING DERIVATIVES is made up as follows:

	31 Dec. 16			31 Dec. 15		
	Notional value[1]	Book value		Notional value[1]	Book value	
		Assets	Liabilities		Assets	Liabilities
Interest rate contracts						
Futures	21 646		26	70 619	5	16
Swaps	6 986 033	25 797	97 574	7 744 856	91 281	159 493
Contracts over shares						
Swaps	225 046	5	156	733 413		2 047
	7 232 725	**25 802**	**97 756**	**8 548 888**	**91 286**	**161 556**

1) In the case of swaps and forwards only the asset amounts were considered.

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 future prices, 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 standard 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 4.47 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, when 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 31 December 2016 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	**1 031 323**	**47 320**	**20 824**			**1 099 467**
Forwards	111 964	46 060	19 680			177 704
Swaps	919 359	1 260	1 144			921 763
Interest rate contracts	**975 477**	**706 728**	**1 632 201**	**5 998 379**	**2 785 337**	**12 098 122**
Swaps	918 943	531 166	1 509 630	5 833 478	2 774 146	11 567 363
Options	56 534	175 562	122 571	164 901	11 191	530 759
Contracts over indexes and shares	**435 160**	**146 883**	**12 404**	**19 044**		**613 491**
Swaps	435 160	146 883	12 404	19 000		613 447
Options				44		44
Other	**200 366**	**242 195**		**1 171 492**	**362 046**	**1 976 099**
Options	200 366	242 195		3 002	23 003	468 566
Other				1 168 490	339 043	1 507 533
	2 642 326	**1 143 126**	**1 665 429**	**7 188 915**	**3 147 383**	**15 787 179**
Organized markets						
Exchange rate contracts	**2 010**					**2 010**
Futures	2 010					2 010
Interest rate contracts	**62 467**					**62 467**
Futures	62 467					62 467
Contracts over indexes and shares	**10 759**					**10 759**
Futures	10 759					10 759
Contracts over other underlying items	**180 629**					**180 629**
Futures	180 629					180 629
	255 865					**255 865**
	2 898 191	**1 143 126**	**1 665 429**	**7 188 915**	**3 147 383**	**16 043 044**

At 31 December 2015 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	**1 682 433**	**285 241**	**22 047**			**1 989 721**
Forwards	666 236	284 524	21 289			972 049
Swaps	1 016 197	717	758			1 017 672
Interest rate contracts	**2 205 031**	**1 117 011**	**3 356 189**	**3 632 808**	**3 075 539**	**13 386 578**
Swaps	2 130 262	1 055 164	3 318 290	3 516 320	3 053 859	13 073 895
Options	74 769	61 847	37 899	116 488	21 680	312 683
Contracts over indexes and shares	**351 745**	**253 823**	**834 587**	**425 898**	**41 000**	**1 907 053**
Swaps	351 745	153 760	415 351	224 889		1 145 745
Options		100 063	419 236	201 009	41 000	761 308
Other		**114 601**	**1 199 390**	**762 263**	**443 721**	**2 519 975**
Options		114 601	433 104	244 885	66 883	859 473
Other			766 286	517 378	376 838	1 660 502
	4 239 209	**1 770 676**	**5 412 213**	**4 820 969**	**3 560 260**	**19 803 327**
Organized markets						
Exchange rate contracts	**567**					**567**
Futures	500					500
Options	67					67
Interest rate contracts	**126 099**		**10 000**			**136 099**
Futures	63 868		10 000			73 868
Options	62 231					62 231
Contracts over indexes and shares	**239 246**	**3 018**				**242 264**
Futures	7 156					7 156
Options	232 090	3 018				235 108
Contracts over other underlying items	**151 550**					**151 550**
Futures	151 550					151 550
	517 462	**3 018**	**10 000**			**530 480**
	4 756 671	**1 773 694**	**5 422 213**	**4 820 969**	**3 560 260**	**20 333 807**

At 31 December 2016 the distribution of derivative operations, by counterparty external rating, was as follows:

	31 Dec. 16			
	Notional value[1]	Gross exposure[2]	Exposure considering netting[3]	Net exposure[4]
Over-the-counter market (OTC)				
AA-	474 322	2 417	278	
A+	3 731 671	11 827		
A	3 235 100	17 456	10 919	525
A-	282 076	6 088	9	9
BBB+	1 329 795	12 090	3 580	1 450
BBB	1 550 200	6 793		
BB	24 239	249	249	249
BB-	63 824	5 936	2 297	137
N.R.	3 119 853	171 869	170 438	157 053
	13 811 080	**234 725**	**187 770**	**159 423**
Traded on the stock exchange				
Futures[5]	255 865			
	255 865			
	14 066 945	**234 725**	**187 770**	**159 423**

Note: The amounts were accumulated by rating levels of the counterparties, considering the senior medium and long term debt ratings attributted by Moody's, Standard & Poor's and Fitch agencies as of the reference date. The selection of a rating for a given counterparty follows the rules recommended by the Basel Committee in force on the reference date (where there were 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 1 976 099 th. euro.
2) Gross exposure used for risk management purposes, without considering netting agreements, collateral and value adjustment due to credit risk.
3) Amount of exposure without considering collateral and value adjustment due to credit risk.
4) Amount of exposure considering netting agreements and collateral. The amount of possible exposure from excess collateral placed by BPI in its counterparties is not classified as derivative exposure.
5) The exposure of the futures is nil, because they are traded on organised stock exchanges and there is daily financial settlement.

At 31 December 2015 the distribution of derivative operations, by counterparty external rating, was as follows:

	31 Dec. 15			
	Notional value[1]	Gross exposure[2]	Exposure considering netting[3]	Net exposure[4]
Over-the-counter market (OTC)				
AA-	1 113 981	5 228	1 912	12
A+	1 079 269	6 023	2 643	741
A	5 874 172	47 760	18 743	1 605
A-	2 071 059	12 127	2 714	1 594
BBB+	2 170 224	11 379	6 890	3 184
BBB	629 539	16 826	1 116	1 116
BB	827			
BB-	129 275	7 086	3 493	
N.R.	4 215 006	214 751	213 575	192 218
	17 283 352	**321 180**	**251 086**	**200 470**
Traded on the stock exchange				
Futures[5]	530 480			
	530 480			
	17 813 832	**321 180**	**251 086**	**200 470**

Note: The amounts were accumulated by rating levels of the counterparties, considering the senior medium and long term debt ratings arributted by Moody's, Standard & Poor's and Fitch agencies as of the reference date. The selection of a rating for a given counterparty follows the rules recommended by the Basel Committee in force on the reference date (where there were 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 2 519 975 th. euro.
2) Gross exposure used for risk management purposes, wiyhout considering neting agreements, collateral and value adjustment due to credit risk.
3) Amount of exposure without considering collateral and value adjustment due to credit risk.
4) Amount of exposure considering netting agreements and collateral. The amount of possible exposure from excess collateral placed by BPI in its counterparties is not classified as derivative exposute.
5) The exposure of the futures is nil, because they are traded on organised stock exchanges and theee is daily financial settlement.

4.5. Financial assets available for sale

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Debt instruments		
Bonds issued by Portuguese government entities		
Treasury bills	1 909 026	1 426 643
Treasury bonds	338 548	350 938
Bonds issued by foreign government entities	1 180 982	4 175 426
Bonds issued by other Portuguese entities	30 512	29 782
Bonds issued by other foreign entities	123 873	197 203
	3 582 941	**6 179 992**
Equity instruments		
Shares issued by Portuguese entities	62 161	66 494
Impairment	(28 187)	(28 432)
Quotas	58 934	60 784
Shares issued by foreign entities	42 843	55 328
Impairment	(18 680)	(18 619)
	117 071	**135 555**
Other securities		
Participating units issued by Portuguese entities	214 037	226 470
Impairment	(53 958)	(49 044)
Participating units issued by foreign entities	17 719	16 822
Impairment	(1 784)	(1 784)
	176 014	**192 464**
Loans and other receivables	**4 794**	**23 049**
Impairment	(4 386)	(21 672)
	408	**1 377**
	3 876 434	**6 509 388**

Banco BPI holds a portfolio of fixed rate bonds, issued by national and international entities, in which the interest rate risk is hedged by derivative instruments.

The caption LOANS AND OTHER RECEIVABLES corresponds to shareholders' loans to, and supplementary capital contributions in, companies classified as financial assets available for sale.

In the review made by the Bank, no impaired securities were identified, other than the amounts already recognised.

The changes in impairment losses and provisions in 2016 and 2015 are shown in note 4.21.

At 31 December 2016 this caption was made up as follows:

Nature and type of security	Quantity	Amounts per unit (€)		Cost	Book value / Fair value[1]	Net gain / (loss) on securities[2]	Hedge accounting effect[2]	Impairment
		Nominal	Listing / price					
SECURITIES								
Debt instruments								
Issued by Portuguese entities								
Portuguese public debt								
Treasury bills								
BILHETES DO TESOURO-CZ-17.11.2017	190 828 000	1.00	1.00	190 816	190 832	14		
BILHETES DO TESOURO-CZ-17-03-2017	325 500 000	1.00	1.00	325 436	325 529	37		
BILHETES DO TESOURO-CZ-19.05.2017	340 000 000	1.00	1.00	339 948	340 000	9		
BILHETES DO TESOURO-CZ-20.01.2017	7 280 000	1.00	1.00	7 280	7 281	1		
BILHETES DO TESOURO-CZ-21.07.2017	541 070 000	1.00	1.00	541 007	541 163	124		
BILHETES DO TESOURO-CZ-22.09.2017	504 216 000	1.00	1.00	504 236	504 221	(13)		
				1 908 723	**1 909 026**	**172**		
Treasury Bonds								
OT – 4.35% (16.10.2017)	60 000	0.01	103.59	93	63	1		
OT – 4.35% (16.10.2017)	500 000	0.01	0.01	525	522	13		
OT – 4.75%-14.06.2019	300 000 000	0.01	0.01	318 513	337 883	24 702	(27 352)	
OT – 4.8%-15.06.2020	70 000	0.01	111.60	79	80			
				319 210	**338 548**	**24 716**	**(27 352)**	
Other residents								
Non-subordinated debt								
Other bonds								
VIOLAS-SGPS SA-TV-06.11.2023	30 000 000		101.37	30 000	30 512	411		
				30 000	**30 512**	**411**		
Issued by non-residents								
By foreign government entities								
Bonds								
BUONI ORDINARI DEL TES-CZ-1.06.2017	80 000 000	1 000.00	1 001.50	80 108	80 120	49		
BUONI ORDINARI DEL TES-CZ-12.05.2017	70 000 000	1 000.00	1 001.18	70 117	70 083	9		
BUONI ORDINARI DEL TES-CZ-13.01.2017	25 000 000	1 000.00	1 000.29	25 023	25 007	5		
BUONI ORDINARI DEL TES-CZ-13.04.2017	45 000 000	1 000.00	1 001.01	45 063	45 045	2		
BUONI ORDINARI DEL TES-CZ-13.10.2017	40 000 000	1 000.00	1 002.18	40 094	40 087	14		
BUONI ORDINARI DEL TES-CZ-14.02.2017	50 000 000	1 000.00	1 000.64	50 056	50 032	12		
BUONI ORDINARI DEL TES-CZ-14.03.2017	80 000 000	1 000.00	1 001.10	80 096	80 088	40		
BUONI ORDINARI DEL TES-CZ-14.07.2017	20 000 000	1 000.00	1 001.53	20 041	20 031	7		
BUONI ORDINARI DEL TES-CZ-14.08.2017	60 000 000	1 000.00	1 001.79	60 095	60 107	20		
BUONI ORDINARI DEL TES-CZ-14.11.2017	30 000 000	1 000.00	1 002.43	30 065	30 073	17		
BUONI POLIENNALI DEL T-4.5%-01.03.2019	175 000 000	1 000.00	1 098.45	185 458	194 832	14 858	(15 721)	
SPAIN LETRAS DEL TESORO-CZ-07.04.2017	105 000 000	1 000.00	1 001.22	105 152	105 128	44		
SPAIN LETRAS DEL TESORO-CZ-10.03.2017	110 000 000	1 000.00	1 000.87	110 150	110 096	32		
SPAIN LETRAS DEL TESORO-CZ-16.06.2017	100 000 000	1 000.00	1 001.78	100 200	100 178	58		
SPAIN LETRAS DEL TESORO-CZ-17.02.2017	90 000 000	1 000.00	1 000.61	90 034	90 055	44		
SPAIN LETRAS DEL TESORO-CZ-20.01.2017	80 000 000	1 000.00	1 000.25	80 088	80 020	8		
				1 171 840	**1 180 982**	**15 219**	**(15 721)**	
Others non-residents								
Non-subordinated debt								
Bonds								
ALLIANZ FINANCE BV-4.375% PERP.	47 500 000		100.10	45 175	49 355	80	(260)	
BARCLAYS BANK PLC-TV-25.05.2017	2 226 359	31 805.13	16 240.02	1 608	1 137	(1 037)		
C8 CAPITAL SPV -TV - PERPETUA	61 663 979	948.68	815.86	61 405	53 030	(8 634)		
COSAN FINANCE LTD-7%-01.02.2017	18 973 532		99.73	18 773	19 471	(48)	(91)	
EIRLES TWO LIMITED-TV. PERP.	800 000	100 000.00	62 840.00	794	506	(297)		
KION MORTGAGE FIN SR.06-1 CL.A-15.07.51	49 947	780.42	639.05	49	41	(9)		
MADRID RMBS FTA-SR.06-1 CL.A2-22.06.2049	164 623	41 155.69	39 756.89	162	159	(3)		
PT PORTUGAL SGPS SA-6.25%-2016	80 000	1 000.00	296.67	80	24	(56)		
				128 046	**123 723**	**(10 004)**	**(351)**	
Subordinated debt								
Bonds								
LUSITANO MTGE-SR.1-CL.D-TV (15.12.2035)	200 000	100 000.00	74 990.00	198	150	(50)		
				198	**150**	**(50)**		
					123 873	**(10 054)**	**(351)**	

1) Net of impairment.
2) Amount recorded in revaluation reserves (note 4.29).

Nature and type of security	Quantity	Amounts per unit (€)		Cost	Book value / Fair value[1]	Net gain / (loss) on securities[2]	Hedge accounting effect[2]	Impairment
		Nominal	Listing / price					
Equity instruments								
Issued by residents								
Shares								
AGROGARANTE SA	84 360	1.00	1.00	84	84			
ALBERTO GASPAR, SA (CÓD LB0001: 92020020501)	60 000	5.00	0,000	141				141
APOR-AG.P / MODERNIZAÇAO PORTO – CL.B	5 665	5.00		26	26			
BOAVISTA FUTEBOL CLUBE, FUTEBOL,SAD	21 900	5.00		110				110
BOMBARDIER TRANSPORTATION PORTUGAL SA	1	5.00						
BUCIQUEIRA SGPS	8	5.00		1	1			
C.ª AG.FONTE SANTA MONFORTINHO-D.SUB / E.98	10	5.00						
CIMPOR – CIM.DE PORTUGAL-SGPS	3 565	1.00	0.24	7	1	(6)		
CITEVE-QUOTA ASSOCIACAO	20	498.80		10	10			
COMP.ª AURIFICIA – N	1 186	7.00	1 111.30	25	1 318	1 293		
COMP.ª PRESTAMISTA PORTUGUEZA	10	1.00						
COMP.ª.FIAÇAO E TECIDOS DE FAFE – P	168	4.99						
CONDURIL, SA (C)	184 262	5.00	54.47	806	10 036	9 231		
CORTICEIRA AMORIM – SGPS	127 419	1.00	8.50	315	1 083	1 009		240
DIGITMARKET-SIST.INF.-N	4 950	1.00		743				743
EMP.CINEMATOGRAFICA S.PEDRO	100	4.99						
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						
F.I.T.-FOM.IND.TOMATE – P	148	4.99		3	3			
FAB. VASCO DA GAMA – IND.TRANSF.	33	4.99		1	1			
GARVAL – SOCIEDADE DE GARANTIA MUTUA	204 950	1.00	1.00	205	205			
GEIE – GESTÃO ESPAÇOS INC.EMPRESARIAL(C)	12 500	1.00		13				13
GESTINSUA – AQ.AL.PATRIMONIOS IMOB.MOB.	430	5.00		2				2
IMPRESA SGPS	6 200 000	0.50	0.19	22 791	1 178			21 613
INEGI-INST.ENG.MECANICA-QUOTA ASSOCIAÇAO	5 000	1.00		25	25			
INTERSIS AUTOMAÇAO, ENG.DE SISTEMAS	42 147	4.99		1 307				1 307
J.SOARES CORREIA-ARMAZENS DE FERRO	84	5.00		2	2			
LISGARANTE – SOC.DE GARANTIA MUTUA	181 065	1.00	1.00	181	181			
LISNAVE – EST.NAVAIS	180	5.00		1	1			
MARGUEIRA-SOC.GEST.DE FUNDOS INV.IMOB.-N	3 511	5.00		18	18			
MATUR-SOC.EMPREEND.TURISTICOS DA MADEIRA	13 175	5.00		143				143
MATUR-SOC.EMPREEND.TURISTICOS MADEIRA-N	4	5.00						
METALURGIA CASAL – P	128	4.99		1	1			
MIMALHA, SA (CÓD LB0001: 92017022101)	40 557	4.99		336				336
MORETEXTILE,SGPS,SA	711	1.00		1	1			
NET – NOVAS EMPRESAS E TECNOLOGIAS – N	20 097	5.00	2.28	73	46	(27)		
NEWPLASTICS	1 445	1.00		1	1			
NEXPONOR-SICAFI	1 933 840	5.00	3.99	9 669	7 716	312		2 265
NORGARANTE – SOC.DE GARANTIA MUTUA	231 690	1.00	1.00	232	232			
NOTORIOUSWAY, SA	2 500	1.00		3	3			
NUTROTON SGPS – C	11 395	5.00	4.38	50	50			
OFICINA DA INOVACAO	10 000	5.00	7.18	50	72	32		10
PORTUGAL CAP. VENTURES-SOC.CAP.RISCO	500 641	5.00	6.02	2 692	3 012	320		
SALVOR – SOC.INV.HOTELEIRO – P	10	5.00						
SANJIMO – SOCIEDADE IMOBILIARIA	1 620	4.99		8				8
SAPHETY LEVEL – TRUSTED SERVICES	5 069	1.00		98				98
SDEM -SOC.DE DESENV.EMPR.MADEIRA,SGPS-N	937 500	1.00	0.22	938	206			730
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						
SOFID-SOC.P / FIN.DES.-INST.FIN.CREDITO SA	1 000 000	1.00	0.88	1 250	885			365
SOMOTEL-SOC.PORTUGUESA DE MOTEIS	1 420	2.50						
SONAE – SGPS	36 868	1.00	0.87	69	32	18		55
SOPEAL-SOC.PROM.EDUC.ALCACERENSE	100	4.99						
SPI-SOC PORTUGUESA DE INOVACAO	1 500	5.00		7	7			

1) Net of impairment.
2) Amount recorded in revaluation reserves (note 4.29).

Nature and type of security	Quantity	Amounts per unit (€)		Cost	Book value / Fair value[1]	Net gain / (loss) on securities[2]	Hedge accounting effect[2]	Impairment
		Nominal	Listing / price					
Shares (cont.)								
STAR – SOC. TURISMO E AGENCIAS RIBAMAR	533	4.99		3	3			
TAEM – PROCESSAMENTO ALIMENTAR,SGPS, SA	125	1.00						
TAGUSPARQUE – N	436 407	5.00		2 177	2 177			
TEXTIL LOPES DA COSTA	4 900	4.99		8				8
TUROPA-OPERADORES TURISTICOS	5	4.99						
UNICER – BEBIDAS DE PORTUGAL	1 002	1.00	8.07	8	8			
VIALITORAL – CONC. RODOVIARIA MADEIRA	4 750	161.25	470.00	792	2 233	1 441		
VNCORK SGPS	151	1.00						
				48 542	**33 974**	**13 623**		**28 187**
Quotas								
PROPAÇO – SOC.IMOB.DE PAÇO D'ARCOS		1.00		1	1			
VIACER – SOC.GEST.PART.SOCIAIS, SA		1.00		48 160	58 933	10 774		
				48 161	**58 934**	**10 774**		
Issued by non-residents								
Shares								
ABANCA CORPORACION BANCARIA SA	18 588	1.00		29				29
ALTITUDE SOFTWARE B.V.	6 386 243	0.04	0.00	13 810				13 810
AMSCO -USD	1 807	948.68		949				948
CAIXABANK ELECTRONIC MONEY, EDE, SL	35 000	1.00		88	88			
CLUB FINANCIERO VIGO	1	15 626.31		18	12			6
CORPORACIÓN FINANCIERA ARCO (TROCA ARCO BODEGAS)	7 786	100.00	72.77	4 399	566			3 832
CREDIT LOGEMEN DEVELOPMENT	20	70.00	70.00	1	1			
EASDAQ NV	100	1.42		25				25
EUROPEAN INVESTMENT FUND	14	1 000 000.00	1 235 922.11	15 325	17 303	1 978		
IBOS HOLDING SA	277 864	0.01		3				3
INTERBANCOS								
OSEO – SOFARIS	13	107.89	107.89	2	2			
S.W.I.F.T.	97	125.00		216	216			
THARWA FINANCE – MAD	20 895			202	279	77		
UNIRISCO GALICIA	80	1 202.02	1 359.43	96	109	39		27
VISA INC-CLASS C	6 002	0.00	930.83	5 530	5 587	57		
				40 693	**24 163**	**2 151**		**18 680**
Other								
Issued by residents								
Participating Units								
EGP-UNIVERSITY OF PORTO BUS.SCHOOL ASS.	2	4.99		70	70			
FCR-F-HITEC (ES VENTURES)	500 000	1.00	1.28	500	638	138		
FCR-FUNDO CARAVELA	1 800	3 338.80	2 365.72	6 010	4 258	187		1 939
FCR-FUNDO INTER-RISCO II – CL.A	7 500	4 263.80	2 652.57	31 979	19 895			12 083
FCR-FUNDO INTER-RISCO II CI-CLASSE A	6 000	5 000.00	4 673.23	30 144	28 039	(2 106)		
FCR-FUNDO RECUPERACAO-CATEGORIA B	85 304	1 000.00	685.63	85 304	58 488	533		27 349
FCR-FUNDO RECUPERACAO-CATEGORIA C	17 959	1 000.00	685.63	17 959	12 313	112		5 758
FCR-FUNDO REESTRUTURAÇÃO EMPRESARIAL	5 607	1 000.00	957.03	5 607	5 366	(241)		
FCR-FUNDO REVITALIZAR CENTRO	7 272 727	1.00	1.11	7 273	8 045	773		
FCR-FUNDO REVITALIZAR NORTE	7 156 881	1.00	0.94	7 157	6 697	(460)		
FCR-FUNDO REVITALIZAR SUL – CAT.A2	1 685 919	1.00	1.03	1 686	1 728	42		
FCR-FUNDO REVITALIZAR SUL – CAT.B2	1 774 612	1.00	1.03	1 775	1 819	45		
FCR-FUNDO REVITALIZAR SUL – CAT.C2	1 190 442	1.00	1.03	1 190	1 220	30		
FCR-PORTUGAL GLOBAL VENTURES I	6 269	10.00	9.77	69	61			8
FCR-PORTUGAL VENTURES GPI	6	25 000.00	20 122.15	130	120	4		15
FCR-PORTUGAL VENTURES TURISMO	164	24 939.89	9 371.64	3 568	1 537	278		2 309
FCR-PORTUGAL VENTURES VALOR 2	131	3 420.24	4 381.53	2 630	573	128		2 185
FCR-PORTUGAL VENTURES-FIEP	2 964	1 000.00	831.92	2 964	2 466	227		725
FCR-PV ACTEC II – CATEGORIA A1	67 249	1.00	1.02	78	68	6		15
FCR-PV ACTEC II – CATEGORIA B1	290 145	1.00	1.02	337	295	25		67
FCR-TURISMO INOVACAO CAT.B	12	50 000.00	20 295.95	600	244	(356)		
FEIIF-UNICAMPUS	3 000	1 000.00	1 004.60	3 000	3 014	14		
FUNDO CARAVELA	1 321	3 338.80	2 365.72	4 492	3 125	137		1 505
				214 522	**160 079**	**(484)**		**53 958**

1) Net of impairment.
2) Amount recorded in revaluation reserves (note 4.29).

Nature and type of security	Quantity	Amounts per unit (€)		Cost	Book value / Fair value[1]	Net gain / (loss) on securities[2]	Hedge accounting effect[2]	Impairment
		Nominal	Listing / price					
Issued by non-residents								
Participating units								
FUNDO BPI-EUROPA	23 405	0.01	13.93	171	326	155		
FUNDO PATHENA SCA SICAR (B)	10 000 000	1.00	0.97	10 096	9 668	(429)		
PORTUGAL VENTURE CAPITAL INITIATIVE-PVCI	6 813 056	1.00	0.87	6 813	5 941	912		1 784
				17 080	**15 935**	**638**		**1 784**
Loans and others receivables								
Loans and Shareholder's loans								
PETROCER SGPS, LDA					200			
PROPACO – SOC IMOB DE PACO D'ARCOS LDA								4 386
SAPHETY LEVEL-TRUSTED SERVICES, SA					208			
				408			**4 386**	
				3 798 771	**3 876 434**	**57 166**	**(43 424)**	**106 995**

1) Net of impairment.
2) Amount recorded in revaluation reserves (note 4.29).

At 31 December 2016 (note 4.9) and 2015 the Treasury Bills – Angola and Treasury Bonds – Angola were recorded at the corresponding acquisition cost, as this is believed to best reflect their market value, since there is no listed price on an active market with regular transactions.

In the last quarter of 2015 Visa Inc. launched a public offering to acquire 100% of the share capital of Visa Europe Limited, an operation which was concluded on 21 June 2016. At 31 December 2015 the total amount receivable by Banco BPI, S.A. was estimated at 20.8 million euro, of which 15.5 million euro in cash and the remainder in Visa Inc. preference shares. At that date Banco BPI valued its participation in Visa Europe considering only the cash component, by corresponding entry to the equity caption REVALUATION RESERVES. In addition, also by corresponding entry to equity in the caption DEFERRED TAX RESERVES, the Bank recorded the related deferred tax liability relating to the tax expected to be paid on the date of completion of the transaction. At that date, in the valuation of the share in Visa Europe the Bank attributed zero value to the component receivable in preference shares of Visa Inc. This decision was based on the fact that at 31 December 2015 the Bank had no information to enable it to reliably value that component.

On 21 June 2016 this transaction was closed with the following amount for Banco BPI:

(i) cash of 16 528 th. euro received on the closing date of the transaction (21 June 2016);

(ii) deferred cash in the amount of 1 427 th. euro receivable in a single payment on the third anniversary of the closing of the transaction (21 June 2019). At the closing date of the transaction the Bank recorded the present value of the amount receivable from Visa Inc. in 2019, considering a discount rate of 4%, at the amount of 1 274 th. euro;

(iii) receipt of 6 002 preference shares of Visa Inc. In determining the fair value of the preference shares, Banco BPI used the conversion factor of the preference shares into the ordinary shares initially established by Visa Inc. and the market price of the ordinary shares of Visa Inc. on the closing date of the transaction. Banco BPI applied an haircut to the amount obtained, to reflect a discount due to the lack of liquidity of the preference shares and the uncertainty relating to the outcome of current and possible lawsuits. The fair value of the preferred shares of Visa Inc. calculated by the Bank on the closing date of this transaction amounted to 5 143 th. euro.

Thus, Banco BPI, S.A. recognized a gain, before tax, in the first half of 2016 in the amount of 22 945 th. euro, which was recorded in the statement of income caption NET INCOME ON FINANCIAL OPERATIONS (note 4.39).

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:

- participating units in the credit recovery funds and in the companies controlled by those funds;
- shares and shareholders' loans of companies controlled by those 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 holds a minority interest in these funds.

At 31 December 2016 and 2015, the portfolio of financial assets available for sale included 64 815 th. euro and 71 092 th. euro, respectively, relating to securities and shareholders' loans subscribed for by Banco BPI under transfer of assets operations:

	31 Dec. 16				
	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]	94 384		(33 107)		61 277
Fundo de Reestruturação Empresarial, FCR	3 538				3 538
	97 922		**(33 107)**		**64 815**

Note: Amounts net of unrealized subscribed capital recorded in the caption OTHER LIABILITIES.
1) At 31 December 2016, the shareholder's loans associated with securities subscribed under the transfer of assets operations, were subject to asset write off.
2) Includes the companies controlled by Fundo de Recuperação, FCR: Notoriousway S.A., Newplastics S.A., Vncork SGPS S.A., TAEM – Processamento Alimentar SGPS S.A. and Moretextile S.A.

	31 Dec. 15				
	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]	96 665	15 151	(29 196)	(15 151)	67 469
Fundo de Reestruturação Empresarial, FCR	3 623				3 623
	100 288	**15 151**	**(29 196)**	**(15 151)**	**71 092**

Note: Amounts net of unrealized subscribed capital recorded in the caption OTHER LIABILITIES.
1) Does not include interest in the amount of 2 155 th. euro, for which impairment of 100% has been recorded.
2) Includes the companies controlled by Fundo de Recuperação, FCR: Notoriousway S.A., Newplastics S.A., Vncork SGPS S.A., TAEM – Processamento Alimentar SGPS S.A. and Moretextile S.A.

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.

Following the ceding of loan operations, they were derecognized from the balance sheet, as all the requirements of IAS 39 on this matter were fulfilled, namely transfer of a substantial part of the risks and benefits relating to the ceded loan operations, and therefore control. Additionally, Banco BPI does not consolidate the funds and companies that own the assets as it only holds a minority participation in them. The loans sold, net of impairment, totalled 72 959 th. euro at 31 December 2016 and 2015.

	31 Dec. 16			
	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.

	31 Dec. 15			
	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.

4.6. Loans and advances to credit institutions

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Loans to the Bank of Portugal		5 500
Loans and advances to other Portuguese credit institutions		
Deposits	142 252	219 000
Other loans	81 500	79 000
Securities purchased with resale agreements		5 163
Other advances	26	23
Accrued interest	251	201
	224 029	**303 387**
Loans and advances to other foreign central banks		60 880
Loans and advances to other foreign credit institutions		
Very short term loans and advances	68 968	49 538
Deposits	54 861	445 973
Loans	44	44
Other loans and advances	288 339	357 653
Accrued interest	409	7 070
	413 578	**921 158**
Commission relating to amortised cost (net)		(2)
	637 607	**1 230 043**

The changes in impairment losses and provisions in 2016 and 2015 are presented in note 4.21.

4.7. Loans and advances to Customers

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Loans		
Domestic loans		
Companies		
Discount	81 704	108 865
Loans	5 272 738	5 286 707
Commercial lines of credit	139 649	186 413
Demand deposits – overdrafts	142 672	146 406
Invoices received – factoring	494 599	339 390
Finance leasing	384 554	301 872
Real estate leasing	341 367	338 012
Other loans	48 280	26 969
Loans to individuals		
Housing	10 838 706	10 866 552
Consumer	807 909	692 812
Other loans	429 418	432 849
Foreign loans		
Companies		
Discount	3 042	16 846
Loans	1 027 035	2 065 564
Commercial lines of credit	43 965	302 118
Demand deposits – overdrafts	5 455	16 529
Invoices received – factoring	1 175	723
Finance leasing	1 022	326
Real estate leasing	360	939
Other loans		12 829
Loans to individuals		
Housing	31 816	172 409
Consumer	11 038	259 832
Other loans	21 183	70 851
Accrued interest	44 989	69 369
	20 172 676	**21 715 182**

(continues) ▷

(continued)

	31 Dec. 16	31 Dec. 15
Securities		
Issued by Portuguese government entities	137 030	102 030
Issued by other Portuguese entities		
Non subordinated debt securities		
Bonds	1 318 667	1 288 333
Commercial paper	818 546	843 275
Subordinated debt securities	11 800	11 800
Issued by other foreign entities		
Non subordinated debt securities		
Bonds	240 168	326 311
Commercial paper		1 491
Accrued interest	10 989	14 192
Deferred interest	(142)	(189)
	2 537 058	**2 587 243**
Correction of the amount of hedged assets	29 890	35 215
Commissions relating to amortised cost (net)	508	166
	22 740 132	**24 337 806**
Overdue loans and interest	690 826	922 470
Loan impairment	(695 200)	(978 654)
	22 735 758	**24 281 622**

Loans and Advances to Customers include the following non-derecognised securitised assets:

	31 Dec. 16	31 Dec. 15
Non-derecognised securitised assets[1]		
Loans		
Housing	1 444 486	1 593 367
Loans to SME's	3 245 545	3 228 647
Accrued interest	11 142	14 963
	4 701 173	**4 836 977**

1) Excluding 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 31 December 2016 and 2015 the caption LOANS AND ADVANCES TO CUSTOMERS also included operations allocated to the Cover Pool given as collateral for Covered Bonds issued by Banco BPI (note 4.19), namely:

- 6 501 785 th. euro and 6 057 014 th. euro, respectively, allocated as collateral to mortgage bonds;
- 715 120 th. euro and 700 344 th. euro, respectively, allocated as collateral to public sector bonds.

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

	31 Dec. 16	31 Dec. 15
Debt instruments		
Issued by Portuguese government entities	50 000	50 000
Issued by other Portuguese entities	1 010 398	1 353 528
Issued by other foreign entities	234 983	321 402
	1 295 381	**1 724 930**

The changes in impairment losses and provisions in 2016 and 2015 are presented in note 4.21.

At 31 December 2016 the amount of the exposure and impairment of loans and advances to Customers was made up as follows:

Segment	Exposure					Impairment		
	Total exposure[1]	**Credit-not at-risk**	Of which restructured	**Credit at-risk**	Of which restructured	Total impairment	**Credit-not at-risk**	**Credit at-risk**
Corporate banking	**4 535 241**	**4 260 260**	**340 540**	**274 981**	**183 510**	**254 254**	**91 284**	**162 970**
Large Companies	1 790 202	1 709 060	127 236	81 142	49 620	86 761	40 620	46 141
Medium-sized Companies	2 745 039	2 551 200	213 304	193 839	133 890	167 493	50 664	116 829
Project Finance – Portugal	995 506	950 663	223 663	44 843	10 477	30 288	10 326	19 962
Madrid	784 721	743 344	166 898	41 377	30 569	45 162	24 631	20 531
Project Finance	456 620	424 236	141 100	32 384	23 180	29 708	16 571	13 137
Corporate	328 101	319 108	25 798	8 993	7 389	15 454	8 060	7 394
Public Sector	1 417 408	1 417 280	81 534	128	120	2 178	2 158	20
Central administration	189 468	189 468						
Regional and local administration	780 753	780 753	44 839			2	2	
State Corporate Sector – in the budget perimeter	51 810	51 810						
State Corporate Sector – outside the budget perimeter	365 600	365 600	36 695			2 139	2 139	
Other institutional	29 777	29 649		128	120	37	17	20
Individuals and Small Businesses Banking	14 022 951	13 526 081	247 186	496 870	143 043	350 842	113 950	236 892
Mortgage loans to individuals	11 084 214	10 736 564	168 610	347 650	79 831	211 566	82 008	129 558
Consumer loans / other purposes	690 239	657 825	19 708	32 414	13 621	37 095	9 066	28 029
Credit cards	164 285	158 617	10	5 668	3	6 825	1 651	5 174
Car financing	168 091	165 673	95	2 418	19	2 451	852	1 599
Small businesses	1 916 122	1 807 402	58 763	108 720	49 569	92 905	20 373	72 532
Other[2]	1 588 897	1 584 464		4 433		12 476	12 288	188
	23 344 724	**22 482 092**	**1 059 821**	**862 632**	**367 719**	**695 200**	**254 637**	**440 563**

1) Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commissions relating to amortised cost.
2) Includes 1 295 381 th. euro of securities held by BPI Vida, essentially allocated to the coverage of capitalization insurance products.

At 31 December 2015 the amount of the exposure and impairment of loans and advances to Customers was made up as follows:

Segment	Exposure					Impairment		
	Total exposure[1]	**Credit-not at-risk**	Of which restructured	**Credit at-risk**	Of which restructured	Total impairment	**Credit-not at-risk**	**Credit at-risk**
DOMESTIC ACTIVITY	**23 570 591**	**22 499 646**	**1 075 234**	**1 070 945**	**440 541**	**879 988**	**294 982**	**585 006**
Corporate banking	4 096 676	3 782 466	350 627	314 210	200 175	295 533	98 379	197 154
Large Companies	1 476 163	1 415 733	140 952	60 430	47 222	83 578	47 546	36 032
Medium-sized Companies	2 620 513	2 366 733	209 675	253 780	152 953	211 955	50 833	161 122
Project Finance – Portugal	1 184 984	1 090 770	191 536	94 214	37 924	83 027	17 254	65 773
Madrid	1 038 395	922 131	140 701	116 264	59 478	100 370	38 482	61 888
Project Finance	623 799	536 345	104 883	87 454	32 268	72 520	28 835	43 685
Corporate	414 596	385 786	35 818	28 810	27 210	27 850	9 647	18 203
Public Sector	1 358 949	1 358 681	111 284	268	144	2 261	2 228	33
Central administration	204 767	204 767						
Regional and local administration	774 593	774 583	73 546	10		10	1	9
State Corporate Sector – in the budget perimeter	51 814	51 814				1	1	
State Corporate Sector – outside the budget perimenter	267 363	267 363	37 738			2 194	2 194	
Other institutional	60 412	60 154		258	144	56	32	24
Individuals and Small Business Banking	13 827 928	13 284 764	277 153	543 164	142 820	384 146	124 300	259 846
Mortgage loans to individuals	11 124 073	10 749 121	179 468	374 952	80 158	230 607	92 569	138 038
Consumer loans / other purposes	603 460	572 174	25 255	31 286	11 926	31 190	5 077	26 113
Credit cards	170 862	164 895	23	5 967	2	7 273	1 963	5 310
Car financing	138 523	135 740	90	2 783	51	1 990	452	1 538
Small businesses	1 791 010	1 662 834	72 317	128 176	50 683	113 086	24 239	88 847
Other[2]	2 063 659	2 060 834	3 933	2 825		14 651	14 339	312
INTERNATIONAL ACTIVITY	**1 570 932**	**1 483 802**	**21 301**	**87 130**	**11 924**	**98 666**	**48 523**	**50 143**
Corporate banking	748 604	682 578	21 301	66 026	11 924	72 661	36 412	36 249
Public Sector	385 542	385 541		1		13	12	1
Individuals and Small Business Banking	436 237	415 147		21 090		25 964	12 084	13 880
Other	549	536		13		28	15	13
	25 141 523	**23 983 448**	**1 096 535**	**1 158 075**	**452 465**	**978 654**	**343 505**	**635 149**

1) Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commissions relating to amortised cost.
2) Includes 1 724 930 th. euro of securities held by BPI Vida, essentially allocated to the coverage of capitalization insurance products.

At 31 December 2016 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
Corporate banking	4 535 241	4 257 154	3 106	10 080	264 901	254 254	90 255	1 029	3 396	159 574
Large Companies	1 790 202	1 709 025	35	8	81 134	86 761	40 619	1	2	46 139
Medium-sized Companies	2 745 039	2 548 129	3 071	10 072	183 767	167 493	49 636	1 028	3 394	113 435
Project Finance – Portugal	995 506	950 663			44 843	30 288	10 326			19 962
Madrid	784 721	743 344			41 377	45 162	24 631			20 531
Project Finance	456 620	424 236			32 384	29 708	16 571			13 137
Corporate	328 101	319 108			8 993	15 454	8 060			7 394
Public Sector	1 417 408	1 417 280			128	2 178	2 158			20
Central administration	189 468	189 468								
Regional and local administration	780 753	780 753				2	2			
State Corporate Sector – in the budget perimeter	51 810	51 810								
State Corporate Sector – outside the budget perimeter	365 600	365 600				2 139	2 139			
Other institutional	29 777	29 649			128	37	17			20
Individuals and Small Businesses Banking	14 022 951	13 448 495	77 586	5 762	491 108	350 842	97 883	16 067	1 054	235 838
Mortgage loans to individuals	11 084 214	10 676 053	60 511	2 384	345 266	211 566	70 574	11 434	342	129 216
Consumer loans / other purposes	690 239	653 429	4 396	149	32 265	37 095	6 999	2 067	44	27 985
Credit cards	164 285	157 818	799	10	5 658	6 825	1 319	332	6	5 168
Car financing	168 091	164 791	882	58	2 360	2 451	659	193	3	1 596
Small businesses	1 916 122	1 796 404	10 998	3 161	105 559	92 905	18 332	2 041	659	71 873
Other[3]	1 588 897	1 584 464			4 433	12 476	12 288			188
	23 344 724	**22 401 400**	**80 692**	**15 842**	**846 790**	**695 200**	**237 541**	**17 096**	**4 450**	**436 113**

1) Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commissions relating to amortised cost.
2) Includes non-defaulting loans (no days in arrears).
3) Includes 1 295 381 th. euro of securities held by BPI Vida, essentially allocated to the coverage of capitalization insurance.

At 31 December 2015 the amount of the exposure and impairment of loans and advances to Customers was made up as follows::

Segment	Total exposure[1]	Total exposure: Credit-not at-risk: Days in arrears: < 30[2]	Total exposure: Credit-not at-risk: Days in arrears: between 30-90	Total exposure: Credit at-risk: Days in arrears: <= 90	Total exposure: Credit at-risk: Days in arrears: > 90 days	Total Impairment	Total Impairment: Credit-not at-risk: Days in arrears: < 30[2]	Total Impairment: Credit-not at-risk: Days in arrears: between 30-90	Total Impairment: Credit at-risk: Days in arrears: <= 90	Total Impairment: Credit at-risk: Days in arrears: > 90 days
DOMESTIC ACTIVITY	**23 570 591**	**22 397 913**	**101 733**	**40 165**	**1 030 780**	**879 988**	**270 585**	**24 397**	**24 894**	**560 112**
Corporate banking	4 096 676	3 774 156	8 310	37 198	277 012	295 533	95 308	3 072	24 217	172 936
Large Companies	1 476 163	1 413 163	2 570	29 622	30 808	83 578	45 406	2 141	21 965	14 066
Medium-sized Companies	2 620 513	2 360 993	5 740	7 576	246 204	211 955	49 902	931	2 252	158 870
Project Finance – Portugal	1 184 984	1 090 770			94 214	83 027	17 254			65 773
Madrid	1 038 395	922 131			116 264	100 370	38 482			61 888
Project Finance	623 799	536 345			87 454	72 520	28 835			43 685
Corporate	414 596	385 786			28 810	27 850	9 647			18 203
Public Sector	1 358 949	1 358 681			268	2 261	2 228			33
Central administration	204 767	204 767								
Regional and local administration	774 593	774 583			10	10	1			9
State Corporate Sector – in the budget perimeter	51 814	51 814				1	1			
State Corporate Sector – outside the budget perimenter	267 363	267 363				2 194	2 194			
Other institutional	60 412	60 154			258	56	32			24
Individuals and Small Business Banking	13 827 928	13 191 439	93 325	2 967	540 197	384 146	102 975	21 324	677	259 170
Mortgage loans to individuals	11 124 073	10 675 061	74 060	1 007	373 945	230 607	76 753	15 816	249	137 789
Consumer loans / other purposes	603 460	565 765	6 409	153	31 133	31 190	3 247	1 830	47	26 066
Credit cards	170 862	164 156	739	34	5 933	7 273	1 681	282	21	5 289
Car financing	138 523	134 893	847	49	2 734	1 990	305	147	4	1 534
Small businesses	1 791 010	1 651 564	11 270	1 724	126 452	113 086	20 989	3 249	356	88 492
Other[3]	2 063 659	2 060 736	98		2 825	14 651	14 338	1		312
INTERNATIONAL ACTIVITY	**1 570 932**	**1 470 844**	**12 958**		**87 130**	**98 666**	**47 125**	**1 398**		**50 143**
Corporate banking	748 604	673 895	8 683		66 026	72 661	35 252	1 160		36 249
Public Sector	385 542	385 541			1	13	12			1
Individuals and Small Business Banking	436 237	410 872	4 275		21 090	25 964	11 846	238		13 880
Other	549	536			13	28	15			13
	25 141 523	**23 868 757**	**114 691**	**40 165**	**1 117 910**	**978 654**	**317 710**	**25 795**	**24 894**	**610 255**

1) Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commission relating to amortized cost.
2) Includes non-defaulting loans (no days in arrears).
3) Includes 1 724 930 th. euro of securities held by BPI Vida, essentially allocated to the coverage of capitalization insurance.

At 31 December 2016 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:		Individual impairment	Collective impairment	Total impairment
				Individually acessed[2]	Collectively assessed			
Corporate banking	4 300 002	235 239	4 535 241	452 499	4 082 742	226 433	27 821	254 254
Large Companies	1 733 630	56 572	1 790 202	145 321	1 644 881	76 300	10 461	86 761
Medium-sized Companies	2 566 372	178 667	2 745 039	307 178	2 437 861	150 133	17 360	167 493
Project Finance – Portugal	983 780	11 726	995 506	60 544	934 962	20 746	9 542	30 288
Madrid	763 362	21 359	784 721	98 741	685 980	39 183	5 979	45 162
Project Finance	444 254	12 366	456 620	63 932	392 688	25 399	4 309	29 708
Corporate	319 108	8 993	328 101	34 809	293 292	13 784	1 670	15 454
Public Sector	1 417 280	128	1 417 408	37 667	1 379 741	2 022	156	2 178
Central administration	189 468		189 468		189 468			
Regional and local administration	780 753		780 753		780 753		2	2
SCS – in the budget perimeter	51 810		51 810		51 810			
SCS – outside the budget perimeter	365 600		365 600	36 695	328 905	1 985	154	2 139
Other institutional	29 649	128	29 777	972	28 805	37		37
Individuals and Small Business Banking	13 602 951	420 000	14 022 951	65 955	13 956 996	18 393	332 449	350 842
Mortgage loans to individuals	10 800 292	283 922	11 084 214		11 084 214		211 566	211 566
Consumer loans / other purposes	662 952	27 287	690 239		690 239		37 095	37 095
Credit cards	158 192	6 093	164 285		164 285		6 825	6 825
Vehicle financing	165 981	2 110	168 091		168 091		2 451	2 451
Small business	1 815 534	100 588	1 916 122	65 955	1 850 167	18 393	74 512	92 905
Other[3]	1 586 523	2 374	1 588 897	12 391	1 576 506	11 987	489	12 476
	22 653 898	**690 826**	**23 344 724**	**727 797**	**22 616 927**	**318 764**	**376 436**	**695 200**

1) Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commissions relating to amortised cost.
2) The information included in this column refers to the individually assessed exposures for which the Bank concluded for the need to record individual impairment. The remaining individual exposures for which the Bank concluded there was no need for impairment on an individual basis, were subject to collective assessment for the determination of the associated impairment and are therefore presented in the "Collectively assessed" column. The Bank's segment of loan portfolio subject to individual impairment analysis are described in note 2.3.4.
3) Includes 1 295 381 th. euro of securities held by BPI Vida, essentially allocated to the coverage of capitalization insurance products.

At 31 December 2015 the amount of 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:		Individual impairment	Collective impairment	Total impairment
				Individually acessed[2]	Collectively assessed			
DOMESTIC ACTIVITY	**22 720 570**	**850 021**	**23 570 591**	**1 105 985**	**22 464 606**	**473 937**	**406 051**	**879 988**
Corporate banking	3 830 752	265 925	4 096 677	514 228	3 582 449	269 140	26 393	295 533
Large Companies	1 445 108	31 055	1 476 163	132 513	1 343 650	75 696	7 882	83 578
Medium-sized Companies	2 385 644	234 870	2 620 514	381 715	2 238 799	193 444	18 511	211 955
Project Finance – Portugal	1 160 958	24 026	1 184 984	198 052	986 932	69 941	13 086	83 027
Madrid	943 606	94 788	1 038 394	253 352	785 042	95 680	4 690	100 370
Project Finance	557 288	66 511	623 799	171 841	451 958	69 194	3 326	72 520
Corporate	386 318	28 277	414 595	81 511	333 084	26 486	1 364	27 850
Public Sector	1 358 759	189	1 358 948	38 409	1 320 539	2 039	221	2 260
Central administration	204 767		204 767		204 767			
Regional and local administration	774 583	10	774 593		774 593		10	10
SCS – in the budget perimeter	51 814		51 814		51 814		1	1
SCS – outside the budget perimeter	267 363		267 363	36 695	230 668	1 984	210	2 194
Other institutional	60 232	179	60 411	1 714	58 697	55		55
Individuals and Small Businesses Banking	13 365 758	462 171	13 827 929	89 428	13 738 501	25 023	359 122	384 145
Mortgage loans to individuals	10 814 184	309 890	11 124 074	6	11 124 068	1	230 606	230 607
Consumer credit / other purposes	576 219	27 241	603 460	1	603 459		31 190	31 190
Credit cards	164 717	6 145	170 862		170 862		7 273	7 273
Vehicle financing	136 179	2 344	138 523	12	138 511	12	1 977	1 989
Small businesses	1 674 459	116 551	1 791 010	89 409	1 701 601	25 010	88 076	113 086
Other[3]	2 060 737	2 922	2 063 659	12 516	2 051 143	12 114	2 539	14 653
Finance department	258 425	16	258 441		258 441			
Loans managed by Paris branch	73 007	2 906	75 913	716	75 197	313	270	583
Loans managed by Madrid branch	3 933		3 933		3 933		138	138
Subsidiaries	87		87		87			
Other loans to Customers	1 725 285		1 725 285	11 800	1 713 485	11 801	2 131	13 932
INTERNATIONAL ACTIVITY	**1 498 483**	**72 449**	**1 570 932**					**98 666**
Corporate Banking	683 340	65 264	748 604					72 661
Public Sector	385 541	1	385 542					13
Individuals and Small Businesses Banking	429 066	7 171	436 237					25 964
Others	536	13	549					28
	24 219 053	**922 470**	**25 141 523**					**978 654**

1) Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commissions relating to amortised cost.

2) The information included in this column refers to the individually assessed exposures for which the Bank concluded for the need to record individual impairment. The remaining individual exposures for which the Bank concluded there was no need for impairment on an individual basis, were subject to collective assessment for the determination of the associated impairment and are therefore presented in the "Collectively assessed" column. The Bank's segment of loan portfolio subject to individual impairment analysis are described in note 2.3.4.

3) Includes 1 724 930 th. euro of securities held by BPI Vida, essentially allocated to the coverage of capitalization insurance products.

At 31 December 2016 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 acessed[2]	Collectively assessed			
Corporate	10 440 546	351 700	10 792 246	709 553	10 082 693	312 817	108 144	420 961
Agriculture, animal production and hunting	261 259	5 234	266 493	11 378	255 115	3 852	4 177	8 029
Forestry and forest operations	19 757	239	19 996		19 996		345	345
Fishing	26 132	10 912	37 044	27 150	9 894	24 452	74	24 526
Mining	49 449	644	50 093	1 903	48 190	556	351	907
Beverage, tobacco and food	435 785	4 327	440 112	10 148	429 964	5 014	4 141	9 155
Textiles and clothings	89 290	13 982	103 272	19 648	83 624	12 680	1 153	13 833
Leather and related products	33 386	602	33 988	293	33 695	267	418	685
Wood and cork	120 211	2 764	122 975	5 496	117 479	3 250	1 194	4 444
Pulp, paper and carboard and graphic arts	339 384	4 378	343 762	4 700	339 062	3 006	1 738	4 744
Coke, refined petroleum products and fuel pellets	50 425		50 425		50 425		2	2
Chemicals, synthetic or atificial fibres, except pharmaceutical products	76 587	341	76 928	71	76 857	71	500	571
Base pharmaceutical products and pharmaceutical mixtures	53 448	1	53 449		53 449		153	153
Rubber and plastic materials	84 259	1 244	85 503	1 318	84 185	720	705	1 425
Other mineral non-metallic products	257 704	2 577	260 281	3 983	256 298	1 522	1 537	3 059
Metalworking industries	191 042	9 538	200 580	13 376	187 204	8 938	2 916	11 854
Computers, electronic, electrical and optical equipment	121 607	1 359	122 966	2 798	120 168	684	1 283	1 967
Transport equipment	71 528	1 243	72 771	1 537	71 234	847	750	1 597
Other manufacturing industries	54 564	3 842	58 406	4 194	54 212	1 868	1 500	3 368
Electricity, gas and water	643 520	2 520	646 040	7 902	638 138	3 271	5 913	9 184
Water treatment and collection	374 492	1 098	375 590	54 475	321 115	4 299	1 536	5 835
Construction	425 857	102 082	527 939	131 766	396 173	67 196	13 188	80 384
Wholesale and retail trade; motor vehicle and motorcycle repairs	1 234 838	76 939	1 311 777	76 231	1 235 546	45 334	26 599	71 933
Transport and storage	1 027 048	16 886	1 043 934	87 884	956 050	32 245	6 373	38 618
Restaurants and hotels	337 076	29 103	366 179	62 186	303 993	15 745	4 839	20 584
Information and communication activities	283 644	3 733	287 377	13 281	274 096	6 511	1 398	7 909
Financial intermediation, except for insurance and pension funds	667 193	10 830	678 023	37 364	640 659	18 335	3 813	22 148
Insurance, reinsurance and pension funds, except for mandatory social security	27		27		27			
Auxiliary activities to financial services and insurance	120 497	110	120 607	55	120 552	11	127	138
Real estate	481 576	23 006	504 582	46 398	458 184	12 183	4 955	17 138
Consulting, scientific, technical and similar activities	814 218	8 803	823 021	53 653	769 368	30 136	7 934	38 070
Administrative and support services	229 843	3 483	233 326	2 304	231 022	1 162	4 290	5 452
Public administration, defence and mandatory social security	1 071 192		1 071 192		1 071 192		1	1
Education	42 277	1 206	43 483	6 409	37 074	970	807	1 777
Healthcare and welfare	163 399	2 249	165 648	2 515	163 133	373	1 593	1 966
Leisure, cultural and sports activities	47 918	5 065	52 983	5 070	47 913	150	630	780
Other service companies	89 203	567	89 770	1 802	87 968	65	791	856
Companies without CAE code (Business Activity Classification – "Classificação das Actividades Económicas")	50 911	793	51 704	12 265	39 439	7 104	420	7 524
Individuals	12 213 352	339 126	12 552 478	18 244	12 534 234	5 947	268 292	274 239
Housing loans	10 802 325	283 928	11 086 253	55	11 086 198	8	211 568	211 576
Other	1 411 027	55 198	1 466 225	18 189	1 448 036	5 939	56 724	62 663
	22 653 898	**690 826**	**23 344 724**	**727 797**	**22 616 927**	**318 764**	**376 436**	**695 200**

1) Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commissions relating to amortised cost.

2) The information included in this column refers to the individually assessed exposures for which the Bank concluded for the need to record individual impairment. The remaining individual exposures for which the Bank concluded there was no need for impairment on an individual basis, were subject to collective assessment for the determination of the associated impairment and are therefore presented in the "Collectively assessed" column. The Bank's segment of loan portfolio subject to individual impairment analysis are described in note 2.3.4.

At 31 December 2015 the amount of exposure and impairment of Loans and advances to domestic 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 acessed[2]	Collectively assessed			
Corporate	10 651 769	484 582	11 136 351	1 084 639	10 051 712	466 379	122 217	588 596
Agriculture, animal production and hunting	234 990	5 341	240 331	13 160	227 171	3 807	5 284	9 091
Forestry and forest operations	18 120	338	18 458		18 458		420	420
Fishing	35 215	27	35 242	24 604	10 638	20 696	87	20 783
Mining	91 988	652	92 640	2 016	90 624	534	553	1 087
Beverage, tobacco and food	402 593	5 090	407 683	13 279	394 404	5 993	4 305	10 298
Textiles and clothings	89 951	14 846	104 797	19 421	85 376	12 638	1 388	14 026
Leather and related products	33 665	827	34 492	853	33 639	567	266	833
Wood and cork	174 360	4 249	178 609	5 093	173 516	2 049	1 267	3 316
Pulp, paper and carboard and graphic arts	306 045	5 018	311 063	5 958	305 105	3 822	1 968	5 790
Coke, refined petroleum products and fuel pellets	152 723		152 723		152 723		10	10
Chemicals, synthetic or atificial fibres, except pharmaceutical products	92 261	317	92 578	161	92 417	54	477	531
Base pharmaceutical products and pharmaceutical mixtures	48 141		48 141		48 141		69	69
Rubber and plastic materials	96 693	925	97 618	1 279	96 339	679	750	1 429
Other mineral non-metallic products	279 525	3 222	282 747	26 084	256 663	3 729	1 474	5 203
Metalworking industries	229 133	6 127	235 260	16 233	219 027	5 196	4 075	9 271
Computers, electronic, electrical and optical equipment	114 887	1 693	116 580	2 328	114 252	1 043	1 182	2 225
Transport equipment	52 272	2 318	54 590	2 410	52 180	1 273	627	1 900
Other manufacturing industries	54 680	4 808	59 488	5 284	54 204	3 236	1 670	4 906
Electricity, gas and water	898 613	1 595	900 208	12 723	887 485	3 600	3 247	6 847
Water treatment and collection	389 843	1 103	390 946	58 976	331 970	4 679	1 793	6 472
Construction	501 505	112 091	613 596	146 160	467 436	73 340	15 380	88 720
Wholesale and retail trade; motor vehicle and motorcycle repairs	1 283 133	85 691	1 368 824	86 675	1 282 149	47 691	31 856	79 547
Transport and storage	1 113 346	72 658	1 186 004	241 039	944 965	117 586	9 571	127 157
Restaurants and hotels	400 180	50 423	450 603	95 556	355 047	27 518	5 142	32 660
Information and communication activities	396 398	8 774	405 172	15 681	389 491	9 801	1 969	11 770
Financial intermediation, except for insurance and pension funds	565 033	37 852	602 885	62 614	540 271	43 850	5 419	49 269
Insurance, reinsurance and pension funds, except for mandatory social security	56		56		56			
Auxiliar activities to financial services and insurance	120 345	157	120 502	58	120 444	12	192	204
Real estate	449 560	16 677	466 237	52 535	413 702	10 718	6 155	16 873
Consulting, scientific, technical and similar activities	356 544	15 986	372 530	63 407	309 123	39 690	6 123	45 813
Administrative and support services	207 196	6 569	213 765	69 731	144 034	7 336	2 951	10 287
Public administration, defence and mandatory social security	1 088 477	10	1 088 487		1 088 487		10	10
Education	36 058	1 159	37 217	2 347	34 870	692	975	1 667
Healthcare and welfare	160 932	2 069	163 001	3 442	159 559	431	1 725	2 156
Leisure, cultural and sports activities	42 702	14 385	57 087	14 515	42 572	9 220	758	9 978
Other service companies	122 414	1 491	123 905	8 907	114 998	1 871	869	2 740
Companies without CAE code (Business Activity Classification – "Classificação das Actividades Económicas")	12 192	94	12 286	12 110	176	3 028	2 210	5 238
Individuals	12 068 801	365 439	12 434 240	21 346	12 412 894	7 558	283 834	291 392
Housing loans	10 846 539	309 998	11 156 537	74	11 156 463	10	230 642	230 652
Others	1 222 262	55 441	1 277 703	21 272	1 256 431	7 548	53 192	60 740
	22 720 570	**850 021**	**23 570 591**	**1 105 985**	**22 464 606**	**473 937**	**406 051**	**879 988**

1) Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commissions relating to amortised cost.

2) The information included in this column refers to the individually assessed exposures for which the Bank concluded for the need to record individual impairment. The remaining individual exposures for which the Bank concluded there was no need for impairment on an individual basis were subject to collective assessment for the determination of the associated impairment and are therefore presented in the "Collectively assessed" column. The Bank's segment of loan portfolio subject to individual impairment analysis are described in note 2.3.4.

At 31 December 2015 the amount of exposure and impairment of Loans and advances to international Customers, by business sector, was made up as follows:

	Performing loans	Overdue loans	Exposure[1]	Impairment
INTERNATIONAL ACTIVITY (BFA)				
Corporate	1 077 030	65 278	1 142 308	72 686
Agriculture, animal production and hunting	69 377	2 266	71 643	2 916
Mining	11 635	4 585	16 220	3 180
Other manufacturing industries	79 349	8 091	87 440	6 452
Electricity, gas and water	357	28	385	16
Construction	218 356	6 874	225 230	21 787
Wholesale and retail trade	117 714	28 777	146 492	25 509
Transport, storage and communications	18 851	3 649	22 501	2 567
Restaurants and hotels	23 971	1 608	25 579	1 982
Auxiliary activities to financial services and insurance	1 984	13	1 997	72
Real estate, rental and other services	48 975	829	49 804	2 059
Public administration, defence and mandatory social security	387 023	3	387 026	31
Education	4 771	22	4 794	408
Healthcare and welfare	49 423	8 444	57 868	3 864
Leisure, cultural and sports activities	30 496	0	30 496	915
Other services and activities	14 746	88	14 834	928
Individuals	421 453	7 171	428 624	25 980
Housing loans	137 586	1 335	138 921	10 942
Other	283 867	5 836	289 703	15 038
	1 498 483	**72 449**	**1 570 932**	**98 666**

1) Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commissions relating to amortised cost.

At 31 December 2016 the caption LOANS was made up as follows by country:

	Performing loans	Overdue loans	Exposure[1]	of which:		Individual impairment	Collective impairment	Total impairment
				Individually acessed[2]	Collectively assessed			
Portugal	20 026 900	655 141	20 682 040	597 601	20 084 439	266 390	367 558	633 947
Spain	617 471	20 746	638 217	71 328	566 889	24 647	5 342	29 988
Angola	151 005	126	151 131		151 131		450	450
Netherlands	108 034	2	108 036		108 036		601	601
Other	455 108	14 812	469 919	47 069	422 850	15 928	2 485	18 414
	21 358 517	**690 826**	**22 049 343**	**715 998**	**21 333 345**	**306 964**	**376 436**	**683 400**

1) Does not include 1 295 381 th. euro of securities held by BPI Vida, allocated essentially to coverage of capitalization insurance.

2) The information included in this column refers to the individually assessed exposures for which the Bank concluded for the need to record individual impairment. The remaining individual exposures for which the Bank concluded there was no need for impairment on an individual basis were subject to collective assessment for the determination of the associated impairment and are therefore presented in the "Collectively assessed" column. The Bank's segment of loan portfolio subject to individual impairment analysis are described in note 2.3.4.

At 31 December 2015 loans are made up as follows by country:

	Performing loans	Overdue loans	Exposure[1]	of which:		Individual impairment	Collective impairment	Total impairment
				Individually acessed[2]	Collectively assessed			
DOMESTIC ACTIVITY								
Portugal	19 520 556	739 544	20 260 100	819 319	19 440 781	363 298	395 443	758 741
Spain	751 227	94 116	845 343	202 062	643 281	74 577	3 874	78 451
Angola	176 976	105	177 081		177 080		475	475
Netherlands	109 415	2	109 417		109 417		401	401
Other	437 466	16 255	453 720	72 803	380 917	24 262	5 858	30 120
	20 995 640	**850 021**	**21 845 661**	**1 094 185**	**20 751 476**	**462 137**	**406 051**	**868 188**
INTERNATIONAL ACTIVITY (BFA)	**1 498 483**	**72 449**	**1 570 932**					**98 666**
	43 489 763	**1 772 491**	**45 262 253**					**1 835 042**

1) Does not include 1 724 930 th. euro of securities held by BPI Vida, allocated essentially to coverage of capitalization insurance.

2) The information included in this column refers to the individually assessed exposures for which the Bank concluded for the need to record individual impairment. The remaining individual exposures for which the Bank concluded there was no need for impairment on an individual basis, were subject to collective assessment for the determination of the associated impairment and are therefore presented in the "Collectively assessed" column. The Bank's segment of loan portfolio subject to individual impairment analysis are described in note 2.3.4.

At 31 December 2016 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	86 018	2 609 136	68 718
2005	13 467	622 488	16 249
2006	17 581	932 610	21 071
2007	24 605	1 334 916	34 100
2008	21 326	1 197 257	21 892
2009	13 728	888 957	15 751
2010	15 257	1 073 239	19 310
2011	4 950	335 120	5 648
2012	3 624	230 666	1 986
2013	3 712	219 494	1 254
2014	3 976	252 427	1 221
2015	7 195	529 782	1 907
2016	11 106	858 124	2 459
	226 545	**11 084 214**	**211 566**

The caption SECURITIES at 31 December 2016 is made up as follows:

Nature and type of security	Quantity	Cost	Gross book value	Impairment[1]
SECURITIES				
Debt instruments				
Issued by Portuguese entities				
Portuguese public debt				
ZOEDIA SA-TV-30.01.2027	16 180 000	16 180	16 180	
EDIA-EMP.DES.DO ALQUEVA – TV-11.08.2030	19 250 000	19 250	19 437	
REGIAO AUTONOMA ACORES 2016 / 2023 2.ª S	18 300 000	18 300	18 411	
REGIAO AUTONOMA ACORES 2016 / 2023-1.ª SR	16 700 000	16 700	16 848	
REGIAO AUTONOMA DOS ACORES-TV-16.11.2025	16 600 000	16 600	16 650	
REPUBLICA DE PORTUGAL TV – 29.01.2018	50 000 000	50 000	50 498	
		137 030	**138 024**	
Other residents				
Non-subordinated debt				
Bonds				
Asset Backed Securities (ABS's)				
TAGUS-SOC.TIT.CREDITO-CL.A-12.02.2025	65 133 020	65 133	65 175	
TAGUS-SOC.TIT.CREDITO-CL.B-12.02.2025	50 000	50	50	
		65 183	**65 225**	
Other bonds				
ADP SGPS SA-TV-15.02.2028	75 000 000	75 000	75 499	
ADP-AGUAS DE PORTUGAL,SGPS-TV-20.06.2022	50 000 000	45 923	50 003	
ALTRI – 2014 / 2020	50 000 000	50 000	50 343	
AUTO-SUECO – 2013 / 2018	30 000 000	30 000	30 706	
BRISA-CONCESSAO RODOVIARIA TV 07.01.2022	60 000 000	60 000	60 096	
CGD-3.75%-18.01.2018	9 000 000	8 993	9 314	
CIN – 2014 / 2019	15 000 000	15 000	15 016	
COLEP PORTUGAL SA -TV-10.10.2017	9 000 000	9 000	9 056	
DANIPACK 2016-2021	7 000 000	7 000	7 000	
EFANOR INVESTIMENTOS SGPS SA-2014 / 2019	15 000 000	15 000	15 115	
ENERFER -TV- 20.12.2026	6 440 000	6 440	6 445	
FIRST STATE WIND ENERGY-BONDS A DUE 2021	10 774 988	10 775	10 799	
FIRST STATE WIND ENERGY-BONDS B DUE 2030	24 500 000	24 500	24 556	
FREZITE-2016 / 2021	947 368	947	949	
GALP 2013 / 2018	50 000 000	50 000	50 385	
GALP 2013 / 2018	100 000 000	102 620	102 409	
GENERIS 2015-2020	27 000 000	27 000	27 008	
GRUPO PESTANA 2014 / 2020	46 000 000	46 000	46 555	
GRUPO VISABEIRA SGPS-TV-14.07.2019	5 000 000	5 000	5 090	
JMR – 2015 / 2017	75 000 000	75 000	75 017	
LUSIAVES 2016-2026	10 000 000	10 000	10 053	
MEDIA CAPITAL 2014-2019	50 000 000	50 000	50 899	
MOTA-ENGIL-TV 2015 / 2018	10 000 000	10 000	10 020	
NOS SGPS-2015-2022	25 000 000	24 875	25 113	
PARQUE EÓLICO DO PISCO- TV 11.07.2026	11 301 063	11 301	11 559	
POLIMAIA / 1989 – SR.C (AC.CRED.)	7			
PORTUCEL SA-TV-22.09.2023	50 000 000	50 000	50 264	
RENOVA 2.SÉRIE 2016-2021	10 000 000	10 000	10 000	
RENOVA-1.6%-2015-2021	20 000 000	20 233	20 000	
REN-REDES ENERG.NAC.-TV-16.01.2020	80 000 000	80 000	80 740	
SECIL 2015-2020	80 000 000	80 000	80 201	
SEMAPA 2014 / 2019	28 487 000	28 518	28 699	
SEMAPA 2014 / 2020	41 500 000	41 500	41 601	
VIOLAS-SGPS SA-TV-06.11.2023	70 000 000	70 000	70 236	
ZON OPTIMUS 2014-2019	100 000 000	99 870	100 201	
		1 250 495	**1 260 947**	
Commercial paper			819 089	
			819 089	
Subordinated debt				
Bonds				
BANIF – TAX.VAR. (30.12.2015)[2]	11 800 000	11 800	11 800	11 800
		11 800	**11 800**	**11 800**

1) Additionally, the Bank recorded collective impairment of 6 088 th. euro.
2) Securities reclassified from the caption FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS in 2008, under the amendments to IAS 39 and IFRS 7 (notes 2 and 4.47).

Nature and type of security	Quantity	Cost	Gross book value	Impairment[1]
Issued by others non-residents				
Non-subordinated Debt				
Bonds				
BANCO DE SABADELL SA-3.375%-13.01.2018	16 000 000	15 983	16 489	
BPE FINANCIACIONES, S.A.-TV 2017.02.13	49 000 000	49 000	49 100	
EDDYSTONE FIN.SR2006-1 CLA1B 19.04.2021[2]	217 188	181	181	
EDP FINANCE BV-4.875%-14.09.2020	80 000 000	79 694	80 848	
EDP FINANCE BV-TV 26.06.2019	90 124 277	69 822	90 156	
EURO-VIP / 1990[3]	5 692 060	5 351	5 199	
		220 031	**241 973**	
		1 684 539	**2 537 058**	**11 800**

1) Additionally, the Bank recorded collective impairment of 6 088 th. euro.
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 4.47).
3) Securities reclassified from the caption FINANCIAL ASSETS HELD FOR TRADING in 2013, under the amendments to IAS 39 and IFRS 7 (notes 2 and 4.47).

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 31 December 2016 this analysis did not show evidence of impaired securities.

4.8 Held to maturity investments

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Debt Instruments		
Bonds issued by other Portuguese entities		
Non-subordinated debt		1 197
Bonds issued by other foreign entities		
Non-subordinated debt	14 400	19 289
Subordinated debt	1 900	1 900
Accrued interest	17	31
	16 317	**22 417**

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

At 31 December 2016 this caption was made up as follows:

Nature and type of security	Quantity	Cost	Gross book value	Impairment
Debt instruments				
Issued by others non-residents				
Non-subordinated debt				
Bonds				
IBERCAJA (CA.ZARAGOZA A. R.)TV-20.04.2018[1]	6 000 000	6 000	6 007	
IBERCAJA (CA.ZARAGOZA A. R.)TV-20.04.2019[1]	8 400 000	8 400	8 409	
		14 400	**14 415**	
Subordinated debt				
Bonds				
CAM INTERNATIONAL-TV-26.04.2017[2]	1 900 000	1 900	1 902	
		1 900	**1 902**	
		16 300	**16 317**	

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 4.47).
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 4.47).

4.9 Discontinued Operations

On 7 October 2016, Banco BPI, S.A. entered into an agreement with Unitel, S.A. (Unitel) regarding the sale of 2% of the share capital of Banco de Fomento Angola, S.A. (BFA), the implementation of which implies a reduction of the Group's participation in BFA from 50.1% to 48.1%. On that same date, a new shareholders' agreement related to BFA was also signed.

The realization of this operation was dependent upon the verification of the following precedent conditions:

- Approval of Banco Nacional de Angola (BNA) regarding the increase of the qualified holding already held by Unitel in BFA and approval to perform capital operations required for the payment to Banco BPI and transfer to Portugal of the agreed price of 28 million euro;
- Approval of BNA to change the statutes of BFA; and
- Approval of the transaction by the General Meeting of Banco BPI.

The new shareholders' agreement will enter into force on the date of the transfer of 2% of BFA's capital stock to Unitel in accordance with the aforementioned transaction. Despite that, immediate implementation of certain rules on the composition of corporate bodies of BFA will occur.

On 13 December 2016, the Shareholder's General Meeting of Banco BPI met with a single agenda regarding the sale by Banco BPI to Unitel of 26 111 shares, representative of 2% of BFA's share capital, under the purchase agreement established between the two entities. This operation was approved by 83.23% of the votes.

On 12 December 2016, Banco Nacional de Angola announced that it would not oppose to the following:

(i) Partial amendment to BFA's statutes;

(ii) Increase in Unitel's qualifying holding of BFA's share capital throughout the acquisition, from Banco BPI, of 26 111 ordinary shares representative of 2% of the share capital;

(iii) Indirect acquisition of the qualified holding representative of 48.10% of BFA's share capital, under the settlement of the mandatory takeover bid launched by CaixaBank regarding all shares representative of Banco BPI share capital (note 4.51).

BNA has established that the three operations mentioned above are indivisible, meaning, it is expected for them to occur simultaneously or almost simultaneously or, if it is not possible to ensure their simultaneity, the operation referred in (ii) should precede the operations referred in (i) and (iii).

The sale of the shareholding representative of 2% of the share capital of BFA from Banco BPI to Unitel, under the purchasing agreement established in 2016 was carried out on 5 January 2017. On this date: (i) Banco BPI received the sale price of the shares (28 million euro), and (ii) Unitel issued the document related to the transfer of shares on sale.

As of 31 December 2016, Banco BPI retained control over BFA considering the requirements of IFRS 10 – Consolidated financial statements, and therefore this investment remained in the consolidation perimeter on the financial statements of Banco BPI for 2016.

However, considering that as of 31 December 2016 (i) the sale of the 2% of BFA's share capital was very likely to occur, (ii) the 2% shareholding was available for immediate sale in its current situation being exclusively subject to the terms defined for this type of operation, and (iii) this sale transaction would involve the loss of control of BFA by Banco BPI, BFA's operations were classified in the consolidated financial statements of Banco BPI as discontinued operations, in accordance with the requirements of IFRS 5 – Non-current assets held for sale and discontinued operations.

In the regard, BFA's total assets and liabilities as of 31 December 2016 are shown in the consolidated balance sheet of Banco BPI under the captions NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS. Also, in accordance with IFRS 5, the contribution of BFA's operations to the consolidated income and comprehensive income for 2016 of BPI Group is presented under the caption INCOME FROM DISCONTINUED OPERATIONS and INCOME NOT INCLUDED IN THE CONSOLIDATED STATEMENT OF INCOME ASSOCIATED WITH DISCONTINUED OPERATIONS, respectively, with the comparative balances of the Consolidated Statements of Income and the Consolidated Statements of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015 being restated.

The consolidated balance sheets of BPI Group include the following amounts related to BFA, following the exclusion of intragroup balances:

	31 Dec. 16	31 Dec. 15
ASSETS		
Cash and deposits at central banks	1 505 858	1 730 534
Deposits at other credit institutions	8 653	345 267
Financial assets held for trading	1 822 979	527 541
Financial assets available for sale	1 398 106	2 786 392
Loans and advances to credit institutions	146 071	913 238
Loans and advances to Customers	1 269 351	1 493 560
Tangible assets	103 919	128 863
Intangible assets	7 063	3 645
Tax assets	9 721	8 308
Other assets	24 189	17 089
	6 295 910	**7 954 437**
LIABILITIES		
Financial liabilities held for trading	8 150	25 697
Resources of other credit institutions	59	58
Resources of Customers and other debts	5 842 822	6 913 020
Provisions	23 588	26 360
Tax liabilities	23 730	30 748
Other liabilities	53 049	103 154
	5 951 398	**7 099 037**

As mentioned above, at 31 December 2016 these balances are presented under the caption NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS.

At 31 December 2016, the balance sheet caption OTHER ACCUMULATED COMPREHENSIVE INCOME RELATED TO DISCONTINUED OPERATIONS in the amount of 182 121 th. euro refers to negative reserves arising from exchange rate differences regarding the conversion of BFA's equity to euro.

As of 31 December 2016 and 2015, the caption LOANS AND ADVANCES TO CUSTOMERS is made up as follows:

	31 Dec. 16	31 Dec. 15
Loans		
Foreign loans		
Companies		
Loans	694 991	773 390
Commercial lines of credit	211 291	279 588
Demand deposits – overdrafts	6 586	12 766
Other loans	1 096	1 164
Loans to individuals		
Housing	116 268	138 038
Consumer	208 643	248 439
Other loans	19 353	45 099
Accrued interest	25 152	21 294
	1 283 380	**1 519 778**
Overdue loans and interest	62 771	72 448
Loan impairment	(76 800)	(98 666)
	1 269 351	**1 493 560**

At 31 December 2016 and 2015, the financial assets held for trading and available for sale items are made up as follows:

	31 Dec. 16	31 Dec. 15
Financial assets held for trading		
Debt Instruments		
Bonds issued by foreign government entities		
Treasury Bills – Angola	1 582 996	368 094
Treasury Bonds – Angola in AKZ	231 700	137 496
Equity instruments		
Shares issued by foreign entities	970	986
Derivative instruments with positive fair value	7 313	20 965
	1 822 979	**527 541**
Financial assets held for sale		
Debt instruments		
Bonds issued by foreign government entities		
Bonds		
Treasury Bills – Angola		508 145
Treasury Bonds – Angola in AKZ	787 628	1 655 208
Treasury Bonds – Angola in USD	608 108	620 209
Equity instruments		
Shares issued by foreign entities	2 265	2 722
Loans and other receivables	105	108
	1 398 106	**2 786 392**

At 31 December 2016 and 2015, the Treasury Bills – Angola and Treasury Bonds – Angola are recorded at their acquisition cost, since it reflects the best estimate of their market value, as there is no price in an active market with regular transactions.

As of 31 December 2016 and 2015, the caption RESOURCES OF CUSTOMERS AND OTHER LOANS is as follows:

	31 Dec. 16	31 Dec. 15
Demand deposits	3 316 814	4 045 280
Term deposits	2 487 622	2 814 672
Cheques and orders payable	9 325	12 180
Other resources of Customers	9 202	20 329
Accrued interest	19 859	20 559
	5 842 822	**6 913 020**

For the years ended 31 December 2016 and 2015, the income of BFA is presented in a single line of the Income Statement under the caption NET INCOME FROM DISCONTINUED OPERATIONS, with the following detail:

	31 Dec. 16	31 Dec. 15
Interest and similar income	456 393	423 534
Interest and similar expenses	(93 276)	(116 331)
Financial margin (narrow sense)	**363 117**	**307 203**
Net commission relating to amortised cost		4
Financial margin	**363 117**	**307 207**
Commissions received	58 788	52 304
Commissions paid	(10 612)	(7 967)
Other income, net	18 922	25 183
Net commission income	**67 098**	**69 520**
Gain and loss on operations at fair value	124 697	146 637
Gain and loss on assets available for sale		82
Net income on financial operations	**124 697**	**146 719**
Operating income	556	9 299
Operating expenses	(651)	(991)
Other taxes	(27 608)	(16 234)
Net operating loss	**(27 703)**	**(7 926)**
Operating income from banking activity	**527 209**	**515 520**
Personnel costs	(92 047)	(82 896)
General administrative costs	(62 954)	(71 223)
Depreciation and amortisation	(12 961)	(16 230)
Overhead costs	**(167 962)**	**(170 349)**
Recovery of loans, interest and expenses	2 172	1 914
Impairment losses and provisions for loans and guarantees, net	(15 769)	(33 631)
Impairment losses and other provisions, net	(4 868)	(3 620)
Net income before income tax	**340 782**	**309 834**
Income tax	(3 043)	(27 013)
Net income	**337 739**	**282 821**

4.10. Other tangible assets

The changes in other tangible assets in 2016 were as follows:

	Gross							Depreciation							Net	
	Balance at 31 Dec. 15	Purchases	Sales and write-offs	Transfers and others	BFA reclassification[1]	Foreign exchange differences	Balance at 31 Dec. 16	Balance at 31 Dec.15	Depreciation for the year[2]	Sales and write-offs	Transfers and others	BFA reclassification[1]	Foreign exchange differences	Balance at 31 Dec. 16	Balance at 31 Dec. 16	Balance at 31 Dec.15
Property																
Property for own use	142 201	1 169	(15 464)	983	(83 334)	(20 752)	24 803	31 423	2 094	(6 700)	(239)	(11 969)	(2 660)	11 949	12 854	110 778
Other property	12			(12)				2			(2)					10
Leasehold improvements	104 187	436	(4 983)	1 128	(34 954)	(8 560)	57 254	91 820	2 112	(4 920)		(25 944)	(6 146)	56 922	332	12 367
	246 400	**1 605**	**(20 447)**	**2 099**	**(118 288)**	**(29 312)**	**82 057**	**123 245**	**4 206**	**(11 620)**	**(241)**	**(37 913)**	**(8 806)**	**68 871**	**13 186**	**123 155**
Equipment																
Furniture and fixtures	49 908	1 086	(1 953)	100	(9 497)	(2 509)	37 135	43 920	1 248	(1 942)		(5 354)	(1 503)	36 369	766	5 988
Machinery and tools	13 330	186	(99)		(3 756)	(911)	8 750	11 634	403	(98)		(2 750)	(620)	8 569	181	1 696
Computer hardware	175 015	5 243	(1 943)	1 831	(29 421)	(6 494)	144 231	162 006	7 662	(1 942)	(10)	(23 892)	(5 222)	138 602	5 629	13 009
Interior installations	136 563	1 766	(19 044)	287	(8 606)	(2 016)	108 950	113 943	5 589	(17 435)	(10)	(4 377)	(940)	96 770	12 180	22 620
Vehicles	12 592	1 514	(253)	(143)	(10 233)	(2 327)	1 150	9 977	1 345	(246)	(144)	(8 014)	(1 831)	1 087	63	2 615
Security equipment	26 265	478	(2 829)	(2)	(4 510)	(1 046)	18 356	23 490	743	(2 757)	(1)	(2 847)	(618)	18 010	346	2 775
Other equipment	522	4	(2)	3	(361)	(90)	76	125	4	(2)		(43)	(10)	74	2	397
	414 195	**10 277**	**(26 123)**	**2 076**	**(66 384)**	**(15 393)**	**318 648**	**365 095**	**16 994**	**(24 422)**	**(165)**	**(47 277)**	**(10 744)**	**299 481**	**19 167**	**49 100**
Equipment in finance lease	10 723	11					10 734	1 068	2 566					3 634	7 100	9 655
Tangible assets in progress	10 906	10 323		(6 566)	(4 437)	(951)	9 275								9 275	10 906
Other tangible assets	11 725	6	(445)	(9)			11 277	9 446	60	(445)	(11)			9 050	2 227	2 279
	33 354	**10 340**	**(445)**	**(6 575)**	**(4 437)**	**(951)**	**31 286**	**10 514**	**2 626**	**(445)**	**(11)**			**12 684**	**18 602**	**22 840**
	693 949	**22 222**	**(47 015)**	**(2 400)**	**(189 109)**	**(45 656)**	**431 991**	**498 854**	**23 826**	**(36 487)**	**(417)**	**(85 190)**	**(19 550)**	**381 036**	**50 955**	**195 095**

1) Figures regarding the classification of BFA as discontinued operations (notes 2.1 and 4.9).
2) Includes 10 633 th. euro of depreciation for the year of BFA regarding the classification of BFA as discontinued operations (notes 2.1 and 4.9).

The changes in other tangible assets in 2015 were as follows:

	Gross						Depreciation						Net	
	Balance at 31 Dec. 14	Purchases	Sales and write-offs	Transfers and others	Foreign exchange differences	Balance at 31 Dec. 15	Balance at 31 Dec. 14	Depreciation for the year[1]	Sales and write-offs	Transfers and others	Foreign exchange differences	Balance at 31 Dec. 15	Balance at 31 Dec. 15	Balance at 31 Dec.14
Property														
Property for own use	148 915	9 098	(1 962)	4 028	(17 878)	142 201	31 576	2 959	(296)	(549)	(2 267)	31 423	110 778	117 339
Other property	13				(1)	12	2					2	10	11
Leasehold improvements	113 684	270	(5 097)	2 612	(7 282)	104 187	98 545	3 341	(5 060)	177	(5 183)	91 820	12 367	15 139
	262 612	**9 368**	**(7 059)**	**6 640**	**(25 161)**	**246 400**	**130 123**	**6 300**	**(5 356)**	**(372)**	**(7 450)**	**123 245**	**123 155**	**132 489**
Equipment														
Furniture and fixtures	51 265	1 179	(497)	166	(2 205)	49 908	43 968	1 710	(492)		(1 266)	43 920	5 988	7 297
Machinery and tools	14 042	456	(428)	38	(778)	13 330	11 997	554	(425)	31	(523)	11 634	1 696	2 045
Computer hardware	184 015	7 711	(12 732)	1 632	(5 611)	175 015	171 041	7 981	(12 720)		(4 296)	162 006	13 009	12 974
Interior installations	141 219	1 861	(8 242)	3 329	(1 604)	136 563	114 839	6 821	(6 929)	(17)	(771)	113 943	22 620	26 380
Vehicles	12 898	1 967	(364)	(25)	(1 884)	12 592	9 961	1 895	(354)	(6)	(1 519)	9 977	2 615	2 937
Security equipment	27 567	259	(783)	121	(899)	26 265	23 826	952	(773)		(515)	23 490	2 775	3 741
Other equipment	601	2			(81)	522	128	5			(8)	125	397	473
	431 607	**13 435**	**(23 046)**	**5 261**	**(13 062)**	**414 195**	**375 760**	**19 918**	**(21 693)**	**8**	**(8 898)**	**365 095**	**49 100**	**55 847**
Equipment in finance lease		10 723				10 723		1 068				1 068	9 655	
Tangible assets in progress	13 540	9 988		(11 784)	(838)	10 906							10 906	13 540
Other tangible assets	12 131	51	(449)	(8)		11 725	9 768	123	(435)	(10)		9 446	2 279	2 363
	25 671	**20 762**	**(449)**	**(11 792)**	**(838)**	**33 354**	**9 768**	**1 191**	**(435)**	**(10)**		**10 514**	**22 840**	**15 903**
	719 890	**43 565**	**(30 554)**	**109**	**(39 061)**	**693 949**	**515 651**	**27 409**	**(27 484)**	**(374)**	**(16 348)**	**498 854**	**195 095**	**204 239**

1) Includes 14 353 th. euro of depreciation for the year of BFA reclassified to the caption NET INCOME FROM DISCONTINUED OPERATIONS in the pro-forma financial statements (notes 2.1 and 4.9).

4.11. Intangible assets

The changes in intangible assets in 2016 were as follows:

	Gross							Depreciation						Net	
	Balance at 31 Dec. 15	Purchases	Sales and write-offs	Transfers and others	BFA reclassi-fication[1]	Foreign exchange differences	Balance at 31 Dec. 16	Balance at 31 Dec.15	Depreciation for the year[2]	Sales and write-offs	BFA reclassi-fication[1]	Foreign exchange differences	Balance at 31 Dec. 16	Balance at 31 Dec. 16	Balance at 31 Dec.15
Software	94 316	6 890	(220)	9 685	(14 619)	(2 125)	93 927	76 078	10 493	(220)	(7 556)	(1 358)	77 437	16 490	18 238
Other intangible assets	21 365		(2 102)		(1 055)	(268)	17 940	18 716	11	(1 772)	(1 055)	(267)	15 633	2 307	2 649
	115 681	**6 890**	**(2 322)**	**9 685**	**(15 674)**	**(2 393)**	**111 867**	**94 794**	**10 504**	**(1 992)**	**(8 611)**	**(1 625)**	**93 070**	**18 797**	**20 887**
Intangible assets in progress	8 251	8 045		(9 464)			6 832							6 832	8 251
	123 932	**14 935**	**(2 322)**	**221**	**(15 674)**	**(2 393)**	**118 699**	**94 794**	**10 504**	**(1 992)**	**(8 611)**	**(1 625)**	**93 070**	**25 629**	**29 138**

1) Figures regarding the classification of BFA as discontinued operations (notes 2.1 e 4.9).
2) Includes 2 327 th. euro of depreciation for the year of BFA reclassified to the caption NET INCOME FROM DISCONTINUED OPERATIONS (notes 2.1 and 4.9).

The changes in intangible assets in 2015 were as follows:

	Gross						Depreciation					Net	
	Balance at 31 Dec.14	Purchases	Sales and write-offs	Transfers and others	Foreign exchange differences	Balance at 31 Dec.15	Balance at 31 Dec.14	Depreciation for the year[1]	Sales and write-offs	Foreign exchange differences	Balance at 31 Dec.15	Balance at 31 Dec.15	Balance at 31 Dec.14
Software	85 228	3 575		6 990	(1 477)	94 316	68 464	8 697		(1 083)	76 078	18 238	16 764
Other intangible assets	26 358		(4 753)		(240)	21 365	23 697	11	(4 753)	(239)	18 716	2 649	2 661
	111 586	**3 575**	**(4 753)**	**6 990**	**(1 717)**	**115 681**	**92 161**	**8 708**	**(4 753)**	**(1 322)**	**94 794**	**20 887**	**19 425**
Intangible assets in progress	5 458	9 919		(7 126)		8 251						8 251	5 458
	117 044	**13 494**	**(4 753)**	**(136)**	**(1 717)**	**123 932**	**92 161**	**8 708**	**(4 753)**	**(1 322)**	**94 794**	**29 138**	**24 883**

1) The caption DEPRECIATION for 2015 include 1 877 th. euro of depreciation for the year of BFA reclassified to the caption NET INCOME FROM DISCONTINUED OPERATIONS in the Proforma financial statements (notes 1 and 4.9).

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	
	31 Dec. 16	31 Dec. 15	31 Dec. 16	31 Dec. 15
Banco Comercial e de Investimentos, S.A.R.L.	30.0	30.0	44 845	64 321
Companhia de Seguros Allianz Portugal, S.A.	35.0	35.0	67 950	77 842
Cosec – Companhia de Seguros de Crédito, S.A.	50.0	50.0	32 065	31 333
Inter-Risco – Sociedade de Capital de Risco, S.A.	49.0	49.0	559	517
Unicre – Instituição Financeira de Crédito, S.A.	21.0	21.0	30 259	36 434
			175 678	**210 447**

The remaining share capital of BCI is held essentially by the Caixa Geral de Depósitos Group (51.00%) and the Insitec Group (18.12%). Two agreements serving different purposes were signed between the shareholders, the terms of which are as follows:

- Shareholder agreement – in July 2006 the Caixa Geral de Depósitos Group and Banco BPI entered into a shareholders' agreement relating to BCI to regulate their relationship as shareholders of BCI, as well as certain aspects relating to its operations. The agreement is of undetermined duration, remaining in force until any of the circumstances provided for therein occur.

- Preference agreement – on 22 November 2007 a Preference agreement between the Caixa Geral de Depósitos Group, Banco BPI and the Insitec Group was signed, which governs the right of preference of the CGD Group and Banco BPI in the case of a direct or indirect onerous sale of shares representing the share capital of BCI held by the Insitec Group. The agreement has an initial duration of 30 years, automatically renewable for successive periods of five years, unless terminated by either party 1 year in advance of the initial termination date or of the ongoing renewal period.

In 2015 Banco BPI subscribed for 30% of Banco Comercial e de Investimentos' share capital increase, in the amount of 12 988 th. euro.

During 2016 and 2015 the BPI Group received the following dividends from associated companies:

	31 Dec. 16	31 Dec. 15
Companhia de Seguros Allianz Portugal, S.A.	9 855	22 478
Cosec – Companhia de Seguros de Crédito, S.A.	3 615	3 549
Inter-Risco – Sociedade de Capital de Risco, S.A.		196
Unicre – Instituição Financeira de Crédito, S.A.	17 337	1 403
	30 807	**27 626**

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.

At 31 December 2016, the financial information regarding the associated companies of the BPI Group is as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Banco Comercial e de Investimentos, S.A.R.L.		1 913 491		1 764 010
Companhia de Seguros Allianz Portugal, S.A.	202 949	1 037 731	129 570	1 111 110
Cosec – Companhia de Seguros de Crédito, S.A.	91 715	15 092	59 969	30
Inter-Risco – Sociedade de Capital de Risco, S.A.	1 217	323	386	14
Unicre – Instituição Financeira de Crédito, S.A.	72 077	266 960	167 690	87 929

	Income from continuing operations	Net income from continuing operations	Other compre-hensive income	Total compre-hensive income[1]
Banco Comercial e de Investimentos, S.A.R.L.	127 526	18 026		11 042
Companhia de Seguros Allianz Portugal, S.A.		10 084	(10 970)	(886)
Cosec – Companhia de Seguros de Crédito, S.A.	12 939	5 560	1 162	6 722
Inter-Risco – Sociedade de Capital de Risco, S.A.	1 500	84		84
Unicre – Instituição Financeira de Crédito, S.A.	139 976	60 545	(32 534)	28 011

1) Corresponds to the sum of net income from continuing operations with other comprehensive income.

On 16 January 2017, the Government of Mozambique announced that it would not pay the interest coupon of the Mozambique International bonds with maturity in 2023, which led the country to default. In this context:

- As of 31 December 2016, BCI recognized 8 327 th. euro of impairment concerning the Mozambique International bonds (amounting to 21 525 th. usd), considering the market price disclosed by Bloomberg (59.25% as of 31 December 2016). Banco BPI recognized 30% of this loss, through the appropriation of BCI Moçambique income.
- An analysis was carried out to assess the existence of impairment in the book value of the participation in BCI, due to the financial situation in Mozambique, which did not reveal the existence of impairment for such participation.

4.13. Tax assets

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Current tax assets		
Corporate income tax recoverable	27 277	6 748
Other	1 864	1 930
	29 141	**8 678**
Deferred tax assets		
Due to temporary differences	412 126	307 922
Due to tax losses carried forward	30 581	103 614
	442 707	**411 536**
	471 848	**420 214**

Details of deferred tax assets are presented in note 4.43.

4.14. Other assets

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Debtors, other applications and other assets		
Debtors for future operations	19 173	30 926
Collaterals		
Of derivatives	13 927	10 827
Reports with central counterparties (CCP) (note 4.18)	14 987	4 331
Single Resolution Fund	2 636	
Other	10 283	2 613
VAT recoverable	13 705	3 058
Debtors for loan interest subsidy receivable	3 144	4 036
Other debtors	7 837	51 778
Overdue debtors and other applications	248	228
Impairment of overdue debtors and other applications	(7)	(169)
Other assets		
Gold	49	50
Other available funds and other assets	369	366
	86 351	**108 044**
Assets received in settlement of defaulting loans and other tangible assets	137 082	158 848
Impairment	(33 762)	(29 302)
	103 320	**129 546**
Accrued income		
For irrevocable commitments assumed in relation to third parties	239	239
For banking services rendered to third parties	2 463	2 543
Other accrued income	39 202	32 193
	41 904	**34 975**
Deferred expenses		
Insurance	1	20
Rent	1 523	3 373
Other deferred expenses	7 424	8 184
	8 948	**11 577**
Liability for pensions and other benefits		
Pension Fund Asset Value		
Pensioners and Employees		1 391 069
Directors		42 311
Past Service Liabilities		
Pensioners and Employees		(1 279 923)
Directors		(43 979)
Others		(1 601)
		107 877
Other accounts		
Exchange transactions pending settlement	14 346	
Stock exchange transactions pending settlement	1 083	
Asset operation pending settlement	342 038	276 779
	357 467	**276 779**
	597 990	**668 798**

The caption COLLATERALS OF DERIVATIVES at 31 December 2016 and 2015 includes 4 169 th. euro and 5 117 th. euro, relating to collateral pledged in guarantee under derivative transactions relating to bonds issued through Sagres – Sociedade de Titularização de Créditos, S.A.

The caption OTHER DEBTORS at 31 December 2015 includes 27 556 th. euro relating to instalments receivable from the sale in 2008 of 49.9% of the share capital of Banco de Fomento Angola, S.A. The selling price was 365 671 th. euro, part of the proceeds from the sale being paid in eight annual instalments, from 2009 to 2016, plus compensation due to monetary correction.

The caption OTHER DEBTORS at 31 December 2016 includes 1 427 th. euro relating to the cash receivable in 2019 relating to the public tender offer to acquire 100% of the share capital of Visa Europe Limited by Visa Inc. (note 4.5).

The changes in assets received in settlement of defaulting loans and other tangible assets available for sale in 2016 were as follows:

	Balance at 31 Dec. 15			Acquisitions and transfers	Sales and write-offs		Increase / reversals of impairment	Foreign exchange translation difference	BFA reclassification[1]	Balance at 31 Dec. 16		
	Gross	Impairment	Net		Gross	Impairment				Gross	Impairment	Net
Assets received in settlement of defaulting loans												
Real estate	153 535	(27 263)	126 272	28 374	(49 791)	5 369	(9 094)	(9)	(395)	131 714	(30 987)	100 727
Equipment	655	(485)	170	758	(882)	77	(170)			531	(578)	(47)
Other	61	(61)					(1)			61	(62)	(1)
Other tangible assets												
Real estate	4 597	(1 493)	3 104	208	(30)		(642)			4 775	(2 135)	2 640
	158 848	**(29 302)**	**129 546**	**29 341**	**(50 703)**	**5 446**	**(9 906)**	**(9)**	**(395)**	**137 082**	**(33 762)**	**103 320**

1) Balances related to the classification of BFA as discontinued operations.

The changes in assets received in settlement of defaulting loans and other tangible assets available for sale in 2015 were as follows:

	Balance at 31 Dec. 14			Acquisitions and transfers	Sales and write-offs		Increase / reversals of impairment	Foreign exchange translation difference	Balance at 31 Dec. 15		
	Gross	Impairment	Net		Gross	Impairment			Gross	Impairment	Net
Assets received in settlement of defaulting loans											
Real estate	161 217	(27 366)	133 851	43 270	(51 167)	4 403	(4 300)	215	153 535	(27 263)	126 272
Equipment	1 006	(699)	307	600	(968)	253	(39)	17	655	(485)	170
Other	61	(61)							61	(61)	
Other tangible assets											
Real estate	4 474	(1 264)	3 210	488	(365)	66	(295)		4 597	(1 493)	3 104
	166 758	**(29 390)**	**137 368**	**44 358**	**(52 500)**	**4 722**	**(4 634)**	**232**	**158 848**	**(29 302)**	**129 546**

At 31 December 2016, the real estate received in settlement of defaulting loans was made up as follows, by type of property:

Asset	Nr. of properties	Fair value	Book value
Land	58	19 970	12 150
Urban	36	19 486	11 762
Rural	22	484	388
Buildings	**1 055**	**107 752**	**88 248**
Business	213	15 988	13 598
Housing	695	62 334	48 774
Other[1]	147	29 430	25 876
Other	**6**	**415**	**329**
	1 119	**128 137**	**100 727**

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

At 31 December 2015 the real estate received in settlement of defaulting loans was made up as follows, by type of property:

Asset	Nr. of properties	Fair value	Book value
Land	**58**	**24 226**	**19 577**
Urban	37	23 762	19 225
Rural	21	464	352
Buildings	**1 243**	**129 012**	**106 460**
Business	234	19 047	16 388
Housing	826	75 129	59 840
Other[1]	183	34 836	30 232
Other	**3**	**269**	**235**
	1 304	**153 507**	**126 272**

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

At 31 December 2016 the real estate received in settlement of defaulting loans was made up as follows, by aging:

Time since the settlement / execution	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Book value
Land	**248**	**9 815**	**883**	**1 204**	**12 150**
Urban	243	9 804	766	949	11 762
Rural	5	11	117	255	388
Buildings	**23 108**	**17 423**	**25 918**	**21 799**	**88 248**
Business	870	1 214	6 242	5 272	13 598
Housing	20 338	14 082	8 515	5 839	48 774
Other[1]	1 900	2 127	11 161	10 688	25 876
Other	**253**		**76**		**329**
	23 609	**27 238**	**26 877**	**23 003**	**100 727**

1) This category includes all buildings that are not exclusive for business or housing.

At 31 December 2015 the real estate received in settlement of defaulting loans was made up as follows, by aging:

Time since the settlement / execution	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Book value
Land	**13 966**	**2 725**	**561**	**2 325**	**19 577**
Urban	13 924	2 725	506	2 070	19 225
Rural	42		55	255	352
Buildings	**23 945**	**31 160**	**37 925**	**13 430**	**106 460**
Business	1 202	3 809	7 348	4 029	16 388
Housing	20 966	20 389	12 436	6 049	59 840
Other[1]	1 777	6 962	18 141	3 352	30 232
Other		**149**	**86**		**235**
	37 911	**34 034**	**38 572**	**15 755**	**126 272**

1) This category includes all buildings that are not exclusive for business or housing.

At 31 December 2016 the difference in the recoverable VAT caption refers to the increase in the volume of leasing and ALD contracted operations.

The caption OTHER ACCRUED INCOME at 31 December 2016 and 2015 includes 20 362 th. euro and 20 132 th. euro, respectively, relating to accrued commission from participation in the results of insurance products (notes 2.15 and 4.38). In addition, at 31 December 2016, the caption OTHER ACCRUED INCOME includes 6 618 th. euro of dividends not yet received from Unicre.

At 31 December 2016 and 2015, the caption OTHER DEFERRED EXPENSES includes 5 416 th. euro and 5 285 th. euro for current contracts with service suppliers.

At 31 December 2015 the caption PAST SERVICE LIABILITIES – OTHER 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.

At 31 December 2016 and 2015 the balance of the caption ASSET OPERATIONS PENDING SETTLEMENT include:

- 212 856 th. euro and 213 108 th. euro, respectively, relating to securitisation operations carried out by Banco BPI (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;
- 27 906 th. euro and 28 084 th. euro, respectively, relating to taxes paid which have been contested by Banco BPI. At the date of the financial statements there was no expected date for the decision. The main ongoing tax processes refer to the Bank's VAT processes arising from inspections from 2004 to 2009, of which 19 916 th. euro was paid under *Decree-Law 151-A / 13* of 31 October. The remaining amounts of 7 990 th. euro and 8 168 th. euros relate to amounts paid under *Decree-Law 248-A / 02* of 14 November as well as other processes prior to the merger carried out in 2002, relating to tax processes of various types;
- 84 355 th. euro, at 31 December 2016, regarding the contribution to be transferred to the pension fund;
- 4 454 th. euro and 6 165 th. euro, respectively, relating to housing loans pending settlement.

The changes in impairment losses and provisions during 2016 and 2015 are shown in note 4.21.

4.15. Resources of central banks

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Resources of the Bank of Portugal		
Deposits	2 000 000	1 519 649
Accrued interest	10	1 085
Resources of other central banks		
Deposits	1	1
	2 000 011	**1 520 735**

In 2016 and in 2015 Banco BPI took funds from the EuroSystem, using part of its portfolio of eligible assets for this purpose (note 4.32).

4.16. Financial liabilities held for trading

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Derivative instruments with negative fair value (note 4.4)	212 713	294 318
	212 713	**294 318**

4.17. Resources of other credit institutions

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Resources of Portuguese credit institutions		
Deposits	168 247	355 499
Loans		58
Other resources	2 160	3 616
Accrued interest	18	472
	170 425	**359 645**
Resources of foreign credit institutions		
Deposits of international financial organisations	689 293	704 910
Very short term resources	2 077	1 053
Deposits	198 963	168 838
Debt securities sold with repurchase agreements		25 728
Other resources	34 668	36 847
Accrued interest	1 013	975
	926 014	**938 351**
Correction of the amount of hedged liabilities		13 792
Commissions relating to amortised cost		3
	1 096 439	**1 311 791**

At 31 December 2015 the balance of the caption DEBT SECURITIES SOLD WITH REPURCHASE AGREEMENTS was 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:

	31 Dec. 16	31 Dec. 15
Demand deposits	10 320 787	12 886 456
Term deposits	9 207 114	12 676 526
Savings deposits	58 179	62 080
Compulsory deposits	12 781	9 240
Cheques and orders payable	53 796	45 959
Debt securities sold with repurchase agreement	61 542	26 186
Other resources of Customers	22 915	64 130
Non-controlling interests in investment funds		
BPI Alternative Fund (Lux)	249 581	167 534
BPI Obrigações Mundiais		31 473
BPI Strategies		27 957
Capitalisation insurance products – Unit links	1 930 352	1 957 360
Capitalisation insurance products – Guaranteed Rate and Guaranteed Retirement	20 806	27 944
Accrued interest	29 399	167 851
	21 967 252	**28 150 696**
Correction of the amount of hedged liabilities	558	29 204
Commissions relating to amortised cost (net)	(129)	(2 086)
	21 967 681	**28 177 814**

At 31 December 2016 and 2015, the caption DEBT SECURITIES SOLD WITH REPURCHASE AGREEMENT relates to transactions with Central Counterparties (note 4.14) and are an instrument of the Bank's treasury management. During 2016 Banco BPI settled these transactions preferentially through Central Counterparties.

The caption RESOURCES OF CUSTOMERS at 31 December 2016 included 580 060 th. euro and 168 661 th. euro, respectively, relating to deposits of investment funds and pension funds managed by the BPI Group (632 613 th. euro and 192 072 th. euro, respectively, at 31 December 2015).

4.19. Debt securities

This caption is made up as follows:

	31 Dec. 16				31 Dec. 15			
	Issued	Repurchased	Balance	Average interest rate	Issued	Repurchased	Balance	Average interest rate
Covered bonds								
EUR	5 200 000	(4 800 000)	400 000	0.5%	4 875 000	(4 150 000)	725 000	0.7%
	5 200 000	**(4 800 000)**	**400 000**		**4 875 000**	**(4 150 000)**	**725 000**	
Fixed rate cash bonds								
EUR	98 051	(8 432)	89 619	1.3%	356 609	(32 668)	323 941	3.2%
	98 051	**(8 432)**	**89 619**		**356 609**	**(32 668)**	**323 941**	
Variable income cash bonds								
EUR	20 100	(7 457)	12 643		35 100	(15 524)	19 576	
USD	5 028	(1 423)	3 605		4 868	(698)	4 170	
	25 128	**(8 880)**	**16 248**		**39 968**	**(16 222)**	**23 746**	
	5 323 179	**(4 817 312)**	**505 867**		**5 271 577**	**(4 198 890)**	**1 072 687**	
Accrued interest			1 204				3 457	
Correction of the amount of hedged liabilities			177				2 060	
Premiums and commission (net)			(478)				(823)	
			903				**4 694**	
			506 770				**1 077 381**	

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) programme.

The maximum amount for issues under the EMTN programme 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 programme, can be issued in different currencies.

During 2008 the BPI Group set up two guaranteed bond issue programmes (mortgage bonds and bonds over the public sector), under *Decree-Law 59 / 2006*. Under these programmes 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, one issue of mortgage bonds in 2012, two issues of mortgage bonds and one issue of bonds over the public sector in 2015 and one issue of mortgage bonds and one issue of bonds over the public sector in 2016.

In accordance with this law, the holders of the mortgage bonds benefit from a special credit privilege over the autonomous cover pool of 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 programme was set up for up to a maximum of 7 000 000 000 euro.

The mortgage bonds are secured by a portfolio of mortgage loans and other assets that together constitute an autonomous cover pool.

Assets allocated to the cover pool include mortgage loans for housing or commercial purposes located in a EU Member State and other eligible assets, such as deposits at the Bank of Portugal, deposits with financial institutions with ratings equal to or greater than "A-" and other low risk and highly liquid assets. The total value of the other assets cannot exceed 20% of the cover pool. The amount of the allocated mortgage loans cannot exceed 80% of the value of the mortgaged property in the case of residential property, or 60% of the value of the mortgaged property, in the case of commercial property.

The legislation applicable to mortgage bonds imposes prudential limits, which must be met during the period of the bonds:

- The total nominal amount of the outstanding mortgage bonds cannot exceed 95% of the total amount of mortgage loans and other assets assigned to the bonds;
- The average maturity of the outstanding mortgage bonds cannot exceed, at any time, the average maturity of the mortgage loans and other assets assigned to the bonds;

- The total amount of interest payable to the holders of mortgage bonds cannot exceed, at any time, the amount of interest receivable related to the mortgage loans and other assets assigned to the bonds;

- The net present value of the liabilities arising from the outstanding mortgage bonds cannot exceed, at any time, the net present value of the cover pool given as collateral of these bonds, after consideration of any financial derivative instruments. This ratio must be maintained when considering a 200 basis points parallel up or down shift of the yield curve;

- The credit institutions' risk exposure, except for positions with residual maturity less than or equal to 100 days, cannot exceed 15% of the total nominal amount of the outstanding mortgage bonds.

At 31 December 2016 the amount of mortgage bonds issued by the BPI Group was 4 700 000 000 euro, split into nine issues as follows:

	OH - Series 8	**OH - Series 9**	**OH - Series 10**	**OH - Series 11**
Issue date	12 / 02 / 2010	21 / 05 / 2010	05 / 08 / 2010	25 / 01 / 2011
Nominal amount	EUR 200 000 000	EUR 350 000 000	EUR 600 000 000	EUR 200 000 000
ISIN	PTBB5WOE0003	PTBBP6OE0023	PTBBQQOE0024	PTBBPMOE0029
Maturity date	12 / 02 / 2017	21 / 05 / 2025	05 / 08 / 2020	25 / 01 / 2018
Rating (Moody's / S&P / Fitch)	Aaa / - / - / -	Aaa / - / - / -	- / - / AAA / -	Aa1 / AA / AA+ / -
Reimbursement	At maturity	At maturity	At maturity	At maturity
Interest payment frequency	Quarterly	Quarterly	Quarterly	Quarterly
Coupon	Euribor 3 m + 0.84%	Euribor 3 m + 0.65%	Euribor 3 m + 0.65%	Euribor 3 m + 4.60%
Repurchases	-	EUR 350 000 000	EUR 600 000 000	-

	OH - Series 13	**OH - Series 14**	**OH - Series 15**	**OH - Series 16**
Issue date	20 / 07 / 2012	30 / 03 / 2015	07 / 10 / 2015	30 / 05 / 2016
Nominal amount	EUR 800 000 000	EUR 1 250 000 000	EUR 200 000 000	EUR 500 000 000
ISIN	PTBBR3OE0030	PTBBRROE0048	PTBBPSOE0031	PTBBP7OE0022
Maturity date	20 / 07 / 2017	27 / 03 / 2025	07 / 10 / 2022	30 / 05 / 2023
Rating (Moody's / S&P / Fitch)	Baa3 / A- / - / -	Baa2 / - / - / -	A3 / - / - / A(High)	A3 / - / - / A(High)
Reimbursement	At maturity	At maturity	At maturity	At maturity
Interest payment frequency	Quarterly	Quarterly	Quarterly	Quarterly
Coupon	Euribor 3 m + 0.65%	Euribor 3 m + 0.50%	Euribor 3 m + 0.50%	Euribor 3 m + 0.80%
Repurchases	EUR 800 000 000	EUR 1 250 000 000	EUR 200 000 000	EUR 500 000 000

At 31 December 2016 and 2015, the cover pool allocated to the mortgage bonds amounted to 6 518 035 th. euro and 6 073 932 th. euro, respectively, of which 6 501 785 th. euro and 6 057 014 th. euro corresponded to mortgage loans (note 4.7).

The bond programme over the public sector was constituted for up to a maximum of 2 000 000 000 euro.

The bonds over the public sector are secured by a portfolio of public sector loans and other assets that together constitute the cover pool.

Loans granted to central public administrations, regional or local authorities of any EU Member State as well as loans with a specific guarantee from these entities may be allocated to the cover pool.

The prudential limits applicable to public sector bonds are similar to those applicable to the mortgage bonds, except for the limit on the maximum nominal amount of outstanding bonds in relation to the loans and other assets allocated to the cover pool, which in the case of bonds over the public sector is 100%.

At 31 December 2016 BPI Group held three outstanding issues of bonds over the public sector amounting to 500 000 000 euro, as follows:

	OSP – Series 2	OSP – Series 3	OSP – Series 4
Issue date	30 / 09 / 2010	07 / 10 / 2015	15 / 06 / 2016
Nominal amount	EUR 250 000 000	EUR 100 000 000	EUR 150 000 000
ISIN	PTBBRHOE0024	PTBBPROE0032	PTBBPGOE0035
Maturity date	30 / 09 / 2017	07 / 10 / 2022	15 / 06 / 2023
Rating (Moody's / S&P / Fitch)	- / A / -	Baa1 / - / -	Baa1 / - / -
Reimbursement	At maturity	At maturity	At maturity
Interest payment frequency	Quarterly	Quarterly	Quarterly
Coupon	Euribor 3 m + 0.4%	Euribor 3 m + 0.65%	Euribor 3 m + 0.80%
Repurchases	EUR 250 000 000	EUR 100 000 000	EUR 150 000 000

At 31 December 2016 and 2015 the cover pool allocated to bonds over the public sector amounted to 718 734 th. euro and 706 935 th. euro, respectively, of which 715 120 th. euro and 700 344 th. euro corresponded to loans (note 4.7).

The BPI Group issues bonds on a regular basis, with different remuneration conditions:

- Fixed rate – bonds issued on which the BPI Group is committed to pay a previously defined rate of income, calculated based on a fixed interest rate from the time of issue to maturity;
- Variable rate – bonds issued on which the BPI Group is committed to pay income calculated based on a specified interest rate index published by an outside source (market);
- Variable income – bonds issued for which the return is not known, or certain, at the issue date, and can be subject to changes depending on the evolution of certain underlying assets (indexes 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 changes in the costs incurred with these bonds.

The changes in the bonds issued by the BPI Group in 2016 were as follows:

	Covered bonds	Fixed rate bonds	Variable income bonds	Total
Balance at 31 December 2015	725 000	323 941	23 746	1 072 687
Bonds issued during the period	650 000	18 419		668 419
Bonds redeemed	(325 000)	(246 312)	(5 858)	(577 170)
Repurchases (net of resales)	(650 000)	(6 429)	(1 777)	(658 206)
Exchange difference			137	137
Balance at 31 December 2016	**400 000**	**89 619**	**16 248**	**505 867**

The changes in the bonds issued by the BPI Group in 2015 were as follows:

	Papel comercial	Covered bonds	Fixed rate bonds	Variable rate bonds	Variable income bonds	Total
Balance at 31 December 2014	16 335	1 488 000	423 861	14 072	266 460	2 208 728
Bonds issued during the period		1 550 000	51 766			1 601 766
Bonds redeemed	(16 335)	(763 000)	(141 449)	(14 072)	(241 552)	(1 176 408)
Repurchases (net of resales)		(1 550 000)	(10 237)		(1 655)	(1 561 892)
Exchange difference					493	493
Balance at 31 December 2015		**725 000**	**323 941**		**23 746**	**1 072 687**

Bonds issued by the BPI Group at 31 December 2016, by maturity date, are as follows:

	Maturity				
	2017	2018	2019-2022	> 2022	Total
Covered bonds					
EUR	200 000	200 000			400 000
	200 000	**200 000**			**400 000**
Fixed rate cash bonds					
EUR	42 533	17 486	9 600	20 000	89 619
	42 533	**17 486**	**9 600**	**20 000**	**89 619**
Variable income cash bonds					
EUR	12 643				12 643
USD	3 605				3 605
	16 248				**16 248**
	258 781	**217 486**		**20 000**	**505 867**

Bonds issued by the BPI Group at 31 December 2015, by maturity date, are as follows:

	Maturity					
	2016	2017	2018	2019-2022	> 2022	Total
Covered bonds						
EUR	325 000	200 000	200 000			725 000
	325 000	**200 000**	**200 000**			**725 000**
Fixed rate cash bonds						
EUR	246 228	47 465	9 468	780	20 000	323 941
	246 228	**47 465**	**9 468**	**780**	**20 000**	**323 941**
Variable income cash bonds						
EUR	5 858	13 718				19 576
USD		4 170				4 170
	5 858	**17 888**				**23 746**
	577 086	**265 353**	**209 468**		**20 000**	**1 072 687**

4.20. Financial liabilities relating to transferred assets

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Liabilities relating to assets not derecognised in securitisation operations (note 4.7)		
Loans		
Housing loans	1 498 597	1 650 926
Loans to SME's	3 404 200	3 387 600
Liabilities held by the BPI Group	(4 347 231)	(4 348 817)
Accrued costs	556	738
Commissions relating to amortised cost (net)	(737)	(925)
	555 385	**689 522**

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 11 February 2011 Banco BPI launched its second small and medium company securitisation operation, in the amount of 3 472 400 th. euro, under the name of Douro SME Series 2. The operation was issued through Sagres – Sociedade de Titularização de Créditos S.A.The operation was issued in 4 lots, their main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (Fitch / DBRS)	Spread / Fixed rate
■ Class A Notes	1 819 400	4.01	A+ / AA	0.15%
■ Class B Notes	1 317 500	4.01	n/r	n/a
■ Class C Notes		n/a	n/r	n/a
■ Residual Note	267 300	4.01	n/r	Residual interest
Total of the issues	**3 404 200**			
Liabilities held by BPI Group	(3 404 200)			
Total				

This issue was made in order to be eligible for possible funding from the European Central Bank.

On 24 November 2005 Banco BPI launched its first housing loan securitisation operation, in the amount of 1 500 000 th. euro, under the name of DOURO Mortgages No. 1. The operation was issued in 5 lots, their main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (Moody's, S&P, Fitch)	Spread
■ Class A Notes	306 791	4.81	A2 / A- / A+	0.28%
■ Class B Notes	6 492	4.81	Ba2 / BB+ / A	0.34%
■ Class C Notes	5 902	4.81	B1 / B+ / BBB	0.54%
■ Class D Notes	4 918	4.81	B2 / B- / BB	0.94%
■ Class E Notes	6 000	4.81	nr / nr / nr	Residual interest
Total of the issues	**330 103**			
Other funds	3			
Liabilities held by BPI Group	(150 574)			
Total	**179 532**			

On 28 September 2006 Banco BPI launched its second housing loan securitisation operation in the amount of 1 500 000 th. euro under the name of DOURO Mortgages No. 2. The operation was issued in 6 lots, their main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (Moody's, S&P, Fitch)	Spread
■ Class A1 Notes	4 293	6.12	A1 / BBB+ / A	0.10%
■ Class A2 Notes	433 872	6.12	A2 / BBB+ / A	0.28%
■ Class B Notes	10 702	6.12	Ba2 / B+ / BBB	0.34%
■ Class C Notes	6 942	6.12	B1 / B- / BB+	0.46%
■ Class D Notes	5 496	6.12	B3 / B- / BB-	0.96%
■ Class E Notes	5 536	6.12	nr / nr / nr	Residual interest
Total of the issues	**466 841**			
Liabilities held by BPI Group	(349 178)			
Total	**117 663**			

On 31 July 2007 Banco BPI launched its third housing loan securitisation operation in the amount of 1 500 000 th. euro under the name of DOURO Mortgages No. 3. The operation was issued in 6 lots, their main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (Moody's, S&P, Fitch)	Spread[1]
■ Class A Notes	664 484	7.43	A3 / BB+ / BBB+	0.24%
■ Class B Notes	17 037	7.43	nr / B / BB+	0.255%
■ Class C Notes	10 130	7.43	nr / B- / BB	0.35%
■ Class D Notes	8 748	7.43	nr / B- / B	0.72%
■ Class E Notes		n/a	n/a	n/a
■ Class F Notes	1 251	7.43	nr / nr / nr	Residual interest
Total of the issues	**701 650**			
Liabilities held by BPI Group	(443 279)			
Total	**258 371**			

1) In August 2016, as the option was not exercised, the spread was multiplied by 1.5.

On 30 March 2015 the housing loan securitisation operation in the amount of 1 522 500 th. euro under the name of DOURO Mortgages No. 4 was fully repaid by exercise of the call option.

On 21 July 2015 the housing loan securitisation operation in the amount of 1 421 000 th. euro under the name of DOURO Mortgages No. 5 was fully repaid by exercise of the call option.

4.21. Provisions and impairment losses

The liability caption PROVISIONS is made up as follows:

	31 Dec. 16	31 Dec. 15
Impairment losses and provisions for guarantees and commitments	22 473	34 132
Other provisions		
VAT's Recovery processes (2013 to 2014)	28 729	28 729
Tax contingencies	9 575	7 299
Social or statutory nature		15 565
Other provisions	9 458	14 139
	70 235	**99 864**

The caption OTHER PROVISIONS – SOCIAL OR STATUTORY NATURE at 31 December 2015 is to cover BFA Social Fund's risks of a social or statutory nature. This Fund, which has the purpose of financially supporting initiatives in the areas of education, health and social solidarity, was founded between the years 2005 and 2009, through the provision of 5% of BFA's net profit for the prior year in US Dollars. The provision was recorded between the years 2005 and 2009. In 2016, in connection with the sale of 2% of Banco de Fomento Angola, S.A., share capital, this provision was reclassified to NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS (note 4.9).

The changes in provisions and impairment losses of the Group in 2016 were as follows:

	Balance at 31 Dec. 15	Increases	Decreases and reversals	Utilisation	Exchange differences and others	Transfers[1]	Balance at 31 Dec. 16
Impairment losses of loans and advances to Customers (note 4.7)	978 654	107 746	(48 400)	(252 439)	(13 561)	(76 800)	695 200
Impairment losses and provisions for guarantees and commitments	34 132	56	(10 624)		822	(1 912)	22 474
	1 012 786	**107 802**	**(59 024)**	**(252 439)**	**(12 739)**	**(78 712)**	**717 674**
Impairment losses of deposits at other credit institutions (note 4.2)	3		(3)				
Impairment losses of financial assets available for sale (note 4.5)							
Debt instruments		18 304		(18 304)			
Equity instruments	47 051	1 511		(1 725)	30		46 867
Other securitites	50 828	4 962		(48)			55 742
Loans and other receivables	21 672	509	(95)	(17 700)			4 386
Impairment losses of other assets (note 4.14)							
Tangible assets held for sale	29 302	11 256	(1 350)	(5 446)			33 762
Debtors, other applications and other assets	169		(2)	(160)			7
Other provisions	65 732	6 893	(634)	(4 262)	1 708	(21 676)	47 761
	214 757	**43 435**	**(2 084)**	**(47 645)**	**1 738**	**(21 676)**	**188 525**
	1 227 543	**151 237**	**(61 108)**	**(300 084)**	**(11 001)**	**(100 388)**	**906 199**

1) Figures related to the classification of BFA as discontinued operations.

During the year 2016, under the agreement to sell 2% of Banco de Fomento Angola, S.A. share capital, the assets and liabilities of this subsidiary were reclassified to NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS (note 4.9). Impairments and provisions of BFA reclassified as discontinued operations are recorded in the Transfers column. In 2016, net increases in impairment losses of Customer loans and guarantees and net increases of other provisions, include 15 769 th. euro and 4 868 th. euro respectively, regarding the classification of BFA as a discontinued operation and that were included under the caption NET INCOME FROM DISCONTINUED OPERATIONS (note 4.9).

The utilisation of impairment losses of loans and advances to Customers during 2016 include 189 198 th. euro of credit write-offs and 59 848 th. euro related to credit sales.

The increase in impairment of available-for-sale debt instruments refers to Portugal Telecom International Finance 4.375% 24.3.2017 Bonds. These bonds were sold during the 2016 financial year, and the respective impairment was used.

The changes in the Group's provisions and impairment losses in 2015 were as follows:

	Balance at 31 Dec. 14 Proforma	Increases	Decreases and reversals	Utilisation	Exchange differences and others	Balance at 31 Dec. 15
Impairment losses of loans and advances to Customers (note 4.7)	1 036 661	184 034	(42 757)	(193 050)	(6 234)	978 654
Impairment losses and provisions for guarantees and commitments	38 559		(3 719)		(708)	34 132
	1 075 220	**184 034**	**(46 476)**	**(193 050)**	**(6 942)**	**1 012 786**
Impairment losses of deposits at other credit institutions (note 4.2)		3				3
Impairment losses of loans and advances to credit institutions	2		(2)			
Impairment losses of financial assets available for sale (note 4.5)						
Debt instruments	1 045			(1 045)		
Equity instruments	46 375	2 385		(1 803)	94	47 051
Other securitites	43 345	7 634		(151)		50 828
Loans and other receivables	21 359	467	(154)			21 672
Impairment losses of non-current assets held for sale	8 532			(8 532)		
Impairment losses of other assets (note 4.14)						
Tangible assets held for sale	29 390	5 234	(600)	(4 722)		29 302
Debtors, other applications and other assets	1 449	351	(346)		(1 285)	169
Other provisions	68 774	8 434	(1 825)	(1 408)	(8 243)	65 732
	220 271	**24 508**	**(2 927)**	**(17 661)**	**(9 434)**	**214 757**
	1 295 491	**208 542**	**(49 403)**	**(210 711)**	**(16 376)**	**1 227 543**

Utilisation of impairment losses of loans and advances to Customers in 2015 corresponds to credit write-offs, of which 111 024 th. euro relates to loans sold.

In 2015, net increases in impairment of Customer loans and guarantees and increases, net of other provisions, include 33 630 th. euro and 3 620 th. euro respectively, regarding the classification of BFA as a discontinued operation and that were included under the caption NET INCOME FROM DISCONTINUED OPERATIONS (note 4.9).

The increase net of decreases in impairment losses of loans and advances to Customers in 2015 includes 561 th. euro relating to the operations of BPI Vida, that were included under the caption TECHNICAL RESULT OF INSURANCE CONTRACTS (note 4.37).

The impairment of non-current assets held for sale corresponds to impairment recorded in 2014 on the investment in Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A, which corresponds to the difference between the book value of the investment and its valuation in the negotiation process for the sale of the investment that was ongoing as of 31 December 2014. The investment was sold in 2015, and the respective impairment was used.

In 2015, the increases net of decreases of impairment losses of debtors, other applications and other assets and of other provisions include, respectively, 176 th. euro and 1 882 th. euro relating to Imofomento's operations. In the statement of income, these impairment losses were included under the caption NET OPERATING INCOME (note 4.40). In the third quarter of 2015, Banco BPI ceased having control over Imofomento Fund, as it became holder of less than 20% of the participating units of the fund.

4.22. Technical provisions

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Immediate Life Annuity / Individual	4	4
Immediate Life Annuity / Group	22	23
Family Savings	2	2
BPI New Family Savings	1 066 033	2 191 422
BPI Retirement Guaranteed PPR	101 416	138 080
BPI Retirement Savings PPR	610 866	814 113
BPI Non Resident Savings	263 423	511 843
Planor	5 060	5 335
PPR BBI Life	1 955	2 153
Savings Investment Plan / Youths	0	2
South PPR	48	117
	2 048 829	**3 663 094**

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 rResults		
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:

	31 Dec. 16	31 Dec. 15
Current tax liability		
Corporation income tax payable	3 752	63 976
Other		66
	3 752	**64 042**
Deferred tax liability		
Temporary differences	18 254	28 008
	18 254	**28 008**
	22 006	**92 050**

Details of the deferred tax liability are presented in note 4.43.

4.24. Other subordinated debt and participating bonds

This caption is made up as follows:

	31 Dec. 16				31 Dec. 15			
	Issued	Repurchased	Balance	Average interest rate	Issued	Repurchased	Balance	Average interest rate
OTHER SUBORDINATED DEBT								
Perpetual bonds								
EUR	310 000	(250 000)	60 000	2.1%	310 000	(250 000)	60 000	2.3%
	310 000	**(250 000)**	**60 000**		**310 000**	**(250 000)**	**60 000**	
Other bonds								
EUR	400 000	(391 293)	8 707	1.2%	400 000	(391 293)	8 707	1.4%
	400 000	**(391 293)**	**8 707**		**400 000**	**(391 293)**	**8 707**	
	710 000	**(641 293)**	**68 707**		**710 000**	**(641 293)**	**68 707**	
Participating bonds								
EUR	28 081	(27 350)	731	0.2%	28 081	(27 350)	731	0.2%
	28 081	**(27 350)**	**731**		**28 081**	**(27 350)**	**731**	
Accrued interest			62				74	
			62				**74**	
			69 500				**69 512**	

The changes in debt issued by the BPI Group in 2016 were as follows:

	Perpetual bonds	Other bonds	Participating bonds	Total
Balance at 31 December 2015	60 000	8 707	731	69 439
Repurchases (net of resales)				
Balance at 31 December 2016	60 000	8 707	731	69 438

The changes in debt issued by the BPI Group in 2015 were as follows:

	Perpetual bonds	Other bonds	Participating bonds	Total
Balance at 31 December 2014	60 000	8 707	732	69 439
Repurchases (net of resales)			(1)	(1)
Balance at 31 December 2015	60 000	8 707	731	69 438

Perpetual and other bonds issued by the BPI Group at 31 December 2016 are made up as follows, by maturity date:

	Maturity			
	2017	**2018-2021**	**> 2021**	**Total**
Perpetual bonds				
EUR[1]	60 000			60 000
Other bonds				
EUR	8 707			8 707
Total	**68 707**			**68 707**

1) In September 2012 the call option was not exercised, so these bonds now have a quarterly call option. In September 2012 the remuneration had a step-up due to the fact that the option was not exercised.

Perpetual and other bonds issued by the BPI Group at 31 December 2015 are made up as follows, by maturity date:

	Maturity				
	2016	**2017**	**2018-2021**	**> 2021**	**Total**
Perpetual bonds					
EUR[1]	60 000				60 000
Other bonds					
EUR		8 707			8 707
Total	**60 000**	**8 707**			**68 707**

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 value upon request of the participants, with the approval of the Bank or upon the Bank's decision, with a six months' notice.

4.25. Other liabilities

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Creditors and other resources		
Creditors for futures operations	14 752	23 053
Consigned resources	15 020	19 765
Captive account resources	7 346	7 408
Guarantee account resources	8 394	10 711
Public Sector		
Value Added Tax (VAT) payable	239	362
Tax withheld at source	13 245	22 566
Social Security contributions	4 490	4 678
Other	133	559
Contributions to other health systems	1 417	1 389
Creditors for factoring contracts	32 992	18 956
Creditors for the supply of assets	14 190	17 194
Contributions owed to the Pension Fund (note 4.26)		
Pensioners and Employees	75 455	1 279
Directors	8 900	364
Other creditors	63 184	97 871
Deferred costs	(74)	(129)
	259 683	**226 026**
Liabilities with pensions and other benefits (note 4.26)		
Pension funds assets		
Pensioners and Employees	(1 355 356)	
Directors	(41 790)	
Past service liabilities		
Pensioners and Employees	1 463 137	
Directors	52 266	
	118 257	
Accrued costs		
Creditors and other resources		249
Personnel costs	59 519	95 323
General administrative costs	19 009	58 832
Contribution over the banking sector	14 291	13 003
Other	2 546	2 835
	95 365	**170 242**
Deferred income		
On guarantees given and other contingent liabilities	3 152	3 476
Other	11 041	9 267
	14 193	**12 743**
Other accounts		
Foreign exchange transactions pending settlement		3 562
Securities operations pending settlement – stock exchange operations		66 492
Securities operations pending settlement – non stock exchange operations	18 779	32 588
Liabilities pending settlement	124 921	93 485
Other operations pending settlement	146 206	75 018
	289 906	**271 145**
	777 404	**680 156**

The caption OTHER CREDITORS at 31 December 2016 and 2015 includes 42 305 th. euro and 64 740 th. euro, respectively, relating to unrealized capital subscribed for in Venture Capital Funds:

	31 Dec. 16	31 Dec. 15
Fundo de Recuperação, FCR	9 529	18 340
Fundo InterRisco II CI	9 050	18 876
Fundo InterRisco II – Fundo de Capital de Risco	4 388	6 619
FCR – Fundo Revitalizar		364
Fundo de Reestruturação Empresarial, FCR	1 828	1 864
Fundo Pathena SCA Sicar	6 293	7 460
Other funds	11 217	11 217
	42 305	**64 740**

At 31 December 2016 and 2015 the caption OTHER CREDITORS also includes:

- 5 106 th. euro and 5 279 th. euro, respectively, relating to operations with suppliers pending settlement, for the sale of prestige products;
- 2 512 th. euro and 2 157 th. euro, respectively, relating to securities of captive accounts as they are in litigation.

As mentioned in note 2.8, in 2016 with the entry into force of the new Collective Labour Agreement, long service premium was eliminated and the proportional share of the long service premium for the anniversary in progress relating to 15, 25 or 30 years of good and effective service in the banking sector was paid. At 31 December 2016, the caption "ACCRUED COSTS – PERSONNEL COSTS" includes 6 685 th. euro relating to final career premiums. At 31 December 2015 this caption includes 32 512 th. euro relating to long service premiums.

The main actuarial and financial assumptions used to calculate the final career and long service premium liability are as follows:

	31 Dec. 16	31 Dec. 15
Demographic assumptions:		
Mortality table[1]	TV 73 / 77-M – 2 years TV 88 / 90-W – 3 years	
Financial assumptions:		
Discount rate		
Beginning of the year	2.50%	2.50%
End of the year	2.00%	2.50%
Salary growth rate		
Beginning of the year	1.00%	1.00%
End of the year	1.00%	1.00%

1) Life expectancy considered was 2 years greater than the mortality table used for men and 3 years for women.

The changes in the final career premium and long service premium liability in 2016 and in 2015 were as follows:

	31 Dec. 16	31 Dec. 15
Long service premiums at the beginning of the period	32 512	30 030
Long service premiums payments	(7 662)	(780)
Personnel costs (note 4.41):		
Current service cost	1 123	2 596
Interest cost	424	808
Other		(142)
Gain from the extinction of the long service premium	(26 397)	
Long service premium at the end of the year		**32 512**
Personnel costs (note 4.41):		
Expenses with the introduction of the final career premium	5 724	
Current service cost	159	
Interest cost	76	
Final career premium payment	(50)	
Actuarial (Gains) and losses		
Discount rate changes	589	
Other deviations	187	
Final career premium at the end of the year	**6 685**	

IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the rate in accordance with the relevant legislation. As a result of the entry into force of IFRIC 21, and based on the interpretation of the legislation in force, in 2015 Banco BPI changed its accounting policy for recognizing the extraordinary contribution over the banking sector as it believes that the event which creates the obligation to pay the extraordinary contribution over the banking sector is the activity carried out in the year preceding its payment, which is June of the following year. Therefore, the amount recorded in the caption ACCRUED COSTS – CONTRIBUTION OVER THE BANKING SECTOR corresponds to the contribution payable in June of the following year.

The caption SECURITIES OPERATIONS PENDING SETTLEMENT – STOCK EXCHANGE OPERATIONS at 31 December 2015 refers to the acquisition of securities to be settled in the following month.

The caption SECURITIES OPERATIONS PENDING SETTLEMENT – NON STOCK EXCHANGE OPERATIONS at 31 December 2016 and 31 December 2015 refers to the acquisition of securities to be settled in the following month.

The caption LIABILITIES PENDING SETTLEMENT at 31 December 2016 and 2015 includes:

- 76 538 th. euro and 42 891 th. euro, respectively, relating to transactions with loans securitisation funds;
- 23 675 th. euro and 17 072 th. euro, respectively, relating to ATM transactions to be settled;
- 8 753 th. euro and 14 513 th. euro, respectively, relating to transactions to be settled with SIBS.

The caption OTHER OPERATIONS PENDING SETTLEMENT, at 31 December 2016 and 2015 includes 117 676 th. euro and 73 454 th. euro, respectively, relating to transfers under SEPA (Single Euro Payment Area).

4.26. Liability for pensions and other benefits

The past service liability relating to pensioners, personnel and Directors that are, or have been, Employees of BPI Group companies[1], 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 old age or disability, death and final career premium (previsously 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 is also a restricted group of management Employees that is 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 3 January, all the bank Employees that benefit from CAFEB – Caixa de Abono de Família dos Empregados Bancários were incorporated into the General Social Security Regime, as from 1 January 2011, being covered by this regime as regards old age pensions and in the case of maternity, paternity and adoption leave, the cost of which the Bank no longer covers. Given the complementary nature of the rules under the Collective Labour Agreement for the Portuguese Banking Sector, the Bank will continue to guarantee the difference between the amount of the benefits that will be paid under the General Social Security Regime for the eventualities covered and the benefits established in the Collective Labour Agreement.

Following the instructions of the National Council of Financial Supervisors (Conselho Nacional dos Supervisores Financeiros), the amount of the past service liability remained unchanged at 31 December 2010. Current service cost decreased as from 2011 and the Bank became subject to the Single Social Tax (Taxa Social Única) of 23.6%.

Incapacity and survivor pensions and sickness subsidy of these Employees will continue to be the Bank's responsibility.

Decree-Law 127 / 2011 of 31 December established 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 31 December 2011 and were covered by the substitute social security regime included in the collective labour regulations instrument in force for the banking sector (Pillar 1), as well as transfer to the Portuguese State of the corresponding pension fund assets covering these 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 for the Banking Sector; (ii) the benefits complementary to the retirement and survivor pensions assumed by the Collective Labour Agreement for the Banking Sector; (iii) the contribution to Social Medical Support Services (Serviços de Apoio Médico-Social – SAMS); (iv) death subsidy; (v) survivor pensions to children and surviving spouse related to the same Employee and (vi) survivor pensions due to the family of current retired Employees, in which the conditions for granting the pensions occurred as from 1 January 2012.

1) Companies consolidated by the full consolidation method (Banco BPI, BPI Investimentos, BPI Gestão de Activos, BPI Private Equity and BPI Vida e Pensões).

The 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: 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 hired for that purpose by the Ministry of Finance.

Since the transfer to the Social Security corresponded to a settlement, extinguishing the corresponding liability of Banco BPI, the negative difference between the amount of the pension fund assets transferred to the Portuguese State and the amount of the liability transferred based on actuarial assumptions used by Banco BPI in the amount of 99 652 th. euro was recorded in 2011 in the statement of income caption OPERATING INCOME AND EXPENSES, 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 th. euro relates to the amount of the liability and 1 688 th. euro to the value of the fund. The positive difference between these two amounts, totalling 145 th. euro, was recorded in 2012 in the caption OPERATING INCOME AND EXPENSES.

On 14 June 2016 a new Collective Labour Agreement ("*Acordo Colectivo de Trabalho*" – ACT) was signed with the labour unions. It was published in the Labour and Employment Bulletin ("*Boletim do Trabalho e Emprego*") on 8 August 2016 and entered into force the following day.

The new ACT established new rules for the financing of SAMS (note 2.7) the impact of which is to decrease past service liability in the amount of 22 215 th. euro. As this is a change in benefits of the pension plan, the impact was recorded in the statement of income caption PERSONNEL COSTS, as provided for in paragraph 103 of IAS 19 (note 4.41).

Additionally, with the new Collective Labour Agreement, mandatory promotions due to time of service were eliminated, except for the next promotion of Employees who were promoted up to 31 December 2014 (note 2.7).

The impact of the elimination of mandatory promotions due to time of service corresponded to a decrease of 9 593 th. euro in the past service liability, which was recorded by corresponding entry to equity (actuarial deviations) (note 4.30), since the mandatory promotions due to time of service corresponded to an actuarial assumption used by Banco BPI.

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 old age, and the "Single Successive Premiums" method was used to calculate the cost of the incapacity and survivor benefits.

The BPI Vida e Pensões pension plan was changed in accordance with the new Collective Labour Agreement (*Contrato Colectivo de Trabalho – CCT*) for the Portuguese Insurance Sector, signed in December 2011, and published in Labour and Employment Bulletin (*Boletim do Trabalho e Emprego*), n. 2, of 15 January 2012, the defined benefit plan ceasing to exist and a defined contribution plan being introduced. Therefore, the amount of the past service liability at 31 December 2011, relating to retirement pensions of current Employees, hired up to 22 June 1995, which was covered by clause 51, item 4 of the Collective Labour Agreement (the consolidated text of which was published in Labour and Employment Bulletin, n. 32, of 29 August 2008), that was fully funded, was converted into individual accounts of the Employees in 2012. This change does not apply to the pension liability under payment relating to Employees that at 31 December 2011 were retired or pre-retired.

The commitments assumed in the regulations of the Banco BPI Pension Plans are funded by Pension Funds and therefore Banco BPI is exposed to risks resulting from the valuation of the liability and the value of the related pension funds. The Pension Funds of Banco BPI are disclosed in note 4.50.

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, of the bond component to interest rate risk and credit risk, as well as to 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 to the economic developments and government policies for the sector.

The investment policy was defined considering 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:

	31 Dec. 16	31 Dec. 15
Demographic assumptions:		
Mortality table[1]	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 on the period	2.50%	2.50%[2]
End of the period	2.00%	2.50%[2]
Discount rate of the other companies		
Beginning on the period	2.50%	2.50%
End of the period	2.00%	2.50%
Pensionable salary increase rate[3,4]	1.00%	1.00%
Pension increase rate[4]	0.50%	0.50%

1) Life expectancy considered was 2 years greater than the mortality table used for men and 3 years for women.
2) A discount rate of 2.83% for current Employees and 2.00% for pensioners was considered, which is similar to that which would be obtained if a single discount rate of 2.5% were used for the entire population.
3) The mandatory promotions due to time of service and the seniority payments were considered autonomously, directly in the evolution of the estimated salaries, and would be equivalent to a 0.5% growth rate.
4) It was considered a pensionable salary and a pension increase rate of 1.25% and 0.75% for 2016 and 2017, respectively, as provided in the new Collective Labour Agreement.

The actual results obtained in relation to the main financial assumptions were:

	31 Dec. 16	31 Dec. 15
Pensionable salary increase rate[1]	2.40%	1.40%
Pension increase rate[2]	0.75%	0.00%
Pension fund income rate		
Banco BPI	(1.17%)	14.04%
Other companies	0.86%	2.11%

1) Determined based on average pensionable salary changes for current Employees in the beginning and in the end of the year (including changes in remuneration levels, the effect of mandatory promotions due to time of service and seniority payments and does not consider new hires and exits).
2) Corresponds to the ACT table update rate.

The following assumptions were used to calculate the amount of the social security pension which, under the provisions of the Collective Labour Agreement (ACT), must be deducted from the pension established in the ACT:

	31 Dec. 16	31 Dec. 15
Salary increase rate for purposes of calculating the Social Security pension[1]	2.00%	2.00%
Salary revaluation rate for purposes of calculating the Social Security pension	1.00%	1.00%
Social Security pension increase rate	0.50%	0.50%

1) Pensionable salary for Social Security includes all wages, while the pensionable salary under ACT consists only on the portion of the level base salary and seniority payments, with an estimated evolution of the total pensionable salary for Social Security larger than the pensionable salary under ACT.

At 31 December 2016 and 2015 the number of pensioners and Employees covered by the pension plans funded by the pension funds was as follows:

	31 Dec. 16	31 Dec. 15
Retired pensioners	7 248	6 994
Survivor pensioners	1 388	1 341
Current Employees	5 576	5 921
Former Employees (clauses 137 A and 140 of the ACT)	3 671	2 937
	17 883	**17 193**

The past service liability for pensioners and Employees of the BPI Group and respective coverage by the Pension Fund at 31 December 2016 and 2015 are as follows:

	31 Dec. 16	31 Dec. 15
Total past service liability		
Liability for pensions under payment	810 215	675 342
Of which: [increase in the liability resulting from early retirements during the year]	[53 952]	[5 648]
Past service liability of current and former Employees	652 922	604 581
	1 463 137	**1 279 923**
Net assets of the pension fund	1 355 356	1 391 069
Contributions to be transferred to the pension fund	75 455	1 279
Excess / (Insufficient) coverage	(32 326)	112 425
Degree of coverage	98%	109%

In accordance with *Decree-Law 12 / 2006* of 20 January, only in very special conditions is it possible to return excess funding, so it is assumed that this excess will be used to reduce future contributions.

The average duration of the pension liability of BPI Group Employees is 18.1 years, including both current Employees and pensioners.

At 31 December 2016, the Bank recorded under the caption OTHER LIABILITIES – CONTRIBUTIONS OWED TO THE PENSION FUND (note 4.25) 75 455 th. euro related to the 2016 contribution made in January 2017, after which the percentage of liabilities coverage corresponds to 98%.

At 31 December 2015 the Bank recorded in the caption OTHER LIABILITIES – CONTRIBUTIONS OWED TO THE PENSION FUND (note 4.25) the amount of 1 279 th. euro relating to the contribution for 2015 made in January 2016, after which the degree of coverage of the liability at that date would be 109%.

The degree of coverage of the liability complies with the rule defined in *Bank of Portugal Notice 4 / 2005*, which establishes the requirement of full funding of pensions in payment and a 95% minimum level of funding of the past service liability for current Employees.

Evolution of the degree of coverage of the liability in the past five years was as follows:

	2016	2015	2014 Proforma	2013 Proforma	2012 Proforma
Total past service liability	1 463 137	1 279 923	1 278 394	1 082 369	937 090
Net assets of the pension fund	1 355 356	1 391 069	1 201 648	1 129 067	986 874
Contributions to be transferred to the pension fund	75 455	1 279	47 008	2 853	500
Excess / (insufficient) coverage	(32 326)	112 425	(29 738)	49 551	50 284
Degree of coverage	**98%**	**109%**	**98%**	**105%**	**105%**

The changes in the present value of the past service liability in 2016 and 2015 were as follows:

	31 Dec. 16	31 Dec. 15
Liability at the beginning of the period	1 279 923	1 278 394
Current cost:		
Of the BPI Group	(4 112)	(2 728)
Of the Employees	3 712	3 639
Interest cost	31 257	30 269
Actuarial (gain) and loss in the liability	153 080	(5 399)
Early retirements	53 952	5 648
Change in the pension plan conditions – SAMS	(22 215)	
Pensions payable (estimate)	(32 460)	(29 900)
Liability at the end of the period	**1 463 137**	**1 279 923**

The sensitivity analysis to a change of the main financial assumptions for the entire period covered by the actuarial valuation (and not just a change in a given year) at 31 December 2016 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%	-4.6%	(66 905)
Decrease by 0.25%	4.9%	71 695
Change in the salary increase rate[2]		
Increase by 0.25%	1.5%	22 174
Change in the pension increase rate[3]		
Increase by 0.25%	5.4%	78 807
Mortality Table		
+1 year	3.5%	51 264

1) The same calculation method and assumptions used in the calculation of the liabilities were used, only the assumptions under analysis are changing.
2) The increase in the changes in salaries applies only to the pensionable salary pension scheme component according with 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 2016 and 2015 were as follows:

	31 Dec. 16	31 Dec. 15
Net assets of the pension funds at the beginning of the year	1 391 069	1 201 648
Contributions:		
Of the BPI Group	11 050	47 008
Of the Employees	3 712	3 639
Pension fund income (net)		
Income on Plan assets computed with the discount rate	32 357	30 720
Deviation of return on assets	(48 392)	138 042
Pensions paid by the pension funds	(34 440)	(29 988)
Net assets of the pension funds at the end of the year	**1 355 356**	**1 391 069**

The estimated contribution to the pension plan to be made by the Employees in 2017 amounts to 3 740 th. euros.

At 31 December 2016 and 31 December 2015 the figures of Banco BPI Employees' Pension Funds were as follows:

	31 Dec. 16		31 Dec. 15	
	Value	%	Value	%
Liquidity	131 154	9.7%	173 189	12.5%
Fixed rate bonds				
Listed	225 650	16.6%	230 678	16.6%
Floating rate bonds				
Listed	168 602	12.5%	182 180	13.1%
Shares				
Listed	366 529	27.0%	438 055	31.5%
Not listed	46 351	3.4%	47 652	3.4%
Real estate	312 842	23.1%	305 097	21.9%
Other				
Listed	104 228	7.7%	14 218	1.0%
	1 355 356	**100.0%**	**1 391 069**	**100.0%**

In 2016 the contributions made by the Group to the Pension Fund were made in cash. In 2015 the contributions made by the Group to the Pension Fund were made in securities amounting to 42 602 th. euro and in cash amounting to 4 406 th. euro.

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 2016 were as follows:

	31 Dec. 15	Acquisitions	Changes in fair value	Sales	31 Dec. 16
Fair value of the plan assets:					
Financial instruments issued by the BPI Group					
Bonds	60 067		(8 681)		51 386
	60 067		**(8 681)**		**51 386**
Premises used by the BPI Group	193 535	13 077	5 011	17 689	193 934
	253 602	**13 077**	**(3 670)**	**17 689**	**245 320**

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 2015 were as follows:

	31 Dec. 14 Proforma	Changes in fair value	Sales	31 Dec. 15
Fair value of the plan assets:				
Financial instruments issued by the BPI Group				
Bonds	60 072	(5)		60 067
	60 072	**(5)**		**60 067**
Premises used by the BPI Group	203 151	(1 921)	7 695	193 535
	263 223	**(1 926)**	**7 695**	**253 602**

As mentioned in note 2.7, 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 2012 to 2016 were as follows:

Amount at 31 December 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 31 December 2011[2]	**(123 167)**
Adjustment in the ACT Table below the estimate	26 181
Change rate and pension increase rate	
Discount rate and pension increase rate	(98 212)
Other[3]	(9 026)
Deviation in pension fund income	113 349
Deviation in pensions paid	597
Other	885
Amount at 31 December 2012 Proforma	**(89 393)**
Adjustment in the ACT 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
Other	(4 452)
Amount at 31 December 2013 Proforma	**(92 307)**
Adjustment in the ACT Table below the estimate	18 305
Change in the financial and demographic assumptions	
Discount rate and pension and salary increase rate	(149 225)
Other	(2 400)
Deviation in pension fund income	44 594
Deviation in pensions paid	(1 516)
Other	(1 345)
Amount at 31 December 2014 Proforma	**(183 894)**
Adjustment in the ACT Table below the estimate	13 830
Change in the financial and demographic assumptions	
Other	(1 029)
Deviation in pension fund income	138 042
Deviation in pensions paid	(88)
Deviation resulting from the increase in the national minimum salary	(6 000)
Other	(1 402)
Amount at 31 December 2015 (note 4.30)	**(40 541)**
Adjustment in the ACT Table above the estimate	(13 017)
Change in the financial and demographic assumptions	
Single discount rate	(10 985)
Change in discount rate	(129 409)
Elimination of automatic promotions – ACT	9 593
Deviation in pension fund income	(48 392)
Deviation in pensions paid	(1 978)
Other[4]	(9 262)
Amount at 31 December 2016 (note 4.30)	**(243 991)**

1) Actuarial gains and losses due to differences between the actuarial assumptions and the amounts effectively realised and changes in the actuarial assumptions.
2) Excluding deviations relating to transferred liabilities.
3) Includes 7 426 th. euro relating to deviations caused by changes in the salary growth calculating methodology.
4) Includes (3 920) th. euro relating to deviations of mortality and (2 684) th. euro from incapacity pension.

The consolidated financial statements as of 31 December 2016 and 2015 include the following amounts relating to coverage of the pension liability, in the captions INTEREST AND FINANCIAL GAIN AND LOSS WITH PENSIONS (note 4.39) and PERSONNEL COSTS (note 4.41):

	31 Dec. 16	31 Dec. 15
Interest and financial gain and loss with pensions		
Interest cost relating to the liabilities	31 257	30 269
Income on Plan assets computed with the discount rate	(32 357)	(30 720)
	(1 100)	**(451)**
Personnel costs		
Current service cost	(4 112)	(2 728)
Increase in liabilities for early retirements	53 952	5 648
Compensation for early retirements	5 751	840
Change in the pension plan conditions – SAMS	(22 215)	
	33 376	**3 760**

The Members of the Executive Committee of the Board of Directors of Banco BPI, S.A. and the remaining Board Members of Banco Português de Investimento benefit from a supplementary retirement and survivor pension plan. At 31 December 2006 a pension fund was started to cover this liability.

The main actuarial assumptions used to calculate the pension liability were as follows:

	31 Dec. 16	31 Dec. 15
Demographic assumptions:		
Mortality table[1]	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 period	2.50%	2.50%
End of the period	2.00%	2.50%
Pensionable salary increase rate	0.50%	0.50%
Pension increase rate[2]	0.50%	0.50%

1) Life expectancy considered was 2 years greater than the mortality table used for men and 3 years for women.
2) Increase equal to the variation of the Consumer Price Index rate according to the pension plan rules.

The actual results obtained in relation to the main financial assumptions were as follows:

	31 Dec. 16	31 Dec. 15
Pensionable salary increase rate[1]	0.40%	0.00%
Pension increase rate[2]	0.52%	0.00%
Pension fund income rate	0.90%	2.42%

1) Calculated based on the changes in pensionable salaries of Employees working for Group companies at the beginning and end of the year.
2) Increase equal to the change in the Consumer Price Index as per the pension plan rules.

At 31 December 2016 and 2015 the past service liability of this plan and respective coverage by the Pension Fund were as follows:

	31 Dec. 16	31 Dec. 15
Total past service liability		
Liability for pensions under payment	20 732	17 900
Past service liability of current and former Directors	31 534	26 079
	52 266	**43 979**
Net assets of the Pension Funds	41 790	42 311
Contributions to be transferred to the Pension Fund	8 900	364
Excess / (Insufficient) coverage	(1 576)	(1 304)
Degree of coverage	97%	97%

The average duration of the pension liability of Directors is 11.8 years, including both current and retired Directors.

As of 31 December 2016, the Bank recorded in the caption OTHER LIABILITIES – CONTRIBUTION OWED TO THE PENSION FUND (note 4.25) the amount of 8 900 th. euros relating to the contribution for 2016 made in January 2017, after which the degree of coverage of liabilities at that date would be 97%.

As of 31 December 2015 the Bank recorded in the caption OTHER LIABILITIES – CONTRIBUTIONS OWED TO THE PENSION FUND (note 4.25) the amount of 364 th. euro relating to the contribution for 2015 made in January 2016, after which the degree of coverage of the liability at that date would be 97%.

The degree of coverage complies with the rule defined in *Bank of Portugal Notice 4 / 2005*, which establishes the requirement of full funding of pensions in payment and a 95% minimum level of funding of the past service liability for current Employees.

The changes in the degree of coverage of the liabilities in the past five years were as follows:

	2016	2015	2014 Proforma	2013 Proforma	2012 Proforma
Total past service liability	52 266	43 979	43 744	39 137	35 113
Net assets of the Pension Fund	41 790	42 311	39 098	35 262	32 638
Contributions to be transferred to the Pension Fund	8 900	364	3 393	2 805	2 475
Excess / (insufficient) coverage	(1 576)	(1 304)	(1 253)	(1 070)	
Degree of coverage	**97%**	**97%**	**97%**	**97%**	**100%**

The changes in the present value of the past service liability of the plan in 2016 and 2015 were as follows:

	31 Dec. 16	31 Dec. 15
Liability at the beginning of the year	43 979	43 744
Current service cost	1 648	1 806
Interest cost	1 132	1 134
Actuarial (gain) / loss in the liability	6 888	(1 488)
Pensions payable (estimate)	(1 381)	(1 217)
Liability at the end of the year	**52 266**	**43 979**

At 31 December 2016, 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) 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%	-3.0%	(1 555)
Decrease by 0.25%	3.1%	1 633
Change in the salary increase rate[2]		
Increase by 0.25%	0.3%	153
Change in the pension increase rate[3]		
Increase by 0.25%	3.1%	1 596
Mortality Table		
+1 year	3.5%	1 823

1) The same calculation method and assumptions used in the calculation of the liabilities were used, only the assumptions under analysis are changing.
2) The increase in the changes in salaries applies only to the pensionable salary pension scheme component according with 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 2016 and 2015 were as follows:

	31 Dec. 16	31 Dec. 15
Net assets of the Pension Fund at the beginning of the period	42 311	39 098
Contributions made	364	3 392
Pension Fund income (net)		
Income on Plan assets computed with the discount rate	1 072	1 096
Deviation of return on assets	(686)	(68)
Pensions paid by the Pension Fund	(1 271)	(1 207)
Net assets of the Pension Fund at the end of the period	**41 790**	**42 311**

The planned contributions to the pension plan to be made by Directors in 2017 to amounts 8 900 th. euro.

In 2016 and 2015 there were no assets in the Pension Funds of the Directors being used by BPI Group entities or representative securities issued by these entities.

At 31 December 2016 and 2015 the net assets of the Banco BPI Directors' Pension Fund were as follows:

	31 Dec. 16		31 Dec. 15	
	Value	%	Value	%
Liquidity	1 387	3.3%	1 819	4.3%
Fixed rate bonds				
Listed	21 898	52.4%	21 833	51.6%
Floating rate bonds				
Listed	2 875	6.9%	2 919	6.9%
Shares				
Listed	12 278	29.4%	12 482	29.5%
Real Estate	351	0.8%	465	1.1%
Other				
Listed	3 001	7.2%	2 793	6.6%
	41 790	**100.0%**	**42 311**	**100.0%**

Contributions to the Pension Funds in 2016 and 2015 were paid in cash.

As mentioned in note 2.7, and in accordance with the requirements of IAS 19, the Bank recognizes the effects of re-measuring the net 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 2012 to 2016 were as follows:

Amount at 31 December 2011	**(349)**
Change in the financial demographic assumptions	(1 716)
Deviation in pension fund income	859
Deviation in pensions paid	232
Other	(458)
Amount at 31 December 2012 Proforma	**(1 432)**
Change in the financial and demographic assumptions	
Discount rate and pension increase rate	(2 262)
Mortality table	(1 192)
Deviation in pension fund income	(238)
Deviation in pensions paid	236
Other	1 236
Amount at 31 December 2013 Proforma	**(3 652)**
Change in the financial and demographic assumptions	
Discount rate pension and salary increase rate	(4 897)
Changes on the retirement age assumptions	1 709
Deviation in pension fund income	816
Deviation in pensions paid	163
Other	505
Amount at 31 December 2014 Proforma	**(5 356)**
Deviation in pension fund income	(68)
Deviation in pensions paid	10
Changes on the retirement age assumptions	1 029
Other	459
Amount at 31 December 2015 Proforma (note 4.30)	**(3 926)**
Deviation in pension fund income	(686)
Deviation in pensions paid	108
Changes on financial and demographic assumptions	
Change in discount rate	(3 038)
Other[1]	(3 850)
Amount at 31 December 2016 Proforma (note 4.30)	**(11 392)**

1) Includes 4 100 th. euro in deviation regarding changes in retirement age for some Directors.

The consolidated financial statements as of 31 December 2016 and 2015 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 4.39) and PERSONNEL COSTS (note 4.41):

	31 Dec. 16	31 Dec. 15
Interest and financial gain and loss with pensions		
Interest cost relating to the liabilities	1 132	1 134
Income on Plan assets computed with the discount rate	(1 072)	(1 096)
	60	**38**
Personnel costs		
Current service cost	1 648	1 806
	1 648	**1 806**

Under the legislation in force, BFA is responsible for the payment of a benefit at the time of the retirement of each Employee. The payment corresponds to 25% of the monthly base salary paid on the date the Employee reaches retirement age, for each year of seniority on the same date. The total amount of the past service liability is determined on an annual basis by experts, using the "Projected Unit Credit" method.

At 31 December 2016 and 2015, the current value of BFA's past service liabilities amounted to 1 634 th. euro (note 4.9) and 1 601 th. euro (note 4.14), respectively.

The main demographic and financial assumptions used to evaluate these liabilities to BFA Employees were as follows:

	31 Dec. 16	31 Dec. 15
Demographic assumptions:		
Mortality table	TV 73 / 77	TV 73 / 77
Incapacity table	EKV 80	EKV 80
Personnel turnover	0%	0%
Financial assumptions:		
Difference between rate of return and long term salary growth rate	2% annual	2% annual

4.27. Share capital

At 31 December 2016 and 2015 Banco BPI's share capital amounted to 1 293 063 th. euro, represented by 1 456 924 237 ordinary, nominal dematerialized shares, of no par value.

The Shareholders' General Meeting held on 25 February 2016 granted the Board of Directors of Banco BPI authorization to do the following:

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 Programme (RVA) regulations;
   or

   ii) the shares are sold to third parties under the following conditions:

      1. the shares are sold in a market registered with the Securities Market Commission; 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.

4.28. Other equity instruments and treasury shares

These captions are made up as follows:

	31 Dec. 16	31 Dec. 15
Other equity instruments		
Cost of shares to be made available to Group Employees		
RVA 2013	578	574
RVA 2014	63	35
RVA 2015	545	915
RVA 2016	243	
Costs of options not exercised (premiums)		
RVA 2010	369	548
RVA 2011	37	46
RVA 2012	1 249	947
RVA 2013	1 225	1 330
RVA 2015		799
	4 309	**5 194**
Treasury shares		
Shares to be made available to Group Employees		
RVA 2013	305	622
Shares hedging RVA options		
RVA 2010	5 847	6 372
RVA 2011	1 904	2 156
RVA 2012	2 558	3 461
RVA 2013	27	24
Other shares	168	162
	10 809	**12 797**

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 Programme (RVA) are included in note 4.48.

The BPI Group's financial statements as of 31 December 2016 and 2015 reflect 5 544 549 and 6 440 632 treasury shares, respectively, including 168 917 and 344 222 treasury shares to be made available under the RVA programme for which ownership was transferred to the Employees on the grant date.

In 2016 and 2015 the Bank recorded directly in shareholders' equity losses of (739) th. euro and 343 th. euro, respectively, on the sale of treasury shares hedging the variable remuneration (RVA) programme.

4.29. Revaluation reserves

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Revaluation reserves		
Reserves resulting from valuation to fair value of financial assets available for sale (note 4.5)		
Debt Instruments		
Securities	30 464	80 735
Hedging derivatives	(43 424)	(105 647)
Equity Instruments	26 548	45 748
Other	154	(531)
Reserve for foreign exchange difference on investments in foreign entities		
Subsidiary and associated companies	(38 789)	(110 026)
Equity instruments available for sale	8	5
Legal revaluation reserve	703	703
	(24 336)	**(89 013)**
Deferred tax reserve		
Resulting from valuation to fair value of financial assets available for sale		
Tax assets	4 912	7 759
Tax liabilities	(2 090)	(6 310)
	2 822	**1 449**
	(21 514)	**(87 564)**

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.

4.30. Other reserves and retained earnings

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Legal reserve	104 499	86 124
Merger reserve	2 530	2 530
Consolidation reserves and retained earnings	766 771	726 790
Other reserves	508 844	339 176
Actuarial deviations – Pensions liabilities		
Associated with the transferred liabilities	(193 538)	(193 538)
Associated with the liabilities that remain with the Bank	(255 383)	(44 467)
Actuarial deviations – final career premium	(776)	
Taxes related to actuarial deviations	114 750	58 627
Loss on treasury shares	(5 084)	(4 345)
Taxes relating to gain on treasury shares	1 706	1 690
	1 044 319	**972 587**

In accordance with Article 97 of the General Regime for Credit Institutions and Financial Companies, approved by *Decree-Law 298 / 91* of 31 December and amended by *Decree-Law 201 / 2002* of 25 September Banco BPI must appropriate at least 10% of its net income each year to a legal reserve until the amount of the reserve equals the greater of the amount of share capital or the sum of the free reserves plus retained earnings.

As mentioned in note 2.8, with application of the new ACT in 2016, a final career premium was set corresponding to 1.5 times the effective monthly remuneration of the Employee at the time of termination of the labour contract due to retirement. Considering that the final career premium corresponds to a post-employment benefit in accordance with IAS 19, the corresponding actuarial deviations are recognized through equity.

At 31 December 2016 and 2015 the share premium account and legal reserve of the BPI Group companies which, under the applicable regulations, may not be distributed, amounted to 156 619 th. euro and 184 963 th. euro, respectively which, weighted by Banco BPI's effective participation percentage in these companies, amounted to 77 226 th. euro and 90 442 th. euro, respectively. These reserves are included in the captions CONSOLIDATION RESERVES AND RETAINED EARNINGS and REVALUATION RESERVES.

The caption CONSOLIDATION RESERVES at 31 December 2016 and 2015 includes 11 656 th. euro and 17 540 th. euro, respectively, relating to the amount of the revaluation reserves of the companies recorded in accordance with the equity method, weighted by the BPI Group's (effective) participation in them.

4.31. Non-controlling interests

This caption is made up as follows:

	Balance		Income statement	
	31 Dec. 16	31 Dec. 15	31 Dec. 16	31 Dec. 15
Non-controlling interests:				
Banco de Fomento Angola, S.A.	466 273	426 845	168 820	140 806
BPI Capital Finance Ltd.	1 775	1 802	45	43
	468 048	**428 647**	**168 865**	**140 849**

In December 2008, as part of the sale of 49.9% of BFA's capital to Unitel, a shareholders' agreement between Banco BPI and Unitel as regards BFA, was entered into. The agreement is valid for a period of 20 years as from the date of its signature (which took place on 9 December 2008), being automatically renewable for similar periods, unless terminated by either party up to the end of the fifteenth year of the initial term or the resulting ongoing renewal period. The agreement contains, among other provisions, rules on the composition of the governing bodies and on the transfer of BFA's shares, rules which, in the latter case, include a reciprocal preference right over the onerous transfer of BFA's shares.

As part of the sale of the shareholding representative of 2% of BFA share capital to Unitel, on 6 October 2016 Banco BPI and Unitel entered into a new Shareholder Agreement relating to BFA. This new Shareholders Agreement comes into effect on the date of the sale of 2% of BFA to Unitel, on 5 January 2017 (note 4.51). The full implementation of the new Shareholders' Agreement will automatically put the term to the Shareholder Agreement of 2008, without the need for any additional formality.

Non-controlling interests in BPI Capital Finance at 31 December 2016 and 2015 includes respectively 1 756 th. euro and 1 786 th. euro, relating to preference shares:

	31 Dec. 16			31 Dec. 15		
	Issued	Repurchased	Balance	Issued	Repurchased	Balance
"C" Series Shares	250 000	(248 244)	1 756	250 000	(248 214)	1 786
	250 000	**(248 244)**	**1 756**	**250 000**	**(248 214)**	**1 786**

The C Series preference shares, with a nominal value of 1 000 each, issued in August 2003, entitle the holders to a non-cumulative preference dividend, if and when declared by the Directors of BPI Capital Finance, Ltd., at an annual rate equal to the three month Euribor rate plus a spread of 1.55 percentage points up to 12 August 2013 and thereafter to a non-cumulative preference dividend at a rate equal to the three month Euribor rate plus a spread of 2.55 percentage points. The dividends are payable quarterly on 12 February, 12 May, 12 August and 12 November of each year. The payment of dividends and redemption of the preference shares are guaranteed by Banco BPI.

BPI Capital Finance, Ltd. will not pay any dividend on the preference shares if, during the year or quarter in progress, such dividend plus amounts already paid exceed Banco BPI's distributable funds.

The C Series preference shares are redeemable in whole or in part at their nominal value, at the option of BPI Capital Finance, Ltd. on any dividend payment date as from August 2013, subject to prior consent of the Bank of Portugal and Banco BPI. The C series preference shares are also redeemable in whole, but not in part, at the option of BPI Capital Finance, Ltd., with prior approval of the Bank of Portugal and Banco BPI, if a disqualifying capital event or tax event occurs.

These shares are subordinate to all liabilities of Banco BPI and "*pari passu*" with any other preference shares that might be issued by the Group in the future.

4.32. Off balance sheet items

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15
Guarantees provided and other contingent liabilities		
Guarantees and sureties	1 294 856	1 497 070
Stand-by letters of credit	62 954	77 739
Documentary credits	108 316	253 890
Sureties and indemnities	82	82
	1 466 208	**1 828 781**
Assets pledged as collateral	**7 703 222**	**6 813 934**
Commitments to third parties		
Irrevocable commitments		
Options on assets	8 271	9 371
Irrevocable credit lines	1 356	1 646
Securities subscription	409 638	334 612
Term commitment to make annua contributions to the Deposit Guarantee Fund	41 350	38 714
Commitment to the Investor Indemnity System	9 910	9 771
Other irrevocable commitments	531	576
Revocable commitments	2 921 423	2 977 819
	3 392 479	**3 372 509**
Responsibility for services provided		
Deposit and safeguard of assets	26 297 858	31 070 310
Amounts for collection	187 091	196 246
Assets managed by the institution	6 367 046	6 118 372
	32 851 995	**37 384 928**

The structure, by sector, of the guarantees provided by the BPI Group at 31 December 2016 and 2015 is as follows:

	31 Dec. 16		31 Dec. 15	
	Value	%	Value	%
Domestic activity:				
Agriculture, animal production and hunting	3 278	0.2	3 413	0.2
Forestry and forest operations	526		510	
Fishing	176		151	
Mining	3 179	0.2	4 201	0.2
Beverage, tobacco and food	43 303	3.0	24 071	1.3
Textiles and clothing	11 853	0.8	15 822	0.9
Leather and related products	1 673	0.1	1 599	0.1
Wood and cork	18 123	1.2	9 592	0.5
Pulp, paper, cardboard and graphic arts	9 543	0.7	7 865	0.4
Coke, refined petroleum products and fuel pellets	767	0.1	17 533	1.0
Chemicals, synthetic or artificial fibres, except pharmaceutical products	8 957	0.6	9 012	0.5
Base pharmaceutical products and pharmaceutical mixtures	2 215	0.2	2 450	0.1
Rubber and plastic materials	7 896	0.5	9 624	0.5
Other mineral non-metallic products	28 051	1.9	26 242	1.4
Metalworking industries	38 271	2.6	38 142	2.1
Computers, electronic, electrical and optical equipment	11 981	0.8	11 335	0.6
Transport equipment	24 969	1.7	14 916	0.8
Other manufacturing industries	8 420	0.6	8 467	0.5
Electricity, gas and water	35 887	2.4	70 165	3.8
Water treatment and collection	49 181	3.4	50 059	2.7
Construction	278 586	19.0	304 945	16.8
Wholesale and retail trade; motor vehicle and motorcycle repairs	199 299	13.6	199 879	10.9
Transport and storage	176 409	12.1	203 339	11.2
Restaurants and hotels	26 514	1.8	27 622	1.5
Information and communication activities	78 368	5.3	116 018	6.3
Investment holding companies	8 745	0.6	8 605	0.5
Financial intermediation, except for insurance and pension funds	34 259	2.3	34 433	1.9
Insurance, reinsurance and pension funds, except for mandatory social security	973	0.1	939	0.1
Auxiliary activities to financial services and insurance	425		591	
Real estate	20 516	1.4	17 906	1.0
Consulting, scientific, technical and similar activities	194 434	13.3	112 512	6.2
Administrative and support services	15 166	1.0	17 148	0.9
Public administration, defence and mandatory social security	8 441	0.6	11 111	0.6
Education	206		2 623	0.1
Healthcare and welfare	9 391	0.6	5 382	0.3
Leisure, cultural and sports activities	36 053	2.5	17 341	0.9
Other service companies	15 826	1.1	8 618	0.5
Individuals				
Other	54 349	3.7	28 862	1.6
International activity:				
Financial and credit institutions			61 091	3.3
Non-financial companies			323 839	17.8
Individuals			808	
	1 466 209	**100.0**	**1 828 781**	**100.0**

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At 31 December 2016 the amount of Guarantees provided by BFA present the following structure by sector (in th. euro):

	31 Dec. 16	
	Value	%
Credit and financial institutions	36 251	17.4
Non financial enterprises	171 788	82.6
Individuals	81	
	208 120	**100.0**

The caption ASSETS PLEDGED AS COLLATERAL at 31 December 2016 and 2015 includes:

- 64 043 th. euro and 75 988 th. euro, respectively, relating to credit and 6 662 958 th. euro and 5 525 972 th. euro relating to securities, captive for obtaining funding from the European Central Bank (ECB);
- 5 041 th. euro and 5 183 th. euro, respectively, relating to securities pledged in guarantee to the Securities Market Commission (Comissão do Mercado de Valores Mobiliários – CMVM) under the Investor Indemnity System;
- 45 061 th. euro and 46 878 th. euro, respectively, relating to securities given in guarantee to the Deposit Guarantee Fund;
- 61 527 th. euro and 57 273 th. euro, respectively, relating to sale operations with repurchase agreements of bonds.

Additionally, at 31 December 2016 and 2015 the caption ASSETS PLEDGED AS COLLATERAL includes, respectively, 831 905 th. euro and 981 821 th. euro of securities and 32 617 th. euro and 119 620 th. euro of loans, pledged as collateral to the European Investment Bank.

The caption COMMITMENTS TO THIRD PARTIES – OPTIONS ON ASSETS at 31 December 2016 and 2015 corresponds to share options issued by the BPI Group under the share-based payments programme (RVA).

The caption COMMITMENTS TO THIRD PARTIES – SECURITIES SUBSCRIPTION at 31 December 2016 and 2015 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 caption TERM COMMITMENT TO MAKE ANNUAL CONTRIBUTIONS TO THE DEPOSIT GUARANTEE FUND at 31 December 2016 and 2015 corresponds to BPI's legally required irrevocable commitment, to pay to the Fund, upon its request, the amount of the annual contributions not yet paid.

The caption COMMITMENT TO THE INVESTOR INDEMNITY SYSTEM at 31 December 2016 and 2015 corresponds to BPI's irrevocable commitment, legally required under the applicable legislation, to pay to the System, if required to do so, its share of the amounts necessary to indemnify investors.

At 31 December 2016 the BPI Group managed the following third party assets:

Investment funds and PPRs	3 319 776
Pension funds[1]	2 418 262

1) Includes the Group companies' pension funds.

4.33. Financial margin (narrow sense)

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15 Proforma
Interest and similar income		
Interest on deposits with banks	46	124
Interest on placements with credit institutions	4 500	4 078
Interest on loans to Customers	300 750	322 302
Interest on credit in arrears	5 956	8 398
Interest on securities held for trading and available for sale	38 185	71 627
Interest on securitised assets not derecognised	95 150	127 107
Interest on derivatives	70 164	150 796
Interest on debtors and other aplications	1 049	1 761
Other interest and similar income	3 135	3 260
	518 935	**689 453**
Interest and similar expense		
Interest on resources		
Of central banks	157	1 214
Of other credit institutions	3 784	5 962
Deposits and other resources of Customers	49 696	164 048
Debt securities	7 718	32 056
Interest from short selling	982	539
Interest on derivatives	80 901	153 307
Interest on liabilities relating to assets not derecognised on securitised operations	8 319	11 523
Interest on subordinated debt	1 062	1 262
Other interest and similar expenses	2 105	2 179
	154 724	**372 090**

4.34. Gross margin on unit links

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15 Proforma
Income from financial instruments		
Interest	4 009	9 767
Gains and losses on financial instruments	(17 088)	(3 706)
Gains and losses on capitalisation insurance – unit links	13 079	(6 062)
Management and redemption commission	13 454	12 968
	13 454	**12 967**

4.35. Income from equity instruments

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15 Proforma
Conduril	92	369
SIBS	3 813	1 086
Viacer	1 960	1 946
Via Litoral	2 376	935
Other	287	403
	8 528	**4 739**

4.36. Net commission relating to amortised cost

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15 Proforma
Commission received relating to amortised cost		
Loans to Customers	27 303	27 772
Other	1 134	1 030
Commission paid relating to amortised cost		
Loans to Customers	(6 874)	(6 309)
Other	(347)	(1 378)
	21 216	**21 115**

4.37. Technical result of insurance contracts

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15 Proforma
Premiums	209 037	609 342
Income from financial instruments	40 843	59 265
Impairment		(561)
Cost of claims, net of reinsurance	(1 844 241)	(1 144 948)
Changes in technical provisions, net of reinsurance	1 634 697	535 089
Participation in results	(15 723)	(26 383)
	24 613	**31 804**

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 basis of each product, duly approved by the Insurance and Pension Funds Authority (note 2.11).

4.38. Net commission income

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15 Proforma
Commissions received		
On guarantees provided	13 227	14 935
On commitments to third parties	2 387	2 625
On insurance brokerage services	45 537	42 113
On banking services rendered	183 188	181 716
On operations performed on behalf of third parties	15 114	17 116
Other	840	2 166
	260 293	**260 671**
Commissions paid		
On guarantees received	47	182
On financial instrument operations	136	72
On banking services rendered by third parties	24 972	27 731
On operations realised by third parties	4 167	4 139
Other	444	447
	29 766	**32 571**
Other income, net		
Refund of expenses	30 071	27 734
Income from banking services	7 142	7 731
Charges similar to fees	(8 352)	(8 407)
	28 861	**27 058**

At 31 December 2016 and 2015 the caption REFUND OF EXPENSES includes 20 062 th. euro and 17 455 th. euro, respectively, regarding the collection of account maintenance costs.

At 31 December 2016 and 2015 commissions received for insurance brokerage services or reinsurance are made up as follows:

	31 Dec. 16	31 Dec. 15 Proforma
Life insurance		
Housing	21 426	20 307
Consumer	2 438	1 880
Other	6 825	5 893
	30 689	**28 080**
Non-life insurance		
Housing	5 594	5 358
Consumer	787	917
Other	8 467	7 758
	14 848	**14 033**
	45 537	**42 113**

Remuneration for insurance brokerage services were received fully in cash, and about 98% of the commission relates to insurance brokerage services for Allianz.

4.39. Net income on financial operations

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15 Proforma
Gain and loss on operations at fair value		
Foreign exchange gain, net	11 194	8 711
Gain and loss on financial assets held for trading		
Debt instruments	2 108	6 668
Equity instruments	(11 454)	8 582
Other securities	406	844
Gain and loss on trading derivative instruments	17 859	9 254
Gain and loss on other financial assets valued at fair value through profit or loss	(47)	
Gain and loss on financial liabilities held for trading	278	6 384
Gain and loss on the revaluation of assets and liabilities hedged by derivatives	19 150	(23 421)
Gain and loss on hedging derivative instruments	(19 657)	23 523
Other gain and loss on financial operations	4 157	13 076
	23 994	**53 621**
Gain and loss on assets available for sale		
Gain and loss on the sale of loans and advances to Customers	347	(985)
Gain and loss on financial assets available for sale		
Debt instruments	513	(5 614)
Equity instruments	22 931	53
Other securities	85	432
	23 876	**(6 114)**
Interest and financial gain and loss with pensions		
Interest cost	(32 389)	(31 403)
Income on plan assets computed with the discount rate	33 429	31 816
	1 040	**413**

The caption GAIN AND LOSS ON TRADING DERIVATIVE INSTRUMENTS at 31 December 2016 and 2015 includes 19 350 th. euro and (12 297) th. euro, respectively, relating to equity swaps contracted with Customers, which are hedged with shares classified in the caption EQUITY INSTRUMENTS.

The caption OTHER GAIN AND LOSS ON FINANCIAL OPERATIONS at 31 December 2016 and 2015, includes 3.518 th. euro and 12 456 th. euro, respectively, relating to gains on the repurchase of financial liabilities on securitisation operations.

The gain of 22 945 th. euro in the caption GAIN AND LOSS ON FINANCIAL ASSETS AVAILABLE FOR SALE – EQUITY INSTRUMENTS at 31 December 2016, refers to the impact of the public tender offer for the acquisition of 100% of the share capital of Visa Europe Limited by Visa Inc. (note 4.5.).

4.40. Operating income and expenses

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15 Proforma
Operating income		
Revenue from investment properties		5 356
Gain on investment properties		175
Non controlling interest in the investment fund Imofomento		(1 782)
Gain on tangible assets held for sale	5 528	3 118
Gain on other tangible assets	9 027	9 139
Other operating income	6 058	7 118
	20 613	**23 124**
Operating expenses		
Loss on investment properties		1 882
Expenses with investment properties		1 166
Subscriptions and donations	5 047	4 908
Contributions to the Deposit Guarantee Fund	12	674
Contributions to the Resolution Fund	3 205	2 734
Contributions to the Single Resolution Fund	14 939	14 564
Contribution to the Investor Indemnity System	8	7
Loss on tangible assets held for sale		30
Loss on other tangible and intangible assets	9 875	9 473
Other operating expenses	4 397	5 427
	37 483	**40 865**
Other taxes		
Indirect taxes	3 667	4 941
Direct taxes	3 231	2 001
	6 898	**6 942**

The amounts recorded in the captions REVENUE FROM INVESTMENT PROPERTIES and EXPENSES WITH INVESTMENT PROPERTIES in 2015 are made up as follows:

	31 Dec. 15	
	Income	**Expenditure**
Leasehold real estate	5 356	617
Non-leased real estate		35
	5 356	**652**

IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the rate in accordance with the relevant legislation. As a result of the entry into force of IFRIC 21, and based on the interpretation of the legislation in force, in 2015 Banco BPI changed its accounting policy for the recognition of the periodic contributions to the Deposit Guarantee Fund and Resolution Fund, with the expense being fully recognized upon receipt of the payment notifications for the year which, according to the legal terms, is in the first half year.

In April 2016 and 2015 Banco BPI made contributions to the Resolution Fund in the amount of 3 205 th. euro and 2 734 th. euro, in accordance with the Article 14 of *Law 23-A / 2015* of 26 March in conjunction with the regime established by *Decree-Law 24 / 2013* of 19 February. In addition to these contributions the Bank paid 14 253 th. euro to the Single Resolution Fund in the second half of 2015. In May 2016 Banco BPI paid a contribution of 14 937 th. euro to the Single Resolution Fund. The total contribution attributable to Banco BPI amounted to 17 613 th. euro, the Bank having decided to constitute an irrevocable commitment for the difference (note 4.32) which was determined by the Single Resolution Board in accordance with the methodology established in Delegated Resolution (EU) 2015 / 63 of the Commission of 21 October 2014 and the conditions established in *Execution Regulation (EU) 2015 / 81* of the Council of 19 December 2014.

4.41. Personnel costs

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15 Proforma
Remuneration	223 651	226 848
Long service premium (note 4.25)	(24 850)	3 262
Final career premium (note 4.25)	5 959	
Pension costs (note 4.26)	(2 140)	(631)
Changes in the conditions of the pension plan – SAMS (note 4.26)	(22 215)	
Early retirements (note 4.26)	59 702	6 488
Other mandatory social charges	59 479	59 746
Other personnel costs	8 410	6 657
	307 996	**302 370**

The caption REMUNERATION at 31 December 2016 and 2015 includes the following costs relating to remuneration granted to the members of Banco BPI's Board of Directors:

- 4 382 th. euro and 5 384 th. euro, respectively, relating to remuneration paid in cash; and
- 1 161 th. euro and 1 182 th. euro, respectively, relating to prior years' accrued cost of the share-based remuneration programme (RVA) in accordance with IFRS 2.

4.42. General administrative costs

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15 Proforma
General administrative costs		
Supplies		
Water, energy and fuel	7 280	8 797
Consumable material	2 318	2 366
Other	447	550
Services		
Rent and leasing	41 105	42 867
Communications and computer costs	29 499	30 872
Travel, lodging and representation	4 709	5 753
Advertising and publishing	8 028	9 506
Maintenance and repairs	11 223	12 584
Insurance	2 799	2 988
Fees	4 780	3 261
Legal expenses	5 206	4 706
Security and cleaning	3 683	4 093
Information services	5 206	5 237
Temporary labour	1 894	2 392
Studies, consultancy and auditing	11 067	12 955
SIBS	14 884	15 018
Other services	14 443	14 066
	168 571	**178 011**

At 31 December 2016, the fee payment to Deloitte and its network[1], in the amount of 2 190 th. euro, is presented as follows, according to the nature and entity to which the services were provided:

Type of service	Banco BPI	BFA	BPI-BI	BPI GA	Other[2]	Total	Total (in %)
Statutory Audit	598	130	53	28	221	1 030	34%
Other assurance services	404	357	8	35	131	935	31%
Tax consultancy		84			44	128	4%
Other services	810	38	10	20	32	910	30%
	1 812	**609**	**71**	**83**	**428**	**3 003**	**100%**

1) According to the definition of "network" established by the European Commission in its Recommendation No C (2002) 1873 of 16 May 2002.
2) In order of decreased importance of the amounts paid: BPI Vida e Pensões, BPI Luxembourg, BPI Suisse, BPI Banco BPI – Macao Offshore, BPI Cayman, BPI Private Equity, BPI Capital Fund Luxembourg, BPI Capital Finance, BPI Mozambique – Sociedade de Investimento and BPI Madeira.

Deloitte and its network did not provide to BPI Group any of the services forbidden under the number 8 of Article 77 included in the Statute of the Portuguese Institute of Statutory Auditors (EOROC), which would be likely to generate situations of threat to the statutory auditor independence.

All the services rendered by Deloitte, including the remuneration conditions are, independently of their nature, subject to prior approval duly substantiated by the Supervisory Board of Banco BPI. For this purpose, the Supervisory Board assesses properly the threats to independence arising from non-audit services and the safeguard measures applied in accordance with Article 71 of EOROC.

4.43. Income tax

At 31 December 2016 and 2015 Proforma, income tax recognised in the statement of income, as well as the tax burden, measured by the relationship between the tax charge and profit before tax, were as follows:

	31 Dec. 16	31 Dec. 15 Proforma
Current income tax		
For the period	21 740	27 078
Correction of prior years	(680)	(818)
	21 060	**26 260**
Deferred tax		
Recognition and reversal of temporary differences	(67 191)	(36 185)
Change in tax rate	23	
On tax losses carried forward[1]	73 033	(948)
	5 865	**(37 133)**
Contribution over the banking sector	17 765	13 003
Total tax charged to the statement of income	**44 690**	**2 130**
Net income before income tax[2]	162 856	63 094
Tax burden	27.4%	3.4%

1) At 31 December 2016, it includes the use of tax losses carried forward amounting to 350 078 th. euro pursuant to Article no. 3 of the *Regulatory Decree no. 5 / 2016* of 18 November.
2) Considering net income of the BPI Group plus income tax and income attributable to non-controlling interests less the earnings of associated companies (not consolidated) and discontinued operations.

In 2016 and 2015 Proforma the Bank recorded directly in retained earnings, income tax of (54 538) th. euro and 42 537 th. euro, respectively, resulting from actuarial deviations in pensions for the period, net gain / loss on treasury shares recognized in equity and cancellation of *Bank of Portugal Notice 3 / 95*.

Current taxes are calculated based on the nominal tax rates legally in force:

	31 Dec. 16		31 Dec. 15 Proforma	
	Net income before income tax	Current tax rate	Net income before income tax	Current tax rate
Companies with income tax rate of 21% and Surcharge between [1.5%; 8.5%]	161 632	27.1%	57 652	27.4%
Investment funds[1]	1 224		5 442	
	162 856	**26.9%**	**63 094**	**25.0%**

1) Applicable regime 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.

Deferred tax assets and liabilities are calculated using the tax rates decreed for the periods in which they are expected to reverse.

Reconciliation between the nominal rate of income tax and the tax burden in 2016 and 2015 Proforma, as well as between the tax cost / income and the product of the accounting profit times the nominal tax rate are as follows:

	31 Dec. 16		31 Dec. 15 Proforma	
	Tax rate	Amount	Tax rate	Amount
Net income before income tax		162 856		63 094
Income tax computed based on the nominal tax rate	26.9%	43 759	25.0%	15 800
Effect of tax rates applicable to foreign branches	0.1%	114	-1.0%	(602)
Capital gain and impairment of investments (net)	-0.4%	(606)	0.0%	17
Capital gain of tangible assets (net)	-1.1%	(1 870)	-2.1%	(1 305)
Non taxable dividends	-0.7%	(1 150)	-5.0%	(3 137)
Tax on dividends of subsidiary and associated companies	4.5%	7 291	10.4%	6 564
Tax benefits	-0.4%	(638)	-1.7%	(1 068)
Change of the tax regime of provisions	45.1%	73 516		
Impairment and provision for loans	-58.8%	(95 757)	4.8%	3 047
Non tax deductible pension costs	0.3%	541	-0.1%	(57)
Correction of prior year income taxes	-0.4%	(680)	-1.3%	(818)
Non tax deductible uncollectible loans	0.1%	124	2.1%	1 345
Extraordinary investment tax credit	0.7%	1 065	-0.2%	(113)
Correction of prior years tax losses carried forward	0.0%	(2)	-1.2%	(738)
Tax losses carried forward	0.0%	(80)	-51.4%	(32 456)
Effect of change in the rate of deferred tax	0.0%	23		
Contribution over the banking sector	10.9%	17 765	20.6%	13 003
Autonomous taxation	0.9%	1 510	2.2%	1 412
Other non taxable income and expenses	-0.1%	(235)	2.0%	1 236
	27.4%	**44 690**	**3.4%**	**2 130**

On 1 January 2016, *Bank of Portugal Notice No. 5 / 2015* came into force. This regulation establishes that entities subject to the supervision of Bank of Portugal should prepare their non-consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). For this purpose, impairment losses for loans are determined and recorded in accordance with IAS 39 – Financial instruments: recognition and measurement, replacing the previous recording of provisions established by the *Bank of Portugal Notice 3 / 95*.

Regulatory Decree no. 5 / 2016 of 18 November introduced a tax regime applicable to the transition to IFRS referred to above. This Decree-Law establishes the following:

(i) For tax purposes for the year 2016, impairment losses for loans may only be accepted as a cost if they do not exceed the limits established by *Notice 3 / 95* as worded on 31 December 2015 and;

(ii) Introduction of a transitional rule that applies specifically to the tax effects regarding the transition above and whose effects refer to 1 January 2016. This transitional rule provides that "With regard to impairment provisions recorded under *Notice No. 3 / 95*, and subject to annulment or reduction under *Notice No. 5 / 2015*, taxable entities may choose the following regime:

- *The positive difference, as of 1 January 2016, between the amount of provisions for impairment losses established under* Notice 3 / 95 *and the impairments recorded on 1 January 2016 related to the same loans in accordance with the applicable accounting regulations, is accountable, in the determination of the taxable income for the year 2016, only in the part exceeding the tax losses generated in periods of taxation started on or after 1 January 2012 and not yet used;*

- *The amount that is not considered for the purposes of determining the taxable income under the terms of the previous paragraph is written off to the balance of the tax losses mentioned therein."*

In this context, *Regulatory Decree No. 5 / 2016* contains a transitional rule that establishes the possibility for the Bank to reduce to the balance of tax losses generated in periods of taxation started on or after 1 January 2012 and not yet used, any positive difference between the amount of provisions recognized under *Bank of Portugal Notice 3 / 95* and the amount of impairment losses recognized under IAS 39 on 1 January 2016.

The Bank decided to apply the aforementioned transitional rule, with a positive difference calculated as of 1 January 2016 between the amount of provisions for impairment losses established under *Bank of Portugal Notice 3 / 95* and the impairments constituted on 1 January 2016 for the same credits in the amount of 350 078 th. euro which was not accounted as a positive equity change for tax purposes in 2016, since it was fully deducted from the accumulated losses from previous years at that date (489 993 th. euro) which had been generated in 2013 and 2014. The application of this rule allowed for the annulment of 73 516 th. euro[1] of deferred tax assets regarding tax losses carried forward, under the scope of Banco BPI non-consolidated basis.

On the other hand, the total negative difference calculated as of 1 January 2016 between the amount of provisions for impairment losses established under *Notice n.º 3 / 95 of the Bank of Portugal* and the impairments constituted on 1 January 2016 amounted to 343 999 th. euro and was accounted as a negative equity change for tax purposes in 2016. The amount of deferred tax assets arising from this deduction (94 256 th. euro[2]), is included in the line Impairment and provision for loans in the above table.

In addition, the combination of these legislative changes implied the application of the legal disposition included in article 4 of *Law no. 61 / 2014*, of 25 August. This disposition establishes a rule that does not allow for the expenses and negative equity changes that generated deferred tax assets guaranteed by the Portuguese State until 31 December 2015 to be subject to a tax deduction that entails the determination of tax loss for the year.

After all the required tax adjustments, Banco BPI would have a tax loss for corporate income tax purposes amounting to 257 193 th. euro. Thus, in determining the taxable income for 2016, it was applied the rule that does not allow for the expenses and negative equity changes that generated deferred tax assets guaranteed by the Portuguese State until 31 December 2015 to contribute to tax losses estimation. Those expenses and negative equity changes can only be deducted up to the limit of the taxable income determined in the year.

While applying the abovementioned rule, the Bank determined a null tax result, instead of a tax loss of 257 193 th. euro. This amount may be used for the purposes of deduction in future years in which tax profit is estimated, in accordance with paragraph 2 of the referred article 4 of *Law no. 61 / 2014*, of 25 August. Nevertheless, in each year, the abovementioned limit shall also be complied with.

Special Regime Applicable to Deferred Tax Assets (READ) approved by Law No. 61 / 2014

In 2014, the Bank adhered to the Special Regime Applicable to Deferred Tax Assets (READ) approved by Law no. 61 / 2014*, of 26 August. The special regime regards to deferred tax assets that result from the non-deduction of expenses and negative equity changes with impairment losses for loans and post-employment or long-term Employee benefits. Expenses that were not considered for the determination of taxable income in the period in which they were incurred or recorded and which resulted in the recognition of deferred tax assets for the aforementioned realities are eligible for this regime.*

Under the terms of READ, deduction of losses or equity changes that generated deferred tax assets until 31 December 2015 protected under this regime can only occur up to limit of the taxable income for the year and thus cannot contribute to the tax loss formation, being deducted in the following years for which taxable income is determined, provided the same limit is complied with.

Also according to READ, the book value of the mentioned deferred tax assets is converted into tax credit when the taxable entity determines a negative net income or enters into bankruptcy / insolvency. The amount of deferred tax assets to be converted into tax credits corresponds to a ratio between negative net income and shareholders' equity in the same period, excluding net income. In the scenario of the conversion of deferred tax assets into a tax credit, a compensatory scheme is created that provides for the creation of a special reserve in the amount of the tax credit, increased by 10% (may be subject to adjustments) and the simultaneous creation of conversion rights granted to the Portuguese State. The exercise of the conversion rights by the Portuguese State implies an increase of the share capital of the taxable entity by means of the incorporation of the special reserve and the issuance of new shares allocated free of charge to the Portuguese State (the shareholders, at the date of the creation of the conversion rights granted to the Portuguese State have the option to acquire such rights in proportion to their respective shareholdings).

This regime applies to expenses accounted in the tax periods beginning on 1 January 2015 and to deferred tax assets which were recorded in the annual accounts referred to 31 December 2014. However, Law No. 23 / 2016*, of 19 August, provided for the termination of the application of this regime to deferred tax assets arising from expenses and negative equity changes recognized in the taxation periods after 1 January 2016, safeguarding deferred tax assets accounted for in previous years.*

1) At Banco BPI non-consolidated basis, deferred tax assets associated with tax losses carried forward are calculated at the nominal Corporate Income tax Rate (21%, not including surtax).
2) At Banco BPI non-consolidated basis, deferred tax assets arising from temporary differences recoverable and payable in future periods are calculated assuming a rate of 27.4% (nominal rate of Corporate Income Tax and surtax).

At 31 December 2016 and 2015, deferred tax assets and liabilities were as follows:

	31 Dec. 16	31 Dec. 15
Deferred tax		
Assets (note 4.12)	442 707	411 536
Liabilities (note 4.22)	(18 254)	(28 008)
	424 453	**383 528**
Recorded by corresponding entry to:		
Retained earnings	325 206	276 758
Other reserves – Actuarial deviations	107 357	68 188
Fair value reserve (note 4.29)		
Financial instruments available for sale	2 822	1 449
Discontinued operations	(5 067)	
Net income	(5 865)	37 133
	424 453	**383 528**

In accordance with IAS 12 – Income taxes, the recognition of deferred tax assets requires the probable existence of future taxable income. As such, Banco BPI prepared future taxable income projections to support the deferred tax assets accounted for as at 31 December 2016. These projections were prepared considering the scope of the Capital and Funding Plans defined in the *Instruction 18 / 2015 of the Bank of Portugal*, assuring the maintenance of the tax regime of *Notice 3 / 95 of the Bank of Portugal* for impairment losses for loans.

As of 31 December 2016, the consolidated balance sheet of BPI Group includes 442 707 th. euros of deferred tax assets, of which:

(i) 232 612 th. euro of deferred tax assets under the Special Regime Applicable to Deferred Tax Assets (READ), approved by *Law 61 / 2014*, of 26 August;

(ii) 210 095 th. euro depending on the existence of future taxable income (not included in the special regime) including:

- 96 350 th. euro related to impairment losses for loans and guarantees;
- 11 137 th. euro related to other impairments and taxed provisions;
- 54 182 th. euro related to Employee benefits (actuarial deviations, transfer to Social Security, early retirements and final career premium);
- 30 582 th. euro of tax losses carried forward (29 382 th. euro originated in 2014 related to the non-consolidated activity of BBPI). According to *Law n.º 2 / 2014*, of 16 January the use of tax losses carried forward in future periods cannot exceed 70% of taxable income in each of those periods, having a reportable period of 12 years for these tax losses carried forward.

At 31 December 2016, the breakdown of tax losses carried forward, by date of origin, entity and limit date is as follows:

Date of origin	Entity	Tax losses carried forward	Deferred asset taxes	Number of years available for use	Limit end date
2014	Banco BPI, S.A.	139 915	29 382	12	2026
2016	Banco Português de Investimento, S.A.	2 438	512	12	2028
2016	BPI Madeira, SGPS	86	18	12	2028
[2012, 2016]	BPI Moçambique – Soc. Investimentos	2 094	670	5	[2017, 2021]
		144 532	**30 582**		

In 2016, Banco BPI made use of 73 516 th. euro of deferred tax assets for tax losses carried forward of 2013 and 2014, within the framework of *Regulatory-Decree No. 5 / 2016* of 18 November.

The changes in deferred taxes in 2016 were as follows:

	Balance at 31 Dec. 15	Corresponding entry to net income		Corresponding entry to reserves and retained earnings		Discontinued operations	Balance at 31 Dec. 16
		Costs	Income	Increases	Decreases		
Deferred tax assets							
Fiscal losses	103 614	(73 511)	765		(286)		30 582
Aplication of article 4 of the Regime established in Law 61 / 2014		8 479	61 992				70 471
Taxed provisions and impairment	160 302	894	9 422	1 788	(894)		171 512
Tax defererral of the impact of the transfer of pensions	21 232	(1 519)					19 713
Actuarial deviations	52 646	(8 774)					43 872
Actuarial deviations after 2011	15 543	(8 534)	(214)	48 210			55 005
Early retirements	24 691		7 170				31 861
Long service premium and career premium	8 913	(7 282)	5	212			1 848
Taxes over dividends	8 829		2 385				11 214
Investment tax credit	1 065	(1 065)					
Financial instruments available for sale	7 604	49	756	2 379	(5 220)		5 568
Other	7 097	(1 501)	445	87		(5 067)	1 061
	411 536	**(92 764)**	**82 726**	**52 676**	**(6 400)**	**(5 067)**	**442 707**
Deferred tax liabilities							
Dividends to be distributed by subsidiary and associated companies	(10 005)	(7 279)	4 094	1 166			(12 024)
RVA		(203)		203			
Financial instruments available for sale	(8 256)	204		5 877	(109)		(2 284)
Repurchase of liabilities	(3 410)		3 688		(1 514)		(1 236)
Other	(6 337)	1 634	2 035		(42)		(2 710)
	(28 008)	**(5 644)**	**9 817**	**7 246**	**(1 665)**		**(18 254)**
	383 528	**(98 408)**	**92 543**	**59 922**	**(8 065)**	**(5 067)**	**424 453**

The changes in deferred taxes in 2015 were as follows:

	Balance at 31 Dec. 14 Proforma	Corresponding entry to net income		Corresponding entry to reserves and retained earnings		Balance at 31 Dec. 15
		Costs	Income	Increases	Decreases	
Deferred tax assets						
Tax losses	102 833	(3)	951		(167)	103 614
Taxed provisions and impairment	147 423	(1 786)	14 665			160 302
Tax deferral of the impact of the transfer of pensions	22 748	(1 516)				21 232
Actuarial deviations	61 420	(8 774)				52 646
Actuarial deviations after 2011	15 643		21 130		(21 230)	15 543
Early retirements	29 287	(4 596)				24 691
Long service premium	8 235		678			8 913
Taxes over dividends			8 829			8 829
Investment tax credit	952		113			1 065
Financial instruments available for sale	18 629	(400)	216	724	(11 565)	7 604
Other	4 663	744	1 148	557	(15)	7 097
	411 833	**(16 331)**	**47 730**	**1 281**	**(32 977)**	**411 536**
Deferred tax liabilities						
Dividends to be distributed by subsidiary and associated companies	(10 446)	(6 530)	6 446	525		(10 005)
RVA			94		(94)	
Financial instruments available for sale	(6 506)		1	4	(1 755)	(8 256)
Repurchase of liabilities and preference shares	(9 906)		8 892		(2 396)	(3 410)
Other	(3 170)	(3 524)	355	3	(1)	(6 337)
	(30 028)	**(10 054)**	**15 788**	**532**	**(4 246)**	**(28 008)**
	381 805	**(26 385)**	**63 518**	**1 813**	**(37 223)**	**383 528**

The BPI Group does not recognise deferred tax assets or liabilities for deductible or taxable temporary differences relating to investments in subsidiaries as it is unlikely that such differences will be reversed in the foreseeable future, except for the deferred tax liability relating to taxation in Angola of the dividends to be distributed to the companies of the BPI Group, in the following year, over the net result for the year of Banco de Fomento Angola.

The BPI Group does not recognise deferred tax assets and liabilities for deductible or taxable temporary differences relating to investments in associated companies, as the participation held by the BPI Group exceeds 10% for more than one year, which enables it to be considered in the Participation Exemption regime, except for Banco Comercial e de Investimentos, in which the deferred tax liabilities relating to taxation in Mozambique of all the distributable profits are recognized.

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.

4.44. Earnings of associated companies (equity method)

This caption is made up as follows:

	31 Dec. 16	31 Dec. 15 Proforma
Banco Comercial e de Investimentos, S.A.R.L.	5 872	10 292
Companhia de Seguros Allianz Portugal, S.A.	3 802	9 250
Cosec – Companhia de Seguros de Crédito, S.A.	4 133	5 511
InterRisco – Sociedade de Capital de Risco, S.A.	42	3
Unicre – Instituição Financeira de Crédito, S.A.	12 341	8 377
	26 190	**33 433**

Net income of Unicre at 31 December 2016 reflects the gain due to the closing of the public tender offer for the acquisition of Visa Europe Limited by Visa Inc. (note 4.5).

Contribution of the associated companies of Banco BPI to the consolidated comprehensive income is as follows:

	31 Dec. 16	31 Dec. 15 Proforma
Contribution to consolidated net income	26 190	33 433
Income not included in the consolidated statement of income	(6 900)	(10 514)
Contribution to consolidated comprehensive income	**19 290**	**22 919**

4.45. Consolidated net income of the BPI Group

Contribution of Banco BPI and subsidiary and associated companies to consolidated net income in 2016 and 2015 is as follows:

	31 Dec. 16	31 Dec. 15 Proforma
Banks		
Banco BPI, S.A.[1]	95 633	36 946
Banco Português de Investimento, S.A.[1]	(1 851)	1 473
Banco de Fomento Angola, S.A.[1]	162 716	135 716
Banco Comercial e de Investimentos, S.A.R.L.[1]	5 372	9 417
Banco BPI Cayman, Ltd.[1]	7 615	2 152
Asset management		
BPI Gestão de Activos – Sociedade Gestora de Fundos de Investimento Mobiliários, S.A.	4 673	3 757
BPI – Global Investment Fund Management Company, S.A.	1 760	1 825
BPI (Suisse), S.A.[1]	2 931	4 418
BPI Alternative Fund: Iberian Equities Long / Short Fund Luxemburgo[1]	765	4 644
BPI Obrigações Mundiais – Fundo de Investimento Aberto de Obrigações[1,2]	618	(14)
Imofomento – Fundo de Investimento Imobiliário Aberto[1,2]		538
BPI Strategies, Ltd.[1,2]	(122)	273
Venture capital / development		
BPI Private Equity – Sociedade de Capital de Risco, S.A.[1]	(239)	(1 208)
Inter-Risco – Sociedade de Capital de Risco, S.A.	42	3
Insurance		
BPI Vida e Pensões – Companhia de Seguros, S.A.[1]	15 448	16 653
Cosec – Companhia de Seguros de Crédito, S.A.[1]	4 133	5 511
Companhia de Seguros Allianz Portugal, S.A.[1]	3 802	9 250
Other		
BPI, Inc.	(38)	(5)
BPI Locação de Equipamentos, Lda.		(7)
BPI Madeira, SGPS, Unipessoal, S.A.[1]	(539)	(276)
BPI Moçambique – Sociedade de Investimento, S.A.[1]	(355)	(557)
BPI Capital Finance		
BPI Capital Africa[1]	(1 475)	(1 313)
Unicre – Instituição Financeira de Crédito, S.A.[1]	12 341	7 173
	313 230	**236 369**

1) Adjusted net income.
2) Paricipation that ceased being consolidated by the BPI Group as explained in note 1.

Earnings per share

Basic earnings per share are calculated by dividing net income attributable to the shareholders of Banco BPI by the weighted average number of ordinary shares outstanding in the period, excluding treasury shares acquired by the Group.

The following table shows the calculation of basic earnings per share:

	31 Dec. 16	31 Dec. 15 Proforma
Numerator		
Net income attributable to the shareholders of BPI from continuing operations	144 310	94 354
Net income attributable to the shareholders of BPI from discontinued operations	168 919	142 015
Numerator: Net income attributable to the shareholders of BPI (in thousands of euro)	313 229	236 369
Denominator		
Issued ordinary shares (x 1000):		
No. at the beginning of the year	1 456 924	1 456 924
No. at the end of the year	1 456 924	1 456 924
Weighted average number of shares	1 456 924	1 456 924
Treasury shares, weighted average number (x 1000)	5 898	6 564
Denominator: weighted average number of shares, net of treasury shares (x 1000)	1 451 027	1 450 360
Basic earnings per share (in euro)		
Net basic earnings per share from continuing operations	0.099	0.065
Net basic earnings per share from discontinued operations	0.117	0.098
Consolidated basic earnings per share (in euro)	**0.216**	**0.163**

Diluted earnings per share includes in its calculation the potential dilutive effect on earnings per share of any existing financial instruments, by adjusting the average number of shares and/or the net results.

In the calculation of diluted earnings per share of Banco BPI the following adjustments to the weighted average number of shares were considered:

- Sum of shares (average number) granted to Employees subject to a resolution condition under the RVA programme but not yet made available. The ownership of the shares granted, under the RVA programme, is transferred in full at the grant date, but their availability is dependent on the maintenance of the employment relationship with the BPI Group. Therefore for accounting purposes, the shares remain in the portfolio of treasury shares of Banco BPI until their date of delivery, at which time the treasury shares are derecognised.
- Sum of the portfolio of treasury shares allocated to cover the options to purchase shares of Banco BPI granted to Employees under the RVA programme. To cover the option plan, BPI has treasury shares portfolios, allocated to each of the series of current options, in order to ensure a number of shares corresponding to the product of delta by the number of options ("delta hedging"). For the purpose of managing the hedging portfolio, the Bank carries out purchase and sale transactions on the stock exchange. In the granting of shares to Employees for exercising the options, the Bank uses the portfolio of treasury shares, which are derecognised together with the transfer of ownership, and also make purchases on the stock exchange.

The following table shows the calculation of diluted earnings per share:

	31 Dec. 16	31 Dec. 15
Numerator		
Net income attributable to the shareholders of BPI from continuing operations	144 310	94 354
Net income attributable to the shareholders of BPI from discontinued operations	168 919	142 015
Numerator: Net income attributable to the shareholders of BPI (in thousands of euro)	313 229	236 369
Denominator		
Weighted average number of shares, net of treasury shares (x 1000)	1 451 027	1 450 360
Average weighted ordinary shares with dilutive effect (x 1000):		
Shares granted to Employees, under the RVA programme, under resolutive conditions	234	427
Treasury shares allocated to cover the RVA option plan	5 516	5 989
Denominator: weighted average number of shares adjusted (x 1000)	1 456 776	1 456 776
Consolidated diluted earnings per share (in euro)		
Net diluted earnings per share from continuing activities	0.099	0.065
Net diluted earnings per share from discontinued activities	0.116	0.097
Consolidated diluted earnings per share (in euro)	**0.215**	**0.162**

4.46 Personnel

The average and period-end number of Employees[1] in 2016 and 2015 were as follows:

	31 Dec. 16		31 Dec. 15	
	Average for the period	End of period	Average for the period	End of period
Directors[2]	8	7	9	9
Management staff	653	651	636	649
Other staff	5 372	5 257	5 336	5 338
Other Employees	2 502	2 354	2 670	2 638
	8 535	**8 269**	**8 651**	**8 634**

1) Personnel of the Group's entities 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 Banco Português do Investimento.

4.47. 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 regulated Stock Exchanges, bonds and participating units in harmonized funds, valued based on prices / quotations in active markets, published in trading platforms, taking into account also the liquidity and quality of the prices.

The classification of fair value in level 1 is made automatically by SIVA ("Sistema Integrado de Valorização de Activos") whenever the related financial instruments are traded in an active market, considering, for this purpose, that this is the case when:

i. daily prices are given for the financial instruments by at least 6 contributors, at least three of them with firm offers, or there is a multi-contributed price (price formed by several firm offers from contributors available in the market) (active market), or;
ii. such financial instruments have been classified as level 1, in accordance with the rule referred to in the preceding paragraph, in at least 50% of the last 30 calendar days.

For financial instruments that do not have a 30 days history available in the system, allocation of fair value level will be carried out considering the history available in SIVA.

- Level 2 – Valuation techniques based on market inputs

Financial instruments that have not been traded on an active market or that are valued by reference to valuation techniques based on market data for financial instruments having the same or similar characteristics in accordance with the rules referred to below are considered as level 2.

Level 2 fair value is determined automatically by SIVA in accordance with the following rules:

a) Financial instruments are classified daily in Level 2 if they are:

i. quoted by less than 6 contributors, regardless of the type of price, or;
ii. valued based on models using inputs which are mainly observable in the market (such as interest rate curves or exchange rates), or;
iii. valued based on third party indicative purchase prices, based on observable market data, and
iv. have been classified as level 1 and level 2, in accordance with the rules mentioned above in at least 50% of the last 30 calendar days.

b) For instruments that do not have a 30 day history in the available calendar in the system, allocation of the fair value level will be carried out taking considering the history available in SIVA.

- Level 3 – Valuation techniques using inputs not based on observable market data

Financial assets are classified as Level 3 when they do not meet the criteria to be classified as Level 1 or Level 2, or if their value is the result of inputs not based on observable market data, namely:

a) financial instruments not admitted to trading on a regulated market, which are valued based on valuation models for which there is no generally accepted market consensus as to the inputs to be used, namely:

i. valuation based on Net Asset Value of non-harmonized funds, updated and disclosed by their managing companies;
ii. valuation based on indicative prices disclosed by the entities involved in the issue of certain financial instruments, without an active market; or
iii. valuation based on impairment tests, using indicators of the performance of the underlying operations (degree of protection by subordination of notes held, delinquency rates of the underlying assets, evolution of ratings, among others).

b) financial instruments valued at indicative purchase prices based on theoretical models, disclosed by specialized third parties.

Automatic classification proposed by SIVA relating to the level of fair value is made on the day of measurement, being supervised by a specialized team, in order to ensure that the classification of the fair value level is considered the most appropriate, according to the principles set forth herein.

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 (mainly 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 and other financial derivative instruments 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 credit risk 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 – default probability and loss given default. With the exception of the adjustments for credit risk, the estimated fair value of these instruments is calculated in the same way as described for the Level 2 financial instruments derivatives.

  The valuation of derivatives with optional elements is carried out using statistical models that consider the market value of the underlying assets and their volatilities (considering that the latter are not directly observable in the market).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 31 December 2016 the values of the unobservable market inputs (implied volatility of the underlying assets) are included in the following ranges by type of underlying asset:

Implied volatility

Underlying	Min.	Max.
Euribor 1 month	100.86%	102.41%
Euribor 3 months	47.78%	145.21%
Euribor 6 months	42.64%	144.59%
Euribor 12 months	102.64%	102.64%
Exchange EUR/USD	10.17%	25.67%

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.

The quantity and volume of these types of operations have been declining, in particular those with underlying interest rates.

  (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 31 December 2016 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:

Implied volatility

Underlying type	Min.	Max.
Shares / indexes	4.37%	27.30%

  These operations have also been decreasing in number and amount, and may even disappear from the Bank's balance sheet over the next six months.

  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 includes counterparty credit risk and own credit risk in the calculation of the book value of derivative financial instruments contracted in the over-the-counter market. This methodology includes the following main items:

- 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 throughout a model, whose parameters are estimated using mainly historical information regarding non-performance, except for operations in which the Bank considers that the credit risk of the counterparty is comparable to the risk of the Portuguese Republic. In these cases, the adjustments for credit risk are estimated based on risk parameters implicit in the spread of Portuguese public debt against the German public debt.

The credit risk adjustments, considered by the Bank in determining the book value of derivative financial instruments contracted in the over-the-counter market, were estimated based on this methodology, except for the cases in which individual impairment losses were recorded. In these cases the adjustments considered by the Bank corresponded the amount of the impairment losses.

When computing the adjustments for counterparty credit risk at 31 December 2016, the following loss given default and probability of default were used:

	Min.	Max.
Loss given default	37.40%	45.00%
Probability of default	0.11%	22.02%

Note: Operations in default (PD of 100%) were not considered for the calculation of this gap,

When computing adjustments to own credit risk at 31 December 2016, the following losses given default and probabilities of default were used:

	Min.	Max.
Loss given default	60.00%	60.00%
Probability of default	2.84%	6.11%

Considering that the determination of the assumptions used in the calculation of the adjustments to the credit risk of derivative financial instruments is a significant matter, 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.

Financial instruments recorded in the balance sheet at amortized cost

The fair value of financial instruments recorded in the balance sheet 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, as it was 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:

- the cash flows relating to Loans and advances to credit institutions and Resources of other credit institutions were discounted based on interest rate curves for interbank operations on the date of the financial statements, except for medium and long term resources, the cash-flows of which were discounted based on the interest rate curve used by the Bank for senior issuances;
- in operations with Customers (Loans and advances to Customers and Resources of Customers and other debts) the weighted average of the spreads over the reference rates used by the Bank in the previous month for similar operations is considered;
- for bonds issued (Debt securities and Subordinated debt), the Bank considered reference interest rates and spreads available in the market, considering the residual maturity and degree of subordination of the issuances. For subordinated debt, the Bank used proposals presented to the Bank by other credit institutions, as the basis for the construction of subordination spread curves, also considering the senior debt curve, the Portuguese public debt curve and the evolution of the spread between the Portuguese and German public debts.

The reference rates used to calculate the discount factors at 31 December 2016 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	-0.37%	-0.32%	-0.22%	-0.08%	-0.16%	-0.10%	0.07%	0.31%	0.66%	1.24%
GBP	0.26%	0.37%	0.53%	0.78%	0.61%	0.69%	0.87%	1.03%	1.23%	1.43%
USD	0.77%	1.00%	1.32%	1.69%	1.45%	1.66%	1.96%	2.16%	2.34%	2.58%
JPY	-0.03%	-0.03%	0.02%	0.13%	0.02%	0.03%	3.18%	3.42%	3.63%	3.90%

	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years	10 years
Portuguese Public Debt	0.04%	0.04%	0.60%	1.34%	1.87%	2.44%	3.07%	3.33%	3.57%	3.76%
German Public Debt	-0.80%	-0.77%	-0.78%	-0.68%	-0.53%	-0.39%	-0.27%	-0.14%	0.01%	0.21%
Spread PT / DE	0.84%	0.81%	1.39%	2.01%	2.40%	2.83%	3.35%	3.46%	3.55%	3.56%

The fair value of "Held to maturity investments" is based on market prices or third party purchase prices, when available. If these are not available, 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 and Demand deposits included in Resources of Customers and other debts) corresponds to their book value.

The fair value of financial instruments at 31 December 2016 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	876 621		876 621	876 621			876 621
Deposits at other credit institutions	300 190		300 190	300 190			300 190
Financial assets held for trading and at fair value through profit or loss	2 017 992	2 017 992		2 017 992			2 017 992
Financial assets available for sale	3 870 651	3 870 651		3 870 651		5 783	3 876 434
Loans and advances to credit institutions	637 607		637 236[3]	637 236	(371)		637 607
Loans and advances to Customers	22 735 758		21 233 717[4]	21 233 717	(1 502 041)		22 735 758
Held to maturity investments	16 317		15 237[5]	15 237	(1 080)		16 317
Trading derivatives[2]	179 921	179 921		179 921			179 921
Hedging derivatives	25 802	25 802		25 802			25 802
	30 660 859	**6 094 366**	**23 063 001**	**29 157 367**	**(1 503 492)**	**5 783**	**30 666 642**
Liabilities							
Resources of central banks	2 000 011		2 001 697[3]	2 001 697	(1 686)		2 000 011
Resources of other credit institutions	1 096 439		1 084 821[3]	1 084 821	11 618		1 096 439
Resources of Customers and other debts	21 967 681		21 949 689[6]	21 949 689	17 992		21 967 681
Debt securities	506 770		489 643[3]	489 643	17 127		506 770
Financial liabilities relating to transferred assets	555 385		508 300[4]	508 300	47 085		555 385
Trading derivatives	212 713	212 713		212 713			212 713
Hedging derivatives	97 756	97 756		97 756			97 756
Technical provisions	2 048 829		2 048 829[3]	2 048 829			2 048 829
Other subordinated debt and participating bonds	69 500		62 476[3]	62 476	7 024		69 500
	28 555 084	**310 469**	**28 145 455**	**28 455 924**	**99 160**		**28 555 084**
	2 105 775			**701 443**	**(1 404 332)**	**5 783**	**2 111 558**
Valuation differences in financial assets recognised in revaluation reserves					13 750		
					(1 390 582)		

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) Financial instruments recorded in the balance sheet at amortized cost classified as Level 1, 2 and 3 amounting to 7 695 th. euro, 5 677 th. euro and 1 865 th. euro respectively, according to the fair value hierarchy of IFRS 13.
6) 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 non-current assets and liabilities held for sale and discontinued operations is not presented in the table above, since the participation in Banco de Fomento Angola was valued at the lower of acquisition cost and fair value less costs of sale, as provided for in IFRS 5.

The fair value of financial instruments at 31 December 2015 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	2 728 185		2 728 185	2 728 185			2 728 185
Deposits at other credit institutions	612 055		612 055	612 055			612 055
Financial assets held for trading and at fair value through profit or loss	3 420 697	3 420 697		3 420 697			3 420 697
Financial assets available for sale	6 503 220	6 503 220		6 503 220		6 168	6 509 388
Loans and advances to credit institutions	1 230 043		1 223 680[3]	1 223 680	(6 363)		1 230 043
Loans and advances to Customers	24 281 622		22 787 953[4]	22 787 953	(1 493 669)		24 281 622
Held to maturity investments	22 417		21 159[3]	21 159	(1 258)		22 417
Trading derivatives[2]	253 907	253 907		253 907			253 907
Hedging derivatives	91 286	91 286		91 286			91 286
	39 143 432	**10 269 110**	**27 373 032**	**37 642 142**	**(1 501 290)**	**6 168**	**39 149 600**
Liabilities							
Resources of central banks	1 520 735		1 521 898	1 521 898	(1 163)		1 520 735
Resources of other credit institutions	1 311 791		1 277 152[3]	1 277 152	34 639		1 311 791
Resources of Customers and other debts	28 177 814		28 116 540[5]	28 116 540	61 274		28 177 814
Debt securities	1 077 381		1 059 378[3]	1 059 378	18 003		1 077 381
Financial liabilities relating to transferred assets	689 522		637 101[4]	637 101	52 421		689 522
Trading derivatives	294 318	294 318		294 318			294 318
Hedging derivatives	161 556	161 556		161 556			161 556
Technical provisions	3 663 094		3 663 094[3]	3 663 094			3 663 094
Other subordinated debt and participating bonds	69 512		67 347[3]	67 347	2 165		69 512
	36 965 723	**455 874**	**36 342 510**	**36 798 384**	**167 339**		**36 965 723**
	2 177 709			**843 758**	**(1 333 951)**	**6 168**	**2 183 877**
Valuation differences in financial assets recognised in revaluation reserves					20 310		
					(1 313 641)		

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 the financial instruments recorded in the balance sheet at 31 December 2016, is made up as follows by valuation methodologies:

Type of financial instrument	Active market listings (Level 1)	Valuation techniques		Total fair value
		Market data (Level 2)	Models (Level 3)	
Assets				
Financial assets held for trading and at fair value through profit or loss	1 935 444	20 612	61 936	2 017 992
Financial assets available for sale	3 500 024	5 587	365 040	3 870 651
Trading derivatives	23	15 563	164 335	179 921
Hedging derivatives		25 797	5	25 802
Non-current assets held for sale and discontinued operations		7 313	3 213 768	3 221 081
	5 435 491	**74 872**	**3 805 084**	**9 315 447**
Liabilities				
Trading derivatives	177	206 181	6 355	212 713
Hedging derivatives	26	97 574	156	97 756
Non-current liabilities held for sale and discontinued operations		8 150		8 150
	203	**311 905**	**6 511**	**318 619**

The fair value of the financial instruments recorded in the balance sheet at 31 December 2015 is made up as follows by valuation methodologies:

Type of financial instrument	Active market listings (Level 1)	Valuation techniques		Total fair value
		Market data (Level 2)	Models (Level 3)	
Assets				
Financial assets held for trading and at fair value through profit or loss	2 812 537	25 818	582 342	3 420 697
Financial assets available for sale	3 315 029	51 943	3 136 248	6 503 220
Trading derivatives	80	44 659	209 168	253 907
Hedging derivatives	5	58 149	33 132	91 286
	6 127 651	**180 569**	**3 960 890**	**10 269 110**
Liabilities				
Trading derivatives	135	260 578	33 605	294 318
Hedging derivatives	16	159 494	2 046	161 556
	151	**420 072**	**35 651**	**455 874**

At 31 December 2015 financial assets held for trading and at fair value through profit or loss included in Level 3 correspond essentially to Angolan public debt which at 31 December 2016 are recorded under Non-current assets held for sale and discontinued operations (note 4.9). They also include bonds valued through indicative bid prices based on theoretical models or through models developed internally.

At 31 December 2015 financial assets available for sale included in Level 3 correspond essentially to Angolan public debt securities which at 31 December 2016 are recorded under Non-current assets held for sale and discontinued operations (note 4.9). They also include bonds collateralized by assets (ABS) and private equity investments.

At 31 December 2016 and 2015 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 linked 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.

The book value of financial instruments at the beginning of the reporting period was used for the presentation of transfers between levels.

During 2016 and 2015, the following securities were transferred from level 2 to level 1 due to an increase in their liquidity in the market, as a result of the increase in the number of contributors to quote the bond with binding offers, in the case of securities from national issuers this was the result of the improvement of the conditions of Portuguese Debt:

	Net book value	
	31 Dec. 16	**31 Dec. 15**
LLOYDS BANK PLC-TV-29.05.2017	802	
SEMAPA – TV (20.04.2016)		11 431
PARPUBLICA – 5.25% – OB.CONV.-28.09.2017		219
SONAE INVESTMENTS BV-1.625%-11.06.2019		98
	802	**11 749**

During 2016, the following securities were transferred from level 1 to level 2 due to the decrease in liquidity of the respective market:

	Net book value
	31 Dec. 16
COLEP PORTUGAL SA -TV-10.10.2017	1 610
SAUDACOR-TX.VR.-03.07.2017	1 018
	2 628

For financial instruments recorded at fair value on the balance sheet, the changes between 31 December 2015 and 2016 in assets and liabilities classified as Level 3, are as follows:

Financial assets and liabilities	Held for trading and at fair value through profit or loss	Available for sale	Trading derivatives (net)	Hedging derivatives (net)	Total
Net book value at 31 December 2015	582 342	3 136 248	175 563	31 086	3 925 239
Accrued interest and premiums (amount at 31 December 2015)	(125)	(645)	(10 455)	1 302	(9 923)
Gain / (loss) recognised in net income					
Net income on financial operations					
Potential gain / (loss)	(767)	732	(15 373)	(32 183)	(47 591)
Effective gain / (loss)	704	(373)	11 462	332	12 125
Impairment losses and other provisions		(5 195)			(5 195)
Gain / (loss) recognised in revaluation reserves		(1 962)			(1 962)
Foreign exchange	17 204	(233 092)			(215 888)
Purchases	2 688 553	46 465			2 735 018
Sales, redemptions or amortisations	(1 402 812)	(1 201 500)	(11 462)	(332)	(2 616 106)
Reimbursements	(10 509)	(30 441)			(40 950)
Transfers in	2 759	51 943			54 702
Transfers out		(3)			(3)
Transfers to non-current assets held for sale and discontinued operations (note 4.9)	(1 815 666)	(1 398 102)			(3 213 768)
Accrued interest and premiums (amount at 31 December 2016)	253	965	8 245	(356)	9 107
Net book value at 31 December 2016	**61 936**	**365 040**	**157 980**	**(151)**	**584 805**

Note: The effective gain / (loss) on derivatives corresponds to amounts paid / received in the course of early settlement of the operations.

The purchases and sales of financial assets held for trading and at fair value through profit or loss and financial assets available for sale refer mainly to Angola public debt securities and of Banco Nacional de Angola through Banco de Fomento Angola.

The transfers of other levels of financial assets available for sale corresponds to the C8 Capital SPV issue, transferred from level 2 as there has been a reduction in liquidity in its market.

At 31 December 2016, financial assets held for trading and at fair value through profit or loss and available-for-sale financial assets regarding BFA and included in level 3 were reclassified to NON-CURRENT ASSETS HELD FOR SALE AND OPERATIONS IN DISCONTINUED OPERATIONS (note 4.9), under the classification of BFA's operations as discontinued operations in accordance with the requirements of IFRS 5 – Non-current assets held for sale and discontinued operations.

Net income on financial operations – potential gain / (loss) on trading derivatives correspond mainly to the change in fair value of operations contracted with Customers, coverage of which is carried out with counterparties with which the Bank has collateralization agreements and therefore are not subject to adjustments relating to credit risk and are classified at level 2.

For financial instruments and investment properties recorded at fair value on the balance sheet, the changes between 31 December 2014 and 31 December 2015 in assets and liabilities classified in Level 3, are 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 31 December 2014 Proforma	255 701	2 974 106	213 755	21 988	154 777	3 620 327
Accrued interest and premiums (amount at 31 December 2014)	(24)	(650)	(16 867)	15 537		(2 004)
Gain / (loss) recognised in net income:						
Net income on financial operations	667	279	(43 985)	(5 139)		(48 178)
Potential gain / (loss)	95	150	(31 779)	(5 137)		(36 671)
Effective gain / (loss)	572	128	(12 206)	(2)		(11 508)
Impairment losses and other provisions		(9 060)				(9 060)
Gain / (loss) recognized in revaluation reserves		18 710				18 710
Purchases	350 882	203 994				554 876
Sales, redemptions or amortisations	(26 200)	(51 787)	12 205	2	(154 777)	(220 557)
Transfers out	(364)					(364)
Transfers in	1 555	11				1 566
Accrued interest and premiums (amount at 31 December 2015)	125	645	10 455	(1 302)		9 923
Net book value at 31 December 2015	**582 342**	**3 136 248**	**175 563**	**31 086**		**3 925 239**

Note: The effective gain / (loss) on derivatives corresponds to amounts paid / received in the course of early settlement of the operations.

The purchase of financial assets held for trading and at fair value through profit or loss and financial assets available for sale corresponds mainly to public debt securities of Angola and of Banco Nacional de Angola through Banco de Fomento Angola.

Net income on financial operations – potential gain / (loss) on trading derivatives correspond mainly to the change in fair value of operations contracted with Customers, coverage of which is carried out with counterparties with which the Bank has collateralization agreements and therefore are not subject to adjustments relating to credit risk and are classified at level 2.

Derecognition of financial assets

In 2016 and in 2015 no financial instruments for which it was not possible to reliably determine their fair value were derecognised 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:

	31 Dec. 16			31 Dec. 15			Effective interest rate on reclassification date
	Book value on reclassification date	Book value at 31 Dec. 16	Fair value at 31 Dec. 16	Book value on reclassification date	Book value at 31 Dec. 15	Fair value at 31 Dec. 15	
Reclassification of bonds in 2008							
Financial assets held for trading	(24 448)			(28 107)			
Loans represented by securities	11 393			11 393		413	6.37%
Held to maturity investments	13 055	14 416	13 371	16 714	18 313	17 207	6.29%
Reclassification of bonds in 2009							
Financial assets held for trading	(979)			(2 863)			
Loans represented by securities	131	181	215	167	222	274	5.34%
Held to maturity investments	848	1 902	1 866	2 696	4 104	3 952	5.98%
Reclassification of bonds in 2012							
Financial assets at fair value through profit and loss				(7 699)			
Loans represented by securities				7 699	7 670	7 671	2.78%
Reclassification of bonds in 2013							
Financial assets available for sale	(4 093)			(4 093)			
Loans represented by securities	4 093	5 199	3 928	4 093	4 997	3 803	1.94%
		21 698	**19 380**		**35 306**	**33 320**	

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.

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 recognised in the statement of income in 2016 and in 2015 and other gain / (loss) recognised in reserves and in the statement of income for these periods for securities reclassified from financial assets held for trading, were as follows:

	31 Dec. 16			31 Dec. 15		
	Gain / (loss) associated with fair value changes not recognised in the statement of income	Other gain / (loss) recognised in:		Gain / (loss) associated with fair value changes not recognised in the statement of income	Other gain / (loss) recognised in:	
		Reserves	Statement of income		Reserves	Statement of income
Loans represented by securities	(420)		257	(10 184)		(8 305)
Held-to-maturity investments	152		34	354		237
	(268)		**291**	**(9 830)**		**(8 068)**

The amounts of gain / (loss) relating to fair value changes not recognised 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) recognised in the statement of income include interest, premiums / discounts and other expenses. The amounts presented in other gain / (loss) recognised in reserves correspond to the fair value changes of financial assets available for sale after the reclassification date.

Financial instrument risks

The BPI Group assesses and controls risk in accordance with best practices and in compliance with the prudential rules and regulations, following the precepts, definitions and valuation methods recommended by the Basel Banking Supervision Committee in its three pillars.

The Directors' Report, presented together with the notes to Banco BPI's financial statements, also includes a section relating to "Risk management", which contains additional information about the nature and extent of the BPI Group's financial risks.

Exposure to sovereign debt

The BPI Group's exposure to the debt of countries that have requested financial support from the European Union, the European Central Bank and the International Monetary Fund at 31 December 2016, 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 recognised
Held for trading and at fair value through profit or loss	**26 391**	**26 469**	**(71)**		
Portugal	26 391	26 469	(71)		
Available for sale	**2 209 524**	**2 247 574**	**24 888**	**(27 352)**	
Portugal	2 209 524	2 247 574	24 888	(27 352)	
Total exposure	**2 235 915**	**2 274 043**	**24 817**	**(27 352)**	

The net book value presented above corresponds to the fair value. Fair value was determined based on prices in international markets, the unrealised gains / (losses) and hedge accounting effect being reflected in specific reserve captions or in the statement of income, depending on whether the securities are classified in the available for sale securities portfolio or in the held for trading securities portfolio, respectively. Banco BPI considers that at 31 December 2016 there was no objective evidence of impairment.

In 2015 the BPI Group sold bonds issued by Portuguese government entities with a nominal value of 440 000 th. euro.

At 31 December 2016 the BPI Group had no exposure to Greek sovereign debt. The BPI Group has in the financial assets available for sale portfolio, KION MORTGAGE Class A bonds (securitisation of mortgage loans originated by the Greek Millennium bank) in the amount of 41 th. euro (note 4.5).

The BPI Group's exposure, excluding the insurance capitalisation portfolios of BPI Vida e Pensões, to the debt of countries that have requested financial support from the European Union, the European Central Bank and the International Monetary Fund at 31 December 2016 is as follows, by maturity date:

Maturity	2017	2018 to 2021	> 2022	Total
Portugal	1 930 490	341 764	1 789	2 274 043
	1 930 490	**341 764**	**1 789**	**2 274 043**

The ratings of Portugal are the following:

	31 Dec. 16			31 Dec. 15		
	S&P	Moody's	Fitch	S&P	Moody's	Fitch
Portugal	BB+	Ba1	BB+	BB+	Ba1	BB+

In addition, at 31 December 2016, some insurance capitalization portfolios of BPI Vida e Pensões, fully consolidated in the financial statements of the BPI Group, held Portuguese 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	**127 273**	**129 760**	**129 760**	
Portugal	127 273	129 760	129 760	
Loans and other receivables	**50 000**	**50 548**	**50 000**	
Portugal	50 000	50 548	50 000	
Total exposure	**177 273**	**179 760**	**179 760**	

Exposure of the insurance capitalization portfolios of BPI Vida e Pensões to the sovereign debt of Portugal, at 31 December 2016 is made up as follows, by maturity date:

Maturity	2017	2018 to 2021	> 2022	Total
Portugal	112 333	67 129	298	179 760
	112 333	**67 129**	**298**	**179 760**

Credit risk

Maximum exposure to credit risk

Credit risk is one of the most significant risks of the BPI Group's operations. More information about this risk, particularly about the management process for the various segments of credit, can be found in the section "Risk Management" in the Directors' Report.

Maximum exposure to credit risk at 31 December 2016, 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	300 190		300 190
Financial assets held for trading and at fair value through profit or loss	2 017 992		2 017 992
Financial assets available for sale	3 983 429	(106 995)	3 876 434
Loans and advances to credit institutions	637 607		637 607
Loans and advances to Customers	23 430 958	(695 200)	22 735 758
Held to maturity investments	16 317		16 317
Derivatives			
Hedging derivatives	25 802		25 802
Trading derivatives[1]	179 921		179 921
	30 592 216	**(802 195)**	**29 790 021**
Off balance sheet items			
Guarantees provided	1 294 856	(21 194)	1 273 662
Irrevocable credit lines	1 356	(1)	1 355
Underwriting of commercial paper	409 638	(1 278)	408 360
	1 705 850	**(22 473)**	**1 683 377**
	32 298 066	**(824 668)**	**31 473 398**

1) This caption is presented in the balance sheet as financial assets held for trading and at fair value through profit or loss.

Maximum exposure to credit risk at 31 December 2015, 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	612 055		612 055
Financial assets held for trading and at fair value through profit or loss	3 420 698		3 420 698
Financial assets available for sale	6 628 939	(119 551)	6 509 388
Loans and advances to credit institutions	1 230 043		1 230 043
Loans and advances to Customers	25 260 276	(978 654)	24 281 622
Held to maturity investments	22 417		22 417
Derivatives			
Hedging derivatives	91 286		91 286
Trading derivatives[1]	253 906		253 906
	37 519 620	**(1 098 205)**	**36 421 415**
Off balance sheet items			
Guarantees provided	1 497 070	(31 938)	1 465 132
Irrevocable credit lines	1 646	(2)	1 644
Underwriting of commercial paper	334 612	(1 095)	333 517
	1 833 328	**(33 035)**	**1 800 293**
	39 352 948	**(1 131 240)**	**38 221 708**

1) This caption is presented in the balance sheet as financial assets held for trading and at fair value through profit or loss.

Breakdown of overdue loans

Overdue loans and interest at 31 December 2016, by non performing classes, are as follows:

	Non performing classes					Total
	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	more than 5 years	
Loans and advances to Customers						
Subject to individual assessment						
Overdue loans and interest		967	41 636	196 438	59 750	298 791
Impairment		(546)	(31 945)	(103 869)	(39 181)	(175 541)
		421	**9 691**	**92 569**	**20 569**	**123 250**
Subject to collective assessment						
Overdue loans and interest	20	4 566	25 392	221 697	140 360	392 035
Impairment	(1)	(1 150)	(8 971)	(102 057)	(91 701)	(203 880)
	19	**3 416**	**16 421**	**119 640**	**48 659**	**188 155**
Non-current assets held for sale and discontinued operations						
Overdue loans and interest		6 932	12 711	25 155	17 973	62 771
Impairment		(5 221)	(11 679)	(18 629)	(10 550)	(46 079)
		1 711	**1 032**	**6 526**	**7 423**	**16 692**

In addition, at 31 December 2016 collective impairment of 315 779 th. euro is recorded for performing loans to Customers and loans and advances to credit institutions. BFA recognized impairment for loans to regular Customers amounting to 30 721 th. euro.

Overdue loans and interest at 31 December 2015, by non performing classes, are as follows:

	Non performing classes					Total
	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	more than 5 years	
Loans and advances to Customers						
Subject to individual assessment						
Overdue loans and interest		10 168	47 961	315 863	120 732	494 724
Impairment		(4 029)	(28 213)	(188 707)	(89 428)	(310 377)
		6 139	**19 748**	**127 156**	**31 304**	**184 347**
Subject to collective assessment						
Overdue loans and interest	9	4 156	35 130	273 771	114 680	427 746
Impairment	(2)	(1 215)	(14 061)	(133 971)	(71 349)	(220 598)
	7	**2 941**	**21 069**	**139 800**	**43 331**	**207 148**

In addition, at 31 December 2015, collective impairment of 447 682 th. euro is recorded for performing loans to Customers and loans and advances to credit institutions.

Collateral

Banco BPI receives, among others, the following collateral in its loan granting business:

- housing mortgages;
- mortgage of buildings and land;
- deposit of assets;
- pledge of securities;
- guarantees provided by other credit institutions.

The fair value of collateral received is determined based on market value considering its nature. For example, property received in guarantee is valued by external appraisers or by Banco BPI's units using methods considered appropriate.

The coverage of overdue loans by collateral received at 31 December 2016 was as follows:

Coverage	Loans with default			Collateral[1]		Impairment[3]
	Performing amount associated with defaulting loans	Overdue	Total	Mortgages	Other collateral[2]	
≥ 100%	101 262	166 985	268 247	265 758	2 489	86 182
≥ 75% and < 100%	53 339	128 630	181 969	155 450	6 192	87 572
≥ 50% and < 75%	747	60 438	61 185	38 737	1 434	36 370
≥ 25% and < 50%	814	14 949	15 763	6 022	228	10 207
≥ 0 and < 25%	31 359	5 982	37 341	402	1 274	15 279
Without collateral	52 291	313 842	366 133			218 913
Total	**239 812**	**690 826**	**930 638**	**466 369**	**11 617**	**454 523**

1) The value of collateral presented is the lower of the fair value of the collateral received and the amount owed at 31 December 2016.
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 lower than market value. The amount of impairment shown includes 75 102 th. euro relating to performing loans associated with overdue loans.

The coverage of performing loans on which impairment was determined on an individual basis at 31 December 2016 was as follows:

Coverage	Loans with impairment	Collateral[1]		Impairment[3]
	Performing amount	Mortgages	Other collateral[2]	
Loans not represented by securities				
≥ 100%	107 328	90 595	16 733	14 661
≥ 75% and <100%	8 791	7 080	204	5 530
≥ 50% and <75%	2 937	1 265	467	840
≥ 25% and <50%	20 780	4 875	2 125	8 963
≥ 0 and <25%	64 209	153	4 359	10 128
Without collateral	119 650			50 498
	323 695	**103 968**	**23 888**	**90 620**
Guarantees provided				
≥ 100%	15 042	10 673	4 369	1 134
≥ 75% and <100%	60		54	3
≥ 50% and <75%				
≥ 25% and <50%	2 206	602	20	412
Without collateral	91 282			14 727
	108 590	**11 275**	**4 443**	**16 276**
	432 285	**115 243**	**28 331**	**106 896**

1) The value of collateral shown is the lower of the fair value of the collateral received and the amount owed at 31 December 2016.
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 lower than market value.

At 31 December 2016 the fair value of the underlying collateral of the domestic Corporate, Construction and CRE and Housing portfolio was as follows:

Fair value of the collateral	Corporate				Construction and CRE				Housing			
	Properties		Other collateral[1]		Properties		Other collateral[1]		Properties		Other collateral[1]	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0.5 M.€	641	108 734	1 770	84 578	1 689	216 258	3 741	69 043	147 879	20 395 799	3 285	90 168
≥ 0.5 M.€ and < 1 M.€	158	111 153	69	46 735	116	79 417	19	11 676	977	618 951	9	5 963
≥ 1 M.€ and < 5 M.€	254	522 708	90	187 287	98	179 672	13	21 599	78	103 457	2	3 000
≥ 5 M.€ and < 10 M.€	49	340 131	23	156 851	5	30 580	1	5 150	2	11 463		
≥ 10 M.€ and < 20 M.€	22	285 180	7	105 537	2	22 994						
≥ 20 M.€ and < 50 M.€	7	173 918	7	229 570	2	44 085						
≥ 50 M.€	1	62 873	3	287 787	4	372 014						
Total	**1 132**	**1 604 697**	**1 969**	**1 098 345**	**1 916**	**945 019**	**3 774**	**107 468**	**148 936**	**21 129 671**	**3 296**	**99 131**

1) Includes financial collaterals (shares, bonds, deposits) and other items.

At 31 December 2016 the loan-to-value ratio (LTV) for the domestic Corporate, Construction and CRE and Housing portfolio was as follows:

Segment / Loan-to-value ratio	Number of properties	Without signs of impairment	With signs of impairment	Default	Impairment
Corporate					
Without associated collateral		3 771 353	95 600	118 408	129 478
< 60%	721	430 412	12 333	26 744	19 999
≥ 60% and <80%	162	163 001	19 783	21 093	13 712
≥ 80% and <100%	60	96 608	3 567	3 119	2 059
≥ 100%	189	962 525	63 963	101 589	94 929
Construction and CRE					
Without associated collateral		302 144	2 354	38 522	34 106
< 60%	1 354	115 334	29 933	29 543	12 691
≥ 60% and <80%	277	43 395	273	44 401	25 540
≥ 80% and <100%	96	59 448	1 021	3 529	2 161
≥ 100%	189	65 775	4 178	26 129	16 400
Housing					
Without associated collateral		18 843	56	12 038	8 994
< 60%	79 499	3 871 666	10 441	85 309	24 558
≥ 60% and <80%	36 447	3 373 917	9 585	95 197	35 090
≥ 80% and <100%	28 542	2 917 038	10 995	162 345	65 472
≥ 100%	4 448	339 568	3 273	173 942	77 451
	151 984	**16 531 026**	**267 355**	**941 908**	**562 641**

The coverage of overdue loans by collateral received at 31 December 2015 was as follows:

Coverage	Loans with default			Collateral[1]		Impairment[3]
	Performing amount associated with defaulting loans	Overdue	Total	Mortgages	Other collateral[2]	
≥ 100%	98 998	161 698	260 696	257 994	2 702	90 503
≥ 75% and < 100%	61 203	149 707	210 910	178 732	10 787	79 354
≥ 50% and < 75%	1 165	61 930	63 095	40 774	330	31 364
≥ 25% and < 50%	926	22 761	23 687	8 121	1 553	16 849
≥ 0 and < 25%	45 062	11 365	56 427	412	2 210	39 009
Without collateral	144 206	515 009	659 214			426 908
Total	**351 560**	**922 470**	**1 274 029**	**486 033**	**17 582**	**683 987**

1) The value of collateral shown is the lower of the fair value of the collateral received and the amount owed at 31 December 2015.
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 lower than market value. The value of impairment shown includes 153 012 th. euro relating to performing loans associated with defaulting loans.

The coverage of performing loans on which impairment was determined on an individual basis at 31 December 2015 was as follows:

Coverage	Loans with impairment	Collateral[1]		Impairment[3]
	Performing loans	Mortgages	Other collateral[2]	
Loans not represented by securities				
≥ 100%	185 940	102 468	83 472	36 332
≥ 75% and < 100%	35 069	29 556	2 301	26 062
≥ 50% and < 75%	1 884	644	571	894
≥ 25% and < 50%	4 388	271	1 502	1 109
≥ 0 and < 25%	121 023	309	3 545	7 878
Without collateral	198 676			65 816
	546 980	**133 248**	**91 391**	**138 091**
Loans represented by securities				
Without collateral	6 765			1 693
Guarantees provided				
≥ 100%	15 686	11 704	3 983	1 075
≥ 50% and < 75%	2 501	1 444		1 507
≥ 25% and < 50%	2 206	700	20	411
Without collateral	104 576			17 505
	124 969	**13 848**	**4 003**	**20 498**
	678 714	**147 096**	**95 394**	**160 282**

1) The value of collateral shown is the lower of the fair value of the collateral received and the amount owed at 31 December 2015.
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 lower than market value.

At 31 December 2015 the fair value of the underlying collateral of the domestic Corporate, Construction and CRE and Housing portfolio was as follows:

Fair value of the collateral	Corporate				Construction and CRE				Housing			
	Properties		Other collateral[1]		Properties		Other collateral[1]		Properties		Other collateral[1]	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0.5 M.€	710	116 134	1 795	92 781	1 598	199 629	3 586	61 571	146 521	19 377 403	3 243	89 427
≥ 0.5 M.€ and < 1 M.€	154	108 250	63	41 853	113	77 823	18	10 791	745	469 244	4	2 372
≥ 1 M.€ and < 5 M.€	243	518 644	101	202 584	79	149 141	12	20 351	69	92 368	2	3 150
≥ 5 M.€ and < 10 M.€	44	310 384	15	107 834	3	15 771	1	5 150	1	5 921		
≥ 10 M.€ and < 20 M.€	22	289 205	3	45 616	2	22 994						
≥ 20 M.€ and < 50 M.€	6	158 617	8	217 476	1	20 950						
≥ 50 M.€	1	62 873	1	132 634	5	448 722						
Total	**1 180**	**1 564 106**	**1 986**	**840 779**	**1 801**	**935 031**	**3 617**	**97 863**	**147 336**	**19 944 936**	**3 249**	**94 948**

1) Includes financial collaterals (shares, bonds, deposits) and other items.

At 31 December 2015 the loan-to-value ratio (LTV) for the domestic Corporate, Construction and CRE and Housing portfolio was as follows:

Segment / Loan-to-value ratio	Number of properties	Without signs of impairment	With signs of impairment	Default	Impairment
Corporate					
Without collateral		3 500 969	254 994	185 445	245 700
< 60%	795	384 478	23 632	27 093	25 580
≥ 60% and < 80%	92	83 036	21 122	24 014	15 001
≥ 80% and < 100%	105	106 045	2 990	3 808	3 678
≥ 100%	188	1 092 941	151 511	45 209	79 035
Construction and CRE					
Without collateral		245 670	15 957	47 179	43 343
< 60%	1 249	84 957	30 704	61 885	41 440
≥ 60% and < 80%	262	40 412	3 646	45 181	26 427
≥ 80% and < 100%	79	32 953	334	4 811	2 091
≥ 100%	211	62 836	7 174	31 635	22 014
Housing					
Without collateral		13 704	409	12 459	9 597
< 60%	73 815	3 454 321	47 619	50 590	24 162
≥ 60% and < 80%	32 794	2 940 747	46 746	66 805	36 948
≥ 80% and < 100%	29 953	3 074 714	57 057	118 790	63 630
≥ 100%	10 774	991 666	32 518	215 929	96 271
	150 317	**16 109 448**	**696 412**	**940 833**	**734 915**

Encumbered assets

This note includes information on encumbered and unencumbered assets, as defined by the *Bank of Portugal* in *Instruction 28 / 2014* of 23 December. The figures reported are derived from the median values observed in the previous 4 quarters as provided for in Title II of the EBA Guidelines (*EBA / GL / 2014 / 03*). The information presented below refers to the scope of prudential supervision, as defined in *Regulation (EU) No. 575 / 2013*, *CRD IV / CRR* (it does not include BPI Vida e Pensões).

It is considered an encumbered asset when an assets is, explicit or implicitly provided as collateral or subject to an agreement to ensure, collateralize or improve credit quality in an operation of which it can not be freely withdrawn.

As of 31 December 2016, the composition of the encumbered and unencumbered assets is as follows:

	Book value	Fair value
ENCUMBERED ASSETS		
Portuguese public debt securities		
European Investment Bank (EIB) funding	835 794	835 794
Sales operations with repurchase agreement	49 169	49 169
Commitment to the Deposit Guarantee Fund and to the Investor Indemnity System	50 173	50 173
Total portuguese public debt	**935 137**	**935 137**
Loans		
European Central Bank (ECB) funding collateralized by mortgage bonds	2 222 318	
Bonds collateralized with mortgage loans	897 758	
Bonds collateralized with administrative public sector loans	213 739	
Securitization operations	635 751	
Total loans	**3 969 566**	
Other assets		
Derivatives	362 241	
Credit Suport Annex (CSA)	361 572	
Margins stock exchange	668	
Other collateral	147 817	
Collateral in cash (Derivatives Credit Suport Annex)	19 787	
Collateral in favor of EIB	110 287	
Other	17 744	
Total other assets	**510 058**	
Total amount of the encumbered assets	**5 414 761**	
UNENCUMBERED ASSETS		
Equity instruments	394 705	394 705
Debt instruments	6 569 639	6 553 942
Loan	20 224 319	
Other assets	2 086 789	
Unencumbered assets total amount	**29 275 453**	**7 038 501**

Note: Does not include the fair value of assets recorded at amortized cost.

The encumbered assets included in this table correspond to operations that were given as a guarantee or collateralized, without being derecognised from the Bank's assets, such as securities sold with repurchase agreements and autonomous pool of collateralised debt securities.

At 31 December 2016, the fair value of the encumbered received collateral is as follows:

Collateral received	Fair value of the received collateral	
	Encumbered	Free
Debt instruments		
Reports (sale with repurchase agreement)		
Public debt	33 279	4 682
Total debt instruments	**33 279**	**4 682**
Other assets (derivatives)	15 366	
Total amount of encumbered received collateral	**48 644**	**4 682**

This table includes the amount of collateral received that does not meet the conditions for its recognition in the balance sheet, such as securities received as collateral for reporting operations. These assets may or may not be reusable and provided as collateral in other operations.

At 31 December 2016, the liabilities associated with encumbered assets and collaterals received are as follows:

Encumbrance sources	Associated and contingent liabilities	Assets and received collateral
Financial liabilities		
Derivatives	384 339	404 929
Deposits		
European Central Bank funding	2 000 312	2 222 318
European Investment Bank funding	696 414	947 525
Sales operations with repurchase agreement	58 698	58 169
Other deposits	51 356	14 721
Issued securities		
Bonds collateralized with mortgage loans	650 966	897 758
Bonds collateralized with administrative public sector loans	150 122	213 739
Securitization operations	607 691	635 751
	4 599 898	**5 394 910**
Other encumbrance sources		
Commitment to the Deposit Guarantee Fund	41 350	45 125
Commitment to the Investor Indemnity System	9 729	5 049
Contingent liquidy facility of European Central Bank		121
	51 079	**50 294**
Total amount of the encumbrance sources	**4 650 977**	**5 445 204**

The encumbrance of intragroup assets consist of guarantees provided by one of the BPI Group Banks at the request of other in favour of third parties (essentially Tax Authority) and by the deposit of BFA's funds to guarantee liabilities with Banco BPI, essentially confirmation of documentary credits.

Intragroup encumbered operations	Provided by	Requested by	Amount
Provided guarantee	Banco Português Investimento	Banco BPI	71 043
Provided guarantee	Banco BPI	Banco Português Investimento	2 980
Collateralized deposits	Banco Fomento Angola	Banco BPI	42 639

Relevance of the encumbrance of assets in the BPI Group's financing policy
The asset encumbrance can be triggered by a number of reasons, namely:

- the existence of legal requirements such as the assets pledged as collateral for the Deposit Guarantee Fund and the Investor Indemnity System;

- the existence of the initial margin or trading margin underlying financial derivative operations;

- the financing and liquidity needs of banking activity.

At Banco BPI, the main reason for the asset encumbrance results from the liquidity and financing operations obtained, namely:

- with the European Central Bank
- with the European Investment Bank
- through mortgage bonds and Public Sector bonds and credit securitisations placed on the market, and
- through report operations on securities of the Group's own portfolio.

Assets included in the liquidity pool deposited in European Central Bank and not used, or credit operations associated with mortgage bonds and Public Sector bonds and securitisations not placed on the market are not considered encumbered assets.

Credit risk quality (rating)
This section presents information concerning the quality of the credit risk of the BPI Group's main financial assets, excluding derivatives which are analysed in detail in note 4.4. In the case of financial assets with ratings assigned by international rating agencies (Moody's, Standard & Poor's 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 the 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.

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).

In accordance with *National Bank of Angola Notice 3 / 2012*, in force at 31 December 2015, inclusive, BFA's credit operations are classified in ascending order of risk, in the following classes:

Level A: No risk
Level B: Very low risk
Level C: Low risk
Level D: Moderate risk
Level E: High risk
Level F: Very high risk
Level G: Risk of loss

The classification of the loans to the same Customer is made at the level of the operation that presents the higher risk.

Overdue loans are classified in risk levels based on the time elapsed since the default date, in accordance with the following table:

Risk levels	**A**	**B**	**C**	**D**	**E**	**F**	**G**
Time elapsed since the default date	up to 15 days	from 15 to 30 days	from 1 to 2 months	from 2 to 3 months	from 3 to 5 months	from 5 to 6 months	more than 6 months

For loans to Customers for periods exceeding two years, the time elapsed since the default date is considered double the period mentioned above.

Non-defaulting loans, which were not recorded as overdue loans, are classified based on the following criteria defined by the Bank:

- Level A: loans guaranteed by captive bank accounts in BFA and/or State securities (Treasury Bonds and Treasury Bills, and Central Bank Securities), in which the total guarantees received is equal to or greater than the amount of the loan. Some other loans are classified in this level by the Bank as having no risk, given the characteristics of their borrowers and the nature of the operations;

- Level B: loans guaranteed by captive bank accounts in BFA and/or State securities (Treasury Bonds and Treasury Bills, and Central Bank Securities), in which the total guarantees received is more than 75% but less than 100% of the value of the loan; and

- Level C: remaining loans including operations with other types of real guarantees and operations with only personal guarantees.

As from 1 January 2016 the methodology for the classification of loans to Customers complies with the criteria set out in *National Bank of Angola Notice 11 / 2014* of 17 December. In this respect, loans are classified in ascending order of risk, according to the following classes:

Level A: Minimum risk
Level B: Very low risk
Level C: Low risk
Level D: Moderate risk
Level E: High risk
Level F: Very high risk
Level G: Maximum risk

Positions at risk relating to the same Customer or economic group are classified by reference to those that present the higher risk. This approach only applies when the Customer or economic group shows at least a position at risk with payment delays exceeding 30 days and when the Customer's consolidated exposure at risk represents more than 10% of the economic group's consolidated position at risk.

The individual classification of position at risk for purposes of *Notice 11 / 2014* considers the characteristics and risks of the operation and the borrower, being classified based on the following criteria used by the Bank:

- Level A: loans which are (i) assumed by the Angolan State, including their central and local administrations; (ii) assumed by central administrations, central banks of countries included in group 1 (defined in *National Bank of Angola Instruction 1 / 2015* of 14 January), international organizations or multilateral development banks; (iii) fully guaranteed by cash deposits or deposit certificates constituted or issued by the lending institution or by controlled institutions or with a group relationship with the lending institution, headquartered in Angola or in a country included in group 1, international organizations and multilateral development banks, provided that both the position at risk and the deposit or certificate are in the same currency; (iv) fully guaranteed by cash deposits or deposit certificates constituted or issued by the lending institution or by its branches not covered in the previous subparagraph, provided that both the position at risk and deposit or certificate are in the same currency; and (v) fully guaranteed by securities or bonds issued by the Angolan State or by the National Bank of Angola.

- Level B: remaining loans.

The exposure at risk classification is reviewed whenever changes on signs of impairment, on payment delays, on charges and exposure at risk conditions are identified:

Level of risk	**B**	**C**	**D**	**E**	**F**	**G**
Time elapsed since the default date	up to 30 days or without signs of impairment	from 30 to 60 days	from 60 to 90 days	from 90 to 150 days	from 150 to 180 days	more than 180 days

The risk is maintained at "Level A: Minimum risk" even in the case of late payments.

Under the regular review of loans, including overdue loans, BFA makes reclassifications of overdue loans to performing loans, based on an economic analysis of the prospect of collectability, regarding in particular the existence of collateral, the assets of the borrowers or guarantors and the existence of operations the risk of which BFA considers equal to State risk

Annually, BFA writes-off loans classified for more than six months at Level G, by utilisation of the respective provision.

Renegotiated operations are kept at least at the same risk level as that in which they were classified in the month preceding the renegotiation. The reclassification to a lower level of risk occurs only if there is a regular and significant repayment of the operation, payment of accrued interest in arrears, or based on the quality and value of new collateral provided in the renegotiated operation. Gain or income resulting from the renegotiation is recorded when effectively received.

Deposits and loans and advances to credit institutions, by ratings, at 31 December 2016 were as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Deposits and loans and advances to credit institutions	External rating	AAA to AA-	173 022		173 022
		A+ to A-	239 938		239 938
		BBB+ to BBB-	207 114		207 114
		BB+ to BB-	188 984		188 984
		B+ to B-	259		259
		< B-	9 090		9 090
	NR	NR	53 649		53 649
			872 056		**872 056**

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value and does not include cheques for collection.

Loans and advances to Customers, by ratings, at 31 December 2016 were as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Loands and advances to Customers	External rating	AAA to AA-	24 262		24 262
		A+ to A-	65 314	716	64 598
		BBB+ to BBB-	335 999		335 999
		BB+ to BB-	1 231 657	844	1 230 813
		B+ to B-	198 328		198 328
		< B-			
	Project Finance rating	Strong	159 530	2 824	156 706
		Good	915 376	7 904	907 472
		Satisfactory	246 915	3 061	243 854
		Default	162 090	48 142	113 948
	Corporate rating	E01 to E03	814 902	4 531	810 371
		E04 to E06	2 276 956	11 886	2 265 070
		E07 to E10	1 038 496	14 624	1 023 872
		ED1 to ED3	493 866	231 762	262 104
	Entrepreneurs and Business rating	N01 to N03	28 697	120	28 577
		N04 to N06	442 306	2 348	439 958
		N07 to N10	595 680	5 033	590 647
		ND1 to ND3	184 098	86 021	98 077
	Scoring	01 to 03	7 769 164	7 840	7 761 324
		04 to 06	2 661 524	5 960	2 655 564
		07 to 10	755 001	19 723	735 278
		D01 to D03	817 377	213 374	604 003
	NR	NR	2 157 076	28 487	2 128 589
			23 374 614	**695 200**	**22 679 414**

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value.

The Securities portfolio, by ratings, at 31 December 2016 was as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Securities	External rating	AAA to AA-	305 417		305 417
		A+ to A-	126 569		126 569
		BBB+ to BBB-	1 762 051		1 762 051
		BB+ to BB-	2 434 150	367	2 433 783
		B+ to B-	71 660	29	71 631
		< B-	41		41
	Internal rating	E01 to E03	2 454		2 454
		E04 to E06	27 168		27 168
		E07 to E10	734		734
		ED1 to ED3	24		24
	NR	NR	1 287 453	106 599	1 180 854
			6 017 721	**106 995**	**5 910 726**

At 31 December 2016, the composition of BFA's Customer credit ratings, classified as Non-current assets held for sale and discontinued operations, was as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Loands and advances to Customers	Regulation 11 / 2014 of Nacional Bank of Angol	Level A	510 722		510 722
		Level B	704 266	8 091	696 175
		Level C	16 944	807	16 137
		Level D	3 672	658	3 014
		Level E	13 078	3 685	9 393
		Level F	24 877	16 119	8 758
		Level G	47 440	47 440	
			1 320 999	**76 800**	**1 244 199**

Note: The gross exposure corresponds to the nominal value adjusted for corrections of value.

Deposits and loans and advances to credit institutions, by ratings, at 31 December 2015 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-	403 250		403 250
		A+ to A-	444 970		444 970
		BBB+ to BBB-	462 705		462 705
		BB+ to BB-	232 446		232 446
		B+ to B-	217 134	3	217 131
	NR	NR	3		3
			1 760 512	**3**	**1 760 509**

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value and does not includes cheques for collection.

Loans and advances to Customers, by ratings, at 31 December 2015 were as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Loands and advances to Customers	External rating	AAA to AA-	16 479		16 479
		A+ to A-	79 693	771	78 922
		BBB+ to BBB-	435 192		435 192
		BB+ to BB-	1 215 863	536	1 215 327
		B+ to B-	212 920		212 920
	Project Finance rating	Strong	121 555	442	121 113
		Good	860 139	11 098	849 041
		Satisfactory	259 205	6 173	253 032
		Weak	197 118	10 966	186 152
		Default	160 664	106 153	54 511
	Corporate rating	E01 to E03	658 966	2 747	656 219
		E04 to E06	2 183 470	9 366	2 174 104
		E07 to E10	1 278 118	36 653	1 241 465
		ED1 to ED3	491 411	278 618	212 793
	Entrepreneurs and Business rating	N01 to N03	40 268	285	39 983
		N04 to N06	489 036	2 827	486 209
		N07 to N10	678 837	13 611	665 226
		ND1 to ND3	160 590	90 860	69 730
	Scoring	01 to 03	7 724 991	12 527	7 712 464
		04 to 06	2 468 581	9 083	2 459 498
		07 to 10	1 102 856	23 217	1 079 639
		D01 to D03	657 106	222 360	434 746
	Regulation 3 / 2012 of National Bank of Angola	Level A	494 589		494 589
		Level B	12 815	128	12 687
		Level C	937 601	28 128	909 473
		Level D	14 219	1 422	12 797
		Level E	32 212	8 777	23 434
		Level F	50 201	30 186	20 015
		Level G	29 295	29 295	
	NR	NR	2 112 748	42 425	2 070 323
			25 176 738	**978 654**	**24 198 084**

Note: Gross exposure corresponds to the nominal value adjusted for value corrections.

The securities portfolio, by ratings, at 31 December 2015 was as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Securities	External rating	AAA to AA-	285 615		285 615
		A+ to A-	96 598		96 598
		BBB+ to BBB-	2 706 168	29	2 706 139
		BB+ to BB-	1 925 827	354	1 925 473
		B+ to B-	3 376 886		3 376 886
		< B-	28 129		28 129
	NR	NR	1 652 799	119 168	1 533 631
			10 072 022	**119 551**	**9 952 471**

Restructured loans

At 31 December 2016 and 2015 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 this 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.

The existence of restructured loans has a direct impact on the rating models of the Bank, affecting their rating notation for at least 3 years after the loan restructuring.

The unmarking of restructured loans due to Customers' financial difficulties can only be made after a minimum period of two years from the date of their restructuring, provided that the following conditions are met cumulatively:

a) regular payment of the installments of principal during this period, of an accumulated amount equivalent to at least half of the amount of principal that would be due if the payment plan of constant installments was applied. In the case of renewable credit operations there must be a reduction of their utilisation to an average level of less than 70% of the limit that was authorised by the institution at the time of their restructuring, during a period of three months;

b) non-existence of any overdue instalment of principal or interest, for a period of more than 30 days, for any loan operation with the Customer;

c) the Customer not having resorted to any debt restructuring mechanism in the period. Should a new restructuring / renegotiation process take place due to financial difficulties, the terms are restarted.

The following restructured loan operations have been identified for domestic operations of the BPI Group at 31 December 2016 and 2015:

	31 Dec. 16				31 Dec. 15			
	Loans			Impairment	Loans			Impairment
	Performing	Overdue	Total		Performing	Overdue	Total	
Domestic Activity								
Companies	860 286	177 025	1 037 311	225 275	888 155	207 649	1 095 804	288 336
Loans to individuals								
Housing	191 649	56 843	248 492	53 500	202 417	57 213	259 630	63 641
Other loans	86 135	55 602	141 737	52 873	104 882	55 460	160 342	54 151
	1 138 070	**289 470**	**1 427 540**	**331 648**	**1 195 453**	**320 322**	**1 515 775**	**406 128**

At 31 December 2016 and 2015 restructured loan operations identified by Banco de Fomento de Angola amounted to 25 550 th. euro and 33 225 th. euro, respectively.

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 as follows:

- in the case of interest depending on market indices or other references which are only identifiable on a future date (such as interest based on the Euribor) assumptions were made regarding the future value of such references, based on the last known value;
- defaults and early repayment are not considered (except for perpetual debt instruments);
- shares and overdue loans are included (by their book value) as "undetermined";
- demand deposits (including interest) and the bills and coins on hand are considered as "on demand";
- trading portfolio operations and all derivatives are considered in these schedules by their projected or estimated cash flows, on the contractual dates, and not by the market values that would be obtained by their possible sale in the short term.

The contractual undiscounted cash flows of financial assets and liabilities at 31 December 2016 were as follows:

	on demand	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	more than 5 years	undetermined	Total
Assets							
Cash and deposits at central banks	876 621						876 621
Deposits at other credit institutions	235 109	65 081					300 190
Financial assets held for trading and at fair value through profit or loss		419 647	203 290	363 953	54 803	976 299	2 017 992
Financial assets available for sale		858 142	2 144 602	495 321	84 875	400 489	3 983 429
Held-to-maturity investments		2 608	7 825	5 867			16 300
Loans and advances to credit institutions		377 776	120 564	138 017	590		636 947
Loans and advances to Customers		2 415 906	2 274 137	6 809 865	11 153 990	690 826	23 344 724
Hedging derivatives[1]		893 647	2 082 563	4 054 027	180 842		7 211 079
Trading derivatives[1]		1 507 748	351 846	2 223 824	1 985 780		6 069 198
Non-current assets held for sale and discontinued operations							
Cash and deposits at credit institutions	1 514 512	138 648					1 653 160
Financial assets held for trading or available for sale		492 567	1 693 412	828 839	341 169	3 340	3 359 327
Loans and advances to Customers		99 264	178 107	561 012	419 794	62 822	1 320 999
Contractual interest cash flows of derivatives		7 305	41 960	102 916	72 859		225 040
Contractual interest cash flows of other assets		161 724	415 118	1 531 045	1 820 052		3 927 939
Contractual interest cash flow of non-current assets held for sale and discontinued operations		9 981	362 756	444 055	160 089		976 881
	2 626 242	**7 450 045**	**9 876 180**	**17 558 741**	**16 274 843**	**2 133 776**	**55 919 826**
Liabilities							
Resources of central banks		1		2 000 000			2 000 001
Resources of other credit institutions		259 834	108 329	20 404	706 841		1 095 408
Resources of Customers and other debts	10 320 786	2 472 323	4 122 347	3 255 503	1 766 894		21 937 853
Debt securities		248 516	10 080	247 271			505 867
Financial liabilities relating to transferred assets					555 566		555 566
Hedging derivatives[1]		888 850	2 068 317	4 052 644	180 842		7 190 653
Trading derivatives[1]		1 511 419	351 966	2 223 824	1 985 780		6 072 990
Non-current liabilities held for sale and discontinued operations							
Resources of Customers and other debts	3 873 665	1 107 337	840 794		1 167		5 822 963
Other financial instruments		151 758					151 758
Technical provisions		209 620	601 946	454 470	782 793		2 048 829
Other subordinated debt and participating bonds		56 957	12 481				69 438
Contractual interest cash flows of derivatives		5 038	52 078	159 691	88 529		305 336
Contractual interest cash flows of other liabilities		81 480	4 432	4 002	37 086		127 000
Contractual interest cash flow of non-current liabilities held for sale and discontinued operations		16 190	38 675				54 865
	14 194 451	**7 009 323**	**8 211 444**	**12 417 810**	**6 105 498**		**47 938 526**

1) Includes the notional amount of swap operations.

The contractual undiscounted cash flows of financial assets and liabilities at 31 December 2015 were as follows:

	on demand	up to 3 months	from 3 months to 1 year	from 1 year to 5 years	more than 5 years	undetermined	Total
Assets							
Cash and deposits at central banks	2 728 179						2 728 179
Deposits at other credit institutions	537 737	74 320					612 058
Financial assets held for trading and at fair value through profit or loss		875 121	935 783	373 323	44 364	1 192 107	3 420 697
Financial assets available for sale		1 029 851	2 685 428	1 979 327	485 387	448 947	6 628 939
Held-to-maturity investments		1 943	10 913	9 530			22 386
Loans and advances to credit institutions		963 433	180 773	73 112	5 456		1 222 774
Loans and advances to Customers		2 719 340	2 248 435	7 233 818	12 017 460	922 470	25 141 523
Hedging derivatives[1]		2 123 506	3 671 761	2 525 173	157 830		8 478 269
Trading derivatives[1]		616 799	1 688 771	1 920 304	2 533 170		6 759 044
Contractual interest cash flows of derivatives		28 172	67 077	150 744	142 912		388 905
Contractual interest cash flows of other assets		143 966	460 889	1 947 098	2 429 402		4 981 355
	3 265 916	**8 576 451**	**11 949 829**	**16 212 429**	**17 815 980**	**2 563 524**	**60 384 129**
Liabilities							
Resources of central banks				1 519 650			1 519 650
Resources of other credit institutions		263 687	373 034	22 666	637 162		1 296 549
Resources of Customers and other debts	12 886 456	5 142 920	6 527 990	1 520 453	1 905 027		27 982 845
Debt securities		70 679	501 288	480 645	20 075		1 072 687
Financial liabilities relating to transferred assets			436 322	253 387			689 709
Hedging derivatives[1]		2 115 718	3 657 588	2 532 254	158 591		8 464 151
Trading derivatives[1]		616 479	1 693 174	1 904 849	2 542 518		6 757 020
Technical provisions		350 922	1 004 736	611 734	1 695 702		3 663 094
Other subordinated debt and participating bonds		57 573	732	11 133			69 438
Contractual interest cash flows of derivatives		19 129	75 047	235 651	109 776		439 603
Contractual interest cash flows of other liabilities		59 592	85 068	159 661	56 190		360 510
	12 886 456	**8 696 698**	**14 354 980**	**9 252 083**	**7 125 041**		**52 315 258**

1) Includes the notional amount of swap operations.

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.

Net funding obtained from the ECB increased from 1 500 million euro to 2 000 million euro in June 2016, relating to the funds obtained under the Targeted Longer – Term Refinancing Operations (TLTRO) (4 year operation at a fixed rate launched by the ECB at the end of 2014 to promote the granting of credit to the economy, maturing in 2018) and the TLTRO 2, second loan incentive program which began in June 2016 with a maturity of 4 years.

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, repo, 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, excluding BFA.

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 average of zero and standard deviation leading to the above mentioned confidence level.

In 2016 and 2015 the average VaR in the Bank's trading books was as follows:

	31 Dec. 16		31 Dec. 15	
	VaR (average)	VaR (maximum)	VaR (average)	VaR (maximum)
Interest rate risk	1 392	5 679	1 275	4 310
Currency risk	48	247	225	2 507
Equity risk	790	2 871	1 812	4 774

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 31 December 2016 and 2015 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 offset in the financial statements		Net
		Financial instruments	Cash collateral received as guarantee	
		31 Dec. 16		
Financial institutions	40 431	(28 229)	(5 970)	6 232
Local and Administrative Public Sector	300			300
Other Financial Intermediaries	5 465	(1 331)		4 134
Companies	157 095	43		157 138
Individuals	159			159
	203 450	**(29 517)**	**(5 970)**	**167 963**
		31 Dec. 15		
Financial institutions	115 805	(89 046)	(19 846)	6 913
Local and Administrative Public Sector	336			336
Other Financial Intermediaries	5 229	(268)		4 961
Companies	192 629	(20 924)		171 705
Insurance / Pension Companies	211			211
Individuals	221			221
	314 431	**(110 238)**	**(19 846)**	**184 347**

1) Does not include embedded derivatives and listed derivatives in the amounts of 1 643 th. euro and 29 261 th. euro, at 31 December 2016 and 2015, respectively.

At 31 December 2016 and 2015 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 assets presented in the financial statements	Related amounts not offset in the financial statements		Net
		Financial instruments	Cash collateral received as guarantee	
		31 Dec. 16		
Financial institutions	296 269	(28 229)	(254 025)	14 015
Other financial intermediaries	12 852	(1 331)	(3 122)	8 399
Companies	642	43		685
Individuals	77			77
	309 840	**(29 517)**	**(257 147)**	**23 176**
		31 Dec. 15		
Financial institutions	406 085	(89 046)	(314 820)	2 219
Other financial intermediaries	21 267	(268)		20 999
Companies	27 018	(20 924)		6 094
Individuals	3			3
	454 373	**(110 238)**	**(314 820)**	**29 315**

At 31 December 2016 and 2015 the amount of securities purchased with resale agreements, by counterparty type, was as follows:

Counterparty	Financial assets presented in the financial statements	Securities received with resale agreements	Net
	31 Dec. 16		
Financial institutions	957	(957)	
	957	**(957)**	
	31 Dec. 15		
Financial institutions	5 161	(5 161)	
	5 161	**(5 161)**	

At 31 December 2016 and 2015 the amount of debt securities sold with repurchase agreements, by counterparty type, was as follows:

Counterparty	Financial assets presented in the financial statements	Securities received with resale agreements	Net
	31 Dec. 16		
Other financial intermediaries	61 545	(61 545)	
	61 545	**(61 545)**	
	31 Dec. 15		
Financial institutions	25 732	(25 732)	
Other financial intermediaries	26 207	(26 207)	
	51 939	**(51 939)**	

1) Does not include embedded derivatives and listed derivatives in the amounts of 1 643 th. euro and 29 261 th. euro, at 31 December 2016 and 2015, respectively.

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 held for trading portfolio of Banco de Fomento de Angola):

Time band	Financial margin					
	31 Dec. 16			31 Dec. 15		
	Position	Weighting factor	Weighted position	Position	Weighting factor	Weighted position
on demand	1 228 506	2.00%	24 570	565 060	2.00%	11 301
on demand-1 month	1 034 429	1.92%	19 861	2 761 758	1.92%	53 026
1-2 months	1 941 838	1.75%	33 982	1 965 113	1.75%	34 389
2-3 months	1 615 236	1.58%	25 521	2 017 142	1.58%	31 871
3-4 months	218 237	1.42%	3 099	(49 036)	1.42%	(696)
4-5 months	1 166 508	1.25%	14 581	810 803	1.25%	10 135
5-6 months	2 006 720	1.08%	21 673	1 128 207	1.08%	12 185
6-7 months	638 660	0.92%	5 876	121 713	0.92%	1 120
7-8 months	287 945	0.75%	2 160	(151 361)	0.75%	(1 135)
8-9 months	450 975	0.58%	2 616	219 508	0.58%	1 273
9-10 months	109 353	0.42%	459	53 131	0.42%	223
10 -11 months	393 489	0.25%	984	60 202	0.25%	151
11-12 months	269 419	0.08%	216	(54 328)	0.08%	(43)
Total			**155 596**			**153 799**

Note: The positions were distributed by the asset, liability and respective maturity class.

The weighted position indicates an estimate of the impact on the financial margin obtained at the end of 12 months starting on 1 January of each year resulting from a single and instantaneous change of 2% in the overall market interest rates affecting the respective positions. Thus, the impact on each date depends on the existence and time distribution of the repricing gaps.

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[1]. This stress test was based on the following exposures in shares and participating units:

	31 Dec. 16	31 Dec. 15
Financial assets at fair value through profit or loss	6 746	46 962
Financial assets available for sale – at fair value and without impairment	135 044	149 929
Financial assets available for sale – at fair value and with impairment	107 349	112 807
Financial assets available for sale at historical cost	5 783	6 168
Participating units in liquidity, bond and real estate funds	3 015	3 874
	257 937	**319 740**

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 31 December 2016 and 2015, would result in a decrease of 49 828 th. euro and 61 940 th. euro, respectively, in their fair value, implying the recognition of a loss of 22 819 th. euro and 31 954 th. euro, the remaining devaluation being reflected in the fair value reserve.

1) Excluding securities held by BPI Vida e Pensões.

Currency risk

Financial assets and liabilities at 31 December 2016, by currency, were as follows:

	EUR	USD	AKZ	Other currencies	Total
Assets					
Cash and deposits	1 117 797	20 249		38 765	1 176 811
Financial assets held for trading and at fair value through profit or loss	2 099 280	96 387		2 246	2 197 913
Financial assets available for sale	3 798 066	78 089		279	3 876 434
Loans and advances to credit institutions	452 060	153 927		31 620	637 607
Loans and advances to Customers	22 524 505	181 389		29 864	22 735 758
Held-to-maturity investments	16 317				16 317
Hedging derivatives	23 794	1 926		82	25 802
Non-current assets held for sale and discontinued operations	13 262	1 940 802	4 339 210	2 636	6 295 910
Tangible and intangible assets	75 936			648	76 584
Investments in associates and jointly controlled entities	130 833			44 845	175 678
Tax assets	471 114			734	471 848
Other assets[1]	559 910	12 910		10 823	583 643
Foreign exchange transactions pending settlement and position for term operations	(1 151 423)	1 089 022		76 748	14 347
	30 131 451	**3 574 701**	**4 339 210**	**239 290**	**38 284 652**
Liabilities					
Resources of central banks	2 000 011				2 000 011
Financial liabilities held for trading	209 057	3 574		82	212 713
Resources of other credit institutions	1 029 298	65 235		1 906	1 096 439
Resources of Customers and other debts	20 403 199	1 399 144		165 338	21 967 681
Debt securities	503 181	3 589			506 770
Financial liabilities relating to transferred assets	555 385				555 385
Hedging derivatives	97 047	705		4	97 756
Non-current liabilities held for sale and discontinued operations	256 504	1 932 594	3 753 819	8 481	5 951 398
Provisions	70 235				70 235
Technical provisions	2 048 829				2 048 829
Tax liabilities	22 006				22 006
Other subordinated debt and participating bonds	69 500				69 500
Other liabilities	766 197	8 882		2 325	777 404
	28 030 449	**3 413 723**	**3 753 819**	**178 136**	**35 376 127**
Shareholders' equity attributable to the shareholders of BPI	1 928 952	(8 449)	468 143	51 831	2 440 477
Non-controlling interests	1 775		466 274		468 048
Foreign exchange position	**170 275**	**169 427**	**(349 026)**	**9 323**	
Stress test		33 885	104 708	1 865	

1) Excludes the amount recorded in foreign exchange transactions pending settlement and positions for term operations.

Financial assets and liabilities at 31 December 2015, by currency, were as follows:

	EUR	USD	AKZ	Other currencies	Total
Assets					
Cash and deposits	1 346 048	510 001	1 440 063	44 128	3 340 240
Financial assets held for trading and at fair value through profit or loss	2 974 218	301 072	389 058	10 256	3 674 604
Financial assets available for sale	3 620 739	1 157 018	1 731 183	448	6 509 388
Loans and advances to credit institutions	578 287	511 401	139 349	1 006	1 230 043
Loans and advances to Customers	22 473 836	884 932	834 889	87 965	24 281 622
Held-to-maturity investments	22 417				22 417
Hedging derivatives	88 933	2 211		142	91 286
Tangible and intangible assets	90 774		132 509	950	224 233
Investment in associates and jointly controlled entities	146 127			64 320	210 447
Tax assets	411 019		8 308	887	420 214
Other assets	605 666	45 687	11 716	5 729	668 798
	32 358 064	**3 412 322**	**4 687 075**	**215 831**	**40 673 292**
Liabilities					
Resources of central banks	1 520 735				1 520 735
Financial liabilities held for trading	266 643	1 963	25 698	14	294 318
Resources of other credit institutions	1 214 258	96 845	58	630	1 311 791
Resources of Customers and other debts	19 758 370	3 912 278	4 310 327	196 839	28 177 814
Debt securities	1 073 287	4 094			1 077 381
Financial liabilities relating to transferred assets	689 522				689 522
Hedging derivatives	161 245	311			161 556
Provisions	74 576	21 365	3 363	560	99 864
Technical provisions	3 663 094				3 663 094
Tax liabilities	61 306	14	30 729	1	92 050
Other subordinated debt and participating bonds	69 512				69 512
Other liabilities[1]	604 638	31 322	37 167	3 467	676 594
Foreign exchange transactions to be settled and position for term operations	1 291 570	(884 216)	(343 522)	(60 270)	3 562
	30 448 756	**3 183 976**	**4 063 820**	**141 241**	**37 837 793**
Shareholders' equity attributable to the shareholders of BPI	1 917 937	(9 125)	428 555	69 485	2 406 852
Non-controlling interests	1 802		426 845		428 647
Foreign exchange position	**(10 431)**	**237 471**	**(232 145)**	**5 105**	
Stress test		47 494	69 644	1 021	

1) Excludes the amount recorded in Foreign exchange transactions pending settlement and position for term operations.

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 non-controlling interests.

The participations in Banco de Fomento Angola (BFA), Banco Comercial e de Investimentos (BCI) and BPI Mozambique expose the BPI Group to exchange risk which is reflected mainly in the translation to euro of the balance sheet and results of these companies in terms of their consolidation. Consequently the changes in exchange rates of the respective functional currencies against the euro: (i) local currencies – kwanza and metical, in Angola and Mozambique, respectively – in relation to the euro and (ii) dollars in relation to the euro, due to the significant use of the American dollar in these economies, influence the evolution of the balance sheet captions and results of the BPI Group. Exchange differences resulting from the translation to euro of shareholders' equity of BFA, BCI and BPI Mozambique are recognized directly in the equity caption REVALUATION RESERVES.

In Angola and Mozambique there are restrictions resulting from currency exchange control policies, both in currency exchange and in capital transferred to other countries. Currency transfer, including the repatriation of profits or dividends, is subject to official authorization of these countries.

BFA strictly manages its foreign exchange exposure resulting from structural positions held in the various currencies or transaction needs of its Customers, seeking to actively control its risk by maintaining its asset and liability positions in each currency balanced.

As a basic criterion, the currency exposure of BFA (to currencies other than the kwanza) should tend to be zero, there being the possibility of temporary fluctuations in short or long positions. In situations of expected currency devaluation of the kwanza, BFA established long positions in dollars, within the limits defined for this purpose.

As part of its activity, BFA operates mainly in kwanzas and dollars, holding positions in other currencies at residual levels, simplifying the process of managing the exchange position. In order to ensure the timely satisfaction of the needs for currencies of its Customers, BFA purchases currencies in the primary market through the mechanism of BNA's foreign exchange auctions and purchases from Customers. The financial management rules and foreign exchange risks are set out in the Limits and Procedures Manual of the Financial and International Department.

The consolidated balance sheet of the BPI Group includes a significant portion of assets and liabilities in kwanzas. At 31 December 2016, these assets and liabilities are included under the caption NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS, RESPECTIVELY (note 4.9). Financial information expressed in this currency, disclosed in the consolidated financial statements and accompanying notes, has been translated to euro for presentation purposes based on the criteria defined in IAS 21 (note 2.2.). These amounts should not be interpreted as a representation that the amounts in kwanzas could have been, or could be, converted to euros.

US dollar loans granted by BFA to Customers, are presented in the above tables in the "USD" column. However, in accordance with item 2, article 4 of *Notice 3 / 2012* of the *National Bank of Angola* financial institutions should, in the collection of installments of loans granted, accept available funds in the accounts of its Customers expressed in any currency, regardless of the contracted currency. This requirement applies only to loans contracted after the entry into force of that standard. BFA Customers have generally paid the installments of principal and interest of US dollar loans with the equivalent in kwanzas at the settlement date, under the option given in *BNA Notice 3 / 2012*.

In the above tables, the securities in kwanzas indexed to US Dollars, held by BFA, are presented in the "USD" column. The securities in kwanzas indexed to US Dollars at 31 December 2016 and 2015 amounted to 465 018 th. euro and 570 377 th. euro, respectively.

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 31 December 2016 is made up as follows:

Fair value types of hedge	Hedged items					Hedging instruments			
	Nominal amount	Interest, premiums and potential gain / loss	Impair-ment	Value corrections	Total	Notional amount	Interest and premiums	Revalua-tion	Fair value
Assets									
Loans to Customers	506 881	1 186	(2 346)	29 890	535 611	530 479	(6 102)	(33 286)	(39 388)
Fixed rate securities portfolio	475 000	14 642		43 073	532 715	474 800	(8 433)	(43 018)	(51 451)
	981 881	**15 828**	**(2 346)**	**72 963**	**1 068 326**	**1 005 279**	**(14 535)**	**(76 304)**	**(90 839)**
Liabilities									
Customer deposits	5 687 072	11 547		558	5 699 177	6 116 519	(16 737)	(2 120)	(18 857)
Debt issues	85 867	(142)		177	85 902	110 927	144	(172)	(28)
	5 772 939	**11 405**		**735**	**5 785 079**	**6 227 446**	**(16 593)**	**(2 292)**	**(18 885)**

Note: Embedded options were not included.

The book value of hedged instruments and fair value of hedging instruments at 31 December 2015 is made up as follows:

Fair value types of hedge	Hedged items					Hedging instruments			
	Nominal amount	Interest, premiums and potential gain / loss	Impair-ment	Value corrections	Total	Notional amount	Interest and premiums	Revalua-tion	Fair value
Assets									
Loans to Customers	319 084	3 440	(1 755)	35 215	355 984	354 268	(5 996)	(36 710)	(42 706)
Fixed rate securities portfolio	810 500	14 602		100 640	925 742	845 500	(13 504)	(100 529)	(114 033)
	1 129 584	**18 042**	**(1 755)**	**135 855**	**1 281 726**	**1 199 768**	**(19 500)**	**(137 239)**	**(156 739)**
Liabilities									
Resources of credit institutions	20 000	779		13 792	34 571	20 000	(776)	(13 785)	(14 561)
Customer deposits	6 484 542	71 064		29 204	6 584 810	6 138 884	(39 028)	(13 030)	(52 058)
Debt issues	327 687	367		2 060	330 114	1 190 236	657	(20 507)	(19 850)
	6 832 229	**72 210**		**45 056**	**6 949 495**	**7 349 120**	**(39 147)**	**(47 322)**	**(86 469)**

Note: 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 2016 and 2015 were as follows:

Fair value types of hedge	31 Dec. 16	31 Dec. 15
Hedging derivatives	(19 657)	23 523
Hedged items		
Loans to Customers	(5 281)	(9 441)
Fixed rate securities portfolio	(21 800)	(40 500)
Resources of credit institutions	13 792	1 471
Customer deposits	30 092	17 461
Debt issues	2 347	7 588
	19 150	**(23 421)**
	(507)	**102**

IFRS 9 – Impact on disclosures of expected loan losses

In July 2014 the IASB (International Accounting Standards Board) published IFRS 9 "Financial Instruments". This standard, which is of mandatory application for years beginning on or after 1 January 2018, after its adoption by the European Union, will replace IAS 39 "Financial instruments: recognition and measurement".

IFRS 9 introduces changes in the way in which financial institutions calculate impairment loss on their financial instruments, in particular as regards Loans to Customers. IFRS 9 uses an expected loss model (Expected Credit Loss – ECL) replacing the incurred loss model used by IAS 39. In accordance with this new model, entities must recognize expected losses prior to the occurrence of the loss events. There is also the need to include forward-looking information in the estimates of expected loss, with the inclusion of future trends and scenarios, namely macroeconomic scenarios. The ECL concept required by IFRS 9 also has differences in relation to the Expected Loss concept set out in CRD IV.

In the ECL model, assets subject to the impairment calculation should be classified in one of the following categories ("stages"), due to credit risk changes since the initial recognition of the asset and not based on the credit risk at the reporting date.

- Stage 1 – As from the initial recognition of the asset and whenever there is not a significant deterioration in credit risk since that date, the assets are classified in stage 1. An impairment loss corresponding to the ECL for the time horizon of 1 year as from the reporting date should be recognized for such assets.

- Stage 2 – If there is a significant deterioration in risk since initial recognition, the assets should be classified in stage 2. In this stage, the impairment corresponds to the ECL for the remaining life of the asset (ECL lifetime). The concept of significant deterioration of credit risk, established in IFRS 9, introduces a higher level of subjectivity in the impairment calculation, also requiring greater connection with the entity's credit risk management policies. The lifetime and forward-looking perspectives introduce challenges in modelling, by financial institutions, of the credit risk parameters.

- Stage 3 – Impaired assets should be classified in this stage, with impairment corresponding to lifetime ECL. As compared with stage 2, the distinction corresponds to the recognition of the effective interest, which should be based on net book value (gross book value in stage 2).

In order to adopt IFRS 9, Banco BPI set up in 2015 a multidisciplinary working team including members from multiple departments as well as management. The work of this team is regularly monitored by the CECA (Executive Commission of the Board of Directors). Following the conceptual design of the methodologies and processes, the Bank is in an implementation phase for the full and timely adoption of IFRS 9.

By the end of 2016, the Bank implemented a number of significant changes in the classification process for exposures in default, agreed with the ECB's Joint Supervisory Team. Due to this reason, among others, the Bank considers it advisable for the disclosure of quantitative impacts to be carried out only when the stage of development of the work allows for stable and reliable estimates.

4.48. Share-based variable remuneration programme

As described in note 2.10., the share-based variable remuneration programme (Remuneração Variável em Acções – RVA) is a remuneration plan under which, whenever it is decided to grant variable remuneration to Executive Directors and Employees of the BPI Group (in the latter case provided that it exceeds 2 500 euro) it is made up of BPI shares and BPI share options.

The 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.

As regards the RVA Remuneration to be attributed in 2016 to the Executive Directors for their performance in 2015, the Remuneration Committee on 22 July 2016 (in line with the same decision made on 26 March 2015 with respect to the RVA Remuneration relating to their performance in 2013) considering:

a) that on 18 April of the current year a preliminary announcement of a public tender offer over BPI shares at the price of 1.113 euro was published;

b) that such event may affect or disturb BPI share prices;

c) that it is intended that the establishment of the conditions of the RVA is based on share price, that is not affected by the aforementioned transaction and, therefore, it will be defined after its conclusion;

Approved, as regards the definition of the value of the shares and share options to be granted (2015 RVA Remuneration), as well as the strike price for each option, that those values will be defined as the result of the weighted average list price of the BPI shares between the 6th (inclusive) and 15th stock exchange sessions following the ending-date of the public purchase offer. For this purpose the ending-date of the public tender offer should be considered as the date of the special session of the stock exchange with the results of the public tender offer, meaning 8 February 2017.

The grant price of the shares and share options and the strike price of the share options, as well as the dates of availability of the shares and maturity and exercise of the share purchase options are summarized in the following table:

Directors

Shares				
Reference year	**Programme**	**Date of assignment**	**Assignment price**	**Date of availability**
2012	RVA 2014 CECA	2014-09-03	1.4010	2017-09-03
2013	RVA 2015 CECA	2015-07-10	1.0206	2018-07-10

Options							
Reference year	**Programme**	**Date of assignment**	**Assignment price**	**Strike price**		**Strike period**	
				Inicial	**Adjusted[1]**	**Start**	**End**
2010	RVA 2010 CECA	2011-04-29	0.2765	1.2450	1.1080	2014-04-29	2017-04-29
2012	RVA 2014 CECA	2014-09-03	0.3250	1.4010	1.4010	2017-09-03	2020-09-03
2013	RVA 2015 CECA	2015-07-10	0.2411	1.0206	1.0206	2018-07-10	2021-07-10

1) Strike price after the effect of the capital increases of Banco BPI made in May 2011, August 2012 and June 2014.

As regards the Employee Holders of Essential Functions and the other Employees of the Bank, taking into consideration that Banco BPI is under a public purchase offer announced by the shareholder CaixaBank in April 2016 and considering the disturbing effect of the event not only on the BPI stock exchange share price, but also on the future execution of the RVA programme, the Executive Committee of the Board of Directors decided that the variable remuneration relating to the performance in 2015 will be paid exclusively in cash, and therefore there will be no RVA remuneration relating to the performance in 2015, without prejudice to full application of the remaining rules established in the Remuneration Policy, which apply to the Employee Holders of Essential Functions, especially those relating to the deferral and application of the suspensive condition.

The grant price of the shares and share options attributed and the strike price of the share options as well as the availability periods of the shares and maturity and exercise of the share purchase options are summarized in the following table:

Employees holders of essential functions

Cash			
Reference year	**Programme**	**Date of assignment[1]**	**Date of availability**
2015	RVA 2015	2016-06-22	2019-06-22

1) Date of assignment corresponds to the date when letters were sent to the Employees.

Employees

Shares						
Reference year	**Programme**	**Date of assignment**	**Assignment price**	**Data of availability of tranches**		
				2nd	**3rd**	**4th**
2013	RVA 2013	2014-05-14	1.8060	2015-05-14	2016-05-14	2017-05-14

Options							
Reference year	**Programme**	**Date of assignment**	**Assignment price**	**Strike price**		**Strike period**	
				Inicial	**Adjusted[1]**	**Start**	**End**
2011	RVA 2011	2012-05-28	0.1240	0.3660	0.3580	2012-08-29	2017-05-28
2012	RVA 2012	2012-12-19	0.2770	0.8660	0.8660	2013-03-19	2017-12-19
2013	RVA 2013	2014-05-14	0.4430	1.8060	1.8060	2014-08-15	2019-05-14

1) Price adjusted for the capital increases.The technical adjustment to the strike price is made simultaneously with an adjustment of the same nature to the number of options granted.

MODEL FOR VALUING THE EQUITY INSTRUMENTS GRANTED TO THE EMPLOYEES OF THE BPI GROUP

Shares

The Bank, for purposes of the share-based payment programme, acquires a portfolio of BPI shares and transfers ownership of the shares on the date the RVA remuneration is granted.

The changes in the number of shares not yet made available to the Employees and directors of the BPI Group in 2016 and 2015, as well as the fair value of the respective instruments, are as follows:

	RVA 2011			RVA 2012			RVA 2013		
	Number of shares	Fair value		Number of shares	Fair value		Number of shares	Fair value	
		On the grant date	On the reference date		On the grant date	On the reference date		On the grant date	On the reference date
Shares granted in 2014	9 168	3	9	60 923	53	63	702 879	1 269	721
Shares made available in 2014	6 879	2	7	30 479	26	31	176 847	319	181
Shares made available early in 2014							7 533	14	8
Shares refused in 2014							615	1	1
Shares not made available at 31 December 2014	2 289	1	2	30 444	26	31	517 884	935	531
Shares granted in 2015									
Shares made available in 2015	2 289	1	2	30 444	26	33	172 175	311	188
Shares made available early in 2015							462	1	1
Shares refused in 2015							1 025	2	1
Shares not made available at 31 December 2015							344 222	622	376
Shares granted in 2016									
Shares made available in 2016							169 018	305	191
Shares made available early in 2016							4 604	8	5
Shares refused in 2016							1 683	3	2
Shares not made available at 31 December 2016							168 917	305	191

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 and directors of the BPI Group (options that can be exercised) in 2016 and 2015 Proforma, as well as their respective fair values are as follows:

	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	
		On the grant date	On the reference date		On the grant date	On the reference date		On the grant date	On the reference date		On the grant date	On the reference date		On the grant date	On the reference date
Options granted in 2014	2 337 808	763		2 895 965	711	456	1 194 011	145	708	2 616 653	725	751	3 005 860	1 332	327
Options made available in 2014	2 337 808	763		2 895 965	711	456	1 194 011	145	708	2 616 653	725	751	2 982 564	1 321	324
Options cancelled in 2014	27 758	9								412 628	114	118	2 246	1	
Options exercised in 2014	58 187	19		266 518	65	42	788 173	96	467	490 747	136	141			
Options in circulation and exercisable at 31 December 2014	2 251 863	735		2 629 447	646	414	405 838	49	241	1 713 278	475	492	3 003 614	1 331	326
Options in circulation at 31 December 2014	2 251 863	735		2 629 447	646	414	405 838	49	241	1 713 278	475	492	3 003 614	1 331	326
Options granted in 2015															
Options made available in 2015															
Options cancelled in 2015	2 251 863	735											1 173	1	
Options exercised in 2015				40 712	10	2	28 091	3	18	165 939	46	43			
Options in circulation and exercisable at 31 December 2015				2 588 735	636	150	377 747	46	237	1 547 339	429	399	3 002 441	1 330	228
Options in circulation at 31 December 2015				2 588 735	636	150	377 747	46	237	1 547 339	429	399	3 002 441	1 330	228
Options granted in 2016															
Options made available in 2016															
Options cancelled in 2016				748 107	184								14 012	6	1
Options exercised in 2016				338 218	83		77 075	9	60	306 748	85	98			
Options in circulation and exercisable at 31 December 2016				1 502 410	369		300 672	37	233	1 240 591	344	396	2 988 429	1 324	244

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 ends 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 2016 and 2015, the average price of the shares on the date in which the options were exercised was as follows:

Programme	Options exercised in 2016		Options exercised in 2015	
	Number of options	Average price of the shares	Number of options	Average price of the shares
RVA 2010	338 218	1.26	40 712	1.38
RVA 2011	77 075	1.10	28 091	1.25
RVA 2012	306 748	1.16	165 939	1.16

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 programmes.

The critical factors of the model used to manage the RVA programmes 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 programme to be determined.

The parameters used to determine the financial value of the options under each RVA programme, as of the date the options are granted, 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[1]	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

1) The strike price does not consider the effect of the adjustment relating to the capital increases in June 2008, May 2011, August 2012 and June 2014.

The number of outstanding options under each RVA Programme, as well as their respective fair values at 31 December 2016 were as follows:

	RVA 2010	RVA 2011	RVA 2012	RVA 2013
Number of outstanding options	1 502 410	300 672	1 240 591	2 988 429
Strike price	1.11	0.36	0.87	1.81
Value of option	0.00	0.78	0.32	0.08

The number of outstanding options under each RVA Programme, as well as their respective fair values at 31 December 2015 were as follows:

	RVA 2010	RVA 2011	RVA 2012	RVA 2013
Number of outstanding options	2 588 735	377 747	1 547 339	3 002 441
Strike price	1.11	0.36	0.87	1.81
Value of option	0.06	0.63	0.26	0.08

ACCOUNTING IMPACT OF THE RVA PROGRAMME

Shares

In order to cover the share-based payments, the Bank acquires a portfolio of treasury shares at the time the RVA remuneration is granted. 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 programme not yet made available to the Employees / Directors at 31 December 2016 and 2015 are as follows:

Shares	Programme	31 Dec. 16			31 Dec. 15		
		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, recognised in shareholders's equity	RVA 2013	578			574		
	RVA 2014	63			35		
	RVA 2015	545			915		
	RVA 2016	243					
		1 429			**1 524**		
Cost of the shares to be made available to the Group's Employees, not recognised in shareholders' equity	RVA 2013				48		
	RVA 2015				1 535		
	RVA 2016	811					
		811			**1 583**		
	Total	**2 240**	**168 917**	**191**	**3 107**	**344 222**	**376**
Treasury shares to be made available to the Group's Employees	RVA 2013	305	168 917	191	622	344 222	376
	Total	**305**	**168 917**	**191**	**622**	**344 222**	**376**

Options

The BPI Group has created a portfolio of BPI shares to cover its share-based payment programme responsibilities resulting from the issuance of options to purchase BPI shares in accordance with a delta strategy (determined in accordance with BPI's options evaluation model developed in-house based on the Black-Scholes model). The strategy corresponds to the creation of a portfolio with delta shares for each option issued, the delta number corresponding to the relationship between the variation in the price of an option and variation in the price of the underlying share. The treasury shares held to hedge the risk of variation in the amount of the options sold are recorded in the caption TREASURY SHARES HEDGING THE RVA, where they remain while they are held for that purpose.

When the options are exercised, the treasury shares are derecognised together with transfer of share ownership to the Employees. At that time a gain or loss is recognised, in the amount corresponding to the difference between the strike price and the average cost of acquiring the treasury share portfolio covering each of the programmes, 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 programme attributed to the Employees / Directors at 31 December 2016 and 2015 were as follows:

Options	Programme	31 Dec. 16			31 Dec. 15		
		Book value	Fair value	Unrealised gain / (loss)	Book value	Fair value	Unrealised gain / (loss)
Cost of outstanding options (premiums) recognised in shareholders' equity	RVA 2010	369			548		
	RVA 2011	37			46		
	RVA 2012	1 249			947		
	RVA 2013	1 225			1 330		
	RVA 2015				799		
		2880			**3 670**		
Cost of outstanding options (premium) not recognised in shareholders' equity	RVA 2015				530		
	Total	**2 880**	**855**	**2 025**	**4 200**	**595**	**3 605**
Treasury shares hedging the RVA options	RVA 2010	5 847	4 259	(1 588)	6 372	4 478	(1 894)
	RVA 2011	1 904	658	(1 246)	2 156	719	(1 437)
	RVA 2012	2 558	983	(1 575)	3 461	1 283	(2 178)
	RVA 2013	27	12	(15)	24	10	(14)
	Total	**10 336**	**5 912**	**(4 424)**	**12 013**	**6 490**	**(5 523)**
Unrealised gain / (loss)				**(2 399)**			**(1 918)**

The gain and loss realised on treasury shares hedging the exercise of RVA options, as well as the respective taxes, are recorded directly in shareholders' equity, not affecting net income.

The gain and (loss) recorded in making the shares available and in exercising the options, as well as in the corresponding hedge, recorded in shareholders' equity at 31 December 2016 and 2015 were as follows:

Gain / loss		Programme	31 Dec. 16	31 Dec. 15 Proforma
Shares	In making the shares available	RVA 2009		21
				21
Options	In the exercise of options	RVA 2009		59
		RVA 2010	29	(65)
		RVA 2011	(215)	(78)
		RVA 2012	(553)	(299)
			(739)	**(383)**
Transaction costs / Dividend devolution				**41**
Premiums of options not exercised at the end of the programme		RVA2009		**665**
			(739)	**344**

The cost of the share-based remuneration programme is accrued in personnel costs, by corresponding entry to the OTHER EQUITY INSTRUMENTS caption, as required by IFRS 2 for share-based payment programmes. The cost of the shares and option premiums, when they are granted, is accrued on a straight-line basis from the beginning of the programme (1 January) to the date they are made available to the Employees.

The total cost of the share-based payment programme recognized in 2016 and 2015 may be presented as follows:

Programme	31 Dec. 16			31 Dec. 15		
	Shares	Options	Total	Shares	Options	Total
RVA 2012				3	75	78
RVA 2013	99	102	201	222	(1)	221
RVA 2014	27	388	415	(493)	(409)	(902)
RVA 2015	(369)	(798)	(1 167)	915	799	1 713
RVA 2016	243		243			
Total	**0**	**(308)**	**(308)**	**647**	**464**	**1 110**

4.49. Capital Management

At 31 December 2016 and 2015 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 26 June 2013 by the European Parliament and the Council of the European Union in force as of 1 January 2014.

	31 Dec. 16	31 Dec. 15
Accounting Shareholders' Equity[1]	2 621 371	2 424 999
Potential gains on fair value reserve	9 900	10 535
Eligible minority interests	382 557	366 836
Actuarial deviations	(145 235)	(63 811)
Deferred tax assets arising from tax losses	(18 349)	(32 912)
Loans granted for the acquisition of shares, intangible assets and AVA[2]	(30 740)	(15 263)
Investment in banking and insurance institutions	(30 175)	(36 829)
Negative additional Tier 1	(34 664)	(79 240)
Common Equity Tier 1	**2 754 665**	**2 574 315**
Additional Tier 1		
Total Equity	2 754 665	2 574 315
Risk-weighted assets	**24 122 127**	**23 702 317**
Common Equity Tier 1	11.4%	10.9%
Tier 1	11.4%	10.9%
Total Ratio	11.4%	10.9%

1) Excluding fair value reserve and actuarial deviations.
2) Additional Valuation Adjustment, adjustment of additional valuation according to the *delegated regulation (UE) 2016 / 101*.

Considering full implementation of the CRV IV / CRR rules, Banco BPI's "fully implemented" Common Equity Tier 1 at 31 December 2016 was 11.1%. At 31 December 2015 the "fully implemented" Common Equity Tier 1 was 9.8%.

Thus, on 31 December 2016, Banco BPI complied with the minimum capital requirements established by the ECB for the financial year 2016:

Phasing-In	Minimum requirements for 2016	
	Consolidated[1]	Non-consolidated
CET1	9.75%	5.125%
T1	9.75%	6.625%
Total Ratio	9.75%	8.625%

1) In addition, for 2016 an early warning buffer of 0.25% was established on CET1 on a consolidated basis.

Also in December 2016, Banco BPI received the ECB's decision on the minimum prudential requirements to be in force as of 1 January 2017, which was based on the results of the Supervisory Review and Evaluation Process (SREP).

Minimum requirements for 2017						
Phasing-In	Consolidated					Non-consolidated
	Total	From which:				Total
		Pilar 1	Pilar 2	Buffers[1]	Guidance Pilar 2	
CET1	**9.25%**	4.50%	2.50%	1.25%	1.0%	**8.25%**[2]
T1	**9.75%**	6.00%	2.50%	1.25%	-	**9.75%**
Total Ratio	**11.75%**	8.00%	2.50%	1.25%	-	**11.75%**

1) As determined by Banco de Portugal, the capital preservation buffer for 2017 is 1.25%, the counter-cyclical buffer is currently set at 0% and the O-SII buffer is null in 2017.
2) The difference between the requirement for individual CET1 and consolidated CET1 arises from the guidance in Pillar 2 only applicable to consolidated CET1. Pillar 2 guidance is not relevant to determine the maximum distributable amount (MDA).

In accordance with these requirements to be complied with as from 1 January 2017, and based on the figures as of 31 December 2016 adjusted by the sale of 2% of BFA, Banco BPI complies with the new minimum ratios required for CET1 (Common Equity Tier 1) and Tier 1.

Regarding the total ratio, a difference was identified against the minimum requirement of 11.75%, which is the reason for Banco BPI to issue 300 million euros of subordinated debt eligible as Tier 2 during the first quarter of 2017.

Dividend policy

As from the amendment to the articles of association of Banco BPI approved in the Shareholders' General Meeting held on 20 April, 2006, the following rule was included (Article 26 item 3): "The Shareholders' General Meeting should decide on the long term dividend policy by proposal of the Board of Directors which should justify possible deviations from that policy."

In complying with this statutory rule, the Shareholders' General Meeting held on 19 April 2007 approved the Long Term Dividend Policy of Banco BPI, the main guideline being to distribute an annual dividend of not less than 40% of consolidated net income for the year, except in special circumstances.

4.50. Related parties

In accordance with IAS 24, the entities considered to be related to Banco BPI are:

- those in which the Bank has direct or indirect significant influence in decisions relating to their financial and operating policies – Associated and jointly controlled entities and pension funds;
- entities that have direct or indirect significant influence on the management and financial policies of the Bank – Shareholders, presuming that this happens when the equity interest exceeds 20%.
- key management personnel of Banco BPI, considering for this purpose executive and non-executive members of the Board of Directors and individual persons and companies associated with them.

The BPI Group's related parties at 31 December 2016 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%	30.0%
Companhia de Seguros Allianz Portugal, S.A.	Portugal	35.0%	35.0%
Cosec – Companhia de Seguros de Crédito, S.A.	Portugal	50.0%	50.0%
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	49.0%	
Unicre – Instituição Financeira de Crédito, S.A.	Portugal	21.0%	21.0%
Pension funds of Employees of the BPI Group			
Fundo de Pensões Banco BPI	Portugal	100.0%	
Fundo de Pensões Aberto BPI Acções	Portugal	9.2%	
Fundo de Pensões Aberto BPI Valorização	Portugal	39.6%	
Fundo de Pensões Aberto BPI Segurança	Portugal	22.4%	
Fundo de Pensões Aberto BPI Garantia	Portugal	9.7%	
Shareholders of Banco BPI			
Grupo La Caixa	Spain	45.50%	
Members of the Board of Directors of Banco BPI			
Artur Santos Silva			
Fernando Ulrich			
Alfredo Rezende de Almeida			
Allianz Europe Ltd. – that appointed Carla Bambulo as representative to act in her own name			
António Lobo Xavier			
Armando Leite de Pinho			
Carlos Moreira da Silva			
Gonzalo Gortázar Rotaeche[1]			
Ignacio Alvarez-Rendueles			
João Pedro Oliveira e Costa			
José Pena do Amaral			
Lluís Vendrell			
Manuel Ferreira da Silva			
Maria Celeste Hagatong			
Mário Leite da Silva			
Pablo Forero Calderon[1]			
Pedro Barreto			
Santoro Finance – Prestação de Serviços, S.A.			
Tomás Jervell			
Vicente Tardio Barutel			

1) Waiting for registration at the Bank of Portugal.

The total assets, liabilities, profit or loss and off-balance sheet responsibilities relating to operations with associated and jointly controlled companies and pension funds of Employees of the BPI Group at 31 December 2016 were as follows:

	Associated and jointly controlled entities	Pension funds of Employees of the BPI Group	Total
Assets			
Financial applications and deposits	9 065		9 065
Financial assets held for trading and at fair value through profit or loss		142	142
Loans net of impairment	10		10
Other assets	22 856	303	23 159
	31 931	**445**	**32 376**
Liabilities			
Deposits and technical provisions	27 582	139 135	166 717
Resources of other credit institutions	2 534		2 534
Provisions	24		24
Other financial resources		60 056	60 056
Other liabilities	8	84 355	84 363
	30 148	**283 546**	**313 694**
Profit or loss			
Financial margin (narrow sense)	157	(1 436)	(1 279)
Net commission income	45 307	2 633	47 940
General administrative costs	(911)	(15 052)	(15 963)
Impairment losses and provisions for loans and guarantees	13		13
	44 566	**(13 855)**	**30 711**
Off balance sheet items			
Guarantees provided and other contingent liabilities			
Guarantees and sureties	12 613	60	12 673
Commitments to third parties			
Revocable commitments	5 134		5 134
Responsabilities for services rendered			
Deposit and safeguard of assets	1 093 720	1 155 890	2 249 610
	1 111 467	**1 155 950**	**2 267 417**

The total assets, liabilities, profit or loss and off balance sheet responsibilities relating to operations with shareholders, members of the Board of Directors and companies in which members of the Board of Directors have significant influence at 31 December 2016 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[3]	Total
Assets				
Financial applications and deposits	12 531			12 531
Financial assets held for trading and at fair value through profit or loss	12 037	7 082	8 432	27 551
Financial assets available for sale	88	74 393	58 941	133 422
Loans net of impairment	10	76 351	287 113	363 474
Derivatives	930			930
Non-current assets held for sale and discontinued operations	44 821	22 820		67 641
Other assets		1	203	204
	70 417	**180 647**	**354 689**	**605 753**
Liabilities				
Deposits and technical provisions	596	187 535	14 791	202 922
Resources of other credit institutions	2 318			2 318
Hedging derivatives	73			73
Non-current liabilities held for sale and discontinued operations	1	17 532	467 269	484 802
Provisions	2	107	659	768
Other liabilities	3 231	2 901	6 910	13 042
	6 221	**208 075**	**489 629**	**703 925**
Profit or loss				
Financial margin (narrow sense)	1 576	5 687	3 169	10 432
Income from equity instruments			1 961	1 961
Net commission income		66	276	342
Net income on financial operations	(5)	(2 632)	4	(2 633)
Impairment losses and provisions for loans and guarantees	1	146	273	420
Net income from discontinued operations	382			382
	1 954	**3 267**	**5 683**	**10 904**
Off balance sheet items				
Guarantees provided and other contingent liabilities				
Guarantees and sureties	1 101	31 627	65 327	98 055
Stand-by Letters of credit			47 973	47 973
Guarantees received		51 857	47 878	99 735
Commitments to third parties				
Irrevocable commitments			72 159	72 159
Revocable commitments	210	13 487	47 979	61 676
Responsabilities for services rendered				
Deposit and safeguard of assets	749 727	276 576	185 884	1 212 187
Other			68 458	68 458
Foreign exchange operations and derivative instruments				
Purchases	280 190			280 190
Sales	(283 084)			(283 084)
	748 144	**373 547**	**535 658**	**1 657 349**

1) Includes the La Caixa Group led by the "Fundação Bancária La Caixa" and the companies controlled by it.
2) Includes the Members of the Board of Directors, also including: (i) Allianz Europe Ltd., the companies that control it, including Allianz SE, and the companies controlled by it, except Allianz Portugal, which was considered in associated companies; and (ii) Santoro Financial Holdings, SGPS, as it is the sole shareholder of Santoro Finance, Mrs. Isabel José dos Santos, as shareholder of Santoro Financial Holdings, SGPS to whom, under the terms of paragraph b) item 1 of article 20 and article 21 of the Portuguese Securities Code, the investment of Santoro Finance in Banco BPI is attributed, and the companies controlled by Mrs. Isabel José dos Santos.
3) Includes the companies in which the Members of the Board of Directors have significant influence not included in other categories.

The total assets, liabilities, profit or loss and off balance sheet responsibilities relating to operations with associated and jointly controlled companies and pension funds of Employees of the BPI Group at 31 December 2015 are as follows:

	Associated and jointly controlled entities	Pension funds of Employees of the BPI Group	Total
Assets			
Financial applications and deposits	16 111		16 111
Financial assets held for trading and at fair value through profit or loss		140	140
Loans net of impairment	10 037		10 037
Other assets	20 142	720	20 862
	46 290	**860**	**47 150**
Liabilities			
Deposits and technical provisions	38 182	192 015	230 197
Resources of other credit institutions	5 114		5 114
Provisions	7		7
Other financial resources		60 067	60 067
Other liabilities	26		26
	43 329	**252 082**	**295 411**
Profit or loss			
Financial margin (narrow sense)	171	(1 615)	(1 444)
Net commission income	41 799	102	41 901
Operating income and expenses		2 668	2 668
General administrative costs	(742)	(15 984)	(16 726)
	41 228	**(14 829)**	**26 399**
Off balance sheet items			
Guarantees provided and other contingent liabilities			
Guarantees and sureties	12 232		12 232
Commitments to third parties			
Revocable commitments	5 128		5 128
Responsabilities for services rendered			
Deposit and safeguard of assets	1 060 312	1 119 004	2 179 316
Other	10 000		10 000
	1 087 672	**1 119 004**	**2 206 676**

The total assets, liabilities, profit or loss and off balance sheet responsibilities relating to operations with shareholders, members of the Board of Directors and companies in which members of the Board of Directors have significant influence at 31 December 2015 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[3]	Total
Assets				
Financial applications and deposits	337 270			337 270
Financial assets held for trading and at fair value through profit or loss	9 961	45 079	1 932	56 972
Financial assets available for sale	88	48 909	60 792	109 789
Loans net of impairment	15 682	199 211	203 236	418 129
Derivatives	348			348
Other assets	786	1	27 556	28 343
	364 135	**293 200**	**293 516**	**950 851**
Liabilities				
Deposits and technical provisions	410	240 761	381 593	622 764
Resources of other credit institutions	2 448			2 448
Provisions	33	107	343	483
Other liabilities	2	107		109
	2 893	**240 975**	**381 936**	**625 804**
Profit or loss				
Financial margin (narrow sense)	1 845	4 067	3 952	9 864
Net commission income		897	46	943
Net income on financial operations	(4)	980	(6)	970
Impairment losses and provisions for loans and guarantees	7	(294)	(2 598)	(2 885)
	1 848	**5 650**	**1 394**	**8 892**
Off balance sheet items				
Guarantees provided and other contingent liabilities				
Guarantees and sureties	27 114	36 501	71 092	134 707
Open documentary credits			57 875	57 875
Guarantees received		52 393	10 479	62 872
Commitments to third parties				
Revocable commitments			51 500	51 500
Irrevocable commitments	11	18 400	46 233	64 644
Responsabilities for services rendered				
Deposit and safeguard of assets	700 927	264 159	329 949	1 295 035
Other			65 500	65 500
Foreign exchange operations and derivatives instruments				
Purchases	344 866			344 866
Sales	(343 942)			(343 942)
	728 976	**371 453**	**632 628**	**1 733 057**

1) Includes the La Caixa Group led by "Fundação Bancária La Caixa" and the companies controlled by it.
2) Includes the Members of the Board of Directors, also including: (i) Allianz Europe Ltd., the companies that control it, including Allianz SE, and the companies controlled by it, except Allianz Portugal, which was considered in associated companies; and (ii) Santoro Financial Holdings, SGPS, as it is the sole shareholder of Santoro Finance, Mrs. Isabel José dos Santos, as shareholder of Santoro Financial Holdings, SGPS to whom, under the terms of paragraph b) item 1 of article 20 and article 21 of the Portuguese Securities Code, the investment of Santoro Finance in Banco BPI is attributed, and the companies controlled by Mrs. Isabel José dos Santos.
3) Includes the companies in which the Members of the Board of Directors have significant influence not included in other categories.

EMPLOYEE REMUNERATION AND OTHER BENEFITS

Indication of the annual amount of remuneration received, in aggregate and individually, by the members of the Company's management body, by the Company, including fixed and variable remuneration and, in relation to this, mention of the different components that gave rise to it.

In 2016 the fixed remuneration of the members of the Board of Directors amounted to 3 068 907 euro.

To this amount it must be added, specifically as regards fixed remuneration of the members of the Executive Commission, 42 111 euro relating to seniority and 39 570 euro relating to long service premiums (in accordance with the Collective Labour Agreement for the Portuguese Banking Sector) and in the case of non-executive members, 240 500 euro relating to attendance allowance for their participation in meetings of the advisory and support committees of the Board of Directors as established in the statutes.

The individual amounts were as follows:

Amounts in euro

Board of Directors	Fixed Remuneration	Attendance allowance	Seniority payments	Long service premiums
Artur Santos Silva	126 000	37 000	n/a	n/a
Fernando Ulrich	465 465	n/a	8 930	
António Domingues[1]	232 948	n/a	3 601	
Alfredo Rezende	49 000	37 000	n/a	n/a
António Lobo Xavier	49 000	11 100	n/a	n/a
Armando Leite de Pinho	49 000	7 400	n/a	n/a
Carla Sofia Bambulo	49 000	7 400	n/a	n/a
Carlos Moreira da Silva	49 000	11 100	n/a	n/a
Edgar Alves Ferreira[2]	43 651	22 200	n/a	n/a
Ignacio Alvarez Rendueles	49 000	37 000	n/a	n/a
Isidro Fainé Casa[s3]	48 300	n/a	n/a	n/a
João Pedro Oliveira Costa	328 647	n/a	3 907	4 722
José Pena do Amaral	328 647	n/a	7 256	23 484
Lluís Vendrell	49 000	n/a	n/a	n/a
Manuel Ferreira da Silva	328 647	n/a	7 256	
Maria Celeste Hagatong	328 647	n/a	7 256	
Marcelino Armenter[3]	48 300	33 300	n/a	n/a
Mário Leite da Silva	49 000	14 800	n/a	n/a
Pedro Barreto	328 647	n/a	3 907	11 364
Tomás Jervell[4]	20 008		n/a	n/a
Vicente Tardio Barutel	49 000	22 200	n/a	n/a

1) Ceased functions by resigning on 30 June 2016.
2) Ceased functions by resigning on 26 October 2016.
3) Ceased functions by resigning on 30 November 2016.
4) Appointed on 27 January 2016. Started in office on 4 August 2016.

Considering the content of the CNAR's positive opinion, the Remuneration Committee decided on 22 July 2016 to grant the members of the Executive Committee who were in office in 2015, variable remuneration for their performance in that year, corresponding to 1% of consolidated net income for 2015.

As a result of that decision, in addition to the regular amounts of fixed income and attendance allowance (referred to in the above table) the members of the Executive Committee of the Board of Directors who were in office in 2016 were also remunerated the amounts detailed in the following table:

Variable remuneration (year 2015)

Amounts in euro

Executive Committee of the Board of Directors	Total	In cash	Variable remuneration stocks (deferred)
Fernando Ulrich	433 945	216 972	216 973
António Domingues[1,2]	397 783	198 892	198 892
João Oliveira Costa[3]	306 392	153 196	153 196
José Pena do Amaral	306 392	153 196	153 196
Manuel Ferreira da Silva[4]	306 392	153 196	153 196
Maria Celeste Hagatong	306 392	153 196	153 196
Pedro Barreto[5]	306 392	153 196	153 196

1) Ceased functions by resigning on 30 June 2016.
2) To the stated amount, 56 420 euros were deducted for the performance of functions in other companies representing the Bank.
3) Started his duties as a member of the Board of Directors and member of its Executive Committee on 23 April 2014.
4) To the stated amount, 86 012 euros were deducted for the performance of functions in other companies representing the Bank.
5) To the stated amount, 27 625 euros were deducted for the performance of functions in other companies representing the Bank.

Any amounts paid by other companies in a control or group relationship or who are subject to common domain

With the exception of the Director Manuel Ferreira da Silva, for which part – in the amount of 246 485 euro – of the fixed remuneration referred to in the preceding paragraph was paid by Banco Português de Investimento, S.A., no other member of the Executive Committee received any remuneration from a Group company other than Banco BPI.

Remuneration paid in the form of participation in profits and/or payments of bonuses and the reasons why such bonus payments and/or participation in profits were granted

As a result of the approval by the Remuneration Committee of the payment to the members of the Executive Committee that were in office in 2015, of the variable remuneration mentioned in the above table, 50% of that amount was, under the terms of the Remuneration Policy in force and in accordance with the RVA Regulation, attributed in shares and/or share options of Banco BPI (RVA 2015 CECA), the allocation of which is subject to the deferral period and to the existence of the access condition to that deferred remuneration. However, taking into account the preliminary announcement of CaixaBank takeover bid on 18 April the Commitee decided on the definition of the value of the shares and options to be allocated (RVA remuneration) as well as the option price. According to which the values were defined by the weighted average of BPI's share prices recorded between the 6th (inclusive) and the 15th market session after the closing date of the take over bid, which occurred on 8 February 2017. The deferred values were as follows:

Structure of Deferred RVA Remuneration – RVA 2015 CECA

Executive Committee of the Board of Directors	Deferred value[1]
Fernando Ulrich	216 973
António Domingues	198 892
João Oliveira Costa	153 196
José Pena do Amaral	153 196
Manuel Ferreira da Silva	153 196
Maria Celeste Hagatong	153 196
Pedro Barreto	153 196

1) Attributed value of 1.0206 euro.

Compensation paid or owed to former executive directors in respect of early termination of service during the year

In 2016 no payments were made for early termination.

Indication of the annual amount of remuneration received, in total and individually, by the members of the supervisory board of the Company for purposes of Law 28 / 2009 of 19 June

In 2016, the total remuneration of the members of the Supervisory Board was 198 800 euro. The amounts earned individually were as follows:

Amounts in euro

Supervisory Board	Fixed remuneration
Abel Reis	72 800
Jorge Figueiredo Dias	63 000
Rui Guimarães	63 000

Remuneration of the Chairman of the Shareholders' General Meeting Board

In 2016 the overall remuneration for exercising the function of **Chairman of the Shareholders' General Meeting Board** was 14 000 euro, paid in 14 instalments.

The members of the Shareholders' General Meeting Board do not benefit, as a result of this circumstance, from any retirement entitlement.

Complementary Pension or early retirements plans for Board of Directors' members

The members of the Board of Directors who are or have been Executive Directors (or, in the case of the previous type of Governace, members of the Board) benefit from the pension plan valid for the majority of Banco BPI's Employees in equal circumstances, to the extent that they were part of Banco BPI Staff before occupying these positions and when, under the terms of the law, their employment contract was suspended.

Members of the Board of Directors who are or have been Executive Directors (or, in the case of the previous governance model, members of the Board) shall also benefit from a supplementary pension approved by the Bank's General Council on 25 July 1995 that provides them with a retirement supplement whose monthly amount is a function of the monthly wage earned as Executive Directors and the number of years exercising these functions.

The guidelines on this benefit are set out in the Regulation on the Right of Reform of Members of the Board, approved by the meeting of the General Council identified above.

The Executive Directors are entitled to a supplementary pension benefit according to a defined contribution scheme for which the Bank contributes with a monthly amount equal to 12.5% of the amount of its fixed monthly wage that exceeds, at any moment, the value of its fixed monthly wage at 31 December 2009, updated at the rate of increase identical to that applied by the ACT to the level 18 remuneration.

Members of the administrative and supervisory body who currently are not, nor have been at any time, Executive Directors (or, in the case of the previous governance model, members of the Board) do not benefit from any retirement scheme attributed by the Bank.

It is expected that pensions provided by the Executive Directors' plan should be deducted from Social Security pensions in any of the following three categories:

- those related to functions performed in BPI Group;
- those related to functions provided to third parties by suggestion of BPI Group and which BPI Group has recognized for this purpose;
- pensions attributed by other pension plans of BPI Group.

The main features of the retirement benefits system of executive directors are the result of the Regulation, approved at the Shareholder's General Meeting of 31 May 2012.

The executive members of the Board of Directors as of 31 December 2016 had an amount of 15 580 thousand euros, corresponding to the present value of the past service liabilities of the defined benefit pension plan of which they are beneficiaries:

Amounts in thousands of euros

Executive directors	Amount
Fernando Ulrich	5 057
José Pena do Amaral	2 834
Manuel Ferreira da Silva	2 655
Maria Celeste Hagatong	3 592
Pedro Barreto	1 312
João Oliveira Costa	130

In 2016, the cost with retirement and survivors' pensions, based on the actuarial valuation as of 31 December 2015, amounted to 1 087 thousand euros and is presented as follows:

Amounts in thousands of euros

Executive directors	Current service cost	Interest cost	Cost of the year
Fernando Ulrich	228	4	232
José Pena do Amaral	175	2	177
Manuel Ferreira da Silva	225	2	227
Maria Celeste Hagatong	311	3	314
Pedro Barreto	93	1	94
João Oliveira Costa	43		43

Loans to members of the Board of Directors

Mortgage loans

At 31 December 2016 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 1 601 th. 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. At 31 December 2016, the balance of credit given to the members of Banco BPI's Executive Committee was 5 331 th. euro.

In 2008 a credit line was made available to the Directors of the Group companies (as well as to Employees and Retirees) who wished to subscribe for BPI shares in the capital increase to keep in the portfolio of shares thus acquired. At 31 December 2016 the credit line balance relating to the members of Banco BPI's Executive Committee was 971 th. euro.

Credit lines for the exercise of RVA options and subscription for BPI shares in the 2008 capital increase

Balance at 31 December 2016

	Credit line for the exercise of options[1]	Credit line for subscription for BPI shares
Banco BPI Executive Committee	5 331	971
Directors of Banco Português de Investimento[2]	89	39
Managers and other Employees	2 293	270
Total	**7 713**	**1 280**

1) Financing obtained for maintenance of the BPI shares which resulted in the exercise of the RVA options.
2) The members of the Executive Committee of the Board of Directors of Banco BPI are not included.

Employee remuneration and other benefits

The information provided in this section has the purpose of complying with the requirements of Bank of Portugal *Notice 10 / 2011* and includes the universe of Employees covered in 2016 by the "Remuneration Policy of Holders of Essential Functions" in force.

In 2016, the universe defined above encompassed 50 Employees.

In 2016 the aggregate remuneration paid to the universe referred to above amounted to 9 753 th. euro, split between a fixed remuneration of 6 997 th. euro, a variable remuneration of 1 840 th. euro paid in 2016 relating to 2015 and 916 th. euro of variable remuneration relating to 2015 with deferred payment for a period of 3 years and subject to verification of the access condition to the deferred remuneration.

At 31 December 2016 the aggregate amount of annual pension rights acquired by the Employees under review was 26 294 th. euro.

The breakdown of the remuneration and pension rights indicated above between the above-mentioned groups was the following:

Value in th. euro

Board of Directors	1-Responsible for risk taking	2-Responsible for control functions	3-Operational functions	4-Trading / Sales	TOTAL
No. Employees	15	3	28	4	50
Fixed remuneration	2 554	332	3 709	402	6 997
Variable remuneration paid	664	105	944	127	1 840
Deferred variable remuneration	395		418	103	916
Past service liability	10 561	910	14 437	386	26 294

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 2016 who fall within this universe.

No payments were made in 2016 for early termination of employment contracts.

In accordance with the terms of article 477 of the Commercial Company Code (Código das Sociedades Comerciais), the shareholdings of the members of the Board of Directors at 31 December 2016 were as follows:

	Shares										
	Held at 31 Dec. 15	Purcha-ses	Sales	Held at 31 Dec. 16	Value at 31 Dec. 16[1]	Shares unavai lable 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	566						
Fernando Ulrich[2 3]	2 092 180			2 092 180	2 366		1 585 040	348 510		4 173	719
Alfredo Rezende de Almeida	2 250 000			2 250 000	2 545						
António Domingues[4]	56 042			56 042	63						
António Lobo Xavier											
Armando Costa Leite de Pinho[5]											
Carla Bambulo											
Carlos Moreira da Silva[5]	66 333			66 333	75						
Edgar Alves Ferreira[6]	227 273			227 273	257						
Gonzalo Gortázar[7]											
Ignacio Alvarez-Rendueles											
Isidro Fainé Casas[8]											
João Pedro Oliveira e Costa[2]	10 708			10 708	12						
José Pena do Amaral[2]	184 913			184 913	209		132 231			169	
Lluís Vendrell											
Manuel Ferreira da Silva[2 9]	930 884			930 884	1 053	2 721			300 000		
Marcelino Armenter Vidal[8]											
Maria Celeste Hagatong[2 10]	885 151			885 151	1 001		171 110	48 815		375	99
Mário Leite da Silva[13]											
Pablo Forero[7]											
Pedro Barreto[2]	500 000			500 000	566		378 399	94 600		615	154
Tomaz Jervell[11]	15 680			15 680	18						
Tomás Jervell[12]											
Vicente Tardio Barutel											
Santoro Finance – Prestação de Serviços, S.A.	270 643 372			270 643 372	306 098						

A – Shares attributed under the RVA programme, the availability of which at 31 December 2016 is subject to a resolution condition.
B – Shares which at 31 December 2016 were pledged in guarantee of loans to finance their acquisition resulting from the exercise of options granted under the RVA programme
C – Shares which at 31 December 2016 were pledged in guarantee of loans to finance their acquisition resulting from exercise of BPI share subscription rights under the capital increase.
D – Shares which at 31 December 2016 were pledged in guarantee for purposes of article 396 of the Commercial Company Code.
E – Amount owed at 31 December 2016 on the loan referred to in B.
F – Amount owed at 31 December 2016 on the loan referred to in C.

1) Fair value of the shares.
2) Member of the Executive Committee.
3) Includes 58 724 shares held by the spouse.
4) Ceased functions by resigning on 30 June 2016, so the final position reports to that date.
5) Ceased functions by resigning on 28 February 2017.
6) Ceased functions by resigning on 26 October 2016, so the final position reports to that date.
7) Elected on 23 November 2016. Waiting for registration with the Bank of Portugal.
8) Ceased functions by resigning on 30 November 2016, so the final position reports to that date.
9) Includes 260 884 shares held by the spouse (of which 2 721 are in the situation referred to in the paragraph A above).
10) Includes 407 316 shares held by the spouse.
11) Submitted his resignation on 25 January 2016, so the final position reports to that date.
12) Started functions on 4 August 2016.
13) Submitted his resignation on 7 February 2017, that is effective as from 31 March 2017.

In accordance with the terms of article 477 of the Commercial Company Code, the shareholder position of the members of the Board of Directors in terms of options held at 31 December 2016 were as follows:

	Options			
	Held at 31 Dec. 15	Purchases	Exercise[1]	Held at 31 Dec. 16
Artur Santos Silva				
Fernando Ulrich[2]				
Alfredo Rezende de Almeida				
António Domingues[3]	426 820			426 820
António Lobo Xavier				
Armando Costa Leite de Pinho[4]				
Carla Bambulo				
Carlos Moreira da Silva[4]				
Edgar Alves Ferreira[5]				
Gonzalo Gortázar[6]				
Ignacio Alvarez-Rendueles				
Isidro Fainé Casas[7]				
João Pedro Oliveira e Costa[2]	127 249			127 249
José Pena do Amaral[2]	358 530			358 530
Lluís Vendrell				
Manuel Ferreira da Silva[2,8]	402 901			402 901
Marcelino Armenter Vidal[7]				
Maria Celeste Hagatong[2]				
Mário Leite da Silva[11]				
Pablo Forero[6]				
Pedro Barreto[2]	358 530			358 530
Tomaz Jervell[9]				
Tomás Jervell[10]				
Vicente Tardio Barutel				
Santoro Finance – Prestação de Serviços, S.A.				

1) Includes extinction by lapsing.
2) Member of the Executive Committee.
3) Ceased functions by resigning on 30 June 2016. so the final position reports to that date.
4) Ceased functions by resigning on 28 February 2017.
5) Ceased functions by resigning on 26 October 2016, so the final position reports to that date.
6) Elected on 23 November 2016. Waiting for registration with the Bank of Portugal.
7) Ceased functions by resigning on 30 November 2016, so the final position reports to that date.
8) Includes 44 371 options held by the spouse.
9) Submitted his resignation on 25 January 2016, so the find position reports to that date.
10) Started functions on 4 August 2016.
11) Submitted his resignation on 7 February 2017, that is effective as from 31 March 2017.

In accordance with the terms of article 477 of the Commercial Company Code, the shareholding position of the other directors of Banco BPI, members of the Board of Directors of Banco Português de Investimento, in terms of the shares held at 31 December 2016 were as follows:

	Shares								
	Held at 31 Dec. 15	Purchases	Sales	Held at 31 Dec. 16	Value at 31 Dec. 16[1]	Shares pledged in guarantee A	Shares pledged in guarantee B	Loans C	Loans D
Alexandre Lucena e Vale	155 308			155 308	176	40 594	18 694	89	39
Fernando Costa Lima	81 124	131 654		212 778	241				
José Miguel Morais Alves[2]	35 517			35 517	40				

A – Shares which at 31 December 2016 were pledged in guarantee of loans to finance their acquisition resulting from the exercise of options granted under the RVA programme.
B – Shares which at 31 December 2016 were pledged in guarantee of loans to finance their acquisition resulting from exercise of BPI share subscription rights under the capital increase.
C – Amount owed at 31 December 2016, on the loan referred to in A.
D – Amount owed at 31 December 2016, on the loan referred to in B.

1) Fair value of the shares.
2) Ceased functions by resigning on 30 June 2016, so the final position reports to that date.

In accordance with the terms of article 477 of the Commercial Company Code, the shareholding position of the other directors of Banco BPI, members of the Board of Directors of Banco Português de Investimento, in terms of the options held at 31 December 2016 were as follows:

	Options			
	Held at 31 Dec. 15	Purchases	Exercise[1]	Held at 31 Dec. 16
Alexandre Lucena e Vale	121 305			121 305
Fernando Costa Lima	196 666		13 654	65 012
José Miguel Morais Alves[2]	119 074			1119 074

1) Includes extinction by lapsing
2) Ceased functions by resigning on 30 June 2016, so the final position reports to that date.

In accordance with the terms of article 477 of the Commercial Company Code, the shareholding position of the other directors of Banco BPI, in terms of shares and options held at 31 December 2016 were as follows:

	Shares[1]					Options[1]			
	Held at 31 Dec. 15	Purchases	Sales	Held at 31 Dec. 16	Value at 31 Dec. 16[2]	Held at 31 Dec. 15	Purchases	Exercise[3]	Held at 31 Dec. 16
Manuel Maria Meneses	114 179			114 179	129	42 702			42 702
Francisco Xavier Avillez	200 001			200 001	226	314 410			314 410
Susana Trigo Cabral	38 181			38 181	43				
Luis Ricardo Araújo	70 000			70 000	79	188 868			188 868
Graça Graça Moura[4]	40 228		9 103	31 125	35				
Ana Rosas Oliveira[5]	22 098			22 098	25	51 306			51 306
João Avides Moreira	20 892	20 326	20 326	20 892	24	81 566		20 326	61 240

1) Includes securities held by their spouses.
2) Fair value of shares.
3) Includes extinction by lapsing.
4) Includes 18 574 371 shares held by the spouse.
5) Includes 4 659 shares and 7 871 options on BPI shares held by the spouse.

ARTUR SANTOS SILVA
Has not traded any shares.

FERNANDO ULRICH
Has not traded any shares.

At 31 December 2016 his spouse held 58 724 Banco BPI shares.

ALFREDO REZENDE DE ALMEIDA
Has not traded any shares.

ANTÓNIO DOMINGUES
Has not traded any shares.

Ceased functions by resigning on 30 June 2016.

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 31 December 2016, Arsopi – Holding, SGPS, S.A., of which he is the President of the Board of Directors owned 2 942 267 of Banco BPI shares.

At 31 December 2016, ROE, SGPS, S.A., of which he is the President of the Board of Directors, owned 4 442 291 of Banco BPI shares.

At 31 December 2016, Security, SGPS, S.A., of which he is the President of the Board of Directors, owned 3 414 404 of Banco BPI shares.

CARLOS MOREIRA DA SILVA
Has not traded any shares.

EDGAR ALVES FERREIRA
Has not traded any shares.

At 26 October 2016 (date of his resignation to the Board of Directors), Violas Ferreira Financial, S.A., of which he is a member of the Board of Directors, owned 38 836 116 of Banco BPI shares.

CARLA BAMBULO
Does not hold and has not traded any Banco BPI shares.

At 31 December 2016, Allianz Europe, Ltd., owned 120 553 986 of Banco BPI shares.

GONZALO GORTÁZAR
Does not hold and has not traded any Banco BPI shares.

Elected on 23 November 2016. Waiting for registration with the Bank of Portugal to start functions.

He is deputy chairman of the CaixaBank Board of Directors.

IGNACIO ALVAREZ RENDUELES
Does not hold and has not traded any Banco BPI shares.

For further information about the transactions and participation of CaixaBank, 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 the President of Patronato de la Fundacion Bancaria Caixa d'Estalvis i Pensiones de Barcelona "la Caixa" and President of Criteria Caixa, S.A.U., which owns at 31 December 2016, 45.32% of the capital of CaixaBank, S.A.

Ceased functions as President of CaixaBank, S.A. on 30 June 2016.

At 31 December 2016, CaixaBank, S.A. owned 622 888 388 of Banco BPI shares.

Ceased functions by resigning on 30 November 2016.

JOÃO PEDRO OLIVEIRA E COSTA
Has not traded any shares.

JOSÉ PENA DO AMARAL
Has not traded any shares.

LLUÍS VENDRELL
Does not hold and has not traded any Banco BPI shares.

MANUEL FERREIRA DA SILVA
Has not traded any Banco BPI shares.

At 31 December 2016 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 the General Director of Criteria Caixa, S.A.U.

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.

Ceased functions by resigning on 30 November 2016.

MARIA CELESTE HAGATONG
Has not traded any shares.

At 31 December 2016 her husband held 407 316 shares of Banco BPI.

MÁRIO LEITE DA SILVA
Does not hold and has not traded any Banco BPI shares.

Is 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 31 December 2016 Santoro Finance – Prestação de Serviços, S.A. owned 270 643 372 of Banco BPI shares.

Will cease functions as director of Banco BPI as of 31 March 2017.

PABLO FORERO
Does not hold and has not traded any Banco BPI shares.

Coopted on 26 October which was ratified by the Shareholder's General Meeting on 23 November. Waiting for registration with the Bank of Portugal to start functions.

General Manager of the Management Committee until his appointment to the Board of Directors of Banco BPI on 26 October 2016.

PEDRO BARRETO
Has not traded any shares.

TOMAZ JERVELL
Has not traded any shares.

Ceased functions on 25 January 2016.

At 31 December 2016 Norsócia, SGPS, S.A. of which he is a member of the Board of Directors owned 11 050 105 of Banco BPI shares.

TOMÁS JERVELL
Does not hold and has not traded any Banco BPI shares.

Started functions on 4 August 2016.

VICENTE TARDIO BARUTEL
Does not hold and has not traded any Banco BPI shares.

ALEXANDRE LUCENA E VALE
Has not traded any shares.

FERNANDO COSTA LIMA
On 24 March purchased 73 710 shares at the price of 1.108 euro under the 2010 RVA programme.

On 24 March purchased 58 484 shares at the price of 0.0866 euro under the 2012 RVA programme.

JOSÉ MIGUEL MORAIS ALVES
Has not traded any shares.

Ceased functions by resigning on 30 June 2016.

MANUEL MARIA MENESES
Has not traded any shares.

FRANCISCO XAVIER AVILLEZ
Has not traded any shares.

SUSANA TRIGO CABRAL
Has not traded any shares.

LUÍS RICARDO ARAÚJO
Has not traded any shares.

GRAÇA GRAÇA MOURA
Has not traded any shares.

At 9 December her husband sold 9 103 shares at a price of 1.129 euro.
At 31 December 2016 her husband owned 18 574 of Banco BPI shares.

ANA ROSAS OLIVEIRA
Has not traded any shares.

At 31 December her husband held 4 659 Banco BPI shares and 7 871 purchase options on Banco BPI shares.

JOÃO AVIDES MOREIRA
On March 24, purchased 20 326 shares at the price of 1.108 euro under the 2010 RVA programme.

On 24 March sold 7 844 shares at the price of 1.292 euro.

On 24 March sold 7 570 shares at the price of 1.291 euro.

On 24 March sold 4 912 shares at the price of 1.290 euro.

4.51 Other events

Resolution Fund

Resolution measure of Banco Espírito Santo, S.A.

On 3 August 2014, the Bank of Portugal (Banco de Portugal) applied a resolution measure to Banco Espírito Santo, S.A. (BES) pursuant to paragraph b) of number 1 of article 145 C of the General Regulation of Credit Institutions and Companies (RGICSF), in the form of a partial transfer of assets, liabilities, off-balance sheet items and assets under management into a transition bank, Novo Banco, S.A. (Novo Banco), incorporated by a decision of the Bank of Portugal on the same date. As part of this process, the Resolution Fund made a capital contribution to Novo Banco amounting to 4 900 000 euros, becoming the sole shareholder.

In this context, the Resolution Fund contracted loans amounting to 4 600 000 th. euro, of which 3 900 000 th. euro granted by the Portuguese State and a syndicated loan of 700 000 th. euro granted by a group of credit institutions to which the Bank contributed with 116 200 th. euro.

On 29 December 2015, the Bank of Portugal issued a public anouncement that it had *"(..) adjusted the scope of assets, liabilities, off-balance sheet items and assets under management transferred to Novo Banco, among which:*

a. *The clarification that no responsibilities that were contingent or unknown were transferred to Novo Banco at the date of application of the resolution measure to Banco Espírito Santo, S.A.;*

b. *The retransfer of the share capital in BES Finance to Banco Espírito Santo, S.A., which is necessary to ensure full compliance with and enforcement of the resolution measure regarding the non-transfer to Novo Banco of subordinated debt instruments issued by Banco Espírito Santo, S.A.;*

c. *The clarification that the Resolution Fund is responsible for neutralizing, through compensating Novo Banco, the possible adverse effects of future decisions, resulting from the resolution process, which result in liabilities or contingencies.*

At 7 July 2016, the Resolution Fund stated that it would analyze and evaluate the diligencies required following the publication of the results regarding the independent evaluation, carried out to estimate the level of credit recovery for each class of creditors under a hypothetical scenario of a normal insolvency process of BES.

According to the applicable law, if, at liquidation proceeding of BES, creditors whose claims have not been transferred to Novo Banco, suffer a loss greater than they would have been hypothetically if BES had gone into liquidation proceedings immediately prior to the application of the resolution measure, these creditors are entitled to receive the difference from the Resolution Fund.

Finally, there have been public notices that judicial proceedings against the Resolution Fund have been initiated.

Resolution measure of Banif – Banco Internacional do Funchal, S.A.

On 19 December 2015, the Board of Directors of the Bank of Portugal declared that Banif was at risk or in a insolvency situation (failing or likely to fail) and decided to comence a process of urgent resolution of the institution in the form of partial or total sale of its activity, which ended in the sale of Banif's activity on 20 December 2015 to Banco Santander Totta, S.A. (BST) for an amount of 150 000 th. euro.

Most of the assets not subject to the sale were transferred to an asset management vehicle, called Oitante, S.A. (Oitante), created specifically for this purpose, the sole shareholder of which is the Resolution Fund. As a way of offsetting this transference, Oitante issued debt securities of 746 000 th. euro, having been given a guarantee by the Resolution Fund and a counter-guarantee by the Portuguese State.

The operation involved additional support of around 2 255 000 th. euro to cover future contingencies, of which 489 000 th. euro by the Resolution Fund and 1 766 000 th. euro directly by the Portuguese State. The referred state support is deducted from the amount due by BST for the acquisition of the set of assets, liabilities and activity of former Banif. The amount of 489 000 th. euro granted by the Resolution Fund were funded by a loan granted by the Portuguese State.

General Matters

Following the resolution measures applied to Banco Espírito Santo, S.A. and Banif, S.A., the Resolution Fund currently holds the entire share capital of Novo Banco, S.A. and of Oitante, S.A.

In order to reimburse the loans obtained by the Resolution Fund and any other responsibilities that the Resolution Fund may have to take on with respect to the above-mentioned resolution measures, the Resolution Fund is entitled essentially to the contributions of participating credit institutions (including the Bank) and to the contribution of the banking sector.

From 2013 to 2016, contributions to the Resolution Fund were made in the form of initial contributions, period contributions and contribution of the banking sector. In 2016, the Bank made periodic contributions to the Resolution Fund and to the banking sector in the amount of 3 205 th. euro and 16 476 th. euro, respectively.

By a public statement on 28 September 2016, the Resolution Fund announced that it had agreed with the Portuguese Ministry of Finance to revise the terms of the 3 900 000 th. euro loan originally granted by the Portuguese State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. According to the Resolution Fund, the extention of the maturity of the loan was intended to ensure the ability of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Office of the Portuguese Minister of Finance also announced that increases in liabilities arising from the materialization of future contingencies will determine the maturity adjustment of Portuguese

State and Bank loans to the Resolution Fund in order to maintain the current levels of the required effort regarding the contribution of the banking sector.

According to the communication of the Resolution Fund on 21 March 2017:

- "The terms of the loans obtained by the Fund to finance the resolution measures applied to Banco Espírito Santo, S.A. and Banif – Banco Internacional do Funchal, S.A. were changed." These loans amount to 4 953 million euros, of which 4 253 million euros granted by the Portuguese State and 700 million euros granted by a group of banks, of which 116 million euros were granted by the Bank.

- "These loans now mature in December 2046, without prejudice to the possibility of early redemption based on the use of proceeds from the Resolution Fund. The maturity will be adjusted in such terms that guarantee the ability of the Resolution Fund to fully meet its obligations based on regular revenues and without the need for special contributions or any other extraordinary contributions." The liabilities arising from contracts signed in by the Resolution Fund with the Portuguese State and a group of banks in accordance with the resolution measures of BES and Banif compete in *pari passu* among themselves.

- "The review of the terms of the loans aimed to ensure the sustainability and financial balance of the Resolution Fund, on the basis of a stable, predictable and sustainable burden for the banking sector".

- "The new conditions allow for the full payment of the Resolution Fund's liabilities and respective remuneration, without the need for special contributions or any other additional contributions from the banking sector."

Currently is not possible to predict the possible effects for the Resolution Fund arising from: (i) the sale of the participation in Novo Banco; (ii) the application of the principle that no creditor from the credit institution under resolution may incur in a loss greater than it would have if the institution had entered into liquidation; (iii) the guarantee provided to the obligations issued by Oitante; and (iv) other liabilities to be assumed by the Resolution Fund.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, considering the recent developments regarding the renegotiation of the terms of the loans granted to the Resolution Fund by the Portuguese State and by a group of banks, including the Bank, and the public announcements made by the Resolution Fund and the Office of the Portuguese Minister of Finance which indicate that this possibility will not be used, the financial statements as of 31 December 2016 reflect the Board of Directors' expectation that the Bank will not be required to make any special or extraordinary contribution to finance the resolution measures applied to BES and Banif.

Possible changes regarding these subjects may have relevant implications in the Bank's financial statements.

Public Tender Offer over Banco BPI S.A. shares

On 18 April 2016 CaixaBank, S.A., holder on that date of 44.1% of the share capital of Banco BPI, published a preliminary announcement of a public, general and voluntary tender offer (the Offer) covering all shares of Banco BPI, at the price of 1.113 euro per share.

The launch of the Offer was subject to the following conditions set out in paragraph 11 of the preliminary announcement:

a) obtaining the prior registration of the Offer with the Portuguese Securities Market Commission (CMVM), in accordance with article 114 of the Securities Market Code (Código dos Valores Mobiliários) at a price of 1.113 euro per share.

b) obtaining the approvals, non-oppositions and administrative authorisations required under Portuguese, European or foreign law that may apply to the offer, namely those described in the paragraph 11 of the preliminary announcement.

Once launched, in the terms of the paragraph 12 of the Preliminary Announcement, the effectiveness of the Offer was subject to the verification of the following conditions:

a) elimination, on the closing date of the Offer, and even if subject to the Offer's success, of the limitation to the counting or exercise of voting rights at the Shareholders' General Meetings when issued by a single shareholder as established under items 4 and 5 of article 12 of the Statutes of Banco BPI, S.A., in the current text, so that there is no limit to the counting or exercise of voting rights issued by a single shareholder, directly or through a representative, in his / her own name or as representative of another shareholder; and

b) the acquisition by CaixaBank, up to the date and as a result of the physical and financial settlement of the Offer, of a number of shares which, together with Banco BPI shares held by CaixaBank at the date of the preliminary announcement represent more than 50% (fifty percent) of the share capital and voting rights corresponding to the total shares of Banco BPI;

c) declaration by the Portuguese Securities Market Commission of derogation of the duty to launch a subsequent offer, as a result of the acquisition of shares under the Offer, in accordance with item 1 of paragraph a) and item 2 of article 189 of the Securities Market Code, even if subordinated to the subsistence of the respective assumptions.

On 17 May 2016 the Board of Directors of Banco BPI, S.A. published its report, prepared in accordance with the terms of item 1, article 181 of the Securities Market Code, on the opportunity and conditions of the Offer. The report is available on the website of the Portuguese Securities Market Commission and of the Bank.

Following the approval on the Shareholder's General Meeting of 21 September related to the removal of the single shareholder voting cap, the Portuguese Securities Market Commission determined that according to the terms of the law, the voluntary public tender offer presented by the shareholder CaixaBank, S.A, which held a 45.5% of the share capital and whose exercise of voting rights was limited to 20% of the share capital prior to this date, was now a mandatory public tender offer.

On 21 September 2016, CaixaBank published a revised preliminary announcement of a general and mandatory tender offer for the acquisition of the shares of Banco BPI, S.A. at a price of 1.134 euro per share.

The launch of the Offer was subject to the following conditions set in item 11 of the preliminary announcement:

a) obtain the non-opposition of the European Central Bank, pursuant to articles 102 and 103 of the General Framework for Credit Institutions and Financial Companies, approved by *Decree-Law n.º 298 / 92*, of 31 December as amended ("RGICFSF") and the applicable provisions of *Directive n.º 2013 / 36 / EU*, of the Parliament and the Council of 26 June 2013, of *(EU) Regulation n.º 1024 / 2013*, of the Council, of 15 October 2013 and of *(EU) Regulation n.º 468 / 2014*, of the European Central Bank, of 16 April 2014;

b) obtain the non-opposition of the Portuguese Insurance and Pension Funds Supervisory Authority, pursuant to Article 44 of *Decree-Law n.º 94-B / 98*, of 17 April 1998, as amended, and Article 38(2) of *Decree-Law 12 / 2006*, of 20 January 2006, as amended;

c) obtain the approval of the European Commission, pursuant to *Regulation (EC) n.º 139 / 2004*, of the Council, of 20 January of 2004, regarding the control of concentrations between undertakings;

d) obtain the authorization of the Bank de Spain (Banco de España) for the acquisition of a significant indirect shareholdings of CaixaBank in Banco Fomento de Angola, S.A. ("BFA"), in Banco de Comércio e Investimentos, S.A. ("BCI") and in Banco BPI Cayman Ltd.;

e) obtain the non-opposition of the Commission de Surveillance du Secteur Financier of the Grand-Duchy of Luxembourg ("CSSF") for the acquisition of a qualified indirect shareholding of CaixaBank in the Luxembourg asset management company "BPI Global Investment Fund Management Company S.A.";

f) obtain the non-opposition of the Cayman Islands Monetary Authority of the Cayman Islands ("CIMA") for the acquisition, by CaixaBank, of control in the branch of BPI in Cayman Islands and of a qualified indirect shareholding in Banco BPI Cayman Ltd.;

g) obtain the authorization of the Banco Nacional de Angola for the acquisition of a qualified indirect holding of CaixaBank in BFA;

h) obtain the authorization of the Bank of Mozambique (Banco de Moçambique) for the acquisition of a qualified indirect holding of CaixaBank in BCI; and

i) obtain prior registration of the Offer with the Portuguese Securities Market Commission ("CMVM"), pursuant to article 114 of the Securities Market Code, with a consideration of 1.134 euro (one euro and thirteen comma four cents) for Share.

On 13 October 2016, the Board of Directors of Banco BPI presented its report, prepared under the terms of item 1 of article 181 of the Securities Market Code, on the opportunity and terms of the Offer. This report was made available on the website of the Portuguese Securities Market Commission and on the Bank's website.

After the conditions presented on the preliminary announcement were verified, on 16 January 2017, CaixaBank published the Launch Announcement of the General and Mandatory Tender Offer for the acquisition of the shares representing the share capital of Banco BPI, at a price of 1.134 euro per share, and the corresponding Prospectus.

The Offer took place between 17 January 2017 (beginning at 8:30 am) and 7 February 2017 (up to 3:30 pm), after which, on 8 February 2017 took place the Special Session of Regulated Market destined to present the results of the Offer.

Within this context, it was disclosed that during the Offer, CaixaBank acquired shares representing 39.02% of the voting rights of Banco BPI, which, considering the participation previously held before the Offer – 45.5% – determined CaixaBank to be the holder of a share capital representing 84.52% of the voting rights of Banco BPI.

Loss of control over Banco de Fomento Angola, S.A.

As further described in note 4.9 – Discontinued operations, as of 7 October 2016, Banco BPI, S.A. entered into an agreement with Unitel, S.A. (Unitel) regarding the sale of 2% of the share capital of Banco de Fomento Angola, S.A. (BFA).

On 5 January 2017, pursuant to the aforementioned share purchase agreement, occurred the transfer to Unitel S.A. of 26 111 BFA's shares representing 2% of BFA's share capital and voting rights. On this date, Banco BPI received the sale price of the shares (28 million euro).

As from 5 January 2017, Banco BPI ceased to control BFA in accordance with the requirements of IFRS 10 – Consolidated financial statements, considering that on this date:

- The shareholdings of Banco BPI and Unitel in BFA became 48.1% and 51.9%, respectively;
- The new BFA Shareholders' Agreement signed on 6 October 2016 between Banco BPI and Unitel entered into force. This new Agreement contains, among others, rules on the composition of the statutory bodies that evidence the loss of control of BFA by Banco BPI. This new Shareholders' Agreement also includes a rule on the dividend policy and rules on the transfer of BFA shares, which, in the latter case, include the assignment by Banco BPI to Unitel of a preemptive right over the onerous transmission of shares held by Banco BPI in BFA, as well as the attribution by Unitel to Banco BPI of a tag along right in certain cases of sale of the shareholding held by Unitel in BFA;
- Fernando Ulrich and José Pena do Amaral presented their resignation regarding their position as President and Member of the Board of Directors of BFA. In addition, on 5 January 2017, a new Chairman for the Board of Directors of BFA was also appointed.

As established in IFRS 10, as from the loss of control, Banco BPI ceases to consolidate BFA and the 48.1% holding it retains should be initially recognized in accordance with its fair value. As from that date, to the extent that significant influence of Banco BPI on BFA will continue to exist, this interest will now be considered an associate and will be accounted for under the equity method, in accordance with IAS 28 – Investments in associates and Joint ventures.

According to IAS 10 – Events after the reporting period, the loss of control in BFA was considered a non-adjusting event in the consolidated accounts of the BPI Group as of 31 December 2016 and is therefore disclosed, including an estimate of its financial impact.

In accordance with IFRS 10, on the date of the loss of control of BFA, the impact on Banco BPI's consolidated accounts includes the following components:

(i) Derecognition of the balance sheet amount of BFA's assets and liabilities on the date of the loss of control.

(ii) Derecognition of the balance sheet amount of non-controlling interests related to BFA, including any amounts recorded in the Income Statement and Other Comprehensive Income.

(iii) Recognition of the fair value of the amount received from the sale of the 2% share in BFA.

(iv) Recognition of the 48.1% shareholding retained in BFA at fair value assessed at the time of the loss of control. The fair value of the 48.1% shareholding in BFA was estimated based on the following valuation methods and techniques:

- Valuation based in market multiples for comparable entities, using a ROE vs Price Book Value regression for 2016 estimated based on information from Bloomberg;
- Dividend discount model (DDM) assuming a projection of BFA receivable dividends;
- Value based on the sale of 2% of BFA to Unitel (transaction multiple) adjusted by a discount against the control premium that was assigned to the 2% and a discount due to lack of liquidity.

(v) Recognition in net income for the year of the difference between components (i) to (iv) above.

(vi) Reclassification to net income for the year of the amounts related to the BFA that are recognized in the REVALUATION RESERVES in the consolidated balance sheet. These amounts refer to exchange differences arising from the consolidation process by converting the financial statements of BFA from Kwanzas to euro which were recorded as Other Comprehensive Income, in accordance with IAS 21.

(vii) Recognition of deferred tax liabilities associated with the difference between the acquisition cost and the fair value of the 48.1% interest retained in BFA. In accordance with IAS 12, when there is loss of control over a subsidiary and it becomes an associate, deferred tax liabilities associated with the taxable differences of the investment held in the associate must be recorded.

As such, the estimate of the impact of the loss of control in BFA on the consolidated income and equity of Banco BPI for 2017, considering as a reference the consolidated accounts at 31 December 2016, is as follows:

	Net income	Shareholder's equity atributtable to the Banco BPI of Shareholders	Total shareholder's equity
Capital gain on the sale of 2% of the share capital of BFA, net of taxes	6 593	6 593	6 593
Revaluation to fair value of the participation retained in BFA (48.1%)	0	0	0
Reclassification of foreign exchange reserves to profit and loss	(182 121)	0	0
Deferred tax liabilities	(36 770)	(36 770)	(36 770)
Total	**(212 298)**	**(30 177)**	**(30 177)**
Derecognition of non-controlling interests			(466 273)
			(496 450)

On 30 January 2017, Banco BPI was summon due to an action challenging the validity of the resolution, taken at the Shareholder's General Meeting of 13 December 2016, which approved the proposal of the Board of Directors to sell to Unitel, S.A. 26 111 shares of Banco de Fomento Angola S.A. (BFA) under the Sale and Purchase Agreement ("SPA") entered into between the two parties on 7 October 2016 and which was released to the market on 31 October 2016. The action was brought up by 4 shareholders who indicated that they jointly hold 175 920 shares, representing 0.0121% of the share capital of Banco BPI. Banco BPI disagrees with the grounds relied on by the plaintiffs and has timely filed its defense.

Regulation and supervision equivalence in Angola and excess of the Large Exposures Limit

As a result of the sale of 2% of BFA's share capital to Unitel on 5 January 2017 and the loss of control over BFA, Banco BPI's 48.1% interest in BFA will no longer be consolidated by the full integration method in the consolidated financial statements of Banco BPI. As a result, as from that date, it is no longer verified the situation of excess of the Large Exposures Limit arising after the loss of regulatory and supervisory equivalence in Angola on 1 January 2015.

5. NOTE ADDED FOR TRANSLATION

These consolidated financial statements are a translation of financial statements originally issued in Portuguese in conformity with the International Financial Reporting Standards as endorsed by the European Union, some of which may not conform to or be required by generally accepted accounting principles in other countries. In the event of discrepancies, the Portuguese language version prevails.

Statement from the Board of Directors

**DECLARATION REFERRED TO IN ARTICLE 245 (1) C)
OF THE SECURITIES CODE**

Article 245 (1) (c) of the Securities Code prescribes that each one of the persons responsible for the company issues a declaration, the content of which is defined therein.

The Members of Banco BPI's Board of Directors, identified here by name, individually subscribe to the declaration transcribed as follows[1]:

"I declare in the terms and for the purposes for article 245 (1) (c) of the Securities Code that, to the best of my knowledge, the directors' report, the annual accounts, the statutory audit certification and other documents forming part of Banco BPI, S.A.'s annual report, all relating to the 2016 financial year, were prepared in conformity with the applicable accounting standards, giving a true and fair view of the assets and liabilities, the financial situation and the results of that company and of the companies included in the consolidation perimeter, and that the directors' report provides an accurate account of that company's and of the companies included in the consolidation perimeter business, performance and financial position, as well as containing a description of the principal risks and uncertainties which they confront."

BOARD OF DIRECTORS

Chairman	Artur Santos Silva
Deputy-Chairman	Fernando Ulrich
Members	Alfredo Rezende de Almeida
	António Lobo Xavier
	Carla Bambulo[2]
	Ignacio Alvarez-Rendueles
	João Pedro Oliveira e Costa
	José Pena do Amaral
	Lluís Vendrell
	Manuel Ferreira da Silva
	Maria Celeste Hagatong
	Mário Leite da Silva[3]
	Pedro Barreto
	Tomas Jervell
	Vicente Tardio Barutel

Porto, 17 March 2017

1) The Supervisory Board members signed statements with the same contents. Within the scope of the documents for which they are responsible, the External Auditors have signed an equivalent declaration.
2) Person nominated on 29 January 2015 by Allianz Europe, Ltd. In terms of article 15(2) of Banco BPI, S.A.'s statutes.
3) Presented resignation from the office on 7 February 2017. Will ceased functions on 31 March 2017.

Legal certification of accounts and audit report

Deloitte.

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STATUTORY AUDIT CERTIFICATION AND AUDIT REPORT

(Amounts expressed in thousands of euros – t.euros)

(Translation of a report originally issued in Portuguese – in the case of discrepancies, the original version in Portuguese prevails – Note 5)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Banco BPI, S.A. (Bank or "Banco BPI") and of its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2016 (that presents a total of 38,284,652 t.euros and total equity of 2,908,525 t.euros, including a consolidated net profit attributable to the shareholders of the Bank of 313,230 t.euros), the Consolidated Statements of Income, Profit or Loss and Other Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for the year then ended, and the accompanying notes to the consolidated financial statements, which include a summary of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements present true and fairly, in all material respects, the consolidated financial position of Banco BPI, S.A. and its subsidiaries as at 31 December 2016 and its consolidated financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further standards, technical and ethical directives of the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. We are independent from the entities that constitute the Group in the terms of the law and we have fulfilled the other ethical requirements under the ethical code of the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas").

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. Those matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those matters.

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the assessed risks of material misstatement
Sale agreement of 2% of Banco de Fomento Angola, S.A. (Notes 1 and 4.9)	
In October 2016 Banco BPI entered into an agreement for the sale of 2% of the share capital of Banco de Fomento Angola, S.A. (BFA), the implementation of which implies a reduction of the BPI Group participation in BFA from 50.1% to 48.1%. The implementation of such agreement was dependent upon fulfilment of a set of conditions, as disclosed in the Notes to the consolidated financial statements, having the sale operation occurred on January 5, 2017. Based on the analysis performed, and considering the requirements established in IFRS 5 - Non-current assets held for sale and discontinued operations, the 50.1% participation in BFA was classified as a discontinued operation in the consolidated financial statements as of 31 December 2016. This classification implied the restatement of the Consolidated Statements of Income and Profit or Loss and Other Comprehensive Income of 2015. Considering this was an unusual transaction with a significant impact on the presentation of the consolidated financial statements of Banco BPI, it was identified as a key audit matter.	• Analysis of the Bank's internal control procedures in the context of recording unusual transactions. • Obtain and analysis of the documentation related to the sale operation of 2% of BFA's share capital. • Obtain the analysis prepared by the Bank on the impact of this operation on its consolidated financial recording statements as of December 31, 2016. • Analysis of the adequacy of the accounting treatment of this transaction in the consolidated accounts of the Bank with respect to its recognition and presentation, considering the requirements of the International Financial Reporting Standards as adopted by the European Union (IFRS). • Review of the disclosures included in the consolidated financial statements related to this operation, considering the applicable accounting framework.

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the assessed risks of material misstatement

Loss of control over Banco de Fomento Angola, S.A. (Note 4.51)

On January 5, 2017, as a result of the sale of 2% of BFA's share capital, the percentage of the BPI Group's participation in BFA was reduced from 50.1% to 48.1%. In the first quarter of 2017, and within the scope of this operation, it is the Management understanding that Banco BPI ceases to control BFA, in accordance with the requirements of IFRS 10 - Consolidated Financial Statements. The loss of control over BFA was considered as a non-adjusting event in the consolidated accounts as of December 31, 2016, in accordance with the provisions of IAS 10 - Events after the reporting period, and as such should be properly disclosed, including an estimate of the respective financial effect. In accordance with IFRS 10 - Consolidated financial statements, in the context of recording the loss of control, the 48.1% interest retained by Banco BPI in BFA should be initially recognized in accordance with its fair value estimate. To the extent that the identification and recording of the loss of control over BFA constitutes an unusual event with a relevant judgmental component and has a significant impact for the consolidated financial statements of Banco BPI, it was considered as a key audit matter.	• Analysis of the Bank's internal control procedures in the context of recording unusual transactions. • Obtain the analysis prepared by the Bank with respect to the impact of the loss of control over BFA. • Analysis of the accounting treatment and impact of this transaction in the consolidated accounts of the Bank, considering the requirements of the International Financial Reporting Standards as adopted by the European Union (IFRS). • Review of the disclosures included in the consolidated financial statements as of December 31, 2016 related to this operation, considering the applicable accounting framework.

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the assessed risks of material misstatement

Impairment for loans to customers (Notes 2.3.4, 2.16, 4.7, 4.21 and 4.47)

The accumulated impairment losses for loans and provisions for guarantees and other commitments recorded by the Bank ("impairment losses") as of 31 December 2016 amount to 695,200 t.euros and 22,473 t.euros, respectively. Impairment losses represent the Bank's Management's best estimate of the losses incurred on its loan portfolio at the reference date of the consolidated financial statements. These impairment losses are determined through individual analysis for credits of a significant amount or that present specific risk characteristics and through collective analysis for exposures subject to individual analysis to which no individual impairment was attributed and for the remaining exposures that are not subject to individual analysis, considering the segmentation of the loan portfolio and the criteria defined by the Bank as described in the Main Accounting Policies of the Notes to the consolidated financial statements. The determination of impairment losses through individual analysis inherently has a strong judgmental component from Management about the information available, namely in identifying evidence of impairment and in estimating the present value of the recoverable amount expected by the Bank, that incorporates also assumptions about future events that may not occur as expected. On the other hand, collective impairment is based on a model of a certain degree of complexity, as it incorporates in the computation of the impairment several variables, namely operations characteristics, the value of collateral and risk parameters, such as the probability of a performing loan coming to show signs of impairment, probability of transaction to default and loss given default. Different assumptions or methodologies used in the impairment analysis and different recovery strategies affect the estimate of the recovery cash flows and their expected timing, which may have a relevant impact on the determination of impairment.	• Analysis of the internal control procedures implemented by the Bank and considered relevant in the process of identification and determination of impairment losses for its loan portfolio and its adequacy in relation to the risks that are intended to mitigate. • Review of the reconciliation between the inventories of loan operations and related impairment which are included in the IT solution that supports the calculation of impairment losses and the corresponding accounting balances. • Selection of a sample of clients subject to individual impairment analysis by the Bank, based on the size of the exposure, on characteristics that are indicate of potential higher risk of occurrence of deviation on the individual impairment assessment as well as random factors. • For the selected sample, analysis of the reasonableness of the estimated impairment losses recorded in the consolidated financial statements based on the review of the Bank's judgments on the information available regarding the economic and financial situation of the clients, valuation of the collaterals and prospects about the evolution of their activity and about the future management of those loans by the Bank. • Regarding collective impairment (i) understanding of the main characteristics of the impairment model and critical analysis of the reasonableness of the methodologies used by the Bank; (ii) analysis on a sample basis of the calculation of risk parameters and collective impairment, with particular incidence on two segments; and (iii) validation on a sample basis of the inputs used to determine the main risk parameters. In the execution of these procedures, we have involved our specialists in this area. • Review of the disclosures included in the consolidated financial statements related to impairment for loans to customers, considering the applicable accounting framework.

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the assessed risks of material misstatement

Impairment for loans to customers (Notes 2.3.4, 2.16, 4.7, 4.21 and 4.47)

Considering this is an area in which Management has to make estimates that incorporate a high degree of subjectivity or certain complexity, as well as the materiality of the amounts in the context of the Bank's consolidated financial statements, impairment for loans to customers was considered as a key audit matter.	

Liabilities with retirement pensions of pensioners and employees – New Collective Labour Agreement and main actuarial assumptions (Notes 2.7.1, 2.8, 2.16, 4.25 and 4.26)

The Group has assumed the responsibility of paying to its pensioners and employees retirement pensions and other associated benefits under the terms defined in the Collective Labour Agreement (CLA). As of 31 December 2016, the liabilities for past services of the Group in relation to its pensioners and employees with retirement pensions and other associated benefits amount to 1,463,137 t.euros. In June 2016, a revised version of the Collective Labour Agreement ("new CLA") was signed which led to the recognition of an income amounting to 22,215 t.euros. In addition, under the terms of the CLA, until June 2016, the Group had the commitment to pay to its employees a long service premium in the month in which they reached 15, 25 and 30 years of good and effective service in the banking sector. With the entry into force of the new CLA, the long service premium was eliminated, and employees became entitled to receive a final career premium at the time of termination of the labour contract due to retirement, which amounts to 6,685 t.euros at 31 December 2016. The net impact of the elimination of the long service premium and the introduction of the final career premium corresponded to the recording of an income of approximately 20,673 t.euros. The Group's liabilities associated with the defined benefit plans were determined by the responsible actuary, considering a set of actuarial assumptions, including the discount rate, the growth rate of wages and pensions, and the mortality table. Any changes in actuarial assumptions may have a material impact the liabilities with past services related to pensions. Given the relevance of the impacts recognized in 2016 related with the new CLA and the importance of the actuarial assumptions in determining the liabilities with past services related to pensions in the context of the Bank's consolidated financial statements, we considered this area as a key audit matter.	• Analysis of the relevant internal control procedures implemented by the Bank in determining the main actuarial assumptions used in the calculation of liabilities with past services related to pensions. • Verification of the existence of the certification of the responsible actuary within the Insurance and Pension Funds Supervisory Authority ("Autoridade de Supervisão de Seguros e Fundos de Pensões" (ASF)) and reading of its independence statement included in the actuarial study of 31 December 2016, as provided in the Regulatory Standard No. 1/2007-R, of May 17, of the ASF. • Analysis of the main impacts recognized in 2016 following the review of the CLA, including: o Reading of the new CLA; o Review of the accounting treatment given by the Bank to the main changes introduced by the new CLA, considering the requirements of IAS 19 - Employee benefits; and o Discussion with the responsible actuary and with the Management on the nature of the main changes and the methodology adopted in the quantification of the respective impact on pension liabilities. • Reading of the actuarial study with reference to 31 December 2016 and discussion with the responsible actuary on the main actuarial assumptions used. • Analysis of the reasonableness of the main actuarial assumptions used in the quantification of pension liabilities, considering: (i) the actuarial study; (ii) available market data; (iii) historical information (experience gains or losses); and (iv) information provided by the Management. • Review of the disclosures included in the consolidated financial statements of the Bank for these matters, considering the applicable accounting framework.

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the assessed risks of material misstatement

Recoverability of deferred tax assets and application of Regulatory Decree No. 5/2016 (Notes 2.13, 2.16 and 4.43)

As of 31 December 2016, the consolidated balance sheet of the Group includes 442,707 t.euros of deferred tax assets, of which 210,095 t.euros are dependent on the existence of future taxable income (deferred tax assets not eligible under the Special Regime applicable to deferred tax assets, approved by Law no. 61/2014, of 26 August), including: • 96,350 t.euros related to loan impairment losses; • 54,182 t.euros related to employee benefits (actuarial deviations, transfer of liabilities to the Social Security and early retirements); • 30,582 t.euros of tax losses carried forward (29,382 t.euros originated in 2014 related to the non-consolidated activity of Banco BPI). According to Law No. 2/2014 of 16 January, the use of tax losses in future periods of taxation cannot exceed 70% of the taxable income in each of those periods, and the tax losses originated in 2014 have a 12-year reporting period. In 2016, Banco BPI used 73,516 t.euros of deferred tax assets associated to tax losses carried forward of 2013 and 2014, considering its interpretation of the Regulatory Decree No. 5/2016, of 18 November (DR 5/2016). In accordance with IAS 12 - Income Taxes, deferred tax assets can only be recorded up to the extent that it is probable that future taxable income will exist on the estimated date of their reversal. The Bank prepared an estimate of its taxable income for the period 2017-2027 to assess the recoverability of deferred tax assets. This estimate is by nature judgmental and depends on the assumptions made by Management to calculate the evolution of pre-tax profits and its interpretation of the tax legislation. Any changes in the assumptions used to estimate the future results or in the interpretation of the tax legislation may have a relevant impact on deferred tax assets. Given the materiality of deferred tax assets in the Bank's consolidated financial statements and the need to use estimates to determine their recoverability, this area was considered as a key audit matter.	• Analysis of the relevant internal control procedures implemented by the Bank in the analysis of the recoverability of deferred tax assets. • Analysis of the consistency of the pre-tax profits considered by the Bank in its estimation of future taxable income with the Funding and Capital Plan sent by Banco BPI to the supervisory entities in March 2017. • Analysis, with the involvement of our specialists in this area, of the application of Regulatory Decree 5/2016 and of the interpretation of the relevant tax legislation considered by the Bank in the estimation of future taxable profits. • Review of the calculations made by the Bank to evidence the analysis of the recoverability of deferred tax assets, considering the review of the assumptions and the interpretation of the tax legislation described above. • Review of the disclosures included in the consolidated financial statements for this matter, considering the applicable accounting framework.

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the assessed risks of material misstatement

Resolution Fund (Note 4.51)

Following the resolution measures applied to Banco Espírito Santo, S.A. (BES) and Banif - Banco Internacional do Funchal, S.A. (Banif), the Resolution Fund became holder of the entire share capital of Novo Banco, S.A. and Oitante, S.A.. In this context the Portuguese State and a banking syndicate have granted loans to the Resolution Fund and the Resolution Fund has assumed other liabilities and contingent liabilities. The Bank participated in the banking syndicate through a loan agreement. In order to reimburse these loans and to meet other responsibilities it may assume, the proceeds of the Resolution Fund are essentially the periodic contributions from participating institutions (including the Bank) and the contributions over the banking sector. It is also provided the possibility of the member of the Portuguese Government responsible for the finance area to determine by ministerial order that the participating institutions make special contributions in the situations provided for in the applicable legislation, particularly in the event that the Resolution Fund does not have sufficient own resources for the fulfilment of its obligations. The cost with periodic contributions and with the contribution over the banking sector is recorded on an annual basis, as provided in IFRIC 21 - Levies. As of 31 December 2016, the Portuguese State's loan to the Resolution Fund of 3,900,000 t.euros and the banking syndicate's loan of 700,000 t.euros, after a first amendment to the initial contracts, were to mature on 31 December 2017, although it was public since September 2016 that all contracts were being renegotiated, including the extension of its maturity. According to a public notice from the Resolution Fund dated 21 March 2017, the conditions of the loans that the Resolution Fund obtained to finance the resolution measures applied to BES and Banif were *de facto* renegotiated in the first quarter of 2017, including the extension of the maturity date for 31 December 2046 including the possibility of adjusting that date, with the purpose of guaranteeing the capacity of the Resolution Fund to fully meet its obligations based on regular revenues and without the need to resort to special contributions or any other type of extraordinary contributions from the banking sector.	• Analysis of the loan agreement celebrated between the Banks and the Resolution Fund and the respective amendments signed in August 2016 and February 2017. • Analysis of the public communications from the Resolution Fund and from the Office of the Portuguese Minister of Finance of 28 September 2016 and of the public communication from the Resolution Fund of 21 March 2017, regarding the new conditions of the loans to the Resolution Fund and the corresponding impact on its sustainability and financial soundness. • Reading of the last Report and Accounts of the Resolution Fund that refers to the year 2015. • Analysis of a simplified model of cash flow projections of the Resolution Fund presented to us by the Bank. • Review of the accounting framework of the contributions to the Resolution Fund. • Review of the disclosures included in the consolidated financial statements related to this matter, considering the applicable accounting framework. • Following the announcement on March 31, 2017 of the projected sale by the Resolution Fund of 75% of the capital of "Novo Banco", obtaining a representation from the Management on the perspectives communicated to them by the competent authorities that this transaction will also not imply the payment by the Bank of any special contributions or other extraordinary contributions to the Resolution Fund.

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the assessed risks of material misstatement

Resolution Fund (Note 4.51)

It was also established the *pari passu* treatment of the Resolution Fund's obligations arising from the loan agreement entered into with the banking syndicate of which the Bank is a part, and the loan agreements entered into with the Portuguese State. The consolidated financial statements as of 31 December 2016 do reflect the Bank's expectation that no special contributions or any other extraordinary contributions will be required to it to finance the resolution measures applied to BES and Banif. Taking into account the responsibilities of the Resolution Fund and the judgments of the Management in this matter as described above, this was considered a key audit matter.	

Responsibilities of Management and Supervisory Body for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that present true and fairly the financial position, the financial performance and the cash flows of the Group in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRS);
- the preparation of the management report, including the corporate governance report, under the applicable legal and regulatory terms;
- the implementation and maintenance of an appropriate internal control system that allows the preparation of consolidated financial statements that are free from material misstatements due to fraud or error;
- the adoption of accounting principles and criteria appropriate in the circumstances; and
- the evaluation of the Group's ability to continue as a going concern, disclosing, whenever applicable, the matters that may cast significant doubt on the continuity of its operations.

The Supervisory Body is responsible for overseeing the Group's financial closing and reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility consists in obtaining a reasonable assurance on whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of those consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;

- conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether any material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exist, we should draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether those consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit and we are the ultimate responsibles for our audit opinion;

- we communicate with those charged with governance, including the Supervisory Body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiency in internal control identified during the audit;

- from the matters we communicate with those charged with governance, including the Supervisory Body, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter;

- we declare to the Supervisory Body that we have complied with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters that may reasonably be perceived to threat our independence, and where applicable, related safeguards.

Our responsibility includes also the verification of the agreement of the information included in the Management report with the consolidated financial statements and the verifications included in article 451, numbers 4 and 5, of the Portuguese Commercial Code ("Código das Sociedades Comerciais").

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

About the Management report

In compliance with article 451, number 3.e) of the Portuguese Commercial Code ("Código das Sociedades Comerciais"), we conclude that the Management report was prepared in accordance with the current applicable law and regulations and the financial information included therein is in agreement with the audited consolidated financial statements, and considering our knowledge of the Group, we did not identify material misstatements.

About the Corporate governance report

In compliance with article 451, number 4, of the Portuguese Commercial Code ("Código das Sociedades Comerciais"), we conclude that the corporate governance report includes the elements required to the Group under the terms of article 245-A of the Portuguese Securities Code ("Código dos Valores Mobiliários"), and we have not identified material misstatements in the information disclosed in such report to comply with the requirements of items c), d), f), h), i) and m) of the referred article.

About the additional elements included in article 10 of Regulation (UE) 537/2014

In compliance with article 10 of Regulation (UE) 537/2014 of the European Parliament and of the Council of 16 April 2014, and beyond the key audit matters mentioned above, we further report the following:

- Deloitte & Associados, SROC, S.A. has been the auditors of Banco BPI, S.A. since 2002. Our most recent appointment took place at the shareholders' general assembly held on April 23, 2014 for a new mandate covering the period from 2014 to 2016.

- The Management confirmed to us that is unaware of the occurrence of any fraud or suspected fraud with a material effect in the consolidated financial statements. As part of the planning and execution of our audit in accordance with ISAs, we kept professional scepticism and designed audit procedures to respond to the risk of material misstatements in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material misstatement in the consolidated financial statements due to fraud.

- We confirm that the audit opinion issued is consistent with the additional report that we prepared and delivered to the Group's Supervisory Body as at 3 April 2017.

- We declare that we have not rendered any prohibited services under the terms of article 77, number 8, of the Legal Regime of the Portuguese Institute of Statutory Auditors ("Estatuto da Ordem dos Revisores Oficiais de Contas") and that we kept our independence from the Group during the execution of the audit.

Lisbon, 3 April 2017

Deloitte & Associados, SROC S.A.
Represented by Paulo Alexandre de Sá Fernandes, ROC

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 is not to be signed. In the event of discrepancies, the Portuguese language version prevails.)

BPI

REPORT AND OPINION OF THE SUPERVISORY BOARD
ON THE BPI GROUP'S 2016 CONSOLIDATED ACCOUNTS

The present document relating to the 2016 financial year was prepared by the BPI Group's Supervisory Board (or simply BPI) in compliance with the requirements of article 420 of the Commercial Companies Code (CCC).

1. REPORT ON THE SUPERVISORY BOARD'S WORK RELATING TO THE 2016 FINANCIAL YEAR

During 2016, the Supervisory Board met fifteen times, at which all of its members were present.

Besides these meetings, the Supervisory Board members attended the ten meetings of the Audit and Internal Control Committee (AICC) held during the year, which enabled it:

- to analyse all the documentation distributed as support for their respective work;
- to be present to hear the explanations given by the persons responsible for each one of the areas reviewed;
- to put questions and to ask for clarifications concerning any doubts about the documents analysed; and
- to monitor directly the evolution of BPI's operations, paying special attention to compliance with the company's memorandum and articles of association, regulations and legal requirements.

The Supervisory Board was also present during 2016 at eight sessions of the General Meeting, with its chairman having assumed the chairmanship of the Committee held on 6 September. With the aforesaid, it followed closely the process involving the analysis and approval of the 2015 accounts, and the election of nine members of the Governing Bodies, as well as the review of the proposals aimed at resolving the situation of breaching the large exposures limit relating to Angola.

The Supervisory Board participated in the Board of Directors' meeting of 17 March at which the 2016 accounts were approved.

In compliance with the terms of reference legally entrusted to it and which form part of its regulations, the Supervisory Board carried out a number of oversight procedures during 2016, of which the following are highlighted:

3.1. Overseeing compliance with legal and regulatory provisions, the statutes and the rules issued by the supervisory authorities, as well as with the general policies, standards and practices instituted internally

During the year, the Supervisory Board kept abreast of the various issues related to the Group's compliance with obligations or recommendations relating to corporate governance. At the end of the year, by reviewing the BPI Group's Corporate Governance Report presented by the Board of Directors, it verified that such report translated the practices that it was able to observe regularly and which in terms of article 420(5) of the CCC, it covered the details referred to in article 245-A of the Securities Code (SC).

The Board studied the reports on the audits conducted by the Audit and Inspection Division and the review procedures carried out by BPI's statutory / external auditors – Deloitte & Associados, SROC, S.A. (or simply Deloitte)- paying particular attention to the shortcomings identified and the recommendations presented with a view to overcoming them, as well as compliance with the deadlines laid down for their rectification.

It also reviewed the findings of the tax consultancy work performed by the statutory / external not prohibited in terms of article 77(8)(a) of the Portuguese Statutory Auditors Regulations, established by *Law no. 140 / 2015* of 7 September, as well as that of the processes instituted in order to ensure the safeguarding of Customers' assets.

The Board monitored all the audit work carried out by the European Central Bank (ECB) and the Bank of Portugal (BoP), as well as the respective progress reports sent systematically to those Banks.

Furthermore, it kept itself regularly informed about the activity of the Compliance Division.

The Supervisory Board continued to follow closely in 2016 the measures taken by the Board of Directors with a view to finding a solution to the exceeding of the large risks exposure in Angola. In this context, the Supervisory Board issued an opinion on 13 April 2016 on the proposal to be presented by the Board of Directors to carry out a series of operations based on an agreement between Banco BPI's qualified shareholders (CaixaBank, S.A. and Santoro Finance – Prestação de Serviços, S.A.) and Banco de Fomento Angola (BFA) (Unitel, S.A.). This series of operations ended up not being realised.

As a result of this outcome, it kept abreast of the subsequent steps taken to solve the breaching of the aforesaid large exposures limit, which culminated with the sale of 2% of BFA shares to Unitel, S.A. and led to BPI losing its majority stake in BFA, the elimination of the statutory limit to the counting of voting rights and to the realisation in January of the Public Tender Offer launched by CaixaBank.

3.2 Checking that at Banco BPI and the other Group companies subject to supervision on a consolidated basis, there has been adherence to the fundamental objectives laid down in the field of internal control and risk management by the banking and capital market supervisory entities in the supervision directives applicable to credit institutions and financial companies
The Board paid particular attention to the guidelines issued by the Bank of Portugal, in particular its *Notice 5 / 2008*, in respect of aspects pertaining to internal control and risk control, having evaluated the operational procedures at Banco BPI, Banco Português de Investimento and the other Group companies subject to supervision on a consolidated basis, including branches and subsidiaries.

The opinions on all the BPI Group companies' internal control reports were prepared in June and submitted to the Bank of Portugal. It also issued an opinion pursuant to the provisions of *Bank of Portugal Notice no. 9 / 2012*, on the work undertaken with respect to the oversight of activities aimed at the prevention of money laundering and the financing of terrorism at Banco BPI.

3.3. Verifying the appropriateness of and overseeing compliance with the accounting policies, criteria and practices adopted and the proper state of the supporting documents
Both on a quarterly basis and as regards the consolidated results reported at the end of 2016 by Banco BPI, the Supervisory Board carried out the analysis of the results and the conclusions of the financial statements' audit procedures undertaken by the statutory / external auditors, as well as the information provided at the time relating to the accounting policies and practices.

It is worth underlining the improvement seen in the results of this financial year, which translated into the increase in consolidated net profit of 236.4 million euro in 2015 to 313.2 million euro in 2016, which corresponds to a 32.5% increase.

3.4. Monitoring the process involving the preparation and dissemination of financial information by the company
On the one hand, the Board analysed in detail the financial information that had been given to it during the course of the year, having contacted whenever necessary those in charge of the Accounting, Planning and Statistics Division which is the source of that information.

On the other hand, besides studying the documents made available about the Statutory Certification of the consolidated and individual Accounts, the Supervisory Board regularly contacted with the statutory / external auditors, which enabled it to keep informed about the services rendered by them and to better understand the situations which in the statutory / external auditors' opinion BPI should pay greater attention to.

It also reviewed the statutory / external auditors' opinions on the internal control system underlying the preparation and dissemination of financial information, drafted in accordance with that laid down in *BdP Notice no. 5 / 2008*. It also studied the recommendations stemming from the review of the procedures and controls referring to this process.

3.5. Proposing to the General Meeting the appointment of the statutory / external auditors in accordance with article 420(2)(b) of the CCC and with 3(8)(a) of the Supervisory Board Regulations (SBR)
Although Deloitte has already attained the maximum period for the performance of its statutory audit functions, but taking into account that:

- in February 2017, following the OPA launched by CaixaBank, S.A. (or simply CaixaBank), the latter now owns 84.5% of Banco BPI's shares, thus becoming part of the CaixaBank Group,
- CaixaBank obtained on the part of the Spanish authorities and, exceptionally, the consent that Deloitte remains as statutory / external auditor during 2017, and
- the change in the shareholder structure corresponds to a significant change in the BPI Group's leadership and, consequently, entails a substantial volume of work to be undertaken in BPI's accounting and prudential consolidation into CaixaBank and the need for far-reaching coordination of the respective internal control systems,

the Supervisory Board was of the opinion that, in this scenario of change and additional effort, it would be advisable to support the Board of Directors in the adoption of a prudent stance, pointing to

- the reappointment of Deloitte as statutory / external auditor of BPI (with the advantage of better supporting it as a result of its previous experience and, on the other, because the dialogue is potentially easier with CaixaBank's statutory / external auditor, who is also part of the Deloitte international network),
- for a short period (that in which the exceptional situation referred to above manifests itself more intensely), undertaking the process which led to the selection of the new statutory auditor who will carry out the functions as from 2018, adhering to the applicable legal provisions.

Having obtained the CMVM's agreement for this understanding, the Supervisory Board deliberated

- to present to the General Meeting a proposal that, on the one hand, reappoints, exceptionally and only for one more year, Deloitte as BPI's statutory auditor and, on the other, to appoint another statutory auditor to complete the term of office initiated in 2017; and
- to also propose to the Board of Directors, for the exercise of the external auditor's functions, the appointment of the same entities selected by the General Meeting for carrying out the statutory auditor functions.

3.6. Overseeing the independence of Banco BPI's statutory / external auditors and in this context to consider and decide, after having heard the Audit and Internal Control Committee, on the provision by the statutory / external auditors of additional services to the Group, as well as on the respective conditions

After having obtained the opinion of the Audit and Internal Control Committee, it approved the fees relating to the "Audit Services" and "Other non-audit services required by Law" for all the Group entities with regard to whom it has direct responsibility.

It also approved, after having obtained the Audit and Internal Control Committee's opinion, the Annual Review Procedures Plan to be carried out by the statutory / external auditor, as well as the adjustments which arose during the year.

In terms of article 420(2) (d) of the CCC, the Supervisory Board verified the independence of BPI's statutory / external auditors, by way of specific opinions, and approved, after having obtained the Audit and Internal Control Committee opinion, the contracting of "Other non-audit services not required by Law (and, of course, not prohibited by Law", controlling the relative share of the fees charged for these services vis-à-vis the total fees charged, in such a manner as to guarantee compliance with the provisions of article 77(1) of the EOROC.

The following table presents, for each one of the years in the period 2014-2016 and for this three-year period, the fees / excluding VAT or equivalent tax) invoiced, in euro, by the statutory / external auditor to the BPI Group (that is, to Banco BPI and to the entities controlled by it). These fees are broken down as follows:

1. "Audit Services"
2. "Other Non Audit services not required by Law"
3. "Other Non Audit Services not required (Nor Prohibited) by Law", including:
   3.1. "Tax consultancy services"
   3.2. "Other"
4. "Total fees"

Services	Years			Three year
	2014	2015	2016	Annual average
Audit services	846 547.00	765 525.00	861 525.00	824 532.33
Other Non Audit services not required by Law	562 575.00	524 400.00	519 150.00	535 375.00
Other Non Audit Services not required (Nor Prohibited) by Law	360 096.08	219 400.00	453 710.00	344 402.03
Tax consultancy services	158 936.08	24 650.00	0.00	61 195.36
Other	201 160.00	194 750.00	453 710.00	283 206.67
Total fees	**1 769 218.08**	**1 509 325.00**	**1 834 385.00**	**1 704 309.36**

Fees for "Other Non Audit services not required by Law i" / "Total fees": 20.2%.

As regards the fees which appear in the table, the following points are worth noting:

a) for the period 2014-2016, the overall fees charged by the statutory / external auditor for "Other Non Audit Services not required by Law" represented 20.2% of the fees charged for the total services contracted, a figure that is situated comfortably below the maximum limit imposed in article 77(1) of the EOROC, which is 30%;

b) as concerns the fees included in "Other" (Services) – presented in the last line of the previous Table —, the very significant increase recorded from 2015 to 2016 essentially resulted from:

- studies relating to the excess large exposures in Angola and
- transversal inspection to BFA for the evaluation of the quality of its assets, requested by Banco Nacional de Angola (this service was adjudicated in 2015 and only invoiced at the beginning of 2016).

3.7. Approving, after having heard the AICC, the statutory / external auditors' Annual Work Plan in accordance with article 3(9)(e) of the SBR
The statutory / external auditors' Work Plan for 2016 was approved at the Supervisory Board's meeting held on 27 April 2016, after having obtained the opinion of the AICC.

3.8. Monitoring the inspections of the European Central Bank, the Bank of Portugal, the CMVM and the Tax and Customs Authority carried out at Banco BPI and the other Group companies subject to supervision on a consolidated basis
The Board gathered information throughout the year concerning the progress of the inspections conducted by the supervisory entities and, after the respective findings, received and analysed the reports sent by these entities sent to BPI and all the correspondence subsequently exchanged.

It also participated in the analysis of the periodic assessment of the state of the implementation of the corresponding recommendations, as well as the conclusions of the reports of the mandatory audits carried out by the Audit and Inspection Division for the verification of the implementation of those recommendations.

3.9. Appraising the operational procedures, with the object of certifying that there is an effective management of the respective activities through the proper management of risks and of complete, reliable and timely financial and accounting information, as well as of an adequate monitoring system
The Supervisory Board devoted special attention to the guidelines laid down by the Bank of Portugal, namely in its *Notice 5 / 2008*, complemented by the document "EBA Guidelines on Internal Governance", originating from the European Banking Authority, relating to aspects involving the risk control and operational control systems, having evaluated the operational procedures at Banco BPI, Banco Português de Investimento and the other Group companies subject to supervision on a consolidated basis, including the branches and subsidiaries.

Also bearing in mind *BoP Notice no. 9 / 2012*, it issued an opinion on the activity relating to the oversight of the work covering the prevention of money laundering and the financing of terrorism.

The analysis was conducted based essentially on the findings of the audit examinations performed by the Audit and Inspection Division, as well as the procedural reviews conducted by the external auditors, and on the activity reports of the Audit, Operational Risk Management, Compliance and Risk Control functions.

This information was complemented by the clarifications and information provided by the Divisions and Managements responsible, especially during the meetings of the AICC.

3.9.1. Analysis of Operational risk
Besides the information received via the audits and the annual report prepared by the area which controls Operational Risk, the Supervisory Board received information and all the documentation dealt with at the six meetings of the Operational Risk Committee, having had permanent access to the portal where all the information relating to operational risk and to the meetings of the Operational Risk Committee is available.

3.9.2. Analysis of Credit risk
The Supervisory Board monitored the analysis carried out on the trend in Customers' liabilities undertaken at the meetings of the Financial Risks Committee. This review, which is conducted on a systematic basis, covered in particular the following aspects:

- review of the 20 largest exposures to non-financial entities;
- behaviour of the 50 biggest impairments in Corporate and Small Business Banking;
- Customers with credit-risk exposures of more than 75 million euro;
- defaults of more than 250.000 € in Corporate and Small Business Banking;
- trend in the distribution of the Corporate Banking portfolio by rating class;
- trend in the 100 largest exposures in the construction and public works sector;
- trend in the 20 largest exposures in the real-estate sector;
- trend in the loan portfolio of groups controlled by entities resident in Spain;
- corporate Banking groups under observation;
- trend in the loan portfolio of non residents in Portugal and Spain; and
- trend in foreclosed properties and respective impairments.

In terms of article 109(3) of the General Regime for Credit Institutions and Financial Companies (GRCIFC), business dealings between the company and shareholders with qualified holdings, or with entities with whom they have any relationship, as well as the fixing or revision of the exposure limits that such dealings have taken place – in a total of four – were always submitted for prior pronouncement by the Supervisory Board, irrespective of the amount involved.

In terms of article 85(8) of the GRCIFC, the Supervisory Board was also called upon to issue twenty six prior opinions relating to the fixing or revision of exposure limits, under normal market conditions, of the entities in which members of BPI's management or supervisory bodies were managers or held qualified holdings.

3.9.3. Analysis of Financial risks

The Supervisory Board continued to devote special attention to accompanying the evolution of the financial markets, with the aim of evaluating the strategy and initiatives followed in order to monitor the exposure to both higher-risk products and markets.

As regards the matters dealt with at the meetings of the Financial Risks Committee, it is worth mentioning the following:

- the Supervisory Board had access to the minutes of all the Committee's meetings;
- the members of the Supervisory Board had access to those meetings whenever, bearing in mind the matters to be dealt with, these were considered to be of interest.

3.9.4. Analysis of Reputational risk

During 2016, the information provided about Banco BPI's Service Quality Indices (SQI), in which the European Customer Satisfaction Index was used as the benchmark, was analysed, as were the service-quality indices relating to the competition.

The Supervisory Board analysed the annual report on the Investor Relations Division's work dealing with the performance of its functions of disseminating financial information and interacting with investors, analysts and other market players.

The monitoring reports issued by the rating agencies were also the object of review.

The Supervisory Board also reviewed and followed up all Irregularity Communications, i.e. meaning the facts that seriously violate or compromise:

a) compliance with the legal, regulatory, ethical and deontological principles to which the Members of the Governing Bodies and the Employees of the companies forming part of the BPI Group are bound in performing their respective functions;
b) the preservation of Customers', Shareholders' and BPI's own assets; or
c) the preservation of BPI's institutional image and reputation.

Of the six Irregularity Communications closed during the course of 2016, all relating to Banco BPI, at the date of compiling this report, the situation was as follows:

- six of the Communications received in 2016 were closed – five of which were closed with the Customers being adjudged not to have grounds for their complaints, with the result that there was no loss for the Bank; as regards the other the matter submitted in an anonymous letter was analysed, having concluded that there was no irregularity; and
- at the date of the compilation of this document, there was only one Communication in progress relating to Banco BPI and dating back to 2013, which process was in the judicial appeal phase.

3.9.5. Analysis of Compliance Risk

The Board monitored the Compliance Division's activity, namely with respect to the control over money laundering and terrorist financing activities from the perspective of the BPI Group.

Besides the regular monitoring of this Division's activity, the Supervisory Board also reviewed the following documents:

- Banco BPI's and BFA's Compliance Division's activity report with reference to the 2015 financial year;
- Banco BPI's and BFA's Compliance Division's activity plan for 2016, in respect of which it issued a favourable report;
- The Report corresponding to the status of the Compliance function as at 31 May 2016, as laid down in article 17(1)(f) of *Bank of Portugal Notice no. 5 / 2008*, published on 1 July and article 305-A(2)(f) of the Securities Code; and
- Report on the prevention of money laundering and the financing of terrorism in terms of Bank of Portugal notice 9 / 2012.

3.9.6. Monitoring audit work

As regards the monitoring of the audit areas, both internal and external, special mention is made of the Supervisory Board's participation in the following processes:

- the drafting of the report on and accompanying the work plans for 2016 of Banco BPI's and BFA's Audit and Inspection Divisions;
- the approval of the statutory / external auditor's Annual Procedural Review Plans and subsequent revisions of this plan, as well as assessing the scope thereof bearing in mind the coverage of the areas exposed to the greatest potential risk;
- the appraisal of the findings of the audits realised, both internal and external, and keeping abreast of the recommendations considered important, analysis of the time frames for their implementation and the degree of their compliance;

- the analysis of the coverage schedules of the internal audits carried out in the past 3 years;
- the review of the events giving rise to losses at Banco BPI and BFA; and
- in the review of the Audit and Inspection Division's activity report drawn up to 31 May 2016.

The Supervisory Board was regularly informed about the communications sent to the ECB and BoP concerning the recommendations made by the respective permanent inspection teams.

3.9.7. Report to the ECB and BoP in terms of Notice no. 5 / 2008 of the national supervisor

The Supervisory Board issued opinions which it submitted to the ECB and the BoP in terms of *Notice 5 / 2008*, on the effectiveness and coherence of the BPI Group's, and in particular Banco BPI's, internal control and risk-management systems.

To this end:

- it considered the annual internal control reports prepared by the Boards of Directors of all the Group companies subject to joint ECB and BoP supervision;
- it analysed the opinions of the respective statutory auditors on the internal control systems underlying the preparation and dissemination of financial information; and
- it reviewed the reports prepared by the Audit and Inspection Division; the Risk Analysis and Control Division, the Compliance Division and the Organisation and Quality Division (Operational Risk Area), and by the statutory / external auditors.

3.9.8. Report to the ECB and BdP Bank of Portugal in terms of Notice no. 9 / 2012

The Supervisory Board issued a report which it sent to the ECB and BoP in June 2016, on its activity relating to the prevention of money laundering and the financing of terrorism prepared by BPI and covering the period June 2015 to May 2016.

3.10. Giving an opinion on the Report, Accounts and Proposed Appropriation of Results presented by the Board of Directors

In terms of article 420(1)(g) of the CCC, the Supervisory Board:

- oversaw the preparation of documentation throughout the year, having in particular met with the heads and technical staff of the Accounting, Planning and Statistics Division on 9 March 2017, with the object of obtaining detailed information about the preparation and closing of the accounts;

- regularly contacted the partners and professional staff of the statutory / external auditors, keeping itself informed of the work performed by them and, in particular, meeting with them:
  - on 14 February 2017 at the request of Deloitte for communicating information stemming from the entry into force in Portugal of the International Auditing Standards in 2016, and
  - on 9 March 2017, in order to obtain the views of the statutory / external auditor on the accounts on the date of their closing and to ascertain the situation with respect to their audit work;

- it examined the following documents prepared for the 2016 financial year, with which it was in agreement:
  - The Directors Report;
  - The Accounts – which included the Consolidated Balance Sheet at 31 December, the Consolidated Income Statement, the Consolidated Cash Flow Statement and the Consolidated Statement of Changes in Shareholders' Equity – and the respective Notes thereto;
  - The Statutory Certification of Accounts and the Audit Report; and
  - The statutory / external auditor's Additional Report in terms of article 11 of *Regulation (EU) no. 537 / 2014* and of article 24 of *Law no. 148 / 2015* of 9 September.

4. SUPERVISORY BOARD'S OPINION

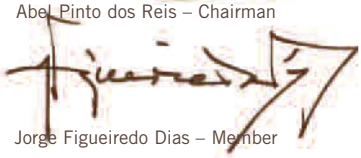
In view of the foregoing, the Supervisory Board is of the opinion that, with respect to the 2016 financial year, the BPI Group's Directors' Report, the Proposed Appropriation of Results contained therein, the Group's Consolidated Annual Accounts, the respective Statutory Certification of Accounts and Audit Report, and the Group's Corporate Governance Report, are in conformity with applicable legal, statutory or accounting requirements, with the result that it recommends that they be approved at the Shareholders' General Meeting.

Finally, below is a transcript of a statement which was signed individually by each one of the members of the Supervisory Board, with the object of complying with the legal requirement expressed therein:

"I declare, in the terms and for the purposes of article 245 (1) (c) of the Securities Code that, to the best of my knowledge, the Directors' Report, the Consolidated Annual Accounts, the Statutory Certification of Accounts and the Audit Report and the other documents forming part of the BPI Group's annual report, all relating to the 2016 financial year, were prepared in conformity with the applicable accounting standards, giving a true and fair view of the Group's assets and liabilities, its financial position and its financial results, and that the Directors' Report provides an accurate account of the Group's business, performance and financial position, as well as containing a description of the principal risks and uncertainties confronting it."

3 April 2017

Abel Pinto dos Reis – Chairman



Jorge Figueiredo Dias – Member

Rui Campos Guimarães – Member

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BPI Group
Corporate Governance Report

This report – which constitutes an integral part of Banco BPI's 2016 Annual Report – aims to divulge the structure and corporate governance practices adopted by BPI as well as BPI's judgment regarding compliance with the recommendations set out in the Corporate Governance Code, in the version published by the Securities Commission ("CMVM") in July 2013. This report was elaborated in accordance with Articles 7.º and 245-A of the Portuguese Securities Code and the model annexed to Regulation no. 4 / 2013.

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ANNEX 420

Part I – Information on Shareholder structure, organisation and corporate governance

A. SHAREHOLDER STRUCTURE

I. CAPITAL STRUCTURE

1. Capital structure

At 31 December 2016 Banco BPI's share capital stood at 1 293 063 324.98 euros, represented by 1 456 924 237 ordinary, nominative and dematerialised shares, with no par value. All the shares were admitted for dealing on the Euronext market.

On the same date – 31 December 2016 – Banco BPI's shares were held by 17 778 Shareholders. Of these, 17 351 were individuals holding 10% of the capital, while 427 were institutional investors and companies who collectively held the remaining 90% of the capital.

2. Restrictions on the transfer of shares

The Company's Statues do not contain any restrictions on the transfer of shares, such as consent clauses for the sale or limitations to the ownership of shares.

3. Own shares

At 31 December 2016 the BPI Group held 5 227 514 own shares corresponding to 0.36% of Banco BPI's share capital and voting rights[1].

4. Important agreements in cases such as a change in the control of the company

There are no significant accords of which BPI forms part and which enter into effect, are altered or cease in the event there is a change in the control of the company. Fours loans totalling 660 million euro contain clauses which, in case of a change in control, contemplate consequences which, once certain circumstances are fulfilled, could include the obligation to make early repayment.

5. Regime which is subject to renewal or revocation of defensive measures

Banco BPI's statutes do not incorporate defensive measures, namely measures that provide limiting the counting of votes capable of being held or of the exercise by any single shareholder in an individual manner or in liaison with other shareholders[2].

6. Shareholders' agreements

The Bank is not aware of any shareholder agreement relating to the exercise of company rights or to the transfer of Banco BPI shares.

II. SHAREHOLDINGS AND BONDS HELD

7. Holders of qualifying shareholdings

Shareholders owning more than 2% of Banco BPI's capital — At 31 December 2016

Shareholders	No. of shares held	% of capital held
CaixaBank, S.A.	662 888 388	45.499%[2,3]
Santoro Finance – Prestação de Serviços, S.A.	270 643 372	18.576%[4]
Allianz SE	122 744 370	8.425%[5]
Violas Ferreira Financial, S.A.	39 063 392	2.681%[6]
Banco BIC, S.A.	33 283 372	2.284%[7]

The results of CaixaBank, S.A.'s public tender offer for Banco BPI, S.A.'s shares were known on 8 February 2017. Shareholder positions of more than 2% of the capital are now those presented in the following table:

Shareholders owning more than 2% of Banco BPI's capital — At 13 February 2017

Shareholders	No. of shares held	% of capital held
CaixaBank, S.A.	1 231 250 696	84.510%[8]
Allianz SE	122 744 370	8.425%[5]

Source: Information received from the Securities Market Clearing House (CVM) relating to the shareholder positions registered on 13 February 2017 at the CVM and public information announced to the market.

There are no special rights attributed by the Statutes to shareholders, with the result that there are no shareholders with special rights.

1) The balance of own shares at the end of December 2016 does not include:
   - 168 917 shares awarded subject to a condition subsequent under the RVA programme but not yet freely disposable. The transfer of the shares awarded under the RVA programme is fully effected on the award date, but availability (vesting) is dependent on the Employee remaining at the BPI Group, so that for accounting purposes, the shares remain in Banco BPI's own portfolio until the vesting (disposable) date.
   - 148 538 shares held in the securities portfolios of capitalization insurance units links managed by BPI Vida e Pensões.
2) The Shareholders at the General Meeting of 21 September 2016 approved the elimination of the statutory rule then in force limiting the counting of votes.
3) The stake held through CaixaBank, S.A. ("CaixaBank"), is also imputable, as of 31 December 2016, to Criteria Caixa, S.A.U., which holds 45.32% of CaixaBank, which in turn is fully controlled by Fundación Bancaria la Caixa.
4) Directly held by Santoro Finance – Prestação de Serviços, S.A. ("Santoro Finance"), and imputable, in terms of article 20(1)(b) of the SC, to Santoro Financial Holdings, SGPS ("Santoro"), as owner of the entire capital of Santoro Finance, and to Eng. Isabel José dos Santos, in her capacity as shareholder of Santoro Financial Holdings, SGPS.
5) Indirect shareholding held by subsidiaries controlled by Allianz SE, the Allianz Group's holding company, and imputable to that entity in terms of article 20(1)(b) of the SC: direct shareholding of 8.275% held by Allianz Europe Ltd. (100% held by Allianz SE) and direct shareholding of 0.150% held by Companhia de Seguros Allianz Portugal (65% held by Allianz SE).
6) Shareholding imputable to HVF – SGPS, S.A. which wholly owns the capital of Violas Ferreira Financial, S.A. Includes 227 273 shares held by Edgar Alves Ferreira (0.016% of Banco BPI's share capital), member of the Board of Directors of the company HVF – SGPS, S.A. and of Violas Ferreira Financial, S.A.
7) Shareholding according to the communication sent by Banco BIC to Banco BPI on 26 February 2016 and announced to the market on the same date. Includes 27 646 900 shares held directly by Banco BIC, S.A. (1.90% of Banco BPI's share capital) and, in terms of the provisions of article 20(1)(d) of the SC, includes 5 634 822 shares held by Fernando Leonidio Mendes Teles (0.387% of Banco BPI's share capital) and 1 650 shares held by Fernando José Aleixo Duarte, respectively, Chairman of the Board of Directors and Director of Banco BIC. According to the communication made on 2 March 2016, Banco BIC informed that the surpassing of the 2% limit occurred on 11 April 2013, following the acquisition of 612 182 Banco BPI shares by Banco BIC. As a result of that acquisition, Banco BIC is now the holder of 26 569 873 Banco BPI shares (1.912% of the share capital). Amongst its directors, the Chairman of the Board of Directors, Fernando Leonidio Mendes Teles, was on the date the holder of 1 752 722 Banco BPI shares (0.126% of the share capital).
8) The shareholding owned by CaixaBank, S.A., is also imputable to Criteria Caixa, S.A.U., which held 40% of CaixaBank, S.A.'s voting rights, according to the announcement to the market of 14 February 2017, which in turn is wholly controlled by the Fundación Fundación Bancaria la Caixa.

8. Number of shares and bonds held by members of the management and supervisory boards[1]

	Held at 31 Dec. 16		Held after CaixaBank Public Offer			
	Shares	Options on BPI shares	Shares	Options on BPI shares	Bonds	
	Quantity	Quantity	Quantity	Quantity	Quantity	Nominal value (€)
Board of Directors						
Artur Santos Silva	500 000	0	100 000	0	0	
Fernando Ulrich[2]	2 092 180	0	2 092 180	0	0	
Alfredo Rezende de Almeida	2 250 000	0	10 000	0	0	
António Lobo Xavier	0	0	0	0	0	
Armando Leite de Pinho	0	0	0	0	0	
Carla Bambulo	0	0	0	0	0	
Carlos Moreira da Silva	66 333	0	66 333	0	0	
Ignacio Alvarez-Rendueles	0	0	0	0	0	
Gonzalo Gortázar Rotaeche[3]	0	0	0	0		
João Pedro Oliveira e Costa[2]	10 708	127 249	0	0	0	
José Pena do Amaral[2]	184 913	358 530	0	358 530	0	
Lluis Vendrell	0	0	0	0	0	
Manuel Ferreira da Silva (excluding spouse)[2]	670 0000	358 530	0	358 530	0	
Maria Celeste Hagatong[2] (excluding spouse)	477 835	0	0	0	0	
Mário Leite da Silva	0	0	0	0	0	
Pablo Forero Calderon[3]	0	0	0	0		
Pedro Barreto[2]	500 000	358 530	500 000	358 530	0	
Tomás Jervell[3]	0	0	0	0	0	
Vicente Tardio Barutel	0	0	0	0	0	
Santoro Finance – Prestação de Serviços, S.A.	270 643 372	0	0	0	0	
Supervisory Board						
Abel Pinto dos Reis	0	0	0	0	0	
Jorge Figueiredo Dias	0	0	0	0	0	
Rui Campos Guimarães	0	0	0	0	0	

In the note to the consolidated financial statements 4.52 – Related parties, information is provided concerning the shares held individually by the members of Management, with mention of the events occurring during the year.

9. Special powers of the Board of Directors, especially as regards resolutions on the capital increase

There is no existing authorisation that gives special powers to the Board of Directors, especially as regards resolutions on the capital increase.

10. Information about the existence of significant relations of a commercial nature between the holders of qualified shareholdings and the company

In terms of article 109(3) of the RGICSF, the granting of credit, in any form or type, to shareholders with qualified holdings or entities in a control or group relationship is always submitted for the Supervisory Board's prior approval, irrespective of the amounts concerned of the said business dealings, at the same time that the operations in question must always be effected under normal market conditions.

In parallel and in terms of article 85(8) of the said RGICSF, business dealings with entities in which members of the Bank's management or oversight bodies are managers or in which they have qualified holdings, require the prior opinion of the Supervisory Board, irrespective of the amounts involved, at the same time that the operations in question must always be effected under normal market conditions.

The opinions of the Supervisory Board are issued based on the detailed information presented for review of the respective operations by the Executive Committees of the Risks Committee and the Board of Directors, and are also supported by the information sent to the Board of Directors after these bodies' consideration.

1) The information reported related to the members in functions at 31 December 2016.
2) Member da Executive Committee.
3) Co-opted on 26 October, and ratified by the General Meeting of 23 November. In terms of the law, awaiting registration at the Bank of Portugal in order to commence functions.

During 2016, the Supervisory Board was called upon – in terms of article 109(3) of the RGICSF – to issue four prior opinions relating to revisions of exposure limits, under normal market conditions, of shareholders with qualified shareholdings. It also issued – in the terms set out in article 85(8) of the same RGICSF – twenty six prior opinions on revisions of credit limits to entities in which members of the Bank's management or oversight bodies were managers or in which they owned qualified holdings.

In 2016, there were no dealings of a business or financial nature.

- between Banco BPI on the one hand, and the members of its Board of Directors, its Supervisory Board, companies belonging to the Group or the holders of qualified shareholdings or Group companies,

- on the other, which were materially relevant and cumulatively, which were carried out other than under market conditions (applicable to similar operations) or beyond the scope of the bank's normal day-to-day business operations.

However, it is important to disclose the following business relations existing between BPI and some of the holders of qualified shareholdings.

Allianz Group

BPI is in partnership[1] with the Allianz Group in the life assurance and life risk business, materialised in a 35% interest in Allianz Portugal[2] and in an agreement for the distribution of insurance through its commercial network.

The Allianz Group owns an 8.4% shareholding in Banco BPI at 31 December 2016.

La Caixa

BPI has a partnership with La Caixa reflected in the offer of products and services aimed at supporting companies operating in the Iberian Peninsula, allowing them to conduct international financial operations under the conditions equal to those performed in their home markets.

1) From which revenue is derived in the form of a share in the profits (from the shareholding) and commissions (for the selling of insurance at the bank's network).
2) Consolidated participation in Banco BPI's accounts using the equity method.

B. GOVERNING BODIES AND COMMITTEES

GOVERNANCE MODEL

BPI's governance model is structured according to one of the three models contemplated in the Commercial Companies Code – commonly referred to as the Latin model.

The company's management is entrusted to the **Board of Directors** which includes an **Executive Committee** – formed by professionals independent from any shareholders' or specific interests – to which the Board has delegated wide management powers for conducting the day-to-day activity.

Four specialist committees function within the ambit of the Board of Directors, composed exclusively of non-executive members:

- the **Audit and Internal Control Committee (CACI)**, which is charged with carrying out an oversight especially close to the Executive Committee;
- the **Risks Committee (CR)**, which is responsible, without prejudice to the overall powers and duties of the Board of Directors as regards risk, for advising the management body about risk appetite and general risk strategy, current and future, of the credit institution, for assisting the management body in supervising the execution of the credit institution's risk strategy by top management, for analysing whether the conditions of the products and services offered to Customers take into consideration the credit institution's business model and risk strategy and for presenting to the management body a corrective plan when that analysis reveals that the said conditions do not adequately reflect the risks, and for examining whether the incentives laid down in the credit institution's remuneration policy take into consideration the risk, capital, liquidity and expectations as regards the results, including the receipt dates.
- the **Corporate Governance Committee** (Comissão de Governo da Sociedade – CGS), which is charged with supporting and advising the Board of Directors on streamlining the governance and oversight model and pronouncing itself on matters pertaining to social responsibility, ethics, professional deontology and protecting the environment and
- the **Nominations, Evaluation and Remuneration Committee** (Comissão de Nomeações, Avaliação e Remunerações – CNAR), whose duties are to give opinions on the filling of vacancies occurring on the governing bodies and on the choice of Directors to be appointed to the Executive Committee, and to exercise the functions which on the subject of remuneration policy are envisaged in *article 7 of Bank of Portugal Notice 10 / 2011*.

The **Risks Committee (RC)** resulted from the approval at the General Meeting of 23 November 2016 of the alterations to the functions and name of the previous **Financial Risks Committee (FRCF)**, retaining its composition.

The oversight functions are attributed to the **Supervisory Board** – whose key terms of reference include, overseeing management, supervising compliance with the Law and the company's Statutes, verifying the accounts, supervising the independence of the **Portuguese Statutory Auditor** and the external auditor, as well as evaluating the last-mentioned's work – and to the Portuguese Statutory Auditor (SA), whose prime function is to examine and then certify the accounts.

The **General Meeting**, composed by all Shareholders, deliberates on the issues which are specifically attributed to it by the law or by the Statutes – including the election of the governing bodies, the approval of the directors' reports, the annual accounts, the distribution of profits, and capital increases –, as well as if so solicited by the Board of Directors, on matters dealing with the company's management.

The **Remuneration Committee** (Comissão de Remunerações – CR), composed of three shareholders, is elected by the General Meeting. The Committee sets the remuneration of the holders of positions on Banco BPI's governing bodies, based on the opinion of the CNAR, and must observe, as regards the fixed remuneration of the members of the Board of Directors and the variable remuneration of the Executive Committee, the limits laid down by the General Meeting.

The **Company Secretary** is appointed by the Board of Directors and performs the functions contemplated in the law and others attributed by the Bank.

At 31 December 2016

General Meeting Committee

Chairman
Carlos Osório de Castro

Deputy-Chairman
Agostinho Cardoso Guedes

Secretaries
Alexandra Magalhães
Luís Manuel Amorim

Remuneration Committee

CaixaBank, S.A.[7]
Arsopi – Holding, SGPS, S.A.[8]
Violas Ferreira Financial, S.A.[9]

Supervisory Board

Chairman
Abel António Pinto dos Reis

Members
Jorge de Figueiredo Dias
Rui Guimarães

Alternate members
Francisco Javier Olazabal
Luís Roque de Pinho Patricio

Board of Directors[1]

Chairman
Artur Santos Silva

Deputy-Chairman
Fernando Ulrich

Members
Alfredo Rezende de Almeida
António Lobo Xavier
Armando Leite de Pinho[2]
Carla Bambulo[3]
Carlos Moreira da Silva[4]
Gonzalo Gortázar Rotaeche[5]
Ignacio Alvarez-Rendueles
João Pedro Oliveira e Costa
José Pena do Amaral
Lluís Vendrell
Manuel Ferreira da Silva
Maria Celeste Hagatong
Mário Leite da Silva[6]
Pablo Forero Calderon[5]
Pedro Barreto
Santoro Finance – Prestação de Serviços, S.A.
Tomás Jervell
Vicente Tardio Barutel

Portuguese Statutory Auditor

Member in office
Deloitte & Associados, SROC, S.A.[10]

Alternate
Carlos Luís Oliveira de Melo Loureiro

Nominations, Evaluation and Remuneration Committee

Chairman
António Lobo Xavier

Members
Lluís Vendrell
Carlos Moreira da Silva[4]

Audit and Internal Control Committee

Chairman
Ruy Octávio Matos de Carvalho[11]

Members
Alfredo Rezende de Almeida
Ignacio Alvarez-Rendueles
Mário Leite da Silva[6]

Corporate Governance Committee

Chairman
Artur Santos Silva

Members
Carla Bambulo
Armando Leite de Pinho[2]
Tomás Jervell

Company Secretary

Member in office
João Avides Moreira

Alternate
Fernando Leite da Silva

Risks Commission

Chairman
Pablo Forero[5]

Members
Artur Santos Silva
Vicente Tardio Barutel

Executive Committee of Board of Directors

Chairman
Fernando Ulrich

Members
José Pena do Amaral
Maria Celeste Hagatong
Manuel Ferreira da Silva
João Pedro Oliveira e Costa
Pedro Barreto

1) For more information about the composition of the Board of Directors and of its respective support committees, please consult points 17, 27 and 28 of this Report.
2) Presented resignation from the office on 31 January 2017, having ceased functions on 28 February 2017.
3) Person nominated on 29 January 2015 by Allianz Europe, Ltd. In terms of article 15(2) of Banco BPI, S.A.'s statutes.
4) Presented resignation from the office on 22 January 2017, having ceased functions on 28 February 2017.
5) Co-opted on 26 October 2016, which was the object of ratification by the shareholders on 23 November 2016. Awaits the Supervisor's authorisation to commence functions.
6) Presented resignation from the office on 7 February 2017. Will cease functions on 31 March 2017.
7) CaixaBank, S.A. nominated Lluís Vendrell to represent it in the exercise of this position. On 2 February 2017 CaixaBank nominated José Villalonga Pons to substitute Lluís Vendrell.
8) Arsopi-Holding, SGPS, S.A. nominated Armando Leite de Pinho to represent it in the exercise of this position. On 31 January 2017 Arsopi Holding SGPS, S.A. presented its resignation with immediate effect as member of the Remuneration Committee.
9) Violas Ferreira Financial, S.A. nominated Edgar Alves Ferreira to represent it in the exercise of this position.
10) Deloitte & Associados, SROC, S.A. nominated António Marques Dias to represent it in the exercise of this position. On 18 February 2016 Deloitte & Associados SROC S.A. notified the Bank of the nomination of the partner Paulo Alexandre de Sá Fernandes to represent it with effect from that date.
11) Member not belonging to the Board of Directors.

I. GENERAL MEETING

The General Meeting (GM) is the governing body composed of all Banco BPI's shareholders.

GENERAL MEETING'S PRINCIPAL TERMS OF REFERENCE

- Election of members of the Board of Directors, the Supervisory Board, the Remuneration Committee and Chairman, Deputy-Chairman and Secretaries of the General Meeting Committee, as well as the election of the Portuguese Statutory Auditor.
- Consideration of the Board of Directors' annual report, discussion and voting on the consolidated and individual accounts, as well as on the Portuguese Statutory Auditor's opinion.
- Evaluation of the Board of Directors' and the Portuguese Statutory Auditor's performance.
- Deliberation on the appropriation of the annual results.
- Definition of a maximum limit for the annual fixed remuneration of the members of the Board of Directors and of the maximum percentage of consolidated profit which, not exceeding 5%, the variable remuneration of the members of the Executive Committee may represent each year.
- Review of the strategic orientation and policies adopted.
- Deliberation on a long-term dividend policy proposed by the Board of Directors.
- Deliberate on the acquisition and sale of treasury stock.
- Deliberation on the capital increases and the issue of bonds convertible into shares or that confer the right to subscribe for shares.
- Deliberation on changes to the statutes.

Representative of the external auditor

The external auditor, through the partner responsible for the audit of Banco BPI's consolidated financial statements, is present at the Annual General Meetings, and is available to clarify any query related to the opinions issued on Banco BPI's individual or consolidated accounts.

Representative of the Remuneration Committee

The presence of at least one member of the Remuneration Committee at the General Meetings is always assured.

Functioning rules

According to the law, the Annual General Meeting must meet by the end of May[1]. In addition, the Committee Chairman must convene extraordinarily the General Meeting whenever this is requested by the Board of Directors, the Supervisory Board or by shareholders owning shares corresponding to the minimum number by imperative law and who so request by means of a signed written document which indicates in precise terms the matters that should appear on the agenda and which justify the need for the General Meeting, and must be accompanied by the relevant draft resolutions.

Constituent quorum and required majority

The General Meeting can deliberate at its first convocation irrespective of the number of shareholders present or represented, except if it deliberates on altering the Bank's statutes, merger, demerger, and transformation, dissolution of the Company or other matters for which the law requires a qualified majority without specifying it. In these cases, it is necessary that shareholders who own at least shares corresponding to a third of the share capital must be present or represented.

At the second convocation, the Meeting can deliberate irrespective of the number of Shareholders present or represented and the capital represented by them.

In terms of article 386 of the Commercial Companies Code (CCC), the General Meeting deliberates by a majority of the votes cast irrespective of the percentage share capital represented thereat, with abstentions not being counted. The law and the statutes can however require a qualified majority should this be the case:

a) of the resolutions relating to the matters for which the law prescribes a constitutive quorum of one third of the share capital (such as for altering the statutes, merger, demerger, transformation), which in terms of article 386(3) of the CCC, have to be approved by two thirds of the votes cast;
b) of the resolutions amending the Statutes relating to the resolution approving the company's dissolution, in respect of which the Bank's statutes require the approval by 75% of the votes cast.

Right to information

During the course of General Meetings, any Shareholder can request that information be supplied so that he / she can form a substantiated opinion about the matters being deliberated.

11. Shareholders' General Meeting

The composition of the General Meeting Committee appears in the organisation chart "Governing bodies and Committees" (page 354 of the present report).

1) In terms of article 376(1) of the Commercial Companies Code, the Shareholders General Meeting must meet within three months after the close of the financial year, or within five months in the case of companies required to present consolidated accounts or which apply the equity accounting method.

The members of the General Meeting Committee were elected at the General Meeting of 23 April 2014 for a term of three years which ended on 31 December 2016.

On 28 June 2016 the Chairman of the General Meeting Committee Miguel Veiga resigned his position. The Deputy-Chairman of the Committee and the Committee Secretaries, accompanying this position of the Committee Chairman, also presented their resignations from the respective positions.

On 22 July 2016 the Shareholders elected in General Meeting the new composition of the General Meeting Committee to serve until the end of the current term of office (2014-2016), whose composition is detailed in point B.I.

12. Attribution of the right to vote

A shareholder is entitled to vote if he / she / it owns at least one Banco BPI share on the fifth trading day prior to the holding of the General Meeting (registration date), in accordance with the principle of "one share / one vote".

Procedures relating to representation

BPI provides to Shareholders in its website www.ir.bpi.pt, in the page dedicated to the General Meeting, the meeting notices, as well as the proxy forms – available in Portuguese and English.

The proxies are communicated by a signed written document addressed to the Chairman of the General Meeting Committee, at the latest by the end of the day prior to the above-mentioned registration date.

Procedures relating to postal voting

Postal voting is envisaged in the statutes. BPI provides to Shareholders, on Banco BPI's head Office and on its web site, self-addressed ballot papers to the Chairman of the General Meeting, by means of which the Shareholder can clearly cast his / her / its vote.

The ballot paper must be signed and the authentication of the signature (by a notary, lawyer or solicitor) must be recorded on it. The ballot papers must be received at Banco BPI's head Office by 6.00 pm of the third business day before the date scheduled for the General Meeting. The description of the manner how the scrutiny of postal votes takes place in General Meeting appears in the notice of meeting.

The confidentiality of the postal votes is assured by the Bank up till the moment of the opening of the respective ballot papers by the Chairman of the General Meeting Committee. On this date, the safeguarding of such confidentiality is now guaranteed by the Chairman of the General Meeting Committee up until the moment of voting.

The Chairman of the General Meeting is responsible for checking the authenticity of the voting papers, as well as the conformity with the rules and the absence of vote duplication stemming from the presence at the General Meeting of the shareholders whose vote arrived by post. The postal vote is deemed to be revoked in the case of the presence of the Shareholder or the respective proxy at the General Meeting.

The Chairman of the General Meeting Committee informs those present of the number and the results of the postal votes received.

Procedures relating to voting by electronic means

BPI offers its Shareholders the possibility of casting votes by means of electronic mail. The procedures required for voting by electronic mail are in part similar to those required for postal voting: BPI provides to Shareholders a draft – available in Portuguese and English – that allows them to opt for the system of electronic voting. This draft can be obtained from the website www.ir.bpi.pt or upon request to the Investor Relations Division. The draft must be signed and the signature must be authenticated by a notary, lawyer or legal clerk.

In the draft, which must be addressed to the Bank, the Shareholder is asked, amongst other details, to provide a password and indicate the email address. BPI sends the Shareholder an email indicating his counter password which, jointly with the initial password, will give him access to an electronic ballot paper on a page at the site www.ir.bpi.pt. The Shareholder can exercise his voting right until 6 p.m. of the third business day before that set for the Meeting.

13. Maximum percentage of the voting rights which can be exercised by a single shareholder

There is no limit to the number of votes that can be exercised by any single shareholder.

14. Shareholders' resolutions that, imposed by the articles of association, may only be passed with a qualified majority

According to article 30(2) of Banco BPI's statutes, the alterations to number one of article thirty one (provision which prescribes a special qualified majority for the company's winding up), as well as to this number two of article 30, require the approval of seventy five per cent of the votes cast, which majority is higher than that envisaged in article 386(3) of the Commercial Companies Code (two thirds of the votes cast).

It will be recalled that the qualified majority of seventy five per cent in question, even though it is higher than the qualified majority laid down in the law, is, just as the latter, defined according to the votes cast and not the votes corresponding to the share capital.

II. MANAGEMENT AND SUPERVISION

15. Details of corporate governance model adopted

The governance model adopted by BPI is contemplated in the Commercial Companies Code and is commonly referred to as the Latin Model, which is presented in great detail on page 352 ("B. Governing Bodies and Committees").

16. Articles of association rules on the procedural requirements governing the appointment and replacement of members of the Board of Directors

The Statutes do not contain any rules governing procedural or material requirements related to the appointment or replacement of members of the Board of Directors.

However article 29(3) of the Statutes contains a limitation applicable to the appointment of Board of Director members forming part of the Executive Committee and which prescribes that *"Any member of the Board of Directors aged 62 or more at 31 December of the preceding year cannot be appointed to the Executive Committee."*

In terms of the proposed amendment to the statutes to be presented to the General Meeting of Abril 2017 approved by the Board of Directors on 17 March 2017, this statutory provision is expected to be eliminated.

The RGICSF lays down the adequacy requisites (integrity, professional qualifications, independence and availability) which the members of the management and oversight bodies must possess for the exercise of the respective functions.

Pursuant to the provisions of article 30-A(2) of the RGICSF "The Selection and Evaluation Policy for the members of the Board of Directors, the Supervisory Board and Employees with essential functions", which contain the legal requirements and requisites applicable to the afore-mentioned members, was approved at the General Meeting of 29 April 2015.

17. Composition of the Board of Directors

The composition of the Board of Directors and of its respective consultative committees as at 31 December 2016 is presented in the organisation chart "Governing Bodies and Committees" (page 352 of the present report). As regards the date of the 1st appointment and term of office, consult annex 1, page 422).

On 30 May 2016, the Board of Directors member and Deputy-Chairman of the Executive Committee António Domingues presented his resignation from the office, having ceased functions on 30 June 2016.

On 13 October 2016 Edgar Alves Ferreira presented his resignation from the office of member of the Board of Directors and consequently as member of the Audit and Internal Control Committee, having ceased functions on 26 October 2016.

On 26 October 2016, the Board of Directors co-opted to fill the vacancies thus opened Gonzalo Gortázar Rotaeche and Pablo Forero Calderon, which co-options were ratified at the Shareholders General Meeting held on 23 November 2016.

On 26 October 2016, Isidro Fainé Casas and Marcelino Armenter Vidal presented their resignations as members of the Board of Directors and, in the second case, he also resigned as Chairman of the then-named Financial Risks Committee, with both having creased functions on 30 November 2016.

In terms of article 15 of the Statutes "The Board of Directors is composed of a minimum number of eleven and a maximum number of twenty five members, elected by the General Meeting, who shall nominate the chairman from amongst their number and, if deemed necessary, one or more deputy chairmen."

Still according to article 29 of the Statutes: "The members of the governing bodies are elected for terms of three years, while re-election is always permitted, with the exception of the members of the Supervisory Board who can only be re-elected for two more consecutive terms of office."

18. Independence of the Board of Directors members

The organisation chart "Governing bodies and Committees" (page 352) presents the composition of the Board of Directors, indicating its members who make up the Executive Committee.

Non-executive members of Banco BPI's Board of Directors

At 31 December 2016

	Board of Directors consultative committees				
	Audit and Internal Control Committee	Risks Committee	Corporate Governance Committee	Nominations, Valuation and Remunerations Committee	Independence basis
Chairman					
Artur Santos Silva		Member	Chairman		Independent
Members					
Alfredo Rezende de Almeida	Member				Independent
António Lobo Xavier				Chairman	Independent
Armando Leite de Pinho[1]			Member		Independent
Carla Bambulo			Member		✓
Carlos Moreira da Silva[1]				Member	Independent
Gonzalo Gortázar[3]					✓
Ignacio Alvarez-Rendueles	Member				✓
Lluís Vendrell					✓
Mário Leite da Silva[2]	Member				✓
Pablo Forero[3]		Chairman			✓
Tomás Jervell			Member		Independent
Vicente Tardio Barutel		Member			✓

1) Ceased functions following resignation on 28 February 2017.
2) Presented resignation on 7 February 2017. Will cease functions on 31 March 2017.
3) Elected on 23 November 2016. Awaits supervisor's authorisation to commence functions.

Independent: In terms of recommendation II.1.7 of the Corporate Governance Code disclosed by the CMVM, a member of the Board of Director is deemed to be Independent when he / she is not associated with any specific interest group in the company and is not in any situation that is capable of affecting his / her impartial analysis or decision, namely by virtue of:
a) Having been an Employee of the company or of a company controlled by it or with which there has been a group relationship in the preceding three years;
b) Having, in the preceding three years, rendered services or established a significant commercial relationship with the company or a company controlled by it or with which there has been a group relationship, whether directly or as member, administrator, director or officer of a corporate entity;
c) Being a beneficiary of remuneration paid by the company or by a company controlled by it or with which there has been a group relationship, besides the remuneration derived from the exercise of directorship functions;
d) Living under a common law union or being the spouse, relative or direct relative up to the 3rd degree of lineage, inclusive, of directors or natural persons who are the direct or indirect holders of a qualified holding;
e) Being the holder of a qualified holding or the representative of a shareholder with a qualified holding.
The director concerned is not covered by any of the situations referred to in sub-paragraphs a) to e) which constitute the norm in question, nor is he covered by the situation described in ✓.

✓ The director concerned is not the holder of a qualified holding of 2% or more of the company's capital; the director concerned occupies a management position (s) in an entity(ies) holding a qualified holding of 2% or more of Banco BPI's capital or in its group entity(ies), a fact which in the opinion of the Board of Directors does not mean, nor does it have as a consequence, that the aforesaid director must be deemed to be a person who is acting in the name or on behalf of the abovementioned entity(ies); if however the broad meaning of the phrase "representative of a shareholder with a qualified holding" is construed so that such action is deemed to exist by virtue of the simple fact that he is an executive of the said entity(ies), then the director indicated finds himself in that situation.

19. Professional qualifications and other relevant curricular details of members of the Board of Directors

Consult the annex 1 to the present report (page 422).

20. Family, professional or commercial relationship, habitual and significant, of the members of the Board of Directors with shareholders to whom a qualified holding of 2% or more of the voting rights is imputed

As referred to in item 7 of the present report, the shareholders to whom are imputed qualified holdings of more than 2% in the bank are corporate entities. Accordingly and naturally, there does not exist any family relationship between the members of the Board of Directors and shareholders with a qualified holding of more than 2%.

The professional relationships of the members of the Board of Directors with shareholders holding a qualified holding of more than 2% are described with respect to each member in annex to the present document, detailing therein the professional positions occupied in the corporate shareholders with qualified holdings of more than 2%.

BPI was not informed of any significant relations between the members of the Board of Directors and the corporate shareholders which have a qualified shareholding of more than 2% in BPI, besides those which result from that referred to in the preceding paragraphs.

21. Apportionment of duties between the various governing bodies and committees

21.1. Board of Directors

The Board of Directors is the corporate body to which the widest powers have been attributed in order to manage and represent the company, without prejudice to the specific powers which the law vests in the Supervisory Board. The BPI Group's major strategic options are laid down by it.

PRINCIPAL TERMS OF REFERENCE OF THE BOARD OF DIRECTORS

- To appoint the Executive Committee from amongst their members.
- To define the BPI Group's general policies: for this purpose, the BPI Group shall mean the group of credit institutions and financial companies controlled directly or indirectly by Banco BPI, S.A., including the entities with management contract to be assumed by BPI.
- To approve the strategic plan and operating plans and budgets, both annual and pluri-annual, and the alterations thereto, and to periodically monitor their execution.
- To prepare the documents forming the annual report and accounts and the proposed appropriation of net income, to be presented at the General Meeting.
- To take the initiative to propose any amendments to the statutes and capital increases, as well as bond issues which do not fall within its powers, presenting the corresponding proposals to the General Meeting.
- To approve the code of conduct of the companies controlled fully by the BPI Group.

Furthermore, the Board of Directors is responsible for practising all the other acts which are necessary or appropriate for the pursuance of the business activities falling within its objects clause and, in particular:

- to represent the company in and out of court, as plaintiff and defendant, to institute and contest any legal or arbitration proceedings, to confess, withdraw or reach a compromise in any legal actions or to abide by arbitrators' decision;
- to acquire, dispose of or encumber any assets or rights;
- to deliberate, in the terms of paragraph two of Article three of the Articles of Association, on the company's participation in the equity capital of other companies and in partnership association (joint venture) contracts, in complementary corporate groupings and in European economic-interest groupings;
- to approve shareholdings in banks and insurance companies, as well as their disposal;
- to approve loan operations to companies or groups of companies where the exposure exceeds 300 M.€;
- to appoint the Directors of the banks controlled by BPI;
- to appoint authorised signatories to perform certain acts or categories of acts, defining the extension of the respective mandates.

The Board of Directors is also responsible for the following:

- to delegate to an Executive Committee, composed of three to nine members, the day-to-day management of the Company, subject to the limits to be fixed in the resolution approving such delegation;
- to co-opt Directors to fill any vacancies which may occur;
- to appoint a Company Secretary and an alternate Secretary;
- to draw up a set of internal rules of procedure and approve the functioning regulations for the Executive Committee to be appointed, as well as for the Audit and Internal Control Committee, the Nominations, Evaluation and Remuneration Committee and the Corporate Governance Committee; these last two committees must prepare reports (at least annually) for the Board of Directors' review and approval.

21.2. Executive Committee of the Board of Directors

By resolution of the Board of Directors, the Company's day-to-day management has been delegated to the Board of Directors' Executive Committee. This includes all the necessary or appropriate management powers for the conduct of banking activity in terms of and to the extent that is permitted by law and, namely, powers to decide and represent the Company as regards the following matters:

PRINCIPAL TERMS OF REFERENCE OF THE BOARD OF DIRECTORS' EXECUTIVE COMMITTEE

- Operations for the granting of credit or financing.
- Remunerated provision of personal guarantees.
- Provision of real guarantees involving securities and which are necessary or appropriate for pursing the activities contained in the Company's business objects.
- Realisation of foreign currency operations.
- Realisation of deposit-taking operations.
- Issuance of cash bonds and financial instruments of a similar nature.
- Subscription, acquisition, disposal or encumbering of participating interests in any companies, with the exception of shareholdings in Banks and Insurance Companies.
- Acquisition, disposal or encumbering of any other securities.
- Acquisition, disposal or encumbering of movable and immovable assets.
- Acquisition of services.
- Admissions, definition of levels, categories, remuneration conditions and other Employee perks, as well as the appointment to managerial positions.
- Exercise of disciplinary power and the application of any sanctions.
- Opening or closure of branches or agencies.
- Appointment of who should represent the Bank at its subsidiary and associated companies' general meetings, setting the voting intention to be cast thereat.
- Appointment of the persons who should exercise the corporate functions for which the Bank was elected, as well as the persons whom the Bank should indicate to apply as candidates for any corporate office, except the members of the Board of Directors of the Banks controlled by the Company.
- Issue of binding instructions to the companies totally controlled by the Company.
- Representation of the Bank in and out of court, as plaintiff and defendant, including the institution and contestation of any judicial or arbitration procedures, as well as admission, withdrawal or compromise in any lawsuits and the assumption of arbitral commitments.
- Appointing authorised signatories, with or without powers of attorney, for the performance of specified acts or category of acts, defining the extent of the respective mandates.

As regards operations involving the granting of credit or financing and the provision of remunerated personal guarantees, such operations cannot result in the involvement in a relationship with any single entity (or if it forms part of a group, then with respect to that group) of more than 15% of Banco BPI's consolidated shareholders' equity.

Above that amount, the involvement must be decided at a plenary meeting of the Board of Directors.

21.3. Consultative and support bodies for the Board of Directors

Within the ambit of the Board of Directors, there are four consultative committees providing specialist support and envisaged in the statutes: the Audit and Internal Control Committee (CACI), the Risks Committee (CR), the Corporate Governance Committee and the Nominations, Evaluation and Remuneration Committee (CNAR).

The following is a brief description of those committees' terms of reference:

TERMS OF REFERENCE OF THE AUDIT AND INTERNAL CONTROL COMMITTEE

The Audit and Internal Control Committee has as its function, without prejudice to the powers and duties of the Supervisory Board, to oversee the work of the Executive Committee and the process involving the preparation and disclosure of financial information, to verify the effectiveness of the internal control system and to undertake, in coordination with the Risks Committee, the function of specialised monitoring of operational, compliance and reputational risks.

TERMS OF REFERENCE OF THE RISKS COMMITTEE

The Risks Committee is responsible, without prejudice to the functions of the Supervisory Board in this domain, for overseeing the management policy of all the risks attaching to the company's business.

PRINCIPAL TERMS OF REFERENCE OF THE CORPORATE GOVERNANCE COMMITTEE

The function of the Corporate Governance Committee is, besides its core mission of supporting and advising the Board of Directors on matters relating to corporate governance, to make pronouncements on matters within the scope of corporate social responsibility, ethics, professional conduct and environmental protection. The Committee prepares an annual report on the functioning of the company's corporate governance structure.

PRINCIPAL TERMS OF REFERENCE OF NOMINATIONS, EVALUATION AND REMUNERATION COMMITTEE

The Nominations, Evaluation and Remuneration Committee, has as its principal functions issuing opinions on the filling of vacancies arising on the governing bodies on the choice of Directors to be appointed to the Executive Committee and the evaluation and fixing of this Executive Committee's remuneration.

21.4. Company Secretary

The Company Secretary is appointed by the Board of Directors. The duration of his / her functions coincides with the term of office of the members of the Board of Directors which appointed him / her. In the case of the secretary's absence or impediment, his / her functions will be performed by the alternate secretary.

PRINCIPAL TERMS OF REFERENCE OF THE COMPANY SECRETARY

In addition to the other functions attributed by the Bank, the Company Secretary performs the functions contemplated in the law:

- To serve as secretary at the meetings of the governing bodies.
- To record the minutes and sign them together with the members of the respective governing bodies and the Chairman of the General Meeting Committee, when this is the case.
- To keep, store and maintain in proper order the minute books and loose minute sheets, the list of presences, the share register, as well as attending to the routine matters relating to these.
- To expedite the legal notices convening the meetings of all the governing bodies.
- To authenticate the signatures of the members of the governing bodies placed on the company's documents.
- To certify that all the copies or transcriptions extracted from the company's books or of filed documents are genuine, complete and up-to-date.
- To satisfy within the scope of the terms of reference, the requests formulated by shareholders in the exercise of their right to information and to furnish the information solicited from the members of the governing bodies which exercise oversight functions covering the deliberations of the Board of Directors or of the Executive Committee.
- To certify the content, total or partial, of the company's statutes in force, as well as the identity of the members of the company's various bodies and which are the powers vested in them.
- To certify the up-dated copies of the statutes, deliberations of the shareholders and of management, and of the entries in force appearing in the company's books, as well as ensuring that they are handed over to or sent to the owners of the shares who have requested them and have paid the respective cost.
- To authenticate with his / her initials all the documentation submitted to the General Meeting and that referred to in the respective minutes.
- To promote the registration of the company's acts subject to this requirement.

22. Regulations governing the Board of Directors

The Regulations governing the functioning of the Board of Directors are available at the Investor Relations website (www.ir.bpi.pt), under the section "Corporate Governance".

23. Number of meetings held and degree of attendance

The Board of Directors met 19 times in 2016. The attendance rate of each member was:

Member	Presence	Representation
Artur Santos Silva	19	-
Fernando Ulrich	19	-
Alfredo Rezende de Almeida	17	-
António Domingues[1]	6	3
António Lobo Xavier	15	4
Armando Leite Pinho	17	1
Carla Bambulo	17	2
Carlos Moreira da Silva	17	2
Edgar Alves Ferreira[2]	16	1
Ignacio Alvarez-Rendueles	17	-
Isidro Fainé Casas[3]	2	12
João Pedro Oliveira e Costa	19	-
José Pena do Amaral	18	-
Lluis Vendrell	15	2
Manuel Ferreira da Silva	19	0
Marcelino Armenter Vidal[3]	16	0
Maria Celeste Hagatong	19	0
Mário Leite da Silva	13	2
Pedro Barreto	19	0
Tomás Jervell[4]	4	1
Vicente Tardio Barutel	14	4

During the 2016 financial year Banco BPI's Board of Directors reviewed and approved, amongst others, the following matters:

Principal resolutions / matters dealt with the Board of Directors' meetings

Dates	Resolutions / Matters
	Approval of the plans and budgets
14 Dec.	Review of the estimated results for 2016
14 Dec.	Review and approval of the 2017 Plan and Budget
15 Mar., 15 Sep.	Funding and Capital Plan
14 Dec.	Approval of the Recovery Plan
15 Mar, 28 Apr., 29 Jun., 26 Jul., 15 Sep., 26 Oct.	Monitoring of the Recovery Plan indicators
28 Apr.	Approval of the Market Discipline Report 2015
28 Apr.	Approval of the Risk Appetite Statement – (RAS) of Banco BPI and of its units
28 Apr.	Approval of Banco BPI's Risk Appetite Framework – (RAF)
28 Apr.	Approval of the Internal Capital Adequacy Assessment Process – ICAAP
28 Apr.	Approval of the Internal Liquidity Adequacy Assessment Process – ILAAP
26 Jul., 26 Oct.	Keeping informed about the RAS and the RAF
26 Jul., 26 Oct., 14 Dec.	Review of the ICAAP monitoring report
26 Oct., 14 Dec.	Review of the ILAAP monitoring report
26 Oct.	ICAAP and ILAAP – Proposed standard

1) Renounced on 30 May 2016 with effect from 30 June 2016.
2) Renounced on 13 October having ceased functions on 26 October 2016.
3) Renounced on 26 October with effect from 30 November 2016.
4) Commenced functions on 4 August 2016.

Principal resolutions / matters dealt with the Board of Directors' meetings (cont.)

Dates	Resolutions / Matters
	Annual report and accounts and proposed appropriation of net profit
27 Jan and 15 Mar.	Review and approval of the 2015 consolidated accounts, as well as deliberation of their public release
15 Mar.	Consideration of the BPI Group's situation in January 2016
15 Mar.	Approval of the draft Report and Accounts to be presented to the AGM of 28 Abril 2016
28 Apr.	Review of the consolidated accounts at 31 March 2016, as well as deliberation about their release
26 Jul.	Review of the consolidated accounts at 30 June 2016, as well as deliberation about their release
26 Oct.	Review of the consolidated accounts at 30 September 2016, as well as deliberation about their release
	Initiatives to be presented to the Shareholders' General Meeting
4 Feb.	Proposed amendment to the statutes with a view to eliminating the rule limiting the counting of votes by any one shareholder
15 Mar.	Approval of the draft notice of meeting and motions to be presented at the AGM of 28 April 2016
13 Apr.	Approval of the request for convening an AGM for approval of the operation involving BFA and approval of the respective proposals to be presented
14 Jun.	Approval of the request for convening an AGM for amending the statutes with a view to eliminating to rule limiting the counting of votes by any one shareholder and approval of the respective motion
29 Jun.	Approval of the request for convening an AGM for the election of the new composition of the General Meeting Committee and approval of the respective motion
26 Oct.	Approval of the request for convening an AGM for deliberating on the proposed sale of 2% of BFA and for the amendment to articles 10 and 21 of the statutes and approval of the respective motions
	Reviewing the trend in the BPI Group's pension liabilities and pension fund assets
27 Jan., 28 Apr., 26 Jul., 26 Oct.	Review of the liabilities for retirement and survivors' pensions and the respective cover by the pension fund, as well as the rate of return attained by it
27 Jan., 15 Mar., 28 Apr., 26 Jul., 26 Oct., 14 Dec.	**Monitoring the Bank's exposure to large risks and financing operations** Review of other operations subject to the regime of articles 85 or 109 of the Banking Law
	Bond issue
27 Jan.	Approval of the renewal / review of the Euro Term Note Programme (EMTN Programme)
14 Dec.	Approval of the subordinated debt issue (Tier 2) in the amount of up to 350 million euro
	Internal funding
27 Jan., 15 Mar., 28 Apr., 26 Jul., 26 Oct., 14 Dec.	Information about the work of the Audit and Internal Control Committee
27 Jan., 15 Mar., 28 Apr., 26 Jul., 26 Oct., 14 Dec.	Information about the work of the Risks Committee (previously called the Financial Risks Committee)
15 Mar.	Information about the work of the Corporate Governance Committee
2 Sep., 15 Sep., 26 Oct.	Information about the work of the Nominations, Evaluation and Remuneration Committee; consideration of the Opinion of the CNAR solicited by the Board on the conduct of the director Edgar Alves Ferreira
26 Oct.	Scheduling the meetings of the General Meeting and of the Board of Directors in 2017
26 Oct.	Co-option of the new members to the Board of Directors
4 Feb.	Large Exposures – BPI Individual
29 Jun.	ECB supervision
29 Jun.	Application of the retirement Regulations to executive directors
15 Jul.	Report on the meeting with the ECB on 6 July
2 Sep.	Alterations to Banco BPI's management structure
26 Oct.	Transformation of the retail network
	Other matters of general interest to the Company
27 Jan.	Breaching of the large exposures limit at BFA: a) proposed Demerger; b) Unitel's proposal
27 Jan.	Resolution of Banif
27 Jan., 15 Mar., 28 Apr., 29 Jun., 26 Jul.	Novo Banco
15 Mar., 8 / 10 Apr., 17 Apr., 28 Apr., 2 Sep., 15 Sep., 20 Sep.	BFA
28 Apr., 16 May, 13 Oct.	Public tender offer launched by CaixaBank, S.A.
15 Jul., 20 Sep.	Review of the communications received from the shareholder Violas Ferreira Financial addressed to the Board of Directors
28 Apr., 2 Sep., 15 Sep. 14 Dec.	Supervisory Review and Evaluation Process (SREP) 2016 and 2017
27 Jan., 28 Apr., 26 Jul., 26 Oct.	Analysis of the stock market behaviour of Banco BPI shares

24. Bodies charged with the responsibility for carrying out the evaluation of the executive directors' performance

Responsibility for undertaking the evaluation of the executive directors' performance with a view to determining the respective variable annual remuneration is entrusted to the Remuneration Committee (RC).

In the exercise of their functions, the Remuneration Committee takes into consideration the proposals and recommendations presented to it by the Nominations, Evaluation and Remuneration Committee in terms of the provisions of article 7(4) of *Bank of Portugal Notice 10 / 2011*.

25. Predefined criteria for assessing executive directors' performance

The Nominations, Evaluation and Remuneration Committee in preparing its report to the Remuneration Committee, and the Remuneration Committee itself define the variable remuneration of executives according to their performance evaluation and carry out that evaluation based on the following criteria which (i) are consistently used over the years and are hence predetermined and (ii) are quantitative.

According to the remuneration policy for members of Banco BPI's Management and Oversight Bodies and which was approved at the General Meeting of 28 April 2016, besides the non-quantitative parameters (such as those linked to reputation / level of complaints, etc.), the Remuneration Committee also takes special account the following quantitative parameters:

- solvency (solvency ratio, loan default ratios, foreclosure properties and the situation of the Bank's pension fund);
- profitability (ROE – Return on Equity, net interest income, impairments and Raroc – Risk adjusted return on capital);
- efficiency (cost-to-income ratio);
- market position (market shares);
- liquidity (ratio of transformation of balance sheet resources into loans, maturity of medium / long-term debts and the level of ECB utilisation).

The evaluation of performance assesses the contribution of each one of the executives in the light of those criteria.

26. Positions held by members of the Board of Directors

As regards this item, we refer you to the information appearing in the annex on page 422.

27. Details of the committees created within the Board of Directors and the place where the rules on the functioning thereof is available

As previously explained (points 15 and 21.), four specialist committees function within the ambit of the Board of Directors, composed exclusively of non-executive members:

- the Audit and Internal Control Committee (Comissão de Auditoria e de Controlo Interno – CACI);
- the Risks Committee (Comissão de Riscos – CR);
- the Corporate Governance Committee (Comissão de Governo da Sociedade – CGS);
- the Nominations, Evaluation and Remuneration Committee (Comissão de Nomeação, Avaliação e Remunerações – CNAR).

The full spectrum of the abovementioned specialist committees' terms of reference is set out in the statutes and respective regulations. Both regulatory documents are available on the Investor Relations website, under the section "Corporate Governance".

The CNAR's terms of reference also result from which is defined in *Bank of Portugal Notice 10 / 2011* and in RGICSF.

28. Composition of the Executive Committee

At 31 December 2016 the Executive Committee of Banco BPI's Board of Directors (Executive Committee – Portuguese acronym CECA) is currently composed of six professional executive Directors who are independent of any shareholders or specific interest groups.

It is the BPI Group's policy that the persons making up the Executive Committee only exercise other corporate functions by appointment by the Bank when it has important participating interests in those companies.

Executive Committee	Principal areas of responsibility
Chairman	
Fernando Ulrich	Accounting, Planning and Statistics; Risk Analysis and Control; Individuals' Credit Risk; Corporate and Small Business Credit Risk; Finance; Institutional Banking / State Business Sector; Legal Affairs; Compliance; Investor Relations; Banco de Fomento Angola;. Corporate Loans Recovery; Lean Programme; Asset Management
Members	
José Pena do Amaral	Marketing; Communication and Brand Management; Public Relations; Human Resources; Small Businesses and commercial Partnerships; Insurance
Maria Celeste Hagatong	Corporate Banking; Project Finance; Real estate Investment; Specialised Credit to Companies; Office for Africa; Banco BPI Branch in Spain
Manuel Ferreira da Silva	Equities; Corporate Finance; Economic and Financial Studies; BPI Investimentos Branch in Spain; Private Equity
Pedro Barreto	Organisation and Quality; Information Systems; Procurement, Outsourcing and Fixed Assets; Operations; Security; Digital Banking; BCI Fomento (Mozambique)
João Oliveira e Costa	Individuals and Small Business Banking; Non-residents; Private Banking; Investment Centres

Terms of reference
The Executive Committee has wide management powers, delegated by the Board of Directors, to carry on the Group's day-to-day activity, while its exercise is the object of permanent monitoring by the Board of Directors.

These powers to decide and represent the company in the matters referred to in item 21.2 are set out in this Committee's functioning regulations.

The full spectrum of this body's terms of reference is set out in the statutes and respective regulations. Both regulatory documents are available on the Investor Relations website, in the section "Corporate Governance".

Executive Committee Meetings
The Executive Committee meets at least once a month for the purpose of dealing with matters of general interest relating to Banco BPI and its subsidiaries. It normally meets on a weekly basis. In 2016, the Executive Committee met 60 times.

Functioning rules
The Executive Committee can only adopt resolutions when the majority of its members are present, while representation is not permitted.

The resolutions of the Board of Directors' Executive Committee are adopted by an absolute majority of the votes, with the Chairman having the casting vote.

According to the statutes, a person cannot be appointed to the Executive Committee who, at 31 December of the year prior to such appointment, had attained 62 or more years of age.

In the terms of the proposed amendment of the statutes to be presented to the General Meeting of April 2017 approved by the Board of Directors on 17 March 2017, this statutory provision is expected to be eliminated.

Policy of rotation of areas of responsibility in the Executive Committee
All the members of the Executive Committee play an active role in the day-to-day management of the Group's business, having under their stewardship one or more specific business areas, in accordance with the respective profile and with individual expertise, and corresponding to the distribution of responsibilities which at any moment best contributes to that body's effective and balanced functioning. The Executive Committee meets weekly to review the Bank's operations and risks. Without limitation to the greater or lesser concentration of one or other person in a specific area, the Executive Committee's decision-making process on matters pertaining to the conduct of the current management of the Group is based on a collegial format and is the object of systematic monitoring by the Board of Directors. In addition, given the importance of market risks in financial activity:

- since the beginning of the international financial crisis in 2007 the Executive Committee has assumed as a management priority the monitoring by it of the aforementioned risks;
- the Risks Committee, composed of non-executive members of the Board of Directors, monitors the management policy relating to all the financial risks inherent in the Bank's operations, including credit risks, as well as the management of its pension fund;
- on the other hand, the Audit and Internal Control Committee, the Board of Directors' consultative body which meets monthly (except in the months of February and August), monitors closely the operational risks and the exercise of the compliance function.

BPI does not see any advantage under the present circumstances and bearing in mind the conditions and mode of the Executive Committee's functioning, in setting a policy of periodic rotation of the CECA members' tasks.

Information to the Board of Directors and to the Supervisory Board
The Chairman of the Executive Committee sends to the Chairman of the Board of Directors and to the Chairman of the Supervisory Board, for his knowledge, the notices of that Committee's meetings prior to their realisation. The minutes of the respective meetings are also made available.

In addition to the above information, the Executive Committee makes available every six months to the Board of Directors and to the Supervisory Board a summary of all the matters dealt with at its meetings in the aforesaid period.

The members of the Executive Committee furnish in a timely and proper manner the information solicited from them by other members of governing bodies.

Specialised Executive Committees
Bearing in mind the importance of credit risks and market risks in banking activity, as well as the importance attributed to information technologies as a competitive factor, there are two specialised committees: the already-mentioned Executive Committee for Credit Risks and the Executive Committee for Information Technologies which include, each one of them, and in addition to the members of the Executive Committee, the Group's senior executives in charge of the respective areas.

PRINCIPAL TERMS OF REFERENCE OF THE EXECUTIVE COMMITTEE FOR CREDIT RISKS

The **Executive Committee for Credit Risk** is the body which monitors and decides on the concession and recovery of loans, analysing mandatorily all the exposures to any one entity involving more than a defined limit.

PRINCIPAL TERMS OF REFERENCE OF THE EXECUTIVE COMMITTEE FOR INFORMATION TECHNOLOGIES

The **Executive Committee for Information Technologies** is the body which defines and monitors the Bank's priorities in the information systems domain, as well as the control over related projects and undertakes the annual evaluation and approval of the strategic plan within the scope of the information systems.

Composition

Besides the members of Banco BPI's Executive Committee, these bodies include the heads of the relevant divisions.

29. Terms of reference and summary of activities undertaken of the consultative committees of the Board of Directors in 2016

29.1. Audit and Internal Control Committee

Terms of reference and activity

The Audit and Internal Control Committee has as its function, without prejudice to the powers and duties of the Supervisory Board, to oversee the work of the Executive Committee and the process involving the preparation and disclosure of financial information, to verify the effectiveness of the internal control system and to undertake, in coordination with the Risks Committee, the function of specialised monitoring of operational, compliance and reputational risks.

REPORT OF THE AUDIT AND INTERNAL CONTROL COMMITTEE'S ACTIVITY IN 2016

The Audit and Internal Control Committee (Portuguese acronym CACI) held ten meetings during 2016, having analysed the matters related with its terms of reference according to the activity plan approved at the meeting held in December of the previous year.

In terms of its regulations, the Chairman and Deputy-Chairman of the Executive Committee, or in their substitution, the member José Pena do Amaral, the members of the Supervisory Board and the representatives of the statutory auditors participated regularly at the CACI's meetings, but without the right to vote.

In addition, those responsible for the areas whose matters were analysed were summoned to take part in the meetings of the members of Banco BPI's Executive Committee and Directors, as well as of the Group companies.

The reviews carried out and the decisions taken were mainly founded on the work performed by the External Auditors, by the Audit and Inspection Division (Portuguese acronym DAI) and by the other Bank Divisions and affiliated companies within the scope of their respective functions. Where applicable, these were also backed up by inspections and communications with the supervisory authorities.

The following is a summary of the CACI's activities in 2016, as part of its terms of reference.

1. Overseeing observance of the law and regulations, the supervision authorities' standards, the company's statutes and the internal policies, standards and practices

The Committee supervised compliance with legal, regulatory and internal provisions in the various areas encompassed by the audit and review work covering the internal and external auditors' procedures. To this end, the findings of these procedural reviews and work (which were submitted regularly during the year) were analysed, while being informed as to the implementation of the ensuing recommendations.

With the same objective, the Committee examined in particular the following work:

- report compiled by the DAI concerning the BPI Group's compliance with the rules relating to the prudential reports to be submitted to the Portuguese supervisory entities, as well as about the reliability of the respective contents;
- report on the "Internal Capital Adequacy Self-Assessment Process (ICAAP)" and respective quarterly monitoring, as well as the internal audit thereon. The proposed regulatory projects relating to this process was also reviewed;
- analysis prepared by the external auditors on the processes implemented at the BPI Group companies in order to ensure the safeguarding of Customers' assets;
- the BPI Group's "Recovery Plan" drawn up in accordance with the law and regulatory requirements.

The Committee also kept itself informed throughout the year of the situation relating to the inspections conducted by the Supervision Entities, namely the following:

- The Risk Evaluation Model (Modelo de Avaliação de Riscos – MAR), covering the areas "Loans to Large and Medium-sized Companies", "Loans to Small Businesses" and "Project Finance";
- Special Inspections Programme – SIP as regards the credit-risk procedures and controls and the impairment methodologies ("Workstream 1"), the calculation of the own funds requirements for credit risk ("Workstream 2") and the simulation and analysis of the amounts of those requirements ("Workstream 2.1");
- the inspection process covering the exposure to the construction and real-estate promotion sectors (OIP 2012);
- the transversal exercise of the impairment review of the loan portfolio (ETRICC), with respect to that aspect relating to the monitoring activity of the restructuring funds invested in by the credit institution;
- the Special Assessment Programme – SAP, devoted to the assessment of the risk-management policies and processes associated with distressed loans;
- "On-site Inspection" (OSI) covering the Collective Impairments Models of the "Large Corporates" and "Project Finance" portfolio in Spain.

2. Supervision of the adequacy and compliance with the accounting policies and practices, review of the statutory audit and of the process involving the preparation and dissemination of financial information

Verification of compliance with accounting policies, criteria and practices and checking the integrity of financial information were also undertaken primarily through appraisal of the findings of the audits and review procedures conducted during the year by the external and internal audit teams.

In addition, the Committee analysed in detail the BPI Group's financial statements and consolidated results to December 2015, as well as those relating to the first, second and third quarters of 2016.

Also analysed the draft 2015 Report and Accounts, as well as the Supervisory Board's report and opinion on the annual report and accounts and the statutory auditor's draft statutory audit certification and audit report. It also considered the report and accounts for the first six months of 2016, as well as the external auditors' audit reports on the interim individual and consolidated financial information.

It also examined the principal findings of the review realised with respect to Banco BPI's and Banco Português de Investimento's financial statements by Deloitte for the periods ended 31 March and 30 September 2016. It also reviewed the financial statements of Banco de Fomento Angola (BFA) for the six months to June 2016.

It also reviewed the reports submitted by the external auditors covering the process of quantification of the impairment losses of Banco BPI's loan portfolio with reference to 31 December 2015 and 30 June 2016, pursuant to the *Bank of Portugal's Instruction no. 5 / 2013*, as well as the report relating to the additional information concerning impairments of specific portfolios as required by *Bank of Portugal Letter-Circular no. CC/2016/00001717-G*.

Still as regards the monitoring of the preparation and dissemination of financial information, the Committee analysed the Banco BPI's "quarterly consolidated information", drawn up to March and September, prepared in compliance with *CMVM Regulation no. 5 / 2008*.

On the other hand, the report prepared by the Legal Division on IRC tax and deferred taxes computation relating to 2015 was the object of special review, as was the report on the review carried out by Deloitte of the respective corporate income tax Form 22 of both Banco BPI and Banco Português de Investimento.

The following reviews of procedures carried out by the external auditors were also the object of analysis:

- reconciliation of the "contas nostro";
- IFRS 13 – Fair value measurement;
- Identification and calculation of "Non Performing Exposures" according to the EBA's requirements.

3. Evaluating and enhancing the effectiveness of the internal control system

The evaluation and the efficacy of the internal control systems within the BPI Group are a permanent concern of the Committee. With this mission, the Committee regularly evaluated the operational procedures in place at the Group companies, including the branches and subsidiaries. The analysis carried out was essentially based on the work performed by the external auditors and by the Internal Audit unit, but also on the presentations and clarifications which are the responsibility of the relevant Boards and Divisions.

The information furnished periodically by the DAI unit on compliance and the forecast of the period for implementation of the recommendations formulated by the audits and the supervisors, with an indication of the degree of associated risk, also constituted an important indicator for the Committee to evaluate the consistency and effectiveness of the internal control system.

Insofar as compliance with reporting duties to the supervisory authorities are concerned about the adequacy and effectiveness of the internal control systems, the committee analysed:

- the annual reports on the risk management, compliance and internal audit functions of the BPI Group, BPI Gestão de Activos and BPI Global Investment Fund Management Company – BPI GIF (Luxembourg);
- the annual internal control reports of the BPI Group and its subsidiaries and branches subject to supervision on a consolidated basis, as well as the opinions of the respective oversight bodies and the statutory auditors;
- the annual reports dealing with the prevention of money laundering and the financing of terrorism for Banco BPI, Banco Português de Investimento and BPI Gestão de Activos, as well as the opinions of the respective oversight bodies;
- the annual report on the internal audit function, as well as the annual report on the risk-management and internal control system at BPI Vida e Pensões and the respective statutory auditors' report.

4. Evaluating and promoting the effectiveness of the management system of non-financial risks

The Committee analysed the documents "Risk Appetite Statement by Banco BPI" (RAS) and "Risk Appetite Statement of Banco BPI's units, as well as the "Risk Appetite Framework" (RAF). During the course of the year it reviewed the respective quarterly monitoring as well as the proposals for altering the metrics and annual review.

The report on the risk of credit concentration with reference to December 2015, drawn up in compliance with *Bank of Portugal Instruction no. 5 / 2011* was also examined.

It also reviewed the Market Discipline Report published on the Bank's portal in compliance with the provisions of Part VIII of *Regulation (EU) no. 575 / 2013* of the European Parliament and Council of 26 June 2013.

It analysed also the most significant aspects and the principal rules relating to BFA's risks management, with the respective Executive Committee have provided all the necessary clarifications regarding these matters.

As concerns the management system for non-financial risks and in terms of its Regulations, the Committee reviewed specifically the following risks.

a) Operational risk

One of the principal means used in assessing and promoting efficacy in the control of operational risk involved the aforementioned appraisal of the findings and recommendations resulting from the audits and review procedures conducted by the external auditors, in conjunction with the heads of the Divisions and Group companies which were the object of these reviews.

These findings permitted identifying the most important shortcomings and formulating the recommendations to the Group bodies and companies audited, as well as the transmission of suggestions to the Executive Committee regarding the issues at stake.

Besides the audits and procedural reviews already referred to, those covering the following areas were also analysed during 2016 with the same goal:

(i) Reviews of the external auditors' procedures:

- International Private Banking Area
- Settlements Area (Financial Instrument Operations Risks Division)
- Corporate Loans Recovery Division – Corporate Banking Loan

Recovery Area

- Disclosure of prudential information to the market in accordance with the requirements set out in *Bank of Portugal Notice no. 10 / 2007*
- General IT Controls
- Specialised Credit to Companies Division – Factoring and Confirming
- Constitution and recording of time deposits process
- Procedures within the scope of contracting and post-contracting processes in the Small Business area – Commercial Loans – Short, Medium and Long term financing
- BFA Operating of Customers' accounts – branch activity
- BFA – Individuals' and Small Business Division
- BFA – General IT Controls

(ii) Audits of Banco BPI's Audit Inspection Division

- Branch in France
- Activity conducted by BPI Gestão de Activos
- Corporate Loans Recovery Division – Individuals and Small Business Loans Recovery Centres and sale of repossessed movable goods
- Banco BPI Cayman
- Cayman off-shore branch
- Macau off-shore branch
- Cancellation of the Restructurings process
- Follow-up's requested by the Supervisors to the "MAR Project Finance", "ETRICC G12", "ETRICC Fundo de Reestruturação" and Collective Impairment Models
- BFA – Branch audit activity

In addition a detailed analysis was performed of the annual reports on operational risk management and operational losses, business continuity and information security, the coordination of which is undertaken by the Operational Risks Management Area of the Organisation and Quality Division. The Committee thus acquainted itself with the activities carried out in those three areas, as well as the respective goals and initiatives under way with a view to the management of these risks at the BPI Group.

The identical analysis of the report on operational risk and BFA's information systems was also realised.

In addition, the Committee was informed by the DAI of occurrences which generated losses, respectively in the second half of 2015 and the first six months of 2016, having analysed the operational causes of these occurrences and the measures decided on for their eradication.

It also performed an identical analysis of incidents which occurred at BFA in 2015, by way of a report prepared by that bank's Audit and Inspection Division (Portuguese acronym DAI).

Furthermore, it examined the statistical data presented by the DAI relating to incidents which took place at Banco BPI, respectively in the three-year periods 2013 / 2015 and 2014 / 2016, with details of the risks assumed by the Bank, imputed to the Bank and its Employees and declined.

Meanwhile, it reviewed the documents prepared by the Quality Area and Help Desk of the Organisation and Quality Division with information regarding Customer complaints received at Banco BPI, as well as the measures adopted with a view to reducing the situations identified. Identical information was provided by BFA's Marketing Division.

Special attention was also paid to the report submitted by the Procurement, Outsourcing and Fixed Assets Division regarding outsourced activities and respective risks, with details of the methods and procedures utilised for ensuring adequate control of this type of activity on the subject of security, risk mitigation, quality and price levels.

b) Compliance risk

The Committee approved the activity plans of Compliance Divisions of Banco BPI and BFA and examined these Divisions' activity reports during 2015, in their mission of preventing and mitigating compliance risk in the regulatory area and, more specifically, in the prevention of money laundering, the financing of terrorism and market abuse. It was therefore possible to be informed about the action taken by those two Divisions for streamlining and reinforcing the respective means of action.

The Committee also studied the documents relating to the BPI Group's, Banco BPI's and Banco Português de Investimentos's Reports on the Prevention of Money Laundering and the Financing of Terrorism sent to the *Bank of Portugal* in terms of *Notice 9 / 2012*. It also acquainted itself with the Opinions of the Supervisory Bodies of those Institutions referring to the internal control system relating to the Prevention of Money Laundering and Financing of Terrorism.

In compliance with the provisions of the Code of Ethics and Conduct, the Committee was given on a quarterly basis the Compliance Division's reports containing information about the results of the monitoring of the Code's observance.

c) Reputational risk

The Committee reviewed the various service-quality evaluation factors, as well as the external and internal instruments used at Banco BPI for its measurement, amongst which the service quality indices "IQS – Índices da qualidade de serviços". It also acquainted itself through the Division of Quality and HelpDesk with the initiatives taken in order to foster quality in Customer attendance and support.

Complementarily, there was the opportunity to review the already-mentioned quarterly summaries covering complaints, the reputational risk associated with the procedures followed in the provision of services and communication with Customers. As concerns BFA, the annual summary of this Bank's Customer complaints were also analysed.

The Committee also reviewed the report on the work carried out during 2016 by the Investor Relations Division in the discharge of its financial information disclosure functions covering the control and management of reputational risk within the scope of its activity, and the response to requests from investors, analysts and other market agents.

Moreover, it studied the Legal Division's information describing the procedures relating to the relationship with the Tax and Customs Authority within the context of compliance with tax-related obligations.

In addition, it reviewed the conclusions of the various reports issued during the year by the rating firms (Standard & Poor's, Moody's and Fitch Ratings) covering Banco BPI and Banco Português de Investimento, other Portuguese banks and the Portuguese Republic.

5. Evaluating and promoting the effectiveness of internal audit activity

The monitoring of the Audit and Inspection Division's (DAI) work and the evaluation of its efficacy were undertaken during the year through the:

- annual review of information of the scope of the audits carried out in the past 3 years;
- analysis of the work carried out by the Division in each half-year and the status regarding the implementation of the annual plan;
- half-yearly analysis of incidents in the last 3 years and the presentation of what occurred in each half-year;
- analysis of the reports of the principal audits carried out in each quarter;
- analysis of compliance with the recommendations issued by the DAI, by the external auditors and by the Bank of Portugal and by the ECB, based on information supplied by that Division with indication of the respective degrees of risk.

At the last meeting, the DAI's audit work plan for the three-year period 2017-2019 was approved.

The monitoring and control of the activity of BFA's DAI realised within the scope of the Committee's functions with respect to the Group companies subject to supervision on a consolidated basis, were meanwhile realised through the review of its 2015 and 2016 (up until October), as well as by way of the approval of the audit plan for 2016.

6. Monitoring and overseeing the Portuguese statutory auditors' independence

The Committee supervised and evaluated throughout the year the activity and independence of the statutory auditors, namely as regards the provision of additional services.

In this regard, the Committee issued an opinion on the external auditors' procedural review plan for 2016, with a view to its approval by the Supervisory Board. In addition and as already referred to, it studied the findings of those reviews and followed through the adoption of the resulting recommendations.

It also pronounced itself for the same purpose on the proposed fees relating to the External Auditors' work plan at the BPI Group banks and other companies, as well as on those referring to the provision by Deloitte of services not directly related to the external audit function.

29.2. Risks Committee

REPORT ON THE FINANCIAL RISKS COMMITTEE'S WORK IN 2016

Functions and composition of the Risks Committee

The Risks Committee (RC) began its functions at the start of the year under the name "Financial Risks Committee" (FRC) and with the Regulations approved at the Board of Directors meeting of 2011, with the alterations introduced at the meetings of 30 January 2013 and 24 July 2013.

During the year, the Committee discussed the redefinition of its activity in light of the trend in Internal Governance principles. The alterations were based on the adoption of three operating lines:

- 1st Line – Executive Committee of the Board of Directors
- 2nd Line – Financial Risks Committee
- 3rd Line – Audit and Internal Control Committee

With the amendment to Banco BPI's statutes at the Shareholders' General Meeting of 23 November 2016 and with the alterations introduced to its regulations on 4 December 2016, the Committee was renamed the "Risks Committee" with a broader mission than that defined in the regulations of 24 July 2013, integrating all the risks within the scope of its functions.

Meanwhile, as concerns operational, compliance and reputational risks, the respective specialised oversight is undertaken by the CACI, in liaison with the RC, in terms of the new wording of the Statutes approved at the Bank's General Meeting of 23 November 2016. Accordingly the CACI must with the defined frequency inform the RC about the most important conclusions relating to those risks and to immediately report all the material occurrences it has knowledge of.

Based on the change to the regulations, it was defined that the matters to be covered by the Risks Committee would be of a more global nature, founded essentially on the analysis of the portfolio, risk policies and the analysis and control of non-financial risks.

As a consequence of the approval of the new regulation, the Risks Committee's terms of reference were set out in the following manner as from 4 December 2016:

- advising the Board of Directors on the Bank's risk policy, risk appetite and risk strategy, namely with respect to the RAS (Risk Appetite Statement), RAF (Risk Appetite Framework), ICAAP (Internal Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process), and on the preparation and content of the Market Discipline Report;
- assisting the Board of Directors in the supervision of the execution of the Bank's risk strategy by the Executive Committee and reviewing annually the risk policies;
- analysing risk strategies at aggregate level and by type of risk, risk appetite, issuing recommendations to the Board of Directors and ensuring that the Executive Committee implements processes that promote compliance with the risk policies approved;
- monitoring the capital and liquidity management policies, as well as the management strategy for all the major risks, identified within the Risk Appetite Framework (RAF), with the aim of assessing its coherence with the Risk Appetite Statement (RAS);
- overseeing periodically the trend in credit risk, namely the exposure to major Customers, sectors of activity, type of risk, geographical areas, impairments, loan quality indicators (credit at risk, NPEs, etc.), concentration of risk and Portuguese State risk;
- receiving and overseeing the information relating to operational, compliance and reputational risks, which the CACI must send to the RC as part of its functions.

Up till October 2016, the Risks Committee was composed of Marcelino Armenter (Chairman), Artur Santos Silva (Member) and Vicente Tardio (Member). Marcelino Armenter resigned as member of the Bank's Board of Directors due to the reorganisation of the CaixaBank / Criteria Group, and ceased to form part to the Committee. At the last two meetings of 2016, Pablo Forero, member of Banco BPI's Board of Directors took part although not participating in the resolutions passed by virtue of the fact that, at that time, he had still not obtained authorisation for the exercise of functions and, consequently, registration with the competent entities.

Risks Committee meetings during 2016

The Risks Committee held eight meetings during 2016. The meetings were attended by the Committee's members and some of the directors of the Executive Committee and senior Banco BPI managers who were invited to be present at the meetings owing to their specialist knowledge and connection to the topics discussed, as envisaged in the regulations.

Risk policy

With respect to the bank's risk policy, the Committee was informed at the 11 March 2016 meeting, by way of report by the Chairman of the Executive Committee, of the work performed relating to risk policy and the situation of the Bank's business from the perspective of positioning *vis-à-vis* the environment in which it operates and of the dilemmas this presented to risk strategy.

Turning to the Risk Appetite Framework (RAF) and the Risk Appetite Statement (RAS), the Committee was informed that the Bank had formed a team for this purpose. The Risks Committee oversaw the preparation of the two documents namely, by way of a monitoring meeting of the topics with the Deputy-Chairman of the Executive Committee, António Domingues and the Risks General Manager António Farinha Morais, where various preliminary documents were presented.

The results of this process were presented to the Committee in April 2016. The Committee considered the documents Banco BPI's "Risk Appetite Statement" (RAS), "Risk Appetite Statement" of Banco BPI's units (RAS of the Risk Units) and "Risk Appetite Framework".

The Bank's risk appetite (RAS) was summarized in the "statement" in three key risk-appetite points with which the Committee was in agreement:

- maintenance of sound balance sheet ratios, by means of a strong capital position and a stable and secure liquidity profile, with a comfortable buffer that allows confronting stress situations;
- maintaining a viable and sustainable business model so as to guarantee the capability to generate acceptable short and long-term returns based on strategic plans and financial forecasts;
- safeguarding stakeholders' trust, anchoring all activities to sound risk principles, strong governance and in strict compliance with all the laws and regulations.

Based on the risk appetite statement, the Bank identified a number of key risks that it faces in its daily operations, and laid down principles relating to the management of those risks and defined metrics, objectives, tolerance levels and limits for their monitoring.

For its part, the Risk Appetite Statements relating to the units set out the limits according to which each unit can operate securely, in line with the Bank's risk profile, not only through "Top-down" transmission to the entire company of specific metrics, but also through the definition of specific metrics in line with the characteristics of the respective activity.

Finally, the RAF has formalised and made operational the risk appetite described and quantified in the RAS, based on mechanisms on a par with the bank's governance, well-defined reporting lines throughout the organisation, and effective internal control systems.

The Committee issued a favourable opinion on the documents analysed – "Banco BPI's Risk Appetite Statement", "Banco BPI Units' Risk Appetite Statement" and "Risk Appetite Framework" –, considering that the risk metrics were well worked, justified and reflected in a proper manner the risk appetite. It manifested its opinion that the coordination of the RAF team should be entrusted to the Chief Risk Officer (CRO), placing emphasis on compliance with the Basel Committee's Guidelines (BCBS) of July 2015 relating to the Corporate Governance Principles for Banks, on the necessity for the independence of control functions relative to executive functions.

Risk evaluation processes: ICAAP and ILAAP

At the April 2016 meeting, the Committee analysed the "Internal Capital Adequacy Self Assessment Process (ICAAP)" report with reference to 31 December 2015. It also reviewed the Internal Audit Report on this document with the conclusions of the independent review of this process. The Committee concludes that the work done is complete and reflects a proper analysis of the risks to which BPI is exposed. It also concludes that the level of the bank's capital is sufficient to cover the risks quantified in Pillar 2. In this regard, it issued a favourable opinion on the ICAAP Report.

The Committee also reviewed the ILAAP report *(Internal Liquidity Adequacy Assessment Process*) drawn up to 31 December 2015, and also the report on the Internal Audit carried out on the ILAAP, with the conclusions of the independent review done on this process.

The Committee gauged the Bank's comfortable liquidity position and issued a favourable opinion on the ILAAP Report. Nevertheless, it recommended that consideration be given to the inclusion in this report of the Liquidity Contingency Plan, as well as the information given to the market relating to liquidity.

Review of the public disclosure of information about risks

The Committee analysed and issued a favourable opinion on the document entitled "Market Discipline Report (Pillar III)", presented at the Abril 2016 meeting. The document, which includes information which must be disclosed to the public pursuant to the provisions of *Regulation 575 / 2013*, merited the agreement of the members of the Risks Committee which manifested that it properly reflects the requirements envisaged in the prevailing regulations.

Periodic risk monitoring: RAS / RAF, ICAAP and ILAAP

During the course of 2016, after the approval of the respective documents in April, the Committee conducted the periodic monitoring of the Bank's risks by way of the monitoring of the RAS / RAF, ICAAP and ILAAP reports.

As regards the RAS / RAF monitoring reports, the Committee reviewed the results of the metrics and their alignment with the tolerance levels set out in the Banco BPI's "Risk Appetite Statement", and Banco BPI Units' Risk Appetite Statement. It also reviewed during the year the various reports which merited the Risks Committee's favourable opinion.

The Committee gave its agreement to the proposals for changing the metrics in terms of the frequency of reporting and the definition of the calculation methodology. The Committee considered as normal the existence of adjustments to the metrics initially approved, bearing in mind this was the first year in which the Bank formally applied the RAF. The reporting process to the Committee and respective timetable was also amended.

At the July 2016 meeting, the advisers to the Board of Directors – the structure responsible for controlling the RAS / RAF – presented a document containing the annual review of the risk directives according to the previously approved RAS / RAF rules, mentioning that the annual review work should begin in July, and considering that the RAS / RAF was approved by the Board of Directors in Abril, it proposed that the same risk principles and statements be maintained, which was accepted by the Committee's members.

In October 2016, the Committee formally received the document relating to the annual review of the RAF and issued a favourable opinion on the proposals presented, which were of a limited scope (timetable for the annual compilation of the RAS / RAF, distribution of the RAS / RAF monitoring documents by the Bank's departments, the functions of the CRO as relates to the overseeing of this process, amongst other).

As concerns the annual review of the Bank's and the Units' RAS, the RC issued an opinion advocating the maintenance of the indicators and respective limits just as they were set in the reports approved in July 2016, with the exception of ad hoc situations duly identified, which merited the Committee's agreement.

The Committee analysed the ICAAP quarterly monitoring reports which were received and it issued favourable opinions. The reports evidenced an adequate level of internal capital, with regard to both the risks and the stress tests, as well as a trend in line with the projections made in December 2015. The Committee was pleased to note that the results demonstrate that the Bank's solidity remains at comfortable levels.

As regards the ILAAP, the Committee received quarterly monitoring reports, observing the level of liquidity and values of the internal and regulatory ratios when compared with the average level of the ratio corresponding to European banks and in relation to the tolerance levels set internally in the RAS. The Committee concluded that the liquidity levels are very comfortable, with the indicators presenting values above the internal and regulatory limits. All the monitoring reports warranted the Risks Committee's agreement.

Analysis of the trend in specific risks

During the year, the Committee, in the performance of the functions set out in the regulation in force since 2013, oversaw the management policy for all the financial risks inherent in the Bank's business.

The Committee regularly reviewed the Bank's liquidity situation, receiving periodic reports from the Finance Division with important information about the liquidity gaps, behaviour of deposits and fundraising on the interbank money market, trend in internal and regulatory liquidity ratios, the level of fundraising from the ECB –, composition of the liquidity buffer and stock of public-debt securities. The Committee gave a favourable opinion, when so justified, to liquidity management operations which require the prior opinion under the regulations.

In the case of specific credit risk, besides following closely the loan portfolio, defaults and impairments, the Committee was also responsible for giving a prior opinion to the Executive Committee, relating to credit operations where the debtor is the Portuguese State or in which, for some other reason, the risk which the Bank would be exposed to was Portuguese State risk, which would result in an involvement of an amount considered to be significant when compared to the Bank's consolidated shareholders' equity. In this context, the Committee analysed various loan operations which merited favourable opinions.

As part of the monitoring of the trend in credit risk, the Committee examined the following reports during the year:

- trend in the largest exposures to non-financial entities;
- trend in Corporate and Small Business Banking's largest impairments;
- credit-risk exposures of significant amount;
- trend in the distribution of the Corporate and Small Business Banking's portfolio by rating classes;
- trend in the biggest exposures in the construction and public works sectors;
- trend in exposures to the real-estate sector;
- behaviour of the loan portfolio of groups controlled by entities resident in Spain;
- behaviour of the loan portfolio of non-residents in Portugal and Spain;
- Corporate Banking groups under observation;
- analysis of defaults of significant amounts at Corporate and Small Business Banking;
- trend in foreclosed properties and respective impairments.

From the analysis of the documents presented, the Committee concludes that the credit risk is being monitored in a proper manner by the 1st line of defence and that the behaviour of credit risk is favourable.

The Committee analysed in April 2016 the document "Loan Concentration – 31 December 2015 – (As per Annex to *Instruction 5 / 2011*)", and observed that this risk remains at extremely conservative levels at BPI.

As regards risk mitigation, the Committee reviewed and gave its approval with regard to the proposed limits for the markets room, specifically for financial institutions and country risk.

Analysis of other issues

Besides the analysis of the redefinition of its functions, which it carried out during the year, the Committee reviewed several matters which were submitted to it during 2016:

- presentation of the new structure of the Risks Analysis and Control Division (DACR) and creation of the Models Validation Unit (UVM);
- review, with a favourable opinion, of the proposed rules for ICAAP and ILAAP;
- possible impacts of Basel IV on capital levels.

29.3. Corporate Governance Committee

Terms of reference and activity

The function of the Corporate Governance Committee (portuguese initials CGS) is, besides its core mission of supporting and advising the Board of Directors on matters relating to corporate governance, to make pronouncements on matters within the scope of corporate social responsibility, ethics, professional conduct and environmental protection. The Committee prepares an annual report on the functioning of the company's corporate governance structure.

Activity of the Corporate Governance Committee in 2016

Dates	Resolutions / Matters
14 March 2016	▪ Review of the tentative and preliminary version of BPI's Corporate Governance Report relating to 2015
	▪ Review of Social Responsibility activity
	▪ Review of the Bank's proposed amendment to the statutes to be approved by the Board of Directors
	▪ Information about the monitoring of the functioning of the Board of Directors following the decision of the ECB's Governing Council of 20 November

29.4. Nominations, Evaluation and Remuneration Committee

Terms of reference and activity

The Nominations, Evaluation and Remuneration Committee (portuguese initials – CNAR) is responsible for filling vacancies arising on the governing bodies and for the selection of Directors to be appointed to the Executive Committee. Its functions also include performing the tasks envisaged in the Selection and Evaluation Policy, as well as those set out in the Remuneration Policy and in article 7 of *Bank of Portugal Notice 10 / 2011*.

Activity of the Nominations, Evaluation and Remuneration Committee in 2016

Dates	Resolutions / Matters
23 March 2016	▪ Approval of the opinion on the proposed Banco BPI Remuneration policy applicable to members of the Board of Directors and the Supervisory Board" to be submitted by the Remuneration Committee to the Shareholders General Meeting of April of 2016, as well as on the execution and application of the Remuneration Policy in force in 2015
16 June 2016	▪ Evaluation of the performance of the Executive Committee members in 2015
1 September 2016	▪ Approval of the alterations to BPI's management structure
	▪ Assessment of the suitability of the persons proposed by the Executive Committee to exercise the office of the heads of the Risk Analysis and Control Division, the Human Resources Division and the Procurement, Outsourcing and Fixed Assets Division
	▪ Impact on the Deferred Remuneration and other implications of a remuneration nature on the pension and welfare benefits attributed to Employees who voluntarily and without just cause leave BPI
	▪ Analysis at the request of the Board of Directors of the subsequent evaluation of the suitability of the member of the Supervisory Board Edgar Alves Ferreira to exercise the office
14 September 2016	▪ Issue of opinion relating to the subsequent evaluation of the suitability of the member of the Board of Directors Edgar Alves Ferreira to exercise the office
25 October 2016	▪ Issue of opinion on the suitability of Gonzalo Gortázar Rotaeche and Pablo Forero Calderon as members of the Board of Directors

The full specification of the abovementioned specialist Committees' duties are laid down in the statutes and respective regulations. Both these documents are available for consultation on the Investor Relations website (www.ir.bpi.pt), under the BPI Group's Governance section.

III. SUPERVISORY BOARD

30. Supervisory Board terms of reference

The Supervisory Board's core terms of reference are supervising the company's management, overseeing compliance with the Law and the Statutes, verifying that the annual report and accounts present a true and fair view, overseeing the Portuguese statutory auditors' (ROC / AE) annual audit and independence, as well as evaluating their work. The complete spectrum of this body's functions is set out in the statutes and respective regulations. Both these regulatory documents are available on the Investors' Relations website (www.ir.bpi.pt), under the section "BPI Group's Corporate Governance".

31. Supervisory Board's composition

According to article 22 of the Articles of Association, "The Supervisory Board is composed of at least three and no more than five permanent members, and also two alternate members.".

According to article 29 of the Articles of Association, "The members of the governing bodies are elected for three-year periods and may always be re-elected, except for the members of the Supervisory Board, who shall only be re-elected for another two consecutive terms of office". The limitation was only introduced on 23 April 2008, with the result that it only applied to terms of office commencing from that date.

At 31 December 2016, the Supervisory Board had the composition presented in the following table.

Supervisory Board composition — At 31 December 2016

	Date of first appointment	End of current term
Chairman		
Abel António Pinto dos Reis	23 Apr. 2008	31 Dec. 2016
Members		
Jorge de Figueiredo Dias	19 Dec. 2002[1]	31 Dec. 2016
Rui Campos Guimarães	23 Apr. 2014	31 Dec. 2016
Alternates		
Luís Roque de Pinho Patrício (alternate)	23 Apr. 2014	31 Dec. 2016
Francisco Olazabal (alternate)	22 Apr. 2009	31 Dec. 2016

32. Identification of the independent members of the Supervisory Board

In terms of article 414(3) of the CCC, independent within the meaning of a company means a person who is not associated with any group of specific interests of the company, nor are there any of circumstances capable of affecting his / her impartiality of analysis or decision, namely by virtue of:

a) being the holder or acting in the name or on behalf of the holders of qualified holdings of 2% or more of the company's capital; or

b) having been re-elected for more than two terms of office, continuous or interspersed.

The following table identifies the Supervisory Board members who, not being associated with any group of specific interests of the company, comply or do not comply with the independence criteria in terms of the abovementioned sub-paragraphs (a) or (b).

Satisfaction of independence criteria of the members of the Supervisory Board — At 31 December 2016

	a)	b)
Chairman		
Abel António Pinto dos Reis	Complies	Complies
Members		
Jorge de Figueiredo Dias	Complies	Does not comply
Rui Campos Guimarães	Complies	Complies
Alternates		
Luís Roque de Pinho Patrício	-	-
Francisco Olazabal	-	-

33. Professional qualifications and other curricular details of the members of the Supervisory Board

Those details can be consulted in the annex 1, page 421 of this Report.

34. Supervisory Board's Regulations

The Supervisory Board's functioning Regulations are available on the Investor Relations web site (www.ir.bpi.pt), under the section "BPI Group's Governance".

35. Number of meetings held and attendance

During 2016 the Supervisory Board held fifteen meetings, at which all of its members were present.

Participation of the Supervisory Board members at this oversight body's meetings held in 2016

	Nr. of meetings in which member was present	Attendance rate (%)
Chairman		
Abel António Pinto dos Reis	15	100
Members		
Jorge de Figueiredo Dias	15	100
Rui Campos Guimarães	15	100

Besides those meetings, the members of the Supervisory Board participated in 10 meetings of the Audit and Internal control Committee.

1) Without prejudice to this member having commenced functions on the Supervisory Board in the date indicated, the rule provided for in article 29 of the Statutes (mentioned in the text which precedes the table) only limited his number of terms of offices with effect from 23 April 2008.

36. Positions occupied in other companies and other important functions exercised by the members of the Supervisory Board

This information may be consulted in the Annex on page 421 of the Report.

37. The Supervisory Board's involvement in the contracting of additional services from the statutory auditor / external auditor not required by law

The provision by the statutory auditor / external auditor (SA/EA) to Banco BPI or the other Group companies contract "Other non-audit services not required (and naturally not prohibited) by Law", as well as the respective conditions, require the Supervisory Board's approval after having heard the Audit and Internal Control Committee.

The proposals for the provision of such services are analysed by the Supervisory Board, case by case, based on detailed information supplied by the competent units or services and, in its deliberations, is controlled by the weight of the fees relative to the total fees contracted by the SA/EA, so as to guarantee meeting the maximum limit of 30% fixed in article 77(1) of the new Statutory Auditors Institute Statute (Estatuto da Ordem dos Revisores Oficiais de Contas – EOROC), established by *Law no. 140 / 2015* of 7 September.

38. Other functions of the Supervisory Board

Within the general framework of the Supervisory Board's functions set out in point 30, besides the function detailed in the preceding point, the Supervisory Board is responsible for carrying out other functions, amongst which the following merit highlighting:

- With respect to the SA / EA of the company:
  - when necessary, to submit to the General Meeting a proposal relating to the contracting of the SA / AE, indicating two alternative firms and the corresponding fees and, amongst these firms, which one merits its preference;
  - for all purposes, to represent the company *vis-à-vis* the SA / AE, being namely the company's first spokesman before it and the first recipient of the relevant reports;
  - approving, after hearing the Audit and Internal Control Committee, the SA / EA's annual work plan;
  - to ensure that the company provides the appropriate conditions for the SA / EA to render its services;
  - evaluating the SA / EA's work;
  - to oversee the statutory audit and the proper presentation of the accounting documents of the company;
  - to oversee the independence of the SA / AE and, within this framework, consider and deliberate, in particular, about the provision of additional services to the parent company or other companies of its Group, in the terms referred to previously in point 37; and
  - to propose to the General Meeting the dismissal or resolution of the service contract with the SA / EA whenever there are grounds for just cause.
- As regards internal control and risk management:
  - to verify, at Banco BPI and other companies of the Group subject to supervision on a consolidated basis, the pursuance of the fundamental objectives set with respect to internal control and risk management by the banking and capital market supervision entities in the supervision directives directed at the credit institutions and financial companies;
  - in terms of the Statutes, its operating regulations and as evidenced in its annual activity report, to evaluate the functioning of the internal control and risk management systems, proposing the alterations that it deems necessary and issuing opinions on the work plans and the resources allocated to the internal audit services and other compliance services.

IV. STATUTORY AUDITOR / EXTERNAL AUDITOR

The Statutory Auditor (S.A.) is appointed by the General Meeting, following a proposal by the Supervisory Board. It can be a natural person or a company with the statutory auditor status. In addition to the person who, individually or in representation of a company, is the member in office, an alternate member shall be appointed.

The EA is appointed by the Board of Directors following a proposal of the Supervisory Board. It has been the Bank's policy to appoint the same entity for performing the functions of SA and EA.

39. Details of the Statutory Auditor / External Auditor and the partner who represents said Auditor

Deloitte & Associados, SROC, S.A. (Deloitte), a member firm of the international network Deloitte Touche Tohmatsu, is the BPI Group's SA and, for purposes of article 8 of the SC, is its EA, and is registered with the CMVM under no. 231. Deloitte was reappointed to carry out the functions of SA / EA for the three-year period 2013-2016 at the General Meeting of 23 April 2014.

António Marques Dias was until 17 February 2016 the partner responsible for the audit of the BPI Group's financial statements. On 18 February 2016, Deloitte nominated Paulo Alexandre de Sá Fernandes to exercise the functions of statutory auditor as the firm's representative.

The alternate statutory auditor of the company is Carlos Luís Oliveira de Melo Loureiro.

40. Number of years in which the statutory auditor / external auditor and the statutory auditor partner representing it have worked with the BPI Group

Deloitte has exercised functions consecutively as SA / EA at the BPI Group since 2002.

Paulo Alexandre de Sá Fernandes is the partner who represents the SA / EA since 18 February 2016.

41. Services rendered by the Statutory Auditor / External Auditor to the BPI Group

The SA / EA is responsible from the outset for carrying out "Audit Services" (which include all the examinations and verifications needed for the Statutory Audit and Legal Certification of the Accounts) as well as "Other non-audit services required by Law" (which include those which, with a view to the attesting the integrity of the information provided, derive from the Law or instructions emanating from the supervision authorities, namely the European Central bank (ECB), the Bank of Portugal (BdP) and the Securities Market Commission (CMVM).

Besides the above services not required by Law (and, naturally, not prohibited by Law", which are carried out at Banco BPI's request, once approved and substantiated by the Supervisory Board, after having heard the Audit and Internal Control Committee. Such services can include "Tax Consultancy Services" (not prohibited in terms of article 77(8)(a) of the EOROC) and "Others", the nature of which can vary significantly from year to year. By way of example, in 2016 the major portions of invoicing for "Other" services performed by the SA / EA corresponded to (i) analysis of the treatment of the accounting aspects related to the solutions that Banco BPI studied to overcome the excess of large exposures in and (ii) transversal inspection at Banco de Fomento Angola (BFA) in order to evaluate the quality of its assets, requested by the Banco Nacional de Angola (this service was adjudicated in 2015 and only billed at the beginning of 2016).

The internal procedures adopted in the contracting of "Other non-audit services nor required (nor prohibited) by Law", were presented previously in point 37.

The fees charged by the SA / EA in 2016 (and for comparative purposes also in 2015) for the different services rendered to the Bank and to the BPI Group, are identified further on, in point 47.

V. EXTERNAL AUDITOR

See point IV.

42. Identification of the External Auditor

See point 39.

43. Number of years in which the external auditor and the statutory audit partner representing the firm exercise functions at the BPI Group

See point 40.

44. Rotation and frequency policy of the statutory auditor / external auditor and of the statutory auditor partner who represents it

BPI recognises and subscribes to the concerns manifested by the CMVM (Securities Market Commission), by the European Commission and by the International Organization of Securities Commissions (IOSCO), amongst other entities, regarding the safeguarding of auditors' independence *vis-à-vis* the audit Client, and applauds the professional requirements which, in this respect, are enshrined in the EOROP. BPI believes that this independence is essential for ensuring the public's trust in the reliability of their reports and in the credibility of the financial information published.

BPI is of the opinion that its SA / EA is independent within the context of the regulatory and professional requirements applicable and that their objectivity is not compromised. BPI has always incorporated into its governance practices and policies several mechanisms which safeguard the independence of the entities which have carried out the SA / EA functions.

The company which audits the BPI Group's accounts, as well as the persons in charge of the relevant audit work have no interest – other than that which results from the normal course of their professional activity and to the best of BPI's knowledge – whether actual or imminent, of a financial, commercial, employment, family or other nature, in BPI Group companies, capable of leading a reasonable and informed third party to consider that such interests could compromise the auditor's independence.

In light of the provisions of applicable legislation, the Supervisory Board undertook the oversight of the independence of the SA / EA, namely by way of:

a) obtaining written confirmation of the auditor's independence as provided for in article 63 of the EOROC;
b) the confirmation of compliance with the responsible partner's rotation requirements; and
c) the identification of the threats to independence and of the safeguard measures adopted for their mitigation.

BPI has adopted the principle of not entering into employment contracts with any person who has in the past been partner of the audit firm which has provided audit services to any BPI Group companies before at least three years have elapsed since the cessation of the provision of such services.

The EOROC provides in particular for public-interest companies, maximum periods for the exercise of functions by their SA / EA, as well as for the audit by the partner responsible for the direct orientation or execution of the audit. Deloitte now finds itself precisely in the situation of having attained the maximum limit for the exercise of its functions.

In general, the Bank naturally welcomes this policy which ensures the rotation of firms or persons linked to the SA / EA function and which, in this manner, promotes their independence and the renewal of the procedures which materialise the exercise of such function. However, in the present circumstances, the Board of Directors believes there are conditions that constitute an exceptional background in which the disadvantages stemming from the substitution of the SA / EA outstrip the corresponding advantages referred to previously.

In succinct terms and focusing attention solely on key matters, that background stems from the following points:

- in February 2017, following the OPA launched by CaixaBank, the latter now owns 84,5% of BPI's shares, and BPI is now integrated into the CaixaBank Group;
- CaixaBank obtained exceptionally on the part of the Spanish authorities authorisation for Deloitte to continue as its SA / EA during 2017; meanwhile it already announced that as from 2018, the SA / EA functions will be carried out by PwC;
- the change to the shareholder structure will amount to a significant alteration to BPI's leadership, a substantial amount of work to be undertaken to ensure BPI's accounting and prudential consolidation at CaixaBank and the need for a far-reaching coordination of the respective internal control systems.

Against this backdrop of change and strenuous effort, it seemed to be advisable to adopt a prudent posture, pointing to:

1. The reappointment of Deloitte as Banco BPI's SA / EA (with the advantage of better supporting the Bank as a result of its previous experience and, on the other hand, because dialogue is potentially much easier with CaixaBank's SA / EA, also a member of the Deloitte international network);
2. The limitation of Deloitte's new term of office as SA / EA for a short period (that whereby the abovementioned exceptionality manifests itself more intensely); and
3. The start, still in March 2017, of the process for selecting the new SA / EA, in line with applicable legal provisions.

Under these conditions, Supervisory Board resolved to support the Bank's Board of Directors in the application addressed to the CMVM requesting, pursuant to article 17(6) of *EU Regulation no. 537 / 2014*, the reappointment of Deloitte, as an exceptional case, as Banco BPI's SA / EA for one more term of office of only one year, issuing its favourable opinion.

45. Indication of the body responsible for evaluating the statutory auditor / external auditor and frequency with which this evaluation is carried out

The evaluation of the SA / EA falls within the Supervisory Board's terms of reference, in the terms explained in point 38 above. The evaluation is carried out annually.

The Supervisory Board is responsible, in terms of its regulations, as referred to in point 38, for proposing to the General Meeting the dismissal or resolution of the service contract with the SA / EA whenever there are grounds for just cause.

46. Services provided by the external auditor to the BPI Group

See point 41.

47. Annual remuneration paid by the company or by the BPI Group to the Statutory Auditor / External Auditor or to entities belonging to its Network

The following table presents for 2016 (and also for 2015, for comparative purposes), the amounts of the annual emoluments (without VAT or similar tax) charged:

- to the company or other legal persons with which it has a group relationship;
- by the SA / EA and by other natural or legal persons belonging to the same network and breakdown of the relating to the following services (for purposes of this information, the concept of network is that which is defined in the *European Commission's Recommendation no. C (2002) 1873*, of 16 May).

The table presents the distribution of the fees charged according to their origin (Company / Other Group entities) and by the type of service provided (statutory audit / assurance / tax consultancy / other).

Fees charged by the SA / EA and by firms belonging to its network (without VAT or equivalent tax)

	2016		2015	
	th.€	%	th.€	%
To Banco BPI				
Statutory audit services	598	20.2	741	32.8
Assurance services	404	13.6	310	13.7
Tax consultancy services	0	0,0	25	1.1
Other non-audit services	810	27.3	0	0.0
	1 812	**61.1**	**1 076**	**47.7**
To other entities forming part of the BPI Group[1]				
Statutory audit services	432	14.6	492	21.8
Assurance services	531	17.9	329	14.6
Tax consultancy services	128	4.3	129	5.7
Other services	60	2.0	231	10.2
	1 151	**38.8**	**1 181**	**52.3**
Total	**2 963**	**100.0**	**2 257**	**100.0**

It is worth noting the very significant increase from 2015 to 2016 of the fees charged to Banco BPI and, amongst these, of the amounts corresponding to "Other" (Services). The biggest contribution to the increase in this last category was due firstly to the services rendered in the process for the acquisition of Novo Banco and, secondly, to the training of BFA qualified staff within the ambit of the calculation of impairments.

1) By decreasing order of importance as regards the amount paid: BFA, BPI Vida e Pensões, BPI-BI, BPI Strategies, BPI Suisse, BPI Luxemburgo, Banco BPI Cayman, Banco BPI – Offshore de Macau, BPI Private equity, BPI Capital Africa, BPI Alternative Fund Luxemburgo, BPI Capital Finance, BPI – Locação de Equipamentos, BPI Dealer Moçambique and BPI Madeira.

C. INTERNAL ORGANISATION

I. STATUTES

48. The rules governing amendment to the Articles of Association

In terms of article 30 of the Statutes, any amendment requires approval by a majority of two thirds of the votes cast at a General Meeting specially convened for this purpose, except for any amendment to article 31(1), as well as to article 30(2), which requires approval by 75% of the votes cast.

The matters to which the above provisions refer and which require a majority of 75% of the votes cast in order to be amended are the following:

- article 31(1) – provision that lays down a special qualified majority for the company's dissolution;
- article 30(2) – provision that lays down that an alteration to the imposition of a qualified majority for the abovementioned matters can only be changed by the application of the aforesaid majority.

II. REPORTING OF IRREGULARITIES

49. Reporting means and policy on the reporting of irregularities in the company

The Supervisory Board is responsible in terms of article 420 j) of the CCC, for the receiving the communications of irregularities presented by Employees, Customers, Shareholders and any other entities.

BPI Employees must communicate to the oversight body, the Supervisory Board, any irregular practices which they detect or are aware of or have justified suspicions of so as to prevent or impede irregularities which may cause financial damages to BPI or damage to the Bank's image.

In terms of the service instrument that regulates this matter and which clearly sets out all the procedures and which is available to all Employees, the communication referred to in the preceding number must be made in writing and contain all the details and information that the Employee has available and which he / she deem to be necessary for assessing the irregularity. The Employee may also request confidential treatment as regards the origin of the communication.

The communications of irregularities are received, opened and processed by the Advisor to the Supervisory Board, who shall be responsible for safeguarding the anonymity of all the relevant subscribers.

The Supervisory Board Advisor informs the respective Chairman of the communications of irregularities received who, having heard the other members of the Supervisory Board, when deemed necessary, shall decide on what course of action to take.

Where the communications of irregularities warrant the intervention of the Bank's departments, namely of the Audit and Inspection Division, they are presented by the Supervisory Board's Chairman to the Chairman of the Board of Directors which will deal with them in the appropriate manner.

Copies of the reports produced by the DAI or by any other body so requested are sent to the Chairmen of the Supervisory Board, of the Board of Directors and of the Audit and Internal Control Committee.

The Supervisory Board's report discloses the number of communications of irregularity received and their status.

III. INTERNAL CONTROL AND RISK MANAGEMENT

50. Persons, bodies or committees responsible for the internal audit and for the implementation of internal control systems

The internal control system in existence at Banco BPI is founded on the objectives and guidelines laid down by the Board of Directors and the CACI. These are monitored closely by the last-mentioned Committee and are based on a structure which encompasses, amongst others, a Risk Analysis and Control Division, an Audit Division and a Compliance Division.

This system's oversight and evaluation are undertaken by the Supervisory Board which not only functions in full liaison with the CACI but is also directly involved in the supervision of the principal risks and in the definition of the risk-management, compliance and internal audit programmes.

51. Explanation, even if by inclusion in the organisation chart, of the hierarchical and/or functional dependence relationships vis-à-vis the company's other bodies or committees

The BPI Group's overall risk management falls within the Board of Directors' Executive Committee's terms of reference. As concerns the Executive Committee, the risk divisions' portfolio is entrusted to a Director with no direct responsibility for the commercial divisions.

At senior level there is also one specialist executive committee: the Credit Risks Executive Committee, whose attention is focused on the analysis of large-scale operations. Without prejudice to the functions legally attributed to the Supervisory Board, the Risks Committee is responsible for monitoring the management policy covering all the financial risks associated with the company's business, namely liquidity, interest rate, currency, market, credit and operational risks, as well as monitoring the management policy relating to the company's pension fund.

52. Other functional areas responsible for risk control

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 Analysis and 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 Analysis and Operational Risk Management Area, as well as to members of each one of the Group's bodies – operational risks' pivots – 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 of BPI Group in Portugal 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. The Group entities not covered have their own requirements, adapted to the products and services that they are selling and to the size of each one.

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), Rating for Corporates and Project Finance 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 Small Businesses **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**: overall strategy **CECA**, **CERC**: approval of substantial operations **Credit Board**, **DRC**, **DRCP**: approval of operations	**CA** (with CR advisory) **CECA**, **CERC**, **Credit Board**, **DRC**, **DRCP**, **DACR**: limits **CA** (with CR advisory), **CECA**, **CACI**, **CERC**, **Credit Board**, **DACR**, **DO**, **Internal and external Auditors**[1], **Supervisory Board**, **Bank of Portugal**: control	**DRCE**: Companies **DRCP**: Individuals and Small Businesses	**CECA**, **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**: overall strategy **DF**, **DA**: operations	**CA** (with CR advisory) **CECA**, **CACI**, **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**: overall strategy **DF**, **DA**: operations	**CA** (with CR advisory) **CECA**, **CERG**, **DACR**, **DF**, **DA**: limits **CECA**, **CACI**, **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**: overall strategy	**CA** (with CR advisory) **CECA**, **CACI**, **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**, **DORG**, **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**: analysis of compliance risks (= legal default, market abuse, money laundering and financing terrorism)	**CECA**: compliance	**CECA**, **CACI**, **DJ**, **DC**, **Internal and external Auditors**[1], **Supervisory Board**, **Bank of Portugal**: control		

CA – Conselho de Administração (Board of Directors): **CACI** – Comissão de Auditoria e de Controlo Interno (Audit and Internal Control Committee); **CECA** – Comissão Executiva do Conselho de Administração (Board of Directors Executive Committee); **CERC** – Comissão Executiva de Riscos de Crédito (Credit Risks Executive Committee); **CR** – Comissão de Riscos (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 Qualidade (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).

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.

53. Details and description of the major types of risk

Risk management at the BPI Group is based on the permanent identification and analysis of exposure to different risks – credit risk, country risk, market risks, liquidity risk, operating and legal risks or other – and on the adoption of strategies aimed at maximising profitability within predefined (and duly supervised) limits. Management is complemented *a posteriori* by analysis of performance indicators.

In a separate chapter of the Directors' report and which is deemed to form an integral part of this report by reference, the main risks to which the Group is exposed in the conduct of its business are described (page 122).

54. Description of the procedure for identification, assessment, monitoring, control and risk management

The policy, procedures and allocation of powers amongst the Group's various bodies and departments on matters relating to the control and management of the Group's risks are described in detail in a separate chapter of the Directors' Report and are incorporated into this document by way of reference (pages 122 to 153).

As regards risk management, noteworthy was the introduction in 2016, in line with the EBA's guidelines of the Risk appetite framework / risk appetite statement, as a broad-based and prospective tool used by the committee for determining and controlling the types and limits of risks that it is willing to assume in the realisation of the strategic goals.

55. Internal control and risk management systems implemented in the company regarding the procedure for reporting financial information

The Investor Relations Division (DRI) is the body responsible for the preparation and disclosure of documents containing financial information – quarterly and annual results and annual and interim reports.

The above financial information and disclosure process is defined and the chief risks attaching to this process are identified in a mandatory-compliance internal regulation.

The execution of the controls prescribed for mitigating each risk has to be demonstrated internally and externally by the person in charge of their execution by means of the production of specific evidence for each case.

The process entails permanent dialogue with the heads of the divisions involved and with the Executive Committee. The documents to be disclosed and the respective timing of disclosure – depending on the document concerned – require the express approval of the Executive Committee and/or the Board of Directors. The aforesaid documents, in terms of the procedures envisaged for each situation, are also sent for review by the Board of Directors' consultative committees and/or by the Supervisory Board.

It is BPI's practice to release documents immediately after the stock market close on the actual day on which the Executive Committee or the Board of Directors approves them.

The preparation and disclosure of documents containing financial information is the object of annual assessment by the external auditors.

IV. INVESTOR ASSISTANCE

56. Department responsible for investor assistance

The Investor Relations Division has as its principal functions guaranteeing, to the Authorities and to the market, compliance with legal and regulatory reporting obligations to which Banco BPI is bound, responding to the information needs of investors, financial analysts and other interested parties, and lending support to the Executive Committee in aspects relating to Banco BPI's presence on the market as a listed entity.

Within the scope of the abovementioned responsibilities, of particular importance is the disclosure of information classified as "relevant fact", the furnishing of quarterly information concerning the Group's activity and results, and the preparation of the annual and interim reports and accounts.

BPI has, in its capacity as a listed company, been engaged in intensive communication activity with the market throughout 2016.

BPI participated in 6 conferences for investors dealing with the financial sector, both abroad – London, New York and Paris – and in Portugal. As part of this activity, the Bank staged more than 65 individual meetings with institutional investors.

As regards the dissemination of results, BPI continued to hold meetings with analysts and investors in 2016 in order to discuss quarterly results. These meetings – which were attended by all the members of the Executive Committee of Banco BPI's Board of Directors – can be attended in person or by way of conference call, as well as being broadcast simultaneously and with free access by webcast, via the Bank's Investor Relations' website.

Throughout the year, BPI maintained permanent contact with the financial analysts who cover the BPI share and who in 2016 were responsible for the production of more than 100 research reports on the Bank.

The DRI is composed of a team of four full-time Employees with the appropriate qualifications and experience in financial and communication matters.

57. Representative for relations with the market

The Representative for Relations with the Market is Luís Ricardo Araújo, also head of the Investor Relations Division.

58. Requests for information

As part of its functions, the DRI responds to various requests for information from shareholders, investors, financial analysts and other parties. When requests relate to information and clarification – via telephone, e-mail and letter,– about financial information, activity, dividends, general meetings and other issues of a similar nature, and when such information is public, then the response is generally immediate.

In the other situations – provided it falls within the DRI's jurisdiction – the response time depends on the nature and complexity of the request, the availability of information and the eventual need for obtaining contributions from the Group's other bodies or departments.

In general terms, all the documents issued for public dissemination by BPI within the scope of its relationship with the market (including preparatory documents for general meetings) are available for dispatch in digital format, upon request.

All the information of a public nature regarding the BPI Group can be requested from the Investor Relations Office via the contact page at the web site, by telephone, e-mail, fax or by letter.

INVESTOR RELATIONS CONTACTS

Address:	Rua Tenente Valadim, n.º 284 – 3.º 4100-476 Porto
Phone:	+351 22 607 33 37
Fax:	+351 22 600 47 38
E-mail:	investor.relations@bancobpi.pt
Web site:	www.ir.bpi.pt

V. WEB SITE

59. Web site

BPI has a web site, available in English and in Portuguese, dedicated exclusively to the disclosure of information of an institutional nature about the Group. This web site is available at the address www.ir.bpi.pt.

60. Location where the information about the firm, its status of a public limited company, the registered office and the other details referred to in article 171 of the Commercial Companies Code is provided

The information referred in item 60 is available in the web site of Banco BPI, in the section "Mandatory Information to Investors".

61. Location where the Statutes and the functioning regulations of the governing bodies and the Board of Directors' consultative committees can be found

The information referred in item 61 is available in the web site of Banco BPI, in the section "Corporate Governance".

62. Location where the information about the identity of the persons sitting on the governing bodies and of the person representing relations with the market and the functions and means of access to the Investor Relations Division is provided

The information related to the identity of the persons sitting on the governing bodies is available in the web site of Banco BPI, in the section "Corporate Governance".

The information related to the identity of the person representing relations with the market and the Investor Relations Division, respective functions and means of access, is available in the web site of Banco BPI, in the section "Mandatory Information to Investors".

63. Location where the reports and accounts of the previous five years, as well as the calendar of corporate events including, amongst other information, the meetings of the General Meeting and the disclosure of the annual, interim and quarterly accounts can be found

The annual reports and accounts for each year, half-year and quarter for the previous five years is available in the web site of Banco BPI, in the section "Financial data".

The calendar of corporate events including, amongst other information, the meetings of the General Meeting and the disclosure of the annual, interim and quarterly accounts is available in the web site of Banco BPI, in the section "IR' Events Calendar".

64. Location where the General Meeting Notices, as well as the proposals to be tabled for discussion and voting by the shareholders can be found

The information referred in item 64 is available in the web site of Banco BPI, in the section "General Meeting".

65. Location where the historical register with the resolutions passed at the Company's General Meetings, the share capital represented and the voting results relating to the preceding three years is available

The information referred in item 65 is available in the web site of Banco BPI, in the section "General Meeting".

D. REMUNERATION

I. POWER TO FIX REMUNERATION

66. Power to fix the remuneration of the Company's governing bodies and Senior Management

The Remuneration Committee is the body responsible for fixing the remuneration of the members of the management and oversight bodies.

In terms of the law and the Remuneration Policy, the Board of Directors has the power to fix the remuneration of the Bank's Employees, namely, those referred to in article 115 C)(5) of the RGICSF, that is:

- senior executives;
- those responsible for risk assumption;
- those responsible for control functions;
- Employees whose total remuneration places them on the same salary scale as those in the above-mentioned categories, providing that the respective professional activities have a material impact on the institution's risk profile.

II. REMUNERATION COMMITTEE

Terms of reference

The Remuneration Committee (RC) is responsible for:

- fixing the remuneration of the members of Banco BPI's governing bodies, based on the opinion of the CNAR and within the framework of the compensation policy approved by the GM;
- defining the remuneration policy and applying the retirement regime for members of Banco BPI's Executive Committee (once again, within the framework of the compensation policy approved in GM) and the Board of Directors of Banco Português de Investimento;
- evaluating the members of Banco BPI's Executive Committee and of the Board of Directors of Banco Português de Investimento, with a view to determining the respective annual variable remuneration.

In the exercise of their functions, the Remuneration Committee takes into consideration the proposals and recommendations presented to it by the Nominations, Evaluation and Remuneration Committee in terms of the provisions of article 7(4) of *Bank of Portugal Notice 10 / 2011*.

According to the statutes (article 28) at the time the General Meeting appoints the Remuneration Committee, the former must define that the term of office of the governing bodies which commences on the date of that resolution, the limits of the annual fixed remuneration of all the members of the Board of Directors and the maximum percentage of the profits, which cannot exceed 5%, that can be set aside each year for the variable remuneration of the members of the Executive Committee.

As regards the fixed remuneration of the members of the Board of Directors and the variable remuneration of the Executive Committee, these must respect the limits prescribed by the General Meeting.

67. Composition of the remuneration committee

Pursuant to Banco BPI's statutes the Remuneration Committee is composed of three shareholders elected for three-year terms by the General Meeting, who in turn shall elect from amongst themselves the Chairman, who has the casting vote.

The Remuneration Committee is composed of independent members *vis-à-vis* the executive members of the Board of Directors.

In the performance of its duties, the RC can be assisted by the experts and external consultants that the Committee believes it should consult.

The Remuneration Committee does not resort to the services of natural or legal persons who are not independent because they are bound by an employment or service contract to the Board of Directors as well as, when applicable, because such persons have a current relationship with BPI's consultancy firm.

The Shareholders at the General Meeting of 23 April 2014, approved the following composition of the Remuneration Committee for the term of office 2014 / 2016:

- CaixaBank, S.A.
- Arsopi Holding, SGPS, S.A.
- Violas Ferreira Financial, S.A.

On 31 January 2017 Arsopi Holding, SGPS, S.A. presented its resignation for the office.

Currently the Shareholder CaixaBank, S.A. is represented on this Committee by José Villalonga Pons and the Shareholder Violas Ferreira Financial, S.A. by Edgar Alves Ferreira.

68. Knowledge and experience in remuneration policy issues by members of the Remuneration Committee

All the members of the Remuneration Committee currently occupy or have occupied in the past management positions at various other companies, and possess knowledge and experience in matters of remuneration policy.

III. REMUNERATION STRUCTURE

69. Description of the remuneration policy of the management and oversight bodies referred to in article 2 of Law no. 28 / 2009, of 19 June

Decree-Law no. 157 / 2014 of 24 October, which came into force on 24 November 2014, altered article 2 of *Law no. 28 / 2009*, with its sub-paragraph no. 4 providing the following "Credit institutions and financial companies are subject to the rules

relating to the remuneration policy laid down in the General Regime for Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras – RGICSF), approved by *Decree-Law no. 298 / 92* of 31 December."

Hence, Banco BPI is currently only subject to the provisions relating to this matter contained in the RGICSF and without prejudice to the detailed references dealing with this matter which appear in the following paragraphs of this chapter, the full content of the Remuneration Policy relating to the members of Banco BPI's Management and Supervisory bodies approved at the General Meeting of 28 April 2016 is described next.

The present Remuneration policy was submitted to the General Meeting of 28 April 2016 and approved thereat.

BANCO BPI'S REMUNERATION POLICY APPLICABLE TO MEMBERS OF THE BOARD OF DIRECTORS AND OF THE SUPERVISORY BOARD

1. Objective scope

The present Remuneration Policy is applicable:

a) To the members (executive and non executive) of the Banco BPI S.A.'s Board of Directors (Banco BPI);

b) To the members of Banco BPI's Supervisory Board.

2. Objective scope

The present Remuneration Policy is applicable to the persons at Banco BPI referred to in Section 1 who perform the functions referred to.

Banco BPI shall promote the adoption, with the necessary adaptations arising, namely, from the criteria of proportionality and adequacy envisaged in the General Regime for Credit Institutions and Financial Companies (hereinafter the General Regime) and of the needs for this compatibility with other legal regulations, of the present policy and the principles stemming therefrom, by its subsidiaries.

3. Definition of Remuneration Policy

The definition of Remuneration Policy is the responsibility of the Remuneration Committee, assisted by the external experts and consultants whom the Committee believes should be consulted.

The Remuneration Committee must take into consideration in defining the Remuneration Policy the objectives that such policy (i) contributes to promoting and is coherent with a sound and prudent risk management (ii) does not constitute an incentive for the assumption of risk levels above those tolerated by the Bank and (iii) does not create or contribute to conflict of interest situations.

The Remuneration Policy defined must be compatible with Banco BPI's business strategy and objectives, values and long-term interests – just as these are and may become defined by the relevant governing bodies for this purpose.

The Remuneration Committee must also bear in mind in formulating Remuneration Policy and in such a manner that take into account and are appropriate and proportionate to the nature, characteristics, scale, organisation and complexity of Banco BPI's activities, the principles and applicable legal rules, namely those envisaged in General Regime and in *Bank of Portugal Notice 10 / 2011*.

The Board of Directors' Committee known as the Nominations, Evaluation and Remuneration Committee (CNAR) – whose duty it is to collaborate and perform the functions envisaged in RGICSF, in article 7 of *Bank of Portugal Notice 10 / 2011* and in its regulations dealing with its functions – shall participate in formulating the Remuneration Policy.

Within the framework of the process of formulating Remuneration Policy, the Remuneration Committee and/or the CNAR may call upon those responsible for the audit, compliance and risk-management units, from whom it may request the contributions which, for this purpose and with respect to the risks in which each one of these functions intervenes, they consider relevant.

3.1 Remuneration Committee

3.1.1 Terms of reference

According to the provisions of article 28(2) of Banco BPI's Statutes, the remuneration of the members of Banco BPI's management and supervisory bodies is laid down by the Remuneration Committee after having heard, as regards the members of the Board of Directors who form part of the Executive Committee,(in this document referred to as executive Directors), the CNAR.

The definition of remuneration envisaged in the preceding paragraph is, in terms of article 28(3) of the Statutes, done within the framework of the ceiling for the fixed remuneration of the Board of Directors' members, as well as of the maximum percentage of the annual consolidated net profit – which cannot exceed 5% in any year –, that can be allocated to the executive Directors variable remuneration, which may be fixed by the General Meeting at the beginning of each governing body's term of office.

At least one member of the Remuneration Committee shall be present at Banco BPI's Shareholders' General Meeting.

3.1.2 Committee's composition

In terms of Banco BPI's Statutes, the Remuneration Committee is composed of three shareholders elected every three years by the General Meeting, who shall appoint a Chairman from amongst their number and who shall have the casting vote.

The Remuneration Committee is composed of independent members *vis-à-vis* the executive members of the Board of Directors and includes at least one member with knowledge and experience in the field of remuneration policy.

The Remuneration Committee currently in office, elected by the General Meeting resolution of 23 April 2014 for the term 2014-2016, has the following composition:

a) CaixaBank, S.A. which designated to represent it Isidro Fainé Casas;

b) Arsopi Holding, SGPS S.A., which designated to represent it Armando Leite de Pinho;

c) Violas Ferreira Financial, S.A., which designated to represent it Edgar Alves Ferreira.

3.2 Comparisons used
In setting the remuneration of the members of Banco BPI's management and supervisory bodies, the Remuneration Committee takes into due consideration the remuneration policies and practices of comparable Iberian banks.

3.3. Annual evaluation
The CNAR undertakes an analysis and annual assessment of the application of the Remuneration Policy with a view to ascertaining whether its application results in effects on the management of the institution's risks, capital and liquidity that requires a review of that policy and, where this is the case, the identification of the corrective measures to be adopted.

In the analysis and assessment concerned, the CNAR may call upon, amongst others, those in charge of the audit, compliance and risk management units, from whom contributions may be requested which for this purpose and with respect to the risks in which each one of these functions intervene, they consider relevant.

The CNAR communicates to the Remuneration Committee the findings of the aforesaid analysis and assessment, and will liaise with it the presentation of the conclusions reached to the Annual General Meeting.

4. General principles and objectives of the Remuneration Policy

4.1 Remuneration structure

4.1.1 For non-executive Directors and members of the Supervisory Board

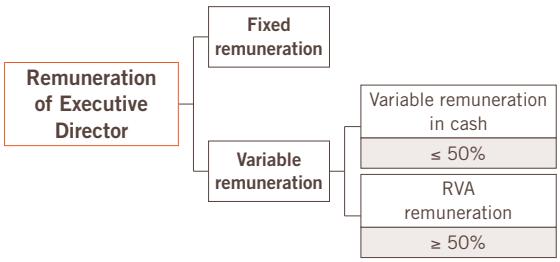
According to the provisions of article 28(1) of the Statutes, the remuneration of the non-executive members of the Board of Directors (Non-executive Directors) and of members of the Supervisory Board is composed exclusively of a fixed remuneration, paid monthly, and excluding any variable remuneration and, therefore, not dependent on Banco BPI's results. In the case of the non-executive Directors who sit on the Board of Directors' consultative and support bodies contemplated in the Statutes, that remuneration is increased by the amount of the respective attendance allowances.

4.1.2 For the Executive Directors

The remuneration of the Executive Directors is composed of a fixed and a variable component. The variable remuneration may not be awarded in exceptional cases, namely, if its awarding limits Banco BPI's capacity to reinforce its own funds base, whilst in any event all the types of current and future risks shall always be taken into account in its granting.

For its part, the variable remuneration is composed of a portion in cash and a portion in Banco BPI shares and/or options to buy Banco BPI shares (hereinafter referred to as the RVA Remuneration), awarded within the framework and in the terms of the Regulations of the Variable Remuneration in Shares Programme (Regulamento do Programa de Remuneration Variável em Acções – RVA) approved at the General Meeting of 27 April 2011 and disclosed in the Corporate Governance Report (hereinafter referred to as the RVA Regulations) and other rules relating thereto.

The RVA Remuneration should represent, at the very least, 50% of the overall amount of the variable remuneration of each Executive Director.



The RVA Remuneration, up to the limit of 50% of the overall amount of each Executive Director's variable remuneration, is made available with subjection to a suspensive term (called the **Deferral Period**, the definition of which appears in section 5 of this Policy) that results in the deferral of the availability of the aforesaid RVA Remuneration for the period of 3 years and simultaneously with the subjection to a suspensive condition (called the **Access Condition to Deferred Remuneration**, the definition of which appears in section 5 of this Policy), referred to in this document as the Deferred RVA Remuneration.

Guaranteed variable remuneration cannot be granted, except when a new member is engaged, while in any event such guaranteed variable remuneration can only be applied in the first year of office and will only be due when the Bank has a solid and strong capital base.

4.2 Overall limits applicable to the members of the management bodies
Banco BPI's Statutes attribute to the General Meeting the powers to define, valid for the term of office of the governing bodies which commences on the date of this resolution, of the limit:

i. of the annual fixed remuneration of the members of the Board of Directors;

ii. of the maximum percentage of the annual consolidated net profit – which cannot exceed 5% in any year – that can be allocated each year to the executive Directors variable remuneration.

For the three-year period 2014 / 2016 and following the proposal presented by the Remuneration Committee, the following limits approved at the General Meeting of 23 April 2014 are in force:

a) Limit of the annual fixed remuneration for the members of the Board of Directors: 4 000 000 €; this limit is subdivided into the following partial limits:

- Non-executive Directors (not including for this purposes attendance allowances): 1 400 000 €;
- Executive Directors: 2 600 000 €.

b) Maximum percentage of the annual consolidated net profit which each year can be allocated to the variable remuneration of the group of executive Directors: 1%.

4.3 Specific limits of the variable remuneration of the Executive Directors

In terms of the law, the annual variable remuneration of any one of the non-executive directors cannot be more than the total value of the fixed remuneration earned by the respective executive director in the immediately preceding financial year.

The approval and granting of a higher amount than that referred to above, which at the maximum can be double the fixed remuneration, shall be dependent upon compliance with legally-prescribed requirements for this purpose.

4.4 Alignment of interests

The present Remuneration Policy is aimed at, amongst other objectives, contributing to the alignment of the Executive Directors' interests with those of the company, while also discouraging the assumption of excessive risks. Such contribution results, amongst other aspects:

a) from the rule which provides that the limit on the variable remuneration of the Executive Directors is defined on the basis of Banco BPI's consolidated results, thereby ensuring annually in this manner an effective limit on such remuneration in the event of a negative result;

b) from the circumstance of the availability of a portion of that remuneration (of an amount corresponding to a minimum of 50% of the overall amount of the variable remuneration) being deferred for 3 years;

c) from the rule which provides that at least 50% of the variable remuneration of the Executive Directors is composed of Banco BPI shares and / options to buy Banco BPI shares which the Executive Directors cannot dispose of for a period of 3 years (Deferred RVA Remuneration), which shares and options have a value that reflects, by nature and in these terms, an exposure to the company's performance and to the price of its shares; and, finally

d) from the circumstance that the Deferred RVA Remuneration is subject to the Condition of Access to Deferred Remuneration, and the consequent loss thereof if the aforesaid condition is not met in the terms contemplated in the RVA Regulations.

4.5 Hedging risk

With the acceptance of the variable remuneration granted to them, the Executive Directors assume the commitment, up until the verification of the Access Condition to the Deferred Remuneration, to not utilise remuneration insurance or any other risk-hedging mechanisms trending towards attenuating the effects of the alignment of the interests referred to in the various sub-paragraphs of the preceding item.

4.6 Determination of remuneration

4.6.1 For the non-executive Directors and the members of the Supervisory Board

The actual remuneration of the non-executive Directors and of the members of the Supervisory Board is defined at the start of each three years by the Remuneration Committee, taking into account in their case the overall limit laid down by the General Meeting referred to in 4.2 a). The Remuneration Committee also defines at the start of each three-year period, the value of the attendance allowances payable to the non-executive Directors who sit on the Board of Directors' consultative and support committees contemplated in the Statutes.

4.6.2 For the executive Directors

4.6.2.1 Fixed remuneration

The fixing of the amount of the fixed remuneration of the executive Directors is undertaken by the Remuneration Committee, after having heard the CNAR, within the framework of the limit envisaged in 4.2.a).

The amount of this remuneration is adjusted annually by the application of the rate of increase identical to that which, under the CEA for the banking sector, is applied to level 18 remuneration.

4.6.2.2 Variable remuneration

The fixing of the amount of the Executive Directors variable remuneration is undertaken by the Remuneration Committee, having heard the CNAR, based on their performance evaluation and taking in account:

a) Respect for the rules laid down in 4.1;

b) Respect for the limit set by the General Meeting in the terms referred to in 4.2. b);

c) The policy pursued in the matter at comparable institutions, such as defined in 3.2.

In fixing the overall amount of the variable component of the executive Directors' remuneration, although no automatic dependence relationship shall stem there from, the trend of the overall amount defined for the variable remuneration of the universe of Banco BPI Employees is also taken into consideration. In this respect, it will be recalled that in defining the overall amount of the variable remuneration of the universe of Banco BPI Employees who perform their functions in Portugal, one of the most important factors taken into account is the consolidated net profit before tax from Banco BPI's domestic operations.

4.7 Profit sharing
Banco BPI does not have a policy of remunerating its Directors through profit sharing.

4.8 Other benefits

4.8.1 Retirement benefits for executive Directors – principal characteristics

The management board members who are or have been executive Directors (or, in the case of the previous governance model, members of the Management Board) benefit from the pension plan applicable to the majority of Banco BPI Employees to the extent that they were Banco BPI Employees before occupying these positions and have seen, in terms of the law, their employment contract suspended.

The members of the management body who are or have been Executive Directors (or in the case of the previous governance model, Management Board members) also are entitled under a defined-benefit regime to a complementary retirement benefit, approved at the Bank's General Board meeting on 25 July 1995. This complementary retirement benefit affords to the respective beneficiaries a supplementary pension, the monthly amount of which depends of the monthly salary in force on 31 December 2009 for the office of the Executive Committee corresponding to that which the said beneficiary occupied and the number of years exercising those functions.

The rules governing the aforesaid benefit are enshrined in the Regulations of the Retirement Entitlement of the Management Members approved at the above-mentioned General Board meeting and which is reproduced in the Corporate Governance Report.

The Executive Directors are entitled to a complementary retirement benefit under the defined-contribution regime to which the Bank contributes with a monthly amount equal to 12.5% of the value of his / her monthly salary which was in force on 31 December 2009 for the office of the Executive Committee corresponding to that which this beneficiary occupies, updated at the identical rate as that which in terms of the ACT is applied to level 18 remuneration.

The members of the management and supervisory bodies who are not, nor have they even been, executive Directors (or, in the case of the previous model, members of the Management Board) are not entitled to any retirement benefit granted by the Bank.

The following amounts are deducted from the pensions paid under the plan for the executive Directors:

i. the pensions paid by the Social Security which fall under any of the following two categories:
   - those relating to the functions performed at the BPI Group;
   - those relating to the functions performed at third party entities at the BPI Group's instigation and which the BPI Group has recognised for that purpose;

ii. the pensions paid by other BPI Group pension plans.

BPI does not grant any discretionary pension benefits to its Executive Directors.

4.8.2 Current or past dismissal or cessation of function situations

There is no provision whereby, in a situation of dismissal or early cessation of functions of a member of the Board of Directors or of the Supervisory Board, the Bank is obliged to pay any indemnity or compensation, besides that which if such is the case, results from applicable legal provisions.

The remuneration for compensating a new member of the Board of Directors or of the Supervisory Board for early cessation of functions shall always take into consideration the Bank's long-term interests, including the application of the rules relating to performance as well as the Condition of Access to Deferred Remuneration and the claw-back and reduction mechanisms.

5. Specific rules applicable to the variable remuneration of Executive Directors

As referred to in 4, only the executive Directors remuneration includes a variable component which, in addition to that set out in that item, is also subject to the following rules:

5.1 Structure and composition of the variable component

The variable remuneration awarded to executive Directors is composed of a portion awarded in cash and a portion in Banco BPI shares and/or options to purchase such shares within the framework and under the terms of the RVA Regulations. The variable remuneration portion of each one of the executive Directors which comprises shares and/or options to purchase Banco BPI shares must represent at least 50% of the overall amount of the respective variable remuneration.

5.2 Fixing of the actual amount of the variable remuneration to be granted

Once the overall amount of the remuneration has been defined in the terms referred to in 4.6.2.2 above, the determination of the actual amount of the variable remuneration to be granted to each executive Director is done by the Remuneration Committee, taking into account the evaluation of each one's performance with reference to the financial year and to the period elapsed between the start of the term of office in progress, which in turn takes into consideration the following quantitative criteria:

a) Solvency (solvency ratio, loan default ratios, foreclosure properties and the situation of the Bank's pension fund);

b) Profitability (ROE – Return on equity, net interest income, impairments and Raroc – Risk adjusted return on capital);

c) Efficiency (cost-to-income ratio);

d) Market position (market shares);

e) Liquidity (ratio of transformation of balance sheet resources into loans, maturity of medium / long-term debts and the level of ECB utilisation).

On the other hand, qualitative criteria also encompass the Bank's reputation indicators and the level of Customer complaints.

The performance evaluation of the Executive Directors shall also take into account not only the year to which such variable remuneration refers but, as the term of office progresses, the previous years so that such evaluation and, consequently, the overall amount of the variable remuneration to be granted takes into account a multi-year scenario, guaranteeing that the evaluation process is based on the long-term performance and that the payment of the concomitant remuneration components is spread over a period which takes into consideration the underlying economic cycle and its business risks.

The amount of executive Directors variable remuneration laid down by the Remuneration Committee is reduced by the amount of the remuneration earned from the exercise of functions at other companies on Banco BPI's instructions.

5.3 Award
The awarding of variable remuneration to the executive Directors is done in the first half of the year following that to which it relates, observing the provisions envisaged in the following points and such other terms which may be set by the Remuneration Committee (which date is designated according to the RVA Regulations as the Payment Date).

5.4 Availability
The portion of each executive Director's variable remuneration paid in cash, up to the 50% limit of the overall amount of this variable remuneration, is made available immediately on the Payment Date and without such availability being subject to conditions.

The availability of the Deferred RVA Component is deferred for a period of 3 years commencing on the Payment Date (**Deferment Period**), which:

a) in the case of BPI shares, constitutes a suspensive term to which the respective transfer is subject; and,

b) in the case of options, constitutes the period after which they mature.

The availability of the Deferred RVA Remuneration is also subject to the fulfilment of the following condition designated as Condition for Access to Deferred Remuneration.

Access Condition to Deferred Remuneration: Banco BPI's shareholders' equity, as per its consolidated accounts relating to the year immediately prior to that in which the Conclusion Date of the Deferral Period falls (Final Shareholders' Equity figure), should be more than Banco BPI's shareholders' equity figure as per its consolidated accounts relating to the Reference Year (Initial Shareholders' Equity figure);

For purposes of the above Condition, the following definitions shall apply:

- **Payment date:** the date on which shares and/or options are awarded as the variable component of the variable remuneration of an Executive Director;
- **Conclusion Date of the Deferral Period:** the date which marks the end of 3 years after the Payment Date;
- **Payment year:** the financial year in which the Payment Date falls;
- **Reference year:** the financial year whose performance is remunerated by the variable component paid on the Payment Date, that is, the financial year prior to the Payment Year.

In ascertaining whether the Access Condition to Deferred Remuneration has been fulfilled, the Remuneration Committee must effect the necessary adjustments so as to make the Initial and Final Shareholders' Equity figures comparable, taking into account the objective underlying the setting of that condition: ensuring that the deferred remuneration only becomes freely disposable (but is freely disposable) provided that there is a positive trend in Banco BPI's consolidated shareholders' equity, arising from the BPI Group's business and the earnings generated by that business.

Within this framework, not only must the required adjustments be made to correct for any changes in accounting policies that occurred after the year of the Initial Shareholders' Equity, but also the adjustments needed to (i) correct for the effects of any cash-injection capital increases and (ii) assume the observance in the financial years relating to the Initial Shareholders' Equity and the Final Shareholders Equity, as well as in the intervening years, of Banco BPI's Long-Term Dividend Policy.

The criteria utilised for the fixing of variable remuneration to be granted, together with the existence of the Condition of Access to Deferred Remuneration, ensure that the variable remuneration takes into account the various types of current and future risks, as well as the cost of the own funds and liquidity needed by Banco BPI for the conduct of its business.

The Access Condition to Deferred Remuneration may be revised by the Remuneration Committee after having heard the CNAR (not effecting however the awards already made).

5.5 Variable remuneration claw-back and reduction mechanisms
Without prejudice to the application of the Condition of Access to Deferred Remuneration, the variable remuneration, irrespective of already having been paid or not or whether there exists any entitlement to its receipt, will still be subject to the reduction or claw-back mechanisms whenever the Remuneration Committee, based on the duly substantiated opinion of the CNAR, concludes that the Executive Director:

a) participated in or was responsible for an action that resulted in significant losses for the Bank;

b) ceased to meet the criteria of suitability and integrity.

For this purpose, the following shall mean:

a) Reduction mechanism: the regime by which the Bank can reduce in total or in part the amount of the variable remuneration in respect of which the Condition of Access to Deferred Remuneration has not yet been confirmed;

b) Claw-back mechanism: the regime by which the Bank can withhold, thereby not making it definitively available, the amount of the variable remuneration in respect of which the Condition of Access to Deferred Remuneration has already been confirmed, but has not yet been paid.

6. Disclosure and update

The present Remuneration Policy is disclosed on the Bank's intranet and on Banco BPI's website (www.bancobpi.pt), and is available and accessible for consultation by anybody.

The present Policy, as well as its implementation, shall be the object of annual review by the Remuneration Committee after having heard the CNAR, while the Remuneration Committee is responsible for presenting to the Shareholders the alterations which it deems justified.

Banco BPI's statutes grant the General Meeting the powers for the definition, valid for the term of office of the governing bodies which commences on the date of that deliberation, of the limit:

i) of the annual fixed remuneration of the members of the Board of Directors;

ii) of the maximum percentage of the consolidated net profit for the year that, not exceeding 5%, in each year can be allocated to the variable remuneration of the Executive Directors.

For the three-year period 2014 / 2016 and following the proposal presented by the Remuneration Committee, the following limits approved at the General Meeting of 23 April 2014, shall be in force:

a) Limit to the annual fixed remuneration of the members of the Board of Directors: € 4 000 000; this limit is subdivided into the following partial limits:

- Non-Executive Directors is subdivided into the following limits (not including for this purpose the attendance vouchers): € 1 400 000;
- Executive Directors: € 2 600 000.

b) Maximum percentage of the consolidated net profit for the year which in each year can be allocated to the variable remuneration of the Executive Directors as a whole: 1%.

The annual limit on the fixed remuneration of the Board of Directors is thus fixed at € 1 400 000 for the non-executive members as a whole and at € 2 600 000 for the executive members as a whole. Similarly, the maximum limit that can be allocated to the variable remuneration of the executive directors as a whole is fixed at 1% of the consolidated net profit.

As referred to in point 77, in 2016 the executive directors were granted variable remuneration for their performance in 2015 (RVA 2015 CECA).

Taking into account the overall amount of the fixed remuneration paid to the executive directors in office in 2015 of € 2 573 248 it is considered that the total variable remuneration paid in 2016 with reference to 2015 the amount of € 2 363 688 (corresponding to 1% of the amount of Banco BPI's consolidated net profit in 2015), is globally reasonable *vis-à-vis* the fixed component, representing 92% of that amount.

Considering that:

a) the remuneration policy:

i) defines the overall maximum amount of the remuneration of the members of the Board of Directors; and

ii) as regards the variable remuneration, it set out the criteria to be utilised by the Remuneration Committee for determining the overall amount to be granted in each year to the members of the Executive Committee and the amount to be granted to each member of that body;

b) every year a note is included in the governance report of the individual amounts paid to the members of the governing bodies in the year to which the report refers. This information not only enables the shareholders to know exactly the amount of remuneration earned by each member of the governing bodies and, where this is the case, to pronounce thereon, but also allows them, combining this information with the overall limits laid down in the Remuneration Policy, to at least estimate what such remuneration might be in the following year;

The existence is assured of:

- an ability to forecast, within reasonable parameters, what will be the potential maximum remuneration of each one of the members of the governing bodies;
- information about the actual remuneration of each one of the members of the governing bodies and the possibility for the shareholders to pronounce thereon if they deem fit;

- an effective transparency with regard to the individual Remuneration Policy of each one of the members of the governing bodies.

From the conjugation of the statutory rule that specifies that the terms of office of the governing bodies have a duration of three years with the rule embodied in the Remuneration Policy relating to the deferral for the period of 3 years of the vesting of 50% of the variable remuneration known as the RVA Remuneration (which is solely composed of BPI share and/or options to buy BPI shares), naturally means that at the end of each term of office the executive directors hold all the BPI shares that were granted to them in that term (it is worth highlighting that the shares awarded to them in the second and third year of the term of office will only be vested respectively in the following year and in the two years after the termination of the aforesaid term of office).

70. Alignment of directors' interests with the company's long-term interests

As referred to in the text of the Remuneration Policy, it is aimed at, amongst other objectives, contributing to the alignment of the executive directors' interests with those of the company and the dissuasion of the assumption of excessive risks. That contribution results from, amongst other aspects:

- the rule that provides that the limit of the Executive Directors' variable remuneration is dependent upon the amount of Banco BPI's consolidated net profit, thereby ensuring annually via such rule an effective cap on that remuneration in the event of a negative result;
- from the circumstance that the vesting of a part of that remuneration (the amount of which corresponds to at least 50% of the amount of the variable remuneration) is deferred for 3 years;
- from the rule that provides that at least 50% of the Executive Directors' variable remuneration is composed of Banco BPI shares and/or options to acquire Banco BPI shares which the Executive Director cannot dispose of for the period of 3 years (RVA Deferred Remuneration), shares and options whose value reflects by their nature and in these terms, an exposure to the company's performance and to its share price; and finally
- from the fact that the RVA Deferred Remuneration is subject to the Condition of Access to Deferred Remuneration, and the consequent loss thereof should the aforesaid condition not be met in terms of RVA Regulations.

71. Variable component of remuneration and impact of the performance e valuation on this component

The Executive Directors' remuneration is composed of a fixed and a variable component.

In turn, the variable component is composed of a cash portion and a portion (hereinafter called the RVA Component) in Banco BPI shares and/or options to acquire Banco BPI shares, awarded within the framework and upon the terms of the Regulations governing the Variable Remuneration in Shares Programme (Portuguese initials RVA) and the other rules relating to this scheme.

The RVA Component should represent at least 50% of the overall amount of each Executive Director's variable remuneration.

The fixing of the overall amount of the Executive Directors' variable remuneration component is done by the Remuneration Committee, after having heard the CNAR, based on their performance evaluation and bearing in mind:

a) observance of the maximum percentage of the annual consolidated net profit that can be appropriated to the executive directors' variable remuneration, as laid down in the remuneration policy approved by the General Meeting;
b) the remuneration policies and practices of comparable Iberian banks.

In fixing the variable component of executive directors' remuneration, the trend in the overall amount defined for the variable remuneration of the universe of Banco BPI Employees is also taken into consideration, although this does not mean that there is an automatic correlation between the two. In this respect, it will be recalled that in determining the overall amount of the variable remuneration for the universe of Banco BPI Employees who work in Portugal, one of the most important factors taken into account is the pre-tax consolidated net profit earned from Banco BPI's domestic operations.

The evaluation of the Executive Directors' performance shall also take into account not only the relevant financial year but, to the extent that the term of office progresses, the previous financial years so that that evaluation and, consequently, the overall amount of the variable remuneration to be awarded to the Executive Directors takes into account a multi-year perspective. This ensures that the evaluation process is based on long-term performance and that the payment of the components of remuneration depending on it is spread over a period which takes into consideration the underlying economic cycle and its business risks.

72. Deferment of payment of the variable remuneration component

The RVA Component, up to the 50% limit of the overall amount of each executive Director's variable remuneration, becomes available subject to a deferral period of 3 years, that is, it remains subject to the Deferral Period and to the Condition for Access to Deferred Remuneration (as defined in the RVA Regulations).

73. Miscellaneous information about the variable remuneration in shares

The following are the criteria used as the basis for the awarding of variable remuneration in shares, as well as for the retention by the executive directors of those shares and for the entering into future contracts relating to those shares, namely hedging or risk transfer contracts, respective limit, and their relationship *vis-à-vis* the total annual remuneration.

Once the overall amount of the variable remuneration has been defined as set out in 71 above, the fixing of the actual amount of the variable remuneration to be awarded to each executive director is done by the Remuneration Committee taking into account each one's performance evaluation with reference to the year and period since the beginning of the current term of office, which, in turn, takes into account the following quantitative criteria:

a) solvency (solvency ratio, loan default ratios, foreclosed properties and the situation of the Bank's Pension Fund);
b) profitability (ROE – Return on Equity), net interest income, impairments and Raroc – Risk adjusted return on capital);
c) efficiency (cost-to-income ratio);
d) market position (market shares);
e) liquidity (transformation ratio of balance sheet resources into loans, maturity of medium / long-term debt and the level of ECB utilisation).

On the other hand, qualitative criteria are also considered, namely the Bank's reputation indicators and the level of Customer complaints.

The amount of compensation earned for the exercise of functions at other companies indicated by Banco BPI is deducted from the amount of the executive directors' variable remuneration as fixed by the Remuneration Committee.

The awarding of variable remuneration to the executive directors is effected on a date in the first half of the year following that to which it refers, in compliance with the rules laid down in the following points and under such other terms as may be fixed by the Remuneration Committee (which date according to the RVA Regulations is known as the Payment Date).

The portion of each executive director's variable remuneration paid in cash is, up to the 50% limit of the overall amount of that variable remuneration, immediately available on the Payment Date and without such availability being subject to conditions. The availability of the Deferred RVA Component shall be suspended for a period of 3 years commencing from the Payment Date (Deferral Period), which:

- in the case of BPI shares, constitutes the suspensive term to which the respective transfer remains subject; and,
- in the case of options, constitutes the period the course of which is necessary for them to mature.

Without prejudice to the above-mentioned payment conditions, payment of the Deferred RVA Component is also subject to the ascertainment of the following access condition (envisaged and termed in the RVA Regulations as Condition for Access to Deferred Remuneration).

Condition for Access to Deferred Remuneration: Banco BPI's shareholders' equity situation, calculated based on its consolidated accounts relating to the financial year immediately preceding that on which the Deferral Period Completion Date (ending shareholders' equity) is higher than Banco BPI's shareholders' equity situation, calculated based on its consolidated accounts relating to the Reference Year (initial shareholders' equity).

For purposes of the above Condition, the following definitions shall apply:

- payment date: the date on which shares and/or options are awarded as the variable component of the variable remuneration of an Executive Director;
- conclusion Date of the Deferral Period the date which marks the end of 3 years after the Payment Date;
- payment year: the financial year in which the Payment Date falls;
- reference year: the financial year whose performance is remunerated by the variable component paid on the Payment Date, that is, the financial year prior to the Payment Year.

In ascertaining whether the Access Condition to Deferred Remuneration has been fulfilled, the Remuneration Committee must effect the necessary adjustments so as to make the Initial and Final Shareholders' Equity figures comparable, taking into account the objective underlying the setting of that condition: ensuring that the deferred remuneration only becomes freely disposable (but is freely disposable) providing that there is a positive trend in Banco BPI's consolidated shareholders' equity, arising from the BPI Group's business and the earnings generated by that business.

Within this framework, not only must the required adjustments be made to correct for any changes in accounting policies that occurred after the year of the Initial Shareholders' Equity, but also the adjustments needed to (i) correct for the effects of any cash-injection capital increases and (ii) assume the observance in the financial years relating to the Initial Shareholders' Equity and the Final Shareholders Equity, as well as in the intervening years, of Banco BPI's Long-Term Dividend Policy.

The criteria utilised for the fixing of the variable remuneration to be awarded, together with the existence of the Condition of

Access to Deferred Remuneration, ensure that the variable remuneration takes into account the various types of existing and future risks, as well as the cost of the own funds and liquidity needed for the conduct by Banco BPI of its business.

The Access Condition to Deferred Remuneration may be revised by the Remuneration Committee after having heard the CNAR (not effecting however the awards already made).

With the acceptance of the variable remuneration granted to them, the Executive Directors assume the commitment, up until the verification of the Access Condition to the Deferred Remuneration, to not utilise remuneration insurance or any other risk-hedging mechanisms trending towards attenuating the effects of the alignment of the interests referred to in item 70.

74. Criteria on which the awarding of variable remuneration in options is based and indication of the deferral period and the exercise price

As the awarding of variable remuneration in options is one of the components of variable remuneration, its awarding is based on exact assumptions and the criteria indicated above in item 73 for the awarding of shares, with the deferral period being 3 years.

According to the RVA Regulations, the exercise price of the options awarded to the members of the Executive Committee is approved by the Remuneration Committee.

The Exercise Price shall be adjusted in the case of:

a) there being a change in BPI's share capital, except in capital increases with cash calls in which the shareholders have renounced their pre-emption rights;

b) there being a distribution of dividends and/or reserves to BPI shareholders, except where BPI's Board of Directors considers that such operation does not have a significant effect on the value of the shares;

c) the Executive Body considers that a fact has occurred of a nature similar to that which substantially reduces the value of BPI shares.

In the cases envisaged in sub-paragraph a), there shall be, together with the adjustment to the exercise price, an adjustment to the quantity of options awarded which, according to the criterion envisaged in the following paragraph, becomes necessary.

The above foreseen adjustments shall be made, in the terms determined by the Remuneration Committee, in such a manner that the Director's position remains substantially identical to that which existed before the occurrence of the facts that gave rise to them.

The following are the exercise prices applicable to BPI shares and to the BPI share options awarded under the various RVA Programmes:

Summary table of the RVA programmes (Executive Board Members)[1]

Amounts in euro

Plan	Shares		
	Award date	Acquisition amount	Availability date
RVA 2015 CECA[2]			
RVA 2013 CECA	10/07/2015	1.0206	10/07/2018
RVA 2012 CECA	03/09/2014	1.4010	03/09/2017

Plan	Options					
	Award date	Acquisition amount	Exercise price		Exercise period	
			Initial	Adjusted[3]	From	To
RVA 2015 CECA[2]						
RVA 2013 CECA	10/07/2015	0.2411	1.0206	1.0206	10/07/2018	10/07/2021
RVA 2012 CECA	03/09/2014	0.3250	1.4010	1.4010	03/09/2017	03/09/2020
RVA 2010 CECA	29/04/2011	0.2765	1.2450	1.1080	29/04/2014	29/04/2017

1) The indication of the year in the RVA plan refers to the financial year whose performance it is intended to compensate. The granting of the RVA 2012 CECA and RVA 2013 CECA was the object of deliberation of the Remuneration Committee on, respectively, 3 September 2014 and 26 March 2015.
2) The awarding of the RVA CECA 2015 was approved by the Remuneration Committee on 22 July 2016. However, taking into account the preliminary announcement of the CaixaBank's OPA on 18 April the Committee deliberated as regards the definition of the value of the shares and options to be awarded (RVA Remuneration) as well as the exercise price of each option at which the aforesaid values will be defined by the weighted average of the BPI share price recorded between the 6th (inclusive) and the 15th stock market session after the OPA end date, which occurred on 8 February 2017.
3) Exercise price after the effect of Banco BPI's capital increases realised in May 2011, August 2012 and June 2014.

75. The key factors and grounds for any annual bonus scheme and any additional non-financial benefits

BPI Group Directors do not benefit from other forms of remuneration – cash and non-cash – other than those referred to in this document or in the notes to the financial statements or which stem from the normal application of the CEA or labour law.

In the notes to the consolidated financial statements 4.52 Related parties, information is given about the loans granted to the Executive Directors for the acquisition of their own homes and the loans granted for the acquisition and maintenance of the BPI shares resulting from the exercise of the options awarded under the RVA programme (as is the case with Employees), and about the various insurance policies which the Executive Directors benefit from.

76. Key characteristics of the supplementary pensions or early retirement schemes for directors and state date when said schemes were approved at the general meeting, on an individual basis

The management board members who are or have been executive Directors (or, in the case of the previous governance model, members of the Management Board) benefit from the pension plan applicable to the majority of Banco BPI Employees to the extent that they were Banco BPI Employees before occupying these positions and have seen, in terms of the law, their employment contract suspended.

The management board members who are or have been executive Directors (or, in the case of the previous governance model, members of the Management Board) also benefit under the defined-benefit regime from a supplementary pension approved at the Bank's General Board meeting of 25 July 1995 and which provides them a supplementary pension, the monthly amount of which depends on the monthly salary earned as executive Directors and the number of years they performed those functions.

The rules which govern the aforesaid benefit are set out in the Retirement Entitlement Regulations for the Members of the Management Board, approved at the above-mentioned General Meeting (and hereinafter referred to as the Retirement Entitlement Regulations).

The executive Directors are entitled to a supplementary retirement benefit, to which the Bank contributes a monthly amount equal to 12.5% of the amount of their fixed monthly salary which exceeds at any moment the amount of their fixed monthly salary at 31 December 2009, updated at the identical rate of increase which under the CEA is applied to level 18 remuneration.

The members of the management and supervisory bodies who are not, nor have they even been, executive Directors (or, in the case of the previous model, members of the Management Board) are not entitled to any retirement benefit granted by the Bank.

The following amounts are deducted from the pensions paid under the plan for the executive Directors:

- the pensions paid by the Social Security which fall under any of the following three categories:
  - those relating to the functions performed at the BPI Group;
  - those relating to the functions performed at third party entities at the BPI Group's instigation and which the BPI Group has recognised for that purpose;
  - the pensions paid by other BPI Group pension plans.

The principal features of the executive directors' retirement benefits scheme are set out in the Regulations which are reproduced next:

"Article 1

1. *The members of Banco BPI's Management Board are entitled to retire as set out in the Articles of Association and herein established, provided that the following conditions are met:*
   a) *They have reached the age of 60 or became incapacitated to perform their duties;*
   b) *Being, at the time when the facts referred to in the preceding sub-paragraph occur, elected to the post of Manager or, if they are not, they meet the requirements set out in article 4;*
   c) *They have held such office for at least 3 years, consecutive or intermittent.*
2. *For purposes of the requirement envisaged in sub-paragraph c) of the preceding number, the following is counted:*
   a) *The entire length of tenure as a Director, even before these Regulations;*
   b) *The entire length of tenure as a Director, before the alteration to the Bank's structure and as SPI – Sociedade Portuguesa de Investimentos, SARL's Director.*
3. *If Banco BPI, S.A.'s structure is changed again to Board of Directors instead of Management Board, the provisions herein set out shall still apply to Directors' retirement, as the aim is to regulate the retirement entitlement of the members of this bank's management body.*

Article 2

1. *Retirement entitles the beneficiaries to receive from the Bank a pension calculated on the basis of the amount of the fixed monthly remuneration as at 31 December 2009 for the Management Board post corresponding to that which they occupied at the date the conditions envisaged in article 1 are met, updated at the identical rate of*

increase as that, according to the Collective Employment Agreement for the banking sector, which is applied to level 18 remuneration.

2. *The pension amount shall be that which results from the application of the percentages given below to the compensation referred to in paragraph 1 of this Article, depending on whether it is a disability to perform the duties or retirement age, and shall be calculated according to the number of years in which the office as member of the Board has been held:*

No. of years the office as member of the Management Board was held	Disability to hold the office	Mandatory Retirement (age limit)
> 3	25%	-
> 4	30%	-
> 5	35%	-
> 6	40%	-
> 7	45%	-
> 8	50%	-
> 9	55%	30%
> 10	60%	40%
> 11	65%	50%
> 12	70%	60%
> 13	75%	70%
> 14	80%	80%
> 15	90%	90%
> 16	100%	100%

3. *The retirement pension, fixed under the terms of the preceding paragraphs, shall be updated annually by the CPI rate of change.*
4. *Irrespective of the provisions set forth in Article 1 (1) (c), if disability results from accident at work or illness caused by work, the beneficiary is entitled to a pension in an amount which results from the application to the compensation referred to in paragraph 1 of this Article of a percentage that, as from 10%, shall grow as much for each full year of tenure as member of the Management Board, other than the first year, up to 100%.*
5. *For purposes of the application of the provisions of the preceding numbers, where the beneficiaries have exercised management functions at any Bank controlled by Banco BPI with head office in Portugal, whether these were exercised before or after the acquisition of that control, the relevant number of years exercise of functions (first column of table no. 2) shall correspond to the sum of the number of years during which the exercise of the office of Management Board member was exercised and the number of years of the exercise of management functions at the foresaid Bank(s) controlled by Banco BPI.*

Article 3

1. *For the purposes provided herein, the right to reach statutory retirement may be exercised when the Director reaches 60 years of age or is incapacitated to remain in office.*
2. *Any Director wishing to retire shall inform the General Board that, within 3 months from the date the notice is served, conditions herein set are met.*
3. *If the grounds for reaching retirement is a disability, the General Board may, if deemed fit, require that the Director be submitted to medical examination by experts appointed by the Board for the purpose.*

Article 4

1. *Whoever has completed 9 years, consecutive or interspersed, of the exercise of the office of Manager and who, having so ceased to exercise it, if he / she remains in management functions at any Bank controlled by Banco BPI until reaching the age of 60, in other functions at the last-mentioned or at a BPI Group company, or in functions outside the BPI Group but in the latter's interest or at the latter's instruction, upon reaching that age, or if before reaching that age becomes incapacitated for exercising such functions, acquires the right to start receiving a retirement pension which will be calculated by the application of the percentages indicated in article 2(2) for the situation of reaching retirement age to the amount of the salary referred to in article 2(1).*
2. *The amount of the pension referred to in the in the preceding paragraph shall be:*
   a) *revised under the terms set out in paragraph 3 of article 2;*
   b) *reduced by 20%, in case the beneficiary no longer is part of BPI's Management Board or of the management bodies of the banks listed therein, due to relinquishment of his / her posts on unfair grounds, or, if not re-elected, ceases to serve the BPI Group before attaining 60 years of age.*

Article 5

1. *In case of death of any Director who is retired, or who is still holding office but has already acquired rights pursuant to Article 4 of these Regulations, his / her relatives are entitled to a survivor's pension.*
2. *The amount of the survivor's pension provided for in the preceding paragraph shall be calculated based on the pension to which, pursuant to these Regulations, the beneficiary would be entitled if he / she were already retired, or on that already actually earned, as appropriate, and shall be revised annually by the CPI rate of change.*
3. *The percentages and conditions for granting a survivor pension to the relatives of the deceased Director shall be governed, in the part not specifically provided for in these Regulations, by the rules of the social security general scheme in force, which is attached hereto as Annex I.*

Article 6

1. *Pensions referred to in the preceding articles shall be deducted of the entire amount of pensions received or to be received by beneficiaries for their years of service at the BPI Group, or which the BPI Group may have acknowledged for said purpose.*

2. *If and when the interested party is entitled to the pensions referred to in the preceding paragraph, it shall apply for them and notify the Bank that they have been awarded and of any changes to the amounts – otherwise, the Bank shall not pay the pension due – substantiating, upon request, the amounts actually received for the Bank to calculate the amount of the pension to be paid or any repayment to be made by the beneficiary to the Bank.*
3. *The pensions set out herein shall be paid 14 times a year: twelve in the calendar months, one in June and the other before Christmas.*
4. *Any Director removed from the Management Board on fair grounds, or who has lost its mandate, as well as any Director not re-elected on fair grounds for dismissal, shall lose any right it may have acquired.*

Article 7

1. *The Bank may transfer any liabilities arising from the retirement entitlement herein ruled to an insurer or any pension fund.*[1]
2. *Such transfer requires prior written agreement of the beneficiaries whenever it causes changes to retirement conditions or a reduction in benefits or guarantees that they had been enjoying.*
3. *Insurance contracts against the risk that the Bank is extinguished shall be made, at the Bank's expense, ensuring, besides the extinction, that pensions continue to be paid.*
4. *The Management Board is authorised to enter into the insurance contracts mentioned in the preceding paragraph.*

Article 8

Any expedient action resulting from the application of these Regulations, including the starting of retirement proceedings shall be organised by the relevant departments of the Bank.

Article 9

The General Board may delegate to the Compensation Committee the powers conferred in article 3, as well as any issues concerning the interpretation and integration of these Regulations.

Article 10

These Regulations replace those entered into force on 29 November 1990 but, for Board Members currently in office, apply only to those who, until 31 December 1995, opt for being subject to these Regulations."

The executive members of the Board of Directors allocated an amount of 15 580 thousand euro at 31 December 2016, corresponding to the present value of the liabilities for past services of the defined-benefit pension plan of which they are beneficiaries:

Amounts in thousand euro

Executive Directors	Amount
Fernando Ulrich	5 057
José Pena do Amaral	2 834
Manuel Ferreira da Silva	2 655
Maria Celeste Hagatong	3 592
Pedro Bissaia Barreto	1 312
João Oliveira e Costa	130

In 2016, the cost for the year of retirement and survivors' pensions, calculated on the actuarial valuation of 31.12.2015, amounted to 1 087 thousand euro and is broken down as follows:

Amounts in thousand euro

Executive Directors	Cost of current services	Net interest cost	Cost for the year
Fernando Ulrich	228	4	232
José Pena do Amaral	175	2	177
Manuel Ferreira da Silva	225	2	227
Maria Celeste Hagatong	311	3	314
Pedro Bissaia Barreto	93	1	94
João Oliveira e Costa	43	0	43

1) In December 2006, the liabilities for defined-benefit retirement and survivors' pensions of the BPI Group's Banks were transferred to an open-end pension fund (Fundo de Pensões BPI Valorização).

IV. REMUNERATION DISCLOSURE

77. Details on the amount relating to the annual remuneration paid as a whole and individually to members of the company's board of directors, including fixed and variable remuneration and as regards the latter, reference to the different components that gave rise to same

In 2016, the fixed remuneration for all the members of the Board of Directors amounted to 3 068 907 euro.

Added to this figure were, in which refers specially to the fixed remuneration of the member of the Executive Committee, 42 111 euro in seniority payments and 39 570 euro relating to the long-service bonus (in terms of the Collective Employment Agreement for the Banking Sector), and in the case of the Board's non-executive members, 240 500 euro in attendance allowances at meetings of Board of Directors Committees set out in BPI's bylaws.

The amounts earned individually were as follows:

Amounts in euro

Board of Directors	Fixed remuneration	Attendance allowances	Seniority payments	Long-service bonus
Artur Santos Silva	126 000	37 000	n/a	n/a
Fernando Ulrich	465 465	n/a	8 930	0
António Domingues[1]	232 948	n/a	3 601	0
Alfredo Rezende	49 000	37 000	n/a	n/a
António Lobo Xavier	49 000	11 100	n/a	n/a
Armando Leite de Pinho	49 000	7 400	n/a	n/a
Carla Sofia Bambulo	49 000	7 400	n/a	n/a
Carlos Moreira da Silva	49 000	11 100	n/a	n/a
Edgar Alves Ferreira[2]	43 651	22 200	n/a	n/a
Ignacio Alvarez Rendueles	49 000	37 000	n/a	n/a
Isidro Fainé Casas[3]	48 300	n/a	n/a	n/a
João Pedro Oliveira Costa	328 647	n/a	3 907	4 722
José Pena do Amaral	328 647	n/a	7 256	23 484
Lluís Vendrell	49 000	n/a	n/a	n/a
Manuel Ferreira da Silva	328 647	n/a	7 256	0
Maria Celeste Hagatong	328 647	n/a	7 256	0
Marcelino Armenter[4]	48 300	33 300	n/a	n/a
Mário Leite da Silva	49 000	14 800	n/a	n/a
Pedro Barreto	328 647	n/a	3 907	11 364
Tomás Jervell[5]	20 008	0	n/a	n/a
Vicente Tardio Barutel	49 000	22 200	n/a	n/a

Taking into account the content of the CNAR's positive opinion, the Remuneration Committee deliberated on 22 July 2016 the awarding to the members of the Executive Committee who were in office in 2015 of variable remuneration relating to their performance in that year in the overall amount corresponding to 1% of the consolidated net profit earned in that period.

Accordingly and as a result of the aforesaid resolution, besides the regular amounts of fixed remuneration and attendance vouchers (referred to in the previous table), the amounts detailed in the table below were also paid in 2016 to the members of the Executive Committee of the Board of Directors who were in office in 2015:

Variable remuneration (2015)

Amounts in euro

Board of Directors	Total	Cash	Remuneration RVA (deferred)
Fernando Ulrich	433 945	216 972	216 973
António Domingues[6]	397 783	198 892	198 892
José Pena do Amaral	306 392	153 196	153 196
João Pedro Oliveira e Costa	306 392	153 196	153 196
Manuel Ferreira da Silva[7]	306 392	153 196	153 196
Maria Celeste Hagatong	306 392	153 196	153 196
Pedro Barreto[8]	306 392	153 196	153 196

1) Ceased functions on 30 June 2016.
2) Ceased functions on 26 October 2016.
3) Ceased functions on 30 November 2016.
4) Ceased functions on 30 November 2016.
5) Commenced functions on 4 August 2016.
6) 56 420 euro earned for carrying out functions at other companies while representing the Bank was deducted from the amount indicated.
7) 86 012 euro earned for working as an Indepedent Non-Executive Director at Euronext N.V. was deducted from the amount indicated
8) 27 625 euro earned for carrying out functions at other companies while representing the Bank was deducted from the amount indicated.

78. Any amounts paid, for any reason whatsoever, by other companies in a control or group relationship, or are subject to a common control

With the aforementioned exception of the director Manuel Ferreira da Silva in relation to which part – in the amount of € 246 485 – of the fixed remuneration referred to in item 77 has been paid by Banco Português de Investimento, S.A., no other member of the Executive Committee received any remuneration from any Group company other than Banco BPI.

79. Remuneration paid in the form of profit sharing and/or the payment of bonuses and the reasons why those bonuses and/or profit sharing were granted

As a result of the approval by the Remuneration Committee of the payment to the members of the Executive Committee who were in office in 2015 of the amount of the variable remuneration due to them with reference to that same year, as described in the table of point 77 above, 50% of the amount thereof was, in terms of the Remuneration Policy in force and according to RVA Regulations, awarded in Banco BPI shares and/or options (RVA 2015 CECA), the granting of which is however subject to the termination of the deferral period and to the fulfilment of the access condition to the deferred remuneration. However, taking into account the preliminary announcement of CaixaBank's OPA on 18 April, the Committee deliberated that, as regards the value of the shares and options to be awarded (RVA Remuneration) as well as the exercise price of each option, such values shall be defined by the weighted average of the BPI share prices recorded between the 6th (inclusive) and the 15th stock market session after the OPA end date, which occurred on 8 February 2017. The deferred values were as follows:

Composition of Deferred RVA Remuneration – RVA 2015 CECA

Executive Committee of the Board of Directors	Deferred amount[1]
Fernando Ulrich	216 973
António Domingues	198 892
João Pedro Oliveira e Costa	153 196
José Pena do Amaral	153 196
Manuel Ferreira da Silva	153 196
Maria Celeste Hagatong	153 196
Pedro Barreto	153 196

80. Compensation paid or owed to former executive directors concerning contract termination during the financial year

There was no payment in 2016 arising from early termination of employment contracts.

1) Grant price € 1.0206.

81. Details of the annual remuneration paid, as a whole and individually, to the members of the company's supervisory board for the purposes of Law no. 28 / 2009 of 19 June

Without prejudice to what is referred to in point 69 above concerning the applicability of *Law no. 28 / 2009* to credit institutions, in 2016 the remuneration of the members of the Supervisory Board, amounted to 198 800 euro. The amounts earned individually were as follows:

Remuneration of the Supervisory Board — Amounts in euro

Supervisory Board	Fixed remuneration
Abel Reis	72 800
Jorge Figueiredo Dias	63 000
Rui Guimarães	63 000

82. Details of the remuneration in said year of the Chairman of the Presiding Board to the General Meeting

In 2016, the overall amount of remuneration for the exercise of the function of Chairman of the General Meeting Committee was 14 000 euro, paid in 14 instalments.

The members of the General Meeting Committee do not benefit for this fact from any retirement entitlement.

V. AGREEMENTS WITH REMUNERATION IMPLICATIONS

83. Contractual limitations envisaged for the indemnity payable for the removal of a director without just cause and its relationship with the variable component of remuneration

On this subject, Article 403(5) of the Commercial Companies Code provides that: "If the dismissal is not founded on just cause, the director is entitled to an indemnity for the damages suffered, in the manner stipulated in the contract entered into with him / her, or in the general terms of the law, while such indemnity shall not exceed the amount of the remuneration he / she would presumably have received up till the end of the period for which he / she was elected."

There are no contractual limitations / conditions envisaged for the indemnity payable for a director's dismissal without just cause.

84. Agreements between the company and the members of the management board and managers which make provision for indemnities in the case of removal, dismissal without just cause or cessation of the work relationship following a change in the control of the company

There are no agreements between BPI and the members of management body or managers which make provision for indemnities in the case of removal, dismissal without just cause or cessation of the work relationship following a change in the control of the company, except those stemming from applicable general law.

VI. SHARE-ALLOCATION AND/OR STOCK OPTION PLANS

85. Details of the plan and the number of persons included therein

The BPI Group has since the beginning of 2001 a variable remuneration in shares programme (RVA programme) whose beneficiaries are the Group's Executive Directors and Employees, and which entails annually the granting of a part of the variable remuneration in the form of Banco BPI shares and options to buy Banco BPI shares.

The RVA scheme constitutes an important instrument for the management of the Group's human resources and reinforces the alignment of the Directors' and Employees' interests with the ultimate goal of Management and the Shareholders – the creation of value – given that the income earned by Directors and Employees alike becomes intrinsically associated with the appreciation of the BPI share on the stock exchange, while the relative importance of the RVA incentive scheme rises with the level of responsibility.

The RVA regulations embrace Banco BPI's Executive Committee, the Board of Directors of Banco Português de Investimento, as well as all the Group's Employees whose annual variable remuneration is equal to or more than 2 500 euro.

Indeed, the proportion of the RVA incentives in the variable remuneration of the members of the Executive Committee is 50%, and between 35% and 10% for the remaining Employees.

The proportion of the RVA incentives in the variable remuneration of the Chairman and Deputy-Chairman of the Executive Committee is no smaller than 50%.

86. Characterisation of the share and options incentive plan

In the notes to the financial statements "4.48. Variable remuneration in shares programme (RVA)" of the present Report and Accounts (page 300), to which the reader is referred, a detailed description of the RVA Programme is presented and which includes, namely, the award conditions, the clauses barring the disposal of sales, the criteria relating to the prices of shares and the exercise price of options, the period during which the options can be exercised, the characteristics of the shares or options to be awarded, the existence of incentives for the acquisition of shares and/or the exercise of options).

Credit line for the exercise of options

At the start of 2004, a credit line for the Bank's Employees and Executive Directors who wish to exercise the RVA options was made available.

As regards the use of the credit line by members of the Executive Committee, the Supervisory Board has given its approval, at the same time as the Bank of Portugal as well as the Remunerations Committee were informed.

According to the conditions in force at 31 December 2011, this credit line provided at the moment of utilisation an amount with a minimum limit of 2 500 euro and up to 75% of the market value of the shares to be purchased as a consequence of the exercise of the respective options, with a maximum amount of 100% of the amount needed to exercise the options.

The original conditions of the loans in question were as follows:

- **Period** – 4 years (extendable for a similar period).
- **Repayment** – At the end of the period, with the possibility of making partial or total early repayments without penalties.
- **Interest** – The outstanding principal earns interest at the 12-month Euribor plus 0.75 percentage points (or of 1.5 percentage points from the moment of the extension).

According to the resolutions of the Board of Directors of 25 July 2011 and of 17 March 2017, passed without the participation of the members of the Executive Committee, the following alterations were introduced to the conditions of the aforementioned loans applicable to the executive directors and the Employees:

1. The term of the loans can, at the request of the borrowers, be extended so that their maturity date becomes 31 May 2025;
2. The loan interest rate becomes the rate corresponding to the 6-month Euribor ruling at the antepenultimate working day prior to the commencement of each period for the accrual of interest; this rate is applicable to the interest period in progress at the date of approval of these measures, as well as to the ensuing interest periods;
3. At the request of borrowers, the interest whose maturity date is situated in a year in which Banco BPI does not distribute dividends can be capitalised;
4. The obligation to reinforce guarantees is suspended until 31 December 2020;
5. All the other credit line conditions remain in force, namely those relating to when an Employee or an Executive Director cease to be employed by the Bank (in this case, provided not substituted by a work relationship with Banco BPI or a BPI Group company, namely:
   a) The rule in this situation is that the loan matures, save where the Bank informs the borrower that it agrees to maintain the loan, in which case the consequences as regards the rate of interest envisaged in the Regulations shall apply;
   b) However, if this situation is due to retirement, such maturity shall not apply, with the term of the loan and the other conditions in effect at the retirement date remaining in force without any modification;

6. In the event of the Employee's or the Executive Director's death, all the conditions attaching to the respective loan which are in force on that date shall continue to apply;
7. For Employees who are interested, the following operation is made possible:
   a) Pledge in lieu of the shares blocked, at their market value (closing price on the date before the pledge) and decrease in the outstanding loan by this amount, providing that:
      i. compliance with the rules laid down in the General Meeting authorisation in force for the acquisition of treasury shares;
      ii. guarantees are given which the Bank considers to the adequate for the balance of the remaining debt.
   b) Application to the amount of the remaining debt of the conditions 1 to 6.

The share incentive and options scheme in force at BPI – known as the RVA Programme – is regulated by the provisions set out in the scheme, as well as by the provisions appearing in its Regulations, known as the Regulations for the Variable Remuneration in Shares Programme – RVA.

Approval by the General Meeting of Shareholders of the RVA program and its Rules

The general lines of the RVA were approved by the General Board (governing body which existed until 1999) which, in terms of the law then in force, was necessarily composed of Shareholders).

At the GM of 21 April 1999, the Chairman of the Board of Directors placed for the Shareholders' consideration a proposal to authorise the acquisition and disposal of treasury shares by the Company, which acquisitions and disposals were destined, amongst other purposes, to make possible the execution of the aforesaid incentive scheme. This proposal is renewed every year for the same purpose.

In addition, at the General Meeting of 20 April 2005 the Chairman of the Board of Directors presented to the Shareholders the objectives, characteristics, composition and extent of the share incentive scheme (RVA) adopted by Banco BPI, having disclosed the figures relating to the application of the RVA scheme.

At the General Meeting held on 27 April 2011, a proposal was submitted to the Shareholders to amend the RVA scheme regulations, which proposal was approved by 99.4% of the votes cast, with the complete text of the aforesaid regulation having been made available at that time.

The maintenance in force of the aforesaid Regulations was the object of confirmation by the Shareholders at the General Meeting of 24 April 2013.

87. Option rights awarded for the acquisition of shares ('stock options'), the beneficiaries of which are the company's workers and Employees

At 31 December 2016 BPI Employees were the holders of 4 288 647 options over BPI shares, as shown in the table below.

RVA Programme	No. of options held by Employees	Exercise price	Exercise limit date
RVA 2011	300 672	0.358€	28-may-2017
RVA 2012	1 006 183	0.866€	19-dec-2017
RVA 2013	2 981 792	1.806€	14-may-2019

The Board of Directors decided that in 2016 there would be no awarding of BPI share options under the RVA programme, with the variable remuneration being paid solely in cash, due to the fact that the Bank was the object of a takeover bid preliminarily announced by CaixaBank on 18 April 2016.

88. Control mechanisms envisaged in an eventual system of Employee participation in the share capital to the extent that the voting rights are not exercised directly by those Employees (art. 245-A(1)(e))

Neither the RVA Programme nor its Regulations contemplate any control mechanisms for the situation in which voting rights are not exercised directly by the Employees to whom BPI shares have been awarded in execution of those rights.

E. TRANSACTIONS WITH RELATED PARTIES

I. CONTROL MECHANISMS AND PROCEDURES

89. Mechanisms implemented by the company for purposes of controlling related party transactions (dealings)

Internal regulations lay down the limitations, as well as the approval procedures and reporting of operations for the granting of loans under whatever form to members of the management body, the oversight bodies and to Shareholders owning a qualified holding, as well as to their families and to entities which the law deems to be related to any one of them. This rule ensures a stringent control over compliance with the legal rules set out in the RGICSF relating to the granting of loans to the abovementioned persons / entities. As referred to previously in point 10, in terms of article 109(3) of the RGICSF, the entering into business dealings between the company and shareholders with qualified holdings or with entities with whom they have any controlling or group relationship, is always submitted for the Supervisory Board's prior opinion, irrespective of the amount thereof.

Additionally, the Bank maintains in a permanent manner, in a centralised computer application, a list of the entities included in the concept of "related party", while a set of rules which must be adopted in the transactions with such entities are also defined in a specific regulation.

Also kept in centralised computer applications are the following:

- information regarding exposure by Customer (which serves as the basis for the calculation of weighted assets for capital ratio purposes);
- integrated Customer positions.

The Accounting, Planning and Statistics Division (DCPE) gathers and prepares detailed information about the exposures held by Banco BPI in the counterparties identified before. Besides the DCPE, the Company Secretary and the Investor Relations Division are also involved in the process identified above.

90. Indication of the transactions which were subject to control in the year under review

See point 10.

Information reported pursuant to article 109 of the RGICSF, concerning credit utilised and guarantees furnished by Banco BPI, S.A. at 31 December 2016.

Amounts in thousands euro

	Credit utilised	Guarantees furnished
CaixaBank and related entities	2 889	1 837
Santoro and related entities	44 846	31 534

Information reported pursuant to article 85 of the RGICSF, concerning credit utilised and guarantees furnished by Banco BPI, S.A. at 31 December 2016.

Amounts in thousands euro

	Credit utilised	Guarantees furnished
Board of Directors		
Artur Santos Silva		
Related entities		2 450
Alfredo Rezende		
Related entities	8 422	
António Lobo Xavier		
Related entities	19 472	15 460
Armando Leite de Pinho		93
Related entities	54 452	53 485
Carlos Moreira da Silva		
Related entities	6 168	9 393
José Pena do Amaral		
Related entities	22 570	475
Manuel Ferreira da Silva		
Related entities	3	1 647
Maria Celeste Hagatong		
Related entities	3 558	6
Pedro Barreto		
Related entities	12 120	12 301
Tomás Jervell		
Related entities	9 862	15 992
Vicente Tardio Barutel		
Related entities	22 565	306
Supervisory Board		
Jorge Fiqueiredo Dias		
Related entities	1	4

91. Procedures and criteria applicable to the supervisory board's involvement in business dealings with shareholders owning a qualified holding

See point 10.

II. DETAILS RELATING TO BUSINESS DEALINGS

92. Annual report and accounts documents containing information about related party business dealings

According to IAS 24, related parties are defined as those over which Banco BPI exercises, directly or indirectly, a significant influence on their management and financial policy – associated and jointly-controlled companies and Pension Funds – and the entities which exercise a significant influence over the Bank's management – Shareholders and members of Banco BPI's Board of Directors.

The overall amounts of assets, liabilities, earnings and off-balance sheet liabilities relating to operations with related parties are presented in the notes to the consolidated financial statements 4.50. Related parties, of the present Report and Accounts (page 308).

1) "Related entities" are deemed to be legal persons controlled by the director or in which he / she has a qualified shareholding, as well as those in which he / she is a manager.
2) Does not include loan operations and guarantees given covered by article 109 and which were included in the previous table.
3) Includes loan operations and the furnishing of guarantees to related companies simultaneously with more than one director, in the amount of 29 324 thousand euro and 16 711 thousand euro, respectively.

Part II – Corporate Governance assessment

1. IDENTIFICATION OF THE CORPORATE GOVERNANCE CODE ADOPTED

For purposes of the present report and the review of compliance – recommendation by recommendation – which follows, BPI used as the benchmark the Corporate Governance Code disclosed by the CMVM in July 2013.

2. ANALYSIS OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE ADOPTED

Declaration in terms of article 245(A)(1)(O) of the SC on the adoption of the corporate governance code which BPI is voluntarily subject to, non-conformity with the recommendations contained therein and the reasons for that deviation.

BPI complies with the vast majority of the recommendations contained in the CMVM's Corporate Governance Code, ("CMVM Recommendation") – the appraisal of which appears in the present report.

The following table lists the recommendations appearing in the Corporate Governance Code issued by the Portuguese Securities Market Commission (CMVM) in 2013, indicating which ones were adopted by BPI and which were not. Similarly, mention is made of the points of the report where reference is made to the topics under review.

		Adoption	References in the Governance Report[1] Item
I.	**VOTING AND CORPORATE CONTROL**		
I.1.	Companies shall encourage shareholders to attend and vote at general meetings and shall not set an excessively large number of shares required for the entitlement of one vote, and implement the means necessary to exercise the right to vote by mail and electronically.	Yes	Item 12
I.2.	Companies shall not adopt mechanisms that hinder the passing of resolutions by shareholders, including fixing a quorum for resolutions greater than that provided for by law.	Yes	Item 5
I.3.	Companies shall not establish mechanisms intended to cause mismatching between the right to receive dividends or the subscription of new securities and the voting right of each common share, unless duly justified in terms of long-term interests of shareholders.	Yes	Item 13
I.4.	The company's articles of association that provide for the restriction of the number of votes that may be held or exercised by a sole shareholder, either individually or in concert with other shareholders, shall also foresee for a resolution by the General Assembly (5 year intervals), on whether that statutory provision is to be amended or prevails – without super quorum requirements as to the one legally in force – and that in said resolution, all votes issued be counted, without applying said restriction.	Yes	Item 13
I.5.	Measures that require payment or assumption of fees by the company in the event of change of control or change in the composition of the Board and that which appear likely to impair the free transfer of shares and free assessment by shareholders of the performance of Board members, shall not be adopted.	Yes	Items 4, 83, 84
II.	**SUPERVISION, MANAGEMENT AND OVERSIGHT**		
II.1.	**Supervision and management**		
II.1.1.	Within the limits established by law, and except for the small size of the company, the board of directors shall delegate the daily management of the company and said delegated powers shall be identified in the Annual Report on Corporate Governance.	Yes	Item 21
II.1.2.	The Board of Directors shall ensure that the company acts in accordance with its objectives and shall not delegate its responsibilities as regards the following: i) defining the strategy and general policies of the company, ii) defining the business structure of the group iii) decisions considered strategic due to the amount, risk and particular characteristics involved.	Yes	Item 21

1) Except when mentioned in other way.

		Adoption	References in the Governance Report[1] Item
II.1.3.	The General and Supervisory Board, besides carrying out the oversight duties entrusted to them, must assume full responsibility as regards corporate governance with the result that by way of statutory provision or equivalent means, this body must obligatorily be bound to make pronouncements about the company's strategy and principal policies, the definition of the group's business structure and the decisions that must be regarded as being strategic due to the amount or risk thereof. This body should also evaluate the compliance with the strategic plan and the execution of the company's principal policies.	Not applicable[2]	Not applicable
II.1.4.	Except for small-sized companies, the Board of Directors shall create the necessary committees in order to:		
	a) Ensure a competent and independent assessment of the performance of the executive directors and its own overall performance, as well as of other committees;	Yes	Items 15, 21, 24, 25, 27, 29, 66, 67 and 68
	b) Reflect on the system structure and governance practices adopted, verify its efficiency and propose to the competent bodies, measures to be implemented with a view to their improvement.	Yes	Items 15, 21, 27 and 29
II.1.5.	The Board of Directors should set goals in terms of risk-taking and create systems for their control to ensure that the risks effectively incurred are consistent with those goals.	Yes	Item 50
II.1.6.	The Board of Directors shall include a number of non-executive members ensuring effective monitoring, supervision and assessment of the activity of the remaining members of the board.	Yes	Item 17
II.1.7.	Amongst the non-executive directors there must be an adequate proportion of independent persons taking into account the governance model adopted, the size of the company and its shareholder structure and the respective free float.	Yes	Item 18
II.1.8.	When board members that carry out executive duties are requested by other board members, said shall provide the information requested, in a timely and appropriate manner to the request.	Yes	Item 28
II.1.9.	The Chairman of the Executive Committee shall submit, as applicable, to the Chairman of the Board of Directors and the Chairman of the Supervisory Board, the convening notices and minutes of the relevant meetings.	Yes	Item 28
II.1.10.	If the Chairman of the Board of Directors carries out executive duties, said body shall appoint, from among its members, an independent member to ensure the coordination of the work of other non-executive members and the conditions so that said can make independent and informed decisions or to ensure the existence of an equivalent mechanism for such coordination.	Not applicable because the condition does not exist	
II.2.	**SUPERVISION**		
II.2.1.	The Chairman of the Supervisory Board shall be independent in accordance with the applicable legal standard, and have the necessary skills to carry out their relevant duties.	Yes	Item 32
II.2.2.	The supervisory body shall be the main representative of the external auditor and the first recipient of the relevant reports, and is responsible, inter alia, for proposing the relevant remuneration and ensuring that the proper conditions for the provision of services are provided within the company.	Yes	Items 37 and 45
II.2.3.	The supervisory board shall assess the external auditor on an annual basis and propose to the competent body its dismissal or termination of the contract as to the provision of their services when there is a valid basis for said dismissal.	Yes	Item 37
II.2.4.	The supervisory board shall assess the functioning of the internal control systems and risk management and propose adjustments as may be deemed necessary.	Yes	Item 38

1) Except when mentioned in other way.
2) Not applicable because it relates to a non-existent body in the governance model adopted by BPI.

		Adoption	References in the Governance Report[1] Item
II.2.5.	The Supervisory Board decide on the work plans and resources concerning the internal audit services and services that ensure compliance with the rules applicable to the company (compliance services), and should be recipients of reports made by these services at least when it concerns matters related to accountability, identification or resolution of conflicts of interest and detection of potential improprieties.	Yes	Item 38
II.3.	**Remuneration setting**		
II.3.1.	All members of the Remuneration Committee or equivalent should be independent from the executive board members and include at least one member with knowledge and experience in matters of remuneration policy.	Yes	Items 67 and 68
II.3.2.	Any natural or legal person that provides or has provided services in the past three years, to any structure under the board of directors, the board of directors of the company itself or who has a current relationship with the company or consultant of the company, shall not be hired to assist the Remuneration Committee in the performance of their duties. This recommendation also applies to any natural or legal person that is related by employment contract or provision of services with the above.	Yes	Items 67 and 68
II.3.3.	A statement on the remuneration policy of the management and supervisory bodies referred to in Article 2 of Law no. 28 / 2009 of 19 June, shall also contain the following:		
	a) identification and details of the criteria for determining the remuneration paid to the members of the governing bodies;	Yes	Item 69
	b) information regarding the maximum potential, in individual terms, and the maximum potential, in aggregate form, to be paid to members of corporate bodies, and identify the circumstances whereby these maximum amounts may be payable;	Yes	Item 69
	c) [d) in the Code's original wording] Information regarding the enforceability or unenforceability of payments for the dismissal or termination of appointment of board members.	Yes	Item 69
II.3.4.	Approval of plans for the allotment of shares and/or options to acquire shares or based on share price variation to board members shall be submitted to the General Meeting. The proposal shall contain all the necessary information in order to correctly assess said plan.	Yes	Item 86
II.3.5.	Approval of any retirement benefit scheme established for members of corporate members shall be submitted to the General Meeting. The proposal shall contain all the necessary information in order to correctly assess said system.	Yes	Item 76
III.	**REMUNERATION**		
III.1.	The remuneration of the executive members of the board shall be based on actual performance and shall discourage taking on excessive risk-taking.	Yes	Item 69
III.2.	The remuneration of non-executive board members and the remuneration of the members of the supervisory board shall not include any component whose value depends on the performance of the company or of its value.	Yes	Item 69
III.3.	The variable component of remuneration shall be reasonable overall in relation to the fixed component of the remuneration and maximum limits should be set for all components.	Yes	Item 69
III.4.	A significant part of the variable remuneration should be deferred for a period not less than three years, and the right of way payment shall depend on the continued positive performance of the company during that period.	Yes	Item 69
III.5.	Members of the Board of Directors shall not enter into contracts with the company or with third parties which intend to mitigate the risk inherent to remuneration variability set by the company.	Yes	Item 69

1) Except when mentioned in other way.

		Adoption	References in the Governance Report[1] Item
III.6.	Executive board members shall maintain the company's shares that were allotted by virtue of variable remuneration schemes, up to twice the value of the total annual remuneration, except for those that need to be sold for paying taxes on the gains of said shares, until the end of their mandate.	Yes	Item 69
III.7.	When the variable remuneration includes the allocation of options, the beginning of the exercise period shall be deferred for a period not less than three years.	Yes	Item 69
III.8.	When the removal of board member is not due to serious breach of their duties nor to their unfitness for the normal exercise of their functions but is yet due on inadequate performance, the company shall be endowed with the adequate and necessary legal instruments so that any damages or compensation, beyond that which is legally due, is unenforceable.	Yes	Item 83
IV.	**AUDITING**		
IV.1.	The external auditor shall, within the scope of its duties, verify the implementation of remuneration policies and systems of the corporate bodies as well as the efficiency and effectiveness of the internal control mechanisms and report any shortcomings to the supervisory body of the company.	No	
IV.2.	The company or any entity with which it maintains a control relationship shall not engage the external auditor or any entity with which it finds itself in a group relationship or that incorporates the same network, for services other than audit services. If there are reasons for hiring such services – which must be approved by the supervisory board and explained in its Annual Report on Corporate Governance – said should not exceed more than 30% of the total value of services rendered to the company.	Yes	Item 37
IV.3.	Companies shall support auditor rotation after two or three terms whether four or three years, respectively. Its continuance beyond this period must be based on a specific opinion of the supervisory board that explicitly considers the conditions of auditor's independence and the benefits and costs of its replacement.	Yes	Item 44
V.	**CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS**		
V.1.	The company's business with holders of qualifying holdings or entities with which they are in any type of relationship pursuant to article 20 of the Portuguese Securities Code, shall be conducted during normal market conditions.	Yes	Item 89
V.2.	The supervisory or oversight board shall establish procedures and criteria that are required to define the relevant level of significance of business with holders of qualifying holdings – or entities with which they are in any of the relationships described in article 20 / 1 of the Portuguese Securities Code – thus significant relevant business is dependent upon prior opinion of that body.	Yes	Items 90, 91, 92
VI.	**INFORMATION**		
VI.1.	Companies shall provide, via their websites in both the Portuguese and English languages, access to information on their progress as regards the economic, financial and governance state of play.	Yes	Item 59 to 65
VI.2.	Companies shall ensure the existence of an investor support and market liaison office, which responds to requests from investors in a timely fashion and a record of the submitted requests and their processing, shall be kept.	Yes	Item 56

BPI is of the opinion that, as regards *CMVM Recommendation no. IV.1*, it complies materially with the spirit of the recommendation in question, in the terms explained below:

- in BPI's governance organisation, the authority to check the application of the Governing Bodies' remuneration policies and systems is vested in the Nominations, Evaluation and Remuneration Committee, the body which annually evaluates the conformity of the application of the aforesaid policies and systems, issuing thereafter its opinion which is submitted for the approval of the Shareholders General Meeting.

1) Except when mentioned in other way.

3. OTHER INFORMATION

3.1 Principles and rules for the disclosure of information relating to this topic, whether about policy or about the remuneration to be paid in terms thereof (see Articles 16 and 17 of Bank of Portugal Notice 10 / 2011)

The Bank complies with this aspect by means of the present Corporate Governance Report, the notes to the financial statements and the comprehensive information contained therein concerning the remuneration policy pursued.

3.2. Remuneration Policy for Employees with exercising essential functions

In terms of the RGICSF, the Remuneration Policy contained therein is not only applicable to the members of the Board of Directors (executive and non executive) and of the Supervisory Board, but also the Employees (designated by BPI as "Holders of Essential Functions") who are:

a) responsible for the assumption of risks; this group is composed of those Employees who are charged with taking decisions involving the assumption of risks and, in the specific area of credit risk, those who participate in that decision as regards its analysis and evaluation, that is, the Employees who form part of the Credit Risks Executive Committee and the heads of the Credit Risks Divisions, the Individuals' Credit Risk Division and the Finance Division;

b) earn a salary that places them on the same remuneration scale as the members of the Executive Committee or the Employees referred to in the preceding point (i) and who simultaneously meet any one of the qualitative or quantitative requirements contemplated in the Commission's Delegated *Regulation (EU) no. 604 / 2014* of 4 March 2014;

c) are responsible for control functions within the meaning of *Bank of Portugal Notice 5 / 2008*, that is those Employees who assume the position of front-line responsibility at the Compliance Division, the Audit and Inspection Division and the Risk Analysis and Control Division.

In compliance with the provisions of article 115-C(5) of the RGICSF, Banco BPI's Board of Directors approved on 11 December 2015, the Remuneration Policy for the Holders of Essential Functions, the content of which is described as follows:

The said Policy, with the exception of the rule referring to the percentage of variable remuneration subject to deferment and the rule regarding its availability (vesting), matters in which it should follow the identical rules as those envisaged in the Remuneration Policy for the executive members of the Board of Directors, was wholly applied in 2016.

REMUNERATION POLICY FOR BANCO BPI EMPLOYEES PERFORMING ESSENTIAL FUNCTIONS

1. Subjective scope

The present Remuneration Policy is applicable to the following "Banco BPI Employees Performing Essential Functions" (hereinafter Employees):

a) The Employees who:

i. Are responsible for the assumption of risks; this group is composed of those Employees who are charged with taking decisions involving the assumption of risks and, in the specific area of credit risk, those who participate in that decision as regards its analysis and evaluation, that is, the Employees who form part of the Credit Risks Executive Committee and the heads of the Credit Risks Divisions, the Individuals' Credit Risk Division and the Finance Division;

ii. Earn a salary that places them on the same remuneration scale as the members of the Executive Committee or the Employees referred to in the preceding point (i) and who simultaneously meet any one of the qualitative or quantitative requirements contemplated in the Commission's Delegated *Regulation (UE) no. 604 / 2014* of 4 March 2014.

b) Are responsible for control functions within the meaning of *Bank of Portugal Notice 5 / 2008*, that is those Employees who assume the position of front-line responsibility at the Compliance Division, the Audit and Inspection Division and the Risk Analysis and Control Division.

It is the function of the Executive Committee, following a proposal by the DRH, to approve and update the list of persons who, falling under the categories referred to above in sub-paragraphs a) and b), should for this purpose be regarded as being Employees performing essential functions (Employees).

To this end the DRH must in the 2nd quarter of each year carry out a review and, where necessary, update the list of Employees, taking as a reference besides the functions performed the qualitative and quantitative criteria envisaged in the *Delegated Regulation no. 604 / 2014*. Specifically with regards to the quantitative criteria, the DRH must use as its reference the total fixed remuneration paid in the immediately preceding financial year and the total amount of the variable remuneration awarded for performance in that same reference year.

Without prejudice to the obligation described above, the DRH shall propose to the Executive Committee the immediate updating of the list of Employees whenever there are changes in the year of the posts referred to in sub-paragraphs a) and b) above.

The DRH is responsible for communicating to each one of the persons appearing on the aforesaid list his / her classification as Employee for purposes of the present Policy, informing them and elucidating them as regards its content.

2. Objective scope

The present Remuneration Policy is applicable to the persons referred to in section 1 who perform the aforementioned functions at Banco BPI.

Banco BPI shall promote the adoption, with the necessary adaptations, namely of the proportionality and suitability criteria envisaged in the General Regime for Credit Institutions and Financial Companies (hereinafter the General Regime) and of the necessity of rendering it compatible with other applicable legal regulations, namely in the case of foreign subsidiaries, of the present policy and the principles embodied in it, by its subsidiaries.

In any event the present Policy is not applicable to the part of fixed or variable remuneration granted directly by the subsidiaries not wholly held by the Bank to Employees, since BPI does not have full control over those subsidiaries, it does not have the power to impose its application, as well as by the fact that the present matter may be subject to its own legislation in those same jurisdictions (in the case of foreign subsidiaries) whose compliance the aforesaid subsidiaries are bound by in the first instance.

3. Objectives

The present Remuneration Policy has as its aim, amongst other goals, contributing to the alignment of the Employees' interests with those of BPI and dissuading the assumption of excessive risks.
Such contribution results, amongst other aspects:

a) from the rule that provides that the limit on variable remuneration is defined as being dependent on Banco BPI's consolidated net profit, ensuring annually in this way an effective limit of that remuneration in the event of a negative result;

b) from the rule that provides that at least 50% of the overall amount of the variable remuneration be composed of Banco BPI shares and/or options to buy Banco BPI shares (RVA Remuneration);

c) from the rule that provides that at least 40% of the overall amount of variable remuneration is subject to deferred vesting (Deferred Remuneration) and, finally;

d) from the fact that the Deferred Remuneration is subject to the Condition of Access to Deferred Remuneration which assumes a positive trend in BPI's consolidated shareholders' equity, and the consequent possibility of the loss thereof should the aforesaid condition not be met.

To the extent that the Deferred Remuneration is composed of Banco BPI shares and/or options to buy Banco BPI shares, this deferral, by exposing the value of the shares and options to the trend in the company's performance on the market and the subjection of the right to its receipt to the confirmation of a condition of access (Condition of Access to Deferred Remuneration) which requires the verification of a positive

trend in BPI's consolidated shareholders' equity, thus contributes in a decisive manner to the alignment of Employees' interests with those of BPI, as well as the disincentive for the assumption of excessive risks by them.

4. Definition of the Remuneration Policy

The Board of Directors is responsible for formulating the Remuneration Policy, and may be assisted by experts and external consultants when it deems this necessary.

The Board of Directors shall bear in mind, in formulating Banco BPI's Remuneration Policy, the objectives that this policy:

i. contributes to the promotion of and is coherent with a sound and prudent risk management;
ii. does not constitute an incentive for the assumption of risks that exceed those tolerated by Banco BPI and;
iii. does not create or contribute to the creation of conflict of interest situations.

The Remuneration Policy defined must be compatible with the business strategy and Banco BPI's long-term goals, values and interests, just as these are and may become defined by the competent governing bodies for this purpose.

The Board of Directors should also bear in mind, in defining the Remuneration Policy, and in such a manner that takes into account and are suitable and proportional to the nature, characteristics, scale, organisation and complexity of Banco BPI's activities, the applicable principles and legal rules, namely those envisaged in the General Regime for Credit Institutions and Financial Companies (General Regime) and in *Bank of Portugal Notice 10 / 2011*.

The Board of Directors Committee appointed by the Nominations, Evaluation and Remuneration Committee (CNAR), whose function it is to collaborate and perform the functions envisaged in the General Regime, in article 7 of *Bank of Portugal Notice 10 / 2011* and in its Regulations on functioning, shall participate in the definition of Remuneration Policy.

In the Remuneration Policy definition process, the CNAR may interview those responsible for the audit, compliance and risk management units, to whom it may request the contribution which, for this purpose and as regards the risks that each one of these functions is associated with, it deems important.

5. Evaluation

The CNAR promotes an analysis and annual evaluation of the application (implementation) of the Remuneration Policy, with a view to ascertaining whether such application has effects on the management of the institution's risks, capital and liquidity which evidence the need for this policy's revision and, if such is the case, the identification of the refinement measures to be adopted.

In the analysis and evaluation concerned, the CNAR may hear, amongst others, those responsible for the audit, compliance and risk-management units, to whom it may request the contribution which, for this purpose and as regards the risks that each one of these functions is associated with, it deems important.

The CNAR shall present to the Board of Directors a report with the findings of that analysis and evaluation, and shall liaise with that body the presentation to the annual General Meeting of the conclusions reached.

6. Structure

Employees' remuneration is composed of a fixed remuneration and, when so decided and without prejudice to the special regime envisaged for Employees with control functions, a variable remuneration.

The variable remuneration may not be granted in exceptional cases, namely if its awarding limits Banco BPI's capacity to reinforce its own funds base, while in any event its awarding will always take into consideration all the types of existing and future risks.

In terms of the law, the variable remuneration of each Employee relating to the year which is to be remunerated, cannot exceed the fixed remuneration for that same year.

The approval and granting of a higher amount than that referred to above, the maximum limit of which may be equal to double the fixed remuneration, shall be dependent on compliance with the legally prescribed requisites for this purpose.

6.1 Fixed remuneration

The fixed remuneration earned by each Employee is that which results from the application of the respective employment contract and the Collective Employment Agreement (Acordo Colectivo de Trabalho – ACT) for the banking sector, while also based on the relevant professional experience and on the organisational responsibility of the Employee's functions.

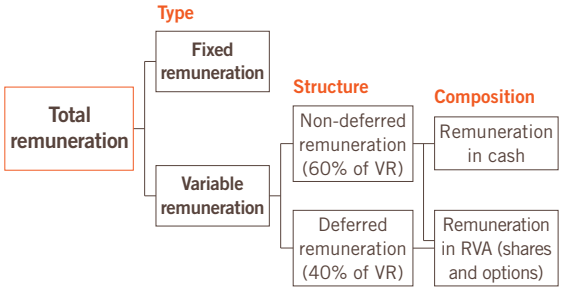
6.2 Variable remuneration

As can be seen from the accompanying table, the variable remuneration incorporates a part that is subject to the deferral rules and subjection to the conditions which are indicated in item 8 of this Policy (Deferred Remuneration). The amount of the Deferred Remuneration corresponds to 40% of the overall amount of the Variable Remuneration that is granted.

As regards its composition, the variable remuneration is made up of a portion in cash and another portion in Banco BPI shares and/or options to buy Banco BPI shares (RVA Remuneration), granted within the framework and in terms of the Regulations of the Variable Remuneration in Shares Programme (hereinafter referred to as the RVA Regulation) and other rules relating thereto.

The RVA Remuneration shall represent, at the very least, 40% of the overall value of each Employee's variable remuneration.

The portion of the variable remuneration which corresponds to Deferred Remuneration is wholly composed of RVA Remuneration.



6.3 Special rules applicable to Employees responsible for control functions

The remuneration of Employees responsible for control functions (referred to in section 1(b)) is mainly based on the fixed remuneration component. The remuneration of these Employees may include a variable remuneration, but this can never exceed 25% of his / her total remuneration and must be paid in cash.

7. Determination of the Variable Remuneration to be granted to each Employee

7.1 General rule

The determination of the actual amount of the variable remuneration to be granted is done by the Executive Committee of the Board of Directors after the CNAR's opinion and taking into account:

a) the evaluation of the Employee's performance, which must consider, inter alia, compliance of his / her functions beyond that required, criteria of a financial and non-financial nature and the performance of the structural unit for which he / she is responsible relative to BPI's overall results;

b) observance of the rules and procedures applicable to the activity carried out, namely internal control rules and when applicable those relating to Customer and investor relations;

c) the sustainable performance adapted to BPI's risk, considering amongst others the trend in the cost of own funds and liquidity;

d) in the case of Employees with control functions, the result of the performance of the respective control functions.

The evaluation of the Employee's performance shall take into account, not only the financial year that such variable remuneration refers to, but also previous financial years, so that this evaluation and consequently the variable remuneration to be granted takes into a multi-year horizon, ensuring that the evaluation process is based on a long-term performance and that the payment of the remuneration components dependent on it is spread over a period which takes into consideration the underlying economic cycle and BPI's business risks.

In fixing the overall component of Employees' variable remuneration, account is also taken, although this does not result in any automatic dependence, of the trend in the overall amount defined for the variable remuneration of the universe of Banco BPI's other Employees. In this respect, it will be recorded that in the definition of the overall amount of the variable remuneration for the universe of Banco BPI's Employees who carry out their functions in Portugal, one of the more relevant factors taken into account is the consolidated pre-tax net profit earned from Banco BPI's domestic operations.

No guaranteed variable remuneration can be granted, except when the hiring of a new Employee is concerned, while in any case such guaranteed variable remuneration can only be applied in the first year of the exercise of functions and will only be due if the Bank has a solid and strong capital base.

7.2 Exceptions

The variable remuneration of Employees who perform control functions (those referred to in section 1(b)) is a function of and depends only on the fulfilment of the objectives associated with their functions and the Bank's overall results, and is thus independent of the performance of the structural units which they control.

The variable remuneration of the Employees who perform control functions referred to in section 1(b) is supervised directly by the CNAR.

8. Granting, deferral and vesting

8.1 Granting

The granting of variable remuneration should as a rule be done on a date falling within the first half-year of the financial year to which it refers, pursuant to the rules envisaged in the following points and in other terms fixed by the CNAR (which date, according to the RVA Regulation is referred to as the Payment Date).

The variable remuneration of the Employees referred to in section 1(b)) will be vested on the date it is granted.

8.2 Deferral

As set out in item 6.2. of Deferred Remuneration (representing 40% of the overall amount of variable remuneration) is granted with subjection to a suspensive term (called the **Deferral Period**) whereby vesting is deferred during a period of 3 years and simultaneously with subjection to a suspensive condition (called the **Condition of Access to Deferred Remuneration**), referred to in this document as Deferred Remuneration.

The variable remuneration of the Employees referred to in section 1(b) is not subject to any Deferral Period.

8.3 Vesting

The portion of variable remuneration which does not constitute Deferred Remuneration is vested immediately on the Payment Date and without such vesting being subject to conditions.

The vesting of Deferred Remuneration shall take place in a phased manner, in the proportion of 1/3 in each one of the years following that of its granting.

The BPI shares to be vested in each one of the aforesaid periods shall be immediately free, while the options to buy BPI shares shall only be exercisable with effect from 90 days after the date of their vesting, expiring 5 years after the date of their vesting.

The vesting of the Deferred Remuneration in each one of the abovementioned periods, is also subject to the confirmation of the following condition, known as Condition of Access to Deferred Remuneration.

Condition of Access to Deferred Remuneration:
The vesting with the Employees referred to in section 1(a) of the Deferred Remuneration granted to them is subject to the confirmation of the following condition (Condition of Access to Deferred Remuneration).

Banco BPI's shareholders' equity situation in the financial year prior to the vesting as shown in its consolidated accounts should (Final Shareholders' Equity) be greater than Banco BPI's shareholders' equity as computed based on its consolidated accounts relating to the immediately preceding financial year. (Initial Shareholders' Equity).

In assessing the confirmation of the Condition of Access to Deferred Remuneration, the CNAR must make the necessary adjustments in order to render the Initial and Final Shareholders' Equity comparable, taking into account the underlying objective for the meeting of that condition: ensuring that the deferred remuneration is only vested (but is vested) if there is a positive behaviour of Banco BPI's consolidated shareholders' equity stemming from the BPI Group's business and the results generated therefrom.

In this context, not only must the adjustments be made in order to correct for any changes in accounting policies which have occurred in the year of the Initial Shareholders' Equity, but also the adjustments necessary to (i) correct for the effects of any cash-injection share capital increases and (ii) assume the observance in the years relating to the Initial Shareholders' Equity and the Final Shareholders' Equity of Banco BPI's Long Term Dividend Policy.

The criteria utilised for the fixing of the variable remuneration to be granted together with the existence of the Condition of Access to Deferred Remuneration, ensure that the variable remuneration takes into account the various types of existing and future risks, as well as the cost of the own funds and the liquidity needed by Banco BPI in order to conduct its business.

The Condition of Access to Deferred Remuneration can be revised by the Board of Directors, after having heard the CNAR (not affecting however the grants already made).

Exceptionally and with the CNAR's favourable opinion, the Executive Committee may exclude the application of the deferral rule and the Condition of Access to RVA Remuneration of those Employees in respect of whom this represents less than 30% of the total remuneration earned by him / her in the preceding year or when the RVA Remuneration granted to that Employee does not exceed € 50 000.

9. Reversion and reduction mechanisms of variable remuneration

Without prejudice to the application of the Condition of Access to Deferred Remuneration, the variable remuneration, regardless of whether it has already been paid or not and in respect of which there already exists any right to its receipt, will still be subject to the reduction or reversion mechanisms whenever the Board of Directors, based on the favourable opinion of the CNAR concludes that the Employee participated in or was responsible for an act that resulted in significant losses for the Bank.

For this purpose, the following shall mean:

a) Reduction mechanism: the regime by which the Bank can reduce in total or in part the amount of the variable remuneration in respect of which the Condition of Access to Deferred Remuneration has not yet been confirmed;

b) Claw-back mechanism: the regime by which the Bank can withhold, thereby not making it definitively available, the amount of the variable remuneration in respect of which the Condition of Access to Deferred Remuneration has already been confirmed, but has not yet been paid.

10. Profit sharing

Banco BPI does not have a policy of remunerating its Employees by way of profit sharing.

11. Hedging risk

With the acceptance of the variable remuneration granted to them, the Employees assume the commitment that, until confirmation of the Condition of Access to Deferred Remuneration, they do not use remuneration insurance or any other risk-hedging mechanisms with a view to attenuating the effects of the alignment of the interests referred to in the various sub-paragraphs of section 3.

12. Situations of dismissal or cessation of current or previous functions

There is no provision whereby in a situation of the cessation of the Employee's employment relationship with the Bank he / she must be paid any indemnity or compensation besides that which, where this is the case, results from applicable legal provisions.

The remuneration aimed at compensating an Employee for the cessation of the exercise of previous functions will always take into consideration the Bank's long-term interests, including the application of the rules relating to performance, as well as the Condition of Access to Deferred Remuneration and the reversion and reduction mechanisms.

13. Other benefits

13.1 Retirement benefits

As explained in the following point b), the retirement benefits that the Employees benefit from are defined and embody the benefit stemming from the pension plan envisaged in the Collective Employment Agreements (Portuguese initials ACT) for the banking sector entered into between the North, Centre, South and the Islands Trade Unions, on the one side, and with the National Union of Banking Employees and Professionals and the Independent Banking Trade Union, on the other. In certain cases, stemming from the commitments previously assumed, the Employees may be subject to the application of the rules of the general Social Security regime.

i. As regards the benefits concerned, it is worth mentioning the following:

ii. The Employees do not enjoy, for this fact and under this heading, retirement benefits, save for the Employees who are Directors of Banco Português de Investimento, S.A. and who do not form part of Banco BPI's Executive Committee who, in that capacity and besides the regime applicable to the vast majority of BPI Employees, benefit cumulatively and whilst they remain exercise the aforesaid functions, from a complementary defined-contribution pension plan, the monthly contribution of which corresponds to 12.5% of the supplementary remuneration of € 2 500 which they earn for the exercise of directorship functions;

iii. The benefit referred to in (i) can, by decision of the Executive Committee, encompass other Employees;

iv. Without prejudice to that referred to in a) Employees benefit from a retirement-pension plan envisaged in the ACT for the banking sector or, in certain cases, and to the extent that it is more favourable, stemming from the rules of the general Social Security regime, the funding of which is provided by a pension fund. These benefits are identical to those which the vast majority of Banco BPI Employees enjoy under the same conditions;

v. Banco BPI Employees who are or have been admitted to the banking sector after 3 March 2009 are mandatorily covered by the general Social Security regime, while also entitled in terms of the banking sector's ACT to a complementary defined-contribution pension plan, in the amount of 1.5% of the basic remuneration and length-of-service bonus.

13.2 Other non-monetary benefits

Employees do not benefit from other forms of remuneration – monetary and non monetary – which are not referred to in this Policy or which stem from the normal application of the ACT or labour legislation.

14. Disclosure and updating

The present Remuneration Policy is disseminated on the Bank's intranet and on Banco BPI's web site (www.bancobpi.pt) being available and accessible for consultation by anybody.

The present policy as well as its implementation will be subject to annual review by the Board of Directors.

15. Entry into force

The present Policy comes into force on the date of its approval by the Board of Directors, being applied to the variable remuneration paid to Employees with effect from that date, even when it is earmarked to remunerate the performance prior to the date of its entry into force.

Board of Directors
Lisbon, 11 December 2015

3.2.1. Information provided in compliance with the provisions of article 17 of Bank of Portugal Notice 10 / 2011 relating to the Remuneration Policy of Employees performing essential functions:

a) Competent bodies of the institution for carrying out the individual performance evaluation

In terms of the Remuneration Policy for Employees performing Essential Functions, the competent body for evaluating individual performance is the Executive Committee, after the opinion of the CNAR, with the exception of the performance evaluation of those responsible for the Internal Audit function, whose evaluation, in terms of the Board's decision of 27 January 2016, is solely undertaken by the Board of Directors.

b) Predetermined criteria for the individual performance on which the right to a variable component of remuneration is based

The performance evaluation of each Employee must consider, amongst others:

- compliance with his / her functions beyond that required, financial and non-financial criteria and the performance of the structure's unit under his / her responsibility *vis-à-vis* BPI's overall results;
- observance of the rules and procedures applicable to the activity carried out, namely the internal control rules and, when applicable, those relating to Customer and investor relations;
- the sustainable performance and adapted to BPI's risk, considering inter alia the trend in the cost of own funds and liquidity.

In the case of Employees with control functions, the performance evaluation shall take into account the result of the performance of the respective control functions.

The evaluation of the Employee's performance shall take into account not only the financial year to which the variable remuneration refers but also the previous financial years and

consequently the variable remuneration to be granted takes into account a multi-year perspective, ensuring that the evaluation process is based on long-term performance and that the payment of the components of remuneration depending on it is spread over a period that takes into consideration the underlying economic cycle and BPI's business risks.

c) Relative importance of the variable and fixed components of remuneration, as well as the maximum limits for each component

The fixed remuneration earned by each Employee is that which results from the application of the respective employment contract and the Collective Employment Agreement for the banking sector (ACT), while also based on the relevant professional experience and on the organisation responsibility of the Employee's functions, there being therefore no predefined maximum limit for the fixed remuneration.

The variable remuneration incorporates a part which is subject to the deferral rules and subjection to the conditions that are indicated in item 8 of the Policy (Deferred Remuneration). The value of Deferred Remuneration corresponds to 40% of the overall value of the Variable Remuneration granted.

As regards its composition, the variable remuneration incorporates a part in cash and another part in Banco BPI shares and/or options to buy Banco BPI shares (RVA Remuneration), granted within the framework and in the terms of Regulations for the Variable Remuneration in Shares Programme (hereinafter referred to as the RVA Regulation) and other rules relating thereto.

The RVA Remuneration must represent at least 40% of the overall amount of each Employee's variable remuneration.

The part of variable remuneration which corresponds to the Deferred Remuneration is wholly composed of RVA Remuneration.

d) Mode how the payment of the variable remuneration is subject to the continued positive performance of the institution over the deferral period

To the extent that the Deferred Remuneration is composed of Banco BPI shares and/or options to buy Banco BPI shares, this deferral, by exposing the value of the shares and options comprising it to the behaviour of the company's performance on the market and the subjection of the right to its receipt to confirmation of the condition of access (Condition of Access to Deferred Remuneration) which requires a positive trend in BPI's consolidated shareholders' equity, thereby contributing in a decisive manner to the alignment of Employees' and BPI's interests, such as discouraging the excessive assumption of risks by them, subjecting the payment of part of the variable remuneration known as RVA remuneration to BPI's continued positive performance over the deferral period.

e) Criteria on which to base the granting of variable remuneration in options and indication of the deferral period and the exercise price

The determination of the actual amount of the variable remuneration to be granted by the Executive Committee of the Board of Directors after the CNAR's opinion and taking into account:

- the evaluation of Employee's performance, which must consider, inter alia, compliance of his / her functions beyond that required, criteria of a financial and non-financial nature and the performance of the structural unit for which he / she is responsible relative to BPI's overall results;
- observance of the rules and procedures applicable to the activity carried out, namely internal control rules and when applicable those relating to Customer and investor relations;
- the sustainable performance adapted to BPI's risk, considering amongst others the trend in the cost of own funds and liquidity;
- in the case of Employees with control functions, the result of the performance of the respective control functions.

The evaluation of the Employee's performance shall take into account, not only the financial year that such variable remuneration refers to, but also previous financial years, so that this evaluation and consequently the variable remuneration to be granted takes into a multi-year horizon, ensuring that the evaluation process is based on a long-term performance and that the payment of the remuneration components dependent on it is spread over a period which takes into consideration the underlying economic cycle and BPI's business risks.

In fixing the overall component of Employees' variable remuneration account is also taken, although this does not result in any automatic dependence, of the trend in the overall amount defined for the variable remuneration of the universe of Banco BPI's other Employees. In this respect, it will be recorded that in the definition of the overall amount of the variable remuneration for the universe of Banco BPI's Employees who carry out their functions in Portugal, one of the more relevant factors taken into account is the consolidated pre-tax net profit earned from Banco BPI's domestic operations.

f) Principal parameters and grounds of any system of annual bonuses and of any other non-monetary benefits

Employees do not benefit from other forms of remuneration – monetary and non monetary – which are not referred to in this Policy or which stem from the normal application of the ACT or labour legislation.

3.2.2 Principal characteristics of the retirement-benefit system applicable to Employees performing essential functions

a) As explained in the following point b), the retirement benefits that the Employees benefit from are defined and embody the benefit stemming from the pension plan envisaged in the Collective Employment Agreements (Portuguese initials ACT) for the banking sector entered into between the North, Centre, South and the Islands Trade Unions, on the one side, and with the National Union of Banking Employees and Professionals and the Independent Banking Trade Union, on the other. In certain cases stemming from the commitments previously assumed, the Employees may be subject to the application of the rules of the general Social Security regime.

b) As regards the benefits concerned, it is worth mentioning the following:

i. The Employees do not enjoy, for this fact and under this heading, retirement benefits, save for the Employees who are Directors of Banco Português de Investimento, S.A. and who do not form part of Banco BPI's Executive Committee who, in that capacity and besides the regime applicable to the vast majority of BPI Employees, benefit cumulatively and whilst they remain exercise the aforesaid functions, from a complementary defined-contribution pension plan, the monthly contribution of which corresponds to 12.5% of the supplementary remuneration of € 2 500 which they earn for the exercise of directorship functions;

ii. The benefit referred to in (i) can, by decision of the Executive Committee, encompass other Employees;

iii. Without prejudice to that referred to in a) Employees benefit from a retirement-pension plan envisaged in the ACT for the banking sector or, in certain cases, and to the extent that it is more favourable, stemming from the rules of the general Social Security regime, the funding of which is provided by a pension fund. These benefits are identical to those which the vast majority of Banco BPI Employees enjoy under the same conditions;

iv. Banco BPI Employees who are or have been admitted to the banking sector after 3 March 2009 are mandatorily covered by the general Social Security regime, while also entitled in terms of the banking sector's ACT to a complementary defined-contribution pension plan, in the amount of 1.5% of the basic remuneration and length-of-service bonus.

3.2.3. Quantitative information provided pursuant to article 17 of Bank of Portugal Notice 10 / 2011 relating to the remuneration of Employees exercising essential functions.

It should be noted that, as referred to in point 87 of the present report, by decision of the Board of Directors, in 2016 there was no awarding of options on BPI shares under the RVA programme, with the variable remuneration being paid wholly in cash, because the Bank was the object of a takeover bid preliminarily announced by CaixaBank on 18 April 2016.

a) **Annual amount of the fixed and variable components of remuneration and the number of beneficiaries;**
Fixed component: 3 976 825 euro
Variable component: 2 229 094 euro
No. of Employees (beneficiaries): 29

b) **Amounts and types of variable remuneration, broken down into cash, shares, share-linked instruments and other types of remuneration;**
As referred to in point 87 of the present report, by decision of the Board of Directors, in 2016 there was no granting of options on BPI shares under the RVA programme, with the variable remuneration having been paid wholly in cash, because the bank was the object of a takeover bid preliminarily announced by CaixaBank on 18 April 2016.

c) **Amount of deferred remuneration not paid, broken down by invested and non invested components;**
Not applicable by virtue of that referred to in b).

d) **Annual amounts of deferred remuneration due, paid or the object of reductions resulting from adjustments introduced in accordance with the individual performance of Employees;**
No amounts were granted for deferred remuneration due, paid or the object of reductions resulting from the adjustments introduced in accordance with the individual performance of Employees.

e) **Number of new hirings made in the year;**
There are no new hirings for the universe of Employees in question.

f) **Amount of the payments made or due annually by virtue of the early rescission of employment contracts with Employees, the number of beneficiaries of such payments and the biggest payment made to an Employee.**
There were no payments made or due by virtue of the early rescission of the employment contract with Employees of this universe.

3.3. Share Incentive Scheme (RVA) Rules

Version approved at the General Meeting of 27 April of 2011, with the alterations introduced at the General Meeting of 23 April 2014 and at the General Meeting of 29 Abril 2015, containing the regime applicable to the variable remuneration of each member of the Executive Committee.

PART I
General Provisions

Article 1
(Definitions)

The following expressions used herein shall bear the meaning set opposite them, respectively:

- "Shares" – BPI ordinary shares;
- "BPI" – Banco BPI, S.A.;
- "Employees" – the members of the Companies' management bodies (as hereinafter defined) other than the members of the Executive Body (as hereinafter defined) acting as such, and the positions of individuals bound to BPI or to any of the Companies by a contract of employment, designated by the Executive Body every year;
- "Agreement" – the agreement entered into between BPI and any Employee for the allocation of Shares and Options as a result of the acceptance of the agreement proposal set out in Article 4 of the Rules;
- "BPI Group" – the group formed by the Companies;
- "Option" – the right granted to an Employee to purchase one BPI share;
- "Executive Body" – BPI's management executive body;
- "Exercise Price" – the amount to be paid by an Employee for the purchase of one Share on the exercise of an Option;
- "Rules" – these rules;
- "Companies" – BPI and any of the companies directly or indirectly controlled by it;
- "Maturity" – the date from which the Option may be exercised.

Article 2
(Awarding Shares and Options to Employees)

1. BPI may award Shares and Options to its Employees, as a variable remuneration, under the terms of these Rules.
2. The award shall be made by entering into an Agreement.

Article 3
(Criteria for awarding Shares and Options)

1. When establishing the maximum number of Shares and Options to be awarded each year by BPI, the Executive Body shall set the criteria presiding over their distribution to the Employees of each Company, as well as the conditions to which such allocation shall be subject, other than those listed herein.
2. The criteria to be established for the award of Shares and Options shall always include a merit discretionary rating for each Employee, determined by the management body of the Company where the Employee performs his / her duties.
3. It shall be the responsibility of the Executive Body to assess, on a discretionary basis, the merit of the members of the management body of the other Companies of the BPI Group, as well as of the Employees performing duties at BPI.

Article 4
(Procedures for awarding Shares and Options to Employees)

1. Shares and Options shall be granted by the Executive Body, after hearing the management body of each Company of the BPI Group.
2. The award of Shares and Options shall take the form of a proposed agreement addressed in writing by BPI to the Employee, which shall be deemed accepted should the Employee not expressly declare in writing that it is not his / her intention to accept it.
3. The proposed agreement shall include, among other information deemed necessary by the Executive Body, the following:
   a) the number of Shares and the number of Options awarded to the Employee;
   b) the conditions to which the award of Shares and Options is subject;
   c) the period within which Shares shall be freely available for the Employee;
   d) the Maturity of the Options, the Exercise Period and the Exercise Price;
   e) the date that shall be deemed, for any and all purposes, the date of award of Shares and Options object of the Agreement;
   f) the unavailability of Shares awarded, and which have been transferred subject to condition subsequent, and the establishment of their deposit, in which BPI shall be deemed interested under the terms and for the purposes of Article 1193 of the Civil Code. Such unavailability and deposit shall cease on and as of the date on which it is determined that conditions subsequent no longer take effect;
   g) a reference that the proposed agreement comprises and incorporates the terms of these Rules.
4. Each group of Shares, as well as of Options, awarded at the same date and, in respect of Options, with the same Maturity Date, shall form a Series.

Article 5
(Taxes, duties and fees)

1. BPI shall bear all transaction costs due by reason of the transfer of Shares made under the Agreement in favour of the Employee.
2. Each Employee shall bear all taxes and duties due by him / her as a result of any allocation and/or transfer of Shares and Options in his / her favour, and authorise BPI, if BPI deems appropriate, to substitute him / her in the payment thereof, and thereby giving irrevocable instructions to the Banks of the BPI Group to pay to BPI, by debiting their deposit accounts, the amounts disbursed by BPI, upon submission of the relevant evidence.

Article 6
(Remuneration Committee's Intervention)

1. It shall be the responsibility of BPI's Remuneration Committee to perform, with respect to the members of the Executive Body, the duties attributed by these Rules to the Executive Body with respect to Employees in general.
2. Any agreement between BPI and the members of the Executive Body shall be entered into by the Chairman and one of the members of the Remuneration Committee, representing BPI, upon whom the required powers are conferred by these Rules.
3. Suspension to exercise Options, by decision of the Executive Body, shall automatically encompass Options held by its members, without prejudice to the Remuneration Committee being able to determine, at its discretion, such suspension, in compliance with the provisions of Article 11(3) hereof.
4. The Exercise Price to be established by the Executive Body for each Series of Options shall be communicated by the Executive Body to the Remuneration Committee and the Remuneration Committee shall not take a lower price in the resolution to be adopted for the allocation of Options of that Series to the members of the Executive Body.
5. The criteria for any adjustment to be made either to the Exercise Price or to the number of Options, under the terms of Article 14 hereof, shall be established, with respect to Options awarded to the members of the Executive Body, under such terms that shall not be more favourable for such Employees than those established by the Executive Body for Employees in general.

Article 7
(Construction and incorporation of the Rules; eligibility)

1. It shall be the sole responsibility of the Executive Body to construe these Rules, as well as to fill any hiatus therein.
2. The Executive Body may from time to time, at its sole discretion, anticipate terms precedent, accelerate the Maturity Date of the Options, not require the confirmation of conditions precedent, waive at conditions subsequent and declare that these latter can no longer take effect when and where, cumulatively, a) such terms and conditions affect the transfer of the Shares and the allocation of the Options or their exercise and b) such procedure accelerates or consolidates the transfer of those rights to Employees.

Article 8
(Arbitration Convention)

1. Any dispute arising from awarding Shares and Options to Employees, as well as from the application of these Rules, shall be finally submitted to arbitration.
2. BPI's statutory auditor at the commencement of the arbitration proceeding shall act as the sole arbitrator, and his / her decision shall be final, admitting no appeal.

PART II
Transfer of Shares

Article 9
(Transfer of Shares – General Rule – submission to condition subsequent)

1. The mere conclusion of the Agreement grants the Employee the ownership of a portion of the Shares awarded to him / her, in the number established therein.
2. The remaining Shares awarded shall be transferred to the Employee upon conclusion of the Agreement, but such transfer shall be cancelled, for the whole or part of such remaining Shares, under the Agreement, upon the occurrence of any of the following facts before the dates set out for that purpose in the Agreement:
   a) termination of employment or directorship of the Employee with the BPI Group at the initiative of the Employee, on unfair grounds;
   b) termination, at BPI Group's initiative and on fair grounds, of employment or directorship of the Employee;
   c) termination, upon agreement between the parties, of employment or directorship without expressly safeguarding, in writing, the rights of the Employee under the Agreement.
3. If, on the date established in the agreement as the deadline for the confirmation of the conditions subsequent set forth in the foregoing paragraph, the Employee is the subject of an investigatory hearing or disciplinary proceeding with the intent to dismiss, such deadline shall be extended up to and including the date the decision on those proceedings is notified by the employer to that Employee.
4. For the purpose hereof, no termination of employment or directorship shall take place should any of the facts set out in sub-paragraphs above be followed, within a maximum of 90 days, by the establishment of a new relation of any of the aforesaid two types with one of the Companies.
5. In the event of a) Employee's death, b) Employee's retirement, or c) cessation of BPI's control over the Company where the Employee performs his / her duties, it shall be deemed that the condition subsequent of the transfer shall cease to take effect.
6. Shares transferred under condition subsequent shall be held in trust, pending on such condition, in the Employee's securities account with BPI, and BPI is interested in such deposit, under the terms and for the purposes of Article 1193 of the Civil Code.
7. Share dividends, the transfer of which being subject to condition subsequent, shall be deposited, on the date they are paid out, in the Employee's current account with BPI, without any restriction on their use or transaction, without prejudice to paragraph below.
8. Upon confirmation of condition subsequent:
   a) Shares deposited shall promptly revert to BPI, which may freely make any transaction on them;
   b) the Employee shall deliver to BPI an amount equivalent to dividends referred to in the foregoing paragraph 7; for that purpose, the Employee irrevocably instructs the Banks of the BPI Group to pay the said amount to BPI, by debiting their deposit accounts.

9. In case one or more share capital increases through incorporation of reserves occur in BPI, the transfer of Shares, to which the Employee is entitled as a result of his / her ownership of Shares in respect of which transfer is subject to condition subsequent, shall be subject to an equal condition.

Article 10
(Transfer of Shares – transfer situations under term and condition precedent)

1. Where justified in the light of the interests underlying the Incentive Scheme object of these Rules, the Executive Body shall award Shares under term and condition subsequent.
2. The following rules shall apply to the award of Shares carried out under the terms of the foregoing paragraph:
   a) the mere conclusion of the Agreement grants the Employee the ownership of a portion of the Shares awarded to him / her, in the number established therein;
   b) the remaining Shares awarded shall be transferred to the Employee on the dates and in the number specified in the Agreement, if before any of such dates none of the facts referred to in Article 9, paragraph 2 has occurred, and the provisions set forth in Article 9, paragraph 3 shall apply, as amended;
   c) in the event of any fact referred to in Article 9, paragraph 2, BPI shall return to the Employee the amount delivered by him / her under the terms of paragraph 3 (b) below;
   d) should any of the facts set out in Article 9, paragraph 5 occur, all Shares awarded, but with suspended transfer, shall be promptly transferred.
3. While term and condition subsequent are pending, the following rules shall apply:
   a) in case one or more share capital increases through incorporation of reserves in BPI occur, Shares awarded shall be accrued of Shares to which the Employee would be entitled if he / she were already a holder of the Shares awarded and not yet transferred on the date of such increase;
   b) in case of capital increase with right of preference for shareholders, the Employee shall be entitled to the Shares he / she would subscribe if he / she already were the holder of Shares awarded and not yet transferred provided that he / she delivers to BPI, during the subscription period, the cash consideration corresponding to the sum that he / she would have to pay to BPI as capital realisation;
   c) Shares awarded shall also be accrued of a number of Shares corresponding to the division of dividends and reserves distributed, which would be attributable to Shares awarded and not yet transferred, at the price per Share on the stock exchange at the close of business on the first day Shares are transacted ex dividend or reserves distributed;
   d) the provisions of the foregoing sub-paragraphs may also apply, as amended, when the Executive Body deems that a fact similar to those set out therein substantially reduce the Share value;
   e) Shares additionally awarded to Employees by virtue of adjustments set out in the foregoing sub-paragraphs shall be transferred to them together with those initially awarded and on a pro rata basis;
   f) in case of BPI's merger or split, the transfer of Shares subject to term and condition subsequent shall have as object the Shares of the company resulting from the merger, or of the companies resulting from the split, in line with the exchange relation established for the purpose of any those operations.

PART III
Exercise of Options

Article 11
(Maturity, Expiry and Exercise of Options)

1. Options shall mature on the ninetieth day following the date they were granted and the Options shall expire five years having elapsed since the date they were granted.
2. The Options may be exercised at any time within the period comprised between their Maturity and their expiry dates, except for:
   a) the period between the commencement date and the expiry date of the Share subscription period in BPI's share capital increases;
   b) the existence of an investigatory hearing or disciplinary proceeding with the intent to dismiss action against the Employee, in respect of the period between and including the date proceedings are started and the date on which the resolution taken in such proceedings is notified by the employer to the Employee.
3. Whenever deemed necessary to prevent insider trading, the Executive Body may suspend the exercise of the Options for periods not exceeding 30 days at a time.
4. The exercise of Options by each Employee shall be made upon written notice addressed to BPI, expressing his / her intention to buy Shares corresponding to the whole or part of the Options that have been awarded and are overdue.

Article 12
(Exercise Price)

1. The Exercise Price shall be set by the Executive Body and shall be identical for Options of the same Series.
2. The payment of the Exercise Price shall be made on the third business day following the exercise of the Options.

Article 13
(Option expiry)

1. The termination of employment or directorship of the Employee, at the initiative of the BPI Group and on fair grounds, shall automatically determine that all Options awarded and not exercised, of that Employee.
2. In case of:
   a) termination of employment or directorship of the Employee with the BPI Group at the initiative of the Employee, on unfair grounds; or
   b) termination, upon agreement between the parties, of employment or directorship without expressly safeguarding, in writing, the rights of the Employee under the Agreement;
      - the Options of that Employee, awarded and not yet

matured, shall automatically lapse;
- the Options of that Employee, awarded and already matured, shall lapse if not exercised within 30 days from the date of termination of employment or directorship.

3. In case of:
   a) Employee's death;
   b) Employee's retirement; or
   c) cessation of BPI's control over the Company where the Employee performs his / her duties, the Maturity of all Options awarded shall take place, their exercise shall be made within a maximum period of 2 years therefrom.
4. In case of BPI's merger or split, the object of the Options shall be made of the number of shares of the company resulting from the merger, or of the companies resulting from the split, in line with the exchange relation established for the purpose of any of those operations.

Article 14
(Adjustments)

1. The Exercise Price shall be adjusted in case of:
   a) any change in BPI's share capital, except in respect of share capital increases through new cash contributions, where shareholders have waived their pre-emptive right;
   b) an allocation of dividends and/or reserves to BPI shareholders, except when BPI's Board of Directors deems that the aforesaid operation has no significant effect on the value of the Shares;
   c) the Executive Body deems to have occurred a fact of a similar nature of the previous ones likely to reduce significantly BPI's share value.
2. In those cases set out in sub-paragraph a) of the foregoing paragraph, an adjustment shall be made to the number of Options awarded, together with an adjustment to their exercise price, pursuant to the criteria set out in paragraph below, as deemed necessary.
3. Any adjustment set out in the foregoing paragraphs shall be made, under the terms established by BPI's Executive Body or Board of Directors, so that the Employee's position is substantially maintained identical to that existing before the occurrence of the facts that have determined them.

PART IV
(Final Provisions)
Article 15
(Assignment of the contract position and Options)

1. The Employee's contract position in the Agreement is non-transferability *inter vivos*.
2. Options, though overdue, cannot be transferred by gift inter vivos but may be assigned upon death to heirs or assignees of the Employee holder thereof.
3. Notwithstanding the provisions of the foregoing paragraph and under exceptional circumstances in the best interests of the Company, BPI may buy Options, overdue or not, from its Employees.

Article 16
(No derogation from the Codes of Conduct)
The disposal of Shares awarded to Employees under the terms of the Agreement, as well as of Shares acquired by them upon exercising their Options, is subject to, besides the restrictions set out herein and in the Agreement, the rules of the Code of Conduct applicable to the Employee or to the member of BPI's management or supervisory bodies.

SPECIAL SECTION
(Rules to be applied to the component of variable remuneration of each member of the Executive Committee which represents 50% of the aggregate amount of the variable remuneration, and which is made up of shares and options for the acquisition of Banco BPI shares.)

The RVA Remuneration up to the limit of 50% of the overall amount of the variable remuneration of each Executive Directors, is vested with subjection to a suspensive term (called the Deferral Period from which results the deferral of the vesting of the RVA Remuneration for the period of 3 years, being called the Deferred RVA Remuneration.

Accordingly, the vesting of the **Deferred RVA Remuneration** is subject to the elapsing of the 3 year period commencing from the Payment Date (**Deferral Period**), which:

a) in the case of BPI, constitutes the suspensive term to which the respective transfer is subject;

b) in the case of options, constitutes the period that must elapse before these mature.

The vesting of the Deferred RVA Remuneration is also subject to the confirmation of the following condition, called the Access Condition to Deferred Remuneration.

Access Condition to Deferred Remuneration: Banco BPI's shareholders' equity, as per its consolidated accounts relating to the year immediately prior to that in which the Conclusion Date of the Deferral Period falls (Final Shareholders' Equity figure), should be more than Banco BPI's shareholders' equity figure as per its consolidated accounts relating to the Reference Year (Initial Shareholders' Equity figure).

For purposes of the above Condition, the following definitions shall apply:

- **payment date:** the date on which shares and/or options are awarded as the variable component of the variable remuneration of an Executive Director;
- **conclusion Date of the Deferral Period:** the date which marks the end of 3 years after the Payment Date;
- **payment year:** the financial year in which the Payment Date falls;
- **reference year:** the financial year whose performance is remunerated by the variable component paid on the Payment Date, that is, the financial year prior to the Payment Year.

In ascertaining whether the Access Condition to Deferred Remuneration has been fulfilled, the Remuneration Committee must effect the necessary adjustments so as to make the Initial

and Final Shareholders' Equity figures comparable, taking into account the objective underlying the setting of that condition: ensuring that the deferred remuneration only becomes freely disposable (but is freely disposable) provided that there is a positive trend in Banco BPI's consolidated shareholders' equity, arising from the BPI Group's business and the earnings generated by that business.

Within this framework, not only must the required adjustments be made to correct for any changes in accounting policies that occurred after the year of the Initial Shareholders' Equity, but also the adjustments needed to (i) correct for the effects of any cash-injection capital increases and (ii) assume the observance in the financial years relating to the Initial Shareholders' Equity and the Final Shareholders Equity, as well as in the intervening years, of Banco BPI's Long-Term Dividend Policy.

The criteria utilised for the fixing of the variable remuneration to be granted, together with the Access Condition to Deferred Remuneration, ensure that the variable remuneration takes into account the various types of current and future risks, as well as the cost of the own funds and liquidity needed for the conduct by Banco BPI of its business.

The Access Condition to Deferred Remuneration may be revised by the Remuneration Committee after having heard the CNAR (not effecting however the awards already made).

Reversion and reduction mechanisms of variable remuneration
Without prejudice to the application of the Access Condition to Deferred Remuneration, the variable remuneration regardless of whether it has already been paid or not, and in respect of which there is already a right to its receipt, shall still be subject to the reduction or reversion mechanisms whenever the Remuneration Committee, based on a favourable opinion of the CNAR, concludes that the Executive Directors:

a) participated in or was responsible for an act which resulted in significant losses for the Bank;

b) ceased to meet the criteria of suitability and integrity.

For this purpose, the following shall mean:

a) **Reduction mechanism:** the regime by which the Bank can reduce in total or in part the amount of the variable remuneration in respect of which the Condition of Access to Deferred Remuneration has not yet been confirmed;

b) **Claw-back mechanism:** the regime by which the Bank can withhold, thereby not making it definitively available, the amount of the variable remuneration in respect of which the Condition of Access to Deferred Remuneration has already been confirmed, but has not yet been paid.

1. Award of Shares

1.1 Where Shares awarding is at stake, they should be awarded "under term and condition precedent" set out in Article 10 of the Rules.

1.2 The term precedent corresponds to the Deferral Period.

1.3 Conditions precedent restrict the transfer of all Shares subject to the scheme set out in this special section and are the following:

- Completion Date of the Deferral Period, of any of the following events:
  1. Termination of the management relationship with the BPI Group at the initiative of the Executive Director, on fair grounds;
  2. Termination at the initiative of the BPI Group and on fair grounds of the management relationship with the Executive Director;
  3. Termination, by agreement between the parties, of the management relationship, without the rights of the Executive Directors to the shares awarded under condition having been expressly safeguarded in writing.
- The Condition for Access to Deferred Remuneration;

1.4 The provisions set out in paragraph 2.3 shall not affect the application of the rule embodied in article 10 (2) of the Regulations, in terms of which in the event of the Executive Director's death or retirement, all the shares whose award is suspended are immediately transferred.

2. Award of Options

2.1 Options awarding is subject, as a condition precedent, to the Condition for Access to Deferred Remuneration;

2.2 The Options shall mature on the Completion Date for the Deferral Period;

2.3 The Options shall expire three years having elapsed following from the Completion Date of the Deferral Period;

2.4 The provisions set forth in paragraph 3.2 above shall not affect the application of the rule stemming from Article 13 (3) of the Rules, according to which in the event of the Executive Director's death or retirement, all Options awarded mature immediately (they must be exercised within two years).

3. Limits on transactions of Shares and Options
The Shares and Options awarded under term and conditions precedent shall not be assigned, in general terms, to the Executive Director before confirmation of said term and conditions. Therefore, until such term or conditions are confirmed (whichever occurs later), the said shares and options are not registered in that Executive Director's name, nor is he / she entitled to freely dispose of them or encumber them.

4. Application of other terms of the Rules
Save for what is the object of the derogations envisaged in the foregoing paragraphs, the provisions of these Rules remain fully in force.

Annex

Annex

EXPERIENCE, PROFESSIONAL QUALIFICATIONS AND OTHER MANAGEMENT AND OVERSIGHT POSITIONS HELD IN OTHER COMPANIES OR ENTITIES BY THE GOVERNING BODIES OF BANCO BPI, S.A.

SHAREHOLDERS GENERAL MEETING

At 31 December 2016

Carlos Osório de Castro (Chairman)

Date of birth	12 September 1959
Nationality	Mozambique
Date of first appointment	22 July 2016
End of current term	31 December 2016

Academic qualifications

Law Graduate, Universidade de Coimbra
Master of Legal-Business Sciences

Management and supervisory positions at other companies

Chairman of the Board of Directors of START, S.G.P.S., S.A.

Other positions

Chairman of the General Meeting Committee:
Efanor Investimentos, S.G.P.S., S.A.
Cerealis, S.G.P.S., S.A.
Cerealis Internacional – Comércio de Cereais e Derivados, S.A.
Cerealis – Produtos Alimentares, S.A.
Cerealis – Moagens, S.A.
Sociedade Imobiliária Paradense, S.A.
Batriz – Administração de Propriedades, S.A.
Vallis Capital Partners, S.G.P.S., S.A.
Vallis Capital Partners, SCR, S.A.
Vallis Consolidation Strategies I, S.A.
FCSC, S.G.P.S., S.A.
Hubel Angola, S.G.P.S., S.A

Agostinho Cardoso Guedes (Deputy-Chairman)

Date of birth	4 June 1961
Nationality	Portuguese
Date of first appointment	22 July 2016
End of current term	31 December 2016

Academic qualifications

Law graduate, Universidade Católica Portuguesa
Master of Legal-Civil Sciences, Faculdade de Direito Universidade de Coimbra
Doctorate in Legal-Civil Sciences, Faculdade de Direito Universidade de Coimbra

Management and supervisory positions at other companies

Chairman of the General Meeting Committee of Sonae Investimentos S.G.P.S., S.A.

Other positions

Non-executive member of the Board of School of the Gestão Empresarial (UCP-CRP (Católica Porto Business School))

Maria Alexandra Magalhães

Date of birth	11 November 1967
Nationality	Portuguese
Date of first appointment	20 April 2005
End of current term	31 December 2016

Academic qualifications

1990: Economics graduate, Universidade do Porto
1996: "Master Quality Management" – Institut Méditerranéen de la Qualité / École Supérieure de Commerce et Technologie – France
2003: Post-graduation in Human Resources – Universidade Moderna do Porto
2010: MBA, IE Madrid

Management and supervisory positions at other companies

Director of Sarcol – Sociedade de Gestão e Investimento Imobiliário, S.A.

Other positions

Consultant at Dynargie

Previous professional experience

Various positions held at Sarcol Group

Luís Manuel Alves de Sousa Amorim

Date of birth	1 September 1963
Nationality	Portuguese
Date of first appointment	23 April 2008
End of current term	31 December 2016

Academic qualifications

1986: Business Management graduate – Universidade Católica Portuguesa

Management and supervisory positions at other companies

2000-...: Director of RIAOVAR – Empreendimentos Turísticos e Imobiliários, S.A.

Previous professional experience

1993-2007: Director of Simon – Sociedade Imobiliária do Norte, S.A.
1991-2007: Manager of Sanor – Sociedade Agrícola do Norte, Lda.
1989-1990: Manager of the Organisation and Management Systems Department – Modelo Supermercados, S.A.
1986-1989: Professional staff member of the Management Control Department – Sonae Distribuição, S.A.

SUPERVISORY BOARD

Abel António Pinto dos Reis (Chairman)

Date of birth	10 October 1933
Nationality	Portuguese
Date of first appointment	23 April 2008
End of current term	31 December 2016

Academic qualifications

1960: Economics graduate of the Universidade do Porto
1952: Accounting Course, Instituto Comercial Porto
1948: General Commerce Course, Colégio Universal, Porto

Management and supervisory positions at other companies

2007-...: Chairman of the Supervisory Board of COSEC – Companhia de Seguros de Créditos, S.A.
2000-...: Non-executive Director of Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.

Previous professional experience

2007-2008 (31 March): Chairman of the Supervisory Board of BPI Vida – Companhia de Seguros de Vida, S.A.
2000-2008 (31 March): Non-executive Director of Fernando & Irmãos, SGPS, S.A.
1993-1997: Member of the Management Board of Caixa Central de Crédito Agrícola Mútuo
1986-1992: Chairman of the Management Board of the Fundo de Garantia do Crédito Agrícola Mútuo
1976-1992: Director at the Bank of Portugal
1961-1964: Assistant lecturer at Faculdade de Economia do Porto
1957-1975: Employee, professional staff member, auditor and manager of Banco Português do Atlântico
1952-1953: Employee of Banco Espírito Santo

Jorge de Figueiredo Dias

Date of birth	30 September 1937
Nationality	Portuguese
Date of first appointment	21 April 1999
End of current term	31 December 2016

Academic qualifications

1959: Law graduate of the Universidade de Coimbra
1970: PhD in Law (Legal Sciences) from Law Faculty of the Universidade de Coimbra
1977: Chair Professor

Management and supervisory positions at other companies

Chairman of the Board of Directors of Bússola das Palavras, S.A.

Other positions

Member of Management Council of the Fundação Luso-Americana para o Desenvolvimento

Previous professional experience

1991-2005: Deputy-Chairman of SIC (Société Internationale de Criminologie)
1990-2001: Chairman of FIPP (Fondation Internationale Pénale et Pénitentiaire)
1996-2002: Deputy-Chairman of SIDS (Société Internationale de Défense Sociale)
1996-2000: Chairman of the General Meeting Committee of Caixa Geral de Depósitos
1991-1996: Member of SIDS (Société Internationale de Défense Sociale)
1986-1991: Member of SIC (Société Internationale de Criminologie)
1984-2004: Member of the Management Council of the AIDP (Association Internationale de Droit Pénal)
1982-1986: Member of the Council of State
1979-1983: Member of the Constitutional Commission
1978-1990: Member of FIPP (Fondation Internationale Pénale et Pénitentiaire)

Rui Campos Guimarães

Date of birth	11 August 1949
Nationality	Portuguese
Date of first appointment	23 April 2014
End of current term	31 December 2016

Academic qualifications

1971: Hons. degree in Mechanical Engineering, Engineering Faculty, Universidade do Porto
1976: Master of Arts in Operational Investigation from Lancaster University, UK
1981: Doctor of Philosophy in Operational Research from Lancaster University, UK
1998: Aggregation in Industrial Management, Engineering Faculty, Universidade do Porto

Previous professional experience

1971-2011: Lecturer at the Engineering Faculty of the Universidade do Porto, where he occupied the office of Senior Professor since 1999
1986-1989: President of the Management Board of INEGI – Instituto de Engenharia Mecânica e Gestão Industrial
1995-2000: President of the Management Board of ISEE – Instituto Superior de Estudos Empresariais, subsequently transformed into EGP – Escola de Gestão do Porto and the Porto Business School
2003-2009: Director General of COTEC Portugal – Associação Empresarial para a Inovação
2005-2015: Member of the Board of Directors of Fundação de Serralves, and Vice-Chairman between 2011 and 2013 and Vice-Chairman between 2013 and 2015
2009-2012: President of the Management Board of APGEI – Associação Portuguesa de Gestão e Engenharia Industrial
2011-2014: Non executive Member of the Board of Directors of Efacec Group
2011-2014: Member of the Board of Directors of Associação EGP – U.Porto, entity that supports the functioning of Porto Business School

BOARD OF DIRECTORS

Artur Santos Silva (Chairman)

Date of birth	22 May 1941
Nationality	Portuguese
Date of first appointment	6 October 1981
End of current term	31 December 2016

Academic qualifications

1985: Stanford Executive Program, Stanford University
1963: Law graduate, Universidade de Coimbra

Management and supervisory positions at other companies

Chairman of the Board of Directors of Partex Oil & Gas (Holdings) Corporation (100% held by Fundação Calouste Gulbenkian)
Chairman of the Supervisory Board of Partex Holding B.V.

Other positions

Chairman of the Board of Directors of Fundação Calouste Gulbenkian

Previous professional experience

1981-2004: Executive Chairman of SPI / BPI
1977-1978: Deputy-Governor of the Bank of Portugal
1975-1976: Secretary of State of the Treasury
1968-1975: Manager at Banco Português do Atlântico
1963-1967: Assistant lecturer at the Law Faculty of Universidade de Coimbra, in the chairs Public Finance and Political Economics.

Fernando Ulrich (Deputy-Chairman and Chairman of Executive Committee)

Date of birth	26 April 1952
Nationality	Portuguese
Date of first appointment	22 March 1985
End of current term	31 December 2016

Academic qualifications

1969-74: Attended Business Management Course of the Instituto Superior de Economia de Lisboa

Management and oversight positions held at companies within the BPI Group

Presidente do Conselho de Administração do Banco de Fomento Angola, S.A.
Chairman of the Board of Directors of Banco Português de Investimento, S.A.
Chairman of the Board of Directors of BPI Madeira, SGPS, Unipessoal, S.A.
Director of BPI Capital Finance Limited
Director of Banco BPI Cayman, Ltd.

Management and supervisory positions at other companies

Manager of Viacer, Sociedade Gestora de Participações Sociais, Lda.
Manager of Petrocer, SGPS, Lda.

Other positions

Member of the Associação Portuguesa de Bancos's Management Board
Chairman of the Founders' Assembly of the Fundação Portugal África

Previous professional experience

1983-1985: Deputy Manager of SPI – Sociedade Portuguesa de Investimento
1981-1983: Chief of the Office of the Minister of Finance and Planning
1979-1980: Officer at the Secretariat for External Economic Cooperation of the Ministry of Foreign Affairs (Relations with the EFTA, OECD and GATT)
1975-1979: Member of the Portuguese Delegation at the OECD (Paris), responsible for economic and financial matters
1973-1974: In charge of the financial markets section of the weekly "Expresso"

Alfredo Rezende de Almeida

Date of birth	22 May 1934
Nationality	Portuguese
Date of first appointment	6 October 1981
End of current term	31 December 2016

Academic qualifications

1959: Economics graduate, Economics Faculty of the Universidade do Porto

Management and supervisory positions at other companies

Sole Director of Casa de Ardias – Sociedade Agrícola e Comercial, S.A.

Other positions

Director of ATP – Associação Têxtil e do Vestuário de Portugal
Director of Associação Portuguesa de Exportadores Têxteis

Previous professional experience

1998-2008: Chairman of the Board of Directors of ARCOtêxteis, S.A.
1998-2008: Chairman of the Board of Directors of ARCOfio – Fiação, S.A.
1998-2006: Deputy-Chairman of the Board of Directors of ARCOtinto – Tinturaria, S.A.
1995-2006: Director of FÁBRICA DO ARCO – Recursos Energéticos, S.A.
1989-1990: Chairman of the General Board of BCI – Banco de Comércio e Indústria, S.A.
1985-1988: Member of the General Board of BCI – Banco de Comércio e Indústria, S.A.
1986-1991: Member of the General Board of Sociedade Portuguesa de Capital de Risco, S.A.
1959-1963: Director of Sociedade Luso-Americana de Confecções, SARL

António Lobo Xavier

Date of birth	16 October 1959
Nationality	Portuguese
Date of first appointment	23 April 2008
End of current term	31 December 2016

Academic qualifications

1982: Law graduate of the Universidade de Coimbra
1988: MSc in Legal-Economic Sciences from the Law Faculty of the Universidade de Coimbra

Management and supervisory positions at other companies

Executive Director of SonaeCom – SGPS, S.A.
Non-executive Director of NOS SGPS, S.A.
Non-executive Director of Público – Comunicação Social, S.A.
Non-executive Director of Mota Engil, S.A.
Non-executive Director of Fábrica Têxtil Riopele, S.A.
Non-executive Director of Vallis, SGPS, S.A.

Other positions

Curator Member of the Fundação Belmiro de Azevedo
Partner of law firm "Morais Leitão, Galvão Teles, Soares da Silva e Associados – Sociedade de Advogados"
Chairman of the IRC Reform Commission
Consultant to the Board of Directors of SonaeCom, SGPS, S.A.
Member of the Consultative Committee of Futebol Clube do Porto, SAD
Member of the Board of Directors of the Instituto de Arbitragem Comercial
Member of the Board of Directors of the Centro de Arbitragem Comercial

Previous professional experience

2000-2002: Director of Futebol Clube do Porto, SAD.
1988-1994: Guest lecturer of the Law department of Universidade Portucalense
1988-1994: Teacher at the European Studies Course at the Law Faculty of Universidade de Coimbra
1988: Advisor for the 1988 Tax Reform Commission
1988-1994: Assistant lecturer at the Law Faculty of the Universidade de Coimbra
1986-1991: Member of the Higher Council of the Administrative and Tax Courts
1985-...: Independent law consultant in the matters of Finance and Tax Law
1983-1996: Member of the Portuguese Parliament
1983-1988: Trainee assistant lecturer at the Law Faculty of the Universidade de Coimbra

Armando Costa Leite de Pinho

(Ceased functions, by resignation, in 28 February 2017)

Date of birth	29 April 1934
Nationality	Portuguese
Date of first appointment	26 March 1987
End of current term	31 December 2016

Academic qualifications

1956: Diplomado em Engenharia, Instituto Superior de Engenharia do Porto

Management and supervisory positions at other companies

Chairman of the Board of Directors of Arsopi – Holding, SGPS, S.A.
Chairman of the Board of Directors of Arsopi – Indústrias Metalúrgicas Arlindo S. Pinho, S.A.
Sole Director of Arsopi España, S.L.
Chairman of the Board of Directors of Tecnocon – Tecnologia e Sistemas de Controle, S.A.
Chairman of the Board of Directors of Arsopi – Thermal, S.A.
Chairman of the Board of Directors of A. P. Invest, SGPS, S.A.
Chairman of the Board of Directors of ROE, SGPS, S.A.
Chairman of the Board of Directors of Security, SGPS, S.A.
Director of Unicer – Bebidas de Portugal, SGPS, S.A.
Director of Viacer – Sociedade Gestora de Participações Sociais, Lda.
Director of Petrocer – SGPS, Lda.
Director of IPA – Imobiliária Pinhos & Antunes, Lda.

Previous professional experience

1988-2000: Managing Director of Arsopi, S.A.
1985-1990: Member of the General Board of BCI – Banco de Comércio e Indústria, S.A.
1969-1988: Manager of Arsopi, Lda.
1957-1969: Manager and Technical and Production Director of Metalúrgica de Cambra

Carla Bambulo

Date of birth	28 August 1973
Nationality	Portuguese
Date of first appointment	29 January 2015
End of current term	31 December 2016

Academic qualifications

1999: Hons. degree in Applied Mathematics and Computation, Universidade Técnica de Lisboa – Instituto Superior Técnico
2004: Masters degree in Insurance and Pension Fund Management (curricular part) – Universidad de Barcelona – IFA

Management and supervisory positions at other companies

2016-...: Member of the Board of AMOS IBEROLATAM, SL

Previous professional experience

2015-...: Head of Business Division for Iberia and Latin America at Allianz SE
2013-2014: Senior Business Consultant for Iberia and Latin America at Allianz SE
2011-2012: Manager of Strategic, Risk and Actuarial Planning at Companhia de Seguros Allianz Portugal
2008-2010: Manager of Strategic Planning, Control and Reporting at Companhia de Seguros Allianz Portugal
2006-2007: Head of Reporting at Companhia de Seguros Allianz Portugal

Carlos Moreira da Silva

(Ceased functions, by resignation, in 28 February 2017)

Date of birth	12 September 1952
Nationality	Portuguese
Date of first appointment	20 April 2006
End of current term	31 December 2016

Academic qualifications

2006: Stanford Executive Programme, University of Stanford, USA
1982: PhD in Management Sciences, University of Warwick, UK
1978: MSc in Man. Sci. and OR, University of Warwick, UK
1975: Graduate in Mechanical Engineering from the University of Porto

Management and supervisory positions at other companies

Non-Executive Director of BA GLASS BV
Vice-Chairman non executive member of the Board of Directors of Sonae Indústria, SGPS, S.A
Non-Executive Chairman of the Board of Directors of BA Glass BV
Non-Executive Chairman of the Board of Directors of Fim do Dia SGPS S.A.
Non-Executive Director of Fundação de Serralves

Previous professional experience

2009-2012: Member of the Supervisory Board of Jeronimo Martins Dystrybucja, S.A.
2005-2012: Member of the Advisory Board of 3i Spain
2003-2005: Chairman of Executive Committee of Sonae Indústria, SGPS
1988-1998: Director of several companies within Sonae Group
1987-1988: Director of EDP, Electricidade de Portugal
1982-1987: Assistant Professor at the Engineering Faculty of the Universidade do Porto

Gonzalo Gortázar Rotaeche

Date of birth	12 October 1965
Nationality	Spanish
Date of first appointment	23 November 2016
End of current term	31 December 2016

Academic qualifications

1992: Master of Business Administration, INSEAD, Fontainebleau
1989: Law graduate, ICADE E-3, Universidad Pontificia de Comillas
1988: Management Graduate, ICADE E-3, Universidad Pontificia de Comillas

Management and supervisory positions at other companies

CEO of CaixaBank, S.A.
Chairman da VidaCaixa
Member of the Board of Directors of Grupo Financeiro Inbursa

Previous professional experience

2014-...: Managing Director, CaixaBank, S.A.
2011-2014: CFO, CaixaBank, S.A.
2009-2011: Managing Director Criteria
1993-2009: Morgan Stanley, Investment Banking (FIG)
1989-1991: Bank of America Spain, Corporate and Investment Banking
1988-1989: Financial Consultant, Bancapital

Ignacio Alvarez-Rendueles

Date of birth	8 July 1965
Nationality	Spanish
Date of first appointment	22 April 2009
End of current term	31 December 2016

Academic qualifications

1991: The Wharton School, University of Pennsylvania MBA, Major in Finance
1988: C.U.N.E.F. Universidad Complutense de Madrid, Graduate in Economic and Business Sciences

Other positions

Escuela de Organización Industrial de España – Member of the Advisory Board

Previous professional experience

2011-15: CaixaBank, S.A. – Deputy General Director, Member of the International Steering Commitee
2008-11: Caja de Ahorros y Pensiones de Barcelona "la Caixa" – Executive Director, International Banking
2000-08: Goldman Sachs International – Managing Director, Investment Banking
1993-00: Salomon Brothers International – Director, Investment Banking
1992-93: S.G. Warburg & Co. – Associate, Investment Banking
1989-90: Salomon Brothers International – Financial analyst, Investment Banking

José Pena do Amaral

Date of birth	29 November 1955
Nationality	Portuguese
Date of first appointment	21 April 1999
End of current term	31 December 2016

Academic qualifications

1978: Economics graduate from Instituto Superior de Ciências do Trabalho e da Empresa

Management and oversight positions held at companies within the BPI Group

Non-Executive Member of the Board of Directors of Banco de Fomento Angola, S.A.
Director of BPI Madeira, SGPS, Unipessoal, S.A.
Director of Companhia de Seguros Allianz Portugal, S.A.
Chairman of the Board of Directors of Casa da Música

Other positions

Member of the Board of Curators of the Lisbon MBA

Previous professional experience

1986-1996: Consultant at Casa Civil of the President of the Republic for European Affairs
1983-1985: Head of the Office of the Minister of Finance and Planning; permanent member of the Portuguese Ministerial Delegation in the negotiations for Portugal's accession to the European Community
1982-1983: Member of the Office of the consultants Jalles & Vasconcelos Porto; correspondent of the Expresso, RTP and of Deutsche Welle in Brussels
1980-1982: Head of the ANOP delegation in Brussels
1979-1980: Editor of the Economic Supplement of the Diário de Notícias
1975-1980: Professional journalist at the Diário de Notícias

João Pedro Oliveira e Costa

Date of birth	15 October 1965
Nationality	Portuguese
Date of first appointment	23 April 2014
End of current term	31 December 2016

Academic qualifications

1989: Company Administration and Management, Universidade Católica Portuguesa

Management and oversight positions held at companies within the BPI Group

Director and member of the Executive Committee of the Board of Directors of Banco Português de Investimento, S.A.
Director of BPI Suisse

Management and supervisory positions at other companies

Does not occupy other positions

Previous professional experience

2007-...: Director and member of the Executive Committee of Banco Português de Investimento, S.A.
2000-2007: Central Manager at Banco Português de Investimento, S.A.

Lluís Vendrell Pí

Date of birth	7 March 1972
Nationality	Spanish
Date of first appointment	29 July 2015
End of current term	31 December 2016

Academic qualifications

1996: Law graduate of the Universidade Autónoma de Barcelona
1995: Erasmus Programme at Limerick University (Ireland)
2010: PDG, IESE Business School

Previous professional experience

2011-...: Corporate Manager in the Corporate M&A Area of Caixabank, S.A.
2007-2011: Legal Advisory Manager at Criteria CaixaCorp, S.A.
2002: Seconded to the law firm Sidley Austin (New York)
1996-2007: Lawyer at the law firm Uría Menendéz (Barcelona office)

Manuel Ferreira da Silva

Date of birth	25 February 1957
Nationality	Portuguese
Date of first appointment	26 April 2001
End of current term	31 December 2016

Academic qualifications

1982: MBA, Nova School of Business and Economics
1980: Economics graduate from the Economics Faculty of the Universidade do Porto

Management and oversight positions held at companies within the BPI Group

Director and Chairman of the Executive Committee of the Board of Directors of Banco Português de Investimento, S.A.
Chairman of the Board of Directors of BPI Private Equity – Sociedade de Capital de Risco, S.A.
Director of BPI Madeira, SGPS, Unipessoal, S.A.

Management and supervisory positions at other companies

Member of the Supervisory Board of Euronext, N.V.
Deputy-Chairman of the Board of Directors of Fundação de Serralves
Chairman of the Supervisory Board of Cerealis, SGPS, S.A.
Chairman of the Supervisory Board of INEGI – Instituto de Engenharia Mecânica e Gestão Industrial

Previous professional experience

2010-2014: Member and effective from 2012 President of the Representatives Board of the Economics Faculty of the Universidade do Porto
2000-2001: Director of the Lisbon and Oporto Stock Exchange
1980-1989: Lecturer at the Economics Faculty at the Universidade do Porto
1981-1983: Assistant to the manager of the Centro de Investigação Operacional da Armada

Maria Celeste Hagatong

Date of birth	2 July 1952
Nationality	Portuguese
Date of first appointment	27 September 2000
End of current term	31 December 2016

Academic qualifications

1974: Finance graduate of the Instituto Superior de Economia da Universidade Técnica de Lisboa

Management and supervisory positions at other companies

Director of BPI Madeira, SGPS, Unipessoal, S.A.
Non-Executive Director of Cosec – Companhia de Seguros de Crédito, S.A.

Other positions

Non-executive Director of Cruz Vermelha Portuguesa (CVP) – Sociedade de Gestão Hospitalar, S.A.
Member od the Board of AEM – Associação de Empresas Emitentes de Valores Cotados em Mercado
Chairman of Fundação Jorge Álvares
Member of the Management Board of Fundação Centro Cultural de Belém
Curator of Fundação Casa de Macau

Previous professional experience

1984-1985: Member of the Board of Directors of Fonds de Réétablissement du Conseil de L'Europe
1978-1985: Manager of Financial Services at the Directorate-General of the Treasury of the Ministry of Finance
1977: Administrative and Finance Director of the Republic's Parliament
1976-1977: Ministry of Finance – Directorate-General of the Treasury
1974-1976: Lecturer at the Instituto Superior de Ciências do Trabalho e da Empresa
1974-1976: Responsible for the Department of Local Finance of the Ministry for Internal Administration

Mário Leite da Silva
(Will cease functions, by resignation, at 31 March 2017)

Date of birth	16 November 1972
Nationality	Portuguese
Date of first appointment	22 April 2009
End of current term	31 December 2016

Academic qualifications

Economics graduate, Economics Faculty of Universidade do Porto

Management and supervisory positions at other companies

Chairman of the Board of Directors of Santoro, Financial Holding, SGPS, S.A.
SGPS, S.A.
Chairman of the Board of Directors of Santoro Finance, S.A.
Chairman of the Board of Directors of Fidequity – Serviços de Gestão, S.A.
Chairman of the Board of Directors of Grisogono, S.A.
Chairman of the Board of Directors of Efacec Power Solutions, SGPS, S.A.
Member of the Board of Directors of Socip – Sociedade de Investimentos e Participações, S.A.
Member of the Board of Directors of Esperaza Holding, B.V.
Member of the Board of Directors of Banco de Fomento Angola, S.A.
Member of the Board of Directors of Nova Cimangola, S.A.
Member of the Board of Directors of Finstar – Sociedade de Investimentos e Participações, S.A.
Member of the Board of Directors of Kento Holding Limited
Member of the Board of Directors of NOS, SGPS, S.A.
Member of the Board of Directors of Victoria Holding Limited
Member of the Board of Directors of Victoria, Ltd.
Member of the Board of Directors of Dorsay, SGPS, Unipessoal, S.A.
Director of Niara Holding, SGPS, Unipessoal, Lda.
Member of the Board of Directors of Ciminvest – Sociedade de Investimentos e Participações, S.A.
Chairman of the Audit and Finance Committee of NOS, SGPS, S.A.
Member of the Remuneration Committee of NOS, SGPS, S.A.
Member of the Nomination and Evalation Committee of NOS, SGPS, S.A.
Chairman of the Finance and Risk Committee of Efacec Power Solutions, SGPS, S.A.
Member of the Remuneration Committee of Efacec Power Solutions, SGPS, S.A.

Previous professional experience

Administrative and Finance Director / Member of the Board of Directors of various Américo Amorim Group companies

Pablo Forero

Date of birth	19 February 1956
Nationality	Spanish
Date of first appointment	23 November 2016
End of current term	31 December 2016

Academic qualifications

Economics Degree, majoring in Macroeconomics, Universidad Autónoma de Madrid

Previous professional experience

2013-...: CRO, CaixaBank, S.A.
2011-2013: Member of the Executive Committee, CaixaBank, S.A. and General Manager, Treasury and capital markets
2009-2011: Asset Management Manager, CaixaBank, S.A.
1998-2009: Member of the Asset Management Committee and of the Global Investments Committee, JP Morgan Asset Management, London
1990-1997: Asset Management Manager, JP Morgan Asset Management, Madrid
1984-1990: Market Manager, Manufacturers Hannover Trust CO., Madrid
1981-1984: Audit Department Manager, Arthur Andersen & CO, Madrid

Pedro Barreto

Date of birth	3 March 1966
Nationality	Portuguese
Date of first appointment	3 March 2004
End of current term	31 December 2016

Academic qualifications

2001: Stanford Executive Program
1989: Business Management graduate of the Universidade Católica Portuguesa

Management and oversight positions held at companies within the BPI Group

Deputy-Chairman of the Board of Directors of BCI – Banco Comercial e de Investimentos, S.A.
Director of Companhia de Seguros Allianz Portugal, S.A.
Director of BPI Madeira, SGPS, Unipessoal, S.A.
Director of Unicre – Instituição Financeira de Crédito, S.A

Management and supervisory positions at other companies

Non-Executive Director of SIBS SGPS, S.A.
Non-Executive Director of SIBS, Forward Payment Solutions, S.A.

Previous professional experience

1984-1988: IT Division of Soporcel – Sociedade Portuguesa de Celulose

Tomás Jervell

Date of birth	16 April 1971
Nationality	Portuguese
Date of first appointment	28 April 2016
End of current term	31 December 2016

Academic qualifications

2000: Advanced Management Programme for Executives – Universidade Católica Portuguesa
1995: Degree in Business Management – Universidade Portucalense – Infante D. Henrique

Management and supervisory positions at other companies

Chairman of the Executive Board of NORS / Auto Sueco.
Chairman of the Board of Directors of Auto-Sueco, Lda.
Member of the Board of Directors of Ascendum, S.A.

Vicente Tardio Barutel

Date of birth	19 November 1947
Nationality	Spanish
Date of first appointment	23 April 2014
End of current term	31 December 2016

Academic qualifications

1971: Hons. Degree in Economics, Universidad de Barcelona
Actuario, Universidad de Barcelona

Management and supervisory positions at other companies

Chairman of the Board of Directors of Companhia de Seguros Allianz Portugal, S.A.
Chairman of the Board of Directors of Allianz Compañia de Seguros y Reaseguros, S.A. (Spain)
Chairman of Allianz México S.A. Compañia de Seguros
Director of Banco Popular Español, S.A.
Non-executive member of the supervisory board of Allianz Worldwide Partners SAS

BANCO BPI, S.A.

Public held company

Registered in Oporto C.R.C. and tax identification under the sole number 501 214 534

Headquarters: Rua Tenente Valadim, n.º 284, 4100-476 Porto, PORTUGAL

Share Capital: EUR 1 293 063 324.98