



Annual Report

Banco BPI 2017



Report

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Key performance indicators

(Consolidated amounts in € m, unless otherwise stated)

	2013	2014	2015	2016	2017	2017, excluding non-recurring impacts ¹
Net profit	66.8	(163.6)	236.4	313.2	10.2	398.9
Adjusted overhead costs as % of commercial banking income	76%	73%	64%	68%	66%	66%
Return on total assets (ROA)	0.4%	(0.1%)	0.9%	1.2%	0.0%	1.2%
Return on tangible equity (ROTE) ²	2.9%	(7.2%)	10.2%	12.5%	0.4%	15.5%
Earnings per share (euros)	0.048	(0.115)	0.163	0.216	0.007	0.274
Book value per share (euros)	1.389	1.467	1.659	1.681	1.938	
Weighted average number of shares (in million)	1 383.7	1 422.3	1 450.4	1 451.0	1 456.2	
Net total assets	42 700	42 629	40 673	38 285	29 640	
Loans to Customers (gross)	26 897	26 306	25 260	23 431	22 244	
Retail deposits and bonds	25 621	27 391	26 108	19 724	20 686	
Total Customer deposits	35 453	39 430	39 643	32 940	32 960	
Loan-to-deposit ratio (domestic activity)	118%	106%	107%	106%	105%	
Credit at risk ratio (IAS / IFRS consolidation perimeter) ³	4.7%	5.0%	4.6%	3.7%	2.9%	
Coverage ratio of credit risk by impairments (IAS / IFRS consolidation perimeter) ⁴	77%	82%	87%	83%	92%	
Cost of credit risk ⁵	0.96%	0.70%	0.48%	0.09%	(0.02%)	
Total past services pension liabilities	1 082	1 278	1 280	1 463	1 601	
Degree of coverage pension liabilities ⁶	105%	98%	109%	98%	98%	
Shareholders' equity attributable to BPI shareholders	1 922	2 127	2 407	2 440	2 824	
Core Tier 1 capital ratio (Bank of Portugal's previous rules)	16.5%	-	-	-		
Common equity Tier I ratio (CRD IV / CRR fully loaded)	-	8.6% ⁷	9.8%	11.1%	12.3%	
Total capital ratio (CRD IV / CRR fully loaded)	-	8.7% ⁷	10.2%	11.2%	14.0%	
Leverage ratio (fully loaded)	-	5.2% ⁷	6.4%	7.4%	6.8%	
Closing price (euros)	1.216	1.026	1.091	1.131	1.173	
Market capitalisation at year-end	1 690	1 495	1 590	1 648	1 709	
Distribution network (no.) ⁸	871	835	788	736	507	
BPI Employees (number) ⁹	8 720	8 506	8 529	8 157	4 931	

Table 1

1) Excluding non-recurring negative impacts of -€ 389 million (after tax):

- in Portugal; -€ 69 million – voluntary terminations and early retirement schemes (-€ 78 million) earnings from the sale of BPI Vida e Pensões (+€ 9 million)
- related to BFA: -€ 320 million – disposal of a 2% stake in BFA and its deconsolidation (-€ 212.3 million); negative extraordinary impact of -€ 107.4 million, of which -€ 69 million (BPI's estimate) related to the accounting recognition of the shareholding in BFA in accordance with International Accounting Standard IAS 29.

2) Average equity considered in calculating the ROTE is written off from the intangible assets average balance (average consolidated balance in 2017: € 25 million) and other comprehensive income (reserves) (average consolidated balance in 2017: -€ 3 million).

3) Calculated in accordance with Banco de Portugal's definition in *Instruction 23 / 2011* and considering the consolidation perimeter in IAS / IFRS, therefore, until the disposal of BPI Vida e Pensões in December 2017, this subsidiary was fully consolidated, and its portfolio was included in the consolidated loan portfolio (BPI Vida e Pensões was recognised by the equity method within the scope of Banco de Portugal supervision).

4) Coverage by impairments for loans and guarantees accumulated in the balance sheet and without considering the coverage by collaterals associated with those credits.

5) (Impairments and provisions for loans and guarantees – recovery of loans, interest and expenses) / Average value in the period of the performing loan portfolio.

6) The value of the pension funds considered includes contributions transferred to Employees' pension funds at the beginning of the following year (€ 2.9 million in 2013, € 47.0 million in 2014, € 1.3 million in 2015 and € 75.5 million in 2016).

7) Proforma amounts considering the adherence to the special regime applied to deferred tax assets (DTA) and the change in the risk weights applied to Banco BPI's indirect exposure to the Angolan State and to BNA.

8) Until Dec.16, it included BFA's distribution network.

9) Staff (excludes temporary work) of fully consolidated subsidiaries. Until Dec. 16, includes BFA staff.

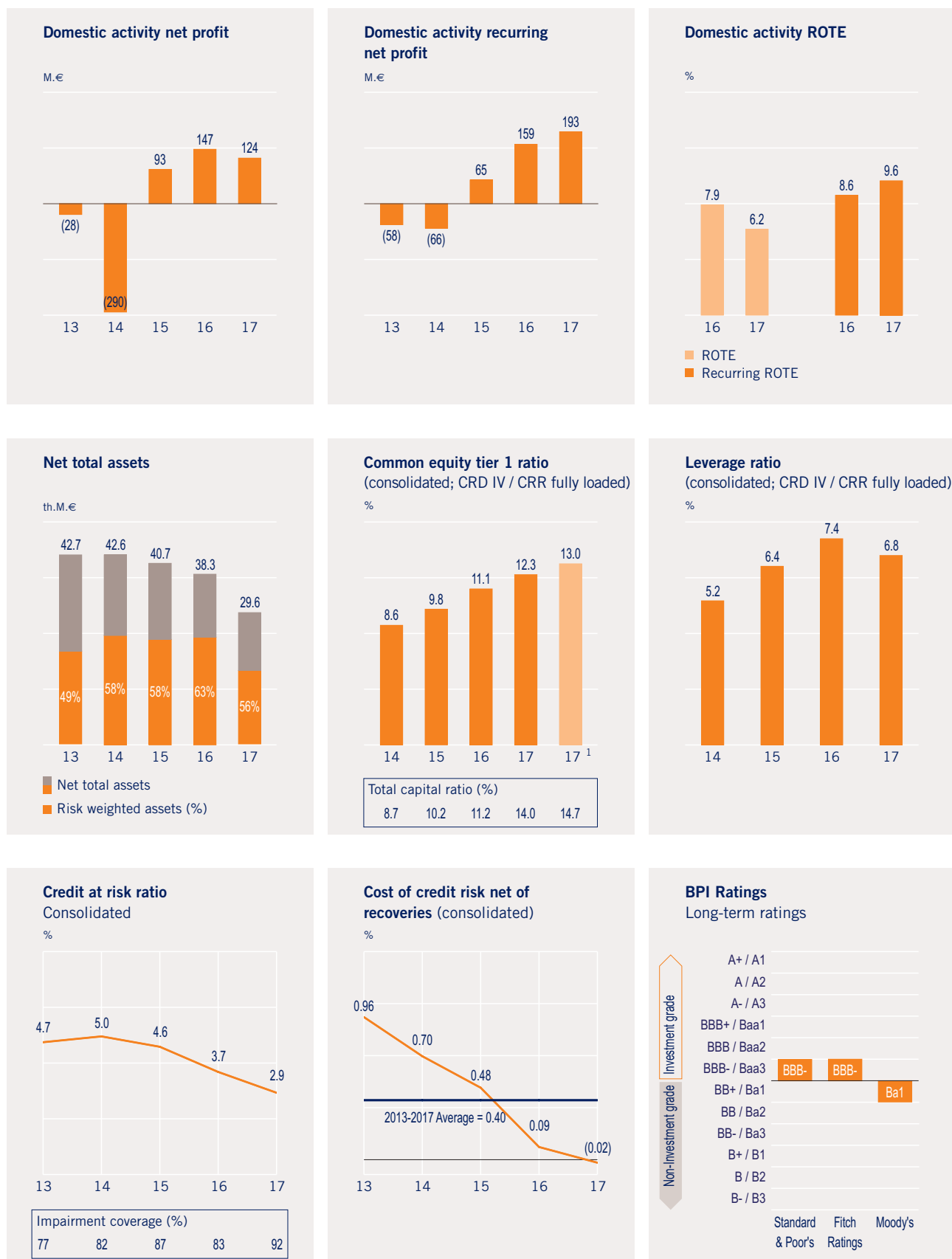


Figure 1

1) Considering full recognition of the impact of IFRS 9 and sales of subsidiaries and businesses (BPI Gestão de Activos, BPI GIF, equity and corporate finance, card issuing and merchant acquiring) announced in Nov. and Dec.

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Statement of the Chairman of the Board of Directors

Dear Shareholders,

For the first time since 1981, the year Sociedade Portuguesa de Investimentos was founded, this initial statement is not signed by the project's founder, Artur Santos Silva, currently Banco BPI's Honorary President. My first words are to him. Words of tribute for his vision, courage, leadership, ability to undertake and accomplish. Words of gratitude for his example, loyalty, rigour, transparency and ability to, at any and all times, mobilise wills of Shareholders, Employees and Customers.

The year of 2017 will be remembered as an exceptional period in BPI's path. On 5 January, BPI sold 2% of Banco de Fomento Angola to Unitel, after which BPI shareholding decreased to 48.1%, and a new shareholder agreement was signed, under which the Bank ceased to have any seat on BFA's executive management. In this way, BPI complied with ECB's determination on exceeding the large exposures limit (Angolan public debt held by BFA, which up until then was consolidated by BPI in its accounts).

On 8 February 2017, the Takeover Bid launched by CaixaBank was concluded, allowing CaixaBank to raise its stake in BPI from 45% to 84.51%. Since that date BPI has become part of CaixaBank Group, one of the leading European financial institutions and market leader in Spain in the most important commercial banking and insurance businesses: 30% of Spaniards hold an account with CaixaBank and 27% consider it their main bank.

CaixaBank has been committed to BPI for more than 22 years, having supported its project and management at all times, and some of them have not been easy. It has steadily increased its shareholding from an initial 10% up to the 44.5% held when it launched the Takeover Bid. This is a natural evolution that will allow BPI to pursue its path, benefiting from all the strengths and capabilities of CaixaBank Group, an institution that has always steered its conduct by the same ethical values and social responsibility that have guided BPI since 1981.

On 26 April, the Annual General Meeting appointed a new Board of Directors for the 3-year period 2017-2019, which took office at the end of July after obtaining authorisations from Bank of Portugal and the European Central Bank.

Between February and July, the Bank experienced a transitional period with respect to changes to its Board of Directors and executive management. I have no doubt in stating that this transition was carried out in an exemplary manner thanks to the clairvoyance and commitment shown by all those who experienced it, whether they came from CaixaBank or from BPI. The best evidence is the excellent commercial results obtained by the bank on all fronts, despite the demands placed by such a process.



Chairman of the Board of Directors

Fernando Ulrich

A major milestone in BPI's activity in 2017 was its programme to reduce the number of its Employees, through early retirement and voluntary terminations. As a result of this programme, 432 people left the Bank in 2017, plus 114 people whose departure was agreed in 2016 or in 2017 before the programme. Moreover, in 2018, there will be 83 departures, making a total of 515 people who left under said programme.

All in all, since 2008 BPI has reduced the number of Employees in its domestic business from 7 767 to 4 930, a 37% decrease (or 2 837 Employees). This path, induced by the new technologies and the evolution in Customer behaviour, has been fundamental to assure the profitability of the Bank. Of note, as always, is how the process was carried out and the Bank's ability to provide a service of excellent quality, albeit the significant reduction in the number of Employees.

The Bank's activity in 2017 continued to benefit from the Portuguese economy recovery, which had started in the second half of 2014. In the seven-year period 2008-2014, Portuguese GDP fell by 6.9%, i.e, practically 1.0% per year, on average. In the three-year period 2015-2017, GDP grew by 6.2%, and in 2017 alone it grew by 2.7%. It is expected that the momentum gained by the Portuguese economy, in line with that of other countries of the European Union, might endure, which will be very positive for the banking business, where profitability is expected to continue to improve albeit the very low interest rates.

Lastly, I would like to thank the efforts and dedication of the whole great team working at BPI and the trust that the Customers and Shareholders have placed in us.

Fernando Ulrich

Statement of the Chairman of the Executive Committee

Dear Shareholder:

I am pleased to present you Banco BPI's 2017 Management Report.

2017 was a year of hard work for the whole Banco BPI's team, but it was also a year rewarded with the renewed trust of our Customers.

With the completion of an early retirement and voluntary terminations programme in July, as part of a series of initiatives designed to achieve synergies worth € 120 million, the bulk of staff restructuring was achieved over the first half of the year.

In parallel with the aforesaid demanding internal process of change, BPI was able to obtain excellent commercial results in 2017 and to reaffirm its leadership in Portugal in quality of service, reputation and Customers trust.

The strong commercial activity in Portugal resulted in an increase of € 1.8 billion in total Customer resources (+ 5.6%), a 6.4% increase in the total volume of corporate loans in Portugal (plus € 411 million) and a 19% rise in new mortgage loan. The Bank made market share gains in most of the segments where it operates.

On a financial level, BPI recorded net income of € 193 million in its activity in Portugal (€ 124 million after non-recurring costs), to which corresponds a return on tangible equity (ROTE) of 9.6% – excluding non-recurring items – and a 21% increase over the previous year. The 5.3% reduction in costs and the low cost of risk made possible due to the high quality of the loan portfolio (with a credit at risk ratio of only 2.9%) contributed decisively to the above-mentioned results.

2017 domestic net income is the highest since 2007, and was achieved in a persistent, and therefore very demanding, low interest rate environment. The Portuguese economy, in turn, continued to show signs of gradual recovery, a positive development that I want to point out here.

In terms of quality of service, reputation and Customer trust, the following distinctions, just a few among the most relevant, illustrate quite significantly BPI's leadership and the wide public recognition gained: the Bank ranked first in Customer Satisfaction, according to ECSI Portugal 2017 – National Customer Satisfaction Index; it was recognised, for the fifth year in a row, as the Trusted Bank of the Portuguese, achieving the best-ever results; it was named the “Best Corporate Banking” and “Best Private Banking” in Portugal.



Chairman of the Executive Committee

Pablo Forero

In November and December, BPI's Board of Directors approved the sale to the CaixaBank Group of several businesses related to life-insurance, asset management and investment banking, as well as payment instruments issuance and merchant acquiring. These transactions will allow the Bank to focus on the core banking business, increase its capital ratios and improve and extend its commercial offer through the provision of new investment and savings solutions.

With respect to our financial portfolio, BFA remains the second largest and probably the best bank in Angola, having had a good year in 2017, with a slight increase in its results, despite a challenging environment. For BPI, the impact of its shareholding in BFA was very negative in 2017, for accounting purposes only, where the effects of deconsolidation (-€ 212 million) and of "high inflation" (-€ 107 million), lead to an accounting loss of € 119 million. As a result, BPI's consolidated net profit fell to € 10 million: € 124 million in Portugal and -€ 114 million in Angola and in Mozambique (€ 5 million).

Finally, it warrants mention that, in 2017, the top international rating agencies upgraded the ratings on Banco BPI, which was rated investment grade by Fitch Ratings and S&P; at the end of the year, Moody's also assigned an investment grade rating to the Bank's deposits. BPI's integration in the CaixaBank Group, the reinforcement of the Bank's capitalisation levels, the improved profitability in domestic operations and the excellent credit risk quality indicators contributed to the improvement of the rating.

With the objectives set for 2017 fully met, BPI has now better conditions to grow and a renewed confidence to pursue its priorities, which contemplate an ongoing improvement in service quality to its Customers, leadership in digital banking transformation, development of its human resources and the achievement of an adequate and sustainable profitability for our shareholders.

Let me end with a word of acknowledgment for the decisive contribution of all those who have made possible the results of this first year of transition to a new era in BPI's life: our Shareholders, for their clear and generous support, our Employees, for their skills and dedication, and our Customers, for their preference and trust, ultimately, the reason of our work.

Pablo Forero



Executive Committee of the Board of Directors

Ignacio Alvarez-Rendueles, Alexandre Lucena e Vale, José Pena do Amaral, António Farinha Morais, Pablo Forero (CEO), Francisco Barbeira, Pedro Barreto, João Pedro Oliveira e Costa.

Key corporate events

2017

January

- 5** Banco BPI informs the market that, in executing the Share Purchase Agreement, which was announced to the market on 7 October 2016, it made the transfer, in favour of Unitel, S.A. (Unitel), of a representative stake of 2% in Banco de Fomento Angola, S.A. (BFA)'s share capital and voting rights. Following this transfer, Banco BPI's and Unitel's shareholdings in BFA were 48.1% and 51.9%, respectively.
- 26** Announcement of 2016 consolidated results: Consolidated net income reaches € 313.2 million; net income in the domestic activity amounts to € 147 million and the ROE in the domestic business is 7.7%.

February

- 8** The outcome of the Takeover Bid, by means of which CaixaBank reached an 84.51% shareholding in Banco BPI, is made public.
- 9** Following the increase of CaixaBank S.A.'s stake in Banco BPI to 84.5%, Fitch Ratings upgraded Banco BPI's long-term rating from "BB" to "BBB-" ("investment grade") with stable Outlook.
- 10** For the second year in a row, BPI ranked absolute 1st in Customer Satisfaction, according to ECSI Portugal 2017 – National Customer Satisfaction Index. ECSI Portugal is an independent survey developed every year by the Portuguese Quality Institute, the Portuguese Association for Quality and the Higher Institute of Statistics and Information Management – Universidade Nova de Lisboa, which allows to evaluate the quality of the goods and services available on the domestic market in various business sectors.
- 13** Following the increase in CaixaBank S.A.'s stake in Banco BPI to 84.5%, Standard & Poor's rating agency upgraded Banco BPI's long-term rating from "BB-" to "BB+", keeping its outlook stable.

April

- 19** BPI was considered a Brand of Excellence in Portugal for the fourth consecutive year and in accordance with Superbrands, an independent international organisation that promotes brands driven by values such as longevity, loyalty, acceptance, goodwill and market control in 89 countries, since 1995.
- 26** At the Annual General Meeting, the Shareholders approve the Annual Report, the proposed appropriation of net profit of 2016 and the other motions put forward by the Governing Bodies, namely the election of the corporate bodies for the 2017-2020 three-year period. The General Meeting has also paid tribute to the members of the Board of Directors who resigned on that date and unanimously approved a vote of praise to Artur Santos Silva for his exceptional role in BPI's setting-up, affirmation and development over more than 36 years.

Announcement of consolidated results for the first quarter of 2017: consolidated net profit of € 90 million, excluding the impact of the sale of 2% of BFA and deconsolidation (-€ 122.3 million "as reported"); net income in the domestic business of € 43 million and a ROE in the domestic business of 8.8%.

June

- 21** Rating agency Fitch Ratings affirmed Banco BPI's long-term "BBB-" rating and upgraded its Outlook from "stable" to "positive".
- 28** In 2017, BPI was named by companies as the Best Corporate Bank, according to DATA E's BFin 2017 – the Business Financial Services Barometer. In this survey, BPI was elected the "Globally Best Corporate Bank", ranking first in the "Main Bank" indicator and as satisfaction leader in NetBanking.

July

- 20 Banco BPI informed the market that it had completed its early retirement and voluntary terminations programme announced on 27 April 2017. As a result of the programme, 519 Employees would progressively leave the Bank, 292 for early retirement and 227 for voluntary terminations, plus 98 Employees, to whom the same programme conditions apply. The total number of departures is 617, resulting in a total cost of € 106 million, fully recognised in second quarter results, and an annual reduction of € 36 million in costs with full impact as from 2019 (included).
- 25 Announcement of consolidated results for the first half of 2017: BPI posts consolidated profit of € 188 million in the first half of the year, excluding non-recurring impacts (negative consolidated results “as reported” of € 102 million, reflecting negative non-recurring impacts of € 290 million (after taxes) due to the sale and deconsolidation of BFA (-€ 212 million) and the early voluntary retirement and terminations programme (€ 77 million).

September

- 19 Standard & Poor’s rating agency upgraded the Bank’s long-term debt rating from BB+’s to BBB-, the first level of investment grade, following an equal upgrade in the Portuguese sovereign rating. Outlook remains stable. Banco BPI has thus begun to hold long-term investment grade ratings by S&P and Fitch Ratings.

October

- 19 Announcement of consolidated results for the third quarter of 2017: BPI posted a recurring consolidated profit of € 312 million from January to September 2017, of which € 152 million are related to the domestic business (non-recurring results excluded). Consolidated profit “as reported” of € 23 million, penalised by negative non-recurring factors of € 290 million (after taxes): € 212 million with BFA’s sale and deconsolidation and € 77 million with the voluntary terminations and early retirement programme.
- 25 BPI was named, for the third year in a row, the best bank brand in the category of banking products for seniors, according to the survey carried out by *Consumer Choice 2017*. *Escolha Sénior* is a Consumer Choice project that evaluates the satisfaction of consumers over 60 years old with a product or service.
- 26 BPI was awarded the prize “Best Private Banking in Portugal” in the Global Private Banking Awards 2017, at the initiative of PWM and The Banker, of the Financial Times Group.

November

- 23 Banco BPI informed the market that it has entered into agreements for the sale to CaixaBank of all its shareholdings in BPI Vida e Pensões, BPI Gestão de Activos and BPI GIF and of its legal positions related to equity brokerage, research and its corporate finance business.

December

- 7 Moody’s rating agency upgrades Banco BPI’s long-term deposits rating by 3 notches, from Ba3 to Baa3, lifting it to investment grade, and long-term debt rating by 2 notches, from Ba3 to Ba1, both with “positive” outlook.
- 12 Banco BPI informed the market that its shareholding in BCI – Banco Comercial e de Investimentos, S.A. (BCI), increased from 30% to 35.67% of the bank’s share capital. This increase resulted from an agreement between CGD and BPI, and Insitec Capital, S.A.

- 13** Banco BPI informed the market that it had received the decision of the European Central Bank (ECB) on the minimum prudential requirements to be complied with as from 1 January 2018, a decision based on the results of the Supervisory Review and Evaluation Process (SREP), as well as Banco de Portugal's information on the capital buffer required as "another systemically important institution" (O-SII).
- 21** Banco BPI informed the market that it had entered into agreements for the sale to CaixaBank of legal positions related to its business of payment instruments (debit and credit cards) and merchant acquiring.

2018
January

- 30** Announcement of 2017 consolidated results: net profit in the activity in Portugal rises to € 191 million, excluding non-recurring results; consolidated profit "as reported" of € 10.2 million, reflects non-recurring negative impacts of -€ 389 million (after taxes). BPI announces that it expects to reach a cost-to-income around 50% and a recurring return on tangible equity (recurring ROTE) in the domestic business of more than 10% in 2020.

BPI Business Model

BPI is focused on commercial banking business in Portugal.

BPI is part of the CaixaBank Group (which holds an 84.5% stake in BPI) and is the fifth largest financial institution operating in Portugal in terms of assets (€ 30 billion), with market shares of 9.4% in loans and 9.8% in Customer deposits.

Banco BPI is the main business unit and is responsible for the development of the commercial banking business in Portugal, offering a broad range of services and financial products to corporate, institutional and

individual Customers. Banco BPI offers, through its distribution network, investment funds, capitalisation insurance and pension funds. In the insurance business, BPI has a joint venture with Allianz, reflected in BPI's stake in Allianz Portugal (35%) and in an insurance distribution agreement using the Bank's commercial network. BPI's teams provide services in corporate finance and equity, in an integrated manner with CaixaBank.

BPI also holds minority interests in African banks (48.1% in BFA in Angola and 35.67% in BCI in Mozambique).

Main units of the BPI Group

At 31 December 2017

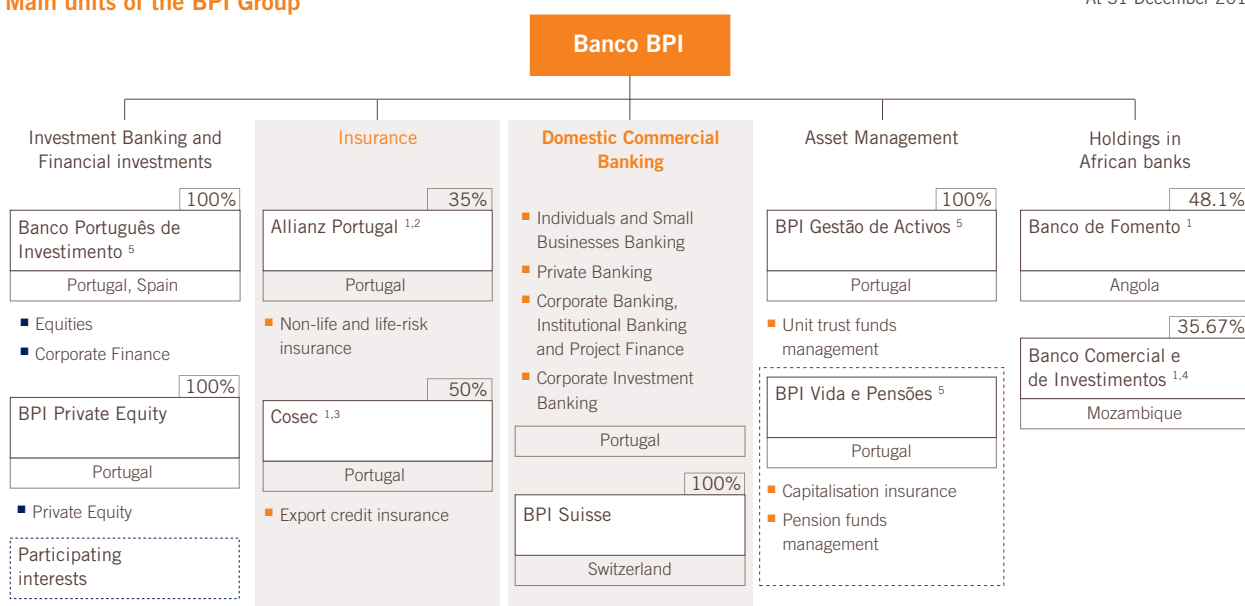


Figure 2

1) Companies accounted for by the equity method.

2) In partnership with Allianz, holder of 65% of the share capital.

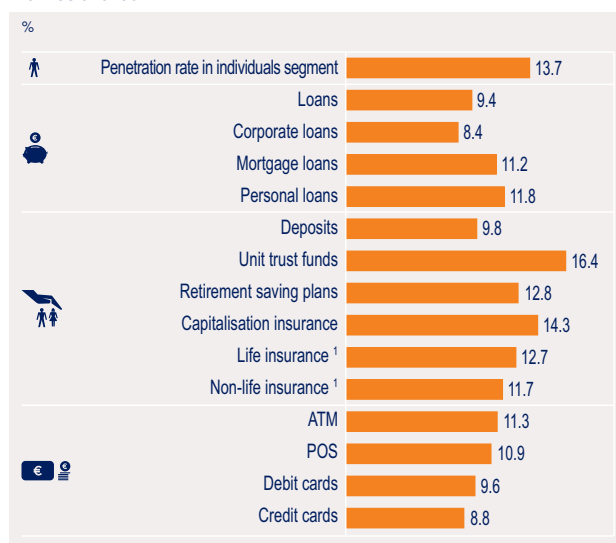
3) In partnership with Euler Hermes, a company of the Allianz Group.

4) In partnership with Caixa Geral de Depósitos (which holds 61.51% of the share capital). On 12 December 2017, Banco BPI informed the market that its shareholding in BCI – Banco Comercial e de Investimentos, S.A. (BCI) rose from 30% to 35.67%. This increase resulted from an agreement entered between CGD and BPI and Insitex Capital, S.A.

5) On 23 November 2017, the Bank reported that it had signed an agreement for the sale of BPI Vida e Pensões, BPI Gestão de Activos and BPI GIF to CaixaBank. The sale of BPI Vida e Pensões was completed in December 2017, while the remaining transactions are expected to be completed in 2018. Banco BPI will maintain its distribution function, even after these transactions are concluded, by offering, through its distribution network, investment funds, capitalisation insurance and pension funds, which can be complemented by CaixaBank's broad range of investment and savings solutions in the Insurance and Asset Management areas.

BPI serves 2 million Customers in the domestic market, having a penetration rate of 13.7% in the individual Customers segment, and relevant market shares in the various products and services offered.

Market shares



Sources: APFIIP (Association of Investment and Pension Funds and Asset Management Firms) APS (Portuguese Association of Insurers), Banco de Portugal, BPI Gestão de Activos, BPI Vida e Pensões, BPI, BASEF Banca, INE.

Chart 1

The business model is based on the provision of a complete range of financial products and services, structured to meet the specific needs of each segment – Individuals, Companies and the Public Sector and the State Enterprise Sector – through a specialist, multichannel and fully integrated distribution network.

The distribution network comprises 505 business units, of which 431 are retail branches, 39 investment centres, specialist branches and units serving corporate and institutional Customers, 31 corporate and institutional centres, 1 project finance centre and 3 Corporate and Investment Banking centres.

The distribution network articulates with virtual channels, which include homebanking services (BPI Net and BPI Net Empresas), telephone banking (BPI Directo) and mobile applications (BPI Apps).

Banco BPI's business is organised around two main segments: Individuals and Small Businesses, and Corporate and Institutional.

Individuals, Small Businesses

Individuals, Businesses and Premier banking is responsible for commercial initiatives with individual Customers, small businesses and companies with turnover of up to € 5 million. For this purpose, it relies on a distribution network of retail and virtual branches – homebanking and telephone banking and mobile applications – which is geared towards mass-market Customers and small businesses, and on a network of investment centres that specialises in serving high net worth Customers or Customers with potential for wealth creation.

BPI's **Private Banking**, made up of a team of experts in Portugal and also comprising a 100% held subsidiary, in Switzerland – BPI Suisse – provides discretionary management and financial advice specialist services to high net worth individual Customers.

Corporates and Institutional

Corporate and Institutional Banking serves, through its specialist network, large and medium-sized companies with turnover of more than € 2 million, operating in parallel with Individuals, Business and Premier Banking in the segment of up to € 5 million, and it also comprises the relationship with public sector and state business sector bodies.

Project Finance provides financial advisory services and organisation, structuring and participation in the financing of large and complex projects, including public-private partnership projects, with particular emphasis on infrastructure.

Corporate and Investment Banking was created in 2017 and aims to follow, in an Iberian logic, the largest domestic business groups and the subsidiaries of the largest Spanish companies.

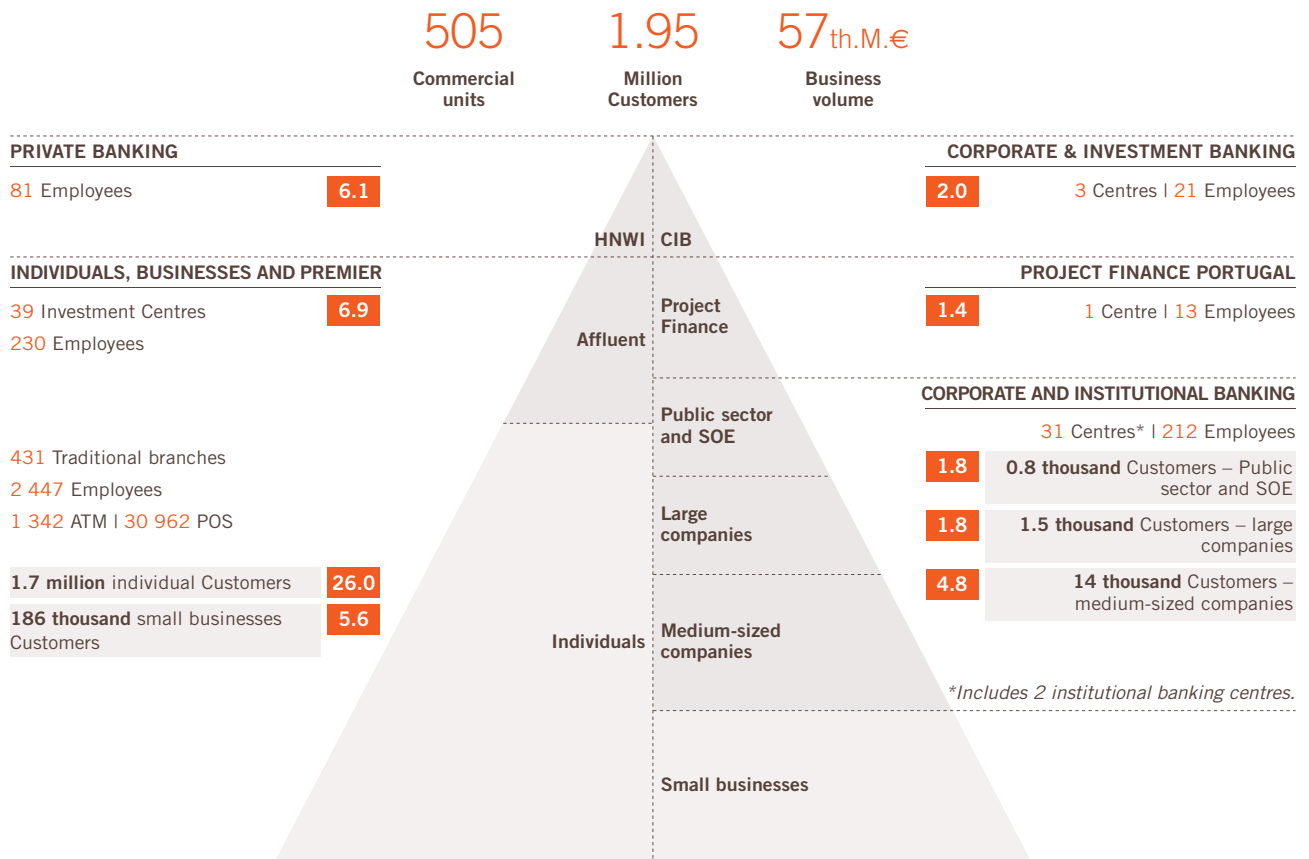
1) Share in the Banking channel for Stand Alone + Credit Linked Insurance.

Customer Segmentation and distribution network in Portugal

Individuals and small businesses

Corporate, institutional and project finance

PHYSICAL NETWORK AND CUSTOMERS



INTERNET AND TELEPHONE BANKING

(Active users)



■ Business volume, th.M.€

HNWI = High Net Worth Individuals.

CIB = Corporate and Investment Banking.

SOE = State-owned enterprises.

Figure 3

Business volume = gross loans + guarantees + total Customer resources (on-balance sheet and off-balance sheet). In the case of Private Banking, it corresponds to Discretionary management and advisory services, stable investments under custody and Loans and guarantees portfolio.

Human resources

Headcount evolution

On 31 December 2017, the number of BPI Employees totalled 4 931.

In the domestic business, the number of Employees dropped by 577 (-10%) to 4 930.

In 2017, the consolidated headcount ceased to include BFA Employees, following the disposal of 2% of its share capital and consequent reduction in BPI's shareholding to 48.1% and BFA's deconsolidation.

Banco BPI Employees

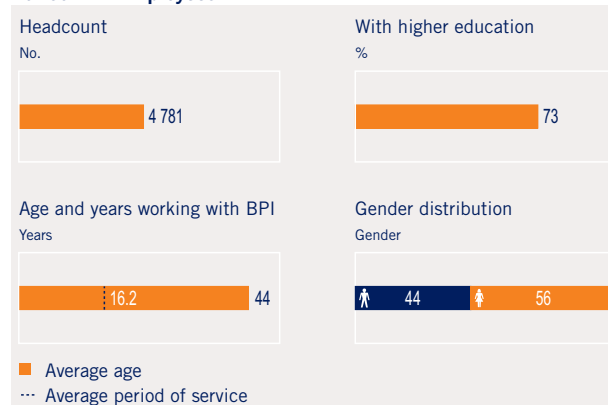


Chart 2

BPI Employees

		End-period values			Period average values		
		2016	2017	Δ%	2016	2017	Δ%
Domestic business							
Business in Portugal							
Banco BPI	1	5 249	4 781	(9%)	5 503	5 110	(7%)
Banco Português de Investimento	2	48	33	(31%)	51	44	(14%)
Other subsidiaries	3	71	48	(32%)	68	68	0%
[= Σ 1 to 3]	4	5 368	4 862	(9%)	5 622	5 222	(7%)
Branches and representative offices	5	139	68	(51%)	162	89	(45%)
Domestic business	[= 4 + 5]	5 507	4 930	(10%)	5 784	5 311	(8%)
Banco de Fomento Angola	7	2 632		(100%)	2 621		(100%)
BPI Capital Africa	8	14	1	(93%)	16	1	(94%)
Mozambique Financial Services	9	4		(100%)	4	4	0%
Total¹	[= 6 + 7 + 8 + 9]	8 157	4 931	(40%)	8 425	5 316	(37%)

Table 2

Training and qualification

BPI attaches strategic importance to the qualification and development of human capital, engaging in an ongoing effort to train its Employees. The training offer is made available in a classroom model (classroom and on-the-job), e-learning (online courses, webinars, video conferences) or in a blended learning process, which allows for more comfortable, fast and efficient programmes, responding, in a more flexible and inclusive manner, to various training needs.

Training investment amounted to € 2.1 million in 2017 (matching the same figure in 2016), corresponding to 1.2% of the payroll.

In 2017, BPI posted a 4% increase in the number of participants in training initiatives (face-to-face and e-learning) to 5 234 participants, and a 42% increase in the number of training hours per Employee, to 38.4 hours in 2017 (against 22.5 hours per Employee in 2016).

1) It includes fixed-term contracts and excludes temporary work of people without any employment relationship with BPI.

The training initiatives carried out in 2017 resulted in a total of 47.3 thousand participations (+40% than in 2016) and 189 thousand hours of training (+35% than in 2016). About 27% of the total participation was in face-to-face training and 73% in e-learning training. In terms of hours of training, the initiatives in the face-to-face model represented 47% of the total and the e-learning training 53%.

Main training indicators

	2016	2017
Investment (million euros)	2.1	2.1
Investment / payroll	1.1%	1.2%
Total participants (face-to-face and e-learning)	5 016	5 234
Total participations	28 445	47 300
Face-to-face	16 312	12 836
E-learning	12 133	34 464
Total training hours	123 809	189 474
Face-to-face	19 500	88 703
E-learning	104 309	100 771
No. of training hours per Employee	22.5	38.4

Table 3

The training offer in 2017 was mainly addressed to Commercial Network Employees, which represented 76% of the total training hours and 82% of the total number of participations.

Training initiatives on the protection of people and property, anti-money laundering and terrorist financing involved 4 882 Employees and a total of 15 thousand training hours.

In 2017, Employee certification projects in DMIF II and Wealth Management began. They covered 855 Employees in 2017, about 1 / 3 of the total number of Employees to be trained, and 78.6 thousand training hours, representing more than 90 training hours per Employee. It is expected that the certification of the remaining Employees will be completed in 2018.

In 2017, structural training projects were pursued, with the objective of deepening the expertise of Employees of commercial networks and departments with risk-decision responsibilities. Particularly noteworthy is the Individuals and Business Academy project, developed in partnership with Nova SBE, which involved 544 Employees and 29.9 thousand training hours.

Focusing on the key skills of executives, initiatives were carried out, such as the "Leadership Academy" and "Corporate Governance". These initiatives had the participation of 59 Employees, totalling 777 hours.

EARLY RETIREMENT AND VOLUNTARY TERMINATIONS PROGRAMME

In July 2017, Banco BPI concluded an early retirement and voluntary terminations programme, which had started in April 2017 and is part of a series of initiatives aimed at achieving synergies to reach € 120 million at end-2019.

The programme contemplates the gradual departure of 515 Employees¹, 289 to early retirement and 226 to voluntary terminations, with a total cost of € 90 million.

To that number of departures was added another 98 Employees, who had already reached a voluntary agreement to exit and to whom the same conditions of the programme were applied.

As a result, the total number of agreed departures is 613, representing 11% of the initial headcount. The cost of these departures totalled € 107 million and was fully recognised in the second quarter of 2017.

In 2017, 530 Employees departed, mainly in the second half of the year, and the remaining 83 will leave in 2018.

Staff outflow programme in 2017

	Total
Early retirement and voluntary terminations programme	515
Early retirements	289
Voluntary terminations	226
Other departures	98
Total departures	613
Total cost (€ million)	107
Annual cost reduction (€ million)	37

Table 4

Those departures (613) will provide for estimated annual cost savings of € 37 million as from 2019 (including).

With the completion of the 2017 voluntary terminations and early retirement programme, the bulk of the staff restructuring has been completed.

There was a reduction of c. 900 people, from departures occurred at end- 2016 and as a result of the 2017 departures programme, providing an estimated cost reduction, on an annual basis, of € 55 million.

Employee departures programme 2017

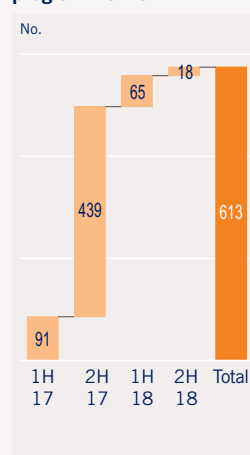


Chart 3

Estimated personnel synergies

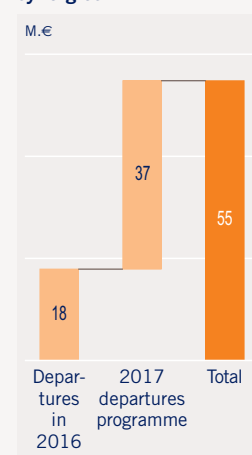


Chart 4

1) Considering 4 reversals of the number of departures initially agreed (519).

Digital banking

BPI is deeply committed to the digital transformation of its systems and processes, aiming at improving Customer interactions everywhere and in any channel, increasing business capacity and improving operational efficiency.

The evolution of Digital Banking is structured in 3 axes:

- development of Homebanking solutions, including new services, information and product purchases;
- development of digital solutions for Commercial Managers, digitising the operational and sales processes;
- development of interconnection solutions between BPI Customers and BPI Account Managers, boosting communication, marketing and sales solutions.

BPI DIGITAL TRANSFORMATION PROCESS

The BPI Digital Transformation process was publicly recognised at the “Portugal Digital Awards 2017” in “Best Digital Operational Process” category. The main purpose of this methodology is to speed up the Digital Transformation, structuring it in an efficient, repeatable model and in continuous improvement.

The main solutions implemented by Digital Banking in 2017 were developed through this model focused on Customer’s experience, omnichannel, multidisciplinary, with a short development time and based on agile and design thinking methodologies.



Preparation; drawing; development; activation.

NEW BPI NET – HOMEBANKING CHANNEL RENEWAL

Throughout 2017 the new **BPI Net** was launched, with full redesign of its image, usability and technology, making it simpler, more complete, and maintaining the usual security. It is available for different devices and with a significant extension of functionalities such as taking

out Personal Loans, personal finance management, notifications and definition of spending limits and savings targets.

Throughout 2017, the following initiatives stood out:

- complete renewal of the Homebanking channel, by launching the new version of BPI Net;
- launching of new models of interaction with Customers and commercial communication in Homebanking and mobile Banking;
- strengthening of commercial selling and service capabilities in digital channels;
- modernisation, mobility and efficiency of support solutions of the Commercial Networks;
- increasing Digital Marketing capabilities to improve promotion, sales and communication.

In **Mobile Banking**, besides the strong evolution in BPI App functionalities, the most frequent operations were simplified and made easier, and BPI Business App features were strengthened, with new Payments transactions available.

The strong growth in applications for **Homebanking** services has allowed a progressive transfer of transactional activity to these channels, freeing time from the commercial areas to Customer relationship management and commercial activity of greater added value.

NEW SOLUTION – “MY FINANCES”

In 2017, the personal finance management service “My Finances” was launched on BPI App and BPI Net, which automatically organises account and card activity into several categories.

This service provides Customers with: a summary of revenues and expenses; distribution by main categories of outflows; possibility of setting limits for expenses and savings objectives, in addition to activity details for each category. The Customer can change the categorisation of a movement and the service learns with this customisation.

This new service is complemented by the possibility Customers have to set up alerts, enabling them to proactively manage their expenses and financial management on a daily basis, and is also an important attractiveness factor and incentive to ongoing use of BPI digital channels.

MODERNISATION, MOBILITY AND EFFECTIVENESS OF COMMERCIAL NETWORKS

Mobility and efficiency solutions for the commercial network were increased in 2017, with special emphasis on:

- the development of a solution for Network and Corporate Banking Employees with functionalities designed to reinforce and monitor commercial proactivity and service for mobile Customers within the GoBanking commercial platform;
- assigning smartphones to all Employees in commercial networks, allowing them to safely access productivity tools and familiarise with mobile BPI channels;
- extension of the access to Wi-Fi to 90% of the Branch Network, allowing access to Employees and Customers.

BPI HOMEBANKING SERVICES

BPI offers its Customers **services** such as BPI Directo, BPI Net, BPI Net Empresas, Apps BPI, as well as BPI Online and BPI Net Bolsa brokerage services.

BPI homebanking services

Main indicators

	2016	2017	Δ%
Active Users (x thousand)¹	1 134	1 157	2%
% Transactions in channels of the Bank ²	91%	92%	1%
Users in the year (x thousand)			
BPI Net	520	549	6%
BPI Net Empresas	92	97	5%
BPI App + App Empresas	130	248	91%
BPI Directo	73	80	10%
Stock exchange			
Market share (Internet)	25.8%	23.0%	(2.8 p.p.)

1) Active registrations for BPI Net or BPI Net Empresas.

2) Homebanking services transactions as a percentage of the Bank's total, excluding Views or ATM.

Table 5

In **Corporate Internet Banking** in 2017, besides the ongoing evolution of BPI Net Empresas and BPI App, a new digital confirming solution was launched that enables non-BPI Customers to apply online for invoice discounting.

IMMEDIATE PERSONAL LENDING

Launched in 2017, BPI's new Personal Loans is simple and immediate, and can be taken out through any Customer contact channel, namely BPI Net, BPI APP and through commercial managers.

This development is an important leverage for the growth of personal loans at BPI, and it completely transforms the experience of taking out loans, allowing the entire lending process to be carried out in a fast and efficient way, from obtaining loan simulations to promptly having the funds available.

APP EVOLUTION

BPI App doubled the number of active users in 2017, being an increasingly important channel for BPI Customers' day-to-day transactions.

Throughout 2017, BPI App was boosted with the launch of new solutions:

- access to Personal Loans;
- purchase and topping-up of prepaid cards;
- tool to support personal finance management and proactive financial assistance;
- view the Financial Agenda;
- alerts and notifications management for relevant events;
- creating spending limits and saving objectives;
- extension of personalised messages.



BPI LEADS IN THE DIGITAL CHANNELS

BPI stands out in the indicators of use and adoption of digital channels, with positive developments in 2017 and increased public recognition of its solutions.

“Barómetro Serviços Financeiros Empresas – BFin” (Year 2017)

- BPI first in “Net Banking Service Satisfaction”
- BPI second in “Net Banking Service Penetration”

“BPI Quality of Service Survey” (Year 2017)

- Internet Service Satisfaction Level: 8.8 (scale from 0 to 10)

“Consumer Satisfaction Index – CSI Banca” (2nd ed. 2017)

- BPI First in “Internet Banking Satisfaction”
- BPI First in “Penetration Internet Contact Channel Used”

“Brokerage Services – CMVM Ranking” (Year 2017)

- BPI Second in Online Brokerage (Internet)

REINFORCEMENT OF DIGITAL MARKETING

In 2017, BPI revamped its initiatives in Digital Marketing to keep up with the evolution in Customer digital behaviour and thus ensure a greater uptake of commercial opportunities. The Search Marketing search engines was a decisive tool for the positioning of BPI's public websites.

In 2017, the Marketing Digital initiatives accounted for 1.2 million simulations in BPI websites and more than 21 000 direct opportunities through voice and chat calls.

BANCO BPI PUBLIC WEBSITES

In 2017 BPI launched a new version of its public website adapted to mobile devices, which is more complete and focused on online business capturing.

On Banco BPI's public website, the diversification of content and the dynamics of the presentation of products that make up the BPI offer was a constant. The new BPI Net and BPI App, as well as the products and services of the Corporate segment, took prominence.

BPI Expresso Imobiliário recorded in 2017, on average, 670 thousand visits and 5.5 million views of pages per month, corresponding to a strong annual improvement. This year, the quality of information provided to users sharply improved.

GROWING PRESENCE IN THE SOCIAL NETWORKS

In 2017, BPI increased its presence in the social networks, growing not only in number of followers but especially in its interaction and relationship with them.

The BPI Solidarity page on Facebook stepped up the dissemination of initiatives and projects of institutions that won BPI Solidaridade, BPI Sêniiores and BPI Capacitar Awards.

On LinkedIn, BPI focused on promoting content of interest to companies and on Twitter on the dissemination of surveys and information of economic relevance. In the YouTube Channel, the content provided by BPI reached 8.2 million video views.

Domestic and international recognition

Banco BPI was the 2017 winner in “Portugal Digital Awards 2017”, category “Best Digital Operational Process” and in “Global Finance 2017” in the “Digital Bank of Distinction” category.



BPI was awarded an Honourable Mention for the BPI Confirming solution in “Best Corporate Payments Initiative” category of the “Banking Technology Awards 2017”.

BPI was also a finalist at the “Financial Innovation Awards 2017” and “Banking Technology Awards 2017”, with the digital interaction with Customers solution, the BPI Confirming service for Companies and in the “IT Team of the Year” category.

The BPI Brand

The absolute leadership in Customer Satisfaction for the 2nd consecutive year, the election as the Portuguese Trusted Bank for the 5th consecutive year, acknowledgements as Best Corporate Bank and Best Private Bank in Portugal are some of the main recognitions bestowed on BPI in 2017.

The year 2017 marks the beginning of a new chapter, with the increase of CaixaBank's stake in BPI. These two institutions have had a joint course for over 20 years. CaixaBank was, from the outset, a benchmark shareholder of BPI and both entities have always shared common values: Quality, Trust and Social Commitment. They have developed a distinctive quality compared to their competitors; they have always acted in a way that deserves the trust of those around them; and they demonstrated with facts their high social commitment.

TRUST AND SATISFACTION

BPI was recognised, for the fifth consecutive year, as the Portuguese Trusted Bank, scoring the best result ever. According to the Brand Trust survey that the Reader's Digest Choices has been organising for 18 years in 15 countries, 53% of respondents consider BPI to be the most trustworthy brand in Portugal. BPI was the only bank to get an upswing amongst the five largest banks in the Portuguese financial system.

For the second year running, BPI retained its absolute leading position in Customer Satisfaction, according to ECSI Portugal 2017 – Customer Satisfaction National Index. ECSI Portugal is an independent survey developed every year by the Portuguese Quality Institute, by the Portuguese Association for Quality and by the Higher

Institute of Statistics and Information Management – Universidade Nova de Lisboa, based on a common European methodology – European Customer Satisfaction Index – which allows to evaluate the quality of the goods and services available in the domestic market in various business sectors.

The BASEF 2017 – Financial Capability Baseline Survey – published by Marktest confirms once again BPI as the Bank with the highest satisfaction level amongst the five largest banks in the Portuguese financial system with respect to Global Satisfaction and Quality of Service – an indicator in which it has always led, having additionally reported the lowest churn rate.

In 2017, BPI was named by companies as the Best Corporate Bank, according to DATA E's BFin 2017 – Business Financial Services Barometer. In this survey, BPI was elected the “Globally Best Corporate Bank”, ranks first in the “Main Bank” indicator, and is the leader in NetBanking satisfaction.

For the third year in a row, BPI was named the best bank brand in the category of banking services for seniors, according to the survey conducted by Consumer Choice 2017. Senior Choice is a Consumer Choice project that assesses the satisfaction of consumers aged over 60 with respect to a product or service.

In the Mystery Client Survey conducted by Metriang in the second half of the year, BPI ranked first in the overall evaluation. This survey evaluates the quality, professionalism and technique in serving a potential Customer.



Customer satisfaction.



Portuguese trusted bank.



Best Private Bank in Portugal.



Best Corporate Bank.



Brand of Excellence.

REPUTATION AND ACKNOWLEDGEMENT

In 2017, BPI's performance was once again recognised in several areas of the financial business. The following recognitions given to the Bank by independent domestic and international entities warrant special mention:

- **Most reputed leader and of greater renown in the Portuguese banking – Fernando Ulrich**

For the second consecutive year, this distinction was awarded to Fernando Ulrich, Chairman of BPI's Board of Directors, by the OnStrategy Group, which evaluates the reputation of brands and their leaders in more than 20 industry sectors, based on a panel of 3 stakeholders: general public, businesses and media.

- **Best Private Banking in Portugal**

Distinguished in the Global Private Banking Awards 2017, an initiative of PWM and *The Banker*, of the Financial Times Group.

- **Brand of Excellence in Portugal**

For the 4th consecutive year, and in accordance with Superbrands, an independent international organisation that promotes brands driven by values such as longevity, loyalty, acceptance, goodwill and market dominance in 89 countries, since 1995. Superbrands analyses the performance of brands to identify those that perform above and beyond their competitors.

- **Bank with the Best Price-Quality Ratio**

Distinguished in the Credit Products for Individuals and Companies category by Best Buy Awards Portugal Millennials 2017.

- **Best Digital Transformation Project**

Awarded at the Portugal Digital Awards 2017, an initiative of the *Jornal de Negócios* newspaper and IDC Portugal in partnership with Novabase and AXIANS, which awards prizes to innovative projects that stand out in digital transformation.

- **Best Digital Bank in Distinction Awards**

In the Consumer and Corporate / Institutional categories, by the *Global Finance Magazine*.

- **Best Domestic Equity Management Company**

BPI Gestão de Activos earned this award for the 7th time in the past 9 years, in Morningstar 2017 awards, in the best mutual funds category.

- **Best Domestic Mixed Euro Fund – BPI Selecção**

In the best mutual funds category, in Morningstar 2017 awards.

- **Best Funds – BPI Opportunities and BPI Euro Taxa Fixa**

Awarded by the *Jornal de Negócios* newspaper and APFITT, the Portuguese Association of Investment, Pension and Asset Funds, in the category of Equities Funds Domiciled in Other Jurisdictions – BPI Opportunities and Other Bond Funds – BPI Euro Taxa Fixa.

- **4 Awards in the Capital Market**

Granted by the NYSE Euronext Lisbon Awards 2017, in the categories of Most Active Research House, for the 5th consecutive year, Most Active Trading House in Bonds, for the 6th consecutive year, Best Capital Market Promotion Initiative and Investment Fund / Open Pension Fund in Portuguese Stock (BPI Reforma Investimento PPR).

- **Best Annual Report in the Financial System**

For the 17th time, at the 30th edition of Investor Relations & Governance Awards organised by Deloitte and the *Jornal Eco* newspaper. This prize recognises the excellence of the financial sector in the quality of the information provided to the market.

INVESTMENT AND COMMUNICATION

In 2017, the financial sector remained the 9th largest investor in all business sectors, with a share of investment of 4%, up by 20% on a year earlier.

In 2017, BPI posted a 1% share of investment within the financial sector, ranking 16th in the investment ranking and dropping by 35% compared to 2016.

BPI's communication policy remained focused on the Customer, digital transformation, meeting commercial objectives, supporting Portuguese companies and strengthening its role in social responsibility. Each of these topics is developed in specific chapters of this report, the main initiatives being highlighted here.

Digital transformation

Digital transformation is a priority for BPI, essential for simplifying processes and for strengthening the relationship with and knowledge about its Customers. BPI has launched a set of new products and services, namely:

- **BPI Net**, a homebanking service with a new design and a simpler, more intuitive browsing;
- **BPI Immediate Loans**, available on BPI App and BPI Net, which permits to simulate, get approval for and obtain a Personal Loan, with the amount immediately available in the Customer's account;
- **'As Minhas Finanças'** (My Finance), a new service available at BPI Net and BPI App, which automatically organises accounts and cards activity into different categories, allowing an immediate view of expenses and revenues;
- **Contact with the Account Manager**, a new feature that brings the Customer closer to his Account Manager, allowing messaging, document sharing and the authorisation of banking transactions;
- **GoBanking Empresas**, a new solution for commercial managers of in the Corporate Banking and Small Businesses segment. A commercial platform developed with the aim of improving quality, convenience, monitoring and the proximity between Account Managers and Customers.

Support to Portuguese companies

In 2017, BPI pursued its strategy of proximity to and follow-up of Portuguese companies:

- **Bank for Tourism**, BPI strengthened its support to the tourism sector by signing the 2017 Offer Qualification (Qualificação de Oferta 2017) credit line, agreed with Turismo de Portugal, in which it is the leader in terms of the number of projects under consideration. BPI was once again the official sponsor of BTL, the largest tourism trade fair in Portugal;



Bank for Agriculture.



Personal Loans BPI
My plans are real.



Bank for Tourism.



New BPI Net
Always with me and more actual.

- **Bank for Agriculture**, offering solutions adapted to the needs of companies in this sector. BPI sponsored the 6th edition of the Domestic Agricultural Award, as well as other major national events such as the National Agriculture Trade Fair, Ovibeja, SISAB, Corn Congress, Santiagro and other initiatives in the agricultural, livestock, forestry and sea sectors;
- **PME Líder and PME Excelência**, leadership in the ‘Leader’ and ‘Excellence’ statuses assigned to companies by IAPMEI and Turismo de Portugal;
- Financing solutions with credit lines agreed with Mutual Guarantee Schemes, the European Investment Fund and the European Investment Bank to support Portuguese companies’ growth.

Social Responsibility

With respect to Social Responsibility, BPI contributed with an annual support of € 5.1 million in 2017, distributed in the areas of social solidarity, culture, education, research, science and entrepreneurship.

As a result of BPI’s entry in the CaixaBank Group, “la Caixa” Foundation started implementing its social work in Portugal, providing for an annual budget of € 50 million to give support to social and cultural projects. “la Caixa” Foundation is a non-profit organisation that, since the beginning of the 20th century, has worked to achieve a more egalitarian society for all social groups. “la Caixa” Foundation is the first foundation in Spain and one of the most important internationally, with a budget of € 520 million for 2018.

The first cultural sponsorship joint initiative between BPI and “la Caixa” Foundation was the Exhibition ‘Madonna – Treasures of the Vatican Museums’, at the National Museum of Ancient Art, with free entry for Customers.

Social responsibility

BPI considers its Social Responsibility to be a set of duties and obligations of the Institution towards the community in which it is integrated, and towards the specific interest groups that depend upon its activity: Customers, Shareholders, Employees and Investors.

The exercise of Social Responsibility takes place in multiple dimensions, namely the governance policy and its execution, compliance with its own rules of conduct, Investor Relations, promotion of quality and Customer service, human resources development policy, insertion in the life of the community and support to its initiatives of Social Solidarity, Culture, Education, Science, Research and Entrepreneurship.

In these areas, BPI intervenes at various levels, from the development from scratch of projects of social value to supporting already established entities.

BPI is governed by the following principles of conduct:

- support to institutions of recognised importance in the Portuguese society;
- which demonstrate the ability to become sustainable;
- in a rationale of continuity and long-lasting bond.

As a result of BPI's integration into the CaixaBank Group, "la Caixa" Foundation started implementing its social action in Portugal, with an annual budget estimated to reach € 50 million to give support to projects of a social and cultural nature. Throughout 2018, the Foundation will implement its own programmes to integrate people with difficulties in accessing the labour market, to care for the elderly and give support to people with advanced illness. Research projects in health, roadshows, as well as alliances with Portuguese museums and entities will also be carried out.

At the same time, BPI's Social Responsibility Committee was created and is chaired by Artur Santos Silva, BPI's honorary President. It is composed of José Amaral, member of BPI's Executive Committee of the Board of Directors, Rafael Chueca from "la Caixa", and members of civil society, António Barreto and Isabel Jonet. The Committee is responsible for supporting and advising the Board of Directors on matters relating to BPI's Social Responsibility.

This year, for the first time, BPI includes in the Annex to the Annual Report a Non-Financial Statement that presents more complete information on the evolution, performance, position and impact of BPI's Social Responsibility activities throughout this year, in line with its objectives, management model and strategic lines.

The strategic lines that give guidance to BPI's activity are grounded on the lines that steer the activity of CaixaBank, namely:

- to be the best Bank in quality of service, reputation and satisfaction;
- to achieve recurring profitability in excess of capital cost;
- to be the leader in digital banking;
- to have the best prepared and most competitive team.

BPI 's integration as a CaixaBank Group's company results in greater coordination and harmonisation within the Group's strategic guidelines, and will also materialise in BPI's adoption, throughout 2018, of policies related to environmental, social and labour matters.

SUPPORTS ASSIGNED WITHIN THE SCOPE OF SOCIAL RESPONSIBILITY IN 2017

In 2017, BPI contributed with an aggregate amount of € 5.1 million, which represents an increase compared to the average annual support of € 4.41 million provided over the past 10 years. Social Solidarity represents, in 2017, 47% of the Bank's total contributions in terms of Social Responsibility.

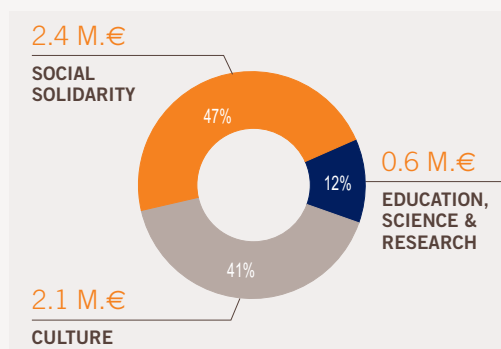


Chart 5

Background to operations

GLOBAL AND EUROPEAN ECONOMY

The International Monetary Fund (IMF) estimates that the world economy grew by 3.7% in 2017, up by 0.5 percentage points (p.p.) on 2016, driven by accelerating growth in both the advanced and the emerging economies and in particular by the good performance of Europe and Asia. According to the IMF the developing economies grew by 4.7% in 2017, which is 0.3 p.p. more than in the previous year. China continues to show a steep growth pace, advancing by 6.8% in 2017, or 0.1 p.p. more than in 2016. The IMF reckons that the developing economies expanded by 2.3% in 2017, accelerating by 0.5 p.p. relative to 2016, on the back of stronger growth in the world's principal economies. In the US economic growth quickened to 2.3%, while in the Eurozone bloc of countries the growth pace of the economy picked up from 1.8% in 2016 to 2.4% in 2017, bolstered by activity growth in all its member states.

For 2018, the IMF predicts that global growth will remain robust, forecasting a 3.9% growth rate, up by 0.2 p.p. on 2017. Strong global demand and the expected positive impact of the tax reform in the US are the main factors behind the improved outlook for growth in the current year. This international body sees the US growth accelerating by 0.4 p.p. in 2018, to 2.7%. For the Eurozone its prospects point to sustained strong growth, albeit slowing down to 2.2%. The risks for this scenario are reasonably balanced even if somewhat skewed to the downside. These are essentially linked to the effects on economic agents' confidence of a possible financial market correction, given the climate of high risk asset valuations and compression of risk premia observed throughout 2017 and first days of 2018. On the upside, and likely to lead to a rebound in growth, lies the possibility of a sharper strengthening of activity and the continuation of accommodative financial conditions.

Monetary policy even more accommodative

The good performance of the global economy underpinned a more optimistic discourse on the part of the central banks that in turn led to their gradual normalisation of monetary policy. The Federal Reserve closed the year with a hike in the Fed Funds rate, to the range of 1.25-1.5%, and initiated the process of unwinding the size of its balance sheet by reducing the reinvestment of the amount from securities in portfolio coming to maturity. The ECB announced the cut in half (€ 30 billion) of its monthly long-term asset purchases as from January 2018. The main refinancing rate, the deposits rate and the lending rate remained flat at 0.0%, -0.4% and 0.25%, respectively.

Jerome Powell, who took up office as the new Chairman of the US Federal Reserve in February 2018, has shown willingness to pursue the policy undertaken by Jannet Yellen, with the Federal Reserve expected to maintain a policy of gradual normalisation of interest rates, placing the Fed Funds rate in the 2-2.25% range at the end of 2018. In the euro bloc interest rates should remain unchanged therefore sustaining the very accommodative financial conditions. On the other hand the future of the asset purchase programme is surrounded by more uncertainty, and the possibility of its termination in October has not been ruled out.

PORTUGUESE ECONOMY

The growth pace of the Portuguese economy accelerated in 2017, reaching 2.7%, which is 1.2 p.p. more than in the previous year and the highest growth rate since 2000. The rally of domestic demand, supported by both private consumption and investment, and of exports, were the key factors underlying this behaviour. The rebound in activity underpinned an improvement in the labour market, with the rate of unemployment subsiding by 2.2 p.p. relative to the previous year, to 8.9%, and employment expanding by 3.3%. The services industry was the main driver of employment in 2017, benefiting in particular from stronger activity in the Tourism sector.

As regards foreign trade, the available information (in current prices) points to increases in exports and imports of goods of 10.1% and 12.5%, respectively, leading to a € 2.6 billion deterioration in the trade balance, to -€ 13.8 billion. This deterioration is mainly explained by the increase in domestic demand, namely through investment, which comprises a large component of imported goods. The deterioration of the goods account was offset by the improvement of the services account surplus, allowing the current account balance to stay on positive ground and close the year at an estimated 0.5% of GDP. In the services sector, Tourism was one of the most buoyant activities, with tourism exports hitting record highs: € 10.527 million in the year to November, up by 23% year-on-year. In this scenario the economy maintained financing capability, which rose to 1.1% of GDP in the four quarters ended September 2017 (a 0.1 p.p. increase year-on-year). This reflects the Portuguese State's lower funding needs, which dropped to 0.1% of GDP, from 3.7% in the same period a year earlier. Other sectors registered opposite trends, with the funding needs of the non-financial companies increasing to 1.8% of GDP (up by 1.1 p.p. year-on-year). Households' borrowing capability fell by 1.6 p.p., to 0.8% of GDP, reflecting a sharper increase in consumption than in income and leading to a reduction in the savings rate to 4.4% of disposable income.

As to the public accounts, the available information indicates that the general government balance was € 2 573.6 million at the end of the year (cash basis), reflecting an increase in revenues (+3.8%) that surpassed the increase in expenditure (+1.6%). Tax revenues accounted for more than half the growth of total revenues, reflecting a bright economic environment. Considering the data available to date, the achievement of the deficit target for 2017 of 1.4% of GDP set in the 2018 State Budget may be feasible, but this will depend on how the recapitalisation operation of Caixa Geral de Depósitos is accounted for (a decision that should be known in March 2018) as it will have an estimated impact of 2.1 pp of GDP. Based on the preliminary information released by the Bank of Portugal concerning

the public debt, it is estimated that the debt-to-GDP ratio decreased to 125.9% at the end of 2017, which is 4.2 pp less than in 2016.

GDP growth

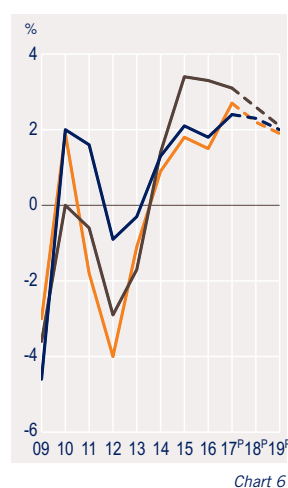


Chart 6

— Portugal
— Spain
— EMU

Source: European Commission.

Current and capital balance as % of GDP

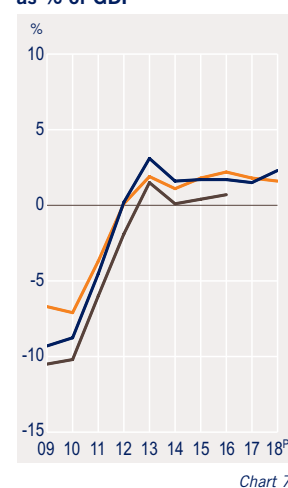


Chart 7

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

Source: Bank of Portugal.

In 2017 the Treasury issued € 15.1 billion of medium- and long-term debt and reimbursed € 10 billion of IMF loans. By December Portugal had already repaid approximately 80% of the IMF's total loans. The average maturity of the debt issued during the year was 8.6 years, at an average cost of 2.6%, which is 0.2 pp less than in 2016.

The private sector pursued a deleveraging process. According to the Bank of Portugal, the private sector corporate debt represented 137.9% of GDP in September 2017, which compares with 171% in March 2013; among individuals, this ratio was 74.5%, down by 21.3 pp on its peak observed in September 2009.

Outlook for 2018

The European Commission estimates that the pace of expansion of the Portuguese economy will slow to 2.2% in 2018, reflecting a smaller contribution of domestic demand and a less marked growth of exports. This body expects domestic demand to contribute around 2.0 pp to GDP growth, notably with investment surging by more than 5.0%. Private consumption, in turn, may grow at a slower pace than in 2017, largely reflecting a more cautious behaviour of families, given their low levels of savings and still high levels of indebtedness. In an environment of growth consolidation, the labour market is expected to maintain a positive momentum, with the unemployment rate likely to stand at 7.9% at the end of 2018.

The expectation of a surge in oil prices – the IMF puts the average price of this commodity at 59.9 dollars per barrel in 2018, which is 11.7% more than in 2017 – will be offset by the appreciation of the single currency, resulting in a small impact on the behaviour of inflation, which the European Commission predicts will stabilise at 1.6%.

Concerning the process of fiscal consolidation, the Government estimates that the budget deficit will decrease to 1.1% of GDP, benefiting in particular from the expected consolidation of economic growth. As to the external accounts, the current and capital account surplus is expected to flatline, based on the assumption that the improvement in competitiveness will be sustained, that companies will remain focused on the external market, that tourism revenues will remain stable and also taking into account the expected evolution of the price of oil. However, the acceleration of imports, reflecting the high import content of some of the components of demand, as well as the recent behaviour of the price of oil – which has reached close to 70 USD / barrel – could translate into a worse than anticipated performance of the external balance.

Financial system

The deleveraging of the financial sector was pursued during 2017, with the loan-to-deposit ratio dropping to 94.0% in September 2017, which is 1.3 pp. less than in December 2016 and 64.8 basis points less than in June 2010, when this ratio reached its highest level. This performance reflects the contracting trend of loans granted (including securitisations) while the stock of deposits is reckoned to have remained flat compared to the end of 2016.

Solvency levels improved during the reporting year: the common equity Tier 1 ratio and total solvency ratio stood at 13.5% and 14.7% at the end of the third quarter of 2017, having risen by 2.1 p.p. and 2.4 p.p., respectively, compared to the end of 2016. The total non-performing loans ratio in turn dropped by 2.6 p.p year-on-year, to 14.6%.

Funding from the ECB remained at € 22 billion in 2017. The funding obtained by Portuguese banks from the Eurosystem consisted entirely in long-term refinancing operations.

Financing to Portuguese Banks

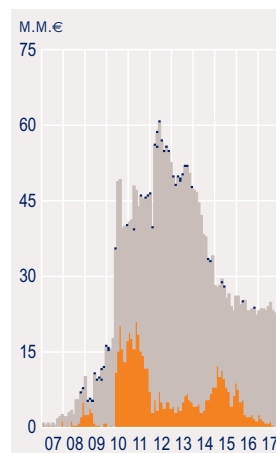


Chart 8

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

Source: Bank of Portugal.

Unemployment rate in Portugal

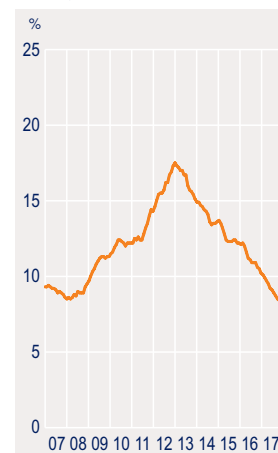


Chart 9

Source: INE.

Loans

In 2017, loans to the resident non-financial private sector fell by around 3.0%, 1.8 p.p. less than a year earlier. The contraction in loans was observed across all segments, with loans to non-financial companies dropping by around 6.0% and loans to individuals by approximately 2.0%. Total lending to residents is expected to show a smaller decrease in 2018, in light of the growth observed in new home loans and consumer loans. Lending to the exporting companies should gain weight as a growing share of loans to the non-financial corporate sector, given the improved outlook for demand and more favourable financing conditions.

Deposits

The deposits of the non-financial private sector remained unchanged in 2017, with sight deposits increasing by 0.5% and time deposits decreasing by 0.2%.

FINANCIAL MARKETS

The good performance of the economy, notably the strengthening of growth in Europe, and the fading of political risks in the euro area, supported the appreciation of the euro, which gained around 14% against the dollar, closing the year at 1.20. Against the pound, the euro appreciated around 3.0%, reflecting the waning of fears about the immediate effects of the United Kingdom's exit from the European Union.

In the interbank market, the euro rates hit new lows: the 3-month Euribor closed the year at -0.329% and the 12-month Euribor at -0.191%. The consolidation of the sentiment that the ECB will not change benchmark rates in the short term justifies the behaviour of short-term rates. In the US, the cycle of Fed-funds interest rate hikes went hand in hand with a surge in the 3- and 12-month US dollar interest rates, which reached their highest levels since 2008, 1.81% and 2.30%, respectively.

Trend in loans in Portugal

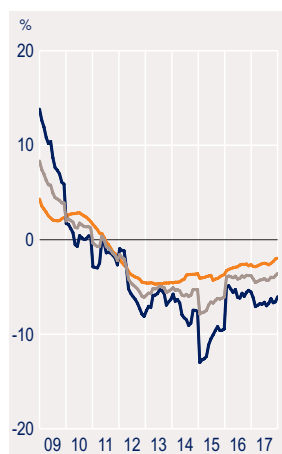


Chart 10

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

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

Trend in deposits in Portugal

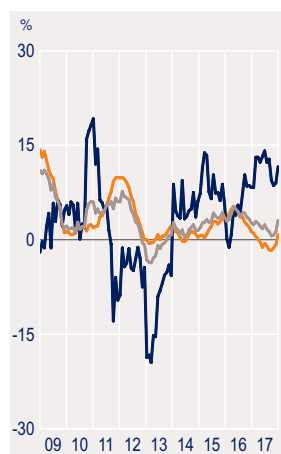


Chart 11

— Individuals
— Non-financial companies
— Private sector

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

Evolution of reference rates

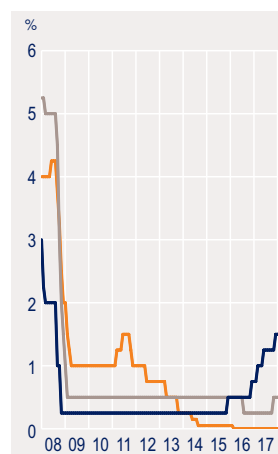


Chart 12

— ECB
— BoE
— Fed

Source: Central banks / Thomson Reuters.

Net financing with ECB in the Eurosystem

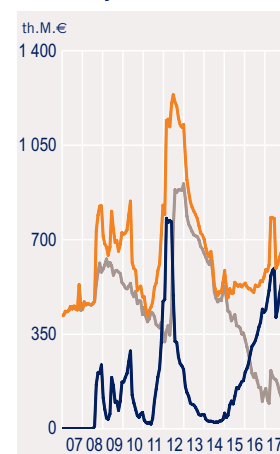


Chart 13

— Net financing less deposits
— Deposit facility
— Lending operations

Source: ECB.

The fixed-income market was conditioned by the persistence of expansionary monetary policies and low levels of inflation. These factors reined in the upward movement in the yields of the major benchmarks in the US and euro area, which, although recovering from the lows recorded in the previous year, remained at very low levels. In the European periphery countries, there were more significant movements, especially in the case of the Portuguese public debt, which benefited from the fact that two rating agencies raised the Republic's rating, restoring Portugal's investment grade status.

The US Treasuries and the 10-year German *Bund* traded in a range of 2.05-2.87% and 0.18-0.79%, respectively, with both securities ending the year close to their upper limit.

The behaviour of the peripheral sovereign debt market was marked by disparate performances, with a very slight decline in the risk premia of Spanish and Italian debt *vis-à-vis* the German *Bund* and a sharp narrowing of Portugal's spread, which shrank by 210 bp to 147 bp. at the end of the year. This movement reflected Portugal's return to the group of countries with investment grade status, following the upgrade of its rating by S&P and Fitch agencies in September and December, respectively. This fact – two reference agencies rating the risk of a sovereign as a quality asset – is fundamental for the debt issued by that sovereign to be purchased by some institutional investors, namely pension funds, the composition of whose portfolios follows restrictive criteria regarding the quality of the assets purchased. The behaviour of the economy, the signs of correction of some imbalances, namely reduction of the budgetary imbalance and public debt ratio, and the actions undertaken in the financial system – recapitalisation of CGD and BCP and sale of Novo Banco – mitigating the sector's risks associated with the still high level of non-performing loans on banks' balance sheets, justify the upward revision of Portugal's rating.

10 YR US Treasury
Yield

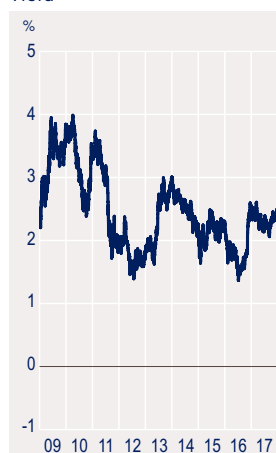


Chart 14

10 YR German Bund
Yield

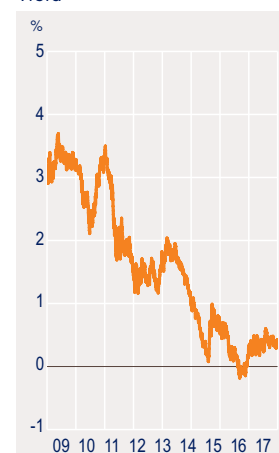


Chart 15

10-year sovereign debt
Yield



Chart 16

— Greece
— Ireland
— Italy
— Portugal
— Spain

Source: BPI and Reuters.

Corporates and financials
Credit risk premiums

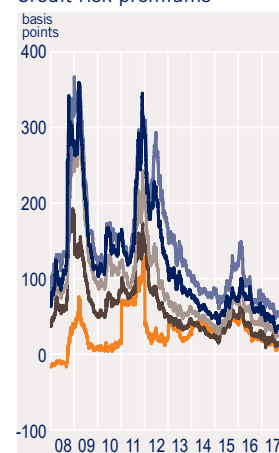


Chart 17

— Financials
— BBB
— A
— AA
— AAA

Source: Credit Suisse, Bloomberg.

Equity market

Global context

2017 was marked by several signs of macroeconomic improvements, namely coordinated GDP growth in the world's main economic blocs. The benchmark European equities index Euro Stoxx 600 closed the year with a gain of 8%, while the S&P 500 – the leading North-American stock market index – ended 2017 with a 19% rise.

Portugal and Spain – secondary market

In Portugal, the PSI-20 benchmark index advanced by 15% in 2017, driven by increases in the BCP, Navigator and Jerónimo Martins shares of 47%, 51% and 18%, respectively. In Spain, notwithstanding the resolution of Banco Popular, the IBEX 35 index closed the year with a gain of 7%, supported by the appreciation of Santander and BBVA (+7% and + 21%) as well as Amadeus and Abertis (45% and 53%). Trading volume increased by 1% year-on-year in both Portugal and Spain, to € 18 billion and € 583 billion, respectively. This compares with a 4% rise in the Euro Stoxx 600 and a 5% gain in the S&P 500.

Portugal and Spain – primary market

On the primary market in Portugal, the year's highlights were the capital increases of BCP (€ 1.33 billion) and REN (€ 250 million).

As to public offerings for sale carried out in Spain, the following stand out in 2017: Gestamp (€ 877 million), Prosegur Cash (€ 825 million), Neinor (€ 775 million), Unicaja (€ 756 million) and Aedas (€ 729 million). In Spain, the capital increases of Santander (€ 7 billion) and Liberbank (€ 499 million) also deserve a note.

Equity indexes' evolution

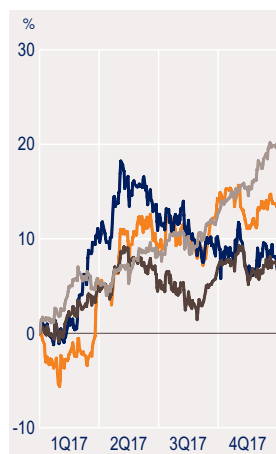


Chart 18

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

Source: Bloomberg.

Turnover

Secondary market

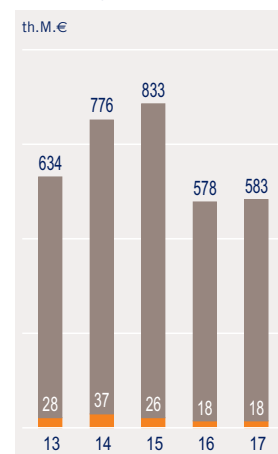


Chart 19

■ IBEX 35
■ PSI-20

Source: Bloomberg.

Domestic commercial banking

INDIVIDUALS AND SMALL BUSINESSES BANKING

At the end of 2017 Individuals and Small Businesses Banking handled 1.7 million accounts, being responsible for a portfolio of Customer resources of € 24 270 million and a Loan and Guarantees portfolio amounting to € 14 293 million.

At year-end the segment's physical branch network was composed of a total of 431 Branches and 39 Investment Centres, catering specifically to high net-worth Clients and those with the potential to accumulate financial assets.

BPI's service to individuals and small businesses continued to deserve the recognition and distinction of Clients and national and international independent entities. The various awards obtained by BPI in 2017 are listed in the chapters "The BPI Brand" and "Digital Banking".

CUSTOMER RESOURCES

At 31 December 2017 the total Customer resources of the individuals and small businesses segment reached € 24 270 million, having increased by 5.0% year-on-year.

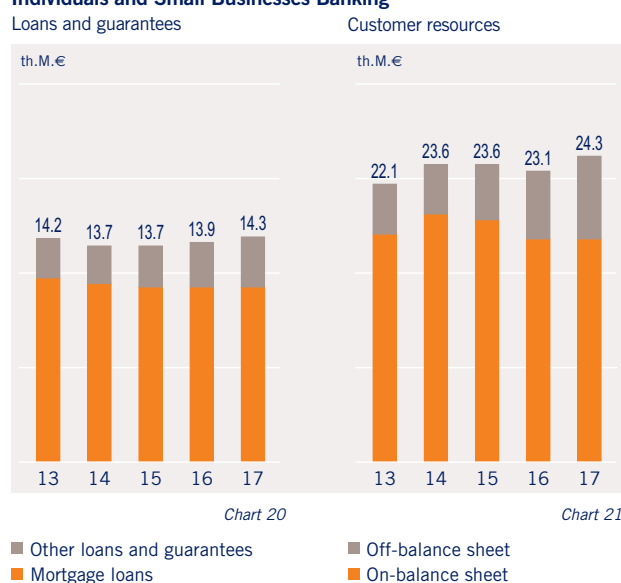
The main developments in Customer resources in 2017 were as follows:

- the portfolio of retirement saving plans ("RSP"), under the form of investment funds, increased by 37.9%, or € 395 million;
- a total of € 1 034 million was placed in Variable Yield Treasury Bonds (*Obrigações do Tesouro de Rendimento Variável* – OTRVs);
- € 200 million in the portfolio of Indexed Deposits came to maturity;
- Investment Funds contracted by € 237 million, reflecting the € 429 reduction in the Short-Term portfolio, in line with the strategy defined by BPI.

Customer resources	Amounts in € million		
	2016	2017	Δ%
Sight deposits	6 698.1	7 423.3	10.8%
Time deposits	7 614.2	7 096.4	(6.8%)
Bonds and structured products ¹ placed with Clients	278.5	33.4	(88.0%)
of which Indexed Deposits	200.0	-	(100.0%)
PPR ²	722.4	638.3	(11.6%)
Capitalisation insurance ³	2 397.4	2 459.5	2.6%
On-balance sheet Customer resources	17 710.6	17 650.9	(0.3%)
Investment funds ³	1 996.7	1 759.4	(11.9%)
PPR ⁴	1 040.6	1 435.2	37.9%
Off-balance sheet Customer resources	3 037.3	3 194.6	5.2%
Sub-total	20 748.0	20 845.5	0.5%
Corporate bonds held by Customers	1 212.4	2 061.5	70.0%
Other securities held by Customers ⁵	1 159.7	1 362.7	17.5%
Other Customer resources	2 372.1	3 424.2	44.4%
Total Customer resources	23 120.0	24 269.7	5.0%

Table 6

Individuals and Small Businesses Banking



1) Guaranteed-capital, limited-risk and total risk bonds and indexed deposits (guaranteed capital).

2) RSP in the form of capitalisation insurance.

3) Excludes RSP.

4) RSP in the form of investment funds.

5) Includes third party funds and structured products placed with Customers Excludes BPI shares.

LOANS AND ADVANCES TO CUSTOMERS

At 31 December 2017 the portfolio of loans and guarantees to the individuals and small businesses banking segment totalled € 14 293 million (of which € 185 million refer to loans to individuals and small businesses), having increased by € 350 (+2.5%) relative to 2016.

Loans and advances to Customers and guarantees Amounts in € million			
	2016	2017	Δ%
Loans to individuals			
Mortgage loans ¹	11 079.6	11 079.6	0.0%
Personal loans ²	689.6	815.4	18.2%
Credit cards ³	161.8	155.9	(3.7%)
Car finance	131.7	172.8	31.2%
Loans to individuals	12 062.8	12 223.6	1.3%
Loans to small businesses			
Commercial loans ⁴	1 450.8	1 583.6	9.2%
Equipment leasing	68.6	90.8	32.3%
Real estate leasing	245.4	260.9	6.3%
Factoring / Confirming	14.6	28.8	96.7%
Loans to small businesses	1 779.4	1 964.0	10.4%
Total Loan Portfolio	13 842.3	14 187.6	2.5%
Guarantees and sureties	100.3	105.1	4.8%
Total	13 942.5	14 292.7	2.5%

Table 7

MORTGAGE LOANS, PERSONAL LOANS AND CAR FINANCE

Mortgage loans

In 2017 new mortgage loans production in BPI reached € 1 066 million, having grown by 19% compared to the previous year. In the third and fourth quarters new production surpassed reimbursements, signalling a reversal in the portfolio's contracting trend.

The mortgage-loan portfolio reached € 11 080 million, which is in line with the figure recorded in 2016. BPI's market share of mortgage loans in portfolio increased to 11.2%, from 11% in the previous year.

Personal loans

New personal loans production reached € 383 million, having grown by 20% year-on-year.

The personal loans portfolio expanded by 18.2% in 2017, reaching € 815 million at year-end.

At the end of the first half of the year the Bank launched the “*Crédito Pessoal Imediato*” product (immediate personal loan), which can be subscribed through the APP or in BPI Net. 495 such loans were contracted during the year, corresponding to a total of € 1.6 million.

Motor car finance

New motor car finance production reached € 95 million in 2017, up by 37% on the previous year.

At the end of 2017 the portfolio of motor car finance loans to Customers in the Individuals and small businesses segment reached € 173 million, which represents a year-on-year increase of 31%.

COMMERCIAL LOANS, LEASING AND FACTORING / CONFIRMING

In 2017 BPI continued to reinforce its positioning in the priority segments, namely the exporting Customers, those in the agricultural and tourism sectors, and all those generically presenting good risk indicators. Hence the credit products targeting small businesses registered a 10.4% increase, reaching € 1 964 million.

The financing of small and medium-sized companies through the principal programmes launched by the Government was pursued, in particular through PME Investimentos, with the following results:

- 2 034 new operations were contracted under the “*Linha Capitalizar 2017*” line by Customers in the Individuals and small businesses network, for a total of € 126 million;
- Overall, since the Credit Lines managed by PME Investimentos (*PME Investe / Crescimento*) were launched, BPI has lent a total of € 3 110 million (36 314 operations), maintaining its leadership with a market share of 18.7% in 2017.

1) Loans secured by real estate. Essentially home loans and loans for home improvements works.

2) Includes consumer loans and credit line for privatisations.

3) Includes outstanding credit of non-Bank Customers.

4) Includes overdrafts, current account loans, discounted bills receivable and other loans included in the offer of credit products tailored to individual and small businesses.

Since its foundation BPI has been market leader in the award of '*PME Líder*' (Leader SME) and '*PME Excelência*' (SME Excellence) status, reaching market shares of 23% and 25%, respectively. The Individuals and small businesses Network was responsible for 57% of all '*PME Líder 2017*' status awards (1 640) and for 65% of all '*PME Excelência*' status awards (476) granted through BPI.

ACCOUNTS AND CREDIT AND DEBIT CARDS

Accounts

In December 2017 the number of accounts with salary / pension domiciliation reached 519 thousand, a year-on-year increase of 1 p.p. and corresponding to a penetration rate of 42%.

The end of 2017 saw the launch of the '*Conta Valor BPI*', a new current account that was set as the base product in the offer for personal banking Customers, including those that intend to domicile their salary / pension with the Bank. This account gives access to a wide range of very competitive products and benefits.

Credit and Debit Cards

At the end of 2017 the number of credit cards was 439 thousand, which is 4.4% less than in December 2016. This decrease is in part explained by the alteration of the loyalty programme of one of the main products in BPI's offer.

The number of Banco BPI debit cards decreased by 3.1% year-on-year, to 1 112 thousand at the end of 2017. The accumulated billing of debit cards was up by 9.6%, reaching € 7 893 million.

ALLIANZ INSURANCE

As part of its strategic partnership with Allianz Portugal, Banco BPI continues to offer through its commercial network a diversified range of insurance products targeted at Individuals, Corporate and Small Business Customers.

At the end of 2017 BPI's insurance portfolio reached 767 thousand policies (credit-linked and separately sold). The associated commissions amounted to € 45.7 million, having increased by 2.4% on a year earlier.

The portfolio of separately sold insurance (325 thousand policies) grew by 1.3% in number of policies and by 6% in commission income, underpinned by high demand for life insurance, which soared by 14.4% in the year. The Bank also maintained its focus on the sale of business protection insurance (healthcare and goods) and specialised insurance (personal and business civil liability).

PRIVATE BANKING

At the end of December 2017 the business volume of BPI Private Banking amounted to € 6 062 million, showing a small decrease compared to the end of 2016 (-2.0%). Total Customer resources invested in securities dropped by 2.1% while loans and guarantees decreased by 0.4% in the period.

On the other hand, stable investments under custody grew by 15.7%, to € 939 million, with assets under discretionary management increasing by 9.5% to € 1 515 million.

Moreover, the product offer was expanded through new investment solutions, enabling the increased diversification of Customer portfolios. At the end of 2017 the Third-Party Funds and Capitalisation Insurance portfolios had increased by 26% and 19%, respectively, relative to December 2016.

Private Banking

Selected indicators		Amounts in € million		
		2016	2017	Δ%
Discretionary management and advisory services	1	5 091	4 840	(4.9%)
Stable investments under custody	2	811	939	15.7%
Loans and guarantees portfolio	3	284	283	(0.4%)
Business volume [= Σ 1 to 3]	4	6 186	6 062	(2.0%)

Table 8

New Customer acquisitions in 2017 accounted for 5.2% of the Customer base at the start of the year.

CORPORATE BANKING, INSTITUTIONAL BANKING AND PROJECT FINANCE

The Corporate Banking, Institutional Banking and Project Finance gross loan portfolio contracted by 2.8%, to € 7 519 million at the end of 2017, while corporate Customer resources increased by 23%, to € 3 438 million.

BPI's market share of loans to non-financial companies was up by 0.7 p.p., reaching 8.4% at the end of 2017.

By segment, the loan portfolio shows the following performance:

- the segment of Large and medium-sized companies in Portugal reported an increase of 4.6%;
- the loan portfolios of the Large and Medium-sized companies sub-segments increased by 7.9% and 2.5%, to € 1 932 million and € 813 million, respectively; the Large Companies segment (included in the Corporate and Investment Banking area, which was created in 2017 and manages the largest national groups and subsidiaries of the largest Spanish companies at Iberian level) reported a loan portfolio of € 854 million;
- the Project Finance portfolio contracted by 10.5%, reflecting the combined effect of scheduled reimbursements, some disposals of operations outside Portugal, and new operations in the domestic market, mainly in the renewable energy sector;
- the strategic reduction of the Madrid branch's portfolio was pursued; and
- loans to Public Sector Customers amounted to € 1 305 million at the end of 2017 (-7.9%).

BPI's service to its corporate Customers continued to deserve the recognition and distinction of businesses and independent national and international entities. In the 2017 edition of DATA E's 'Barómetro Serviços Financeiros Empresas' survey (Corporate Financial Services Barometer), BPI was elected by businesses as "Globally best for Companies" and ranked in first position in the 'Main Bank' and 'Satisfaction with Internet Banking' (BPI Net Empresas) categories. The various awards obtained by BPI in 2017 are listed in the chapters "The BPI Brand" and "Digital Banking".

Corporate Banking, Institutional Banking and Project Finance

Loan portfolio (gross)	Amounts in € million		
	2016	2017	Δ%
Corporate loans			
Large and medium-sized companies in Portugal	4 535.2	4 745.3	4.6%
Large Companies ¹	1 790.2	1 932.1	7.9%
Medium-sized Companies	2 745.0	2 813.2	2.5%
Project Finance in Portugal	995.5	1 021.2	2.6%
Madrid Branch ¹	784.7	447.0	(43.0%)
Project Finance	456.6	279.0	(38.9%)
Companies	328.1	168.0	(48.8%)
Public Sector	1 417.4	1 304.9	(7.9%)
Total	7 732.9	7 518.5	(2.8%)
Customer resources²	2 801.6	3 438.0	22.7%

Table 9

Corporate Banking, Institutional Banking and Project Finance

Loans and guarantees

Customer resources

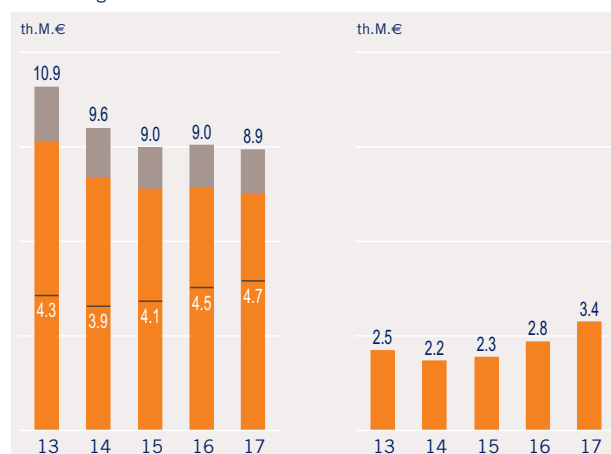


Chart 22

Chart 23

■ Guarantees
■ Gross loans
— Large and medium-sized companies in Portugal

1) Balance in Dec. 2017 before the re-segmentation of loans. Loans to large companies in Portugal as at Dec.17 do not include € 306 million relative to operations previously accounted in the Madrid branch (€ 122 million) and under other BPI loans and advances(€ 184 million).

2) Includes sight and time deposits.

THE BANK OF THE SMES

The SMEs play a fundamental role in the national economy and represent a strategic priority for BPI, which supported the main initiatives targeting this segment in 2017.

'PME Líder' (Leader SME) and 'PME Excelência' (SME Excellence) statuses

In 2017 BPI maintained the leadership in the award of these statuses, which it has held since their creation:

- 23% of the 'PME Líder 2017' (1 640 companies);
- 25% of the 'PME Excelência 2017' (476 companies).

Partner in Portugal 2020

BPI takes a very active stance in relation to the Portugal 2020 programme, monitoring the launch of new tenders, any legal alterations, its procedures, as well as other relevant information.

All this information is analysed in depth and compiled into contents that are disclosed in newsletters, in the BPI website and in the social networks, to support companies in their investments.

BPI also offers the BPI P2020 and BPI PDR 2020 Lines, which include financing solutions for projects applying to P2020 funds, with disbursements provided at two moments: immediately after submission of the application (even before the decision on the attribution of the incentive) and after the incentive was granted

Expert teams

In order to address the needs of Customers with specific technical or industry-specific characteristics, the Bank has set up or reinforced teams of highly qualified technical staff, specialising in areas of expertise such as Foreign Trade, Leasing, Factoring & Confirming, Banking Services, Capital Markets, Special Operations, Real Estate and Hotel & Tourism.

Financing Solutions

BPI offers investment or cash management solutions, including the following:

- **Linha Capitalizar 2017 (€ 1.6 billion):** the successor of the PME Investe and Crescimento Lines, it provides access to credit with favourable conditions under an agreement with the State;

- **Linha BPI / FEI Inovação III (€ 200 million):** the result of a partnership between BPI and the European Investment Fund, under the InnovFin SME Guarantee Facility, this line is intended to support innovative companies by reducing their need to provide guarantees;
- **Linha Capitalizar Mais (€ 1 billion):** subsidised credit line with mutual guarantee;
- **Linha BPI / BEI Eficiência Energética (€ 50 million):** exclusive credit line under a partnership with the European Investment Bank to support energy efficiency investment projects, with maturities of up to 20 years;
- **Linha BPI / IFRRU 2020 Reabilitação Urbana (€ 372 million):** a new financial instrument for urban rehabilitation and revitalisation using structural funds and BPI funds, with very competitive reimbursement conditions *vis-à-vis* the competition;
- **EIB funding lines (€ 400 million):** BPI provides credit to SMEs and mid-caps under several funding lines made available by the European Investment Bank;
- **Cash pooling:** single or multi-company – to optimise cash management; and automatic deposit solutions with extended operating hours.

THE EXPORTING COMPANIES' BANK

BPI supports companies in their internationalisation and foreign trade activities, through credit products, commercial risk insurance and specific solutions designed for strategic markets. BPI releases information about relevant destination markets for Portuguese companies' exports.

Under a partnership with COSEC, BPI offers credit risk hedging solutions, including products specifically designed for SMEs: "*BPI Exportação Segura*" (safe exports), "*BPI Venda Segura*" (safe sales) and "*Negócio Seguro PME*" (safe business). In 2017 BPI continued to be COSEC's #1 broker and was the distribution channel reporting highest growth:

- 49% of new Customers were acquired by BPI;
- 75% of the new business generated through BPI was issued to companies that did not yet have credit insurance;
- BPI accounts for 31% of COSEC's total number of policies and insured Clients and 22% of its total premium volume.

BPI, THE FARMERS' BANK

In 2017 BPI consolidated its leadership in support to agriculture, contributing to the sector's innovation and internationalisation:

- #1 in total farming-season credit granted under the IFAP short-term credit line to the agriculture, livestock and forestry sectors, with a share of 61%;
- #1 in the total amount of requests for advances against operating subsidies granted by the IFAP and validated by the CAP (Federation of Portuguese Farmers), with a share of 62%;
- #1 in the total accumulated amount of guarantees issued by Agrogarante, with a share of 23%.

BPI's comprehensive and diversified solutions for the sector included in 2017 the launch of the 'BPI Vitis' credit line, specifically designed for the wine-making sector.

The Bank prepared and published several industry-specific surveys and infographics, such as:

- Innovation in Agriculture: Support Programmes;
- Organic Farming in the World;
- Xylella Fastidiosa: A Silent Threat to the Rural World;
- A Portrait of Farming in Portugal: Irrigation vs. Non-Irrigation.

The Bank sponsored and promoted the 6th edition of the National Agriculture Award (1 268 submissions) and also the sector's main events in 2017, namely the National Agriculture Trade Fair, the Corn Conference and the SISAB, Ovibeja, and Santiago trade fairs.

THE TOURISM BANK

BPI has reinforced its support to the tourism industry, having endorsed the € 75 million '*Qualificação da Oferta 2017*' credit line (for the rehabilitation of tourism accommodation) under an agreement with Turismo de Portugal (the Portuguese Tourism Board), where it is market leader (by no. of loans granted), with a share of 29%.

For the second year running, the Bank was the official sponsor of BTL, the largest tourism trade fair in Portugal.

ENTREPRENEUR AWARDS XXI

Under a partnership with Caixa Capital Risc ("la Caixa" Foundation), BPI launched in Portugal the Entrepreneur Awards XXI, which identify and reward innovative companies with growth potential. This first edition in Portugal (the 11th in Spain) received around 150 submissions, a very expressive number that reflects the vigour of national entrepreneurship.

Bancassurance

In the insurance business, BPI has a strategic joint venture with the industry'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 under which BPI sells Allianz insurance through its commercial network.

BPI thus offers a wide range of insurance solutions to its individual and corporate Customers.

This includes both life assurance – covering death and disability insurance – and the other non-life branches – namely motor car insurance, multi-risk insurance, occupational hazards, civil engineering works, agriculture, public liability, theft, personal accidents, unemployment and sickness.

The following figures reflect the performance of Bancassurance in 2017:

- insurance commissions increased by 2.5%, to € 45.7 million;
- insurance premiums were up by 3.7% year-on-year, reaching € 164.8 million at the end of 2017;
- the number of outstanding policies in life assurance was 458 thousand;
- the number of outstanding policies in the non-life branches was 439 thousand;

Commissions

Intermediation of insurance products

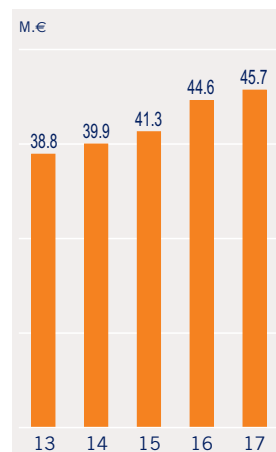


Chart 24

Insurance

Life-risk and non-life

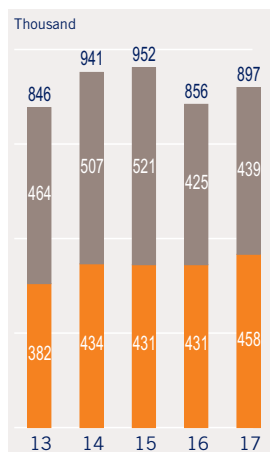


Chart 25

■ Non-life insurance
■ Life-risk insurance

Asset Management

OVERVIEW OF OPERATIONS

At the end of 2017, BPI Gestão de Ativos (Asset Management) had € 10 965 million in financial assets under management¹, which represents an increase of approximately 6.1% relative to the end of 2016.

Assets under management	Amounts in € million		
	2016	2017	Δ%
Mutual funds	3 549	3 780	6.5%
Real estate investment funds	324	367	13.3%
Pension funds	2 418	2 747	13.6%
Capitalisation insurance	4 164	4 271	2.6%
Institutional Customers	331	278	(16.0%)
Total¹	10 330	10 965	6.1%

Table 10

BPI Asset Management closed the year with a market share of 25.2% in mutual funds (ranking in #2 position) and holding market shares of 13.6% in pension fund management (#3 position) and 9.2% in the production of non-life insurance (#4 position).

Since the beginning of 2014, BPI's Asset Management business has focused on diversified investment solutions (in the form of mutual funds, retirement savings plans (RSPs) or unit-link insurance) and on niche products where there is a clear added value. In 2017, the international sale of niche products business line, launched in the second half of 2016, reported a positive performance, having captured around € 167 million from international institutional Clients.

Assets under management

2013-2017

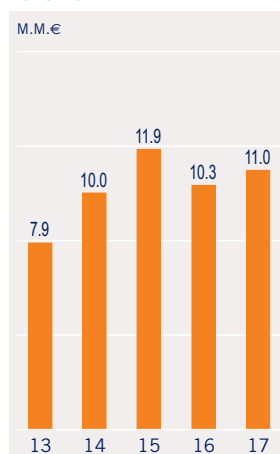


Chart 26

Assets under management breakdown

At 31 December 2017

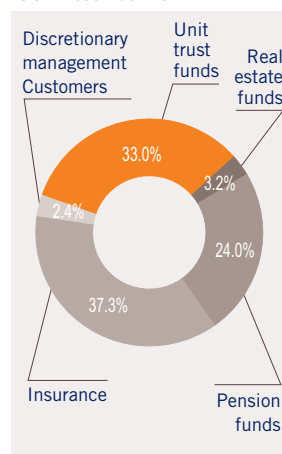


Chart 27

MUTUAL FUNDS

The amount of BPI managed mutual funds increased by around 6.5% in 2017.

Considering the domestic market alone, BPI Gestão de Ativos reported zero volume of net subscriptions, a reduction relative to the previous year essentially explained by the redemptions occurred in money market funds.

Mutual funds under management	Amounts in € million		
	2016	2017	Δ%
Bonds and money market	1 595	1 123	(29.6%)
Capital growth (equities)	590	779	32.0%
Tax efficiency (PPR/E)	1 069	1 463	36.9%
Diversification	295	415	40.8%
Total	3 549	3 780	6.5%

Table 11

REAL ESTATE INVESTMENT FUNDS

In December 2017 the volume of assets under management of Real Estate Funds and Special Real Estate Funds, excluding FUNGEPI, totalled € 10 294 million, which is 1.1% more than a year earlier.

At the end of 2017 BPI Gestão de Ativos, the manager of the Imofomento Fund, held a 3.6% share of the overall real estate funds market, and a share of 11.6% in the open-end funds category, an area where the fund manager has been growing.

INSURANCE

According to the latest information provided by ASF – Autoridade de Supervisão de Seguros e Fundos de Pensões (the Portuguese insurance and pension funds regulator), the Portuguese life assurance market reported a 5.8% increase in new business written in 2017, which reached € 7 062 million.

BPI Vida e Pensões followed this positive trend, with accumulated new business climbing by circa 32% year-on-year, to € 646 million, underpinned by the performance of unsecured products, where accumulated production reached € 471 million. On the other hand, accumulated production of secured products contracted from € 209 million in 2016 to € 176 million in 2017.

1) Adjusted to eliminate duplications. Includes BPI Gestão de Ativos's own portfolio and other assets under management of BPI.

BPI Vida e Pensões advanced its market share by 1.9% in 2017, to 9.2%. Even so, its position in the Portuguese life assurance market retreated from #3 in 2016 to #4 in 2017. It should however be stressed that the market share of BPI Vida e Pensões in unsecured products was 21.5% in 2017, which gave it the #3 place in the production ranking for this type of products.

PENSION FUNDS

At the end of 2017 total assets under the pension funds managed by BPI Vida e Pensões reached € 2 747 million, having grown by 13.6% relative to the previous year. The market also reported growth in pension fund assets under management, which rose by 6.6% year-on-year.

At the end of the year BPI Vida e Pensões had 38 pension funds under management, from around 250 companies.

Pension funds under management		Amounts in € million		
	2016	2017	Δ%	
Closed-end Pension Funds	2 006	2 288	14.1%	
Open-end Pension Funds	412	459	11.3%	
Total	2 418	2 747	13.6%	

Table 12

On 31 December 2017, BPI Vida e Pensões ranked in 3rd place in Pension Fund management by volume of assets under management, with a market share of 13.6 %. In Open-end Pension Fund management, its market share was 30.2%.

Pension funds under management

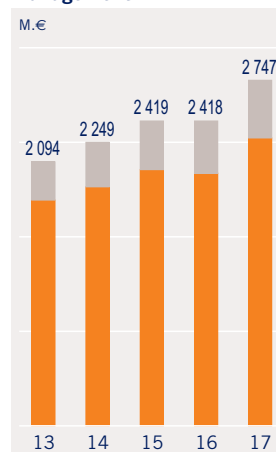


Chart 28

■ Open-ended pension funds / PPR
■ Close-ended pension funds

Insurance production BPI Vida e Pensões

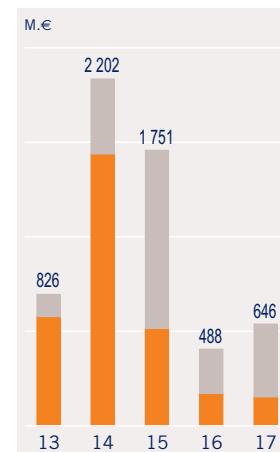


Chart 29

■ Unsecured products
■ Secured products

In November 2017 Banco BPI informed the market it had entered agreements to sell BPI Vida e Pensões, BPI Gestão de Ativos and BPI GIF to Caixabank. The sale of BPI Vida e Pensões¹ has already been concluded (in December 2017), and the other transactions will take place in 2018. After completion of these transactions, Banco BPI will maintain the distribution of investment funds, capitalisation insurance and pension funds through its distribution network.

1) BPI Vida e Pensões' capitalisation insurance and pension funds' portfolio management and risk monitoring is outsourced to BPI Gestão de Ativos.

Investment banking

CORPORATE FINANCE

Based on Bloomberg data on financial advisory services in announced deals in 2017, there were 28 Merger & Acquisition operations in Portugal¹ in 2017, which is significantly more than in 2016 (21). By value, the market also registered a marked rebound, although proportionately not as high, as the average value of the announced deals was considerably lower than in the previous year.

BPI Corporate Finance provided advisory services to, among others: (i) China Three Gorges on the acquisition of a relevant stake in one of the largest wind farm portfolios in Portugal (422MW), (ii) Sonae Indústria, on the organisation of a Reverse Stock Split, and (iii) Grupo Guzmán (Bidcorp Group) on the acquisition of Frustock's share capital.

BPI Corporate Finance also provided financial advisory services under a significant number of other mandates in connection to investment and financing decision-taking (in Portugal and abroad), economic and financial analyses, and business valuations and reorganisations, to various national and international entities, including the valuation of Partex's oil & gas assets, and the advisory services provided to Águas de Portugal on the structuring of a financial model, to EMEF on a business reorganisation process, and to Arié Group, Fundação Gulbenkian, Parpública, Impresa, Somague, Sodim, Allianz, and Base Holding, among others.

EQUITIES

Secondary Market

In 2017 BPI brokered share dealings worth € 4.2 billion (€ 3.7 billion in 2016). In online stock brokerage, where Banco Português de Investimento acts as financial intermediary, BPI reported a market share of 18.8% (trading volume of € 2.2 billion). (€ 1.5 billion in 2016)".

Primary market

In 2017 BPI, in cooperation with CaixaBank, acted as Co-leader of the Public Offers for Sale (POS) of Gestamp (€ 877 million), Neinor (€ 775 million) and Aedas (€ 729 million).

Research and sales

BPI remains one of the research houses with the largest coverage of listed companies in the Iberian market, with a total of 72 companies covered in Spain and 20 in Portugal at the end of 2017. It published 642 research reports during 2017.

BPI continued to organise numerous events with the goal of fostering closer relations between companies and the institutional investor community. Amongst these, it is worth noting the XIV Iberian Conference held in Cascais on 6, 7 and 8 of September, at which 50 Iberian companies and more than 80 institutional investors were present. Furthermore, BPI organised several roadshows with companies included in its coverage basis.

At the end of 2017, the Iberian team had 25 elements, of whom 14 in the Analysis team and 11 in the Sales and Trading team. This team was once again well placed in the rankings of Iberian brokers, namely earning the following awards: Thomson Reuters Analyst Awards (#1 Best Iberian Broker), Exel Survey (#3 Equity Sales, #4 Equity Research, #3 Iberian Conference and #5 Leading Brokerage Firm), Institutional Investor (#4 Research Team Iberia) and Euronext Lisbon Awards (Most active Research House).

In May 2017 BPI and CaixaBank entered a joint venture to develop investment banking activities – equities and corporate finance. As from this date the teams of the two entities started working together.

In November 2017 BPI and CaixaBank announced they had entered an agreement to sell and transfer the referred investment banking activities (equities and corporate finance) to CaixaBank. The integration of the Investment Banking teams of CaixaBank and BPI (which maintains its teams in Portugal) will reinforce the level of specialisation of the services provided to the Customers, in particular in Corporate finance, in terms of both industry-specific skills, which will benefit from a larger and more diversified team, and in terms of geographical coverage, now spanning the wide reach of CaixaBank and BPI groups in the Iberian market.

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

PRIVATE EQUITY

The Group's private equity business is conducted by BPI Private Equity, essentially by investments in venture capital funds, and also through a 49% shareholding in Inter-Risco, a venture-capital fund manager. BPI Private Equity also has its own portfolio of investments which it manages directly¹.

At the end of 2017, the Group's overall private equity assets portfolio, comprising its own portfolio and equity stakes in venture-capital funds, amounted to around € 78 million (book value). On this date the equity stakes in venture-capital funds were as follows:

- 17.9% in the share capital of Fundo Pathena SCA SICAR (Pathena Fund), representing a € 10 million investment made by BPI Private Equity in July 2015. The Fund was created in March 2013 and its final closing occurred in July 2015. At the end of December 2017 the subscribed capital of the Fund was € 55.8 million, of which around 50% had been paid up.
- 52% in Fundo Caravela – Fundo de Capital de Risco, with share capital of € 30 million, promoted by BPI and managed by Inter-Risco. This fund is currently in the divestment stage.
- 46% in Fundo Inter-Risco II, managed by Inter-Risco. In addition to BPI, with a € 30.6 million investment, the Fund has other high-profile investors, such as the European Investment Fund and the Calouste Gulbenkian Foundation. This Fund entered the divestment phase at the end of 2015.
- 99.8% stake in Fundo Inter-Risco II CI, launched in July 2013 with share capital of € 30.05 million. Until the end of 2015 this Fund was partially subordinated to Fundo Inter-Risco II, investing in partnership with the latter. Its investment period terminated at the end of 2016.
- 9% in Fundo PVCi, a Fund of funds with capital of € 111 million, managed by the European Investment Fund, which targets investments in private equity and venture capital funds in Portugal.

In addition to these funds, BPI Group also holds stakes in the European Investment Fund managed by the EIB, in F-Hitec, managed by ES Ventures, in several FCRs (corporate turnaround funds) managed by a number of entities (Oxycapital, ESCapital, Explorer Investments and Capital Criativo), and also in funds managed by Portugal Capital Ventures.

1) Namely a 9.2% stake in Conduril (civil engineering and public works) and a 2.72% stake in Corporación Financiera Arco.

Equity holdings in African Banks

BANCO DE FOMENTO ANGOLA

Developments in 2017

In February 2017 Banco BPI sold a 2% stake in the share capital of BFA to Unitel, reducing its majority stake of 50.1% to a 48.1% shareholding. As described in other sections of this Report this transaction involved changes at governance level, namely with BPI ceasing to have Executive Directors in the Board of BFA since that date, maintaining only two Non-executive Directors.

Dimension

At the end of 2017 BFA had total assets of € 7 784 million, a workforce of 2 632 Employees and a distribution network comprising 191 units serving around 1.7 million Customers.

Customer resources

BFA holds a market share in deposits of 15.1% (-0.1 p.p. vs. 2016), which makes it the second largest bank in Angola by deposits.

Customer resources dropped by 1.7% year-on-year, to € 5 708 million in December 2017.

The securities portfolio held by Customers expanded by 17.5% in 2017, reaching € 2 284 million at the end of the year.

Loans

The loan portfolio, net of provisions (in euro), contracted by 17.2%, to € 1 million in December 2017.

BFA's market share of loans thus shrank by around 0.4 p.p., to 8.0%, placing the Bank in 5th position in the credit ranking.

The loan book, which accounts for 13.5% only of assets, explains BFA's low loan to deposit ratio and its highly liquid balance sheet.

Banco de Fomento Angola

Selected indicators

	Amounts in € million		
	2016	2017	Δ%
Net total assets	6 925	7 784	12.4%
Loans and advances to Customers	1 269	1 051	(17.2%)
Loans and advances to Customers and guarantees	1 477	1 407	(4.8%)
Customer resources	5 804	5 708	(1.7%)
Securities held by Customers (T bonds and T bills)	1 944	2 284	17.5%
Shareholders' equity	934	1 173	25.5%
Net Profit	338	373	10.1%
Contribution to BPI consolidated results	163	(119)	
Employees (no.)	2 632	2 611	(0.8%)
Branches (no.)	191	191	0.0%
ATMs (no.)	382	384	0.5%
POS terminals (no.)	9 876	10 917	10.5%
Customers (x th.)	1 571	1 743	10.9%
Taxa de câmbio AKZ / 1 EUR	185.38	185.40	

BFA individual accounts converted from AKZ to EUR at the reference exchange rate disclosed by the Central Bank of Angola.

Table 13

Customer loans

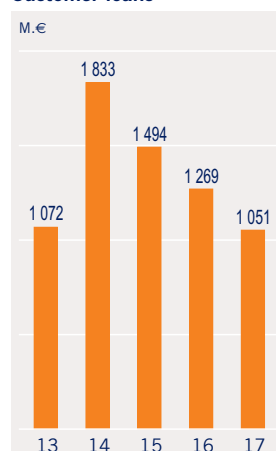


Chart 30

Customer resources

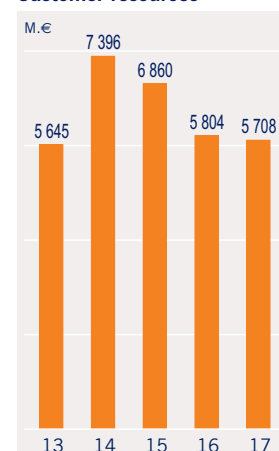


Chart 31

Customers

In 2017 BFA acquired 172 thousand new Customers, reaching a total of 1 743 thousand Customers (+11% relative to the end of 2016).

Commercial network

BFA has an extensive and specialised distribution network, with a strong presence in Luanda and ensuring a broad coverage of the entire Angolan territory. This network remained unchanged in 2017, consisting of 166 branches, 9 investment centres and 16 corporate centres.

The Bank maintained a prominent position in the stock of active POS terminals and ATM machines, closing the year with 10 917 POS terminals (+10.5% yoy) – leading the Angolan banking sector, with a 22% market share -, and 384 ATM machines, ranking in second position with a 13.1% market share.

Results

BFA is recognised in Banco BPI's accounts by the equity method. In 2017 it contributed with € 199.5 million to BPI's consolidated results before extraordinary impacts and with € -119.5 million after extraordinary impacts.

BCI – BANCO COMERCIAL E DE INVESTIMENTOS

BCI is market leader in the Mozambique banking system, with market shares of 28% in assets, 31.8% in loans and 30.2% in deposits.

Total assets increased by 14%, reaching € 2 193 million at the end of 2017, in part benefiting from the appreciation of the Metical against the Euro (ca. 6% at the year-end exchange rate). In local currency the increase in assets was 7% in the period.

Deposits

Customer deposits (in euro) expanded by 16% in 2017, to € 1 598 million, also driven by the rise of the Metical against the Euro. In local currency deposits increased by 9.6%.

BCI's market share of deposits was 30.2% at the end of the year (+1 p.p. relative to 2016).

Loans

The loan portfolio (in euro), contracted by 8%, to € 1 028 million (-13% in local currency). Despite this reduction, BCI's market share of loans increased by +1.5 p.p., standing at 31.8% in December 2017.

Customers

The Bank's Customer base expanded by 10%, to 1.6 million Customers, which represents a net inflow of 150 thousand new Customers in 2017.

Distribution network

At the end of 2017, BCI had a total of 195 distribution points (165 traditional branches, 27 Exclusive Centres, 2 Integrated Centres and 1 Corporate Centre), which is 2 more than in 2016. This corresponded to 28.7% of the total branch network of Mozambique's banking system (vs. 31% in 2016).

BCI expanded its network of ATMs to 661 terminals (19 more than in December 2016) and its POS network to 11 282 terminals (+1 622 units vs. December 2016).

Employees

At the end of 2017 BCI had 2 925 Employees, which is 62 less than in December 2016.

Results

BCI is recognised in Banco BPI's accounts by the equity method. In 2017 BCI posted a net profit of € 28 million, contributing with € 8 million to BPI's consolidated results.

Banco Comercial e de Investimentos

Selected indicators	Amounts in € million		
	2016	2017	Δ%
Net total assets	1 923	2 193	14%
Net loans and advances to Customers	1 114	1 028	(8%)
Customer Deposits	1 372	1 598	16%
Shareholders' equity	149	220	47%
Employees (no.)	2 987	2 925	(2%)
Branches (no.)	193	195	1%
ATMs (no.)	642	661	3%
POS terminals (no.)	9 660	11 282	17%
Customers (x th.)	1 460	1 610	10%
Foreign exchange rate EUR / MZN	75.16	70.7	(6%)

BCI individual accounts converted from MZN to EUR at the reference exchange rate disclosed by the Central Bank of Mozambique.

Table 14

Customer loans

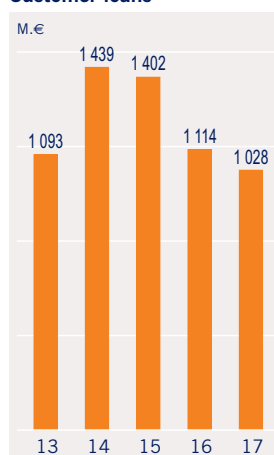


Chart 32

Customer deposits

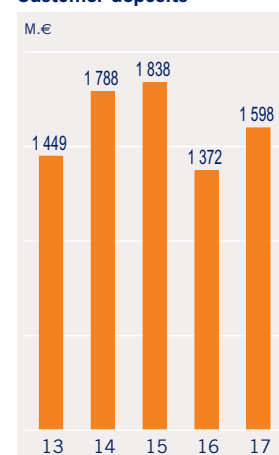


Chart 33

Financial review

In this chapter, “thousand million” and “billion” have the same meaning.

CONSOLIDATED OVERVIEW

Consolidated net income

The **domestic activity** generated a recurring net profit of € 193.4 million in 2017, which represents a 21.5% increase relative to the previous year (€ 159.2 million).

In 2017 the net income from domestic activity was penalised by the following non-recurring negative impacts, in the amount of € 69.7 million:

- costs with early retirements and voluntary terminations totalling € 77.6 million (€ 106.9 million before tax);
- capital gain on the sale of BPI Vida e Pensões in the amount of € 8.6 million (€ 7.7 million before tax) and others (-€ 0.7 million¹).

Including these non-recurring impacts, the domestic activity posted a net profit, as reported, of € 123.7 million in 2017.

On the other hand, the equity holdings in African banks (48.1% in BFA and 35.7% in BCI, both equity accounted) contributed with € 205.5 million to the 2017 recurring net profit, which represents a year-on-year increase of 23.6% (€ 166.3 million in 2016).

However, as a result of non-recurring negative impacts in the amount of € 319 million, the contribution, as reported, from the equity holdings in African Banks was negative by € 113.5 million. Such impacts were as follows:

- negative impact of -€ 212 million due to the sale of 2% stake in BFA and respective deconsolidation;
- extraordinary negative impact of -€ 107 million, of which -€ 69 million (BPI estimate) resulting from the classification of Angola as a high inflation economy by the international Audit companies and consequent recognition of the stake in BFA in accordance with IAS 29.

The **consolidated net income**, as reported, was € 10.2 million, as recurring income permitted to offset non-recurring negative impacts in the amount of € 389 million.

Contribution to the 2017 consolidated net income

Amounts in € million

	Domestic activity	Equity holdings in African Banks ²	Consolidated
Recurring	193.4	205.5	398.9
Non-recurring	(69.7)	(319.0)	(388.7)
Reported	123.7	(113.5)	10.2

Table 15

Domestic activity net income

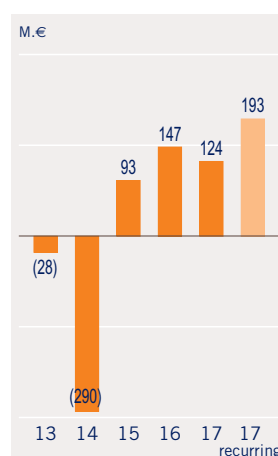


Chart 34

Contribution from equity holdings in African banks

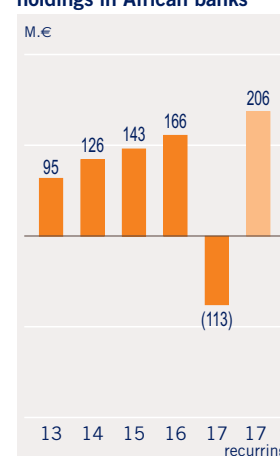


Chart 35

1) Impact from the sale of 2% of BFA and deconsolidation recognised in the domestic activity income statement. The total impact on consolidated net income was negative by € 212 million.

2) Recurring contribution of BFA Angola of € 199.5 million, and contribution as reported of -€ 119.5 million; € 8.1 million contribution of BCI Moçambique; and contributions of BPI Capital África (-€ 1.4 million) and BPI Moçambique (-€ 0.7million), which, for purposes of geographical segmentation of BPI operations are considered in the International Activity.

Accounting shareholders' equity

Accounting shareholders' equity attributable to the shareholders of BPI was € 2 824 million at the end of 2017. 79% of shareholders' equity was allocated to the domestic activity and the remaining 21% to the equity holdings in African banks.

Evolution of accounting shareholders' equity in 2017

Amounts in € million		
		Shareholders' equity attributable to BPI shareholders
Shareholders' equity at 31 Dec. 16	1	2 440
Sale of 2% of BFA and deconsolidation	2	(30)
Shareholders' equity at 31 Dec. 16 proforma after sale of 2% of BFA and deconsolidation <i>[= 1 + 2]</i>	3	2 410
Net income from domestic activity	4	124
Earnings from equity holdings in African banks, excluding non-recurring impacts	5	206
Extraordinary impacts from BFA	6	(28)
Fair value reserve ¹	7	68
Actuarial deviations ¹	8	23
Other	9	22
Shareholders' equity at 31 Dec. 17 <i>[= Σ 3 to 9]</i>	10	2 824

Table 16

The € 383 million increase in shareholders' equity attributable to BPI shareholders is mainly explained by the earnings generated by the domestic activity and the appropriation of earnings from the equity holdings in African banks.

With regard to the increase in accounting shareholders' equity related to the equity holdings in African banks (recurring earnings of € 206 million and extraordinary impact of -€ 28 million) it should be noted that in the calculation of regulatory CET1 this impact is largely neutralised by the increase in deductions to CET1 relating to equity holdings in credit institutions and insurance companies. Only the receipt of dividends has a positive impact on CET1 via the reduction in the book value of the equity holding and consequently of the deductions to CET1.

Regulatory capital

At the end of December 2017 the fully-loaded Common Equity Tier I (CET1) capital (i.e., without applying the transitional provisions set out in the CRD IV / CRR Regulations) totalled € 2 040 million, with the CET1 ratio standing at 12.3%.

Common Equity Tier 1 ratio

Fully loaded

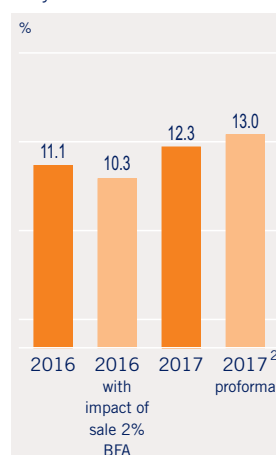


Chart 36

Total capital ratio

Fully loaded



Chart 37

The 1.9 p.p. increase in the fully-loaded CET1 relative to December 2016 is mainly explained by:

- positive impacts from,
 - the organic generation of capital by the activity in Portugal³ with a 0.6 p.p. positive impact;
 - the sale of BPI Vida e Pensões, with a 0.9 p.p. positive impact, essentially through the reduction in deductions to CET1 of equity holdings in credit institutions and insurance companies.
 - other impacts of +0.5 p.p.
- that offset the 0.8 p.p. negative impact from the sale of 2% of BFA and deconsolidation⁴.

1) Net of deferred taxes.

2) Considering full recognition of the impact of IFRS 9 and sales of subsidiaries and businesses (BPI Gestão de Activos, BPI GIF, equities and corporate finance businesses, card issuance and merchant acquiring) announced in November and December.

3) Net income from the activity in Portugal excluding the capital gain from BPI Vida e Pensões (€ 8.6 million), net of the increase in credit RWAs (excluding DTA and without equity risk class).

4) The negative impact results from the combined effect of a € 1 th. M. reduction in CET1 capital and a € 7.9 th. M. reduction in risk weighted assets (see page 51).

The total capital ratio was 14.0% at the end of 2017. At the end of March 2017¹ BPI issued € 300 million of Tier II subordinated debt, with a 1.8 p.p. positive impact on the total capital ratio.

At 31 December 2017, the proforma CET1 capital ratio (fully loaded) was 13.0%, reflecting:

- a total negative impact of 0.2 p.p. on the CET1 ratio (fully loaded) from application of IFRS 9, which enters into force on 1 January 2018. Application of IFRS 9 leads to a € 36 million increase in loan impairments and has a net impact on accounting shareholders' equity of -€ 26 million. For prudential purposes BPI

will recognise the full impact on prudential capital from application of IFRS 9 as from its entry into force, therefore not making use of the transitional arrangements foreseen for phasing in such recognition;

- a positive impact of 0.9 p.p. from the sale of subsidiaries and businesses announced in November and December 2017, which will be concluded in 2018².

The proforma total capital ratio, including the impact of application of IFRS 9 and the sale of subsidiaries and businesses to be completed in 2018 was 14.7% in 2017.

Capital ratios

Amounts in € million

		Fully loaded CRD IV / CRR			Phasing in CRD IV / CRR
		Dec. 17	Dec. 16 proforma ³	Dec. 16	Dec. 17
Share capital, premiums and reserves	1	2 823.6	2 410.4	2 440.6	2 806.8
Eligible minority interests	2			390.0	
	3	2 823.6	2 410.4	2 830.7	2 806.8
Tax losses	4	(20.6)	(30.6)	(30.6)	(16.4)
Other	5	(69.6)	(39.3)	(49.6)	(55.8)
	6	2 733.4	2 340.6	2 750.5	2 734.5
Deductions of shareholdings in CIs and Insurers > 10%	7	(553.2)	(508.3)	(17.8)	(434.9)
Deductions of deferred tax assets	8				
Deduction of shareholdings in CIs and Insurers >10% + deferred tax assets	9	(140.2)	(165.0)	(54.0)	(27.6)
National filters	10				30.4
Negative components of AT1 capital	11		(2.1)		(68.3)
Common Equity Tier I	12	2 040.0	1 665.2	2 678.8	2 234.0
Tier I	13	2 040.0	1 665.2	2 678.8	2 234.0
Tier II	14	297.5		7.5	238.5
Total own funds	15	2 337.5	1 665.2	2 686.3	2 472.5
Risk weighted assets	16	16 644.1	16 144.4	24 076.1	16 962.1
CET1 Ratio	17	12.3%	10.3%	11.1%	13.2%
T1 Ratio	18	12.3%	10.3%	11.1%	13.2%
Total Ratio	19	14.0%	10.3%	11.2%	14.6%

Note: minimum own funds requirements (phasing in) laid down by the ECB for 2017 for the consolidated CET1, T1 and total ratios were 9.25%, 9.75% and 11.75%, respectively.

Table 17

1) The bonds' remuneration rate is equal to the 6-month Euribor + 5.74%.

2) BPI Gestão de Ativos, BPI GIF, equities and corporate finance, businesses, issuance of cards and merchant acquiring.

3) After impact of sale of 2% of BFA and deconsolidation.

The impact of the sale of 2% of BFA and deconsolidation is explained as follows:

- on CET1 (€ 1.0 billion reduction),
 - negative € 30.2 million impact on BPI's consolidated equity;
 - derecognition of eligible minority interests;
 - deduction of the amount of BPI's 48.1% equity holding in BFA;
 - indirect impacts through the limits foreseen in the CRR for equity holdings above 10% in credit institutions and insurance companies and for deferred tax assets.
- on risk weighted assets (€ 7.9 billion reduction), through the derecognition of BFA's assets, with the value of the equity holding, now equity accounted, being deducted to CET1 capital.

Leverage ratios (CRD IV / CRR)

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

At 31 December 2017 the fully loaded Leverage ratio was 6.8%.

Leverage ratio

	Dec. 17	Dec. 16
Leverage ratio – fully loaded	6.8%	7.4%
Leverage ratio – phasing in	7.4%	7.6%

Table 18

SREP CAPITAL RATIOS FOR 2018

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).

Banco BPI learnt in December 2017 of the European Central Bank's (ECB) decision concerning the minimum prudential requirements that it must comply with effective from 1 January 2018, a decision which is based on the "SREP" results. In addition, Banco BPI was informed by

the Bank of Portugal about the capital buffer required from it as an "other systemically important institution" (O-SII).

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 consolidated capital requirements

	Consolidated capital ratios 31 Dec. 2017		Capital requirements in 2018 (SREP)				Fully loaded capital requirements (SREP) (applicable in 2021)			
	Fully loaded	Fully loaded pro-forma ¹	Capital ratios	Of which:			Capital ratios	Of which:		
				Pillar 1	Pillar 2	Buffers ²		Pillar 1	Pillar 2	Buffers ²
CET1	12.3%	13.0%	8.75%	4.5%	2.25%	2.0%	9.75%	4.5%	2.25%	3.0%
T1	12.3%	13.0%	10.25%	6.0%	2.25%	2.0%	11.25%	6.0%	2.25%	3.0%
Total ratio	14.0%	14.7%	12.25%	8.0%	2.25%	2.0%	13.25%	8.0%	2.25%	3.0%

1) Considering the impact of application of IFRS 9 and the sale of subsidiaries and businesses to be completed in 2018.

Table 19

2) The capital conservation buffer increases linearly during a period of four years starting in 2016, until reaching 2.5% in 2019 (in 2018 it is 1.875%).

The counter-cyclical buffer is currently set at 0% in Portugal. The O-SII buffer increases linearly for four years starting in 2018 until reaching 0.5% in 2021.

In light of the "SREP" requirements for 2018, and taking into account the ratios reported at the end of 2017, the Bank complies with the new minimum ratios required with

respect to CET1 (Common Equity Tier 1), Tier 1 and total ratios.

DOMESTIC ACTIVITY

Key indicators

(Amounts in € million, except when otherwise indicated)

	2017	2016 proforma	2016
Financial margin (narrow sense)	367.4	362.3	362.3
Unitary intermediation margin ¹	1.75%	1.68%	1.68%
Commercial Banking Income ²	683.6	675.0	710.7
Adjusted overhead costs ³	447.1	472.2	478.6
Adjusted overhead costs as % of commercial banking income	65%	70%	67%
Impairment losses and provisions for loans and guarantees as % of the average loan portfolio	0.11%	0.15%	0.15%
Impairment losses and provisions for loans and guarantees, net of loan recoveries previously written off against assets, as % of the average loan portfolio	(0.02%)	0.09%	0.09%
Recurring net profit ⁴	193.4	159.2	159.2
Recurring return on total assets (recurring ROA) ⁴	0.6%	0.5%	0.5%
Return on tangible equity (recurring ROTE) ^{4,5}	9.6%	8.6%	8.6%
Net profit as reported	123.7	147.0	147.0
Return on total assets as reported (ROA)	0.4%	0.5%	0.5%
Recurring return on tangible equity as reported (ROTE) ⁵	6.2%	7.9%	7.9%
Net total assets	28 982	n.d.	31 987
Shareholders' equity attributable to BPI shareholders	2 228	n.d.	1 945
Customer Loans (Gross)	22 244	22 128	23 431
Retail deposits and bonds	20 686	20 306	19 724
Total Customer resources	32 960	31 209	32 940
Loan to deposit ratio	105%		106%
Liquidity Coverage Ratio (LCR)	171% ⁶		181% ⁷
Credit at risk ratio (IAS / IFRS consolidation perimeter)	2.9%		3.7%
Coverage ratio of credit at risk by impairments (IAS / IFRS consolidation perimeter)	92%		83%
NPE ratio (prudential perimeter) ⁸	5.1%		6.6%
Coverage ratio of NPE by impairments (prudential perimeter)	43%		39%
Total past service pension liabilities	1 601		1 463
Degree of coverage of pension liabilities	98%		98% ⁹

Note: The term "proforma" reflects the restatement of the contribution of BPI Vida e Pensões, BPI Gestão de Ativos and BPI GIF to consolidated net profit in conformity with IFRS 5. The loan portfolio and Customer resources amounts are also presented proforma to consider the sale of BPI Vida e Pensões.

Table 20

1) Unitary intermediation margin = average remuneration of the loan portfolio (excluding loans to Employees) - average remuneration of Customer resources.

2) Commercial Banking Income = Financial margin (RCL) + Income from equity instruments (RCL) + Net commissions income (RCL) + Earnings of associated companies (equity method) (RCL).

3) Overhead costs excluding costs with early retirements and voluntary terminations and (in 2016 only) gains with the revision of the Collective Labour Agreement (ACT).

4) Excluding non-recurring negative impacts,
in 2017: -€ 70 million (after taxes) due to voluntary terminations and early retirement programme (-€ 78 million), gain on the sale of BPI Vida e Pensões (+€ 9 million) and other (-€ 0.7 million);
in 2016: -€ 12 million (after taxes) due to early retirement costs (-€ 43 million) and gains with the revision of the ACT (€ 31 million).

5) The average equity considered in the calculation of ROTE excludes the average balance of intangible assets and other comprehensive income (reserves).

6) 12-month average, in accordance with EBA guidelines Average value (last 12 months) of the LCR calculation components: Liquidity reserves (€ 3 857 million); Total net outflows (€ 2 263 million).

7) At 31 Dec. 2016.

8) In accordance with EBA criteria.

9) The pension funds' amount in 2016 includes contributions transferred to the Employees' pension funds at the start of 2017 (€ 75.5 million).

Net income and profitability

Net income from the **domestic activity** in 2017, in the amount of € 123.7 million, as reported, was penalised by non-recurring negative impacts in the amount of € 69.7 million.

Excluding the non-recurring impacts, net income from the domestic activity increased by 21.5% in 2017, to € 193.4 million (+€ 34.2 million yoy).

Net income from domestic activity		Amounts in € million		
		2017	2016	Δ €M.
Net income as reported	1	123.7	147.0	(23.3)
Non-recurring impacts				
Cost with early retirements and voluntary terminations ¹	2	(77.6)	(12.2)	(65.4)
Capital gain on the sale of BPI Vida e Pensões and others ²	3	7.9		7.9
Total	[= 2 + 3]	(69.7)	(12.2)	(57.5)
Net income excluding non-recurring impacts	[= 1 - 4]	193.4	159.2	34.2

Table 21

Considering net income as reported, the domestic activity's return on tangible equity (ROTE) was 6.2% in 2017.

Excluding the non-recurring impacts, the domestic activity ROTE was 9.6% (+1 p.p. vs. 2016).

Return on tangible equity (ROTE)

	Excluding non recurring		As reported	
	2017	2016	2017	2016
Adjusted allocated capital (€ million) ³	2 005	1 856	2 005	1 856
Net income (€ million)	193.4	159.2	123.7	147.0
ROTE	9.6%	8.6%	6.2%	7.9%

Table 22

Domestic activity net income

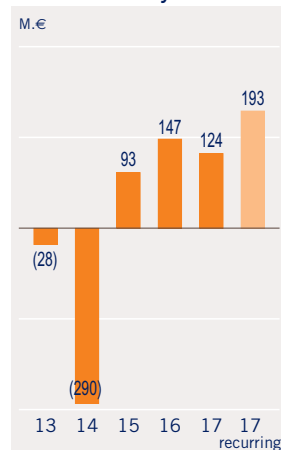


Chart 38

Domestic activity ROTE

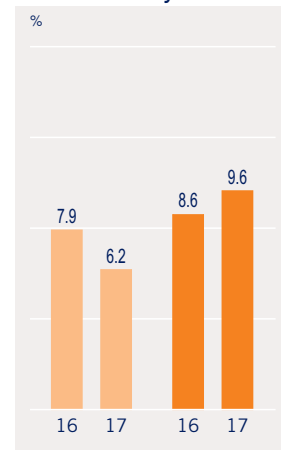


Chart 39

■ ROTE
■ Recurring ROTE

Commercial results

Banco BPI reported good commercial results in 2017, as shown by the expansion of both the Customer resources and the Customer loans portfolios:

- total Customer resources increased by € 1.8 billion (+5.6% yoy);
- the corporate loan book in Portugal was up by € 411 million (+6.4% yoy);
- mortgage loans production grew by 19% yoy, to € 1.1 billion, interrupting the previous downward trend and stabilising the portfolio.

1) In 2016 includes early retirement costs (€ 43 million after taxes) and gains with the revision of the ACT (€ 31 million after taxes).

2) Includes -€ 0.7 million impact from the sale of 2% of BFA and deconsolidation, recognised in the domestic activity income statement.

3) The average equity considered in the calculation of ROTE excludes the average balance of intangible assets (average consolidated balance in 2017: € 25 million) and other comprehensive income (reserves) (average consolidated balance in 2017: -€ 3 million).

Asset quality

In 2017 BPI registered an improvement in loan quality indicators and a reduction in the cost of credit risk:

- the credit at risk ratio (IAS / IFRS consolidation perimeter) retreated from 3.7% in 2016 to 2.9% in 2017 while the NPE ratio¹ was down by 1.5 p.p., to 5.1%;
- the accumulated impairments for loans and guarantees on the balance sheet plus collaterals covered credit at risk at 163% and NPE at 117%;
- impairment losses and provisions for loans and guarantees on the income statement decreased by 24% year-on-year, to € 25 million, corresponding to 0.11% of the average loan portfolio, while € 30 million in loans, interest and expenses previously written off from assets were recovered (€ 16 million more than in 2016).

Funding and liquidity

BPI shows a balanced funding structure and a strong liquidity position:

- on-balance sheet Customer loans accounted for 70% of the domestic activity assets;
- the loan to deposit ratio was 105%;
- the Liquidity Coverage Ratio (LCR) stood at 171%.

Income statement

The € 34.2 million increase in recurring net income from the domestic activity was driven by:

- a 5.3% year-on-year reduction in recurring overhead costs (-€ 25 million), reflecting the savings obtained through the measures implemented in 2016, and also the positive impact from the early retirements and voluntary terminations agreed in 2017, but the latter only partially as most Employee departures occurred in the 2nd half of the year;
- a reduction of total impairment losses and provisions from € 69.5 million in 2016 to € 24.5 million in 2017 (-€ 45 million). Impairment losses and provisions for loans and guarantees amounted to € 25.2 million in 2017, representing 0.11% of the loan portfolio;
- an increase in recoveries of loans, interest and expenses previously written off from assets from € 13.7 million in 2016 to € 29.8 million in 2017;
- the increases in the financial margin (narrow sense) and net commissions income (+1.4% or € 5.1 million, and +4.9%, or € 12.8 million, respectively), which in part offset the reduction in net income on financial operations (-€ 33.5 million) and in earnings of associated companies equity accounted (-€ 6.9 million).

NOTE ON THE RECLASSIFICATION OF CAPTIONS

Certain captions of income and costs were reclassified in the Management Report and repositioned in the Profit and Loss account in accordance with the format used by CaixaBank (BPI's consolidating entity). The underlying accounting criteria were not affected by the change in the format adopted.

The reconciliation of the income statement captions reclassified to the format adopted by CaixaBank is presented in the section "Alternative Performance measures" (page 110) with the income statement structure presented on page 117.

The presentation of the Customer resources and Customer loans portfolios was also changed with the same objective of aligning it to the formats adopted by CaixaBank; however, the segmentation criteria were not changed.

All other changes of this nature are identified throughout the Management Report, where appropriate.

1) "Non-performing exposures" in accordance with the European Banking Authority (EBA) criteria; considering the prudential supervision perimeter.

Domestic activity income statement

Captions reclassified (RCL) in accordance with the format adopted by CaixaBank (BPI's consolidating entity).

The underlying accounting criteria were not affected by the change in the format adopted.

Amounts in € million

		2017	2016 proforma ²	Non recurring items ¹		Excluding non recurring items		
				2017	2016 proforma ²	2017	2016 proforma ²	Δ%
Financial margin (narrow sense)	1	367.4	362.3			367.4	362.3	1.4%
Technical result from insurance contracts	2							
Net commissions relating to amortised cost	3	20.8	21.2			20.8	21.2	(1.8%)
Financial margin - RCL [= Σ 1 to 3]	4	388.3	383.5			388.3	383.5	1.2%
Income from equity instruments - RCL	5	6.5	8.5			6.5	8.5	(23.5%)
Net commissions income - RCL	6	275.4	262.6			275.4	262.6	4.9%
Earnings of associated companies (equity method)	7	13.4	20.3			13.4	20.3	(33.9%)
Net income on financial operations	8	13.8	47.3			13.8	47.3	(70.7%)
Operating income and expenses	9	(9.1)	(22.3)	7.0		(16.1)	(22.3)	27.9%
Operating income from banking activity - RCL [= Σ 4 to 9]	10	688.4	700.0	7.0		681.4	700.0	(2.7%)
Personnel costs	11	(368.1)	(302.2)	(105.8)	(16.9)	(262.3)	(285.3)	(8.1%)
General administrative costs	12	(163.0)	(165.6)			(163.0)	(165.6)	(1.6%)
Depreciation and amortisation	13	(21.8)	(21.3)			(21.8)	(21.3)	2.6%
Overhead costs [= Σ 11 to 13]	14	(552.9)	(489.1)	(105.8)	(16.9)	(447.1)	(472.2)	(5.3%)
Operating income [= 10 + 14]	15	135.5	210.9	(98.8)	(16.9)	234.3	227.8	2.9%
Recovery of loans, interest and expenses	16	29.8	13.7			29.8	13.7	116.8%
Impairment losses and provisions for loans and guarantees, net	17	(25.2)	(33.0)			(25.2)	(33.0)	(23.7%)
Impairment losses and other provisions, net	18	0.7	(36.5)			0.7	(36.5)	(101.9%)
Net income before income tax [= Σ 15 to 18]	19	140.8	155.2	(98.8)	(16.9)	239.6	172.0	39.3%
Income tax	20	(39.8)	(30.1)	29.9	4.6	(69.7)	(34.7)	101.0%
Net income from continuing operations [= 19 + 20]	21	101.0	125.1	(68.9)	(12.2)	169.9	137.4	23.7%
Net income from discontinued operations	22	22.7	21.9	(0.8)	0.0	23.5	21.8	7.5%
Income attributable to non-controlling interests	23	(0.0)	(0.0)			(0.0)	(0.0)	
Net income [= Σ 21 to 23]	24	123.7	147.0	(69.7)	(12.2)	193.4	159.2	21.5%

1) Non-recurring impacts on the domestic activity correspond to:

In 2016:

- Costs with voluntary terminations and early retirements of € 60 million before taxes and € 43 million after taxes.
- Gain with revision of Collective Labour Agreement ("ACT") of € 43 million before taxes and € 31 million after taxes.

In 2017:

- Costs with voluntary terminations and early retirements of € 106 million before taxes and € 78 million after taxes.
- Gain on the sale of BPI Vida e Pensões of € 8 million before taxes and € 9 million after taxes.
- Other (-€ 0.7 million).

2) The term "2016 proforma" reflects the restatement of the contribution of BPI Vida e Pensões, BPI Gestão de Ativos and BPI GIF to consolidated net profit in conformity with IFRS 5 (see Note to the financial statements – "1 – The Financial Group").

Table 23

Proforma figures

The figures presented in the Management Report refer to amounts "as reported", except where expressly stated that they are proforma figures.

The term "proforma" reflects the restatement of the contribution of BPI Vida e Pensões, BPI Gestão de Ativos and BPI GIF to consolidated net profit in conformity with IFRS 5 (see Note to the financial statements – "1 – The Financial Group").

SALE OF SUBSIDIARIES AND BUSINESSES ANNOUNCED IN NOVEMBER AND DECEMBER 2017

Sale of subsidiaries and businesses

On 23 November and 21 December 2017 Banco BPI informed the market it had entered agreements to sell a set of subsidiaries and businesses, with the following objectives:

- improve the commercial offer to the Clients;
- focus BPI on the core banking business;
- strengthen the Bank's capital ratios.

These agreements concerned the following transactions:

- sale of the entire share capital of BPI Vida e Pensões to VidaCaixa S.A.U. (fully held by CaixaBank Group) for the price of € 135 million.
- sale of the entire share capital of BPI Gestão de Ativos and BPI Global Investment Fund Manager Company (BPI GIF) to CaixaBank Asset Management SGIIC, S.A.U. (fully held by CaixaBank Group) for the price of € 75 million and € 8 million, respectively.
- sale by Banco Português de Investimento of its legal positions in its stock brokerage, research and corporate finance businesses to CaixaBank for the (estimated) consideration of € 4 million.
- sale of the legal positions in the business of issuing payment instruments (debit and credit cards) to CaixaBank Payments Establecimiento Financiero de Credito de Entidades de Pago S.A. (fully held by CaixaBank Group) for the price of € 53 million.
- sale of the legal positions in the merchant acquiring business to Comercia Global Payments, Entidad de Pago, S.L. (joint venture between CaixaBank, with 49% of the share capital, and Global Payments Inc) for the price of € 60 million.

These transactions will not involve the delocalisation of activities or the transfer of BPI Employees¹. Within the scope of these transactions, a number of agreements will be signed under which BPI will provide to the companies sold or the acquiring companies a series of services instrumental to the performance of the activities of the businesses sold.

Banco BPI will maintain the relationship with the Customers of the activities concerned, acting in the capacity of agent of the respective companies sold or acquiring companies.

Sale of subsidiaries and businesses

Amounts in € million

	Sale price	Capital gain (before taxes)	Impact on fully loaded CET1
Concluded in 2017			
BPI Vida e Pensões	135	8	+0.9 p.p.
To be concluded in 2018			
BPI Gestão de Ativos	75	164	+0.9 p.p.
BPI GIF	8		
Equities and corporate finance	4		
Card issuance	53		
Merchant acquiring	60		
Total	335	172	+1.8 p.p.

Table 24

The sale of BPI Vida e Pensões was concluded in December 2017 and recognised in this year's financial statements. It generated an € 8 million pre-tax capital gain and had an impact on the CET1 ratio (fully loaded) of +0.9 p.p.

The remaining transactions will be carried out in 2018, with an estimated pre-tax capital gain of € 164 million and an estimated impact on the CET1 ratio (fully loaded) of +0.9 p.p.

The impact on BPI's future earnings generation (consolidated) is estimated to be -€ 22 million on an annual basis. In 2018 that impact is -€ 16 million.

Accounting recognition of the equity holdings in BPI Vida e Pensões, BPI Gestão de Ativos and BPI GIF (IFRS 5)

BPI Vida e Pensões, BPI Gestão de Ativos and BPI GIF were classified as discontinued operations in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations².

The application of IFRS 5 implies that:

- the contribution of those subsidiaries to the 2017 consolidated earnings is reclassified to the caption "Net income from discontinued operations";
- the assets and liabilities of BPI Gestão de Ativos and BPI GIF at 31 December 2017 were reclassified under the captions "Non current assets held for sale and discontinued operations" and "Non current liabilities held for sale and discontinued operations", respectively.

The Management Report includes the 2016 proforma income statement, which presents the restatement of the contribution of BPI Vida e Pensões, BPI Gestão de Ativos and BPI GIF to consolidated net profit in conformity with IFRS 5.

1) Except in the equities and corporate finance business, for which CaixaBank plans to set up a subsidiary in Portugal, transferring to it the Employees of Banco Português de Investimento allocated to these activities.

2) See note to the financial statements 4.9 Discontinued operations.

Income

Operating income from banking activity (as reported) decreased by 1.7% (-€ 11.6 million) in 2017, mainly through the € 33.5 million contraction in net income on financial operations, to € 13.8 million (2% of operating income from banking activity).

The financial margin (narrow sense) increased by 1.4% (+€ 5.1 million) and net commissions income increased by 4.9% (+€ 12.8 million) in 2017.

Commercial banking income – which includes the financial margin, net commissions income, income from equity instruments, and earnings of associated companies (equity accounted) captions – rose by 1.3% in 2017 (+€ 8.7 million), to € 683.6 million.

Financial margin (narrow sense)

The financial margin (narrow sense) increased by 1.4%, underpinned by the widening of the unitary intermediation margin (the difference between the interest rate on loans¹ and the cost of Customer resources) – by 0.07 p.p., from 1.68% in 2016 to 1.75% in 2017, in a context of stabilisation of the loan portfolio as a result of a moderate rebound in demand for credit.

The key factor in the improvement of the unitary intermediation margin was the reduction in the average cost of time and savings deposits, from 0.43% in 2016 to 0.10% in 2017 (considering the deposits taken in euros). This positive effect more than offset the contraction in the average remuneration of the loan portfolio, by 0.11 p.p., which reflects the reduction in the interest rate benchmarks (the Euribor) and the moderate narrowing of credit spreads.

It should be noted that the fact that new residential mortgage loans were contracted with higher spreads than amortised credit, combined with credit growth in segments where spreads are higher, namely consumer credit and loans to small businesses, in part countered the narrowing of spreads in the corporate segments.

Commercial banking income

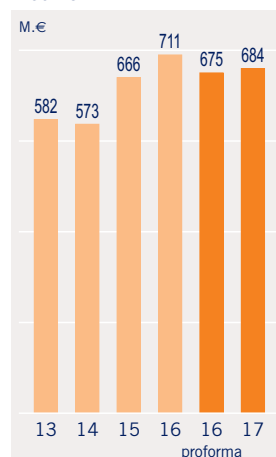


Chart 40

Financial margin narrow sense

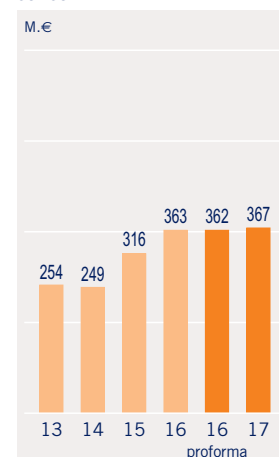


Chart 41

The intermediation margin (margin between income from interest on loans and the cost of deposits) increased by 4.7% in 2017 (+€ 16.7 million), to € 368 million.

Quarterly average interest rates of loans and deposits

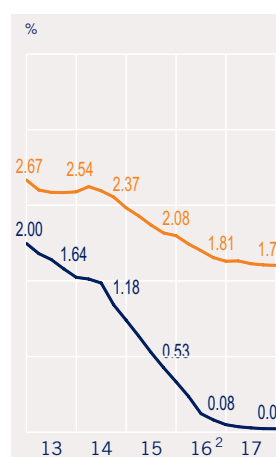


Chart 42

Unitary intermediation margin

Quarterly evolution

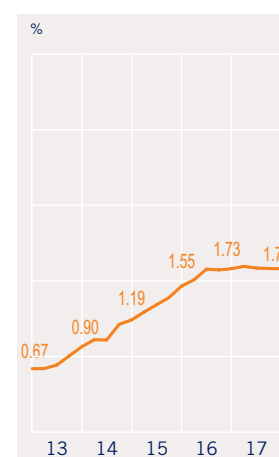


Chart 43

1) Excluding loans to Employees.

2) As from the start of the 4th quarter of 2017 refers to the remuneration of deposits contracted in euro.

The financial margin (narrow sense) was also affected by the following negative impacts:

- the interest cost of Tier II¹ subordinated debt issued at the end of March, in the amount of € 13 million, recognised in 2017;
- the reduction in interest income from the securities portfolio² from € 8 million in 2016 to -€ 1 million in 2017, mainly due to the lower contribution from

short-term Portuguese sovereign debt securities in portfolio as a result of the contraction of the respective yields in the primary market.

It should be noted that the financial margin continued to be penalised by a context of Euribor interest rates at historical lows, close to zero or even negative, directly reflecting in the contraction in the average margin on sight deposits.

Financial margin (narrow sense)

Amounts in € million

		2017			2016 proforma		
		Average balance	Average rate (%)	Interest	Average balance	Average rate (%)	Interest
Interest-earning assets							
Deposits with and loans and advances to credit institutions	1	1 832	0.46%	8	1 676	0.27%	4
Customer Loans	2	21 415	1.75%	374	21 169	1.86%	393
Securities portfolio ²	3	3 625	(0.02%)	(1)	3 587	0.23%	8
Interest-earning assets	[= Σ 1 to 3]	26 872	1.42%	382	26 432	1.54%	406
Interest-bearing liabilities							
Deposits from credit institutions	5	3 798	0.10%	4	3 514	0.16%	6
Customer resources	[= Σ 7 to 9]	20 046	0.03%	6	19 486	0.21%	41
Sight deposits	7	11 091	0.00%	0	9 717	(0.01%)	0
Term and savings deposits (in euro)	8	7 995	0.10%	8	8 733	0.43%	37
Term and savings deposits in other currencies and other Customer resources	9	959	(0.27%)	(3)	1 036	0.37%	4
Debt issued and other	10	1 379	1.71%	24	1 837	0.88%	16
Interest-bearing liabilities	[= 5 + 6 + 10]	25 222	0.13%	33	24 837	0.25%	63
Other interest income / (costs)	12			18			19
Financial margin (narrow sense)	[= 4 - 11 + 12]			367			362
Unitary intermediation margin	14		1.75%	368		1.68%	352
Financial margin (narrow sense) as % of ATA	[= 13 / 16]		1.14%			1.11%	
Average total assets (ATA)	16	32 175			32 538		

Table 25

Net commissions income

Net commissions income increased by 4.9% (+€ 12.8 million) in 2017.

This growth was driven by increases in banking commissions, by 2.8% (+€ 6.0 million), insurance brokerage commissions, by 2.2% (+€ 1.0 million), and asset management commissions, by 8.9% (+€ 1.0 million), adjusted for the deconsolidation of BPI Alternative Fund: Iberian Equities Long / Short Fund (Luxembourg)³, following the strong expansion of the volume of investment funds under management.

Net commissions (RCL)

Amounts in € million

		2017	2016 proforma	Δ%
Banking commissions	1	218.6	212.6	2.8%
Insurance brokerage	2	46.6	45.6	2.2%
Asset management ³	3	10.3	4.5	131.0%
Total	[= Σ 1 to 3]	275.4	262.6	4.9%

Table 26

1) € 300 million issue with a remuneration rate equivalent to the 6-month Euribor + 5.74%.

2) Includes the effect of the hedging of the interest rate risk of the medium and long-term sovereign debt portfolio.

3) Since March 2017 the BPI Alternative Fund: Iberian Equities Long / Short Fund (Luxembourg) ceased to be consolidated in Banco BPI's accounts after the Bank reduced its percentage of participating units in the fund to less than 20% (previously the fund was fully consolidated). In the consolidation of this fund, net commissions paid by the BPI Alternative Fund of € 7.0 million in 2016 and € 2.2 million in the 1st quarter of 2017 were recorded. Taking into account the deconsolidation, the year-on-year change in asset management commissions, on a comparable basis, was 8.9%.

Earnings of equity accounted associated companies

The contribution of the equity accounted associated companies decreased by € 6.9 million in 2017, to € 13.4 million. This reduction mainly stemmed from the lower contribution of Unicre, which in 2016 had benefited from a one-off gain of € 8.6 million resulting from the acquisition of Visa Europe by Visa Inc.

Earnings of equity accounted associated companies (RCL)

		Amounts in € million		
		2017	2016 proforma	Δ%
Insurance companies: [= 2 + 3]	1	8.0	7.9	1.1%
Allianz Portugal	2	2.5	3.8	(35.4%)
Cosec	3	5.6	4.1	34.7%
Unicre ¹	4	5.5	12.3	(55.5%)
Inter-Risco	5	(0.1)	0.0	s.s
Total [= Σ 2 to 5]	6	13.4	20.3	(33.9%)

Table 27

Net income on financial operations

Net income on financial operations totalled € 13.8 million in 2017, which represents a € 33.5 million reduction relative to 2016.

The 2016 net income on financial operations, in the amount of € 47.3 million, includes a € 22.9 million gain on available-for-sale financial assets (before taxes)² obtained on the sale of an equity holding in Visa Europe within the scope of the tender offer launched by Visa Inc. on Visa Europe.

Operating income and expenses

The “Operating income and expenses” caption shows a negative amount of € 9.1 million in 2017.

This amount essentially corresponds to the following:

- costs items: contribution to the Single Resolution Fund within the framework of the European Single Resolution Mechanism (-€ 11.4 million), contribution to the National Resolution Fund (-€ 3.9 million), subscriptions and donations (-€ 5.6 million) and taxation (-€ 4.5 million);

- € 7.5 million gain on the sale of foreclosed assets in the credit recovery process (€ 3.3 million more than in 2016). The impact on net income before income tax from the sale of foreclosed properties was € 11.9 million as, in addition to the gains booked in the “Operating income and expenses” caption, it also included the reversal of impairments for those properties;

- € 7.7 million capital gain (before taxes) on the sale of BPI Vida e Pensões.

Operating income and expenses

		Amounts in € million	
		2017	2016 proforma
Contribution to the National Resolution Fund	1	(3.9)	(3.2)
Contribution to the European Resolution Fund	2	(11.4)	(14.9)
Subscriptions and donations	3	(5.6)	(4.9)
Taxes and rates	4	(4.5)	(6.0)
Income from non-financial assets	5	7.5	4.2
Other	6	1.8	2.5
Sub-total [= Σ 1 to 6]	7	(16.1)	(22.3)
Sale of BPI Vida e Pensões and others ³	8	7.0	
Total [= 7 + 8]	9	(9.1)	(22.3)
Pro memoria			
Extraordinary Contribution Levied on the Banking Sector	10	14.3	17.8

Note: The Extraordinary Contribution Levied on the Banking Sector is booked in the “income tax” caption. 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 was allocated to the funding of the Resolution Fund.

Table 28

1) In 2018 it includes € 8.6 million from the sale of the stake in Visa Europe. An additional gain of € 22.9 million (€ 16.2 million after taxes) was recognised in profits on financial operations in 2016.

2) € 16.2 million gain after taxes. In addition, the contribution of the equity holding in Unicre (equity accounted) includes a € 8.6 million gain (after taxes) from the merger operation of Visa Europe into Visa Inc.

3) Sale of BPI Vida e Pensões (+€ 7.7 million) and -€ 0.7 impact from the sale of 2% of BFA and deconsolidation booked in the domestic activity income statement.

Overhead costs

Recurring overhead costs – recurring personnel costs, general administrative costs, depreciation and amortisation – decreased by 5.3% (-€ 25.1 million) in 2017. Recurring personnel costs decreased by 8.1% (-€ 23.1 million), general administrative costs were down by 1.6% (-€ 2.6 million) and depreciation and amortisation increased by 2.6%, all relative to 2016.

The contraction in costs reflects the positive impact (savings) from the rationalisation and streamlining measures implemented in 2016, which involved the closure of 50 branches (8.5% reduction in the distribution network in Portugal) and the departure of 394 Employees (-6.7%), and also the impact from the early retirements and voluntary terminations agreed in 2017, which was only partial as most Employee departures occurred in the 2nd half of the year.

BPI thus continues to show an improving trend in efficiency levels. The “adjusted overhead costs¹ to commercial banking income²” ratio improved, dropping by 4.6 p.p., from 70% in 2016 to 65% in 2017.

Overhead costs

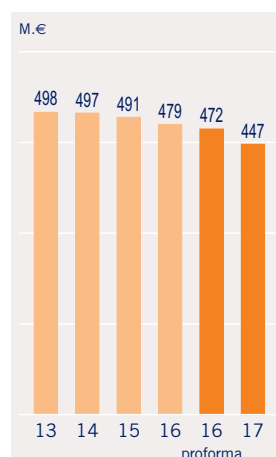


Chart 44

■ Adjusted overhead costs¹

Efficiency ratio

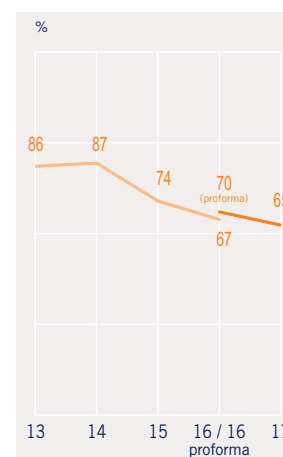


Chart 45

— Adjusted overhead costs-to-commercial banking income

The overhead costs “as reported”, which include the above mentioned € 106 million cost with early retirements and voluntary terminations, amounted to € 552.9 million.

Overhead costs

Amounts in € million

		2017	2016 proforma	Δ%
Personnel costs, excluding non-recurring costs	1	262.3	285.3	(8.1%)
General administrative costs	2	163.0	165.6	(1.6%)
Depreciation and amortisation	3	21.8	21.3	2.6%
Overhead costs, excluding non-recurring costs	4	447.1	472.2	(5.3%)
Cost with early retirements and voluntary terminations	5	105.8 ³	59.7	77.2%
Gain with revision of ACT	6		(42.8)	
Overhead costs, as reported	7	552.9	489.1	13.1%
Adjusted overhead costs¹ as % of commercial banking income²	8	65%	70%	(4.6 p.p.)

Table 29

1) Overhead costs excluding costs with early retirements and voluntary terminations and (in 2016 only) gains with the revision of the Collective Labour Agreement (ACT) and (only in 2013) gain with changed in the plan (death subsidy).

2) Financial margin, net commissions, income from equity instruments and earnings of associated companies (equity accounted).

3) In addition, a € 1.1 million cost (€ 0.8 million after taxes) is booked in the “Net income from discontinued operations” caption and therefore the total cost was € 106.9 million (€ 77.6 million after taxes).

BPI concluded in the 1st half of 2017 the programme of early retirements and voluntary terminations that had been announced in April 2017, under which the departure of 515 Employees¹ was agreed (289 through early retirement and 226 through voluntary termination), to which added another 98 Employees who left the Bank under the same conditions offered by the programme.

The total number of agreed departures was thus 613, representing 11% of the initial headcount. The cost of

these departures, in the amount of € 107 million, was fully recognised in the 2nd half of 2017 income statement.

The positive impact on results, an estimated € 37 million annual reduction in costs, will only be fully felt in 2019. From the total agreed departures (613), 530 occurred in 2017, mostly in the second half, and the remaining 83 will take place in 2018.

2017-2020 SYNERGIES

In the framework of the Public Tender Offer for BPI's shares launched by CaixaBank in April 2016, whose results, made public on 8 February 2017, allowed CaixaBank to increase its shareholding in Banco BPI from 45.5% to 84.51%, CaixaBank established to achieve significant cost and revenue synergies in BPI's domestic activity. The improvement in efficiency, productivity and profitability levels to be obtained from these synergies should strengthen BPI's competitive position in a competitive and demanding operating environment, delivering benefits to all stakeholders, namely Shareholders, Employees and Clients.

In the context of the Offer, CaixaBank estimated a potential to realise synergies of € 120 million as from 2019, of which around 2/3 correspond to cost synergies, obtained through the reduction of general and personnel costs, and around 1/3 to revenue synergies.

Less than one year after the conclusion of the Offer, the cost and revenue synergies from the initiatives already implemented or in progress will amount to around € 122 million² in 2020 and therefore the initial target of € 120 million has been reached.

From the total synergies identified (€ 124 million, without deducting the amortisation of CAPEX):

- the initiatives already implemented provide € 87 million in synergies;
- the initiatives under way will add circa € 37 million in synergies.

The bulk of the staff restructuring has been met with the reduction of circa 900 people from the departures occurred at 2016 year-end and the voluntary terminations and early retirements programme launched in 2017.

2017-2020 synergies

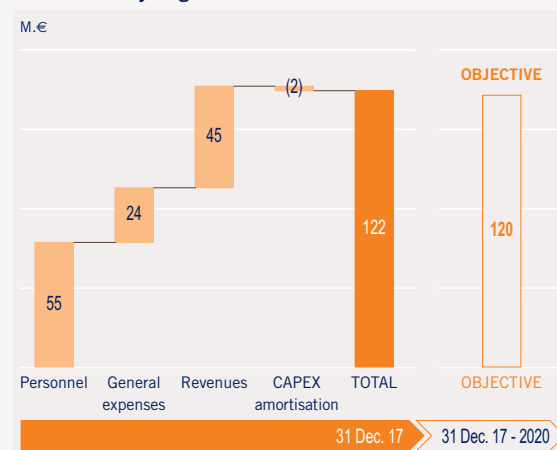


Chart 46

The restructuring costs will be significantly lower than the initially announced € 250 million:

- OPEX already accounted: € 172 million³.
- CAPEX committed: € 28 million (of which € 7 million already invested).

BPI expects to reach in 2020 a cost-to-income close to 50% and a recurring return on tangible equity (recurring ROTE) in the domestic activity above 10%.

1) Considering four reversals in the initially agreed number of departures (519).

2) The € 122 million synergies figure is given net of recurring OPEX costs and the amortisation of investments made to obtain synergies.

3) Includes € 4.2 million of CaixaBank OPEX.

Employee pension liabilities

The present value of the Bank's total liabilities for Employees' past services amounted to € 1 601 million¹ at the end of 2017.

The net assets of the Employees' pension funds totalled € 1 565 million¹, which guaranteed the funding of 98% of the pension liabilities.

Liabilities for Employees pensions and pension funds

	Amounts in € million	
	31 Dec. 17 ¹	31 Dec. 16
Total past service liabilities	1 601	1 463
Net assets of the pension fund	1 565	1 431 ²
Coverage ratio of pension liabilities	97.7%	97.8%
Pension funds return	13.1%	(1.2%)
Discount rate	2.00%	2.00%
Pensionable salaries growth rate	1.00%	1.00%
Pensions growth rate	0.50%	0.50%
Mortality table: Men	TV 88 / 90	TV 73 / 77 – 2 years ³
Mortality table: Women	TV 88 / 90 – 3 years ³	TV 88 / 90 – 3 years ³

Table 30

Financing of Employees pension liabilities

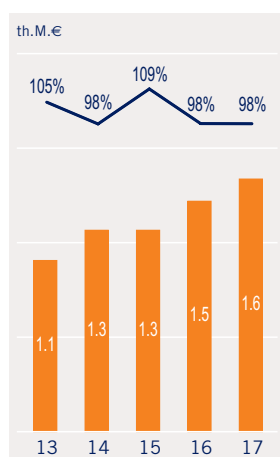


Chart 47

Banco BPI pension funds' portfolio

At 31 December 2017

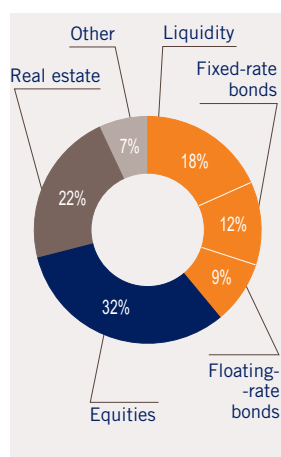


Chart 48

Pension funds return

In 2017, the Bank's pension funds' return was 13.1%, which is higher than the discount rate and therefore originated a positive actuarial deviation in revenue of € 147 million.

Actuarial assumptions

In June 2017 BPI adopted a more conservative mortality table for men (TV 88 / 90), leading to a € 63.4 million increase in pension liabilities (negative actuarial deviation). The new mortality table adopted for men is now the same as for women, for whom the age taken into consideration is 3 years less than the beneficiaries' actual age, which is equivalent to considering a longer life expectancy.

Also in June, the Bank began to use the CDS AA curve to determine the discount rate. The value of the discount rate is adjusted by the values observed in the market at the end of each period.

Actuarial deviations

In 2017 there were positive actuarial deviations of € 32.8 million. This figure mainly reflects the positive deviation in the pension fund's revenue, in the amount of € 147.3 million, that compensated the negative deviations resulting from the change in the mortality table and others.

The negative actuarial deviations (accumulated) recognised directly in accounting shareholders' equity decreased from a negative € 244.0 million at the end of 2016 to a negative € 211.2 million at the end of 2017.

Actuarial deviations in 2017

	Amounts in € million	
Total actuarial deviations at 31 Dec.16	1	(244.0)
Deviation in pension funds return	2	147.3
Change in mortality table	3	(63.4)
Disability pensions	4	(7.5)
Impact on ACT table from the national minimum wage increase	5	(4.4)
Adjustments to the population	6	(19.7)
Other	7	(19.5)
Sub-total	8	32.8
Total actuarial deviations at 31 Dec.17 [= 1 + 8]	9	(211.2)

Note: Actuarial deviations recognised directly in equity, in accordance with IAS 19.

Table 31

1) The figures for 31 Dec. 2017 do not include the pension liabilities (€ 2.5 million) and the pension fund (€ 2.7 million) of BPI Gestão de Activos, which was reclassified as a discontinued operation following the signature of an agreement to sell this subsidiary.

2) Includes € 75.5 million contribution transferred to the pension funds in January 2017.

3) For the population covered, the age taken into consideration is 2 years less than the beneficiaries' actual age in the case of men and 3 years less in the case of women, which is equivalent to considering a longer life expectancy.

Impairment losses and provisions

Total impairment losses and provisions in the year, after deduction of loan recoveries, interest and expenses, decreased from € 55.8 million in 2016 to -€ 5.3 million (net gain) in 2017. The 2017 total reflects the following:

- impairment and provision charges (net of reversals) of € 24.5 million (-€ 45.0 million relative to 2016);
- recovery of loans, interest and expenses previously written off from assets in the amount of € 29.8 million (+€ 16.0 million relative to 2016).

Impairment losses and provisions for loans and guarantees

The year's charge for impairment losses and provisions for loans and guarantees decreased from € 33.0 million in 2016 to € 25.2 million in 2017. As a percentage of the loan portfolio's average balance, impairment losses and provisions for loans and guarantees decreased from 0.15% in 2016 to 0.11% in 2017, which is considerably below their average value (0.46%) in the previous 15 years, which includes the highs registered in 2012 and 2013².

The recoveries of loans, interest and expenses previously written off from assets increased by € 16.0 million, from € 13.7 million in 2016 to € 29.8 million in 2017. The 2017 recoveries include one single situation where the amount recovered was € 14.2 million.

The year's charge for impairment losses and provisions for loans and guarantees, deducted of loans, interest and expenses recoveries previously written off from assets, amounted to -€ 4.6 million (-0.02% of the loan portfolio).

Operating income from banking activity and total impairments and provisions¹

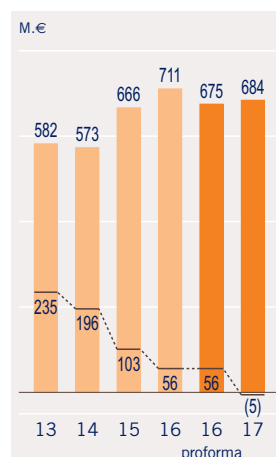


Chart 49

- Commercial banking income
- Total impairments and provisions¹

Total impairments and provisions¹

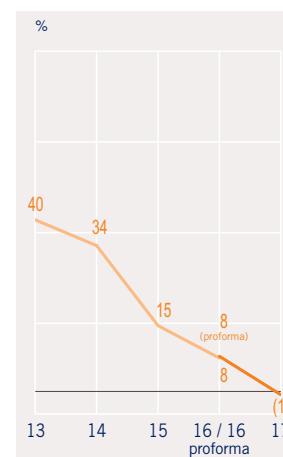


Chart 50

- As % of commercial banking income

Cost of credit risk

Charges in the year

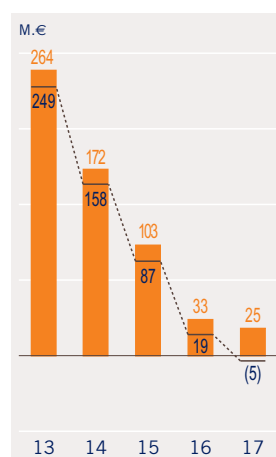


Chart 51

- Impairment losses and provisions for loans and guarantees
- Impairment losses and provisions for loans and guarantees net of recovery of loans, interest and expenses previously written off from assets

As % of loan portfolio

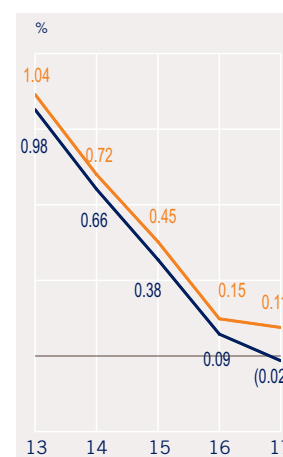


Chart 52

1) Net of loan recoveries.

2) The average value of the previous 15 years (2002-2016) excluding the highs of 2012 (0.96%) and 2013 (1.04%) is 0.37%.

Impairment losses and provisions for loans and guarantees

Amounts in € million

		2017					2016 proforma				
		Impairments	as % of loan portfolio ¹	Recoveries	Cost of risk ²	as % of loan portfolio ¹	Impairments	as % of loan portfolio ¹	Recoveries	Cost of risk ²	as % of loan portfolio ¹
Loans to individuals [= 2 + 3]	1	(2.1)	(0.02%)	4.8	(7.0)	(0.06%)	7.0	0.06%	4.3	2.7	0.02%
Mortgage loans	2	(8.0)	(0.07%)	1.7	(9.7)	(0.09%)	(4.2)	(0.04%)	1.9	(6.1)	(0.06%)
Other loans to individuals	3	5.9	0.57%	3.1	2.8	0.26%	11.3	1.24%	2.4	8.8	0.97%
Corporate loans [= 7 + 8]	4	25.8	0.32%	24.9	0.8	0.01%	28.1	0.36%	8.9	19.2	0.25%
Companies in Portugal											
Large and medium-sized companies in Portugal	5	15.4	0.34%	2.8	12.6	0.28%	19.5	0.49%	2.3	17.2	0.43%
Small businesses	6	4.6	0.24%	7.9	(3.3)	(0.18%)	(6.3)	(0.37%)	6.5	(12.8)	(0.75%)
Total Companies in Portugal [= 5 + 6]	7	20.0	0.31%	10.7	9.3	0.14%	13.2	0.23%	8.8	4.4	0.08%
Project Finance Portugal and Madrid branch	8	5.8	0.36%	14.2	(8.4)	(0.53%)	14.9	0.75%	0.1	14.8	0.75%
Other	9	1.5	0.06%	0.0	1.5	0.06%	(2.1)	(0.07%)	0.5	(2.6)	(0.08%)
Total [= 1 + 4 + 9]	10	25.2	0.11%	29.8	(4.6)	(0.02%)	33.0	0.15%	13.7	19.3	0.09%

Table 32

Impairments and other provisions, net

In 2017 reversals of impairments and other provisions (net) totalled € 0.7 million. This figure benefited from net reversals of impairments for foreclosed properties in the amount of € 4.7 million.

In 2016 the amount of net impairment allowances and other provision charges (€ 36.5 million) included impairments in PT International Finance (OI Group) bonds in the amount of € 18.3 million.

1) As % of average performing loans portfolio.

2) Impairment losses and provisions for loans and guarantees net of loan, interest and expenses recoveries previously written off from assets.

BALANCE SHEET

Net total assets of the domestic activity amounted to € 29.0 billion at the end of 2017. The € 3.0 billion reduction in net total assets relative to December 2016 is explained by the sale of BPI Vida e Pensões at the end of 2017¹, which was fully consolidated. At the end of 2016 this subsidiary had net total assets of € 4.2 billion.

In December 2017 net Customer loans, in the amount of € 21.7 billion, represented 75% of assets, with on-balance sheet Customer resources (€ 20.7 billion) standing as the main source of balance sheet funding (71% of assets).

BPI maintains a comfortable liquidity position and balanced funding structure:

- the loan to deposit ratio² was 105% in December 2017;
- BPI holds a portfolio of sovereign debt securities of euro zone countries, of which € 3.0 billion are short-term securities, and € 0.5 billion are medium-and long-term securities, with an average residual maturity of 1.3 years;
- funding from the ECB amounted to € 2.0 billion. The Bank also has € 8.9 billion in high-quality liquid assets and assets eligible as collateral in additional funding from the ECB;
- funding through the wholesale debt market is not significant (3% of assets);
- the liquidity coverage ratio (LCR) stands at 171%³.

Domestic activity balance sheet structure in 2017

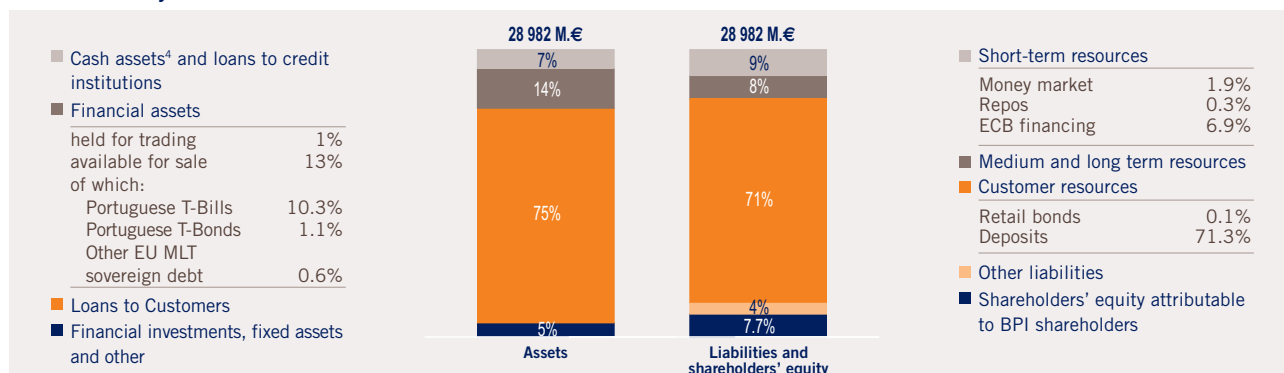


Chart 53

1) After the sale of BPI Vida e Pensões, capitalisation insurance products placed with BPI Customers (€ 4.1 billion in Dec.17) were recorded off balance sheet.

2) Calculated in accordance with Bank of Portugal *Instruction 16 / 2004*.

3) 12-month average, in accordance with EBA guidelines. Average value (last 12 months) of the LCR calculation components: Liquidity reserves (€ 3 857 million); Total net outflows (€ 2 263 million).

4) Cash and cash equivalents in central banks and other credit institutions.

Domestic activity balance sheet

Amounts in € million

		31 Dec. 17	31 Dec. 16
Assets			
Cash and deposits at central banks	1	909.9	876.6
Deposits at other credit institutions	2	276.4	300.2
Loans and advances to credit institutions	3	724.4	636.5
Loans and advances to Customer	4	21 658.8	22 735.8
Financial assets held for trading at fair value through profit or loss	5	300.5	2 197.9
Financial assets and available for sale	6	3 875.4	3 876.4
Held-to-maturity investments	7		16.3
Investments in associated companies and jointly controlled entities	8	136.9	130.8
Hedging derivatives	9	12.7	25.8
Non-current assets held for sale and discontinued operations	10	7.3	
Other tangible assets	11	45.3	50.8
Intangible assets	12	42.3	25.6
Tax assets	13	435.4	471.1
Other assets	14	557.0	642.7
Total assets	[= Σ 1 to 14] 15	28 982.3	31 986.6
Liabilities and shareholders' equity			
Resources of central banks	16	1 995.4	2 000.0
Financial liabilities held for trading	17	170.0	212.7
Resources of other credit institutions	18	1 982.6	1 724.5
Resources of Customers and other debts	19	20 783.8	21 967.7
Debt securities	20	237.0	506.8
Technical reserves	21		2 048.8
Financial liabilities relating to transferred assets	22	478.0	555.4
Hedging derivatives	23	69.9	97.8
Non-current liabilities held for sale and discontinued operations	24	4.5	
Provisions	25	64.0	70.2
Tax liabilities	26	8.3	10.0
Other subordinated debt and participating bonds	27	305.1	69.5
Other liabilities	28	655.5	776.9
Shareholders' equity attributable to BPI shareholders	29	2 228.2	1 944.6
Non-controlling interests	30		1.8
Shareholders' equity	[= 29 + 30] 31	2 228.2	1 946.3
Total liabilities and shareholders' equity	[= Σ 16 to 30] 32	28 982.3	31 986.6

Table 33

Customer Loans

The portfolio of Customer loans (gross) remained practically stable (+0.5% yoy), though showing selective growth in the corporate and individual Customer segments that reflects BPI's commercial focus alongside a moderate recovery in demand for credit.

The portfolio of loans to Portuguese companies¹ grew by 6.4% yoy (+€ 411 million):

- the portfolio of loans to medium-sized and large companies grew by 4.6% yoy (+€ 210 million);
- the portfolio of loans to small businesses grew by 10.5% yoy (+€ 201 million).

The Bank continued to advance its market share in this segment, which reached 8.3% in November 2017 (+0.6 p.p. relative to Dec. 16).

Loans to individuals reported a yoy increase of 1.4%:

- the mortgage loan portfolio stabilised as a result of the sharp expansion of new production, which grew by 19% year-on-year in 2017, to € 1 066 million, matching the amount of redemptions occurred during the year. The Bank continued to gain market share in mortgage loans

– which reached 11.2% in November 2017 –, reflecting the contraction in the market's overall portfolio in this segment;

- consumer loans (personal loans, car loans and credit cards outstanding balance) were up by 17.0% (+€ 174 million).

Loans to Customers
2013 to 2017

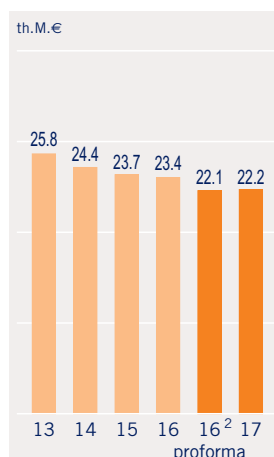


Chart 54

Loan portfolio
Breakdown at 31 Dec. 2017

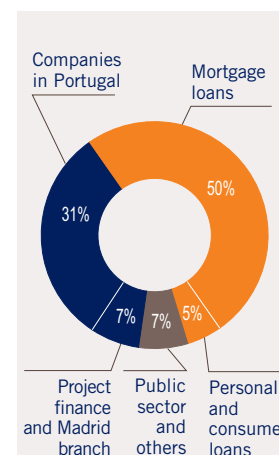


Chart 55

Loans and advances to Customers (gross)

Amounts in € million

			31 Dec. 17	31 Dec. 16 ² proforma	Δ%	Pro memoria: Dec. 16 as reported
Loans to individuals	[= 2 + 3]	1	12 280	12 107	1.4%	12 107
Mortgage loans		2	11 084	11 084	(0.0%)	11 084
Other loans to individuals		3	1 196	1 023	17.0%	1 023
Corporate loans	[= 7 + 8 + 9]	4	8 331	8 232	1.2%	8 232
Companies in Portugal						
Large and medium-sized companies in Portugal ³		5	4 745	4 535	4.6%	4 535
Small businesses		6	2 117	1 916	10.5%	1 916
Total Companies in Portugal	[= 5 + 6]	7	6 863	6 451	6.4%	6 451
Project Finance Portugal		8	1 021	996	2.6%	996
Madrid Branch ³		9	447	785	(43.0%)	785
Public Sector		10	1 305	1 417	(7.9%)	1 417
Other³		11	328	372	(12.0%)	372
Sub-total	[= 1 + 4 + 10 + 11]	12	22 244	22 128	0.5%	22 128
BPI Vida e Pensões portfolio⁴		13				1 303
Total	[= 12 + 13]	14	22 244	22 128	0.5%	23 431
Pro memoria:						
Net loan portfolio		15	21 659	21 445	1.0%	22 736

Table 34

1) Excludes the project finance and the Madrid branch portfolios.

2) Proforma considering the sale of BPI Vida e Pensões.

3) Balance in Dec. 2017 before the re-segmentation of loans. The balance of loans to large and medium-sized companies in Portugal at Dec. 17 does not include € 306 million concerning loans previously booked in the Madrid branch (€ 122 million) and under other Banco BPI loans (€ 184 million).

4) Securitised credit held by BPI Vida e Pensões (fully consolidated), the entity that managed capitalisation insurance in BPI. BPI Vida e Pensões was sold in Dec. 17.

Portfolio of financial assets available-for-sale

The portfolio of financial assets available-for-sale totalled € 3 875 million at the end of 2017 and included:

- short-term Portuguese sovereign debt (Treasury Bills) in the amount of € 3 billion with residual maturity of approximately 6 months;
- medium- and long-term sovereign debt securities in the amount of € 516 million (book value), with average residual maturity of approximately 1.3 years, of which € 329 million of Portuguese sovereign debt and € 187 million of Italian sovereign debt;
- corporate bonds portfolio in the amount of € 55 million;
- portfolio of equities and investment fund units in the amount of € 321 million;

At the end of 2017, unrealised gains on the financial assets available-for-sale portfolio amounted to € 86.2 million (before tax).

Portfolio of financial assets available-for-sale

Amounts in € million

		31 Dec. 17		31 Dec. 16	
		Book value	Gain / (loss) ¹	Book value	Gain / (loss) ¹
Bonds – sovereign debt					
Short term	1	2 982.6	(0.1)	2 895.2	0.5
Of which:					
Portugal		2 982.6	(0.1)	1 909.0	0.2
Italy			500.7		0.2
Spain			485.5		0.2
Medium and long term	2	516.1	1.1	533.4	(3.5)
Of which:					
Portugal		328.9	1.3	338.5	(2.6)
Italy		187.3	(0.2)	194.8	(0.9)
	[= 1 + 2]	3 498.7	1.0	3 428.6	(3.0)
Corporate bonds	4	55.4	(1.6)	154.4	(10.0)
Equities	5	163.7	85.4	117.0	26.5
Other	6	157.6	1.4	176.5	0.2
Total	[= Σ 3 to 6]	3 875.4	86.2	3 876.4	13.7

Table 35

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

Customer resources

Total Customer resources – on- and off-balance sheet – registered a strong € 1.8 billion increase in 2017 (+5.6% yoy).

Customer deposits grew by € 380 million (+1.9%), despite being constrained by a context of downward adjustment of the remuneration of term deposits. At the end of 2017 Customer Deposits totalled € 20.7 billion.

The performance of on-balance sheet resources (+0.6%) was influenced by the deconsolidation and booking off-balance sheet of the BPI Alternative Fund Iberian Equities Long / Short Fund (Lux) at the end of March 2017.

Off-balance sheet Customer resources reported strong growth:

- the portfolio of mutual funds expanded by € 429 million (+7.7% yoy) adjusted for the deconsolidation of the BPI Alternative Fund;

- the amount of subscriptions in Public Offerings by BPI Customers increased by € 846 million in 2017. During the year BPI placed € 1.1 billion Floating Rate Treasury Bonds with Customers.

Total Customer resources
2013 to 2017

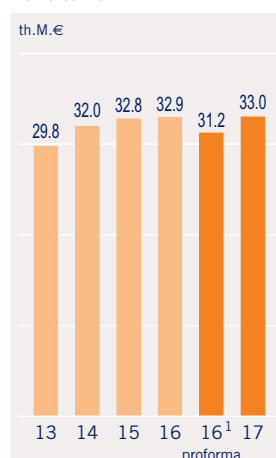


Chart 56

Total Customer resources
Breakdown at 31 Dec. 2017

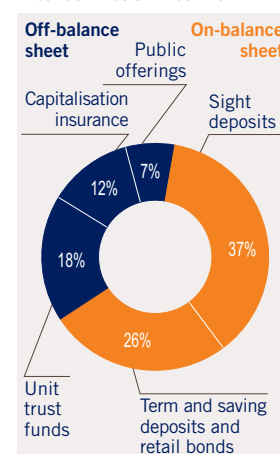


Chart 57

Customer resources portfolio

Amounts in € million

			31 Dec. 17	31 dez. 16 ¹ proforma	Δ%	Pro memoria: Dec.16 as reported
On-balance sheet resources	[= 5 + 6 + 7]	1	20 686	20 556	0.6%	23 973
Deposits						
Sight deposits		2	12 053	10 623	13.5%	10 335
Term and savings deposits		3	8 598	9 589	(10.3%)	9 294
Retail bonds		4	35	94	(62.6%)	94
Deposits	[= Σ 2 to 4]	5	20 686	20 306	1.9%	19 724
Participation units in consolidated mutual funds ²		6		250	(100.0%)	250
Capitalisation insurance of fully consolidated subsidiary		7				4 000
Assets under management	[= Σ 9 to 11]	8	10 123	9 349	8.3%	7 662
Mutual funds ²		9	6 027	5 349	12.7%	5 244
Capitalisation insurance		10	4 096	4 000	2.4%	
Pension plans ³		11				2 418
Public subscription offers		12	2 151	1 304	64.9%	1 304
Total	[= 1 + 8 + 12]	13	32 960	31 209	5.6%	32 940

Table 36

1) Proforma considering sale of BPI Vida e Pensões.

2) In March 2017 the BPI Alternative Fund was deconsolidated and booked off-balance sheet. Adjusted for the deconsolidation of the fund, "Mutual Funds" increased by 7.7% yoy (+€ 429 million).

3) Includes BPI Group Employee pension funds of 1 397 in Dec. 16, as reported.

Contribution to the consolidated net income

Banco BPI holds minority equity holdings in two African banks¹:

- Banco de Fomento Angola (BFA), which operates in commercial banking in Angola. As from January 2017, after selling a 2% stake in BFA to Unitel, Banco BPI holds 48.1% of BFA's share capital, and Unitel the remaining 51.9%;
- Banco Comercial e de Investimentos (BCI), which operates in commercial banking in Mozambique and in which BPI holds a 35.7% stake.

The contribution of BPI's equity holdings in African banks to its consolidated net income in 2017, excluding non-recurring impacts, reached € 205.5 million, which represents an increase of € 39.3 million (+23.6%) relative to the previous year (€ 166.3 million).

BFA continues to report high efficiency and profitability levels (in 2017 its efficiency ratio was 26% and its

standalone recurring ROE reached 42%) and its results steadily demonstrate a strong resilience to Angola's challenging economic environment for the banking activity.

In turn, BCI reported a return on equity (ROE) of 16% in 2017.

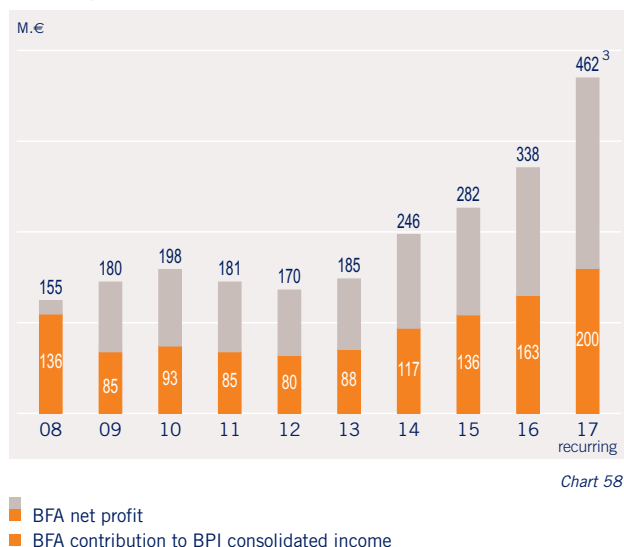
Contribution of equity holdings in African banks to consolidated net income

Amounts in € million

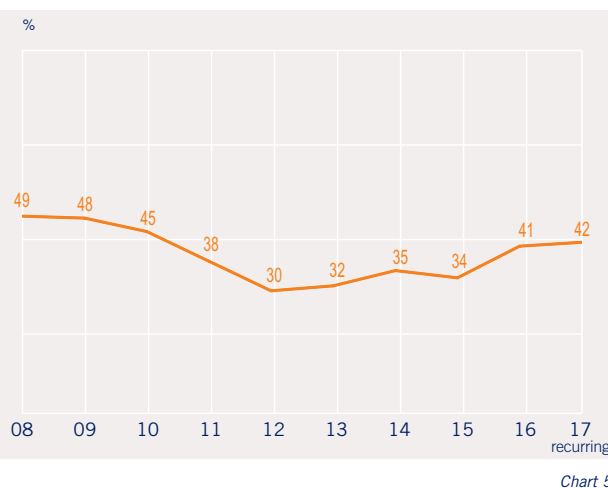
		2017	2016	Δ €M.
Contribution before non-recurring impacts				
BFA	1	199.5	162.7	36.8
BCI and others ²	2	6.0	3.5	2.5
Total	[= 1 + 2]	205.5	166.3	39.3
Non-recurring impacts	4	(319.0)		(319.0)
Contribution as reported	[= 3 + 4]	(113.5)	166.3	(279.7)

Table 37

BFA net profit



Return on BFA's individual shareholders' equity



1) Equity accounted.

2) Includes the contribution of BPI Capital África and BPI Moçambique which, for purposes of geographical segmentation of BPI operations are considered in the International Activity segment.

3) Standalone net income excluding non-recurring impacts booked in the 4th quarter. The standalone net income as reported was € 373 million, with ROE as reported standing at 35% in 2017.

In 2017 BPI recorded non-recurring impacts in the amount of € 319 million relating to the stake in BFA, resulting from:

- in the 1st quarter, -€ 212.3 million¹ impact from the sale of 2% of BFA and deconsolidation, of which -€ 182.1 million correspond to the transfer to the year's net income of negative (accumulated) currency differences resulting from conversion of BFA's financial statements from Akz to Eur;
- in the 4th quarter extraordinary negative impact of -€ 107 million, of which -€ 68.7 million (BPI estimate) resulting from the classification of Angola as a high inflation economy by the international Audit companies and consequent recognition of the stake in BFA in accordance with IAS 29.

The contribution of the equity holdings in African banks to consolidated net income "as reported" includes those non-recurring impacts (-€ 319 million) and was therefore

negative by € 113.5 million.

Note that, from those non-recurring impacts (-€ 320 million²), the impact on equity was -€ 58 million³, consuming approximately 1/3 of the recurring net income generated.

Non-recurring impacts from the stake in BFA

	Amounts in € million		
	On income statement	Directly in reserves	Total on shareholders' equity
Impact from sale of 2% of BFA and deconsolidation ^{2,4}	(212.3)	+182.1	(30.2)
Non-recurring impacts in 4 th quarter	(107.4)	+79.8	(27.6)
Of which:			
Recognition of stake in BFA in accordance with IAS 29 ⁴	(68.7)	+79.8	+11.1
Other impacts ⁵	(38.7)		(38.7)
Total	(319.7)	+261.9	(57.8)

Table 38

Recognition of stake in BFA in accordance with IAS 29 "inflation accounting"

At the end of December the major international audit companies indicated that in 2017 Angola should be considered a high inflation economy under the terms of IAS 29.

BPI's consolidated net income at 31 Dec. 17 includes an extraordinary negative impact of € 107.4 million on BFA's 4th quarter contribution, of which -€ 68.7 million (BPI estimate) resulting from application of IAS 29.

In the consolidated financial statements at 31 Dec. 2017 the amounts estimated by BPI for the recognition of the stake in BFA in accordance with IAS 29 consider an inflation rate of 23% in Angola in 2017 and imply:

- a slight increase (2%) in the value of the 48.1% stake in BFA, due to the revaluation of non-monetary assets (tangible assets);
- a slight increase (of the same amount) in Banco BPI's consolidated shareholders' equity,

albeit with:

- an estimated negative impact on net income resulting from the loss in the net monetary position (-€ 68.7 million);
- counterbalanced by a positive impact on revaluation reserves (foreign exchange).

Impacts on net income and shareholders' equity

	Amounts in € million			
	Impact on net total assets	Deferred taxes	Impacts on shareholders' equity	
			On income statement	On revaluation reserve
Loss in net monetary position	-	-	(68.7)	+68.7
Revaluation of non-monetary assets	+12.4	(1.2)	-	+11.1
Total	+12.4	(1.2)	(68.7)	+79.8
				+11.1

Table 39

1) Corresponds to deferred tax liabilities (€ 36.8 million), capital gains on the sale of 2% of BFA (€ 6.6 million) and the transfer to the year's net income of € 182.1 million negative (accumulated) currency differences resulting from conversion of BFA's financial statements from Akz to Eur.

2) Includes -€ 0.7 million allocated to the Domestic Activity segment.

3) The € 58 million negative impact on equity results from:

- -€ 30 million impact from the sale of 2% of BFA and deconsolidation. The transfer of € 182 million negative currency reserves to the net income for the year through the deconsolidation of BFA, which originated a negative impact of the same amount in net income, was neutral in terms of total shareholders' equity;
- positive € 11 million impact arising from the revaluation of BFA's non-monetary assets (tangible assets) within the framework of application of IAS 29. The -€ 69 million impact in the income statement (BPI estimate) resulting from the accounting recognition of the stake in BFA in accordance with IAS 29 is neutral in terms of total shareholders' equity, as it was counterbalanced by a positive impact of the same amount on the revaluation reserves (foreign exchange),
- another negative impact in the 4th quarter, in the amount of € 39 million.

4) Impacts booked by BPI in the consolidated accounts.

5) Impacts booked by BFA in the standalone accounts.

ACCOUNTING OF SALE OPERATION OF 2% OF BFA AND DECONSOLIDATION

In January 2017 the sale by BPI to Unitel of a 2% stake in the share capital of BFA was concluded. The purpose of this operation was to solve the situation faced by Banco BPI of surpassing the limit to large exposures as a result of BFA's exposure to Angolan sovereign debt. Following this transaction Banco BPI had a 48.1% stake in BFA's share capital and Unitel the remaining 51.9%.

The sale operation of 2% of BFA's share capital and the effects of loss of control, as explained in note 4.9 to the financial statements – "Discontinued operations" – were recognised in the financial statements for the 1st quarter of 2017. The 1st quarter of 2017 financial statements therefore reflect:

- the capital gain on the sale of the 2% stake in BFA's share capital, in the amount of € 6.6 million after taxes;
- the deconsolidation of the stake in BFA and its recognition by the equity method.

In addition, in accordance with the international accounting standards, the change of the consolidation method (deconsolidation) used for BFA had the following consequence:

- the transfer between shareholders' equity captions, of accumulated negative foreign exchange reserves in the amount of € 182.1 million to net income for the year, with a consequent € 182.1 million negative impact on consolidated net profit, but with no impact on

shareholders' equity, as that impact had already been deducted from those reserves. These reserves reflected negative exchange rate changes on translation of BFA's financial statements from kwanzas to euros that were booked directly in accounting shareholders' equity, under the foreign exchange reserve.

- a € 36.8 million increase in the provision for deferred tax liabilities associated with the potential gain on the 48.1% stake kept by BPI in BFA.

In summary, the sale of 2% of BFA had a € 30.2 million negative impact on consolidated equity (€ 6.6 million capital gain, and deferred tax liabilities of -€ 36.8 million).

The impact on consolidated net income was negative by 212.3 M.€, as, in addition to the aforementioned € 30.2 million negative impact, € 182.1 million in negative foreign exchange reserves were also transferred to the net income for the year.

It should be noted that the above mentioned transfer of € 182.1 million in negative foreign exchange reserves to the net income for the year, recognised at the time of change of consolidation method (deconsolidation), represents a change in the accounting treatment of a situation that was already recognised and recorded in BPI's financial statements, as evidenced by the fact that it did not affect BPI's shareholders' equity in the 1st quarter of 2017.

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

Amounts in € million

		Impact on net income	Impact on shareholders' equity attributable to BPI shareholders
Capital gain on sale of 2%			
Proceeds from sale of 2% of BFA	1	28.0	28.0
(-) Amount of BFA's shareholders' equity corresponding to the equity holding	2	(18.7)	(18.7)
Capital gain before taxes [= 1 + 2]	3	9.3	9.3
(-) Taxes on capital gain	4	(2.7)	(2.7)
Capital gain on sale of 2% stake (after taxes) [= 3 + 4]	5	6.6	6.6
Deferred taxes on the unrealised gain on the 48.1% stake in BFA retained by BPI	6	(36.8)	(36.8)
Recognition in net income for the year of the (accumulated) foreign exchange differences arising on translation to euros of the 50.1% stake in BFA	7	(182.1)	-
Total impact [= 5 + 6 + 7]	8	(212.3)	(30.2)

Table 40

**Profitability, efficiency, loan quality and solvency consolidated indicators according to the Bank of Portugal
Instruction 16 / 2004**

	31 Dec. 17 as reported	31 Dec. 17 excl. impact of sale of 2% of BFA and deconsolidation, capital gain on sale of BPI Vida and extraordinary impacts in BFA	31 Dec. 16
Operating income from banking activity and income from equity accounted associated companies / Average total assets	1.9%	2.8%	1.8% ¹
Net income before income tax and income attributable to non-controlling interests / Average total assets	0.3%	1.2%	1.3% ¹
Net income before income tax and income attributable to non-controlling interests / average shareholders' equity (including non-controlling interests)	3.7%	14.7%	18.8% ¹
Personnel costs / Operating income from banking activity and income from equity accounted associated companies ²	42.1%	28.9%	40.6% ¹
Overhead costs / Operating income from banking activity and income from equity accounted associated companies ²	71.8%	49.2%	67.1% ¹
Loans in arrears (more than 90 days) + doubtful loans as % of total loans (gross)	2.5%		3.2%
Loans in arrears (more than 90 days) + doubtful loans, net of accumulated loan impairments as % of total loans (net)	(0.1%)		0.1%
Credit at risk as % of total loans (gross) ³	2.9%		3.9%
Credit at risk ³ , net of accumulated loan impairments as % of total loans (net)	0.3%		0.8%
Restructured loans as % of total loans (gross) ⁴	5.0%		6.5%
Restructured loans not included in credit at risk as % of total loans (gross) ⁴	3.8%		4.8%
Total capital ratio	14.6% ⁵		11.4% ⁶
Tier I ratio	13.2% ⁵		11.4% ⁶
Common Equity Tier I Ratio	13.2% ⁵		11.4% ⁶
Customer loans (net) to Customer deposits ratio	105%		106%

Note: The calculation of the above indicators considers the Group perimeter subject to supervision by the ECB, i.e., BPI Vida e Pensões (sold in Dec. 17) was equity consolidated (while in the consolidated accounts, according to IAS / IFRS, that entity was fully consolidated).

Table 41

1) 2016 proforma considering the restatement of the contribution of BPI Vida e Pensões, BPI Gestão de Ativos and BPI GIF to consolidated net profit in conformity with IFRS 5, shown in net income from discontinued operations.

2) Excluding early-retirement costs and changes to the plan (personnel costs).

3) Credit at risk corresponds to the sum of: (1) the total outstanding value of loans with overdue instalments of principal or interest for a period of 90 days or more; (2) the total outstanding value of loans which have been restructured after having been overdue for a period of 90 days or more, without adequate strengthening of guarantees (which must be sufficient to cover the total value of outstanding principal and interest) or full repayment of overdue interest and other charges; (3) the total outstanding value of loans with overdue instalments of principal or interest for a period of less than 90 days, but for which there is evidence justifying their classification as credit at risk, namely bankruptcy or liquidation of the debtor.

4) In accordance with Bank of Portugal *Instruction 32 / 2013*.

5) According to the CRD IV / CRR phasing-in rules applicable in 2017.

6) According to the CRD IV / CRR phasing-in rules applicable in 2016.

ATA = Average total assets.

Risk management

An appropriate and effective risk management should be based on an ongoing identification, evaluation, monitoring and reporting of exposure to the different risks (credit risk, country risk, market risks, liquidity risks, operational risks and or other risks). Risk management should be aligned with the implementation of strategies to maximise results against risks, within the risk appetite established and in accordance with the Bank's overall risk strategy.

2017 was characterised by changes in BPI that have significantly improved its risk management, with short- and medium-term effects:

INTERNAL FRAMEWORK

In 2017, as a result of changes in BPI's ownership structure at the beginning of the year, BPI updated its risk management structure, including the departments and committees involved in that function.

The new risk management structure adopted by BPI was aimed at aligning BPI with CaixaBank, and at converging with the new international guidelines on internal governance, which have reshaped the institutions' internal governance best practice standards.

REGULATORY FRAMEWORK

With the aim of establishing policies that strengthen institutions' internal governance, the EBA published in September 2017 its 'Final Guidelines on Internal Governance'. The Guidelines' main focus is to strengthen the role of the risk management function in information flows between this area and the Bank's management bodies and in the communication with supervisors.

BPI will continue in 2018 to review and adjust its structure in order to adapt it to the new guidelines.

IFRS 9 Accounting Standard

Due to its importance, emphasis is put on the implementation of the IFRS 9, which became effective on 1 January 2018. The objective of this standard is to develop a financial reporting standard to improve international coordination in accounting regulations and to guide entities to recognise losses (expected loss) in advance, compared with what happened so far with IAS 39 (incurred loss).

This new accounting standard sets out in detail the requirements for recording and accounting for financial assets, focusing on three stages: classification and measurement of assets, calculation of impairment losses and financial reporting (hedge accounting).

IFRS 9's most material impact is on the calculation of impairments and on the governance model. These are the main changes:

- under IFRS 9, the expected loss is recognised at the initial stage, as opposed to IAS 39, which was based on a credit risk loss model;
- the expected loss calculation model takes into account a forecast component that includes prospective and macroeconomic information;
- for exposures that have significantly deteriorated, the expected loss for the life of the operation will be calculated using a lifetime PD for the purpose;
- in order to appropriately distinguish exposures, the IFRS 9 impairment model is based on three stages, in accordance with credit quality – credit with “normal” risk, loans with indications of default and defaulted loans (mostly non-performing loans).

This project was implemented at BPI, across the whole organisation, and was supported by a committee specifically created to monitor the implementation of the Standard.

The Accounting Standard IFRS 9 will require BPI to increase loan portfolio impairments by € 36 million, which corresponds to a negative impact of € 26 million on shareholders equity and to a -0.2 p.p. impact on the CET1 fully loaded ratio.

BPI will recognise at once those impacts on the date said standard enters into force (1 January 2018), not making use of the phasing-in regime provided for that recognition.

Information Governance and Data Quality Project

In 2017, BPI started its project to adopt the Basel Committee guidelines “Principles of effective risk data aggregation and risk reporting”, which establish fundamental requirements for the quality of the financial information of Institutions. These guidelines provide for an internal governance framework for the management and control of information that should be based on a centralised repository, with control and reporting processes ensuring quality and reconciliation.

This project, which crosses the Bank’s various Departments and will be implemented in phases, is supported by CaixaBank. BPI’s sequential adoption of Risk Data Aggregation principles focuses first on the most relevant reports for the Bank’s top management and the regulator.

In 2017, there were also a number of other regulatory changes and news with future implications for risk management, namely: CRC 5G, Basel III revised, new EBA guidelines on PD estimation, losses due to non-compliance or treatment of non-performing loans, Banco de Portugal’s notice on Customer solvency, Guidance on high NPL Banks, etc.

ORGANISATION

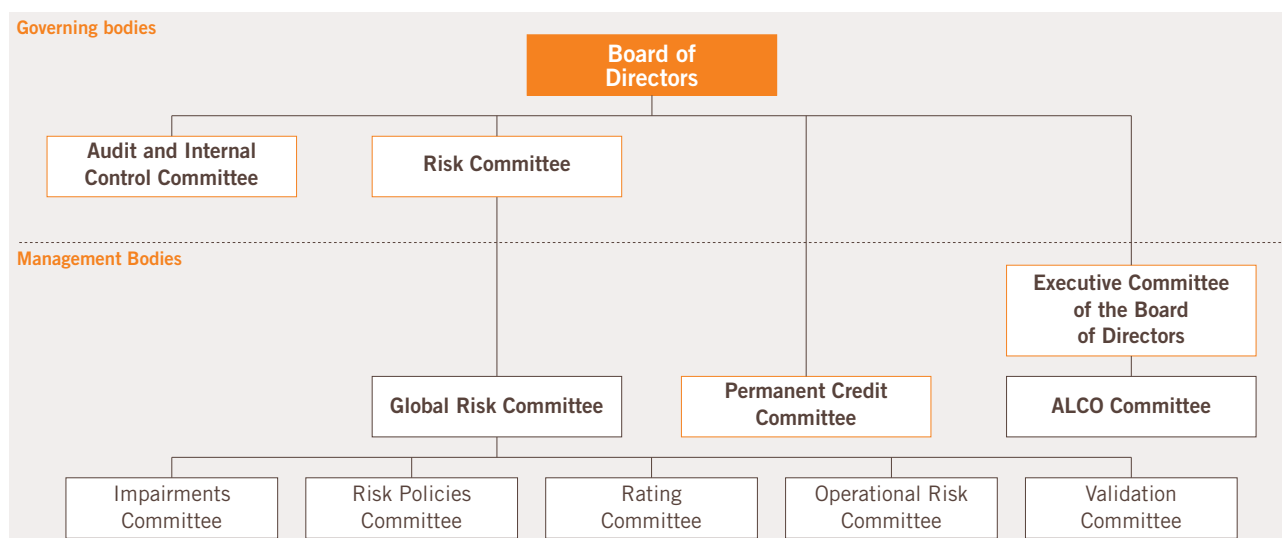
The person in charge of the Risk Management function at BPI is an Executive Director (Chief Risk Officer), who is not directly responsible for commercial departments.

The risk oversight function is assigned to an advisory body of the Board of Directors – the Risk Committee – composed of non-executive directors.

The Risk Committee receives periodic and up-to-date information and reports from the Chief Risk Officer. The meetings of the Risk Committee may be attended, if deemed appropriate and upon the Committee’s request, without voting rights, by members of the Executive Committee, namely the Chief Risk Officer, and other persons discharging managerial responsibilities, in view of their expertise in risk matters.

The Risk Committee, without prejudice to the legal powers granted to the Supervisory Board, is responsible for monitoring the management policy of all risks of BPI’s business, namely the liquidity, interest rate, currency rate, market, credit, operational risks and reputational risk, as well as for monitoring the management policy of the Company’s Pension Fund. This Committee is also responsible for submitting to the Board of Directors any change to risk policies, and for reporting on main exposures and risk indicators.

It is also the responsibility of the Risk Committee to inform and advise the Board of Directors in making decisions that impact on the Bank’s current and future risk and strategy profile.



Under the aegis of the Risk Committee there are several first- and second-tier Committees, which, together with the Board of Directors and the Risk Committee itself, constitute the Risk Governance and Management Bodies of BPI.

Structure of the Risk Committees

The following committees stand out, on account of their importance:

Global Risk Committee

The Global Risk Committee is responsible for the management, control and monitoring of risks at BPI. This body is dependent from and reports directly to the Risk Committee.

As part of its main duties, this Committee is responsible for guaranteeing that the risk levels and the decisions taken are in agreement with the risk strategy established by the Board of Directors in the Risk Appetite Framework.

The Global Risk Committee is responsible for monitoring the activity of the second-tier committees and for ensuring that the risk policies are duly updated and implemented.

Standing Credit Committee

Matters related to loan granting are delegated by the Board of Directors to the Standing Credit Committee. This Committee is responsible for analysing and approving operations that are within its level of competencies, escalating to higher bodies those operations that, due to their characteristics, require such level of approval – among these are individual operations or exposure limits whose amount is higher than the maximum amount allowed by the regulation, transactions with Customers covered by Articles 85 and 109 of the General Regulation of Credit Institutions and Financial Companies (*“Regulamento Geral das Instituições de Crédito e das Sociedades Financeiras”*) or operations with Customers that are holders of high offices, Trade Unions, Political Parties or Politically Exposed Persons (PEPs) not covered by the criteria established in internal regulations.

Its scope of powers and duties includes the approval of operations, exposure limits, operations subject to internal divergences, limits or operations to be submitted to the Executive Committee of the Board of Directors or to the

Board of Directors of the Company, and operations with Customers that are holders of high offices, Trade Unions, Political Parties or PEPs, under the terms foreseen in the policies in force in BPI.

In its decision-making, this body must ensure that the limits set for Major Exposures are met, both internally and at group level.

ALCO Committee

The ALCO Committee is responsible for managing structural liquidity, interest-rate, and exchange-rate risks. Within the powers and duties attributed to it stand out the responsibility for optimising the profitability of the financial structure of BPI's balance sheet, including the Financial Margin and Income from Financial Operations, for determining the transfer rates for the different businesses, and for the monitoring of prices, maturities and volumes of asset- and liability-generating activities, in accordance with the policies, risk appetite framework and risk limits approved by the Board of Directors.

Structure of the Risk Divisions

The risk management function is structured into three divisions under the responsibility of the Chief Risk Officer: the Global Risk Management Division, the Credit Risk Division, and the Credit Recovery Division.

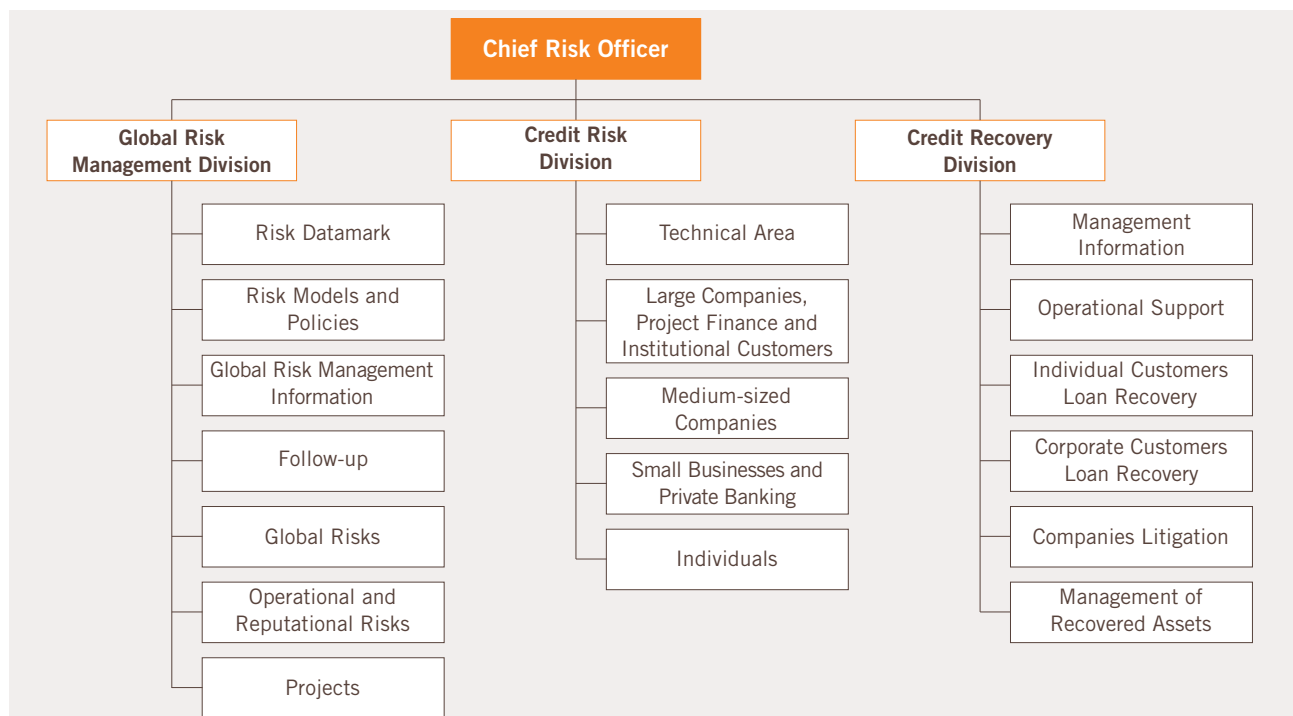
The **Global Risk Management Division** is a centralised and independent structure that deals with the analysis and control of risk in accordance with the best organisational practices in this domain and with the requirements of the Basel Accord. This Division is responsible for monitoring all global risks, except for legal and compliance risks, and for the management of BPI's Risk Datamart.

Operational risk management is entrusted to a specific area of the Global Risk Management Division, exclusively dedicated to operational and reputation risks, and to Employees specifically appointed in each division of the Group, responsible for the identification, monitoring and mitigation of operational risk within their scope of action. All the Divisions of Banco BPI and of BPI Companies have appointed Employees who are dedicated to the specific management of operational risk within their respective sphere.

The **Credit Risk Division** is responsible for the function of independent analysis of proponents, sureties and operations, backed by the various risk indicators and scoring models produced by the Global Risk Management 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 **Credit Recovery Division** manages the credit recovery processes of defaulting loans to Companies and Individuals.

It should be noted that the Individuals' Credit Risk Division was extinguished in 2017, with responsibilities for individual Customers' loan decisions and loan recoveries being transferred to the Credit Risk Division and the Credit Recovery Division, respectively.



Compliance risk is subject to specific monitoring by the Compliance Division, while Business Continuity and Data Security risks are specifically monitored by the Security

Division. This management model is supported by three committees: Operational Risk Committee, Data Security Committee and Business Continuity Committee.

RISK APPETITE FRAMEWORK

Background

After the 2008 crisis, the regulators reinforced the need for financial institutions to possess a Risk Appetite Framework defining control systems, metrics and limits for the material risks to which they are exposed, as well as the responsibilities 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 other Risk Management bodies. Later, the European Banking Authority and the Single Supervisory Mechanism endorsed these recommendations, which now constitute one of the factors for assessment of 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: the Risk Appetite Framework and the Risk Appetite Statement. In these documents the Bank sets out the types and levels of risk that it is prepared to assume in pursuance of its objectives, taking into consideration the Group's risk strategy and business.

The Group's Risk Appetite Statement was revised in 2017, including the definition of level 1 metrics, monitored by the Board of Directors, and the implementation of Level 2 metrics, monitored by the Global Risk Committee.

Description and structure

BPI, in a process consistent with its other strategic documents – Budget, Recovery Plan and 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:

- **Protection against losses:** BPI has as its objective to maintain a medium-low risk profile and a comfortable capital adequacy position, so as to strengthen its position as one of the most solid entities in the Portuguese banking market.
- **Liquidity and funding:** BPI is determined to have the conditions in place to at all times fulfil its contractual obligations and meet its funding needs in a timely manner, even under adverse market conditions, and to have a stable and diversified funding base, preserving and protecting the interests of its depositors.
- **Business Composition:** BPI seeks to establish a solid position in retail banking and to generate earnings in a balanced and diversified manner.
- **Non-financial risks:** BPI assumes the commitment of maintaining high ethical and governance standards in its business and will actively seek to ensure its operational excellence.

The Board of Directors is responsible for the approval and monitoring of the Framework, and for any corrections to its metrics. The monitoring 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 the strategic goal pursued;
- **Tolerance:** risk level considered significant by the Bank, which should lead to a discussion and possibly the assessment of corrective action;
- **Limit:** indicates the level at which risk represents a serious threat to the Bank's business, requiring immediate remedial action, and an action plan prepared by the area responsible for risk control.

There is also 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 30 days, to be reviewed and approved by the Board of Directors' Executive Committee and by the Board of Directors.

BPI also has a Framework in place for level 2 metrics. More detailed metrics are defined that allow each division to manage risk in accordance with their individual specificities.

Monitoring and Governance of the Risk Appetite Framework

The Risk Appetite Framework is coordinated by the Global Risk Management Division, which is responsible for updating, monitoring and reporting on the Framework, under the guidance of the Board of Directors.

In order to ensure that the Framework conforms to best international practices, a reporting structure was established to ensure its exhaustive monitoring by the relevant divisions and bodies.

Such monitoring follows a specific timetable:

- monthly presentation to the Global Risk Committee, which assesses, reviews and discusses the current risk situation, instances of overstepped limits / tolerances and the current situation relating to individual metrics; Within its scope of action, the ALCO Committee independently monitors the liquidity and interest rate metrics.
- quarterly presentation to the Risk Committee and Audit and Internal Control Committee in order to review and discuss the overall risk performance, assess the situation of breached metrics, discuss the situation of individual metrics, and verify the continued effectiveness and adequacy of the Risk Appetite Statement and Risk Appetite Framework;
- half-yearly presentation to the Board of Directors, with the purpose of reviewing and discussing BPI's overall risk performance and deciding on 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 BPI's business spectrum.

The specific analysis of loans to **companies, and small businesses**, or to institutional Customers, follows the principles and procedures laid down in the credit regulations, and in essence results 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, that is, whose probability of defaulting is high are turned down) 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 in companies' derivative operations, in addition to drafting contracts with clauses providing for compensation for liabilities in the event of default, BPI also seeks to enter collateralisation agreements with its counterparties.

For more details concerning the policy on the assessment and management of collaterals, see the "Market Discipline" report 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. Loan agreements typically provide for 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 results 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 or maximum age limits; others.
- Exposure limits: evaluation of the present capability to service debt through the calculation of the loan repayment to income ratio (the "effort rate" or the estimated value of the savings of the loan applicants, guarantors or sureties. As a general rule, applications where the effort rate ratio is considered to be excessive or where savings are only 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 Credit Risk Division. Potential Customers whose classification places them at risk which is deemed to be excessive, that is, whose probability of defaulting is high, are turned down.
- 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 risks¹. In the most expressive segment – home loans –, the relationship between loan and security (or loan-to-value ratio) has a maximum ceiling of 85%.

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.

A posteriori, the Bank maintains constant vigilance over the behaviour of its exposure to different counterparties², and over the trend of its portfolio (diversification by geographical area, industry sector, loan segment, counterparty, currency and maturity).

The Bank also keeps constant vigilance over the earnings and profitability ratios achieved *vis-à-vis* the risks assumed.

Problematic loans, provisioning coverage ratios, 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 solution that is expected to maximise the amount to be 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, may involve extending the maturity period and possibly even a moratorium on principal, with the payment of interest in arrears and reinforced security. Also as a rule, the Bank does not reinforce its exposure, neither does it accept payment in specie or convert debt into capital. Once a restructuring operation has been completed, 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 length of default and on the loan product, and it could involve extending the maturity period and implementing a payment plan of outstanding and unpaid instalments, amongst other solutions. There is also a system in place 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 for 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 material loans. Impairment losses and provisions are evaluated monthly by the Global Risk Committee, reviewed half-yearly by the external auditors and analysed regularly by the Risk Committee.

In addition to the Board of Directors, the Risk Committee, the Audit and Internal Control Committee, the Supervisory Board, the Global Risk Committee and the Global Risk Management Division, the internal and external auditors and the supervision authorities act as control agents of the entire process³ described above.

1) For more details concerning the policy for evaluating and managing collateral, see the "Market Discipline" report published on the Investor Relations website.

2) A more detailed description on the issue of risk concentration may be found in the "Market Discipline" report, which is available for consultation on the Investor Relations website.

3) As part of their audit and statutory audit of Banco BPI's consolidated accounts, the external auditors also contribute to the process of controlling the various risks to which BPI is exposed.

DESCRIPTION OF THE METHODOLOGIES FOR THE CALCULATION OF 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 Private Banking and International Private Banking exposures of € 250 thousand or more.

In the case of Institutional Banking and the State Business Sector, all entities are subject to an individual analysis. In the Corporate Banking, Project Finance, and Individual and Small Businesses (commercial loans and equipment and real estate leasing) segments, groups with the more relevant exposures (€ 250 thousand or more) are also subject to an individual analysis. The analysis is performed on a collective basis for less significant exposures. In the Individual and Small Businesses segment, collective analyses are undertaken separately for the following portfolio: Equipment Leasing, Real Estate Leasing and Commercial Loans.

The impairment losses in operations recorded in the loan portfolio are calculated by means of individual analysis, and these are monitored by the Financial Division.

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

The calculation of individual impairment is done operation by operation. The following, among others, constitute objective indications of the existence of individual impairment:

- Incidents and defaults (not accidental);
- Record of Incidents in Bank of Portugal's Central Credit

Register ("CRC");

- Risk warnings indicative of a deterioration in the situation of Individual Customers and of the Group / Company;
- Attachment / seizure of account;
- Applications for insolvency;
- Debts to the Tax Authorities and Social Security;
- Increase in the probability of default (including Scorings / Ratings beyond the prescribed rejection threshold and restructuring / renegotiation of loans due to the deterioration of risk);
- Depreciation in the value of the collateral.

The final calculation of individual impairment is based on an 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 loans with incidents); or simply of a loss in the case of default (for non-performing loans).

The expected loan recovery value contains a judgement as to the value of the cash flows to be presented by Customers, based on both their historical economic and financial performance and on the expectation of their future performance. The expected value of the loan recovery obligatorily includes the cash flows that could result from the execution of the guarantees or collateral associated to the loan. 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 definitively closed. The valuation of foreclosed properties is entrusted by Banco BPI to duly accredited external real estate appraisers, independent of the Bank, who must obligatorily inspect the interior of the property. The object of these valuations 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 (2013 edition);
- *Bank of Portugal Notice 5 / 2006* (Valuation of Mortgaged Properties pledged as Guarantee for Mortgage Bond Loans);
- *Regulation (EU) no. 575 / 2013* on the prudential requirements for credit institutions and investment firms.

The "Market Value" of a property is the price for which an asset can be sold under a contract between an interested

seller and a buyer with the means to acquire the asset at the valuation date, on the assumption that the property is put on sale publicly, that market conditions permit a normal transfer of the asset and that there is a reasonable period of time, taking into account the nature of the property, to negotiate the sale. Three valuation methods can be used to determine "Market Value": "Market method", "Income method" and "Cost method".

To calculate collective provisions for the most relevant loan portfolios (Home Loans, Companies and Business loans), the portfolios are segmented under three classifications: without indications, with indications, and default. Indications of impairment are considered to exist in the following cases:

- negative information recorded in Bank of Portugal's Central Credit Register and in the List of Risky Cheque Users;
- "Special Revitalisation Process" under way;
- restructuring due to financial difficulties, as defined in Bank of Portugal's *Instruction no. 32 / 2013*;
- overdue loans by more than 30 days.

As a rule, a default situation is characterised by the existence of arrears of more than 90 days or the taking of legal action. 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, default is an absorbing state and therefore the concept of a remedial period does not apply.



Segments	Without signs	With signs	Default
Corporate Banking	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).
Small Businesses			
Personal Loan			
Motor Car Finance			
Home Loans	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
Credit Cards			

Based on the abovementioned segmentation, indication probabilities are calculated over an emergency period of 6 months and subsequent transition to a default situation (arrears for 90 days or legal action), up until the final maturity (or during 1 year after the indication, in less important segments).

As a rule, the indication probability curves are established based on the time elapsed since the start of observation of the loans (corresponds to the start of the operations or the start of observation in the historical information considered), since the correction of the indication, arrears or default. As a rule, probability diminishes as more time elapses with no incidents, and the length of time from the initial observation moment increases.

Different curves of probability of transition to default are also built according to the seriousness of the indication and the length of time since the indication was observed. Probability becomes marginally smaller as more time elapses since the indication was observed and the operation / Customer does not go into default.

In case of default, an economic loss is estimated. Based on the historical data for each segment, the payments made by the Customers after 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



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.



Loans without signs

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

Loans with signs

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

Loans in Default

$$\text{Impairment} = \sum_j (\text{Book Value}_j \times LGD_j)$$

time of the default. Different recovery curves are estimated for operations which have been in default for different periods of time (based on the amount outstanding after t months of operations / Customers that remain in default in that month). In the Property Leasing and Home Loan segments, where 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 in relation to those situations (probability of recovery via judicial proceedings multiplied by the percentage of the estimated recovery via judicial proceedings).

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:

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

Evaluation of exposure to credit risk

Companies, Institutional Customers, specialised finance, individual and small businesses

BPI uses an internal rating system for companies (excluding the individual and small businesses segment) 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 2017

Risk Class		Value (€ million)	% of portfolio amount ¹	One-year probability of default ²
E1	1	42.8	0.6%	0.05%
E2	2	376.4	5.5%	0.05%
E3	3	1 180.9	17.2%	0.05%
E4	4	1 715.0	24.9%	0.10%
E5	5	1 111.5	16.2%	0.21%
E6	6	807.2	11.7%	0.24%
E7	7	491.7	7.2%	0.87%
E8	8	386.7	5.6%	3.23%
E9	9	189.5	2.8%	7.43%
E10	10	130.0	1.9%	14.33%
Without rating	11	26.4	0.4%	-
ED1	12	0.0	0.0%	26.94%
ED2	13	0.0	0.0%	57.73%
ED3 (default)	14	417.8	6.1%	100.00%
Total	<i>[= Σ 1 to 14]</i>	6 876.1	100%	0.93%

Table 42

The average 1-year probability of default in the Corporate portfolio, weighted by the value of the liabilities at 31 December 2017, was 0.93%. The loss in the event of default in this segment is on average 21.00%.

The expected loss for the whole portfolio is on average 0.20%.

In the project finance and structured finance areas, the classification system is based on five classes. The portfolio remains mostly composed of projects with “good” or “strong” ratings.

Internal rating of project finance

Breakdown of potential exposure by risk classes at 31 December 2017

Risk Class		Value (€ million)	% of portfolio
Strong	1	127.7	7.7%
Good	2	1 221.8	73.5%
Satisfactory	3	194.4	11.7%
Weak	4	6.4	0.4%
Default	5	110.9	6.7%
NA	6	0	0.0%
Total	<i>[= Σ 1 to 6]</i>	1 661.4	100.0%

Table 43

The segment of individual and small businesses^{3,4}, is currently undergoing a rating evaluation process. Nevertheless, it is possible to estimate for this portfolio an average 1-year default probability and a loss in the event of default of 2.98% and 21.34%, respectively. The average expected loss is 0.64%.

These systems for evaluating counterparty risk are complemented by other methodologies, in particular, the calculation of capital at risk, in accordance with the assessment method enshrined in the regulations on solvency ratios or inspired therein.

Exposure concentration rates 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 on “large exposures”) and a reduced concentration by industry sectors.

According to Bank of Portugal's calculation methodology, the individual concentration rate is 0.36% while the industry sector concentration rate is 7.9%. Geographical concentration is inherent to the location of the Group's 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 probability naturally excludes the ED3 class. The default probabilities presented are forward looking.

3) Excludes operations with Individual Entrepreneurs and Startups.

4) Probabilities of default and loss in case of default are forward looking.

Financial Institutions

In loans and advances 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 capital at risk, in accordance with the assessment method enshrined in the regulations on solvency ratios or inspired therein.

Individual Customers

For individual Customers, a reactive scoring model is applied to each segment, which is designed to assess 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, default probabilities are assessed by behavioural scorings. In the home loan segment the portfolio's average probability of default, weighted by the value of liabilities at 31 December 2017, was 1.02%, while loss in case of default was 11.72%. The portfolio's average expected loss is 0.12%.

Expected loss in loans to Individuals At 31 December 2017

Risk class	1-year probability of default ^{1,2,3}	Loss in case of default ⁴	Expected loss
Home loans	1.022%	11.72%	0.12%
Personal loans	3.127%	25.31%	0.79%
Moto car finance	0.982%	14.25%	0.14%
Credit cards	1.563%	55.39%	0.86%

Table 44

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 segments 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-security ratio in housing loans

	2016	2017
New loans contracted ⁵	75%	75%
Housing loan portfolio	49%	46%
Loans in default	86%	79%

Note: The methodology for calculating the loan to security ratios was revised in 2017. The 2016 figures are restated according to the new methodology.
Operations in default according to the CRR definition of Default.

Table 45

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

Debt securities portfolio

For the assessment of risks in its securities portfolio, BPI primarily resorts to external ratings. The investment portfolio is predominantly composed of 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 probability of default includes situations of overdue loans for less than 90 days.

3) The default probabilities presented are forward looking.

4) The default probabilities presented are forward looking.

5) Loans granted in December 2017.

Bonds and fixed-income securities' investment portfolio¹

Amounts in € million

Rating	2016	%	2017	%
AAA	17	0.3%	0	0
AA	0	0.0%	0	0.0%
A	71	1.3%	58	1.1%
BBB	1 183	21.8%	3 500	69.0%
BB	2 283	42.1%	156	3.1%
B	53	1.0%	55	1.1%
CCC	0	0.0%	0	0.0%
Commercial paper with guarantees from credit institutions	205	3.8%	205	4.0%
Commercial Paper	618	11.4%	606	11.9%
Without rating	988	18.2%	495	9.8%
Total	5 418	100.0%	5 075	100.0%

Table 46

Equities and equity holdings portfolio

The risks inherent in the structural position in the Equities and equity holdings portfolio is not easily measurable by traditional methodologies (such as VaR), given the investment's time horizon, the importance of the positions, or even the absence of market prices. Under the Basel Accord, this risk is treated as credit risk, with the positions, according to regulatorily defined criteria, added to assets and weighted or written off from own funds.

The management and control of those positions and the inherent risks are 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 calculation of exposure, allowing for the offsetting of operations integrated therein and implying the receipt (and payment) of collateral amounts to hedge the risk between the counterparties. The final value of the exposure is also corrected for the amount of the expected loss in the derivative (CVA). At the end of December 2017 the combined effects of these impacts led to a € 167.1 million (gross) reduction in the replacement amount of the derivatives portfolio, to € 113.0 million (net figure after set-off, value correction and collateralisation).

Counterparty Credit Risk

Net exposure to OTC derivatives by type of counterparty

Amounts in € million

	2016	%	2017	%
Over-the-counter market (OTC)				
Financial Institutions	2.1	1.3%	2.2	2.0%
Central Counterparties (CCP)	0.0	0.0%	2.0	1.7%
Local and administrative public sector	0.3	0.2%	0.2	0.2%
Other financial intermediaries	0.3	0.2%	0.1	0.1%
Companies	156.5	98.2%	108.4	95.9%
Insurance companies / Pension funds	0.0	0.0%	0.0	0.0%
Individuals	0.3	0.2%	0.1	0.1%
Total	159.4	100.0%	113.0	100.0%

OTC – Over the counter.
BFA operations excluded in 2016.

Table 47

This method of assessing counterparty risk exposure is complemented by the regulatory approach (own funds regulatory requirements for counterparty credit risk and for CVA).

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

Default levels, provisioning and recovery

BPI registered an improvement in loan quality indicators and a reduction in the cost of credit risk:

- the credit at risk ratio (consolidation perimeter under IAS / IFRS¹) decreased from 3.7% in 2016 to 2.9% in 2017, a considerable improvement relative to its peak at the end of 2014 (5.0%);
- the NPE ratio ("non-performing exposure", under the EBA criteria)² improved by 1.5 p.p., from 6.6% in 2016 to 5.1% in December 2017;
- the coverage of credit at risk by impairments losses and provisions for credit and guarantees on the balance sheet (€ 603 million) and collaterals associated to the credit at risk (€ 462 million) was 163% at the end of 2017;
- impairments losses and provisions for credit and guarantees on the balance sheet (€ 603 million) and collaterals associated to non-performing exposures – NPE (€ 1 049 million) provided a 117% coverage of NPE;
- impairments losses and provisions for credit and guarantees amounted to € 25.2 million in 2017, corresponding to 0.11% of the average loan portfolio, while € 29.8 million in loans, interest and expenses previously written off from assets were recovered;
- properties repossessed in loan recovery operations totalled € 80.3 million (gross balance sheet value) and € 64.5 million net of impairments. The valuation value corresponded to 125% of their net book value;
- net exposure to corporate recovery and restructuring funds totalled € 55 million at the end of 2017.

Credit at risk

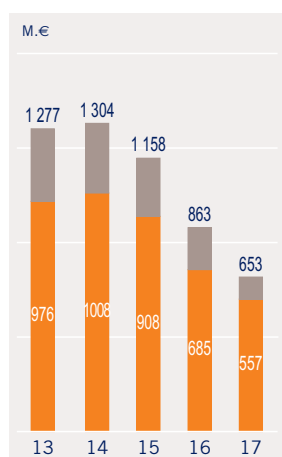


Chart 60

■ 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

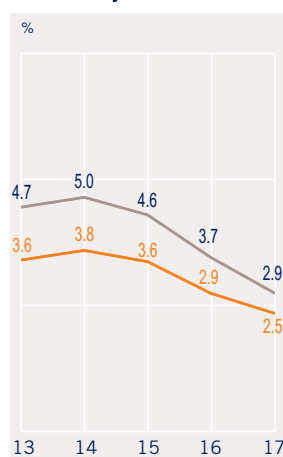


Chart 61

— Credit at risk
— Loans in arrears for more than 90 days

Impairments coverage

Not considering collaterals

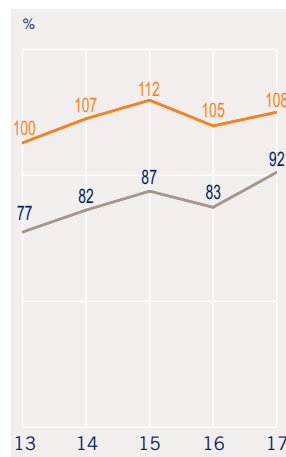


Chart 62

Coverage of:
— Credit at risk
— Loans in arrears for more than 90 days

Property repossessed from loans recovery

Gross value

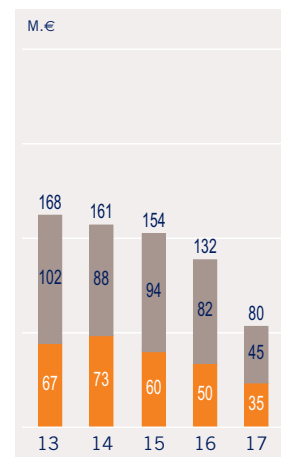


Chart 63

■ Other
■ Housing loans

1) Calculated in accordance with the definition in Bank of Portugal *Instruction 23 / 2011* and considering the consolidation perimeter under IAS / IFRS. Therefore, until its sale in Dec. 2017 BPI Vida e Pensões was fully consolidated and its loan portfolio was included in the consolidated loan portfolio (under the Bank of Portugal's supervision scope BPI Vida e Pensões was equity accounted).

2) Considering the Bank of Portugal supervision perimeter.

Overdue loans, falling due loans and impairments

Consolidated amounts in € million

		2013	2014	2015	2016 ¹	2017
Customer loans portfolio (gross)	1	26 897	26 306	25 260	23 431	22 244
Overdue loans, falling due loans and impairments						
Loans in arrears for more than 90 days	2	976.3	1 008.3	908.2	685.3	556.9
Credit at risk (IAS / IFRS consolidation perimeter) ²	3	1 277.0	1 304.0	1 158.1	862.6	652.7
Impairment losses and provisions for loans and guarantees (accumulated in the balance sheet)	4	978.7	1 075.2	1 012.8	717.7	603.3
Ratios (as % of total loans)						
Ratio of loans in arrears for more than 90 day to total loans [= 2 / 1]	5	3.6%	3.8%	3.6%	2.9%	2.5%
Credit at risk to total loans (IAS / IFRS consolidation perimeter) ¹ [= 3 / 1]	6	4.7%	5.0%	4.6%	3.7%	2.9%
Impairment losses and provisions for loans and guarantees (accumulated in the balance sheet) to total loans [= 4 / 1]	7	3.6%	4.1%	4.0%	3.1%	2.7%
Impairment losses and provisions for loans and guarantees (accumulated in the balance sheet) to loans in arrears for more than 90 days [= 4 / 2]	8	100%	107%	112%	105%	108%
Impairment losses and provisions for loans and guarantees (accumulated in the balance sheet) to credit at risk (IAS / IFRS consolidation perimeter) [= 4 / 3]	9	77%	82%	87%	83%	92%
Write-offs and sales of loans in arrears in the year	10	93.4	106.5	169.3	186.1	83.5

Table 48

The flow of new entries in credit at risk (measured by the change in the balance of credit at risk adjusted for write-offs and sales of overdue loans) has contracted consistently since 2012 and in the last two years there

were actual net reductions in credit at risk. The net reduction in credit at risk was € 22.2 million in 2016 (-0.10% of the loan portfolio) and € -126.4 million in 2017 (-0.56% of the loan portfolio).

Evolution of credit at risk

Consolidated amounts, in € million

		2013	2014	2015	2016 ³	2017
Balance of credit at risk at start of the year	1	1 157.4	1 277.0	1 304.0	1 070.9	862.6
Net entries	2	213.1	133.4	23.4	(22.2)	(126.4)
as % of loan portfolio (average balance) [= 2 / 6]	3	0.80%	0.53%	0.10%	(0.10%)	(0.56%)
Write-offs and sales of loans in arrears in the year	4	(93.4)	(106.5)	(169.3)	(186.1)	(83.5)
Balance of credit at risk at year-end [= 1 + 2 + 4]	5	1 277.0	1 304.0	1 158.1	862.6	652.7
Loan portfolio (average balance)	6	26 587.5	25 387.9	24 546.3	22 595.7	22 559.7

Table 49

1) On 31 December 2016 BFA was classified as a discontinued operation under IFRS 5 and its assets and liabilities were reclassified to the consolidated balance sheet captions "Non-current assets / liabilities held for sale and discontinued operations". BFA's contribution to the 2016 consolidated net profit was booked under "Net income from discontinued operations". In 2017, following the sale of 2% of BFA's share capital and consequent reduction in the equity holding in this bank to 48.1%, BFA started to be equity accounted. Therefore, and since the equity holding in BCI Moçambique is also equity accounted, the consolidated loan portfolio quality indicators as from 31 December 2016 concern only BPI's domestic activity.

2) Calculated in accordance with the definition in Bank of Portugal *Instruction 23 / 2011* and considering the consolidation perimeter under IAS / IFRS. Therefore, until its sale in Dec. 2017 BPI Vida e Pensões was fully consolidated and its loan portfolio was included in the consolidated loan portfolio (under the Bank of Portugal's supervision scope BPI Vida e Pensões was equity consolidated).

3) On 31 December 2016 BFA was classified as a discontinued operation under IFRS 5 and its assets and liabilities were reclassified to the consolidated balance sheet captions "Non-current assets / liabilities held for sale and discontinued operations". To calculate the net entries into credit at risk in 2016, adjusted for the impact of the change in the accounting treatment of the equity holding in BFA on the balance of credit at risk at the start of 2016, BFA's credit at risk on that date (€ 87.1 million) was written off.

The year's charge for impairment losses and provisions for loans and guarantees decreased from € 33.0 million in 2016 to € 25.2 million in 2017. As a percentage of the loan portfolio average balance, impairment losses and provisions for loans and guarantees declined from 0.15% in 2016 to 0.11% in 2017. This compares with an average percentage in the previous 15 years (2002-2016), including

the peaks observed in 2012 and 2013¹, of 0.50%.

The recoveries of loans, interest and expenses previously written off from assets increased by € 16.0 million, from € 13.7 million in 2016 to € 29.8 million in 2017. The 2017 recoveries include one single situation where the amount recovered was € 14.2 million.

Cost of credit at risk

Consolidated amounts, in € million

		2013	2014	2015	2016	2017
Impairments and provisions for loans and guarantees in the year, net as % of loan portfolio (average balance) [= 1 / 6]	1	272.6	193.2	137.0	33.0	25.2
Recovery of loans, interest and expenses in the year	2	1.03%	0.76%	0.56%	0.15%	0.11%
Impairments and provisions for loans and guarantees (net) deducted recoveries of loans, interest and expenses as % of loan portfolio (average balance) [= 1 - 3] [= 4 / 6]	3	17.6	16.5	18.2	13.7	29.8
	4	255.0	176.7	118.8	19.3	(4.6)
	5	0.96%	0.70%	0.48%	0.09%	(0.02%)
Loan portfolio (average balance)	6	26 587.5	25 387.9	24 546.3	22 595.7	22 559.7

Table 50

At the end of December 2017, the credit-at-risk ratio and impairment coverage ratio (without considering the coverage by collateral) in the main Customer segments were as follows:

- large and medium-sized companies – credit at risk ratio of 4.2% and coverage ratio of 123%;
- individual and small businesses – credit at risk ratio of 4.1% and coverage ratio of 97%;

- mortgage loans – credit at risk ratio of 2.9% and coverage ratio of 60%; the analysis of the coverage level should take into account the relevant effect of collaterals (tangible guarantees) in reducing the risk of loss in this segment. The average loan-to-guarantee ratio for the total mortgage-loan portfolio was 46% at the end of 2017;
- consumer loans – credit at risk ratio of 2.9% and coverage ratio of 120%.

Impairments and provisions for loans and guarantees for the year

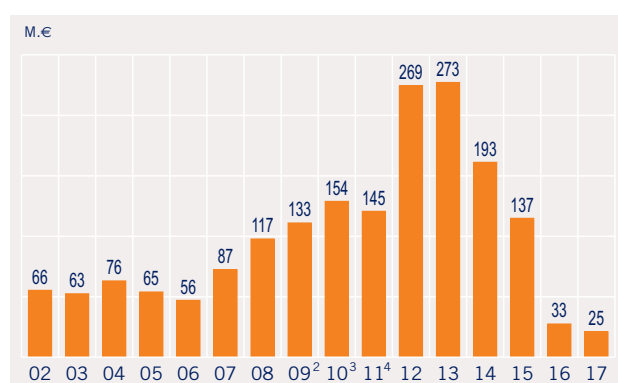


Chart 64

Impairments and provisions for loans and guarantees for the year as % of average performing loans portfolio

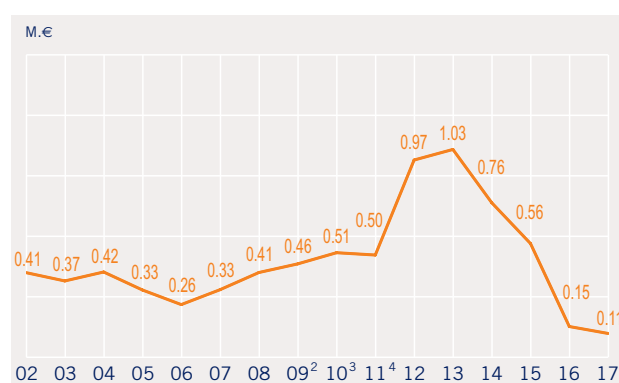


Chart 65

1) The average percentage in the previous 15 years (2002-2016) excluding the highs of 2012 (0.97%) and 2013 (1.03%) is 0.42%.

2) In 2009, the impairment charges considered for the year excluded the extraordinary charge made in December of that year (€ 33.2 million).

3) In 2010 the use of the extraordinary charge made in December 2009 (€ 33.2 million) was added to the impairment charges for the year.

4) In 2011, loan impairment charges for Greek sovereign debt of € 68.3 million were excluded from impairments charges for the year.

Credit at risk and impairment coverage

Consolidated amounts in € million

			2016				2017			
			Credit at risk	Credit at risk ratio	Impairments ¹	Coverage	Credit at risk	Credit at risk ratio	Impairments ¹	Coverage
Loans to individuals	[= 2 + 3]	1	388	3.2%	258	66%	352	2.9%	233	66%
Mortgage loans		2	348	3.1%	212	61%	317	2.9%	191	60%
Other loans to individuals		3	40	4.0%	46	114%	35	2.9%	42	120%
Corporate loans	[= 7 + 8]	4	470	5.7%	445	95%	297	3.6%	366	123%
Companies in Portugal										
Large and medium-sized companies in Portugal		5	275	6.1%	274	100%	199	4.2%	244	123%
Small businesses		6	109	5.7%	94	86%	88	4.1%	85	97%
Total Companies in Portugal	[= 5 + 6]	7	384	5.9%	368	96%	286	4.2%	329	115%
Project Finance Portugal and Madrid branch		8	86	4.8%	77	89%	11	0.7%	37	347%
Other		9	5	0.1%	15	322%	4	0.3%	4	106%
Total	[= 1 + 4 + 9]	10	863	3.7%	718	83%	653	2.9%	603	92%

Table 51

The non-performing exposure (NPE), calculated in accordance with the EBA criteria, decreased by 21%, to € 1 408 million in December 2017. The NPE ratio improved (decreased) by 1.5 p.p. to 5.1%.

The coverage of NPE by accumulated impairments on the balance sheet was 43%; considering also the collaterals associated to the NPE, this ratio was 117%.

Non-performing exposures (EBA criteria)

Consolidated amounts in € million

		2016	2017
Gross credit risk exposure	1	27 076	27 541
Non-performing exposures (NPE)	2	1 790	1 408
NPE Ratio	[= 2 / 1]	6.6%	5.1%
Impairments for loans and guarantees	4	706	603
Coverage by impairments	[= 4 / 2]	39%	43%
Collaterals associated to the NPE portfolio	6	1 269	1 049
Impairments and collaterals associated to NPE	[= 4 + 6]	1 975	1 652
Coverage by impairments and collaterals	[= 7 / 2]	110%	117%

Note: considering the prudential supervision perimeter.

Table 52

Non-performing exposures (NPE)

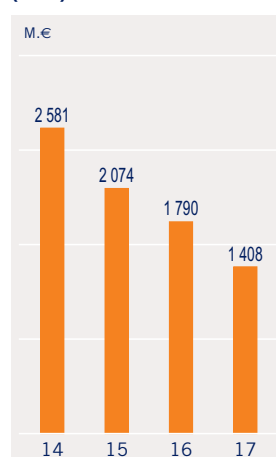


Chart 66

Non-performing exposures ratio (NPE ratio)

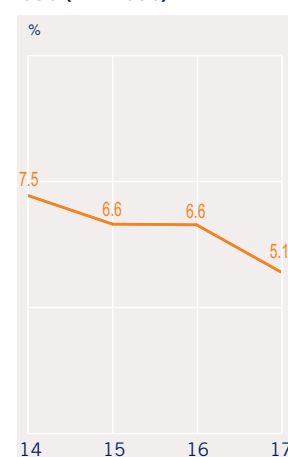


Chart 67

In accordance with the EBA criteria; considering the prudential supervision perimeter.

Non-performing loans, calculated in accordance with the definition adopted by CaixaBank (BPI's consolidating entity) amounted to € 1 219 million in December 2017 and corresponded to 5.1% of the gross loan portfolio and guarantees.

1) Impairments for loans and guarantees.

The coverage of non-performing loans by accumulated impairments on the balance sheet was 50%; considering also the collaterals associated to the non-performing loans, this ratio was 118%.

Doubtful loans

(CaixaBank criteria)

Consolidated amounts in € million			Dec. 17
Gross loan portfolio and guarantees	1		23 817
Non-performing loans	2		1 219
Non-performing loans ratio	[= 2 / 1]	3	5.1%
Impairments for loans and guarantees	4		603
Coverage by impairments	[= 4 / 2]	5	50%
Collaterals associated to non-performing loans	6		834
Impairments and collaterals associated to non-performing loans	[= 4 + 6]	7	1 438
Coverage by impairments and collaterals	[= 7 / 2]	8	118%

Table 53

Restructured loans

The amount of restructured loans (forborne loans, under the EBA criteria) was € 1 253 million at the end of December 2017. Of this amount, 46% are performing loans and the remaining 54% are included in the balance of non performing exposures (NPE).

Forborne loans

(EBA criteria)

Consolidated amounts in € million			Dec. 16	Dec. 17		
				Performing loans	Included in NPE	Total
Forborne loans (€ million)	1		1 489	571	682	1 253
Forborne ratio (as % of gross credit exposure)	2		4.9%	1.9%	2.2%	4.1%

Note: considering the prudential supervision perimeter.

Table 54

Restructured loans

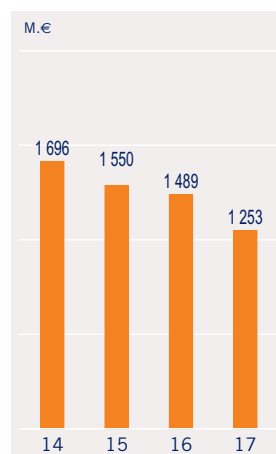


Chart 68

Restructured loans ratio

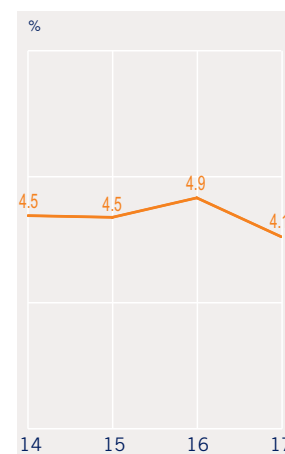


Chart 69

Forborne, in accordance with the EBA criteria; considering the prudential supervision perimeter.

Foreclosed properties

In 2017 a total of 538 properties repossessed in loan recovery operations were sold, for € 65 million. This had a positive impact on net income before income tax of € 11.9 million.

At the end of 2017, the stock of foreclosed properties held by BPI had a gross balance sheet value of € 80.3 million. Of this amount, € 35.2 million relate to properties obtained through home-loan recoveries and € 45.1 million referred to properties repossessed for the recoupment of other loans.

On the same date the accumulated amount of impairments for foreclosed properties was € 15.8 million. Therefore the net balance sheet value of these properties was € 64.5 million, which compares with their market value of € 80.4 million (125% of net balance sheet value).

Foreclosed properties

By source of credit

Consolidated amounts in € million

		Dec. 16			Dec. 17		
		Home loans	Other	Total	Home loans	Other	Total
Gross amount	1	50.1	81.6	131.7	35.2	45.1	80.3
Impairment	2	1.7	29.3	31.0	1.2	14.6	15.8
Coverage by impairments	[= 2 / 1]	3%	36%	24%	3%	32%	20%
Net value	[= 1 - 2]	48.4	52.3	100.7	34.1	30.5	64.5
Market value	5	61.2	66.9	128.1	43.4	37.0	80.4

Table 55

Holdings in corporate recovery and restructuring funds

Banco BPI holds participation units in specialised loan recovery funds (“*Fundo de Recuperação, FCR*” and “*Fundo de Reestruturação Empresarial FCR*”) which were subscribed against the transfer to these funds of Customer loans.

At the end of December 2017, the share capital subscribed by BPI in the *Fundo de Recuperação, FCR* and *Fundo de Reestruturação Empresarial FCR* amounted to € 100.1 million, which represented 2% only of the overall share capital of the corporate recovery and restructuring funds in the market (€ 4.7 billion).

BPI's paid-up share capital in these funds was € 90.3 million (€ 86.5 million in the *Fundo de Recuperação, FCR* and € 3.8 million in the *Fundo de Reestruturação Empresarial FCR*).

The Bank carried total accumulated impairments for these funds of € 34.7 million and unrealised capital losses of € 0.3 million, making up a net exposure of € 55.3 million.

Net exposure to corporate recovery and restructuring funds

Consolidated amounts in € million

		Fundo Recuperação, FCR	Fundo Reestruturação Empresarial, FCR	Total
Subscribed share capital	1	95.6	4.5	100.1
Paid up share capital	2	86.5	3.8	90.3
Impairments	3	(34.7)	-	(34.7)
Capital gains / (losses)	4		(0.3)	(0.3)
Net exposure				
[= 2 + 3 + 4]	5	51.8	3.6	55.3

Table 56

COUNTRY RISK

Management process

Country risk is associated with specific changes or 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 of the agreement, irrespective of the counterparties' will or capacity. The "country-risk" designation is also used to classify the risk of the counterparty involved in loans to state entities, given the similarity between the analysis methods for country risk and those used for a State's counterparty risk (sovereign risk).

The individual risk evaluation of each country is done with the support of external ratings, external surveys (IIF and others) and in-house surveys compiled by a specialised team that until the end of 2016 was included in the Financial Division. At the beginning of 2017 this team was integrated into the Credit Risk Division, bringing the country-risk management process closer to that for credit risk.

Upon 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 countries whose country risk is considered to be immaterial.

Exposure to country risk is overseen and controlled by the Global Risk Management Division.

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 area countries. As regards group B countries, the main exposures are loans to the State of Angola and the State of Cape Verde with guarantees of the Portuguese Republic (see table). Of the remainder, a good part refer to trade finance operations and / or loans to Portuguese emigrants residing in the country concerned (in both cases with mitigated country risk).

Exposure to country risk

At 31 December 2017

Amounts in € million

Country	Net exposure	
	2016	2017
A Group countries		
Euro area	2 632	1 419
Other EU countries	107	145
Switzerland	35	52
USA	32	25
Other	24	21
Offshores	13	1
	2 843	1 663
B Group countries		
Angola	197	294
Mexico	57	54
Mozambique	36	28
Venezuela	11	9
Other	37	26
	337	412
Total	3 180	2 075

Notes:

The exposure includes balance sheet (actual) and off-balance sheet (potential) operations.

The exposure values are all gross of impairments.

Table 57

MARKET RISK

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 changes in the price of financial instruments or operations.

Since trading activity is a bet on the behaviour of prices, market risk is the fundamental element for this portfolio. However, the management and mitigation of market risks are equally important elements in the management of the banking book.

TRADING POSITIONS

Management process

The trading positions are managed autonomously by the traders and kept within the exposure limits by market or product, which are fixed and revised periodically. There are different types of exposure limits, including limits on nominal trades, limits on the value-at-risk (VaR), stop-loss limits, etc.

The Bank's trading activity has had little expression in recent years. As a result of BPI's integration in CaixaBank Group, BPI's trading for own account will be even more reduced going forward.

Evaluation of exposure to market risk

Exposure in trading operations is assessed through a daily routine calculation of VaR according to standard assumptions. The exposure in options is controlled using specific models. The information obtained from the Risk Assessment and Control System is available to the 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

Amounts in € million

	2016		2017	
	Average VaR	Maximum VaR	Average VaR	Maximum VaR
Interest Rate Risk	1.4	5.7	0.2	1.0
Foreign Exchange Risk	0.0	0.2	0.1	0.4
Equities Risk	0.8	2.9	0.5	1.2
Commodities Risk	0.0	0.0	0.0	0.0

Table 58

INTEREST RATE RISK ON THE BANKING BOOK

Management process

The management of interest rate positions in the banking book (therefore excluding trading activity) is delegated to the Financial Division, within the limits defined by the Executive Committee of the Board of Directors.

The most salient objective of the management of interest rate risk in the banking book (IRRBB) is the systematic hedging of risk arising from interest rate positions above 1 year. The IRRBB management and control is the responsibility of the Global Risk Management Division.

Evaluation of exposure to interest rate risk

The evaluation and control of positions subject to interest rate risk in the banking book was previously based on an internally developed model.

In 2017 it was decided to start using CaixaBank's model in order to monitor IRRBI in BPI. This move, in addition to aligning methodologies within the group also permitted to capture the benefits of using a more advanced model.

The model calculates the evolution of the financial margin and economic value of the Bank for a horizon of analysis both in a neutral position and in several scenarios of variation of interest rates under stress.

For instance, a classical stress test to a 200 basis points change in interest rates points to an impact close to zero in the financial margin (-1.3 M.€¹).

EXCHANGE RATE RISK

Management process

The management of exchange rate risk is delegated to the Financial 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 equity holdings 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. A foreign currency position held by BFA in Kwanza was hedged at the end of 2017.

A stress test to Banco BPI's consolidated position was carried out as at 31 December 2017, excluding the trading portfolio, with a 30% shock in Kwanzas and a 20% shock in the remaining currencies.

1) This stress test was carried using the internal methodology of the bank and consists in the simulation of an instantaneous 200 basis points rise in the interest rates of assets and liabilities considered to be interest-rate sensitive within a time horizon of 1 year.

Exchange rate risk

Position at 31 December 2017 (prudential consolidation)

Amounts in € million

	Assets and liabilities by currency				
	EUR	USD	AKZ	Other currencies	Total
Assets					
Cash and deposits	1 124	14	0	48	1 187
Financial assets held for trading at fair value through profit or loss	282	17	2	0	301
Available-for-sale financial assets	3 815	60	0	0	3 875
Loans and advances to credit institutions	423	269	0	33	725
Customer loans	21 552	47	0	60	21 659
Hedging derivatives	12	1	0	0	13
Tangible and intangible assets	87	0	0	0	88
Investments in associated companies and jointly controlled entities	137	1	576	81	795
Tax assets	436	0	0	0	436
Other assets	494	6	58	5	563
	28 361	414	636	229	29 640
Liabilities					
Resources of central banks	1 995	0	0	0	1 995
Financial liabilities held for trading	168	2	0	0	170
Resources of other credit institutions	1 612	341	0	30	1 983
Resources of Customers and other debts	19 244	1 382	0	158	20 784
Debt securities issued	237	0	0	0	237
Financial liabilities relating to transferred assets	478	0	0	0	478
Hedging derivatives	69	1	0	0	70
Provisions	64	0	0	0	64
Tax liabilities	72	0	0	0	72
Other subordinated debt and participating bonds	305	0	0	0	305
Other liabilities ¹	620	5	0	1	627
Foreign exchange operations pending settlement and forward position operations	1 408	(1 316)	0	(60)	32
Foreign exchange transactions pending settlement	1 408	(1 317)	0	(61)	30
Non-revalued currency position	0	1	0	0	2
	26 273	415	0	129	26 817
Shareholders' equity attributable to BPI shareholders	2 151	0	576	96	2 824
Non-controlling interests	0	0	0	0	0
Foreign exchange position	(62)	(1)	59	4	0
AKZ position hedge		54	(54)		0
Position subject to foreign-exchange risk	(62)	53	6	4	0
Stress Test		11	2	1	13

Table 59

1) Excludes the amounts recorded in Foreign exchange operations pending settlement and forward position operations.

LIQUIDITY RISK

Management process

Globally, the definition of the risk appetite framework (RAF) and the liquidity risk management policy and strategy at Banco BPI is decided and monitored by the Board of Directors and its specialist Committees (Executive Committee, Risk Committee and Audit and Internal Control Committee). The governance of liquidity risk management and control is based on a three lines of defense model.

The first line of defense is responsible for maintaining liquidity levels that allow to timely meet all commitments and develop the Bank's business, within the existing planning framework and the limits set by the internal risk framework (RAF). The ALCO Committee is responsible for liquidity risks management, monitoring and control, evaluating the development of the Bank's position and the external environment. In functional terms, the liquidity management is carried out by the Financial Department. Within the first line of defense, the Analysis and Special Projects Unit ensures the coordination of the ILAAP process (internal liquidity adequacy assessment).

The second line of defense is responsible for an independent control and monitoring of the liquidity risks. The Global Risk Committee is responsible for that control, which is, in functional terms, ensured by the Global Risk Management Division. The Model Validation Unit ensures the quality and efficiency of the models used, both for the first and the second lines.

The third line of defense is responsible for conducting an independent review of the management and control of the liquidity risks. The Audit and Internal Control Committee is responsible for that new control, which is functionally ensured by the Audit and Inspection Division.

Liquidity risk is managed and monitored in its various aspects: i) the ability to monitor assets growth and to meet cash requirements without incurring exceptional losses; ii) the maintenance in the portfolio of tradable assets that constitute a sufficient liquidity buffer; (iii) compliance with the various regulatory requirements in the context of liquidity risk.

With respect to the portfolio of assets, the various managers keep constant watch over possible transactions in the various instruments, according to several indicators (BPI market shares, number of days to unwind positions, size and volatility of spreads, etc.), duly observing the limits set for each market.

Liquidity management seeks to optimise the balance sheet structure in order to keep under control the time frame of maturities between assets and liabilities, considering the expected growth and the various market situations. The management is also subject to the need to maintain an appropriate level of liquidity buffer to maintain the levels of liquidity coverage requirements, in compliance with prudential and internal requirements.

Liquidity and funding

The Bank maintained a balanced liquidity position throughout 2017:

- Customer resources are the main source of funding. The loan to deposits ratio stood at 105%;
- the Bank maintained the amount of funds obtained from the ECB at € 2 billion, benefiting from the favourable terms of this type of financing;
- at the end of the year, the Bank held a portfolio of eurozone countries sovereign debt of € 3.5 billion, of which € 3.0 billion of short term debt in Treasury Bills issued by the Portuguese Republic. This portfolio is fully discountable at the ECB for liquidity operations;

- the portfolio of eligible assets for Eurosystem funding amounted to € 11.3 billion at the end of the year. Of that sum, the amount not yet used and therefore capable of being converted into immediate liquidity with the ECB was € 8 billion;
- the medium / long-term debt net refinancing needs in the coming years are small: € 358 million from 2018 to 2022. It should be noted that in 2019 there is a significant release of liquidity through the redemption of € 0.5 billion of Portuguese and Italian medium- and long-term Notes held by BPI in its portfolio;
- the average LCR throughout the year was 171%.

Short term gap

The Bank's short-term funding gap decreased from -€ 2.0 billion in December 2016 to -€ 1.8 billion in December 2017 (considering the ECB-TLTRO financing). The main explanatory factors for this behaviour were:

- redemption and repurchase of € 0.6 billion of own issues;
- € 0.7 billion of new debt issued;
- € 0.1 billion increase in the Treasury Bills portfolio.

Trend in short-term funding GAP

Amounts in € million

Initial GAP (31 Dec. 16)	(1 998)
Change in commercial liquidity GAP	16
Redemption and repurchase of own debt	(612)
New debt issued	700
Redemption of bonds held	(18)
Sales of Treasury Bonds	96
Final GAP (31 Dec. 17)	(1 816)

Table 60

At end-2017, short-term funding was broken down as follows:

- net cash position on the money market of € 221 million and repos of securities of € 42 million;
- ECB funding amounting to € 2.0 billion.

Funding of short term liquidity position

Amounts in € million

		2016	2017
Short term lending			
Loans to Credit Institutions	1	569	758
	[= 1]	569	758
Short term funding			
Money market	3	(507)	(537)
Repos	4	(61)	(42)
	[= 3 + 4]	(568)	(579)
Euro Commercial paper	6	(0)	(0)
Funding from the ECB (net of deposits)	7	(2 000)	(1 996)
	[= Σ 5 to 7]	(2 568)	(2 574)
Total short term gap	[= 2 + 8]	(1 998)	(1 816)

Table 61

ECB funding

By the end of 2017, the Bank had raised € 2.0 billion funds from the ECB. This amount is entirely made up of funds obtained under TLTRO I and II, 4-year fixed rate transactions, under special conditions, launched by the ECB with the purpose of promoting lending to the economy.

Portfolio of assets eligible for Eurosystem funding

At the end of 2017, the Bank had a portfolio of assets eligible for the Eurosystem worth € 11.3 billion (net of price appreciation and haircuts).

Total liquid assets

At 31 Dec. 2017

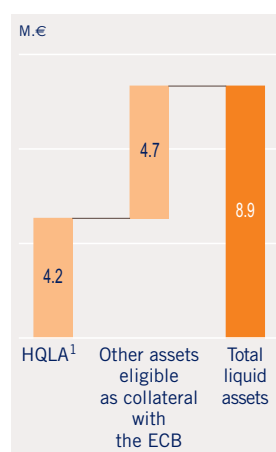


Chart 70

Net funding from ECB

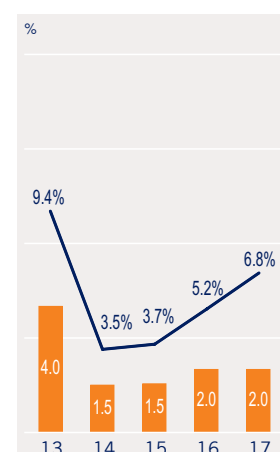


Chart 71

- Net funding from ECB (th. M.€)
- as % of consolidated assets

1) High Quality Liquid Assets.

Taking into account the portfolio withdrawals on that date for repos, collateralisation of various obligations and ECB's funding, BPI had the capacity to raise € 8.0 billion additional funding from the ECB.

Assets eligible for Eurosystem funding		Amounts in € million	
		2016	2017
Total eligible asset¹	1	9 022	11 260
of which: assets given as collateral ²	2	935	1 296
Net eligible assets	[= 1 - 2] 3	8 087	9 964
Used as collateral in funding from ECB	4	2 001	2 001
Available eligible assets	[= 3 - 4] 5	6 086	7 963

Table 62

The portfolio of eligible assets increased during 2017 by € 2.2 billion, as a result of the active policy of using on-balance sheet assets for issues that can be discounted at the Central Bank.

Prospects on liquidity framework in 2018

The expansionary monetary policy implemented by the ECB, namely the purchase of debt securities on the market, should continue until 30 September 2018, in a context of slackening monetary stimuli, as the policy trickles down to the economy.

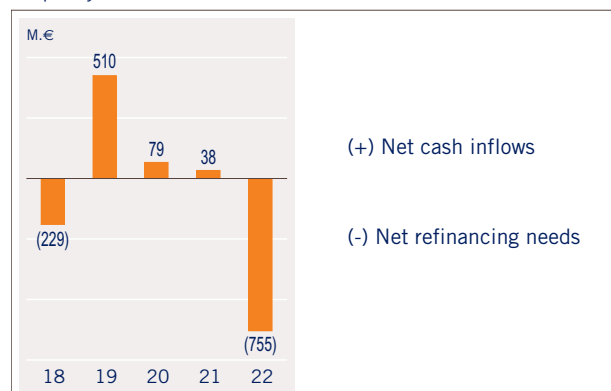
At this juncture, a significant change in liquidity conditions is not expected, and the Bank should continue its policy of favouring the financing of its assets by Customer deposits.

Between 2018 and 2022, the medium- and long-term net refinancing needs for that period amount to € 358 million, as a result of own debt repayments of € 1.2 billion and portfolio bond redemptions worth € 0.8 billion.

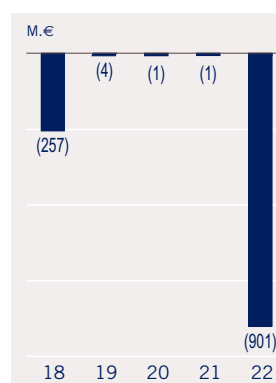
Own medium-term issues maturing in 2018 amount to € 0.3 billion.

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

Frequency of occurrence



Repayment of medium and long-term debt issued by BPI



Bonds portfolio redemptions (available for sale portfolio)

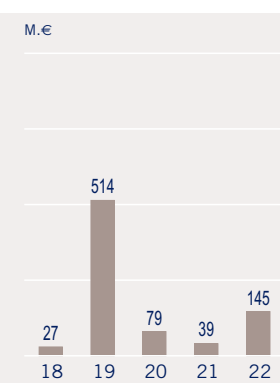


Chart 72

1) Total eligible assets, net of valuation and haircuts and before drawings.

2) Assets given as collateral to entities other than the ECB.

OPERATIONAL RISKS

Management process

The management of operational risk at BPI integrates the respective internal control system. Management of operational risk is conducted in accordance with the Operational Risk Management Policy, formally established by the Board of Directors in 2017, which in turn is subordinated to the policy laid down in the Risk Appetite Framework.

The Operational Risk Management Policy (ORM Policy) is guided by the Directive of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

The definition of Operational Risk adopted in the ORM Policy is that laid down in said Regulation: “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.” This definition excludes strategy and reputational risks.

The purpose of operational risk management is to identify, evaluate, control, mitigate and report operational risk, minimising exposure thereto and the financial losses arising therefrom.

BPI's ORM Policy is based on the following principles: Identification, Measurement, Monitoring, Control, Mitigation, Information, Documentation, Universality, Knowledge and Best Practices.

In order to spread the application of this policy at all levels of the organisation, BPI fosters a strong risk culture and high standards of respect for the internal and external rules and for the principles of integrity.

The Operational Risk Management Model (ORM Model), which was reviewed in 2017, operationalises the principles defined in the ORM Policy. This model was developed upon the three pillars of the risk management cycle:

- identification and evaluation of the operational risks to which the Group is exposed, by pooling the evaluation

of the risk levels of all the activities and tasks carried out;

- maintenance and monitoring of a database of operational risk losses and classification of the occurrences that caused them, by categories of risk and causes that originated them, monitoring all operational events, including an individual assessment of the most significant incidents;
- implementation of adequate mitigation measures to reduce the Group's exposure to risk.

The ORM Model aims to ensure the involvement of all the Employees and structures of BPI in the management of Operational Risk, defining the players in each of the three lines of defense, and their responsibilities based on each of the basic pillars of management. This model facilitates and promotes the dissemination of the principles and culture of risk management.

The Group's Divisions, as the first line of defense, are responsible for the most direct and immediate management of operational risk. In addition to the general responsibilities attributed to all Employees, all the Divisions have officers with specific functions in operational risk management: the Operational Risks Manager and the Operational Risks Pivot.

The central unit of operational risk management – the Global Risk Management Division – Operational Risk – coordinated the operationalisation of the management model. This unit, and those that manage specific sub-categories such as business continuity, information security and compliance, integrate the second line of defense.

The monitoring of the various units and central team's activity follows pre-established reporting lines, including regular communication with the following committees: Global Risk Committee, Business Continuity Committee and Information Security Committee.

In addition, the operational risk performance indicators are regularly monitored within the scope of the Risk Appetite Framework, through metrics specifically designed for the purpose.

The oversight of the model is the responsibility of the internal audit, the Risk Committee of the Board of Directors and the Audit and Internal Control Committee of the Board of Directors.

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 different attributes, including the classification by type defined in the regulations.

The distribution of the operational-risk events recorded in 2017, by type of cause, was as follows¹:

Events of operational risk in 2017

Breakdown of financial impact by type of cause

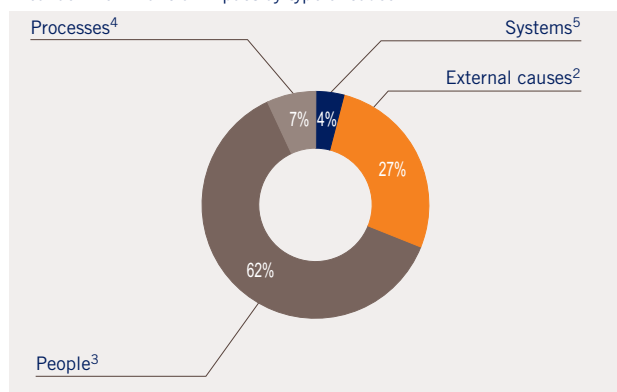


Chart 73

Events of operational risk in 2017

Breakdown of frequency by type of cause

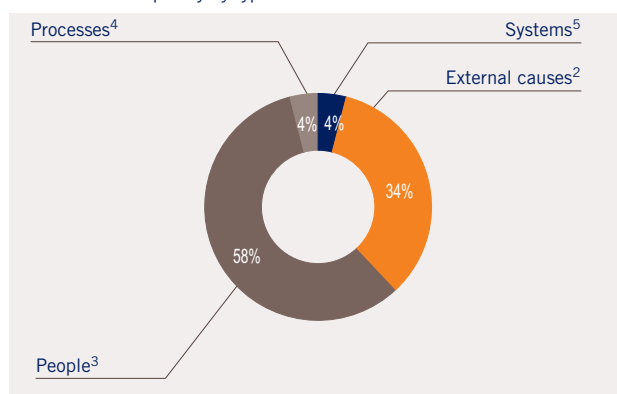


Chart 74

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 of activity or its impact. The Business Continuity Plans lay down BPI's response to disruptive events, guaranteeing that the activity is restored to pre-defined levels.

In line with best market practices and the regulators' recommendations, BPI has developed Business Continuity Plans for all the activities classified as critical. These plans define a set of alternative procedures and resources aimed at avoiding or reducing the duration of business interruptions, or their impact, and ensuring the recoupment of activity to pre-defined levels.

The existence of teams exclusively dedicated to Business Continuity management ensures the continuous monitoring and updating of risk assessment, of the analysis of impacts on the business, and of contingency strategies and plans, as well as a prompt response to any incidents.

In 2017 the capacity of the contingency resources was reinforced and their effectiveness was tested.

Information security

Permanent monitoring of both risk evaluation and implementation of mitigation measures, and the response to incidents, is ensured by operational terms exclusively dedicated to Information Security.

The management of information security risks is part of the global operational risk management model, in close connection to the information systems.

In 2017 BPI's Information Security continued to deserve particular attention, involving the dedicated allocation of human resources and investment in new information protection solutions and in the improvement of those already in place.

1) Data valid at the date of compiling the report, while being liable to alteration according to the evolution of each process.

2) External criminal activity, failures in the provision of contracted services and natural disasters.

3) Human failure in the execution of tasks and Employees' unauthorised intentional behaviour.

4) Failures in the definition of policies and / or procedures.

5) Failures in computer and communications systems.

The activities carried out included the permanent assessment of the threats to information security and, in light of subsequent risk assessments, the assessment of the implementation of the necessary measures for their mitigation. The means for the early detection of vulnerabilities at both applications level – in an integrated manner in the respective development cycles – and at the level of the support infrastructure also continued to be reinforced. The control systems and the management of accesses to IT applications were improved, and the involvement and accountability of the entire organisation were strengthened.

As part of the effort to inform and raise awareness among Employees and Customers to good information-security practices, particular emphasis was placed in 2017 on the protection of mobility data and against phishing attacks.

In order to boost the capacity to respond to information security incidents, the relevant processes and action procedures were revised and strengthened.

LEGAL AND COMPLIANCE RISKS

In a specific domain of Operational Risks – legal risks – unexpected losses may occur as a result of a flawed analysis of the legal framework applicable at a given moment to the contracts / positions to be established or from changes in the legal framework.

In the realm of legal risks, the following deserve particular attention and careful analysis: the legal framework and the identification of any regulatory shortcomings; any anticipated changes in the legal framework and their consequences; the clarification of the nature of contractual relationships and the interpretation given to them by the counterparties; products and their legal situation; the centralisation of communications to the supervision authorities and the drawing up of the respective processes for submission to such authorities; and the identification and proposal of measures capable of reducing possible litigation risks.

Compliance risk encompasses, besides the risk of breaching the law as a result of failure to transpose or flawed transposition of legal provisions into the internal regulations, the risk of market abuse and the risk of money laundering and terrorist financing.

The whole range of implications of compliance risk, which encompasses the risk of legal or regulatory sanctions or of financial or reputational loss as a consequence of failures in the application of laws, regulations, code of conduct and good banking practices, is 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 relevant division;
- the Compliance Division's assignment of the monitoring of the analysis of impacts on the Bank from new legal provisions, and the analysis of the need to transpose them to the internal rules, or update them, to the Division for which such new provisions are more relevant. This procedure is complemented by regular monitoring by the Compliance Division of the adequacy of the internal rules *vis-à-vis* the applicable legal provisions and by the permanent monitoring of the transposition to the internal rulebook of new pieces of legislation, as referred above.

As concerns the risk of market abuse, Banco BPI, as a complement to the provisions dealing with this subject in the Code of Conduct, has defined in an internal regulation in a very stringent and detailed manner the rules and limitations applicable to personal operations carried out by key persons, to ensure: i) the existence of a permanently updated list of all persons who should be regarded as being key persons; ii) that these persons are informed about their status and the limitations stemming therefrom with respect to personal operations involving financial instruments carried out by them; iii) and, finally, the recording of all the personal operations carried out by the key persons.

The BPI Group also has a policy for the prevention of money laundering and terrorist financing, with procedures implemented in each of the Group's entities to manage this risk in an appropriate manner. These procedures involve the constant monitoring of all the transactions carried out through the accounts and the regular screening of the persons and entities at any time included in the official lists of terrorists and / or subject to restrictive measures, with the ultimate object of identifying any suspicious situation. Several communications were made in 2017 to the competent official entities concerning suspicious situations.

Moreover, BPI has a policy for the identification and acceptance of Customers, which makes provision for the possibility to refuse the establishment of any banking relationship, namely in cases where the identification details are incomplete or when 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, nor is the establishment of direct or indirect relations with "shell banks".

Rating

In 2017 the main international rating agencies improved their ratings of Banco BPI, which achieved investment grade status under the ratings assigned by Fitch Ratings and S&P.

At the start of the year, upon the conclusion of CaixaBank's Public Tender Offer in February, Fitch Ratings and S&P revised their ratings for Banco BPI so as to reflect BPI's integration into the CaixaBank Group. Fitch upgraded its rating by two notches, to BBB-, the first investment grade level, with S&P also improving its rating by two notches, to BB+.

In September S&P raised its rating of BPI to investment grade (from BB+ to BBB-), following the same move regarding the Portuguese Republic.

Throughout the year, the rating agencies recognised the reinforcement of the Bank's financial strength,

highlighting the strengthening of its capitalisation levels, its improved profitability in the domestic activity, credit quality indicators above the sector's average and adequate funding and liquidity position. Such factors supported the following rating actions towards the end of the year: Moody's upgraded its ratings of long-term deposits by 3 notches, to investment grade (Baa3), and of long-term debt by 2 two notches, to Ba1; and S&P and Fitch reaffirmed the investment grade ratings assigned to Banco BPI, with the latter (Fitch) also upgrading by one notch Banco BPI's individual Viability Rating, to bb+.

The Bank's current long- and short-term ratings and respective Outlook are as follows:

- Fitch: BBB- / F3 with positive Outlook;
- S&P: BBB- / A-3 with stable Outlook;
- Moody's: Ba1 / Not prime with positive Outlook.

	FitchRatings	STANDARD & POOR'S	MOODY'S
Banco BPI credit ratings			
Long-Term Deposits			Baa3
Short-Term Deposits			Prime-3
Long-Term Debt	BBB-	BBB-	Ba1
Short-Term Debt	F3	A-3	Not prime
Outlook	Positive	Stable	Positive
Individual Rating	Viability rating bb+	Stand-alone credit profile (SACP) bb-	Baseline Credit Assessment ba3
Collateralised senior debt			
■ Mortgage			A1
■ Public Sector			A2
Non-collateralised senior debt			Ba1
■ Long-Term	BBB-	BBB-	
■ Short-Term	F3	A-3	
Subordinated debt	BB+	BB	Ba3
Junior subordinated debt			B1
Portuguese Republic sovereign risk¹			
Long-Term	BBB	BBB-u	Ba1
Short-Term	F2	A-3u	Not prime
Outlook	Stable	Stable	Positive

Fitch Ratings: on 21 December 2017 Fitch Ratings affirmed its credit ratings (LT / CT) at BBB- / F3 with positive Outlook and lifted by one notch the Viability Rating (individual rating) to bb+.

Standard & Poor's: rating decision of 19 September 2017. Standard & Poor's upgraded the long-term ratings from BB+ to BBB-, and the short-term ratings from B to A-3. The Outlook is stable.

Moody's: credit ratings decision of 7 December 2017. Moody's revised upwards its rating of long-term deposits by 3 notches, from Ba3 to Baa3 (investment grade), its rating of short-term deposits from "Not Prime" to "Prime-3" and its rating of long-term debt by 2 notches, from Ba3 to Ba1. Its Outlook on deposits and long-term debt improved from "Stable" to "Positive".

1) The ratings attributed by S&P to the Portuguese Republic are unsolicited ("u").

Figure 5

Banco BPI share

STOCK MARKET PERFORMANCE

Banco BPI shares closed 2017 at € 1.173, reporting a 3.7% gain in the year. In the same period, the Portuguese PSI-20 index advanced by 15.2%. The European banking sector, represented by the DJ Euro Stoxx Banks index, gained 8.1% in 2017.

The rebound of economic growth in Europe bolstered the sustained gains reported by the European stock exchanges in 2017, a year that was also marked by the start of normalisation of the main central banks' monetary policy and low volatility in the markets. Some of the more prominent political issues during the year (Brexit negotiations, strains in Catalonia, elections in Italy) influenced the performance of the equity markets.

The BPI share entered the year in the context of the Public Tender Offer launched by CaixaBank in April 2016 at the price of € 1.113 per share. On 21 September

2016 this price was revised upwards, to € 1.134 per share, following the approval at the General Meeting of the elimination of the statutory limit on the counting of the votes of or exercise of voting rights by any single shareholder, which led to the change in the nature of the tender offer, from voluntary to mandatory.

The results of the offer were announced on 8 February 2017, with CaixaBank increasing its holding in Banco BPI's share capital from 45.5% to 84.51%. Since then, with a free-float of around 7% and significantly low liquidity (average trading volume of € 0.2 million in 2017 vs. € 2.3 million in 2016), the price of Banco BPI shares remained relatively stable, at around € 1.06 until mid-October. During the last part of the year the BPI share price initiated a rising trend, recouping the depreciation accumulated until then and closing the year on positive ground.

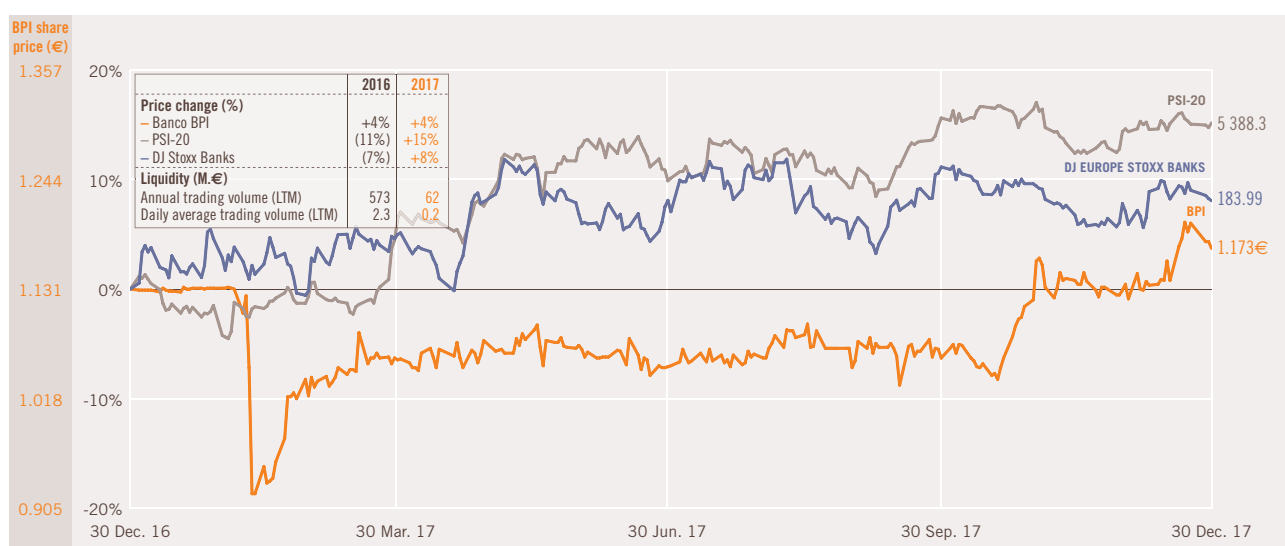


Chart 75

Codes and tickers:

ISIN and Euronext code: PTBPI0AM004
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: As at 31 December 2017, the Bank's share capital was € 1 293 063 324.98, represented by 1 456 924 237 ordinary dematerialised registered shares with no nominal value. All the shares were admitted to trading on the Euronext market.

Banco BPI shares
Selected indicators

	2013	2014	2015	2016	2017
Banco BPI share price (€)					
Closing price	1.216	1.026	1.091	1.131	1.173
Price change	29.0%	(15.6%)	6.3%	3.7%	3.7%
Maximum price	1.380	2.060	1.570	1.342	1.220
Minimum price	0.745	0.942	0.760	0.863	0.781
Average price	1.094	1.538	1.141	1.113	1.046
Data per share (€)					
Cash flow after taxes	0.259	0.074	0.296	0.278	0.039
Net profit	0.048	(0.115)	0.163	0.216	0.007
Dividend	-	-	-	-	-
Book value	1.389	1.467	1.659	1.681	1.938
Weighted average no. of shares (in million)	1 383.7	1 422.3	1 450.4	1 451.0	1 456.2
Market valuation indicators					
Price as a multiple of:					
Cash flow after taxes (PCF)	4.7	13.8	3.7	4.1	29.8
Net profit (P/E)	25.2	(8.9)	6.7	5.2	167.3
Book value (PBV)	0.9	0.7	0.7	0.7	0.6
Earnings yield ¹	5.1%	(9.5%)	15.9%	19.8%	0.6%
Stock market capitalisation (€ million)	1 690	1 494.8	1 589.5	1 647.8	1 709.0
Liquidity					
Annual trading volume (€ million)	477.8	1,068.3	707.4	572.8	62.4
Average daily trading volume (€ million)	1.9	4.2	2.8	2.3	0.2

Table 63

TREASURY SHARES

In 2017, the transactions described below were carried out in the portfolio of Banco BPI's own shares, for the purpose of executing the variable remuneration scheme (Portuguese initials RVA) for Employees and executive directors. As at 31 December 2017, Banco BPI held 150 896 own shares (0.01% of the share capital).

Treasury shares transactions in 2017		Value and price in euros		
	No. of shares	Value	Average price	% of share capital
At 31 Dec. 16²	5 227 514			0.36%
Over-the-counter purchase	485 190	550 019	1.134	0.03%
Over-the-counter sale	5 488 981	6 220 334	1.133	0.38%
Stock exchange sale	72 827	82 156	1.128	0.00%
Total	6 046 998			0.42%
At 31 Dec. 17	150 896			0.01%

Table 64

SHAREHOLDERS

The following table shows the shareholders holding more than 2% of Banco BPI's share capital at 31 December 2017.

Shareholders holding more than 2% of Banco BPI's share capital

At 31 December 2017

Shareholder	No. of shares	% capital held
CaixaBank, S.A.	1 231 250 696	84.510%
Allianz SE	122 744 370	8.425% ³

Source: Information provided by the Central de Valores Mobiliários (CVM, the Central Securities Depository) regarding shareholder positions registered with the CVM on 31 December 2017 and public information disclosed to the market.

Table 65

1) Earnings per share recorded in the year divided by the BPI share price at 31 December of the preceding year.

2) The balance of treasury shares at the end of December 2016 does not include:

- 168 917 shares awarded under a condition subsequent set out in the RVA scheme but not yet freely disposable. The transfer of the ownership of the shares awarded under the RVA scheme is fully carried out on the award date, but their availability is dependent on Employees continuing to work for BPI, therefore, the shares remain in Banco BPI's treasury shares portfolio up until the date they become freely disposable.
- 148 538 shares held in the unit-linked capitalization insurance portfolios managed by BPI Vida e Pensões.

3) Indirect stake held by subsidiaries controlled by Allianz SE, the Allianz Group holding company, and attributable to this entity, under the terms of article 20(1)(b) of the CVM: 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).

ADOPTION OF THE FINANCIAL STABILITY FORUM (FSF) AND COMMITTEE OF EUROPEAN BANKING SUPERVISORS (CEBS) RECOMMENDATIONS ON THE TRANSPARENCY OF INFORMATION AND VALUATION OF ASSETS

The Bank of Portugal, through *circular-letters 97 / 08 / DSBDR* of 3 December 2008 and *58 / 09 / DSBDR* of 5 August 2009, has recommended that within the accounting documents, a separate chapter or a specific annex be included in the Annual Report, 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

Bank of Portugal's *circular-letter 46 / 08 / DSBDR*.

In order to comply with 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 2017 Annual Report.

Recommendation Summary	Reference to 2017 Annual Report
I. BUSINESS MODEL	
1. Description of the business model	<i>MR – BPI Business Model, page 15.</i>
2. Description of strategies and objectives	<i>MR – Message from the Chairman of the Board (page 7) and from the Chairman of the Executive Committee (page 9); Financial review, page 49; Risk management, page 75.</i>
3. Description of the importance of the operations carried out and the respective contribution to business	<i>MR – Domestic Commercial Banking, page 35; Bancassurance, page 41; Asset Management, page 42; Investment banking, page 44; Equity holdings in African banks, page 46; Financial review, page 49; NFS – 3. Segment reporting, page 144.</i>
4. Description of the type of activities undertaken	<i>MR – Domestic Commercial Banking, page 35; Bancassurance, page 41; Asset Management, page 42; Investment banking, page 44; Equity holdings in African banks, page 46; Background to the operations, page 29; Financial review, page 49; Risk management, page 75.</i>
5. Description of the objective and extent of the institution's involvement relating to each activity undertaken	
II. RISKS AND RISK MANAGEMENT	
6. Description of the nature and extent of the risks incurred in relation to the activities carried out and the instruments used	<i>MR – Risk management, page 75; NFS – 4.45. Financial risks, page 218 and following.</i>
7. Description of major risk-management practices in operations	<i>MR – Risk management, page 75; NFS – 4.45. Financial risks, page 218 and following; GovR – Internal Organisation C, III. Internal Control and Risk Management,, page 352.</i>
III. IMPACT OF THE PERIOD OF FINANCIAL TURMOIL ON THE RESULTS	
8. Qualitative and quantitative description of the results	<i>MR – Financial review, page 49.</i>
9. Breakdown of the write-downs / losses by types of products and instruments affected by the period of turmoil	<i>NFS – 4.5. Available-for-sale financial assets, page 155, 4.7. Customer Loans, page 160, 4.21. Provisions and impairments, page 190, 4.37. Net income on financial operations, page 209; 4.45 Financial risks, page 218.</i>
10. Description of the reasons and factors responsible for the impact suffered	<i>MR – Financial review, page 49; Background to the operations, page 29.</i>
11. Comparison of the i) impacts between (relevant) periods and ii) the financial statements before and after the period of turmoil	<i>MR – Financial review, page 49.</i>
12. Breakdown of write-downs between realised and non-realised	<i>MR – Financial review, page 49; NFS – 4.5. Available-for-sale financial assets, page 155; 4.7. Customer Loans, page 160; 4.37. Net income on financial operations, page 209 and 4.21. Provisions and impairments, page 190.</i>
13. Description of the influence of the financial turmoil on the behaviour of Banco BPI shares	<i>MR – Banco BPI share, page 106.</i>
14. Disclosure of the maximum loss risk	<i>MR – Risk management, page 75; NFS – 4.45. Financial risks, page 218 and following.</i>
15. Disclosure of the impact that the trend in spreads associated with the institution's own liabilities had on earnings	<i>MR – Financial review, page 49. The Bank did not revalue its liabilities.</i>

MR – Management Report; NFS – Notes to the Financial Statements; GovR – BPI Governance Report.

Recommendation Summary	Reference to 2017 Annual Report
IV. LEVEL AND TYPE OF EXPOSURES AFFECTED BY THE PERIOD OF FINANCIAL TURBULENCE	
16. Nominal value (or amortised cost) and fair value of exposures	<i>NFS – 4.45. Financial risks, page 218 and following and 4.5 Available-for-sale financial assets, page 155.</i>
17. Information about credit risk mitigators and respective effects on existing exposures	<i>MR – Risk management, page 75 and following.</i>
18. Detailed disclosure of exposures	<i>MR – Risk management, page 75; NFS – 4.45. Financial risks, page 218 and following, 4.5. Available-for-sale financial assets, page 155 and 4.7. 4.7. Customer Loans, page 160.</i>
19. Movements in exposures occurred between the relevant reporting periods and the reasons for these movements (sales, write-downs, purchases, etc.)	<i>MR – Financial review, page 49. NFS – 4.7. Customer Loans, page 160.</i>
20. Explanations about exposures which have not been consolidated (or which have been recognised during the crisis) and the associated reasons	<i>Banco BPI consolidates all exposures in which it has control or significant influence, as provided for in IFRS 10, 11, IAS 28, IFRS 3 and IFRS 5. No changes were made to BPI Group's consolidation perimeter as a consequence of the period of turmoil in the financial markets.</i>
21. Exposure to monoline insurers and quality of the assets insured	<i>At 31 December 2017, BPI had no exposure to monoline insurers.</i>
V. ACCOUNTING POLICIES AND VALUATION METHODS	
22. Classification of transactions and structured products for accounting purposes and respective accounting treatment	<i>NFS – 2.3. Financial assets and liabilities, page 131; 2.3.3. Available-for-sale financial assets, page 132; 2.3.4. Loans and other receivables, page 133; 4.20. Financial liabilities relating to transferred assets, page 188.</i>
23. Consolidation of Special Purpose Entities (SPE) and other vehicles and their reconciliation with the structured products affected by the period of turmoil	<i>The vehicles through which Banco BPI's debt securitisation operations are made 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 in the respective vehicles.</i>
24. Detailed disclosure of the fair value of financial instruments	<i>NFS – 4.45. Financial risks, page 218 and following.</i>
25. Description of the modelling techniques used for valuing financial instruments	<i>NFS – 2.3. Financial assets and liabilities, page 131 and 4.45. Financial risks, page 218 and following.</i>
VI. OTHER RELEVANT ASPECTS OF DISCLOSURE	
26. Description of the disclosure policies and principles used in financial reporting	<i>GovR – C. Internal Organisation, IV. Investor Support, page 354.</i>

Alternative performance measures

The European Securities and Markets Authority (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 obligatorily applied with effect from 3 July 2016.

BPI uses a set of indicators for the analysis of 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.

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.

EARNINGS, EFFICIENCY AND PROFITABILITY INDICATORS
Financial margin (RCL) = Financial margin (narrow sense) + Technical result from insurance contracts + Net commissions relating to amortised cost
Net commissions income (RCL) = Net commissions income + Gross margin on unit links
Operating income from banking activity (RCL) = Financial margin (RCL) + Income from equity instruments (RCL) + Net commissions income (RCL) + Earnings of associated companies (equity method) (RCL) + Net income on financial operations + Operating income and expenses
Commercial banking income = Financial margin (RCL) + Income from equity instruments (RCL) + Net commissions income (RCL) + Earnings of associated companies (equity method) (RCL) excluding the contribution of equity holdings in African banks
Overhead costs = Personnel costs + General administrative expenses + Depreciation and amortisation
Adjusted overhead costs = Personnel costs excluding cost with early retirements and voluntary terminations and (only in 2016) gains with the revision of the Collective Labour Agreement (ACT) + General administrative costs + Depreciation and amortisation
Net operating income before impairments and provisions (RCL) = Operating income from banking activity (RCL) - Overhead costs
Net income before income tax (RCL) = Net operating income before impairments and provisions (RCL) + Recovery of loans, interest and expenses - Impairment losses and provisions for loans and guarantees, net - Impairments and other provisions, net
Cost-to-income ratio (efficiency ratio)¹ = Overhead costs / Operating income from banking activity (RCL)
Adjusted overhead costs to commercial banking income ratio¹ = Overhead costs, excluding costs with early retirements and voluntary terminations and (only in 2016) gains with the revision of the Collective Labour Agreement (ACT) / Commercial banking income
Return on Equity (ROE)¹ = Net income for the period / Average value in the period of shareholders' equity attributable to BPI shareholders after deduction of the fair value reserve (net of deferred taxes) related to financial assets available-for-sale
Return on Tangible Equity (ROTE)¹ = Net income for the period / Average value in the period of shareholders' equity attributable to BPI shareholders after deduction of intangible net assets and other comprehensive income (reserves)
Return on Assets (ROA)¹ = (Net income attributable to BPI shareholders + Income attributable to non-controlling interests - dividends paid on preference shares) / Average value in the period of net total assets
Intermediation margin = Income from interest earned on loan portfolio (excluding loans to Employees) - Cost from interest paid on deposits
Unitary intermediation margin = Loan portfolio (excluding loans to Employees) average interest rate - Deposits average interest rate

Note:

The term "RCL" or "Reclassified captions" identifies income and costs captions that have been reclassified in this report, and repositioned in the structure of the income statement according to the format used by CaixaBank (BPI's consolidating entity). The underlying accounting criteria were not affected by the change in the format adopted.

1) Ratio refers to the last 12 months, except where otherwise indicated.

The ratio can be computed for the cumulative period since the beginning of the year, in annualised terms, in which case it will be clearly marked.

BALANCE SHEET AND FUNDING INDICATORS

On-balance sheet Customer resources = Deposits + Capitalisation insurance of fully consolidated subsidiaries + Participating units in consolidated investment funds

Where:

- Deposits = Demand deposits and other + Term and savings deposits + Accrued interest + Retail bonds (Fixed / variable rate bonds and structured products placed with Customers + Deposit certificates + Subordinated bonds placed with Customers)
- Capitalisation insurance of fully consolidated subsidiaries (BPI Vida e Pensões sold in Dec. 17) = Unit links capitalisation insurance and “Aforro” capitalisation insurance and others (Technical provisions + Guaranteed rate and guaranteed retirement insurance capitalisation)

Note: The amount of on-balance sheet Customer resources is not deducted of placements of off-balance sheet products (mutual funds and pension funds) in on-balance sheet products

Assets under management = Mutual funds + Capitalisation insurance + Pension plans

- Mutual funds = Unit trust funds + Real estate investment funds + Retirement saving plans (“PPR” in Portuguese) and equity-savings plans (“PPA” in Portuguese) + Hedge funds + Funds assets under management of BPI Suisse + Third-party unit trust funds placed with Customers
- Capitalisation insurance = third-party capitalisation insurance placed with Customers
- Pension plans = pension plans under BPI management (includes BPI pension funds)

Notes:

(i) Amounts deducted of participation units in the Group banks’ portfolios and of placements of off-balance sheet products (mutual funds and pension plans) in other off-balance sheet products.

(ii) Following the sale of BPI Vida e Pensões in Dec.17, the capitalisation insurance placed with BPI’s Customers was recognised off balance sheet, as “third-party capitalisation insurance placed with Customers” and the management of pension funds was excluded from BPI’s consolidation perimeter.

Public subscription offers = Customer subscriptions of third party public offerings

Total Customer resources = Off-balance sheet Customer resources + Assets under management + Public subscription offers

Loan-to-deposit ratio = Net loans to Customers / Customer deposits

Business turnover = Gross loans + Guarantees+ Total Customer resources

ASSET QUALITY INDICATORS

Impairments for loans and guarantees as % of the loan portfolio¹ = Impairments and provisions for loans and guarantees, net / Average value in the period of the performing loan portfolio

Cost of credit risk as % of the loan portfolio¹ = (Impairments and provisions for loans and guarantees, net - Recovery of loans, interest and expenses) / Average value in the period of the performing loan portfolio

Performing loans = Gross Customer loans - (Overdue loans and interest + Interest receivable and other)

Credit at risk ratio (IAS / IFRS consolidation perimeter) = Credit at risk / Gross loan portfolio

Note: in the calculation of the indicator the consolidated financial information is prepared in accordance with IAS / IFRS rules. For purposes of disclosure of the indicators defined in Bank of Portugal Instruction 16 / 2004, their calculation considers the Bank of Portugal’s supervision perimeter. In BPI’s case, this implied that until its sale in Dec. 2017 BPI Vida e Pensões was equity consolidated whereas in the consolidated financial statements under IAS / IFRS it was fully consolidated.

Change in credit at risk, adjusted for write-offs and sales of loans¹ = 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 as % of loan portfolio¹ = Change in credit at risk, adjusted for write-offs and sales of loans / Average value in the period of the performing loan portfolio

1) Ratio refers to the last 12 months, except where otherwise indicated . The ratio can be computed for the cumulative period since the beginning of the year, in annualised terms, in which case it will be clearly marked.

Coverage of credit at risk by impairments = (Loan impairments + Impairments and provisions for guarantees and commitments) / Credit at risk
Coverage of credit at risk by impairments and associated collateral = (Loan impairments + Impairments and provisions for guarantees and commitments + Collateral associated to credit at risk) / Credit at risk
NPE Ratio = Ratio of non-performing exposures (NPE) in accordance with the EBA criteria (prudential perimeter)
NPE coverage ratio = (Loan impairments + Impairments and provisions for guarantees and commitments) / Non performing exposures (NPE)
Coverage of NPE by impairments and associated collateral = (Loan impairments + Impairments and provisions for guarantees and commitments + Collateral associated to NPE) / Non-performing exposures (NPE)
Non-performing loans (CaixaBank criteria) ratio = Doubtful loans (CaixaBank criteria) / (Gross loan portfolio + guarantees)
Non-performing loans (CaixaBank criteria) coverage ratio = (Loan impairments + Impairments and provisions for guarantees and commitments) / Non-performing loans (CaixaBank criteria)
Coverage of non-performing loans (CaixaBank criteria) by impairments and associated collateral = (Loan impairments + Impairments and provisions for guarantees and commitments + Collateral associated to non-performing loans / non-performing loans (CaixaBank criteria)
Impairments coverage of foreclosed properties = Impairments for real estate received in settlement of defaulting loans / Gross value of real estate received in settlement of defaulting loans

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) are calculated in accordance with IAS 33 - Earnings per share.
Cash-flow after taxes per share (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 number of shares considered in the denominator is deducted of the treasury stocks portfolio and is adjusted for capital increases, whether by incorporation of reserves (bonus issue) or by 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 (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)

Proposed application of results



Whereas:

- a) Banco BPI, S.A. reported a net profit of € 10 208 936 in its consolidated accounts, and a net profit of € 232 773 541.81 in its individual accounts for the financial year of 2017;
- b) Considering the current circumstances, and bearing in mind the purpose of adopting a conservative and cautious position on the appropriation of net income for the year, it is considered convenient that the Bank should increase its own funds;

In view of the above, the Board of Directors proposes:

That the net profit for year 2017 on Banco BPI's individual accounts be applied as follows:

Legal Reserve*	23 277 354.18 euros
Other reserves	209 496 187.63 euros
Total:	232 773 541.81 euros

Lisbon, 23 March 2018

The Board of Directors

* Under Article 97 (1) of the Legal Framework of Credit Institutions and Financial Companies ("RGICSF")

Final acknowledgements



The year 2017 is marked by Artur Santos Silva's termination of service as Chairman of Banco BPI's Board of Directors, following the entry into office, on 21 July 2017, of the members elected at the Annual General Meeting of 26 April 2017.

Artur Santos Silva idealised, concerted efforts, wills and means and created SPI in 1981, an entity that later gave rise to BPI in 1985, and whose destinies he led in his capacity as Chairman of the Board of Directors and Chairman of the Executive Committee until 2004 and, from that date until 21 July 2017, in the first of those two capacities.

On 25 July 2017, the Board of Directors, acknowledging his invaluable and exceptional contribution to the pursuit of BPI's interest, unanimously approved his appointment as Banco BPI's Honorary President.

The Board of Directors expresses its deep gratitude for his dedication and professionalism in conducting the destinies of the institution and for the rigorous, exempt and ethical conduct that always guided his interaction with all the interested parties involved in BPI's destinies.

Maria Celeste Hagatong terminated her appointment on said date (21 July 2017), having served as Banco BPI's executive director since 2000. She had been a member of the BPI Group since 1985, where she headed Corporate Banking and the relationship with COSEC (credit insurance) for many years. Maria Celeste Hagatong made an invaluable contribution to the institution's growth and, specially, to its affirmation as a leading bank in the business sector.

On the same date, Manuel Ferreira da Silva, which was an executive director since 2001, ceased functions. Manuel Ferreira da Silva's ties to the BPI Group date back to 1988, and since then he has been always involved with the group, being later nominated as head of the investment banking business (brokerage, corporate finance and research). Throughout the years he performed his duties at BPI, Manuel Ferreira da Silva played a core role in asserting the investment banking business as a leading brokerage and research house in the Iberian Peninsula.

Also in 2017, Armando Leite de Pinho, Carlos Moreira da Silva and Mário Leite da Silva ceased their duties as directors, the year their terminations took effect. These terminations have already been referred to in the 2016 annual report.

Finally, Alfredo Rezende de Almeida ceased his duties as a non-executive director following the entry into office of the new members in July 2017. He was linked to the group of BPI founder shareholders and he performed his functions in BPI's management board practically since its inception. In performing those duties, he made part of the bodies and committees that monitor audit and internal control issues, where he performed relevant duties of supervision of the activity of the institution. Considering his experience and know-how in said matters, the Board of Directors, under the statutory provision conferring upon it the right to appoint for advisory and support bodies, persons who are not members of the Board, resolved on 25 July to appoint Alfredo Rezende as a member of the Audit and Internal Control Committee (CACI in Portuguese) until the end of the current period of office.

Finally, on 31 October 2017, Juan Ramon Fuertes relinquished his position as executive director. To replace him, Fátima Barros was appointed by co-option on 23 February 2018, the start of her period of office having been authorised by the European Central Bank on 19 February 2018.

Lisbon, 23 March 2018

The Board of Directors



Consolidated financial statements

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2017 AND 2016

(Translation of statements originally issued in Portuguese – note 5)
(Amounts expressed in thousands of euro)

		31 Dec. 17		31 Dec. 16	
	Notes	Amounts before impairment, depreciation and amortisation	Impairment, depreciation and amortisation	Net	Net
ASSETS					
Cash and deposits at central banks	4.1	909 851		909 851	876 621
Deposits at other credit institutions	4.2	276 354		276 354	300 190
Financial assets held for trading and at fair value through profit or loss	4.3 / 4.4	300 536		300 536	2 197 913
Financial assets available for sale	4.5	3 976 638	101 268	3 875 370	3 876 434
Loans and advances to credit institutions	4.6	724 727		724 727	637 607
Loans and advances to Customers	4.7	22 243 689	584 907	21 658 782	22 735 758
Held to maturity investments	4.8				16 317
Hedging derivatives	4.4	12 740		12 740	25 802
Non-current assets held for sale and discontinued operations	4.9	7 264		7 264	6 295 910
Other tangible assets	4.10	420 581	375 272	45 309	50 955
Intangible assets	4.11	143 390	101 075	42 315	25 629
Investments in associated companies and jointly controlled entities	4.12	794 484	1	794 483	175 678
Tax assets	4.13	435 415		435 415	471 848
Other assets	4.14	573 512	16 449	557 063	597 990
Total assets		30 819 181	1 178 972	29 640 209	38 284 652
LIABILITIES					
Resources of central banks	4.15			1 995 374	2 000 011
Financial liabilities held for trading	4.16 / 4.4			170 048	212 713
Resources of other credit institutions	4.17			1 982 648	1 096 439
Resources of Customers and other debts	4.18			20 783 832	21 967 681
Debt securities	4.19			236 978	506 770
Financial liabilities relating to transferred assets	4.20			477 985	555 385
Hedging derivatives	4.4			69 880	97 756
Non-current liabilities held for sale and discontinued operations	4.9			4 471	5 951 398
Provisions	4.21			64 239	70 235
Technical provisions	4.22				2 048 829
Tax liabilities	4.23			70 622	22 006
Other subordinated debt and participating bonds	4.24			305 077	69 500
Other liabilities	4.25			655 469	777 404
Total liabilities				26 816 623	35 376 127
SHAREHOLDERS' EQUITY					
Subscribed share capital	4.27			1 293 063	1 293 063
Other equity instruments	4.28			2 276	4 309
Revaluation reserves	4.29			127 954	(21 514)
Other reserves and retained earnings	4.30			1 390 646	1 044 319
(Treasury shares)	4.28			(377)	(10 809)
Other accumulated comprehensive income related to discontinued operations	4.9			(185)	(182 121)
Consolidated net income of the BPI Group	4.43			10 209	313 230
Shareholders' equity attributable to the shareholders of BPI				2 823 586	2 440 477
Non-controlling interests	4.31				468 048
Total shareholders' equity				2 823 586	2 908 525
Total liabilities and shareholders' equity				29 640 209	38 284 652
OFF BALANCE SHEET ITEMS					
Guarantees given and other contingent liabilities	4.32			1 572 858	1 466 208
Of which:					
[Guarantees and sureties]				[1 394 398]	[1 294 856]
[Others]				[178 460]	[171 352]
Commitments	4.32			3 285 505	3 392 479

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 2017 AND 2016 PROFORMA

(Translation of statements originally issued in Portuguese – note 5)
(Amounts expressed in thousands of euro)

	Notes	31 Dec. 17	31 Dec. 16 Proforma
Interest and similar income		458 093	518 060
Interest and similar expenses		(90 865)	(154 420)
Financial margin (narrow sense)	4.33	367 228	363 640
Income from equity instruments	4.34	6 525	8 528
Net commission relating to amortised cost	4.35	20 830	21 216
Financial margin		394 583	393 384
Commissions received		276 144	267 776
Commissions paid		(29 793)	(34 304)
Other income, net		30 047	28 861
Net commission income	4.36	276 398	262 333
Gain and loss on operations at fair value		11 378	24 357
Gain and loss on assets available for sale		3 071	21 975
Interest and financial gain and loss with pensions		(606)	1 043
Net income on financial operations	4.37	13 843	47 375
Operating income		41 625	21 197
Operating expenses		(219 019)	(37 260)
Other taxes		(7 278)	(6 213)
Operating income and expenses	4.38	(184 672)	(22 276)
Operating income from banking activity		500 152	680 816
Personnel costs	4.39	(369 104)	(304 011)
General administrative costs	4.40	(163 357)	(166 199)
Depreciation and amortisation	4.10 / 4.11	(21 878)	(21 360)
Overhead costs		(554 339)	(491 570)
Recovery of loans, interest and expenses		29 768	13 733
Impairment losses and provisions for loans and guarantees, net	4.21	(25 200)	(33 009)
Impairment losses and other provisions, net	4.21	41	(36 483)
Net income before income tax		(49 578)	133 487
Income tax	4.41	(87 655)	(37 202)
Earnings of associated companies (equity method)	4.42	124 753	26 190
Net income from continuing operations		(12 480)	122 475
Net income from discontinued operations	4.9	22 700	359 620
Income attributable to non-controlling interests from continuing operations	4.31	(11)	(45)
Income attributable to non-controlling interests from discontinued operations	4.9		(168 820)
Income attributable to non-controlling interests		(11)	(168 865)
Consolidated net income of the BPI Group	4.43	10 209	313 230
Earnings per share (in euro)			
Basic	4.43	0.007	0.216
Diluted	4.43	0.007	0.215
Earnings per share from continuing operations (in euro)			
Basic	4.43	(0.009)	0.084
Diluted	4.43	(0.009)	0.084
Earnings per share from discontinued operations (in euro)			
Basic	4.43	0.016	0.132
Diluted	4.43	0.016	0.131

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 2017 AND 2016 PROFORMA**

	31 Dec. 17	
	Attributable to shareholders of the BPI Group	Attributable to non-controlling interest
		Total
Consolidated net income	10 209	11
Income not included in the consolidated statements of income related to continued operations:		
Items that will not be reclassified to net income:		
Actuarial deviations	31 274	31 274
Tax effect	(8 838)	(8 838)
	22 436	22 436
Items that may be reclassified subsequently to net income:		
Foreign exchange translation differences		
Transfer to income	182 121	182 121
Foreign exchange differences	90 743	90 743
Tax effect	(8 859)	(8 859)
Revaluation reserves of financial assets available for sale:		
Revaluation of financial assets available for sale	72 628	72 628
Tax effect	(4 929)	(4 929)
Transfer to income resulting from sales	(2 733)	(2 733)
Tax effect	738	738
Transfer to income resulting from impairment recognized in the period	2 586	2 586
Tax effect	(705)	(705)
Valuation of assets of associated companies	12 640	12 640
Tax effect	(1 554)	(1 554)
	342 676	342 676
Income not included in the consolidated statements of income related to discontinued operations:		
Items that will not be reclassified to net income:		
Actuarial deviations	132	132
Tax effect	(34)	(34)
	98	98
Items that may be reclassified subsequently to net income:		
Foreign exchange differences		
Revaluation reserves of financial assets available for sale	2	2
	2	2
Income not included in the consolidated statements of income	365 212	365 212
Consolidated comprehensive income	375 421	11

The Accountant

(Translation of statements originally issued in Portuguese – note 5)
(Amounts expressed in thousands of euro)

31 Dec. 16 Proforma		
Attributable to shareholders of the BPI Group	Attributable to non- controlling interest	Total
313 230	168 865	482 095
(211 692)		(211 692)
56 123		56 123
(155 569)		(155 569)
(23 036)		(23 036)
(8 539)		(8 539)
1 907		1 907
(22 495)		(22 495)
6 171		6 171
24 471		24 471
(6 705)		(6 705)
(8 932)		(8 932)
2 032		2 032
(35 126)		(35 126)
(87 845)	(88 616)	(176 461)
(87 845)	(88 616)	(176 461)
(278 540)	(88 616)	(367 156)
34 690	80 249	114 939

The accompanying notes form an integral part of these statements.

The Board of Directors

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016 PROFORMA**

	Subscribed share capital	Other equity instruments	Revaluation reserves
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)
Other accumulated comprehensive income related to discontinued operations at 31 December 2016			(1)
Appropriations of net income for 2016 to reserve			
Change in consolidation method of the participation in Banco Fomento Angola			
Dividends paid on preference shares			
Sale / acquisition of preference shares			
Variable Remuneration Program (RVA)		(2 033)	
Other comprehensive income related to discontinued operations			
Comprehensive income for 2017			149 469
Other			
Balance at 31 December 2017	1 293 063	2 276	127 954

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
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
286		(285)			
313 230			(313 230)		
				(466 274)	(466 274)
				(29)	(29)
				(1 756)	(1 756)
(2 923)	10 432				5 476
		100			100
33 522		182 121	10 209	11	375 332
2 212					2 212
1 390 646	(377)	(185)	10 209		2 823 586

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 2017 AND 2016 PROFORMA

	31 Dec. 17		
	Continued operations	Discontinued operations	Total
Operating activities			
Interest, commissions and other income received	773 579	434 789	1 208 368
Interest, commissions and other expenses paid	(197 044)	(397 792)	(594 836)
Recovery of loans and interest in arrears	29 768		29 768
Payments to personnel and suppliers	(486 535)	(6 973)	(493 508)
Net cash flow from income and expenses	119 768	30 024	149 792
Decrease (increase) in:			
Financial assets held for trading, available for sale and held to maturity	176 031	(974 155)	(798 124)
Loans and advances to credit institutions	(559 667)	190 904	(368 763)
Loans and advances to Customers	(612 195)	864 960	252 765
Other assets	176 824	10 086	186 910
Net cash flow from operating assets	(819 007)	91 795	(727 212)
Increase (decrease) in:			
Resources of central banks and other credit institutions	5 796		5 796
Resources of Customers	783 539	95 446	878 985
Financial liabilities held for trading	(42 665)		(42 665)
Other liabilities	(55 550)	(12 786)	(68 336)
Net cash flow from operating liabilities	691 120	82 660	773 780
Contributions to the Pension Funds	(84 157)	(199)	(84 356)
Income tax paid	(24 403)	(7 401)	(31 804)
	(116 679)	196 879	80 200
Investment activities			
Sale of 100% participation of BPI Vida	135 000		135 000
Sale of 2% participation of Banco de Fomento Angola	28 000		28 000
Sale of participating units of BPI Strategies			
Purchase of other tangible assets and intangible assets	(36 925)		(36 925)
Sale of other tangible assets	44		44
Dividends received of Banco de Fomento Angola	38 855	9	38 864
Dividends received and other income	19 416		19 416
	184 390	9	184 399

The Accountant

(Translation of statements originally issued in Portuguese – note 5)
(Amounts expressed in thousands of euro)

31 Dec. 16 Proforma

	Continued operations	Discontinued operations	Total
	812 333	1 001 649	1 813 982
	(300 780)	(562 626)	(863 406)
	13 733	2 172	15 905
	(500 446)	(171 550)	(671 996)
	24 840	269 645	294 485
	(91 423)	936 545	845 122
	(119 255)	550 669	431 414
	(737 442)	783 536	46 094
	209 350	(15 653)	193 697
	(738 769)	2 255 096	1 516 327
	309 986	(28 776)	281 210
	893 011	(2 729 103)	(1 836 092)
	(55 252)	(18 203)	(73 455)
	8 518	(3 795)	4 723
	1 156 263	(2 779 877)	(1 623 614)
	(11 010)	(404)	(11 414)
	(79 779)	(18 127)	(97 906)
	351 545	(273 667)	77 878
	14 361		14 361
	(18 335)	(18 822)	(37 157)
	8 766		8 766
	39 335		39 335
	44 127	(18 822)	25 305

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 2017 AND 2016 PROFORMA (CONTINUED)

	31 Dec. 17		
	Continued operations	Discontinued operations	Total
Financing activities			
Liability for assets not derecognised	(77 308)		(77 308)
Issuance of debt securities and subordinated debt	310 090		310 090
Redemption of debt securities	(287 572)		(287 572)
Purchase and sale of own debt securities and subordinated debt	(1 945)		(1 945)
Purchase and sale of preference shares	(1 756)		(1 756)
Interest on debt securities and subordinated debt	(10 629)	(1)	(10 630)
Dividends paid on preference shares	(29)		(29)
Dividends paid to BPI Group	12 635	(12 635)	
Dividends paid to non-controlling interests			
Purchase and sale of treasury shares	4 372		4 372
	(52 142)	(12 636)	(64 778)
Net increase (decrease) in cash and equivalents	15 569	184 252	199 821
Cash and equivalents at the beginning of the period	1 170 636	1 520 686	2 691 322
Exit from consolidation perimeter by BFA in January 2017		(1 514 511)	(1 514 511)
Exit from consolidation perimeter by BPI Vida e Pensões in December 2017		(190 064)	(190 064)
Cash and equivalents at the end of the period	1 186 205	363	1 186 568
Cash and deposits at central banks	909 851		909 851
Deposits at other credit institutions	276 354	363	276 717
Cash and equivalents	1 186 205	363	1 186 568
Cash and equivalents by currencies			
EUR	1 123 785	363	1 124 148
USD	14 278		14 278
AKZ			
Other currencies	48 142		48 142
Cash and equivalents	1 186 205	363	1 186 568

The Accountant

Alberto Pitôrra

(Montantes expressos em milhares de euros)

31 Dec. 16 Proforma			
	Continued operations	Discontinued operations	Total
	(134 137)		(134 137)
	668 419		668 419
	(577 170)		(577 170)
	(658 206)		(658 206)
	(30)		(30)
	(9 853)	(869)	(10 722)
	(43)		(43)
	88 788	(88 788)	
		(40 775)	(40 775)
	566		566
	(621 666)	(130 432)	(752 098)
	(225 994)	(422 921)	(648 915)
	1 396 630	1 943 607	3 340 237
	1 170 636	1 520 686	2 691 322
	876 621	1 505 858	2 382 479
	294 015	14 828	308 843
	1 170 636	1 520 686	2 691 322
	1 111 622	7 566	1 119 188
	20 249	242 264	262 513
		1 268 521	1 268 521
	38 765	2 335	41 100
	1 170 636	1 520 686	2 691 322

The accompanying notes form an integral part of these statements.

The Board of Directors

Chairman Fernando Ulrich

Deputy-Chairmen Pablo Forero Calderon

António Lobo Xavier

Members Alexandre Lucena e Vale

Allianz Europe Ltd. - que nomeou
para exercer o cargo em nome
próprio Carla Bambulo

António Farinha de Morais

Cristina Rios Amorim

Francisco Manuel Barbeira

Gonzalo Gortázar Rotaetze

Ignacio Alvarez-Rendueles

Javier Pano Riera

João Pedro Oliveira e Costa

José Pena do Amaral

Juan Antonio Alcaraz

Lluís Vendrell

Pedro Barreto

Tomás Jervell

Vicente Tardio Barutel

Notes to the consolidated financial statements as of 31 December 2017 and 2016

(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. 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.

In the context of its public tender offer for the acquisition of all outstanding shares of Banco BPI, on 8 February 2017 (date of the "Regulated Market Special Session" conducted to announce the result of the public tender offer), CaixaBank acquired shares representative of 39.01% of Banco BPI voting rights. Considering CaixaBank previously owned 45.5%, its overall share ownership reached 84.51% of Banco BPI's voting rights. From February 2017, Banco BPI is included in the CaixaBank Group consolidation perimeter, and its financial statements are consolidated in accordance with the full consolidation method.

On 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), which was concluded on 5 January 2017. Following the reduction in the Group's participation in BFA from 50.1% to 48.1%, and the application of the new Shareholders' Agreement, BFA is no longer consolidated in accordance with the full consolidation method, as determined by IFRS 10. Since January 2017, BFA is consolidated by using the equity method of accounting. In the end of 2016 BFA's operations were classified as discontinued operations, in accordance with 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 as of 31 December 2016 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.

During 2016 Banco BPI ceased having control over BPI Strategies, Ltd., as defined by IFRS 10, as it holds less than 20% of the participating units of the fund. For this reason, consolidation in accordance with the full consolidation method was terminated for the fund BPI Strategies, Ltd.

During 2016, Banco BPI ceased having control over BPI Obrigações Mundiais – Fundo de Investimento Aberto de Obrigações, as defined by IFRS 10, as it holds less than 20% of the participating units of the fund. For this reason, consolidation in accordance with the full consolidation method was terminated for the fund BPI Obrigações Mundiais.

On November 2017, Banco BPI, S.A. signed an agreement for the sale of 100% of shareholder's equity of BPI Vida e Pensões, BPI Gestão de Activos, and BPI Global Fund Investment Management Company (BPI GIF) to CaixaBank. The sale of BPI Vida e Pensões was completed in 2017, while the remaining disposals are expected to occur in 2018. In the end of 2017, the operations of BPI Vida e Pensões, BPI Gestão de Ativos and BPI GIF were classified as discontinued operations, in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, with the comparative balances of the Consolidated Statements of Income and Profit and Loss and Other Comprehensive Income as of 31 December 2016 being restated, and all income and expenses generated by these entities in the year ended 31 December 2016 is presented in a single line in the Consolidated Statement of Income designated "Net income from discontinued operations" Also in accordance with IFRS 5, total assets and liabilities of BPI Gestão de Ativos and BPI GIF as of 31 December 2017 are presented in the captions NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS. In accordance with IFRS 5, considering that Banco BPI still has control over these entities as of 31 December 2017, these entities continued to be included in the consolidated financial statements through the full consolidation method.

During 2017 BPI Group ceased having control over BPI Alternative Fund: Iberian Equities Long / Short Fund (Lux), as defined by IFRS 10, as it holds less than 20% of the participating units of the fund. For this reason, consolidation in accordance with the full consolidation method was terminated for the fund BPI Alternative Fund.

During 2017, the participation owned by BPI Group on BPI Moçambique – Sociedade de Investimento, S.A. was sold. This entity was fully owned by the BPI Group.

During 2017, the entity BPI Capital Finance Ltd. was liquidated. The ordinary shares representing this entity's equity were fully owned by BPI Group.

During 2017, the participation of BPI Group in Banco Comercial e de Investimentos, S.A. increased from 30% to 35.67% as a result of an agreement between BPI Group and Caixa Geral de Depósitos with Insitec Capital, S.A. (note 4.12).

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. As of 31 December 2017 and 2016, the BPI Group held 100% of the equity pieces of these vehicles and so they were consolidated in accordance with the full consolidation method.

As of 31 December 2017, the BPI Group was made up of the following companies:

	Head office	Shareholder's equity ¹	Total assets	Net income (loss) for the year	Direct participation	Effective participation	Consolidation / recognition method
Banks							
Banco BPI, S.A.	Portugal	2 135 424	33 260 476	232 774			
Banco Português de Investimento, S.A.	Portugal	23 421	29 323	(3 431)	100.00%	100.00%	Full consolidation
Banco Comercial e de Investimentos, S.A.	Mozambique	219 653	2 192 848	34 997	35.67%	35.67%	Equity method
Banco de Fomento Angola, S.A.	Angola	1 172 717	7 783 519	372 627	48.09%	48.09%	Equity method
Banco BPI Cayman, Ltd. ²	Cayman Islands	168 895	168 895	9 301		100.00%	Full consolidation
Asset management							
BPI Gestão de Activos – Sociedade Gestora de Fundos de Investimento Mobiliários, S.A.	Portugal	16 200	36 064	7 329	100.00%	100.00%	Full consol. (IFRS 5)
BPI – Global Investment Fund Management Company, S.A.	Luxembourg	2 559	9 200	1 958	100.00%	100.00%	Full consol. (IFRS 5)
BPI (Suisse), S.A.	Switzerland	14 988	15 689	3 935	100.00%	100.00%	Full consolidation
Venture capital							
BPI Private Equity – Sociedade de Capital de Risco, S.A.	Portugal	32 829	38 128	31	100.00%	100.00%	Full consolidation
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	994	1 264	(144)		49.00%	Equity method
Insurance							
Cosec – Companhia de Seguros de Crédito, S.A.	Portugal	50 303	114 266	7 948	50.00%	50.00%	Equity method
Companhia de Seguros Allianz Portugal, S.A.	Portugal	178 961	1 303 015	6 375	35.00%	35.00%	Equity method
Other							
BPI Capital Africa (Proprietary) Limited ²	South Africa	117	322	(1 338)		100.00%	Full consolidation
BPI, Inc.	U.S.A.	708	709	(6)	100.00%	100.00%	Full consolidation
BPI Madeira, SGPS, Unipessoal, S.A.	Portugal	151 420	151 426	(609)	100.00%	100.00%	Full consolidation
Unicre – Instituição Financeira de Crédito, S.A.	Portugal	102 658	350 623	24 309	21.01%	21.01%	Equity method

Note: Unless otherwise indicated, all amounts are as of 31 December 2017 (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) Includes net income for the period.

2) Entity in liquidation process.

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 accordance with International Accounting Standards / International Financial Reporting Standards (IAS / IFRS), as endorsed by the European Union as determined by *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 2017 were approved by the Executive Commission of the Board of Directors on 23 March 2018.

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

Until the date of approval of the consolidated financial statements for the year ended 31 December 2017, the following standards, interpretations, amendments and revisions, were endorsed by the European Union with mandatory application for the financial period beginning on 1 January 2017:

- IAS 12 – Income tax (amendments) – recognition of deferred tax assets for unrealized losses: this amendment clarifies the conditions for recognition and measurement of tax assets resulting from unrealized losses. It is of mandatory application for annual reporting periods beginning on or after 1 January 2017.
- IAS 7 – Statement of cash flows (amendments) – disclosures: this amendment introduces additional disclosures related to the cash-flows from financing activities. It is of mandatory application for annual reporting periods beginning on or after 1 January 2017.

The financial statements of the Group as of 31 December 2017 were not substantially affected by the adoption of the aforementioned amendments.

The following standards (new and revised) and interpretations, already endorsed by the European Union, are of mandatory adoption in future reporting dates:

- 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 classification 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 annual reporting periods beginning on or after 1 January 2018 (note 4.45).

- 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 annual reporting periods beginning on or after 1 January 2018.

- IFRS 16 – Leases: This standard introduces the principles of recognition and measurement of leases, replacing IAS 17 – Leases. The standard defines a single accounting model for lease contracts that results in the lessee's recognition of assets and liabilities for all lease contracts, except for leases with a period of less than 12 months or for leases of assets with reduced value. Lessors will continue to classify leases as operational or financial, and IFRS 16 will not entail substantial changes to such entities as defined in IAS 17. It is of mandatory application for annual reporting periods beginning on or after 1 January 2019.

- IFRS 15 – Revenue from contracts with Customers (amendments): These amendments introduce a number of clarifications in the standard in order to eliminate the possibility of divergent interpretations of various topics. It is of mandatory application for annual reporting periods beginning on or after 1 January 2018.

- IFRS 4 – Insurance Contracts (amendments): These amendments provide guidance on the application of IFRS 4 together with IFRS 9. This standard will be replaced by the adoption of the IFRS 17. It is of mandatory application for annual reporting periods 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 2017, as their application is not yet mandatory. The estimated impacts from the adoption of IFRS 9 are shown in note 4.45, and no significant impact is expected to result from the adoption of the rest of the aforementioned standards.

The following standards and interpretations were issued by IASB and are not yet endorsed by the European Union:

- IFRS 17 – Insurance Contracts: This standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts covered by the scope of the standard. This standard will replace IFRS 4, and it is of mandatory application for annual reporting periods beginning on or after 1 January 2021.
- IFRS 2 – Share-based Payment (amendments): these amendments introduce various clarifications in the standard related to: (i) recording of modifications in cash-settled share-based payment transactions; (ii) recording of modifications in share-based payment transactions (from cash-settled to equity instruments-settled); (iii) the classification of transactions with cleared securities. It is of mandatory application for annual reporting periods beginning on or after 1 January 2018.

- IAS 40 – Investment properties (amendments): these amendments clarify that a change in classification from or to investment property should only be made when there is evidence of a change in the use of the asset. It is of mandatory application for annual reporting periods beginning on or after 1 January 2018.
- Improvements to international financial reporting standards (cycle 2014-2016): these improvements involve the clarification of some aspects related with: IFRS 1 – First time adoption of international financial reporting standards: eliminates some short-term exemptions; IFRS 12 – Disclosure of interest in the other entities: clarifies the scope of the standard for its application to assets classified as held for sale or held for distribution under IFRS 5; IAS 28 – Investments in associates and joint ventures: introduces clarifications regarding the measurement at fair value through profit and loss of investments in associates or joint ventures held by venture capital companies or by investment funds. It is of mandatory application for annual reporting periods beginning on or after 1 January 2018, with the exception of the application of the amendments on IFRS 12, which are to be adopted on reporting periods starting on 1 January 2017.
- Improvements to international financial reporting standards (cycle 2015-2017): these improvements involve the clarification of some aspects related with: IFRS 3 – Business Combinations: requires the remeasurement of the financial stake when the subsidiary was previously jointly held; IFRS 11 – Joint Arrangements: clarifies there is no need to remeasure financial stakes previously held when the entity acquires joint control over a joint operation; IAS 12 – Income Taxes: clarifies that all the tax outcomes from dividends distribution should be reported in the income statement, regardless of the tax origin; IAS 23 – Borrowing Costs: clarifies that the loan component directly related with the acquisition / construction of an asset, which is still due after the asset is ready for the desired use, is, for the purpose of determining the capitalisation rate, considered a part of the generic funding of the entity. It is of mandatory application for annual reporting periods beginning on or after 1 January 2019.
- IFRS 9 – Financial Instruments (amendments): related with the characteristics of early payments with negative compensation: these amendments clarify that financial assets with contractual conditions allowing the payment of material amounts to the creditor at the prepayment date may be measured at amortised cost or at fair value through other comprehensive income (depending on the business model), provided that (i) at initial recognition the fair value of the prepayment feature is insignificant; and (ii) the possibility of negative compensation due to prepayment is the only reason the asset is not considered as featuring solely payment of principal and interest. It is of mandatory application for annual reporting periods starting on or after 1 January 2019.
- IAS 28 – Investments in Associates and Joint Ventures: these amendments clarify that IFRS 9 should be adopted (including the requirements regarding impairment losses) to investments in associates and joint ventures, when the equity method is not applied for their valuation. It is of mandatory application for annual reporting periods starting on or after 1 January 2019.

- IFRIC 22 – Foreign currency transactions and down payments: this interpretation establishes the date of the initial recognition of the advance or deferred income as the date of the transaction for the purpose of determining the exchange rate of the revenue recognition. It is of mandatory application for annual reporting periods beginning on or after 1 January 2018.
- IFRIC 23 – Uncertainty over Income Tax treatments: this interpretation provides guidance on determining taxable income, fiscal basis, reportable tax losses, tax receivables and income tax rates in situations of uncertainty associated with the estimation of income tax. It is of mandatory application for annual reporting periods beginning on or after 1 January 2019.

These standards were not yet endorsed by the European Union and, therefore, were not adopted by the Group on the year ended 31 December 2017. No substantial impact on the consolidated financial statements of the BPI Group from the future adoption of these standards and interpretations is expected.

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

On 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, in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, with BFA's total assets and liabilities as of 31 December 2016 being presented in the captions NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS, respectively, and the income generated by BFA during the year ended 31 December 2016 being presented in a single line of the Statement of Income under the caption INCOME FROM DISCONTINUED OPERATIONS. In accordance with IFRS 5, on 31 December 2016, this participation continued to be consolidated by the full consolidation method, because, on this date, Banco BPI maintained the control over BFA.

As of 31 December 2017, the 48.1% participation owned on BFA is consolidated in accordance with the equity method of accounting as provided by IAS 28 – Investments in Associates and Joint Ventures.

On November 2017, Banco BPI, S.A. signed an agreement for the sale of 100% of shareholder's equity of BPI Vida e Pensões, BPI Gestão de Activos, and BPI Global Fund Investment Management Company (BPI GIF) to Caixabank. The sale of BPI Vida e Pensões was completed on December 2017, while the remaining disposals are expected to occur in 2018. In the end of 2017, the operations of BPI Vida e Pensões, BPI Gestão de Ativos and BPI GIF were classified as discontinued operations, in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, with

the comparative balances of the Consolidated Statements of Income and Profit and Loss and Other Comprehensive Income as of 31 December 2016 being restated, and all income and expenses generated by these entities in the year ended 31 December 2016 is presented in a single line in the Consolidated Statement of Income designated "Net income from discontinued operations". Also in accordance with IFRS 5, total assets and liabilities of BPI Gestão de Ativos and BPI GIF as of 31 December 2017 are presented in the captions NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS. In accordance with IFRS 5, considering that Banco BPI still had control over these entities as of 31 December 2017, these entities continued to be included in the consolidated financial statements through the full consolidation method.

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 cumulatively met:

- 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 associate 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 consolidated financial statements 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.

When a foreign entity is sold, the accumulated exchange difference is recognised 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. 17	31 Dec. 16
Kwanza – Angola	185.4000	185.3790
Metical – Mozambique	70.7000	75.1600
Swiss Franc	1.1702	1.0739
South Africa Rand	14.8054	14.4570
USA dollar	1.1993	1.0541

Angola was classified as a hyperinflationary economy in 2017 by the main international auditing firms, considering the fact that it presents an accumulated inflation rate close to 100% in the past three years and the evolution recorded on prices, salaries and interest rates:

Angola	2015	2016	2017
Consumer Price Index (basis Dec. 14 = 100)	112.09	158.19	195.63
Annual inflation rate	12%	41%	24%

Source: Instituto Nacional de Estatística de Angola – IPCN.

In this context, Banco BPI considered an estimate of the impact of application of the requirements of IAS 29 – Financial reporting in hyperinflationary economies on the financial statements of BFA as of 31 December 2017, in order to determine the value of the 48.1% participation of the BPI Group in the net assets and the results of BFA.

The financial statements of BFA were restated as of 31 December 2017, before being included in the BPI Group's consolidated financial statements:

- the value of non-monetary net assets measured applying the cost

model was restated considering the Angolan Consumer Price Index (CPI);

- the loss on the net monetary assets was included in BFA's net income as of 31 December 2017.

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 will be the relevant date.

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 4.45 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, that 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 income 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 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 which 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 income 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 income 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 recognised 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 losses requires professional judgement.

Objective evidence of impairment is assessed as of the date of the financial statements.

Impairment assessment is made based on individual or collective basis for loans of significant amount and on collective basis where the loans are not significant in amount.

BPI's loan portfolio, guarantees and irrevocable commitments are segmented as follows for purposes of determining impairment:

- Corporate Banking;
- Project Finance;
- Institutional Banking and the State Business Sector;

■ Individual and Businessmen and Business:

- 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;

■ Others.

Customer groups with exposures above 250 th. euros, included in the following segments, are subject to an individual impairment assessment:

- Individual Clients and Small Business, Investment Center and Private Banking (in a consolidated basis and excluding operations related to housing loans, consumer credit, credit cards and vehicle financing);
- Corporate Banking, Project Finance, Institutional Banking and the State Business Sector;
- 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 probability of a performing operation or Customer coming to show signs of impairment through delays or other loss events occurred 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 probability of an operation or Customer that has already had delays or others loss events occurred, going into default 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 may 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:

	Estimated useful life
Property	20 to 50
Improvements in owned property	10 to 50
Non-recoverable expenditure on improvements in 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, resulting in the recognition of the corresponding deferred tax liability.

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 do Mercado de Valores Mobiliários” (Portuguese Securities Market Regulator). Unrealised gains on these assets are not recognised in the balance sheet.

Tangible assets available for sale are not depreciated.

Non-current assets held for sale and discontinued operations (IFRS 5)

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 realised 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 amortised, 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 recognised 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 with IFRS 5 – Non-current assets held for sale and discontinued operations.

In 2017, as a result of the agreement established between Banco BPI and Caixabank for the sale of the participations owned in BPI Gestão de Activos and BPI GIF, the assets and liabilities of these entities 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 with IFRS 5.

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 Authority (Autoridade de Supervisão de Seguros e Fundos de Pensões): 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 as a cost in the statement of income, 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 booked.

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. 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 4.39).

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 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. An analysis of the actuarial assumptions and, if applicable, their corresponding change, is carried out regularly by the BPI Group. The update of the referred assumptions is reflected in the determination of the actuarial deviations and prospectively in pension costs.

The amount of the liability includes, in addition to the retirement pension benefits, post-employment healthcare benefits (SAMS) and death subsidy during retirement.

In accordance with the requirements of IAS 19, the BPI Group recognises 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 no. 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 recalculating actuarial gains and losses deferred since the inception of the pension plans (reset option). Consequently, deferred actuarial gains and losses reflected in the BPI Group's financial statements as of 31 December 2003 were reversed by corresponding entry to retained earnings at the transition date (1 January 2004).

2.8. Long service premiums 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 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 recognised 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 in the past service liability (note 4.25). To the extent that this is a change of benefits of the pension plan, this impact was recorded in the 2016 Statement of Income caption PERSONNEL COSTS, as provided for in paragraph 103 of IAS 19 (note 4.39).

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 liabilities for long service premiums (up to June 2016) and for final career premiums are reflected under the caption OTHER LIABILITIES (note 4.25).

The following costs relating to the liability for long service premiums (up to June 2016) and to the final career premium are included in the consolidated statement of income of the BPI Group:

- current service cost (cost for the year);
- interest cost;
- gains and losses resulting from changes in the conditions of the benefits.

2.9. Treasury shares (IAS 32)

Treasury shares are recorded at cost in equity captions and are not subject to revaluation. Realised gains and losses, as well as the resulting taxes, are recorded directly in shareholders' equity, not affecting net income for the year.

2.10. Share-based payments (Remuneração Variável em Ações – RVA) (IFRS 2)

The BPI Group implemented, from 2001 until the end of 2016, a BPI share-based variable compensation programme (RVA) for Executive Directors and key personnel, which consisted in granting, on an annual basis, a part of the variable compensation in the form of Banco BPI's shares and stock option.

The General Shareholders' Meeting on 26 April 2017 approved the new compensation policy applicable to Board members and the Supervisory Board, extinguishing the former RVA programme, except for the previously attributed variable compensation whose deferral period is not yet complete, which is to be paid in accordance with the former RVA rules.

With respect to the remaining covered personnel, the RVA programme was also extinguished with the approval by the Board of Directors on 14 December 2017 of the new RVA programme for key personnel and with the ruling by the Executive Committee on 23 January 2018 to revoke the application of the RVA programme for the rest of BPI personnel.

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 Executive Directors and key personnel.

For the purpose of the share-based payments, the Bank acquires a portfolio of CaixaBank shares and transfers ownership of the shares to the Executive Directors or key personnel on the date of attribution, in accordance with the applicable rules. However, for accounting purposes, the shares remain in BPI's portfolio of equity investments 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.

2.10.1 RVA Programme

The former RVA programme included the Executive Directors of BPI, the Board of Directors of Banco Português de Investimento, and all BPI Group personnel whose annual variable compensation exceed 2 500 euro. The size of the RVA programme for the variable compensation of Employees tended to increase along with the level of responsibilities, ranging from a minimum of 10% and a maximum of 35%. For Executive Directors, the variable compensation included a minimum of 50% paid in shares and / or stock options.

By decision of the Board of Directors, in 2017 no BPI shares were paid under the RVA programme for personnel, with variable compensation paid fully in cash, due to the public tender offer made by CaixaBank publicly announced in 18 April 2016.

2.10.2. New Policy for the Executive Directors – as approved by the General Shareholders' Meeting on 26 April 2017

On 26 April 2017 the Shareholders of Banco BPI approved the new remuneration policy applicable to the Executive Directors (“Política de Remuneração do Banco BPI aplicável aos membros do Conselho de Administração e do Conselho aprovada na Assembleia Geral de Accionistas de 26 de Abril de 2017” available on www.ir.bpi.pt).

In accordance with this Policy the remuneration of Executive Directors is composed by a fixed remuneration and a variable remuneration distributed as a bonus.

The variable remuneration distributed as a bonus includes:

- A component of 50% paid in cash;
- A component of 50% paid in financial instruments, net of the applicable taxes.

The distribution of instruments will be made, preferably, with CaixaBank shares, however Banco BPI can distribute other instruments in accordance with article 115-E of RGIC, on *Delegated Regulation 527 / 2014* and with EBA Orientations.

The payments of the variable remuneration distributed as a bonus must obey the following rules:

- A part of the variable remuneration is paid on the attribution date, by transferring to the Executive Director the cash and the ownership of the instruments that are part of the variable remuneration that is not deferred;

- The remaining remuneration will be deferred as described bellow. The cash and instruments which are subject of deferral are transferred to the Executive Director on the end of the deferral period.

The deferred remuneration corresponds to 60% of the variable remuneration of the Executive Directors.

Deferral Period:

- a) On the date of payment of the variable remuneration, the non-deferred part will be paid (“Initial payment date”), that is, the money and financial instruments included in this non-deferred part of the variable remuneration will be transferred to the Executive Director. A component of 50% of the non-deferred part of the variable remuneration is paid in cash and the remaining component is paid in financial instruments.

- b) The deferred remuneration adjusted to the risk, unless the decrease assumptions determined by the Policy are applicable, is paid as stated bellow:

- 1/5 – 12 months after the initial payment date;
- 1/5 – 24 months after the initial payment date;
- 1/5 – 36 months after the initial payment date;
- 1/5 – 48 months after the initial payment date;
- 1/5 – 60 months after the initial payment date.

In addition, all instruments distributed are subject to a retention period of one year, starting on the distribution / payment date, during which the Executive Director cannot liquidate the distributed instruments. During this period the Executive Director is the owner of the inherent rights of the distributed instruments.

2.10.3 New Policy for Key Personnel– as approved by the Board of Directors on 14 December 2017

In accordance with this Policy the remuneration of key personnel is composed by a fixed remuneration and a variable remuneration distributed as a bonus.

The variable remuneration distributed as a bonus includes:

- A component of 50% paid in cash;
- A component of 50% paid in financial instruments, net of the applicable taxes.

The distribution of instruments will be made, preferably, with CaixaBank shares, however Banco BPI can distribute other instruments in accordance with article 115-E of RGIC, on *Delegated Regulation 527 / 2014* and with EBA Orientations.

The remuneration of the key personnel responsible for the control functions (personnel that are directly responsible by the Compliance Department, Internal Audit Department, and the Risk Analysis and Control Department) are mainly composed by fixed remuneration.

The remuneration of key personnel responsible for control functions may contemplate a variable remuneration that should never exceed 25% of total remuneration and be fully paid in cash, while guaranteeing compliance with the deferral period of 40% of the variable remuneration.

The payments of the variable remuneration distributed as a bonus must obey the following rules:

- A part of the variable remuneration is paid on the attribution date, by transferring to the key personnel the cash and the ownership of the instruments that are part of the variable remuneration that is not deferred;
- The remaining remuneration will be deferred as described below. The cash and instruments which are subject of deferral are transferred to the key personnel on the end of the deferral period.

The deferred remuneration corresponds to 40% of the variable remuneration of key personnel.

Deferral period:

- c) On the initial payment date the part of the remuneration that is not deferred is paid, including both cash and instruments. This part of the remuneration is paid with 50% cash and 50% instruments;
- d) The deferred remuneration adjusted to the risk, unless the decrease assumptions determined by the Policy are applicable, is paid as stated below:
- 1/3 – 12 months after the initial payment date;
 - 1/3 – 24 months after the initial payment date;
 - 1/3 – 36 months after the initial payment date.

In addition, all instruments distributed are subject to a retention period of one year, starting on the distribution / payment date, during which the key personnel cannot liquidate the distributed instruments. During this period the key personnel is the owner of the inherent rights of the distributed instruments.

2.11. Technical provisions (IFRS 4)

Until the disposal of BPI Vida e Pensões in December 2017, the balance of the BPI Group included the capitalisation life insurance products issued through BPI Vida e Pensões. The Capitalisation insurance products without discretionary participation features were 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.
- Also includes a provision for rate commitments, which is recorded when the effective yield of the assets which represent the mathematical provisions of a certain product is lower than the technical interest rate used in the calculation of 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 Authority (Autoridade de Supervisão de Seguros e Fundos de Pensões), using the yields for investments covering the respective mathematical provisions.
- Claims reserve to cover indemnities payable relating to claims incurred but not yet settled. Considering the BPI Group does not sell 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 Group companies are taxed individually.

Banco BPI and its subsidiary and associated companies with head offices in Portugal are subject to the tax regimes established in the Corporation Income Tax Code (Portuguese initials – CIRC) and in the Statute of Tax Benefits.

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 recognise 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. Until 31 December 2016 deferred tax liabilities were recorded 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 and Banco de Fomento Angola, in which the deferred tax liabilities related to taxation in Mozambique and Angola of all the distributable profits are recognised.

Net income distributed to Banco BPI by subsidiary and associated companies in Portugal are not taxed in Banco BPI as a result of applying the regime established in article 51 of the Corporation Income Tax Code, which provides for the elimination of double taxation for distributed net income.

2.14. Preferred shares (IAS 32 and IAS 39)

Preferred shares are classified as equity instruments when:

- There is no contractual obligation for the BPI Group to redeem the preferred shares acquired by a holder (in cash or in another financial asset);
- Remission or early redemption of the preferred shares can only be made at the option of the BPI Group;
- Dividends distributed by the BPI Group to the preferred shareholders are discretionary.

The BPI Group classified the preferred 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 preferred shares classified as equity instruments, held by third parties, are presented in the consolidated financial statements in the caption NON-CONTROLLING INTEREST.

Realised gain and loss on the repurchase and sale of preferred shares classified as equity instruments, as well as the corresponding tax effect, are recorded directly in shareholders' equity, not affecting net income for the year.

2.15. Insurance and reinsurance brokerage services

Banco BPI is duly authorised by the Portuguese Insurance Authority (Autoridade de Supervisão de Seguros e Fundos de Pensões) 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.

Commissions received for insurance brokerage services refer to:

- Commissions that include 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;
- Commissions for insurance profit-sharing, 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).

Commissions received for insurance brokerage services are recognised on an accruals basis. Fees received in a different period from that to which they relate are recorded as receivables in the caption OTHER ASSETS by corresponding entry to "Commissions received – for insurance brokerage services".

Banco BPI does not collect insurance premiums on behalf of Insurance Companies, or receive or pay funds relating to insurance contracts. Thus, there are no other assets, liabilities, income or expenses to be recognised relating to the insurance brokerage services rendered by Banco BPI, from those already referred to.

2.16. 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 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
 - Asset Management
 - 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, operating in parallel 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.

Asset Management

Following the agreement to sell the participations owned on BPI Vida e Pensões, BPI Gestão de Activos, and BPI GIF to the Caixabank Group, a new segment was introduced in 2017 – Asset Management. This segment includes the life insurance, pension fund management and investment fund management businesses conducted by those entities. The commissions received by Banco BPI for the distribution of capitalisation life insurance and investment funds to its Customers (acting as an agent for these entities) continue to be included in the commercial banking segment.

In accordance with the IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations:

- In 2017 the assets and liabilities of BPI Gestão de Activos and BPI GIF 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 2017 and in 2016 the caption INCOME, NET OF DISCONTINUED OPERATIONS includes the income net of the disposals of BPI Vida e Pensões, BPI Gestão de Activos and BPI GIF.

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 (until June 2017).

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 2017 and investments in tangible and intangible assets during the year, by segment, are as follows:

	Domestic operations				International operations			BPI Group		
	Commercial Banking	Asset Management	Investment Banking	Equity investments and others	Inter segment operations	Total	Angola (BFA)		Others	Total
ASSETS										
Cash and deposits at central banks	909 851					909 851				909 851
Deposits at other credit institutions	276 331		5 977	11 863	(17 817)	276 354				276 354
Financial assets held for trading and at fair value through profit or loss	300 536					300 536				300 536
Financial assets available for sale	3 720 925		189	154 256		3 875 370				3 875 370
Loans and advances to credit institutions	724 499		15 400	2 895	(18 390)	724 404		323	323	724 727
Loans and advances to Customers	21 658 782					21 658 782				21 658 782
Hedging derivatives	12 740					12 740				12 740
Non-current assets held for sale and discontinued operations		39 997			(32 733)	7 264				7 264
Other tangible assets	45 148		161			45 309				45 309
Intangible assets	42 114		201			42 315				42 315
Investment in associated companies and jointly controlled entities	66 234			70 654		136 888	576 358	81 237	657 595	794 483
Tax assets	432 984		2 344	87		435 415				435 415
Other assets	569 083		4 616	111	(16 768)	557 042		21	21	557 063
Total assets	28 759 227	39 997	28 888	239 866	(85 708)	28 982 270	576 358	81 581	657 939	29 640 209
LIABILITIES										
Resources of central banks	1 995 374					1 995 374				1 995 374
Financial liabilities held for trading	170 048					170 048				170 048
Resources of other credit institutions	1 910 800		834	92 463	(21 449)	1 982 648				1 982 648
Resources of Customers and other debts	20 831 323				(47 491)	20 783 832				20 783 832
Debt securities	236 978					236 978				236 978
Financial liabilities relating to transferred assets	477 985					477 985				477 985
Hedging derivatives	69 880					69 880				69 880
Non-current liabilities held for sale and discontinued operations		21 239			(16 768)	4 471		228	228	4 471
Provisions	60 808			3 203		64 011				64 239
Technical provisions										
Tax liabilities	7 140		207	984		8 331	56 191	6 100	62 291	70 622
Other subordinated debt and participating bonds	305 077					305 077				305 077
Other liabilities	634 547		5 166	15 756		655 469				655 469
Total liabilities	26 699 960	21 239	6 207	112 406	(85 708)	26 754 104	56 191	6 328	62 519	26 816 623
SHAREHOLDER'S EQUITY										
Shareholder's equity attributable to the shareholders of BPI										
Non-controlling interests										
Shareholder's equity attributable to the shareholders of BPI	2 059 267	18 758	22 681	127 460		2 228 166	520 167	75 253	595 420	2 823 586
Total shareholder's equity	2 059 267	18 758	22 681	127 460		2 228 166	520 167	75 253	595 420	2 823 586
Total liabilities and shareholder's equity	28 759 227	39 997	28 888	239 866	(85 708)	28 982 270	576 358	81 581	657 939	29 640 209
Investments made in:										
Property	46					46				46
Equipment and other tangible assets	9 552					9 552		11	11	9 563
Intangible assets	27 220		87			27 307		9	9	27 316

On 31 December 2017 the caption OTHER ASSETS of the commercial banking segment includes 57 631 th. euro corresponding to dividends payable by BFA to BPI, attributed in the first semester of 2017.

The BPI Group's income statement for the year ended on 31 December 2017, by segment, is as follows:

	Domestic operations				International operations			Inter segment operations	BPI Group
	Commercial Banking	Asset Management	Investment Banking	Equity investments and others	Angola (BFA)	Others	Total		
Interest and similar income	457 926		(65)	356		45	45	(24)	458 093
Interest and similar expenses	(90 481)		(311)			(242)	(242)	24	(90 865)
Financial margin (narrow sense)	367 445		(376)	356		(197)	(197)		367 228
Gross margin on unit links									
Income from equity instruments	4 104			2 421			6 525		6 525
Net commission relating to amortised cost	20 830						20 830		20 830
Financial margin	392 379		(376)	2 777		(197)	(197)		394 583
Technical result of insurance contracts									
Commissions received	267 694		9 301		(1 827)	976	976		276 144
Commissions paid	(28 316)		(3 302)	(2)	1 827		(29 793)		(29 793)
Other income, net	30 049		(2)				30 047		30 047
Net commission income	269 427		5 997	(2)		976	976		276 398
Gain and loss on operations at fair value	8 662		2 722			(6)	(6)		11 378
Gain and loss on assets available for sale	1 445			1 623		3	3		3 071
Interest and financial gain and loss with pensions	(599)		(7)				(606)		(606)
Net income on financial operations	9 508		2 715	1 623		(3)	(3)		13 843
Operating income	41 585					40	40		41 625
Operating expenses	(43 349)		(22)	(28)		(769)	(175 620)		(219 019)
Other taxes	(7 121)		(125)	(2)		(30)	(30)		(7 278)
Operating income and expenses	(8 885)		(147)	(30)		(759)	(175 610)		(184 672)
Operating income from banking activity	662 429		8 189	4 368		17	(174 834)		500 152
Personnel costs	(359 368)		(8 486)	(210)		(1 040)	(1 040)		(369 104)
General administrative costs	(159 797)		(3 173)	(26)		(361)	(361)		(163 357)
Depreciation and amortisation	(21 686)		(149)			(43)	(43)		(21 878)
Overhead costs	(540 851)		(11 808)	(236)		(1 444)	(1 444)		(554 339)
Recovery of loans, interest and expenses	29 768						29 768		29 768
Impairment losses and provisions for loans and guarantees, net	(25 200)						(25 200)		(25 200)
Impairment losses and other provisions, net	1 337		(220)	(409)		(667)	(667)		41
Net income before income tax	127 483		(3 839)	3 723		(2 094)	(176 945)		(49 578)
Income tax	(39 902)		919	(825)		(802)	(47 847)		(87 655)
Earnings of associated companies (equity method)	2 457			10 981			13 438		124 753
Net income from continuing operations	90 038		(2 920)	13 879		5 996	(113 477)		(12 480)
Net income from discontinued operations		22 700					22 700		22 700
Income attributable to non-controlling interests from continuing operations	(11)						(11)		(11)
Income attributable to non-controlling interests	(11)						(11)		(11)
Consolidated net income of the BPI Group	90 027	22 700	(2 920)	13 879		5 996	(113 477)		10 209
Cash Flow after taxes	135 576	22 700	(2 551)	14 288		6 706	(112 767)		57 246

As of 31 December 2017 the value reported in BFA's caption OPERATING EXPENSES corresponds to part of the exchange rate differences of (182 121 th. euro) originated in BFA's consolidation process until January 2017, associated to BPI's financial participation of 48.1%. These exchange rate differences were reclassified to the statement of income following the sale of 2% of BFA and the change in consolidation method used for including BFAs financial statements in the BPI Group consolidated financial statements (notes 4.9 and 4.38).

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	Asset Management	Investment Banking	Equity investments and others	Inter segment operations	Total	Angola (BFA)			Others
ASSETS										
Cash and deposits at central banks	876 621					876 621				876 621
Deposits at other credit institutions	256 447	288 004	47 600	11 453	(303 315)	300 189		1	1	300 190
Financial assets held for trading and at fair value through profit or loss	332 786	1 617 356	251 777		(4 006)	2 197 913				2 197 913
Financial assets available for sale	3 696 954	114 482	612	64 386		3 876 434				3 876 434
Loans and advances to credit institutions	494 436	472 584	58 999	2 895	(392 432)	636 482		1 125	1 125	637 607
Loans and advances to Customers	21 445 103	1 642 148			(351 493)	22 735 758				22 735 758
Held to maturity investments		28 530			(12 213)	16 317				16 317
Hedging derivatives	25 802	428			(428)	25 802				25 802
Non-current assets held for sale and discontinued operations							6 924 678		6 924 678	(628 768)
Other tangible assets	49 950	5	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	469 697	236	1 735	(554)		471 114		734	734	471 848
Other assets	663 477	29 800	5 134	155	(55 901)	642 665		497	497	597 990
Total assets	28 404 611	4 193 573	366 975	141 218	(1 119 788)	31 986 589	6 924 678	47 325	6 972 003	38 284 652
LIABILITIES										
Resources of central banks	2 000 011					2 000 011				2 000 011
Financial liabilities held for trading	213 669		2 157		(3 113)	212 713				212 713
Resources of other credit institutions	1 720 720		(182)	26 818	(22 904)	1 724 452		755	755	(628 768)
Resources of Customers and other debts	20 460 541	1 951 158	249 581		(693 599)	21 967 681				1 096 439
Debt securities	856 942				(350 172)	506 770				21 967 681
Financial liabilities relating to transferred assets	555 385					555 385				506 770
Hedging derivatives	97 756					97 756				555 385
Non-current liabilities held for sale and discontinued operations							5 990 262		5 990 262	97 756
Provisions	67 031			3 204		70 235				(38 864)
Technical provisions		2 048 829				2 048 829				5 951 398
Tax liabilities	8 198	1 934	358	(510)		9 980		5 333	12 026	70 235
Other subordinated debt and participating bonds	21 657	60 056			(12 213)	69 500				2 048 829
Other liabilities	743 169	58 153	6 440	6 954	(37 787)	776 929		6 783	6 783	22 006
Total liabilities	26 745 079	4 120 130	258 354	36 466	(1 119 788)	30 040 241	5 996 955	12 871	6 009 826	69 500
SHAREHOLDER'S EQUITY										
Shareholder's equity attributable to the shareholders of BPI	1 657 758	73 443	108 621	104 752		1 944 574	461 449	34 454	495 903	777 404
Non-controlling interests	1 774					1 774	466 274		466 274	(6 308)
Total shareholder's equity	1 659 532	73 443	108 621	104 752		1 946 348	927 723	34 454	962 177	69 500
Total liabilities and shareholder's equity	28 404 611	4 193 573	366 975	141 218	(1 119 788)	31 986 589	6 924 678	47 325	6 972 003	777 404
Investments made in:										35 376 127
Property	781					781	824		824	2 440 477
Equipment and other tangible assets	9 124					9 124	11 482	11	11 493	468 048
Intangible assets	8 414					8 414	6 511	10	6 521	468 048
										2 908 525
										38 284 652

The column "Inter segment operations" of the Non-current assets held for sale and discontinued operations caption corresponds to resources 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 year ended on 31 December 2016 Proforma, by segment, is structured as follows:

	Domestic operations				International operations			Inter segment operations	BPI Group
	Commercial Banking	Asset Management	Investment Banking	Equity investments and others	Angola (BFA)	Others	Total		
Interest and similar income	518 912		(20)	73		78	78	(445)	518 060
Interest and similar expenses	(155 342)		(1 344)			(544)	(544)	2 272	(154 420)
Financial margin (narrow sense)	363 570		(1 364)	73		(466)	(466)	1 827	363 640
Gross margin on unit links									
Income from equity instruments	6 475			2 053					8 528
Net commission relating to amortised cost	21 216								21 216
Financial margin	391 261		(1 364)	2 126		(466)	(466)	1 827	393 384
Technical result of insurance contracts									
Commissions received	259 955		10 316		(2 201)	956	956	(1 250)	267 776
Commissions paid	(27 816)		(8 686)	(3)	2 201		(34 304)		(34 304)
Other income, net	28 889		(28)				28 861		28 861
Net commission income	261 028		1 602	(3)		956	956	(1 250)	262 333
Gain and loss on operations at fair value	13 728		10 570			59	59		24 357
Gain and loss on assets available for sale	21 885		42	48			21 975		21 975
Interest and financial gain and loss with pensions	1 053		(10)				1 043		1 043
Net income on financial operations	36 666		10 602	48		59	59		47 375
Operating income	21 065					132	132		21 197
Operating expenses	(37 250)		(7)			(3)	(3)		(37 260)
Other taxes	(4 961)		(1 119)	(1)		(132)	(132)		(6 213)
Operating income and expenses	(21 146)		(1 126)	(1)		(3)	(3)		(22 276)
Operating income from banking activity	667 809		9 714	2 170		546	546	577	680 816
Personnel costs	(295 789)		(6 200)	(214)		(1 808)	(1 808)		(304 011)
General administrative costs	(162 130)		(3 432)	(26)		(611)	(611)		(166 199)
Depreciation and amortisation	(21 105)		(170)			(85)	(85)		(21 360)
Overhead costs	(479 024)		(9 802)	(240)		(2 504)	(2 504)		(491 570)
Recovery of loans, interest and expenses	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	135 038		(103)	(67)		(1 958)	(1 958)	577	133 487
Income tax	(30 077)		(487)	514		(372)	(7 152)		(37 202)
Earnings of associated companies (equity method)	3 802			16 516			20 318		26 190
Net income from continuing operations	108 763		(590)	16 963		3 542	(3 238)	577	122 475
Net income from discontinued operations		21 881				338 316	338 316	(577)	359 620
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)	(45)		(168 865)
Consolidated net income of the BPI Group	108 718	21 881	(590)	16 963		162 716	162 716	3 542	313 230
Cash Flow after taxes	197 303	21 881	(405)	18 960		162 716	166 343		404 082

4. NOTES

4.1. Cash and deposits at central banks

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16
Cash	221 173	219 778
Demand deposits at the Bank of Portugal	686 862	653 066
Demand deposits at foreign central banks	1 816	3 777
	909 851	876 621

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.

4.2. Deposits at other credit institutions

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16
Domestic credit institutions		
Demand deposits	10 152	13 365
Cheques for collection	89 441	62 299
Other	130	257
Foreign credit institutions		
Demand deposits	174 147	221 487
Cheques for collection	2 484	2 782
	276 354	300 190

Cheques for collection from domestic Credit Institutions correspond to cheques drawn by third parties against domestic credit institutions, which in general do not remain in this account for more than one business day.

4.3. Financial assets held for trading and at fair value through profit or loss

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16
FINANCIAL ASSETS HELD FOR TRADING		
Debt Instruments		
Bonds issued by Portuguese government entities	5 466	27 009
Bonds issued by foreign government entities	5 719	51 090
Bonds issued by other Portuguese entities		
Non-subordinated debt		9 870
Subordinated debt		108
Bonds issued by other foreign entities		
Non-subordinated debt	12 184	14 534
Subordinated debt		294
	23 369	102 905
Equity instruments		
Shares issued by Portuguese entities	117 562	121 368
Shares issued by foreign entities	2	169 550
	117 564	290 918
Other securities		
Participating units issued by Portuguese entities	66	208
Participating units issued by foreign entities	16 705	2
	16 771	210
	157 704	394 033
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Debt Instruments		
Bonds issued by Portuguese government entities		129 760
Bonds issued by foreign government entities		365 038
Bonds issued by other Portuguese entities		
Non-subordinated debt		138 759
Bonds issued by foreign financial entities		61 864
Bonds issued by other foreign entities		
Non-subordinated debt		238 664
Subordinated debt		4 702
		938 787
Equity instruments		
Shares issued by Portuguese entities		91
Shares issued by foreign entities		132
		223
Other securities		
Participating units issued by Portuguese entities		92 845
Participating units issued by foreign entities	6 055	592 104
	6 055	684 949
	6 055	1 623 959
DERIVATIVE INSTRUMENTS WITH POSITIVE FAIR VALUE (NOTE 4.4)	136 777	179 921
	300 536	2 197 913

The variation in the balance of this caption during the year 2017 is essentially explained by the exclusion of BPI Vida e Pensões from the consolidation perimeter, following its sale to a subsidiary of CaixaBank (note 4.9).

As of 31 December 2016, this caption includes the following assets hedging capitalisation insurance products issued by BPI Vida e Pensões:

	31 Dec. 16
Debt Instruments	
Of public entities	494 798
Other entities	443 989
Equity Instruments	367
Other securities	678 203
	1 617 357

4.4. Derivatives

The caption DERIVATIVE INSTRUMENTS HELD FOR TRADING (notes 4.3 and 4.16) is made up as follows:

	31 Dec. 17			31 Dec. 16		
	Notional value ¹	Book value		Notional value ¹	Book value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate contracts						
Futures	2 516	35		2 010	21	
Exchange rate swaps and forwards	1 121 646	1 636	293	1 099 467	1 906	139
Interest rate contracts						
Futures	26 300	24	4	40 821	2	5
Options	573 297	4 549	2 641	530 759	3 153	3 151
Swaps	4 124 065	122 278	147 539	4 581 330	165 415	194 127
Contracts over shares						
Futures	314		8	10 759		172
Swaps	732 008	5 067	19 481	388 401	1 005	12 478
Options	13 444	253		44		
Contracts over other underlying items						
Futures				180 629		
Other						
Options ²	38 851		82	468 566	2 267	2 641
Other ³	1 353 634	2 935		1 507 533	3 705	
Overdue derivatives					2 447	
	7 986 075	136 777	170 048	8 810 319	179 921	212 713

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. 17			31 Dec. 16		
	Notional value ¹	Book value		Notional value ¹	Book value	
		Assets	Liabilities		Assets	Liabilities
Interest rate contracts						
Futures	9 518	12		21 646		26
Swaps	6 905 307	12 728	69 880	6 986 033	25 797	97 574
Contracts over shares						
Swaps				225 046	5	156
	6 914 825	12 740	69 880	7 232 725	25 802	97 756

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 to 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 those 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 4.45 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 2017 the notional value, by term remaining to maturity was made up 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	1 039 914	67 953	13 779			1 121 646
Forwards	156 184	63 267	13 779			233 230
Swaps	883 730	4 686				888 416
Interest rate contracts	819 617	638 440	1 816 371	5 725 615	2 602 626	11 602 669
Swaps	748 723	556 726	1 665 531	5 478 831	2 579 561	11 029 372
Options	70 894	81 714	150 840	246 784	23 065	573 297
Contracts over indexes and shares	655 352	60 869	19	15 787		732 027
Swaps	655 352	60 869		15 787		732 008
Options			19			19
Others			416 361	672 671	303 453	1 392 485
Options				37 074	1 777	38 851
Others			416 361	635 597	301 676	1 353 634
	2 514 883	767 262	2 246 530	6 414 073	2 906 079	14 848 827
Organized markets						
Exchange rate contracts	2 516					2 516
Futures	2 516					2 516
Interest rate contracts	15 818		20 000			35 818
Futures	15 818		20 000			35 818
Contracts over indexes and shares	314	6 925		6 500		13 739
Futures	314					314
Options		6 925		6 500		13 425
	18 648	6 925	20 000	6 500		52 073
	2 533 531	774 187	2 266 530	6 420 573	2 906 079	14 900 900

At 31 December 2016 the notional value, by term remaining to maturity was made up as follows:

	<= 3 months	> 3 months <= 6 months	> 6 months <= 1 year	> 1 year <= 5 years	> 5 year	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
Others	200 366	242 195		1 171 492	362 046	1 976 099
Options	200 366	242 195		3 002	23 003	468 566
Others				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 2017 the distribution of derivative operations, by counterparty external rating, was as follows:

	31 Dec. 17			
	Notional value ¹	Gross exposure ²	Exposure considering netting ³	Net exposure ⁴
External rating				
AA-	88 750	283		
A+	1 424 099	4 400		
A	2 969 041	3 521	326	326
A-	125 437	3 133		
BBB+	918 750	2 870	374	56
BBB	1 179 292	3 509	177	
BB	119 580	8		
BB-	37 676	4 626	1 468	
B	115 277	1 885	1 885	1 843
Internal rating				
<i>Rating Project Finance</i>				
Strong	44 511	5 429	5 429	5 181
Good	607 705	84 398	84 398	76 184
Satisfactory	121 808	29 617	29 617	22 575
Weak				
Default	37 568	8 894	8 894	1 840
<i>Other internal ratings</i>				
1 to 3	70 478	1 304	1 062	1 040
4 to 6	414 208	1 061	940	935
7 to 10	5 574	417	415	402
D1 to D3	1 095	92	92	37
No rating				
N.R.	1 235 907	1 899	622	610
Traded on central counterparties	3 939 586	9 742	7 677	1 964
<i>Traded on the stock exchange</i>				
Futures ⁵	52 073			
	13 508 415	167 088	143 376	112 993

Note: The amounts were aggregated by rating levels of the counterparties, considering the senior medium and long term debt ratings attributed 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 (when there is two divergent rating notes available, the second best should be used by the entity). The operations with entities without ratings (N.R.) were divided by ratings (enterprises, entrepreneurs and businesses), scorings (private Customer exposure) or quality levels (project finance). Current rating and internal scoring levels include ten classes for ordinary operations, from E01 / N01 / 01 (lower probability of default) to E10 / N10 / 10 (higher probability of default); two classes (ED1 / ND1 / D01 and ED2 / ND2 / D02) for "incidents" (when the payment is overdue by less than 60 and 90 days, respectively) and, finally, a class for defaulted instruments, occurring when the counterparty's payment is late by more than 90 days. Project Finance operations, due to its specificities, have their own internal classification, in order to evaluate in each moment the credit risk quality (from weak to strong).

1) Does not include embedded derivatives and other options in the amount of 1 392 485 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, collateral and value adjustment due to credit risk. 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 organized stock exchanges and there is daily financial settlement.

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
External rating				
AA-	474 322	2 417	278	
A+	1 718 698	10 572		
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
Rating Project Finance				
Strong	87 500	16 131	16 131	15 876
Good	524 884	93 545	93 545	88 115
Satisfactory	124 764	28 482	28 482	24 508
Weak				
Default	80 749	22 606	22 606	20 174
Other internal ratings				
1 to 3	93 493	2 508	2 272	2 269
4 to 6	467 516	3 808	2 953	2 945
7 to 10	19 385	1 003	797	756
D1 to D3	13 348	1 535	1 535	320
No rating				
N.R.	1 113 167	2 172	2 117	2 090
Traded on central counterparties	2 608 020	1 334		
Traded on the stock exchange				
Futures ⁵	255 865			
	14 066 945	234 725	187 770	159 423

Note: The amounts were aggregated by rating levels of the counterparties, considering the senior medium and long term debt ratings attributed 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 (when there is two divergent rating notes available, the second best should be used by the entity). The operations with entities without ratings (N.R.) were divided by ratings (enterprises, entrepreneurs and businesses), scorings (private Customer exposure) or quality levels (project finance). Current rating and internal scoring levels include ten classes for ordinary operations, from E01 / N01 / 01 (lower probability of default) to E10 / N10 / 10 (higher probability of default); two classes (ED1 / ND1 / D01 and ED2 / ND2 / D02) for "incidents" (when the payment is overdue by less than 60 and 90 days, respectively) and, finally, a class for defaulted instruments, occurring when the counterparty's payment is late by more than 90 days. Project Finance operations, due to its specificities, have their own internal classification, in order to evaluate in each moment the credit risk quality (from weak to strong).

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, collateral and value adjustment due to credit risk. 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 organized stock exchanges and there is daily financial settlement.

4.5. Financial assets available for sale

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16
Debt instruments		
Bonds issued by Portuguese government entities		
Treasury bills	2 982 602	1 909 026
Treasury bonds	328 781	338 548
Bonds issued by foreign government entities	187 272	1 180 982
Bonds issued by other Portuguese entities		30 512
Bonds issued by other foreign entities	55 398	123 873
	3 554 053	3 582 941
Equity instruments		
Shares issued by Portuguese entities	105 952	62 161
Impairment	(26 215)	(28 187)
Quotas	70 899	58 934
Shares issued by foreign entities	31 705	42 843
Impairment	(18 563)	(18 680)
	163 778	117 071
Other securities		
Participating units issued by Portuguese entities	195 269	214 037
Impairment	(54 706)	(53 958)
Participating units issued by foreign entities	18 553	17 719
Impairment	(1 784)	(1 784)
	157 332	176 014
Loans and other receivables	207	4 794
Impairment		(4 386)
	207	408
	3 875 370	3 876 434

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 during 2017 and 2016 are shown in note 4.21.

At 31 December 2017 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 DE TESOIRO – CZ – 16.11.2018	357 620 000	1.00	1.00	358 868	358 711	4		
BILHETES DO TESOIRO-CZ-16.03.2018	426 607 000	1.00	1.00	427 203	426 906	76		
BILHETES DO TESOIRO-CZ-18.05.2018	540 192 000	1.00	1.00	541 351	540 802	7		
BILHETES DO TESOIRO-CZ-19.01.2018	468 300 000	1.00	1.00	468 772	468 375	32		
BILHETES DO TESOIRO-CZ-20.07.2018	618 814 000	1.00	1.00	620 521	619 804	(126)		
BILHETES DO TESOIRO-CZ-21.09.2018	566 672 000	1.00	1.00	568 500	568 004	(73)		
				2 985 215	2 982 602	(80)		
Treasury bonds								
OT-4.75%-14.06.2019	300 000 000	0.01	0.01	318 513	328 781	17 760	(16 449)	
				318 513	328 781	17 760	(16 449)	
Issued by non-residents								
By foreign government entities								
Bonds								
BUONI POLIENNALI DEL T-4.5%-01.03.2019	175 000 000	1 000.00	1 055.25	185 458	187 272	8 400	(8 617)	
				185 458	187 272	8 400	(8 617)	
Others non-residents								
Non-subordinated debt								
Bonds								
BARCLAYS BANK PLC-TV-19.06.2018	2 034 083	29 058.33	20 879.71	1 469	1 462	(571)		
C8 CAPITAL SPV -TV – PERPETUA	54 198 282	833.82	817.57	53 970	53 936	(1 056)		
				55 439	55 398	(1 627)		
Equity instruments								
Issued by residents								
Shares								
AGROGARANTE SA	158 900	1.00	1.00	159	159			
ALBERTO GASPAR, SA (CÓD LB0001: 92020020501)	60 000	5.00	0,000	141				141
APOR-AG.P / MODERNIZAÇÃO PORTO – CL.B	5 665	5.00		26	26			
BOAVISTA FUTEBOL CLUBE, FUTEBOL,SAD	21 900	5.00		110				110
BOMBARDIER TRANSPORTATION PORTUGAL SA	1	5.00						
BUCIQUEIRA SGPS	8	5.00		1	1			
CITEVE-QUOTA ASSOC. DL123 / 17	20	498.80		10	10			
CONDURIL, SA (C)	184 262	5.00	52.00	806	9 582	8 776		
CORTICEIRA AMORIM – SGPS-N	127 419	1.00	10.30	314	1 312	1 239		241
DIGITMARKET-SIST.INF.-N	4 950	1.00		743				743
EMP.CINEMATOGRAFICA S.PEDRO	100	4.99						
EURODEL-IND.METALURGICAS E PARTICIPAÇÕES	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	149 690	1.00	1.00	150	150			
GEIE – GESTÃO ESPAÇOS INC.EMPRESARIAL(C)	12 500	1.00		13				13
GESTINSUA – AQ.AL.PATRIMONIO IMOB.MOB	430	5.00		2				2
IMPRESA SGPS	6 200 000	0.50	0.34	22 790	2 120	942		21 612
INEGI-INST.ENG.MECANICA-QUOTA ASSOCIAÇÃO	5 000	1.00		25	25			
J.SOARES CORREIA-ARMAZENS FERRO	84	5.00		2	2			
LISGARANTE – SOC.DE GARANTIA MUTUA	194 965	1.00	1.00	195	195			
LISNAVE – EST.NAVAIS	180	5.00		1	1			
MARGUEIRA-SOC.GEST.DE FUNDOS INV.IMOB.-N	3 511	5.00		18	18			
MATUR-SOC.EMP.TUR. MADEIRA-P-DL123 / 17	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	0,000	335				335
MORETEXTILE,SGPS,SA	711	1.00		1	1			
NET – NOVAS EMPRESAS E TECNOLOGIAS – N	20 097	5.00	1.76	73	35	(38)		
NEWPLASTICS	1 445	1.00		1	1			
NEXPONOR-SICAFI	1 933 840	5.00	3.99	9 669	7 709	304		2 264

1) Net of impairment.

2) Amount recorded in revaluation reserves (note 4.29).

	Quantity	Amounts per unit (€)		Cost	Book value / fair value ¹	Net gain / (loss) on securities ²	Hedge accounting effect ²	Impairment
Nature and type of security		Nominal	Listing / price					
Shares (cont.)								
NORGARANTE – SOC.DE GARANTIA MUTUA	240 880	1.00	1.00	241	241			
NUTROTON SGPS – C	11 395	5.00	4.38	50	50			
OFICINA DA INOVACAO	10 000	5.00	7.13	50	71	31		10
PORTUGAL CAP. VENTURES-SOC.CAP.RISCO	500 641	5.00	5.58	2 692	2 792	100		
SANJIMO – SOCIEDADE IMOBILIARIA	1 620	4.99		8				8
SAPHETY LEVEL – TRUSTED SERVICES	5 069	1.00		98				98
SIBS – SGPS, SA	738 455	5.00	67.71	3 116	50 000	46 884		
SOFID-SOC.P / FIN.DES.-INST.FIN.CREDITO SA	1 000 000	0.90	0.81	1 249	811			438
SOMOTEL-SOC.PORTUGUESA DE MOTEIS	1 420	2.50						
SONAE – SGPS	36 868	1.00	1.13	69	42	27		55
SPI-SOC PORTUGUESA DE INOVACAO	1 500	5.00		7	7			
TAEM – PROCESSAMENTO ALIMENTAR,SGPS, SA	125	1.00						
TAGUSPARQUE – N	436 407	5.00		2 177	2 177			
UNICER – BEBIDAS DE PORTUGAL	1 002	1.00	8.07	8	8			
VIALITORAL – CONC. ROD. MADEIRA DL123 / 17	4 750	161.25	460.63	792	2 188	1 396		
VNCORK SGPS	151	1.00						
				46 290	79 737	59 661		26 215
Quotas								
VIACER – SOC.GEST.PART.SOCIAIS, SA		1.00		48 160	70 899	22 740		
				48 160	70 899	22 740		
Issued by non-residents								
Shares								
ABANCA CORPORACION BANCARIA SA	18 588	1.00		29				29
ALTITUDE SOFTWARE BV	6 386 243	0.04	0.00	13 810				13 810
AMSCO -USD	1 807	833.82		834				834
CAIXABANK ELECTRONIC MONEY, EDE, SL	35 000	1.00		88	88			
CLUB FINANCIERO VIGO-SS	8	900.00		18	12			6
CORPORACIÓN FINANCIERA ARCO (TROCA ARCO BODEGAS)	7 786	100.00	72.77	4 399	567			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	438 200.09		4 125	6 135	2 010		
OSEO – SOFARIS	13	107.89	107.89	2	2			
S.W.I.F.T.	97	125.00		216	216			
THARWA FINANCE – MAD	20 895			189	266	77		
UNIRISCO GALICIA	80	1 202.02	1 298.20	96	104	35		27
VISA INC-CLASS C	6 002	0.00	958.35	4 860	5 751	891		
				28 692	13 142	3 013		18 563
Other								
Issued by residents								
Participating units								
EGP-UNIVERSITY OF PORTO BUS.SCHOOL ASS.	2	4.99		70	70			
FCR TURISMO CRESCIMENTO	1 049	1 000.00	996.63	1 049	1 046	(3)		
FCR-F-HITEC (ES VENTURES)	500 000	1.00	0.61	500	306			194
FCR-FUNDO CARAVELA	3 121	2 293.21	1 234.26	7 238	3 852	57		3 443
FCR-FUNDO INTER-RISCO II – CL.A	7 500	3 481.27	1 870.09	26 110	14 026	131		12 215
FCR-FUNDO INTER-RISCO II CI-CLASSE A	6 000	5 000.00	4 989.23	30 144	29 935	(209)		
FCR-FUNDO RECUPERACAO-CATEGORIA B	78 937	1 000.00	636.39	78 937	50 235			28 702
FCR-FUNDO RECUPERACAO-CATEGORIA C	16 619	1 000.00	636.39	16 619	10 576			6 043
FCR-FUNDO REESTRUTURAÇÃO EMPRESARIAL	5 607	810.00	761.18	4 542	4 268	(274)		
FCR-FUNDO REVITALIZAR CENTRO	7 272 727	1.00	1.14	7 273	8 271	998		
FCR-FUNDO REVITALIZAR NORTE	7 156 881	1.00	0.88	7 157	6 279	(878)		
FCR-FUNDO REVITALIZAR SUL – CAT.A2	1 685 919	1.00	1.00	1 686	1 687	1		
FCR-FUNDO REVITALIZAR SUL – CAT.B2	1 774 612	1.00	1.00	1 774	1 775	1		
FCR-FUNDO REVITALIZAR SUL – CAT.C2	1 190 442	1.00	1.00	1 190	1 191	1		
FCR-PORTUGAL GLOBAL VENTURES I	6 269	10.00	7.61	69	47			22
FCR-PORTUGAL VENTURES GPI	6	25 000.00	20 469.98	131	122	6		15
FCR-PORTUGAL VENTURES TURISMO	49	24 939.89	9 333.90	1 067	458	81		690
FCR-PORTUGAL VENTURES VALOR 2	131	3 420.24	3 911.19	2 630	511	66		2 185
FCR-PORTUGAL VENTURES-FIEP	2 613	1 000.00	963.17	2 613	2 517	629		725

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					
Participating units (cont.)								
FCR-PV ACTEC II – CATEGORIA A1	9 096	1.00	0.81	10	7	4		7
FCR-PV ACTEC II – CATEGORIA B1	285 659	1.00	0.81	331	232			99
FCR-TURISMO INOVACAO CAT.B	10	50 000.00	13 703.65	504	138			366
FEIIF-UNICAMPUS	3 000	1 000.00	1 004.58	3 000	3 014	14		
				194 644	140 563	625		54 706
Issued by non-residents								
Participating units								
FUNDO BPI-EUROPA	23 405	0.01	12.70	172	297	125		
FUNDO PATHENA SCA SICAR (B)	10 000 000	1.00	0.95	10 097	9 501	(596)		
PORTUGAL VENTURE CAPITAL INITIATIVE-PVCI	7 486 729	1.00	0.93	7 488	6 971	1 267		1 784
				17 757	16 769	796		1 784
Loans and others receivables								
Loans and shareholder's loans								
SAPHETY LEVEL – TRUSTED SERVICES SA					207			
					207			
				3 880 168	3 875 370	111 288	(25 066)	101 268

1) Net of impairment.

2) Amount recorded in revaluation reserves (note 4.29).

As of 31 December 2017, the financial participation owned by BPI Group in the share capital of SIBS – SGPS, S.A, is no longer measured at cost and was revaluated at fair value, because a reliable measure of its fair value became available in light of IAS 39 requirements. The financial participation of the Bank in this entity was valued considering an independent evaluation based on multiples and on the income method. The unrealized gain amounts to 46 884 th. euro and was recognized in other comprehensive income, in the caption REVALUATION RESERVE (note 4.29).

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. On 21 June 2016 this transaction was closed with the following financial compensation 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 preferred shares of Visa Inc. In determining the fair value of the preferred shares, Banco BPI used the conversion factor of the preferred 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 preferred 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 2016 in the amount of 22 945 th. euro, which was recorded in the statement of income caption NET INCOME ON FINANCIAL OPERATIONS (note 4.37).

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 2017 and 2016, the portfolio of financial assets available for sale included 55 314 th. euro and 64 815 th. euro, respectively, relating to securities and shareholders' loans subscribed by Banco BPI under transfer of assets operations:

31 Dec. 17			
Subscribed securities under operations of transfer of assets			
	Participating units and shares	Impairment in participating units and shares	Net value
Fundo de Recuperação, FCR ²	86 505	(34 745)	51 760
Fundo de Reestruturação Empresarial, FCR	3 554		3 554
	90 059	(34 745)	55 314

Notes: Amounts net of unrealized subscribed capital recorded in the caption OTHER LIABILITIES.

1) 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. 16			
Subscribed securities under operations of transfer of assets			
	Participating units and shares	Impairment in participating units and shares	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

Notes: Amounts net of unrealized subscribed capital recorded in the caption OTHER LIABILITIES. In 2016, the shareholder's loans associated with securities subscribed under the transfer of assets operations, were subject to asset write off.

1) 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 was 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 78 497 th. euro at 31 December 2017 and 2016.

Amounts related to the transferred assets			
	Gross assets transferred	Impairment on transferred assets	Result on the sale date¹
Fundo de Recuperação, FCR ²	123 730	48 967	10 635
Fundo de Reestruturação Empresarial, FCR	3 734		
	127 464	48 967	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. 17	31 Dec. 16
Loans to the Bank of Portugal	5 000	
Loans and advances to other Portuguese credit institutions		
Very short term applications	6 243	
Deposits		142 252
Other loans	167 694	81 500
Purchased transactions with resale agreement	50 383	
Other advances	4 724	26
Accrued interest	269	251
	229 313	224 029
Loans and advances to other foreign credit institutions		
Very short term applications	206 121	68 968
Deposits	34 329	54 861
Loans	44	44
Purchased transactions with resale agreement		957
Other applications	249 601	288 339
Interest receivable	319	409
	490 414	413 578
	724 727	637 607

4.7. Loans and advances to Customers

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16
Loans		
Domestic loans		
Companies		
Discount	75 620	81 704
Loans	5 310 890	5 272 738
Commercial lines of credit	152 741	139 649
Demand deposits – overdrafts	194 091	142 672
Invoices received – factoring	586 715	494 599
Finance leasing	438 737	384 554
Real estate leasing	364 395	341 367
Other loans	57 842	48 280
Loans to individuals		
Housing	10 825 782	10 838 706
Consumer	980 125	807 909
Other loans	449 286	429 418
Foreign loans		
Companies		
Discount	4 203	3 042
Loans	796 759	1 027 035
Commercial lines of credit	6 598	43 965
Demand deposits – overdrafts	3 558	5 455
Invoices received – factoring	1 150	1 175
Finance leasing	1 121	1 022
Real estate leasing	270	360
Loans to individuals		
Housing	25 158	31 816
Consumer	8 906	11 038
Other loans	17 826	21 183
Accrued interest	43 365	44 989
	20 345 138	20 172 676

(continues) >

(continued)

	31 Dec. 17	31 Dec. 16
Securities		
Issued by Portuguese government entities	140 655	137 030
Issued by other Portuguese entities		
Non subordinated debt securities		
Bonds	561 689	1 318 667
Commercial paper	605 767	818 546
Subordinated debt securities		11 800
Issued by other foreign entities		
Non subordinated debt securities		
Bonds	4 588	240 168
Accrued interest	3 282	10 989
Deferred interest	(129)	(142)
	1 315 852	2 537 058
Correction of the amount of hedged assets	20 573	29 890
Commissions relating to amortised cost (net)	(2 627)	508
	21 678 936	22 740 132
Overdue loans and interest	564 753	690 826
Loan impairment	(584 907)	(695 200)
	21 658 782	22 735 758

Loans and Advances to Customers include the following non-derecognised securitised assets:

	31 Dec. 17	31 Dec. 16
Non-derecognised securitised assets¹		
Loans		
Housing	1 292 423	1 444 486
Loans to SME's	3 226 084	3 245 545
Accrued interest	10 698	11 142
	4 529 205	4 701 173

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 2017 and 2016 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:

- 7 461 814 th. euro and 6 501 785 th. euro, respectively, allocated as collateral to mortgage bonds,
- 750 298 th. euro and 715 120 th. euro, respectively, allocated as collateral to public sector bonds.

At 31 December 2016 the securities portfolio included the following assets to cover capitalisation insurance contracts issued by BPI Vida e Pensões:

	31 Dec. 16
Debt instruments	
Issued by Portuguese government entities	50 000
Issued by other Portuguese entities	1 010 398
Issued by other foreign entities	234 983
	1 295 381

At December 2017, the financial participation on BPI Vida e Pensões was sold to CaixaBank Group, and therefore its assets and liabilities are no longer consolidated in BPI Group's financial statements.

The changes in impairment losses and provisions during 2017 and 2016 are presented in note 4.21.

At 31 December 2017 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	Total impairment	Credit-not at-risk	Credit-at-risk
Corporate Banking and Institutional	5 050 971	4 852 220	391 273	227 212	93 528	133 684
Project Finance – Portugal	1 021 222	1 021 222	105 091	13 505	13 505	
Madrid	325 297	314 624	61 140	22 402	16 785	5 617
Project Finance	279 035	269 968	35 804	14 053	9 882	4 171
Corporate	46 262	44 656	25 336	8 349	6 903	1 446
Public sector	1 304 931	1 304 931	68 995	2 877	2 877	
Central administration	180 433	180 433		4	4	
Regional and local administration	822 934	822 934	32 300	691	691	
State Corporate Sector – in the budget perimeter	48 623	48 623				
State Corporate Sector – outside the budget perimeter	252 941	252 941	36 695	2 182	2 182	
Individuals and Small Businesses Banking	14 397 528	13 958 394	212 253	317 385	107 225	210 160
Mortgage loans to individuals	11 083 966	10 767 371	153 348	191 034	71 574	119 460
Consumer loans / other purposes	814 802	786 531	16 728	34 442	10 238	24 204
Credit cards	158 325	154 016	3	5 474	1 541	3 933
Car financing	223 133	220 800	8	2 023	794	1 229
Small businesses	2 117 302	2 029 676	42 166	84 412	23 078	61 334
Other	79 274	75 088		1 526	429	1 097
	22 179 223	21 526 479	838 752	584 907	234 349	350 558

1) Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commissions relating to amortised cost.

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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 2017 the amount of the exposure and impairment of loans and advances to Customers was made up as follows:

Segment	Total exposure					Total impairment				
	Credit-not at-risk		Credit-at-risk			Credit-not at-risk		Credit-at-risk		
	Total exposure ¹	Days in arrears	Days in arrears			Days in arrears	between 30-90	Days in arrears		
			< 30 ²	<= 90	> 90 days			< 30 ²	between 30-90	> 90 days
Corporate Banking and Institutional	5 050 971	4 849 961	2 259	13 391	185 360	227 212	92 694	834	7 770	125 914
Project Finance – Portugal	1 021 222	1 021 222				13 505	13 505			
Madrid	325 297	314 624			10 673	22 402	16 785			5 617
Project Finance	279 035	269 968			9 067	14 053	9 882			4 171
Corporate	46 262	44 656			1 606	8 349	6 903			1 446
Public sector	1 304 931	1 304 931				2 877	2 877			
Central administration	180 433	180 433				4	4			
Regional and local administration	822 934	822 934				691	691			
State Corporate Sector – in the budget perimeter	48 623	48 623								
State Corporate Sector – outside the budget perimeter	252 941	252 941				2 182	2 182			
Individuals and Small Businesses Banking	14 397 528	13 875 460	82 934	6 372	432 762	317 385	90 265	16 960	1 349	208 811
Mortgage loans to individuals	11 083 966	10 703 626	63 745	3 856	312 739	191 034	60 295	11 279	799	118 661
Consumer loans / other purposes	814 802	781 015	5 516	208	28 063	34 442	7 718	2 520	94	24 110
Credit cards	158 325	153 277	739	32	4 277	5 474	1 236	305	20	3 913
Car financing	223 133	219 416	1 384	58	2 275	2 023	567	227	8	1 221
Small businesses	2 117 302	2 018 126	11 550	2 218	85 408	84 412	20 449	2 629	428	60 906
Other	79 274	75 088			4 186	1 526	429			1 097
	22 179 223	21 441 286	85 193	19 763	632 981	584 907	216 555	17 794	9 119	341 439

1) Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commissions relating to amortised cost.

2) Includes regular credit (no arrears).

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						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	Total impairment		< 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		
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 and Institutional	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		
Other³	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 2017 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 assessed ²	Collectively assessed ³			
Corporate banking and Institutional	4 867 361	183 610	5 050 971	317 155	4 733 816	186 653	40 559	227 212
Project Finance – Portugal	1 021 222		1 021 222	38 190	983 032	5 490	8 015	13 505
Madrid	314 624	10 673	325 297	62 258	263 039	21 028	1 374	22 402
Project Finance	269 968	9 067	279 035	35 317	243 718	12 780	1 273	14 053
Corporate	44 656	1 606	46 262	26 941	19 321	8 248	101	8 349
Public sector	1 304 931		1 304 931	36 695	1 268 236	1 985	892	2 877
Central administration	180 433		180 433		180 433		4	4
Regional and local administration	822 934		822 934		822 934		691	691
State Corporate Sector – in the budget perimeter	48 623		48 623		48 623			
State Corporate Sector – outside the budget perimeter	252 941		252 941	36 695	216 246	1 985	197	2 182
Individuals and Small Businesses Banking	14 029 127	368 401	14 397 528	49 576	14 347 952	17 895	299 490	317 385
Mortgage loans to individuals	10 827 779	256 187	11 083 966		11 083 966		191 034	191 034
Consumer loans / other purposes	791 251	23 551	814 802		814 802		34 442	34 442
Credit cards	153 634	4 691	158 325		158 325		5 474	5 474
Car financing	221 411	1 722	223 133		223 133		2 023	2 023
Small businesses	2 035 052	82 250	2 117 302	49 576	2 067 726	17 895	66 517	84 412
Other	77 205	2 069	79 274	1 118	78 156	1 002	524	1 526
	21 614 470	564 753	22 179 223	504 992	21 674 231	234 053	350 854	584 907

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 Bank's segment of loan portfolio subject to individual impairment analysis are described in note 2.3.4.

3) The information included in this column refers to the collectively assessed exposures for determination of the associated impairment and individually assessed exposures for which the Bank concluded there was no need to record individual impairment.

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 assessed ²	Collectively assessed ³			
Corporate banking	4 300 002	235 239	4 535 241	452 499	4 082 742	226 433	27 821	254 254
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 and Institutional	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
State Corporate Sector – in the budget perimeter	51 810		51 810		51 810			
State Corporate Sector – 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 Businesses 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
Car financing	165 981	2 110	168 091		168 091		2 451	2 451
Small businesses	1 815 534	100 588	1 916 122	65 955	1 850 167	18 393	74 512	92 905
Other⁴	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 Bank's segment of loan portfolio subject to individual impairment analysis are described in note 2.3.4.

3) The information included in this column refers to the collectively assessed exposures for determination of the associated impairment and individually assessed exposures for which the Bank concluded there was no need to record individual impairment.

4) Includes 1 295 381 th. euro of securities held by BPI Vida, essentially allocated to the coverage of capitalization insurance products.

At 31 December 2017 the amount of exposure and impairment of Loans and advances to Customers assessed individually and collectively, by business sector, was made up as follows:

	Performing loans	Overdue loans	Exposure ¹	of which:		Individual impairment	Collective impairment	Total impairment
				Individually assessed ²	Collectively assessed ³			
Corporate	9 307 387	263 557	9 570 944	493 023	9 077 921	228 338	108 680	337 018
Agriculture, animal production and hunting	307 950	4 767	312 717	9 847	302 870	3 608	4 121	7 729
Forestry and forest operations	23 780	268	24 048	3	24 045		418	418
Fishing	9 371	23	9 394		9 394		46	46
Mining	14 291	956	15 247	1 216	14 031	413	199	612
Beverage, tobacco and food	439 141	4 320	443 461	21 779	421 682	8 148	4 019	12 167
Textiles and clothing	109 572	14 115	123 687	19 614	104 073	15 097	1 513	16 610
Leather and related products	33 585	678	34 263		34 263		617	617
Wood and cork	96 229	4 939	101 168	6 904	94 264	3 308	1 322	4 630
Pulp, paper and cardboard and graphic arts	101 585	2 870	104 455	3 770	100 685	2 765	1 064	3 829
Coke, refined petroleum products and fuel pellets	200		200		200		1	1
Chemicals, synthetic or artificial fibres, except pharmaceutical products	58 993	147	59 140	11	59 129	11	420	431
Base pharmaceutical products and pharmaceutical mixtures	46 138	87	46 225	1 869	44 356	1 881	157	2 038
Rubber and plastic materials	85 069	568	85 637	743	84 894	402	763	1 165
Other mineral non-metallic products	107 824	1 182	109 006	2 350	106 656	560	1 402	1 962
Metalworking industries	233 090	9 437	242 527	11 067	231 460	7 701	3 062	10 763
Computers, electronic, electrical and optical equipment	110 637	781	111 418	3 419	107 999	879	976	1 855
Transport equipment	78 308	694	79 002	4 949	74 053	3 156	664	3 820
Other manufacturing industries	64 473	4 370	68 843	2 364	66 479	2 020	1 888	3 908
Electricity, gas and water	682 173	2	682 175	15 079	667 096	4 603	4 279	8 882
Water treatment and collection	260 499	1 079	261 578	53 703	207 875	4 073	1 386	5 459
Construction	371 790	82 369	454 159	75 723	378 436	50 918	15 133	66 051
Wholesale and retail trade; motor vehicle and motorcycle repairs	1 230 362	69 169	1 299 531	57 869	1 241 662	33 454	26 497	59 951
Transport and storage	833 820	4 379	838 199	52 434	785 765	11 561	7 342	18 903
Restaurants and hotels	358 761	19 459	378 220	42 239	335 981	14 753	5 664	20 417
Information and communication activities	146 070	3 380	149 450	11 985	137 465	6 866	1 384	8 250
Financial intermediation, except for insurance and pension funds	414 186	31	414 217	6 417	407 800	5 838	3 079	8 917
Insurance, reinsurance and pension funds, except for mandatory social security	1 384		1 384		1 384			
Auxiliary activities to financial services and insurance	136 206	185	136 391	50	136 341	9	217	226
Real estate	501 822	19 894	521 716	29 946	491 770	10 786	4 804	15 590
Consulting, scientific, technical and similar activities	824 267	6 588	830 855	42 324	788 531	32 524	6 611	39 135
Administrative and support services	212 748	3 260	216 008	2 302	213 706	789	3 230	4 019
Public administration, defence and mandatory social security	1 041 800		1 041 800		1 041 800		692	692
Education	44 315	1 296	45 611	6 196	39 415	1 225	936	2 161
Healthcare and welfare	200 465	1 020	201 485	1 713	199 772	883	1 832	2 715
Leisure, cultural and sports activities	52 772	586	53 358	4 652	48 706	91	766	857
Other service companies	48 675	570	49 245	486	48 759	16	545	561
CAE (Business Activity Classification) – not available	25 036	88	25 124		25 124		1 631	1 631
Individuals	12 307 083	301 196	12 608 279	11 969	12 596 310	5 715	242 174	247 889
Housing loans	10 850 940	256 306	11 107 246	6	11 107 240	5	190 963	190 968
Other	1 456 143	44 890	1 501 033	11 963	1 489 070	5 710	51 211	56 921
	21 614 470	564 753	22 179 223	504 992	21 674 231	234 053	350 854	584 907

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 Bank's segment of loan portfolio subject to individual impairment analysis are described in note 2.3.4.

3) The information included in this column refers to the collectively assessed exposures for determination of the associated impairment and individually assessed exposures for which the Bank concluded there was no need to record individual impairment.

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 assessed ²	Collectively assessed ³			
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 clothing	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 cardboard 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 artificial 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
CAE (Business Activity Classification) – not available	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 Bank's segment of loan portfolio subject to individual impairment analysis are described in note 2.3.4.

3) The information included in this column refers to the collectively assessed exposures for determination of the associated impairment and individually assessed exposures for which the Bank concluded there was no need to record individual impairment.

At 31 December 2017 the caption LOANS was made up as follows by country:

	Performing loans	Overdue loans	Exposure ¹	of which:		Individual impairment	Collective impairment	Total impairment
				Assessed individually ²	Assessed collectively ³			
Portugal	20 599 065	550 348	21 149 413	441 614	20 707 799	212 023	343 260	555 283
Spain	439 862	10 732	450 594	62 261	388 333	21 029	2 493	23 522
Angola	135 805	110	135 916		135 916		683	683
Netherlands	93 022	6	93 027		93 027		523	523
Other	346 716	3 557	350 273	1 117	349 156	1 001	3 895	4 896
	21 614 470	564 753	22 179 223	504 992	21 674 231	234 053	350 854	584 907

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 Bank's segment of loan portfolio subject to individual impairment analysis are described in note 2.3.4.

3) The information included in this column refers to the collectively assessed exposures for determination of the associated impairment and individually assessed exposures for which the Bank concluded there was no need to record individual impairment.

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
				Assessed individually ²	Assessed collectively ³			
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) Excludes accrued interest and deferred interest, correction of the amount of hedged assets and commissions relating to amortised cost. 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 Bank's segment of loan portfolio subject to individual impairment analysis are described in note 2.3.4.

3) The information included in this column refers to the collectively assessed exposures for determination of the associated impairment and individually assessed exposures for which the Bank concluded there was no need to record individual impairment.

At 31 December 2017 the mortgage loans to individual Customers, by year of production, granted by Banco BPI (non-consolidated) were made up as follows:

Year of production	Number of operations	Amount	Impairment recorded
2004 or previous	80 432	2 308 208	60 171
2005	12 779	561 101	14 177
2006	16 699	849 810	18 369
2007	23 322	1 220 616	30 028
2008	20 344	1 097 076	18 910
2009	12 979	816 061	13 575
2010	14 359	982 950	17 019
2011	4 541	301 405	5 054
2012	3 222	200 583	1 912
2013	3 228	191 326	1 847
2014	3 524	220 019	1 168
2015	6 729	486 731	1 720
2016	10 426	812 729	3 400
2017	12 890	1 035 351	3 684
	225 474	11 083 966	191 034

At 31 December 2016 the mortgage loans to individual Customers, by year of production, granted by Banco BPI (non-consolidated) were 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 2017 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				
EDIA SA-TV-30.01.2027	16 180 000	16 180	16 180	
EDIA-EMP.DES.DO ALQUEVA – TV-11.08.2030	17 875 000	17 875	18 043	
REGIAO AUTONOMA ACORES 2016 / 2023-1.ª SR	35 000 000	35 000	35 310	
REGIAO AUTONOMA DA MADEIRA 2017-2022	55 000 000	55 000	55 048	
REGIAO AUTONOMA DOS ACORES-TV-16.11.2025	16 600 000	16 600	16 650	
		140 655	141 231	
Other residents				
Non-subordinated debt				
Bonds				
Asset Backed Securities (ABS's)				
TAGUS-SOC.TIT.CREDITO-CL.A-12.02.2025	57 626 378	57 626	57 664	
TAGUS-SOC.TIT.CREDITO-CL.B-12.02.2025	50 000	50	50	
		57 676	57 714	
Other bonds				
ADP SGPS SA-TV-15.02.2028	71 590 909	71 591	72 068	
ADP-AGUAS DE PORTUGAL,SGPS-TV-20.06.2022	13 500 000	13 500	13 501	
ALTRI-TV-20.07.2025	50 000 000	50 000	50 248	
ANCORA WIND – 2017 / 2030	28 388 324	28 388	28 469	
BIAL – PORTELA & C.ª S A-TV-15.12.2021	15 000 000	15 000	15 010	
COLEP-1.7%-10.10.2022	17 500 000	17 500	17 566	
DANIPACK 2016-2021	7 000 000	7 000	7 028	
ENERFER -TV- 20.12.2026	5 923 735	5 924	5 928	
FIRST STATE WIND ENERGY-BONDS A DUE 2021	8 844 771	8 845	8 865	
FIRST STATE WIND ENERGY-BONDS B DUE 2030	24 500 000	24 500	24 556	
FREZITE-2016 / 2021	736 842	737	738	
GENERG SGPS-TX.VR.-20.09.2024	25 000 000	25 000	25 159	
INOVAFIL 2017-2022	2 000 000	2 000	2 002	
LITOCAR 2017 / 2024	4 600 000	4 600	4 611	
LUSIAVES – 2017 / 2032	15 000 000	15 000	15 037	
LUSIAVES 2016-2026	10 000 000	10 000	10 053	
NÓS SGPS-2015-2022	25 000 000	25 000	25 112	
PARQUE EÓLICO DO PISCO- TV 11.07.2026	10 428 125	10 428	10 540	
PORTUCEL SA-TV-22.09.2023	50 000 000	50 000	50 264	
RENOVA 2.SÉRIE 2016-2021	9 000 000	9 000	9 051	
SECIL 2015-2020	40 000 000	40 000	40 094	
VIOLAS-SGPS SA-TV-06.11.2023	70 000 000	70 000	70 241	
		504 013	506 141	
Commercial paper			606 165	3 650
			606 165	3 650
Issued by others non-residents				
Non-subordinated debt				
Bonds				
EURO-VIP / 1990 ²	5 002 918	4 588	4 601	
		4 588	4 601	
		706 932	1 315 852	3 650

1) Additionally, the Bank recorded collective impairment of 6 072 th. euro.

2) Securities reclassified from the caption FINANCIAL ASSETS HELD FOR TRADING in 2013, under the amendments to IAS 39 and IFRS 7 (notes 2 and 4.45).

4.8 Held to maturity investments

This caption is made up as follows:

	31 Dec. 16
Debt Instruments	
Bonds issued by other foreign entities	
Non-subordinated debt	14 400
Subordinated debt	1 900
Accrued interest	17
	16 317

As of 31 December 2016, the portfolio of held to maturity investments corresponds to assets allocated to cover capitalisation insurance contracts issued by BPI Vida e Pensões. During 2017, the financial participation on BPI Vida e Pensões was sold to CaixaBank Group, and is no longer consolidated in BPI Group's financial statements (note 4.9).

4.9 Discontinued Operations

Banco de Fomento Angola (as of 31 December 2016)

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.

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, representing 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 representing 2% of the share capital;
- (iii) Indirect acquisition of the qualified holding representing 48.10% of BFA's share capital, under the settlement of the mandatory takeover bid launched by CaixaBank regarding all shares representing Banco BPI share capital.

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 representing 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), (ii) Unitel issued the document related to the transfer of shares on sale and, (iii) the shareholder's agreement related to the participation in BFA entered into force.

Consequently:

1. 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.

Considering that as of 31 December 2016 (i) the sale of 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 usually 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.

2. From January 2017 onwards, Banco BPI ceased to control BFA as established by IFRS 10. Therefore, the consolidation through full consolidation method of the participation of 48.1% in BFA was discontinued and the retained participation was recorded at the estimated fair value. Considering that Banco BPI still has a significant influence on BFA, this participation was classified under "Investments in associated companies and jointly controlled entities" and is accounted for in accordance with the equity method as stated by IAS 28 (note 4.12).

As of 31 December 2016, BFA's total assets and liabilities are reported in the consolidated balance sheet of BPI in the captions NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS. In accordance with IFRS 5, the contribution of BFA's operations in 2016 to consolidated income and consolidated other comprehensive income are respectively presented in the captions INCOME FROM DISCONTINUED OPERATIONS and INCOME NOT INCLUDED IN THE CONSOLIDATED INCOME STATEMENT FROM DISCONTINUED OPERATIONS.

At 31 December 2016 the consolidated balance sheet of the BPI Group includes the following amounts related to BFA, adjusted for intragroup balances, in the captions NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS:

	31 Dec. 16
ASSETS	
Cash and deposits at central banks	1 505 858
Deposits at other credit institutions ¹	8 653
Financial assets held for trading	1 822 979
Financial assets available for sale	1 398 106
Loans and advances to credit institutions	146 071
Loans and advances to Customers	1 269 351
Tangible assets	103 919
Intangible assets	7 063
Tax assets	9 721
Other assets	24 189
	6 295 910
LIABILITIES	
Financial liabilities held for trading	8 150
Resources of other credit institutions	59
Resources of Customers and other debts	5 842 822
Provisions	23 588
Tax liabilities	23 730
Other liabilities ²	53 049
	5 951 398

1) Does not include 628 768 th. euros of cash and term deposits made by BFA in the BPI Group.

2) Does not include 38 864 th. euros of dividends payable by BFA to Banco BPI.

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, the caption LOANS AND ADVANCES TO CUSTOMERS is made up as follows:

	31 Dec. 16
Loans	
Foreign loans	
Companies	
Loans	694 991
Commercial lines of credit	211 291
Demand deposits – overdrafts	6 586
Other loans	1 096
Individuals	
Housing	116 268
Consumer	208 643
Other loans	19 353
Accrued interest	25 152
	1 283 380
Overdue loans and interest	62 771
Loan impairment	(76 800)
	1 269 351

At 31 December 2016, the financial assets held for trading and available for sale are made up as follows:

	31 Dec. 16
Financial assets held for trading	
Debt Instruments	
Bonds issued by foreign government entities	
Angolan Treasury Bills	1 582 996
Angolan Treasury Bonds in AKZ	231 700
Equity instruments	
Shares issued by foreign entities	970
Derivative instruments with positive fair value	7 313
	1 822 979
Financial assets available for sale	
Debt Instruments	
Bonds issued by foreign government entities	
Bonds	
Angolan Treasury Bonds in AKZ	787 628
Angolan Treasury Bonds in USD	608 108
Equity instruments	
Shares issued by foreign entities	2 265
Loans and other receivables	105
	1 398 106

At 31 December 2016, the Angolan Treasury Bills and Angolan Treasury Bonds 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, the caption RESOURCES OF CUSTOMERS AND OTHER LOANS is made up as follows:

	31 Dec. 16
Demand deposits	3 316 814
Term deposits	2 487 622
Cheques and orders payable	9 325
Other resources of Customers	9 202
Accrued interest	19 859
	5 842 822

As of 31 December 2016, the income of BFA during the year then ended is presented in a single line of the Statement of Income under the caption NET INCOME FROM DISCONTINUED OPERATIONS, with the following detail:

	31 Dec. 16
Interest and similar income	456 393
Interest and similar expenses	(93 276)
Financial margin (narrow sense)	363 117
Financial margin	363 117
Commissions received	58 788
Commissions paid	(10 612)
Other income, net	18 922
Net commission income	67 098
Gain and loss on operations at fair value	124 697
Net income on financial operations	124 697
Operating income	556
Operating expenses	(651)
Other taxes	(27 608)
Net operating expenses	(27 703)
Operating income from banking activity	527 209
Personnel costs	(92 047)
General administrative costs	(62 954)
Depreciation and amortisation	(12 961)
Overhead costs	(167 962)
Recovery of loans, interest and expenses	2 172
Impairment losses and provisions for loans and guarantees, net	(15 769)
Impairment losses and other provisions, net	(4 868)
Net income before income tax	340 782
Income tax	(3 043)
Net income	337 739

In accordance with IFRS 10, the sale of the 2% participation and the non-consolidation of BFA had the following impacts on Banco BPI's consolidated accounts¹:

- (i) Derecognition of BFA's assets and liabilities on the date of the loss of control (6 924 678 th. euro and 5 990 262 th. euro, respectively);
- (ii) Derecognition of the book value of non-controlling interests related to BFA (466 273 th. euro);

(iii) Recognition of the fair value of the consideration received for the sale of the 2% participation on BFA (28 000 th. euro);

(iv) Recognition of the 48.1% participation on BFA in accordance with the estimated fair value on the date of the loss of control (449 454 th. euro). The fair value of this participation was estimated through the following methods and evaluation techniques:

- Valuation based on market multiples of comparable entities, using a ROE vs. Price Book Value regression for 2016, estimated using Bloomberg Data;
- Dividend Discount Model (DDM) assuming a projection of dividends to be received from BFA;
- Sale price of the 2% participation in BFA to Unitel (multiple of transaction) adjusted by a discount on the control premium attributed at 2%, and a discount due to the lack of liquidity.

(v) Recognition on net income (under "operating income and expenses") of the difference between the components (i) through (iv), which include 6 593 th. euro related to the net gains obtained with the sale of the 2% participation in BFA.

(vi) Reclassification to net income (under "operating income and expenses") of the amounts related to BFA recorded under "Revaluation reserves" on the consolidated balance sheet (-182 121 th. euro). These amounts relate to the foreign exchange differences originated in the consolidation process with the conversion of the financial statements of BFA from Kwanzas to Euros, that were recorded as "Other comprehensive income", as stated by IAS 21.

(vii) Recognition of deferred tax liabilities associated to the difference between the acquisition cost and the fair value of the 48.1% participation in BFA (36 770 th. euro). As stated by IAS 12, when the entity loses control over a subsidiary which becomes an associate, the entity must record deferred tax liabilities in relation to the taxable differences in the investment owned in the associate.

1) Values referred to the consolidated accounts of Banco BPI on 31 December 2016.

During 2017, the global impact of the sale of the 2% participation and the non-consolidation of BFA, on Group BPI's income and equity was as follows::

	Net income	Shareholder's equity attributable 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)
	(212 298)	(30 177)	(30 177)
Derecognition of non-controlling interests			(466 273)
			(496 450)

BPI Vida e Pensões, BPI Gestão de Activos e BPI Global Investment Fund Management

On 23 November and 21 December 2017, the Bank announced that following acquisition proposals presented by its shareholder CaixaBank, S.A., the following agreements were signed:

- Sale of shares wholly representing the share capital of the entity BPI Vida e Pensões, Companhia de Seguros, S.A. to CaixaBank VidaCaixa S.A.U. de Seguros y Reaseguro for 135 000 th. euro.
- Sale of shares wholly representing the share capital of the entity BPI Gestão de Activos, Sociedade Gestora de Fundos de Investimento, S.A. and BPI Global Investment Fund Management Company, S.A. (BPI GIF) to CaixaBank Asset Management SGIIC, S.A.U, for 75 000 th. euro and 8 000 th. euro, respectively.

In the context of transactions described above, a set of service agreement contracts will be signed to set the conditions under which Banco BPI will provide several instrumental services to the businesses now sold.

The Board of Directors of Banco BPI approved the aforementioned transactions, with the intent of improving the commercial offer to its clients in the medium and long term, generating synergies with CaixaBank Group, and focusing Banco BPI in its core banking activities. The BPI Group will continue to ensure the relationships with the Customers of these businesses, acting as an agent of the disposed entities or its acquirers.

The sale of BPI Vida e Pensões was completed by the end of December 2017, and generated a capital gain before taxes of 7 677 th. euro.

The completion of the remaining transactions is conditional on the fulfilment of the suspensive conditions to which they remain subject, which include obtaining proper authorization for each transaction from the relevant authorities.

In accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, BPI Vida e Pensões, BPI Gestão de Activos and BPI GIF were considered discontinued operations as of 31 December 2017, considering they represent an important separate business line from the remaining operational core activities performed by the BPI Group.

Therefore,

- As of 31 December 2017, total assets and liabilities of BPI Gestão de Activos and BPI GIF are presented in the consolidated balance sheet in the captions NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS, and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS.
- The contribution of the operations of BPI Gestão de Activos, BPI GIF and BPI Vida e Pensões to the consolidated statement of income and other consolidated comprehensive income in 2017 is presented in the captions INCOME FROM DISCONTINUED OPERATIONS and INCOME NOT INCLUDED IN THE CONSOLIDATED INCOME STATEMENT ASSOCIATED TO DISCONTINUED OPERATIONS, respectively.
- The comparative balances of the consolidated statement of income and of the other consolidated comprehensive income for the year 2016 were restated (proforma 2016 values).

At 31 December 2017, the consolidated balance sheet of the BPI Group includes the following amounts related to BPI Gestão de Activos and BPI GIF, adjusted for intra-group balances, in the captions NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATION, respectively:

	31 Dec. 17
ASSETS	
Demand deposits in other credit institutions ¹	364
Financial assets available for sale	80
Tangible assets	1
Tax assets	281
Other ²	6 538
	7 264
LIABILITIES	
Tax liabilities	1 637
Other ³	2 834
	4 471

1) As of 31 December 2017, it does not include 32 734 th. euro of deposits from BPI Gestão de Activos and BPI GIF in BPI Group.

2) As of 31 December 2017, it does not include 5 004 th. euro of receivables from BPI Gestão de Activos in BPI Group.

3) As of 31 December 2017, it does not include 21 772 th. euro of payables from BPI Gestão de Activos in BPI Group.

As of 31 December 2017, the caption OTHER ACCUMULATED COMPREHENSIVE INCOME FROM DISCONTINUED OPERATIONS includes (187) th. euro from actuarial deviations in retirement pension liabilities and from final career premiums, net of taxes, from BPI Gestão de Activos.

During 2017, the income generated by BPI Vida e Pensões, BPI Gestão de Activos and BPI GIF are presented in a single line in the income statement, designated as "Income from discontinued operations", as illustrated below:

	BPI Vida e Pensões		BPI Gestão de Activos and BPI GIF	
	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16
Interest and similar income	1 234	1 446	2	1
Interest and similar expenses	(761)	(869)	(3)	(6)
Financial margin (narrow sense)	473	577	(1)	(5)
Gross margin on unit links	13 719	13 454		
Financial margin	14 192	14 031	(1)	(5)
Technical result of insurance contracts	18 592	24 613		
Commissions received	6 524	5 434	44 126	33 740
Commissions paid	(19 239)	(22 224)	(24 093)	(19 566)
Net commission income	(12 715)	(16 790)	20 033	14 174
Gain and loss on operations at fair value	(70)	(352)	7	(11)
Gain and loss on assets available for sale	723	1 902		
Interest and financial gain and loss with pensions			(2)	(3)
Net income on financial operations	653	1 550	5	(14)
Operating income		113	62	61
Operating expenses	(100)	(173)	(56)	(51)
Other taxes	(319)	(244)	(607)	(440)
Operating income and expenses	(419)	(304)	(601)	(430)
Operating income from banking activity	20 303	23 100	19 436	13 725
Personnel costs	(1 360)	(944)	(4 671)	(3 041)
General administrative costs	(716)	(1 128)	(2 412)	(2 333)
Depreciation and amortisation			(2)	(10)
Overhead costs	(2 076)	(2 072)	(7 085)	(5 384)
Net income before income tax	18 227	21 028	12 351	8 341
Income tax	(4 814)	(5 579)	(3 064)	(1 909)
Net income	13 413	15 449	9 287	6 432

4.10. Other tangible assets

The changes in other tangible assets during the 2017 were as follows:

	Gross				Depreciation				Net					
	Balance at 31 Dec. 16	Purchases	Sales and write-offs	Transfers BPI and others	BPI GA and BPI GIF reclassification ¹	Foreign exchange differences	Balance at 31 Dec. 17	Depreciation for the year ²	Sales and write-offs	Transfers BPI and others	BPI GA and BPI GIF reclassification ¹	Foreign exchange differences	Balance at 31 Dec. 17	Balance at 31 Dec. 16
Property														
Property for own use	24 803		(472)	(1 800)			22 531	401	(433)	(796)			11 121	12 854
Leasehold improvements	57 254	46	(3 505)	(87)	(503)		53 209	56 922	102	(3 461)	(38)	(503)	53 023	332
	82 057	46	(3 977)	(1 887)	(503)	4	75 740	68 871	503	(3 894)	(834)	(503)	64 144	13 186
Equipment														
Furniture and fixtures	37 135	40	(590)	(164)	(218)	(41)	36 162	36 369	239	(570)	(203)	(39)	35 578	766
Machinery and tools	8 750		(877)	(17)	(53)		7 803	8 569	66	(877)	(18)	(53)	7 687	181
Computer hardware	144 231	2 523	(4 634)	3 084	(526)	(119)	144 559	138 602	4 237	(4 626)	(683)	(94)	136 911	5 629
Interior installations	108 950	264	(2 733)	3 371	(164)	(51)	109 637	96 770	4 065	(2 527)	(144)	(44)	97 956	12 180
Vehicles	1 150	66	(328)	(118)	(6)	(7)	763	1 087	49	(313)	(118)	(2)	703	63
Security equipment	18 356	5	(941)	214	(6)		17 628	18 010	167	(937)	(33)	(6)	17 201	346
Other equipment	76				(8)		68	74	1			(8)	67	2
	318 648	2 898	(10 103)	6 370	(975)	(218)	316 620	299 481	8 824	(9 850)	(1 199)	(179)	296 103	19 167
Equipment in finance lease	10 734	139					10 873	3 634	2 595				6 229	7 100
Tangible assets in progress	9 275	6 506		(9 468)			6 313						6 313	9 275
Other tangible assets	11 277	20	(234)	(28)			11 035	9 050	15	(230)	(39)		8 796	2 227
	31 286	6 665	(234)	(9 496)			28 221	12 684	2 610	(230)	(39)		15 025	18 602
	431 991	9 609	(14 314)	(5 013)	(1 478)	(214)	420 581	381 036	11 937	(13 974)	(2 072)	(178)	375 272	50 955

1) Amounts related to the classification of BPI Gestão de Activos and BPI GIF as discontinued operations (notes 2.1 and 4.9).

2) Includes 2 th. euro of depreciation for the year of BPI Gestão de Activos and BPI GIF related to the classification of the entities as discontinued operations (notes 2.1 and 4.9).

The changes in other tangible assets during 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	Foreign exchange differences	Balance at 31 Dec. 16
Property									
Property for own use	142 201	1 169	(15 464)	983	(83 334)	(20 752)	24 803	(2 660)	11 949
Other property	12			(12)					
Leasehold improvements	104 187	436	(4 983)	1 128	(34 954)	(8 560)	57 254	(25 944)	56 922
	246 400	1 605	(20 447)	2 099	(118 288)	(29 312)	82 057	(37 913)	68 871
Equipment									
Furniture and fixtures	49 908	1 086	(1 953)	100	(9 497)	(2 509)	37 135	(5 354)	36 369
Machinery and tools	13 330	186	(99)		(3 756)	(911)	8 750	(2 750)	8 569
Computer hardware	175 015	5 243	(1 943)	1 831	(29 421)	(6 494)	144 231	(23 892)	138 602
Interior installations	136 563	1 766	(19 044)	287	(8 606)	(2 016)	108 950	(4 377)	96 770
Vehicles	12 592	1 514	(253)	(143)	(10 233)	(2 327)	1 150	(8 014)	1 087
Security equipment	26 265	478	(2 829)	(2)	(4 510)	(1 046)	18 356	(2 847)	18 010
Other equipment	522	4	(2)	3	(361)	(90)	76	(43)	74
	414 195	10 277	(26 123)	2 076	(66 384)	(15 393)	318 648	(10 744)	299 481
Equipment in finance lease	10 723	11					10 734		3 634
Tangible assets in progress	10 906	10 323		(6 566)	(4 437)	(951)	9 275		
Other tangible assets	11 725	6	(445)	(9)			11 277		9 050
	33 354	10 340	(445)	(6 575)	(4 437)	(951)	31 286	(11)	12 684
	693 949	22 222	(47 015)	(2 400)	(189 109)	(45 656)	431 991	(85 190)	381 036
							498 854	(19 550)	50 955
							23 826	(36 487)	18 602
							2 626	(445)	22 840
							10 514	(417)	18 602
							498 854	(19 550)	50 955
							23 826	(36 487)	18 602
							2 626	(445)	22 840
							10 514	(417)	18 602
							498 854	(19 550)	50 955

1) Amounts related to the classification of BFA as a discontinued operation (notes 2.1 and 4.9).

2) Includes 10 633 th. euro from BFA's current year depreciation related with discontinued activities (notes 2.1 and 4.9).

4.1.1. Intangible assets

The changes in intangible assets during 2017 were as follows:

	Gross				Depreciation			Net	
	Balance at 31 Dec. 16	Purchases	Sales and write-offs	Transfers and others	BPI GA and BPI GIF reclassification ¹	Foreign exchange differences	Balance at 31 Dec. 17	Balance at 31 Dec. 17	Balance at 31 Dec. 16
Software	93 927	535	(216)	10 734	(417)	(2)	104 561	77 437	9 932
Other intangible assets	17 940		(1 142)		(2)		16 796	15 633	11
	111 867	535	(1 358)	10 734	(419)	(2)	121 357	93 070	9 943
Intangible assets in progress	6 832	26 781		(11 580)			22 033		
	118 699	27 316	(1 358)	(846)	(419)	(2)	143 390	93 070	9 943

1) Amounts related to the classification of BPI Gestão de Ativos and BPI GIF as discontinued operations (notes 2.1 and 4.9).

The changes in intangible assets during 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. 16	Balance at 31 Dec. 15
Software	94 316	6 890	(220)	9 685	(14 619)	(2 125)	93 927	76 078	10 493
Other intangible assets	21 365		(2 102)		(1 055)	(268)	17 940	18 716	11
	115 681	6 890	(2 322)	9 685	(15 674)	(2 393)	111 867	94 794	10 504
Intangible assets in progress	8 251	8 045		(9 464)			6 832		
	123 932	14 935	(2 322)	221	(15 674)	(2 393)	118 699	94 794	10 504

1) Amounts related to the classification of BFA as discontinued operation (notes 2.1 and 4.9).

2) Includes 2 327 th. euro of depreciation for the year of BFA reclassified as income from discontinued operations (notes 2.1 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. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16
Banco de Fomento Angola, S.A.	48.1		576 359	
Banco Comercial e de Investimentos, S.A.	35.7	30.0	81 237	44 845
Companhia de Seguros Allianz Portugal, S.A.	35.0	35.0	66 234	67 950
Cosec – Companhia de Seguros de Crédito, S.A.	50.0	50.0	35 404	32 065
Inter-Risco – Sociedade de Capital de Risco, S.A.	49.0	49.0	487	559
Unicre – Instituição Financeira de Crédito, S.A.	21.0	21.0	34 762	30 259
			794 483	175 678

On January 2017, the sale of the 2% participation in BFA agreed in October 2016 between Banco BPI and Unitel was concluded. With the conclusion of this operation Banco BPI and Unitel own a participation on BFA of 48.1% and 51.9% respectively. From this date Banco BPI ceased to control BFA as stated by IFRS 10 – Consolidated financial statements. As a result, the 48.1% participation on BFA ceased being consolidated in accordance with the full consolidation method and was initially valued based on its estimated fair value (note 4.9). Considering that Banco BPI still has a significant influence on BFA, this participation was recorded on the caption INVESTMENTS IN ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES using the equity method as stated by IAS 28 – Investments in associates and joint ventures.

The new BFA Shareholders Agreement between Banco BPI and Unitel establishes the rules regarding the composition of its governing bodies, the dividend distribution policy and the rules for BFA shares' transmission. The rules for the transmission of BFA shares include a right of precedence granted by Banco BPI to Unitel for the onerous transmission of shares owned by Banco BPI, as well as a right granted by Unitel to Banco BPI to ensure a "tag along" right in case of sale of the participation owned by Unitel.

On 30 January 2017, Banco BPI was notified of a legal action challenging a corporate resolution. Such legal action challenges the validity of Banco BPI's General Meeting resolution passed on 13 December 2016, which approved Banco BPI's Board of Directors

proposal to sell to Unitel, S.A. a stockholding comprised of 26 111 shares, representing 2% of the share capital of Banco de Fomento Angola, S.A., pursuant to the Sale and Purchase Agreement entered into between such entities on October 2016. The legal action was filed by 4 shareholders holding together 175 920 shares, representing 0.0121% of Banco BPI's share capital. Banco BPI disagrees on the arguments presented by the authors of this claim and contested the case.

On 8 December 2017, a settlement agreement was signed between Insittec Capital, S.A. (Insittec), Banco BPI and Caixa Geral de Depósitos, S.A. (CGD) to deliver shares of Banco Comercial e de Investimentos, S.A. (BCI). Under this agreement, Insittec delivered to Banco BPI and CGD the shares it owned in BCI in order to liquidate the loans granted to Insittec Group entities. In this context, Banco BPI received shares representing 5.67% of the share capital of BCI, which were booked in the balance sheet by the carrying amount of the loans to Insittec Capital, which amounted to 16 783 th. euro. Following this agreement, the Bank increased its participation in BCI's equity to 35.67%.

In addition of the shares held by BCI, the remaining share capital of BCI is essentially held by Caixa Geral de Depósitos (61.5%).

During 2017 and 2016, BPI Group recorded the following dividends from associated companies:

	31 Dec. 17	31 Dec. 16
Banco de Fomento Angola, S.A.	64 045	n.a.
Companhia de Seguros Allianz Portugal, S.A.	6 035	9 855
Cosec – Companhia de Seguros de Crédito, S.A.	2 780	3 615
Unicre – Instituição Financeira de Crédito, S.A.	4 076	17 337
	76 936	30 807

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 2017, the financial information regarding the associated companies of the BPI Group is made up as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Banco de Fomento Angola, S.A.	5 393 465	2 390 054	6 468 583	142 220
Banco Comercial e de Investimentos, S.A.R.L.	967 446	1 225 402	259 525	1 713 670
Companhia de Seguros Allianz Portugal, S.A.	200 716	1 102 299	106 995	1 017 059
Cosec – Companhia de Seguros de Crédito, S.A.	96 256	18 010	63 391	572
Inter-Risco – Sociedade de Capital de Risco, S.A.	1 017	247	255	15
Unicre – Instituição Financeira de Crédito, S.A.	112 961	237 662	109 848	138 117

	Income from continuing operations	Net income from continuing operations	Other comprehensive income	'Total comprehensive income' ¹
Banco de Fomento Angola, S.A.	745 929	372 627		372 627
Banco Comercial e de Investimentos, S.A.R.L.	170 571	34 997	24 803	59 800
Companhia de Seguros Allianz Portugal, S.A.	n.d.	6 375	5 319	11 694
Cosec – Companhia de Seguros de Crédito, S.A.	n.d.	7 948	2 225	10 173
Inter-Risco – Sociedade de Capital de Risco, S.A.	1 131	(144)		(144)
Unicre – Instituição Financeira de Crédito, S.A.	77 662	24 309	14 331	38 640

1) Corresponds to the sum of net income from continuing operations with other comprehensive income.

As of 31 December 2017, Banco BPI considered an estimate of the impact of the adoption of IAS 29 – Financial Reporting in Hyperinflationary Economies on the financial statements of BFA, in order to calculate the value of its participation (48.1%) on the net assets and income for the year of BFA.

The consolidated financial statements of the BPI Group include the following impacts with respect to the participation of 48.1% on BFA:

- increase of 12 360 th. euro in the balance sheet value of the participation on BFA, resulting from the restatement of non-monetary net assets;
- increase of 88 640 th. euro due to the restatement of the foreign exchange reserves (before the tax rate of 10%);
- reduction of 76 280 th. euro on the income for the year (before the tax rate of 10%).

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 t. 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's 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. 17	31 Dec. 16
Current tax assets		
Corporate income tax recoverable	28 404	27 277
Other	1 829	1 864
	30 233	29 141
Deferred tax assets		
Due to temporary differences	384 624	412 126
Due to tax losses carried forward	20 558	30 581
	405 182	442 707
	435 415	471 848

Details of deferred tax assets are presented in note 4.41.

4.14. Other assets

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16
Debtors, other applications and other assets		
Debtors for future operations	10 354	19 173
Collaterals		
Of derivatives	15 836	18 596
Reports with central counterparties (CCP)	9 956	14 987
Single Resolution Fund	4 640	2 636
Other	2 170	2 170
Other applications	4 251	3 444
VAT recoverable	17 768	13 705
Debtors for loan interest subsidy receivable	2 060	3 144
Other debtors	4 727	7 837
Overdue debtors and other applications	317	248
Impairment of overdue debtors and other applications	(91)	(7)
Other assets		
Gold	65	49
Other available funds and other assets	354	369
	72 407	86 351
Assets received in settlement of defaulting loans and other tangible assets		
Impairment	(16 358)	(33 762)
	66 001	103 320
Accrued income		
For irrevocable commitments assumed in relation to third parties	246	239
For banking services rendered to third parties	126	2 463
Other accrued income		
Dividends receivable from BFA	57 631	
Dividends receivable from Unicre		6 618
Fee's for Allianz's profit sharing	22 732	22 558
Other receivables	26 491	10 026
	107 226	41 904
Deferred expenses		
Insurance		1
Rent	1 602	1 523
Other deferred expenses	6 983	7 424
	8 585	8 948
Other accounts		
Exchange transactions pending settlement		14 346
Stock exchange transactions pending settlement		1 083
Asset operation pending settlement	302 844	342 038
	302 844	357 467
	557 063	597 990

The caption COLLATERALS OF DERIVATIVES at 31 December 2017 and 2016 includes 6 074 th. euro and 4 169 th. euro, respectively, relating to collateral pledged in guarantee under derivative transactions relating to bonds issued through Sagres – Sociedade de Titularização de Créditos, S.A.

The caption OTHER DEBTORS at 31 December 2017 and 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).

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The changes in assets received in settlement of defaulting loans and other tangible assets during 2017 were as follows:

	Balance at 31 Dec. 16			Acquisitions and transfers	Sales and write-offs		Increase / Reversals of impairment	Balance at 31 Dec. 17		
	Gross	Impairment	Net		Gross	Impairment		Gross	Impairment	Net
Assets received in settlement of defaulting loans										
Real estate	131 714	(30 987)	100 727	17 660	(69 064)	10 497	4 717	80 310	(15 773)	64 537
Equipment	531	(578)	(47)	527	(489)	149	128	569	(301)	268
Other	61	(62)	(1)				11	61	(51)	10
Other tangible assets										
Real estate	4 775	(2 135)	2 640	1 007	(4 363)	2 000	(98)	1 419	(233)	1 186
	137 082	(33 762)	103 320	19 194	(73 916)	12 646	4 758	82 359	(16 358)	66 001

The changes in assets received in settlement of defaulting loans and other tangible assets during 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	(30 988)	100 726
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	209	(30)		(641)			4 776	(2 134)	2 642
	158 848	(29 302)	129 546	29 341	(50 703)	5 446	(9 906)	(9)	(395)	137 082	(33 762)	103 320

At 31 December 2017, the real estate received in settlement of defaulting loans was made up as follows, by type of property:

Assets	Nr. of properties	Fair value	Book value
Land	47	3 589	2 425
Urban	28	3 186	2 114
Rural	19	403	311
Buildings	788	76 785	62 112
Business	194	14 002	11 764
Housing	501	44 041	34 377
Other ¹	93	18 742	15 971
	835	80 374	64 537

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 type of property:

Assets	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
Outros 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 2017 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	248	1 195	969	2 425
Urban	13	243	1 073	785	2 114
Rural		5	122	184	311
Buildings	12 911	11 818	15 666	21 717	62 112
Business	350	1 276	3 465	6 673	11 764
Housing	12 122	9 646	7 034	5 575	34 377
Other ¹	439	896	5 167	9 469	15 971
	12 924	12 066	16 861	22 686	64 537

1) This category includes all buildings that are not exclusive for 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.

As of 31 December 2017 and 2016, the caption OTHER DEFERRED EXPENSES includes 4 463 th. euro and 5 416 th. euro for current contracts with service suppliers.

As of 31 December 2016 the caption STOCK EXCHANGE TRANSACTIONS PENDING SETTLEMENT is related to the acquisition of securities for which settlement only occurred on the following month.

As of 31 December 2017 and 2016 the caption ASSET OPERATIONS PENDING SETTLEMENT includes:

- 256 807 th. euro and 212 856 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;
- 26 627 th. euro and 27 906 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 6 711 th. euro and 7 181 th. euro 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;
- 2 175 th. euro and 4 454 th. euro, respectively, relating to housing loans pending settlement.

The changes in impairment losses and provisions during the 2017 and 2016 are shown in note 4.21.

4.15. Resources of central banks

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16
Resources of the Bank of Portugal		
Deposits	2 000 830	2 000 000
Accrued interest	(5 457)	10
Resources of other central banks		
Deposits	1	1
	1 995 374	2 000 011

During 2017 and 2016 Banco BPI obtained funding 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. 17	31 Dec. 16
Derivative instruments with negative fair value (note 4.4)		
	170 048	212 713
	170 048	212 713

4.17. Resources of other credit institutions

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16
Resources of Portuguese credit institutions		
Very short-term resources	6 671	
Deposits	142 870	168 247
Other resources	1 520	2 160
Accrued interest	72	18
	151 133	170 425
Resources of foreign credit institutions		
Deposits of international financial organisations	1 086 204	689 293
Very short term resources	3 445	2 077
Deposits	681 658	198 963
Sales operations with repurchase agreement	51 200	
Other resources	8 050	34 668
Accrued interest	944	1 013
	1 831 501	926 014
Commissions relating to amortised cost	14	
	1 982 648	1 096 439

4.18. Resources of Customers and other debts

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16
Demand deposits	12 038 740	10 320 787
Term deposits	8 532 552	9 207 114
Savings deposits	52 060	58 179
Compulsory deposits	12 801	12 781
Cheques and orders payable	58 140	53 796
Debt securities sold with repurchase agreement	40 687	61 542
Other resources of Customers	34 673	22 915
Non-controlling interests in investment funds		
BPI Alternative Fund (Lux)		249 581
Capitalisation insurance products – Unit links		1 930 352
Capitalisation insurance products – Guaranteed Rate and Guaranteed Retirement		20 806
Accrued interest	14 020	29 399
	20 783 673	21 967 252
Correction of the amount of hedged liabilities	155	558
Commissions relating to amortised cost (net)	4	(129)
	20 783 832	21 967 681

At 31 December 2017 and 2016, 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. Starting from 2016, Banco BPI began settling these transactions preferentially through Central Counterparties.

At 31 December 2017 and 2016 the caption RESOURCES OF CUSTOMERS includes 1 318 157 th. euro and 748 721 th. euro, respectively, related to deposits of investment funds, pension funds and capitalisation insurances managed by BPI Gestão de Activos, BPI GIF and BPI Vida e Pensões:

	31 Dec. 17	31 Dec. 16
Investment funds	475 854	580 060
Pension funds	310 950	168 661
Capitalisation insurances (BPI Vida e Pensões)	531 353	¹
	1 318 157	748 721

1) At 31 December 2016, deposits from capitalisation insurances issued and managed by BPI Vida e Pensões were cancelled in the consolidation process.

At 31 December 2016 the balance on the captions CAPITALISATION INSURANCE – UNIT LINKS and CAPITALISATION INSURANCE PRODUCTS – GUARANTEED RATE AND GUARANTEED RETIREMENT relates to capitalisation insurance policies issued by BPI Vida e Pensões. During 2017, BPI Vida e Pensões ceased to be consolidated in the BPI Group, following the disposal of this entity to Caixabank (note 4.9).

4.19. Debt securities

This caption is made up as follows:

	31 Dec. 17				31 Dec. 16			
	Issued	Repurchased	Balance	Average interest rate	Issued	Repurchased	Balance	Average interest rate
Covered bonds								
EUR	6 750 000	(6 550 000)	200 000	0.4%	5 200 000	(4 800 000)	400 000	0.5%
	6 750 000	(6 550 000)	200 000		5 200 000	(4 800 000)	400 000	
Fixed rate cash bonds								
EUR	39 609	(4 341)	35 268	0.3%	98 051	(8 432)	89 619	1.3%
	39 609	(4 341)	35 268		98 051	(8 432)	89 619	
Variable income cash bonds								
EUR					20 100	(7 457)	12 643	
USD					5 028	(1 423)	3 605	
					25 128	(8 880)	16 248	
	6 789 609	(6 554 341)	235 268		5 323 179	(4 817 312)	505 867	
Accrued interest			1 648				1 204	
Correction of the amount of hedged liabilities			63				177	
Premiums and commission (net)			(1)				(478)	
			1 710				903	
			236 978				506 770	

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.

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.

CASH BONDS

Cash bonds can only be issued by institutions under the Bank of Portugal's supervision. Currently Banco BPI has only one issue of this type.

BONDS ISSUED UNDER THE EMTN PROGRAMME

As part of its medium and long term funding plan, the BPI Group issues 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 7 000 000 000 euro. Bonds can be issued in different currencies.

GUARANTEED BONDS

The BPI Group set up two guaranteed bond issuance programmes under *Decree-Law 59 / 2006*. Under these programmes the BPI Group issued mortgage bonds and bonds over the public sector as described below.

In accordance with this law, the holders of the guaranteed 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.

Mortgage bonds

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 at 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 2017 the amount of mortgage bonds issued by the BPI Group was 6 150 000 000 euro, split into nine issues as follows:

	OH – Serie 9	OH – Serie 10	OH – Serie 11	OH – Serie 12
Issue date	21 / 05 / 2010	05 / 08 / 2010	25 / 01 / 2011	25 / 08 / 2011
Nominal amount	EUR 350 000 000	EUR 600 000 000	EUR 200 000 000	EUR 600 000 000
ISIN	PTBBP6OE0023	PTBBPQOE0024	PTBBPMOE0029	PTBBWAOE0024
Maturity date	21 / 05 / 2025	05 / 08 / 2020	25 / 01 / 2018	25 / 08 / 2021
Rating (Moody's / S&P / Fitch / DBRS)	Aaa / - / - / -	- / - / AAA / -	Aa1 / AA / AA+ / -	A3 / A+ / A- / -
Reimbursement	At maturity	At maturity	At maturity	At maturity
Interest payment frequency	Quarterly	Quarterly	Quarterly	Quarterly
Coupon	Euribor 3 m + 0.65%	Euribor 3 m + 0.65%	Euribor 3 m + 4.60%	Euribor 3 m + 0.65%
Repurchases	EUR 350 000 000	EUR 600 000 000	-	EUR 600 000 000

	OH – Serie 14	OH – Serie 15	OH – Serie 16	OH – Serie 17
Issue date	30 / 03 / 2015	07 / 10 / 2015	30 / 05 / 2016	22 / 02 / 2017
Nominal amount	EUR 1 250 000 000	EUR 200 000 000	EUR 500 000 000	EUR 700 000 000
ISIN	PTBBRROE0048	PTBBPSOE0031	PTBBP7OE0022	PTBBBG0E0023
Maturity date	27 / 03 / 2025	07 / 10 / 2022	30 / 05 / 2023	22 / 02 / 2024
Rating (Moody's / S&P / Fitch / DBRS)	Baa2 / - / - / -	A3 / - / - / A(High)	A3 / - / - / A(High)	A2 / - / - / A(High)
Reimbursement	At maturity	At maturity	At maturity	At maturity
Interest payment frequency	Quarterly	Quarterly	Quarterly	Quarterly
Coupon	Euribor 3 m + 0.50%	Euribor 3 m + 0.50%	Euribor 3 m + 0.80%	Euribor 3 m + 1.00%
Repurchases	EUR 1 250 000 000	EUR 200 000 000	EUR 500 000 000	EUR 700 000 000

	OH – Serie 18
Issue date	25 / 07 / 2017
Nominal amount	EUR 1 750 000 000
ISIN	PTBBBJOM0020
Maturity date	25 / 07 / 2022
Rating (Moody's / S&P / Fitch / DBRS)	A2 / - / - / A(High)
Reimbursement	At maturity
Interest payment frequency	Quarterly
Coupon	Euribor 3 m + 0.60%
Repurchases	EUR 1 750 000 000

At 31 December 2017 and 2016, the cover pool allocated to the mortgage bonds amounted to 7 474 957 th. euro and 6 518 035 th. euro, respectively, of which 7 461 814 th. euro and 6 501 785 th. euro corresponded to mortgage loans (note 4.7).

Bonds over the public sector

The bond program over the public sector was constituted for up to a maximum of 2 000 000 000 euro.

The bonds over the public sector are secured by a portfolio of public sector loans and other assets that together constitute the cover pool.

Loans granted to central public administrations, regional or local authorities of any EU Member State as well as loans with a specific guarantee from these entities may be allocated to the cover pool.

The prudential limits applicable to public sector bonds are similar to those applicable to the mortgage bonds, except for the limit on the maximum nominal amount of outstanding bonds in relation to the

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loans and other assets allocated to the cover pool, which in the case of bonds over the public sector is 100%.

At 31 December 2017 BPI Group held three outstanding issues of bonds over the public sector amounting to 600 000 000 euro, detailed as follows:

	OSP – Serie 3	OSP – Serie 4	OSP – Serie 5
Issue date	07 / 10 / 2015	15 / 06 / 2016	20 / 10 / 2017
Nominal amount	EUR 100 000 000	EUR 150 000 000	EUR 350 000 000
ISIN	PTBBPROE0032	PTBBPGOE0035	PTBPIGOM0038
Maturity date	07 / 10 / 2022	15 / 06 / 2023	20 / 10 / 2022
Rating (Moody's / S&P / Fitch)	Baa1 / - / -	Baa1 / - / -	A3 / - / -
Reimbursement	At maturity	At maturity	At maturity
Interest payment frequency	Quarterly	Quarterly	Quarterly
Coupon	Euribor 3 m + 0.65%	Euribor 3 m + 0.80%	Euribor 3 m + 0.50%
Repurchases	EUR 100 000 000	EUR 150 000 000	EUR 350 000 000

At 31 December 2017 and 2016 the cover pool allocated to bonds over the public sector amounted to 763 711 th. euro and 718 734 th. euro, respectively, of which 750 928 th. euro and 715 120 th. euro corresponded to loans (note 4.7).

The changes in the bonds issued by the BPI Group during in 2017 were detailed as follows:

	Covered bonds	Fixed rate bonds	Variable income bonds	Total
Balance at 31 December 2016	400 000	89 619	16 248	505 867
Bonds issued during the period	2 800 000	10 688		2 810 688
Bonds redeemed	(200 000)	(62 617)	(16 248)	(278 865)
Repurchases (net of resales)	(2 800 000)	(2 422)		(2 802 422)
Balance at 31 December 2017	200 000	35 268		235 268

The changes in the bonds issued by the BPI Group in 2016 were detailed 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 outstanding bonds issued by BPI Group as of 31 December 2017, by maturity date, are as follows:

	Maturity				Total
	2018	2019	2020-2023	> 2023	
Covered bonds					
EUR	200 000				200 000
	200 000				200 000
Fixed rate bonds					
EUR	16 345	12 135	6 788		35 268
	16 345	12 135	6 788		35 268
Total	216 345	12 135	6 788		235 268

The outstanding bonds issued by BPI Group as of 31 December 2016, by maturity date, are as follows:

	Maturity					Total
	2017	2018	2019	2020-2023	> 2023	
Covered bonds						
EUR	200 000	200 000				400 000
	200 000	200 000				400 000
Fixed rate bonds						
EUR	42 533	17 486	9 600		20 000	89 619
	42 533	17 486	9 600		20 000	89 619
Variable income bonds						
EUR	12 643					12 643
USD	3 605					3 605
	16 248					16 248
Total	258 781	217 486	9 600		20 000	505 867

4.20. Financial liabilities relating to transferred assets

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16
Liabilities relating to assets not derecognised in securitisation operations (note 4.7)		
Loans		
Housing loans	1 344 340	1 498 597
Loans to SME's	3 392 300	3 404 200
Liabilities held by the BPI Group	(4 258 381)	(4 347 231)
Accrued costs	420	556
Commissions relating to amortised cost (net)	(694)	(737)
	477 985	555 385

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 detailed as follows:

Description	Amount	Estimated residual average life (years)	Rating (Fitch / DBRS)	Spread / fixed rate
■ Class A Notes	1 819 400	3.10	AA / AA	0.15%
■ Class B Notes	1 317 500	3.10	n / r	n / a
■ Class C Notes		n / a	n / r	n / a
■ Residual Note	255 400	3.10	n / r	Residual Interest
Total of the issues	3 392 300			
Liabilities held by BPI Group	(3 392 300)			
Total				

This issue was made in order to be eligible for possible funding from the European Central Bank.

On 24 November 2005 Banco BPI launched its first housing loan securitisation operation, in the amount of 1 500 000 th. euro, under the name of DOURO Mortgages no. 1. The operation was issued in 5 lots, their main characteristics being detailed as follows:

Description	Amount	Estimated residual average life (years)	Rating (Moody's, S&P, Fitch)	Spread
■ Class A Notes	271 082	4.10	A2 / A / A+	0.28%
■ Class B Notes	5 736	4.10	Baa3 / BB+ / A	0.34%
■ Class C Notes	5 215	4.10	Ba3 / B+ / BBB	0.54%
■ Class D Notes	4 345	4.10	B2 / B- / BB+	0.94%
■ Class E Notes	6 000	4.10	nr / nr / nr	Residual Interest
Total of the issues	292 378			
Other funds	3			
Liabilities held by BPI Group	(135 016)			
Total	157 365			

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 detailed as follows:

Description	Amount	Estimated residual average life (years)	Rating (Moody's, S&P, Fitch)	Spread
■ Class A1 Notes	3 829	5.80	A1 / BBB+ / A	0.10%
■ Class A2 Notes	386 958	5.80	A2 / BBB+ / A	0.28%
■ Class B Notes	9 545	5.80	Ba1 / B+ / BBB	0.34%
■ Class C Notes	6 191	5.80	Ba3 / B- / BB+	0.46%
■ Class D Notes	4 901	5.80	B3 / B- / BB-	0.96%
■ Class E Notes	4 937	5.80	nr / nr / nr	Residual Interest
Total of the issues	416 361			
Liabilities held by BPI Group	(314 861)			
Total	101 500			

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 detailed as follows:

Description	Amount	Estimated residual average life (years)	Rating (Moody's, S&P, Fitch)	Spread ¹
■ Class A Notes	601 819	7.20	A3 / BBB+ / BBB+	0.24%
■ Class B Notes	15 430	7.20	nr / B / BB+	0.255%
■ Class C Notes	9 175	7.20	nr / B- / BB	0.35%
■ Class D Notes	7 923	7.20	nr / B- / B	0.72%
■ Class E Notes		n / a	n / a	n / a
■ Class F Notes	1 251	7.20	nr / nr / nr	Residual Interest
Total of the issues	635 598			
Other funds	(1)			
Liabilities held by BPI Group	(416 204)			
Total	219 393			

1) In August 2016, as the option was not exercised, the spread was multiplied by 1.5.

4.21. Provisions and impairment losses

The liability caption PROVISIONS is made up as follows:

	31 Dec. 17	31 Dec. 16
Impairment losses and provisions for guarantees and commitments	18 442	22 473
Other provisions		
VAT's Recovery processes (2003 to 2016)	29 711	29 039
Tax contingencies	9 718	9 265
Other provisions	6 368	9 458
	64 239	70 235

The changes in provisions and impairment losses of the Group during 2017 were made up as follows:

	Balance at 31 Dec. 16	Increases	Decreases and reversals	Utilisation	Exchange differences and others	Transfers ¹	Balance at 31 Dec. 17
Impairment losses of loans and advances to Customers (note 4.7)	695 200	47 443	(18 212)	(127 724)		(11 800)	584 907
Impairment losses and provisions for guarantees and commitments	22 473	51	(4 082)				18 442
	717 673	47 494	(22 294)	(127 724)		(11 800)	603 349
Impairment losses of financial assets available for sale (note 4.5)							
Equity instruments	46 867	173		(2 147)	(115)		44 778
Other securities	55 742	2 413		(1 665)			56 490
Loans and other receivables	4 386	200	(14)	(4 572)			
Impairment losses of investments in associated companies and jointly controlled entities		1					1
Impairment losses of other assets (note 4.14)							
Tangible assets held for sale	33 762	997	(5 755)	(12 646)			16 358
Debtors, other applications and other assets	7	23				61	91
Other provisions	47 762	2 537	(616)	(3 872)	(14)		45 797
	188 526	6 344	(6 385)	(24 902)	(129)	61	163 515
	906 199	53 838	(28 679)	(152 626)	(129)	(11 739)	766 864

1) The transfers are related to loan impairments on BPI Vida e Pensões' securitized loans. This entity was sold in December 2017.

The utilisation of impairment losses of loans and advances to Customers during 2017 include 98 124 th. euro of credit write-offs and 29 600 th. euro related to credit sales.

The changes in provisions and impairment losses of the Group during the year of 2016 were detailed 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 ¹		18 304		(18 304)			
Equity instruments	47 051	1 511		(1 725)	30		46 867
Other securities	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) Balances related to the reclassification of BFA as a discontinued operation.

During 2016, in the context of the agreement for the sale of a 2% equity participation in BFA, the assets and liabilities of this subsidiary were transferred to the captions NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS and NON-CURRENT LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS, respectively (note 4.9). Impairments and provisions originated in BFA's financial statements were reclassified and are presented under the column "Transfers". During 2016, increases of loan impairment losses and provisions for guarantees and commitments, net of reversals, include 15 769 th. euro and 4 868 th. euro related with the classification of BFA as a discontinued operation and were included in the Statement of Income caption NET INCOME FROM DISCONTINUED OPERATIONS (note 4.9).

Utilisation of impairment losses of loans and advances to Customers during the year of 2016 include 189 198 th. euro of credit write-offs and 59 848 th. euro related to credit sales.

The increase in impairment for debt instruments held for sale refers to the bonds issued by Portugal Telecom International Finance 4.375% 24.3.2017. These bonds were sold during 2016, and the corresponding impairment used.

4.22. Technical provisions

This caption is made up as follows:

	31 Dec. 16
Immediate Life Annuity / Individual	4
Immediate Life Annuity / Group	22
Family Savings	2
BPI New Family Savings	1 066 033
BPI Retirement Guaranteed PPR	712 282
BPI Non Resident Savings	263 423
Planor	5 060
PPR BBI Vida	1 955
South PPR	48
	2 048 829

As of 31 December 2016, the balance on the caption TECHNICAL PROVISIONS includes capitalization insurance products with discretionary participation in the income reported by BPI Vida e Pensões. During 2017, BPI Vida e Pensões ceased to be controlled by BPI Group following the agreement to sell this subsidiary to CaixaBank Group (note 4.9).

The technical provisions were computed on a prospective actuarial basis, contract by contract, in accordance with the technical bases of the products.

Immediate income			
Individual	Interest Rate		6%
	Mortality Table		PF 60 / 64
Group	Interest Rate		6%
	Mortality Table		PF 60 / 64
Deferred capital with counter-insurance with participation in results			
Group	Interest Rate		4% and 0%
	Mortality Table		PF 60 / 64, TV 73-77 and GRF 80

The technical provisions also include a provision for rate commitments, which is recorded when the effective profitability of the assets that represent the mathematical provisions of a determined product is lower than the technical interest rate used to calculate the mathematical provisions.

The BPI New Family Savings, BPI Retirement Savings PPR and BPI Non Resident Savings are capitalisation products with guaranteed capital and participation in the results.

4.23. Tax liabilities

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16
Current tax liability		
Corporation income tax payable	3 830	3 752
	3 830	3 752
Deferred tax liability		
Temporary differences	66 792	18 254
	66 792	18 254
	70 622	22 006

Details of the deferred tax liability are presented in note 4.41.

4.24. Other Subordinated debt and participating bonds

This caption is made up as follows:

	31 Dec. 17				31 Dec. 16			
	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	
Other bonds								
EUR	300 000		300 000	5.5%	400 000	(391 293)	8 707	1.2%
	300 000		300 000		400 000	(391 293)	8 707	
	300 000		300 000		710 000	(641 293)	68 707	
Participating bonds								
EUR	28 081	(27 470)	611	0.0%	28 081	(27 350)	731	0.2%
	28 081	(27 470)	611		28 081	(27 350)	731	
Accrued interest			4 466				62	
			4 466				62	
			305 077				69 500	

The changes in debt issued by the BPI Group during 2017 were detailed as follows:

	Perpetual bonds	Other bonds	Participating bonds	Total
Balance at 31 December 2016	60 000	8 707	731	69 438
Bonds issued during the period		300 000		300 000
Bonds redeemed		(8 707)		(8 707)
Repurchases (net of resales)			(120)	(120)
Deconsolidation of BPI Vida e Pensões	(60 000)			(60 000)
Balance at 31 December 2017		300 000	611	300 611

On 24 March 2017, Banco BPI issued 300 000 th. euro of subordinated debt. This debt pays a remuneration equivalent to Euribor 6 months plus spread of 5.74% and was wholly subscribed by Caixabank.

This debt matures on 24 March 2027, and features an early reimbursement option on 24 March 2022, subject to previous authorisation by the competent authority. The issue may also be reimbursed at any moment if there is a change in the fiscal environment or a capital event, subject to the conditions applicable to the early reimbursement and the previous authorization by the competent authority.

The features of this issue were designed to fulfil the conditions determined in the *Regulation 575 / 2013* for its classification as tier 2 capital instrument.

The changes in debt issued by the BPI Group during 2016 were detailed as follows:

	Perpetual bonds	Other bonds	Participating bonds	Total
Balance at 31 December 2015	60 000	8 707	731	69 438
Repurchases (net of resales)				
Balance at 31 December 2016	60 000	8 707	731	69 438

Perpetual and other bonds issued by the BPI Group at 31 December 2017 are as follows, by maturity date:

	Maturity				Total
	2018	2019	2020-2023	> 2023	
Other bonds					
EUR				300 000	300 000
Total				300 000	300 000

Perpetual and other bonds issued by the BPI Group at 31 December 2016 are as follows, by maturity date:

	Maturity				
	2017	2018	2019	2020-2023	> 2023
Perpetual bonds					
EUR ¹	60 000				
Other bonds					
EUR	8 707				
Total	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. 17	31 Dec. 16
Creditors and other resources		
Creditors for futures operations	12 732	14 752
Consigned resources	22 337	15 020
Captive account resources	6 808	7 346
Guarantee account resources	16 717	8 394
Public Sector		
Value Added Tax (VAT) payable	129	239
Tax withheld at source	14 593	13 245
Social Security contributions	4 338	4 490
Other	2 741	133
Contributions to other health systems	1 337	1 417
Creditors for factoring contracts	37 418	32 992
Creditors for the supply of assets	13 713	14 190
Contributions owed to the Pension Fund		
Pensioners and Employees		75 455
Directors		8 900
Other creditors	46 885	63 184
Deferred costs	(11)	(74)
	179 737	259 683
Liabilities with pensions and other benefits		
Pension Funds Assets		
Pensioners and Employees	(1 564 913)	(1 355 356)
Directors	(51 219)	(41 790)
Past Service Liabilities		
Pensioners and Employees	1 601 350	1 463 137
Directors	55 980	52 266
	41 198	118 257
Accrued costs		
Personnel costs	84 329	59 519
General administrative costs	38 944	19 009
Contribution over the banking sector	14 323	14 291
Other	2 183	2 546
	139 779	95 365
Deferred income		
On guarantees given and other contingent liabilities	3 654	3 152
Other	8 772	11 041
	12 426	14 193
Other accounts		
Foreign exchange transactions pending settlement	31 565	
Securities operations pending settlement – stock exchange operations	6	
Securities operations pending settlement – non stock exchange operations		18 779
Liabilities pending settlement	86 270	124 921
Other operations pending settlement	164 488	146 206
	282 329	289 906
	655 469	777 404

The caption OTHER CREDITORS at 31 December 2017 and 2016 includes 25 470 th. euro and 42 305 th. euro, respectively, relating to unrealized capital subscribed for in Venture Capital Funds:

	31 Dec. 17	31 Dec. 16
Fundo de Recuperação, FCR	9 056	9 529
Fundo InterRisco II CI	8 015	9 050
Fundo InterRisco II – Fundo de Capital de Risco	2 759	4 388
Fundo de Reestruturação Empresarial, FCR	714	1 828
Fundo Pathena SCA Sicar	4 909	6 293
Other funds	17	11 217
	25 470	42 305

At 31 December 2017 and 2016 the caption OTHER CREDITORS also includes:

- 3 900 th. euro and 5 106 th. euro, respectively, relating to operations with suppliers pending settlement, for the sale of prestige products;
- 2 050 th. euro and 2 512 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 established. At 31 December 2017 and 2016, the caption ACCRUED COSTS – PERSONNEL costs includes 6 402 th. euro and 6 685 th. euros, respectively, relating to final career premiums.

The main actuarial and financial assumptions used to calculate the final career and long service premium liability are established as follows:

	31 Dec. 17	31 Dec. 16
Demographic assumptions:		
Mortality table	TV 88 / 90 – M TV 88 / 90 – W – 3 years ²	TV 73 / 77-M – 2 years ¹ TV 88 / 90 – W – 3 years ²
Financial assumptions:		
Discount rate		
Beginning of the year	2.00%	2.50%
End of the year	2.00%	2.00%
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.

2) Life expectancy considered was 3 years greater than the mortality table used for woman.

The changes in the final career premium and long service premium liability during 2017 and 2016 were as follows:

	31 Dec. 17	31 Dec. 16
Long service premiums at the beginning of the period		32 512
Long service premiums payments	(3)	(7 662)
Personnel costs ¹ (note 4.39):		
Current service cost	3	1 123
Interest cost		424
Other		
Gain from the extinction of the long service premium		(26 397)
Long service premium at the end of the year		
Final career premium at the beginning of the period	6 685	
Personnel costs ² (note 4.39):		
Expenses with the introduction of the final career premium		5 724
Current service cost	372	159
Interest cost	140	76
Voluntary termination program	(540)	
Final career premium payment	(377)	(50)
Actuarial (Gains) and losses		
Change in the mortality table	51	589
Other deviations	116	187
Change in consolidation perimeter of BPI Gestão de Activos on 31 December 2017	(45)	
Final career premium at the end of the year	6 402	6 685

1) As of 31 December 2016, it includes (27) th. euro related to personnel costs with BPI Gestão de Activos that were reclassified to the caption INCOME FROM DISCONTINUED OPERATIONS in the Income Statement (notes 2.1 e 4.9).

2) As of 31 December 2017 and 2016, it includes 4 th. euro and 33 th. euro as of 31 December 2017, and 2016, respectively, related to personnel costs with BPI Gestão de Activos reclassified to the caption INCOME FROM DISCONTINUED OPERATIONS in the Income Statement (notes 2.1 e 4.9).

As established on IFRIC 21, Banco BPI 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 – NON STOCK EXCHANGE OPERATIONS at 31 December 2016 refers to the acquisition of securities to be settled in the following month.

The caption LIABILITIES PENDING SETTLEMENT at 31 December 2017 and 2016 includes:

- 44 997 th. euro and 76 538 th. euro, respectively, relating to transactions with loans securitisation funds;
- 18 900 th. euro and 23 675 th. euro, respectively, relating to ATM transactions to be settled;
- 8 982 th. euro and 8 753 th. euro, respectively, relating to transactions to be settled with SIBS.

The caption OTHER OPERATIONS PENDING SETTLEMENT, at 31 December 2017 and 2016 includes 143 284 th. euro and 117 676 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 companies¹, is calculated in accordance with IAS 19.

Benefits established by 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 (previously 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 of 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 of 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 Authority (ASF): 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 was 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 4.39).

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)*, no. 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*, no. 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 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 4.48.

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. 17	31 Dec. 16
Demographic assumptions:		
Mortality table	TV 88 / 90-M	TV 73 / 77-M – 2 years ¹
	TV 88 / 90-W – 3 years ²	TV 88 / 90-W – 3 years ²
Incapacity table	EKV 80	EKV 80
Personnel turnover	0%	0%
Decreases	By mortality	By mortality
Financial assumptions:		
Discount rate		
Beginning of the period	2.00%	2.50%
End of the period	2.00%	2.00%
Pensionable salary increase rate ³	1.00%	1.00% ⁴
Pension increase rate	0.50%	0.50% ⁴

- 1) Life expectancy considered was 2 years greater than the mortality table used for men.
2) Life expectancy considered was 3 years greater than the mortality table used for women.
3) The mandatory promotions resulting from the current ACT and the projections of diuturnities are considered autonomously, directly in the estimation of the evolution of salaries, equivalent to an increase of 0.5%.
4) Having considered a growth rate of pensionable wages and pensions for 2017 and 0.75%, in accordance with the new ACT.

The actual results obtained in relation to the main financial assumptions were:

	31 Dec. 17	31 Dec. 16
Pensionable salary increase rate ¹	1.80%	2.40%
Pension increase rate ²	0.75%	0.75%
Pension fund income rate		
Banco BPI	13.07%	(1.17)%
Other companies	4.80%	0.86%

- 1) Calculated 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 on mandatory promotions due to time of service and seniority payments and does not consider the new entrees and leaves).
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. 17	31 Dec. 16
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 2017 and 2016 the number of pensioners and Employees covered by the pension plans funded by the pension funds was detailed as follows:

	31 Dec. 17	31 Dec. 16
Retired pensioners	7 490	7 248
Survivor pensioners	1 434	1 388
Current Employees	4 910	5 576
Former Employees (clause 98 of the ACT)	3 360	3 671
	17 194	17 883

The past service liability for pensioners and Employees of the BPI Group and respective coverage by the Pension Fund at 31 December 2017 and 2016 are made up as follows:

	31 Dec. 17	31 Dec. 16
Total past service liability		
Liability for pensions under payment	1 039 244	810 215
Of which: (increase in the liability resulting from early retirements during the year)	(52 610)	(53 952)
Past service liability of current and former Employees	562 106	652 922
	1 601 350	1 463 137
Net assets of the Pension Fund	1 564 913	1 355 356
Contributions to be transferred to the Pension Fund	9 010	75 455
Excess / (Insufficient) coverage	(27 427)	(32 326)
Degree of coverage	98%	98%

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 any excess will be used to reduce future contributions.

The average duration of the pension liability of BPI Group Employees is 18 years, including both current Employees and pensioners.

The level 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, at the end of each year. In order to ensure the minimum funding level, BPI made:

- in February 2018 a contribution in the amount of 9 010 th. euro, after which the coverage ratio of the liabilities as at 31 December 2017, reached 98%;
- in January 2017 a contribution in the amount of 75 455 th. euro, after which the coverage ratio of the liabilities as at 31 December 2016, reached at 98%.

Evolution of the degree of coverage of the liability in the past five years was as follows:

	2017	2016	2015	2014 Proforma	2013 Proforma
Total past service liability	1 601 350	1 463 137	1 279 923	1 278 394	1 082 369
Net assets of the Pension Fund	1 564 913	1 355 356	1 391 069	1 201 648	1 129 067
Contributions to be transferred to the Pension Fund	9 010	75 455	1 279	47 008	2 853
Excess / (Insufficient) coverage	(27 427)	(32 326)	112 425	(29 738)	49 551
Degree of coverage	98%	98%	109%	98%	105%

The changes in the present value of the past service liability during 2017 and 2016 were as follows:

	31 Dec. 17	31 Dec. 16
Liability at the beginning of the period	1 463 137	1 279 923
Current cost:		
Of the BPI Group	(7 092)	(4 112)
Of the Employees	3 698	3 712
Interest cost	30 337	31 257
Actuarial (gain) and loss in the liability	110 949	153 080
Early retirements	52 610	53 952
Change in the pension plan conditions – SAMS		
SAMS		(22 215)
Other	2 336	
Pensions payable (estimate)	(40 289)	(32 460)
Voluntary terminations	(11 829)	
Change in consolidation perimeter – liability for pensions of BPI Gestão de Activos on 31 December 2017	(2 507)	
Liability at the end of the period	1 601 350	1 463 137

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 2017 would result in the following impact on the present value of the past service liability¹:

	(Decrease) / Increase	
	by %	Amount
Change in the discount rate		
Increase by 0.25%	-4.3%	(69 517)
Decrease by 0.25%	4.6%	74 345
Change in the salary increase rate²		
Increase by 0.25%	1.2%	19 937
Change in the pension increase rate³		
Increase by 0.25%	5.1%	82 367
Mortality Table		
+1 year	3.4%	53 651

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 2017 and 2016 are as follows:

	31 Dec. 17	31 Dec. 16
Net assets of the Pension Funds at the beginning of the period	1 355 356	1 391 069
Contributions:		
by BPI Group	75 455	11 050
by Employees	3 698	3 712
Pension Fund income (net)		
Income on plan assets computed with the discount rate	29 801	32 357
Deviation of return on assets	147 320	(48 392)
Pensions paid by the Pension Funds	(44 012)	(34 440)
Change in consolidation perimeter – Pension funds of BPI Gestão de Activos on 31 December 2017	(2 705)	
Net assets of the pension funds at the end of the period	1 564 913	1 355 356

The estimated contribution to the pension plan to be made by the Employees in 2018 amounts to 3 545 th. euro.

At 31 December 2017 and 2016 the assets that compose Banco BPI's Employees' Pension Funds were as follows:

	31 Dec. 17		31 Dec. 16	
	Value	%	Value	%
Liquidity	277 845	17.8%	131 154	9.7%
Fixed rate bonds				
Listed	185 225	11.8%	225 650	16.6%
Floating rate bonds				
Listed	143 512	9.2%	168 602	12.5%
Shares				
Listed	449 556	28.7%	366 529	27.0%
Not listed	55 720	3.6%	46 351	3.4%
Real estate	347 684	22.2%	312 842	23.1%
Other				
Listed	105 371	6.7%	104 228	7.7%
	1 564 913	100.0%	1 355 356	100.0%

In 2017 and 2016 the contributions made by the Group to the Pension Fund were made in cash.

The changes in the fair value of the Pension Fund assets used by entities of the BPI Group or representing securities issued by these entities in 2017 were as follows:

	31 Dec. 16	Acquisitions	Changes in fair value	Sales	31 Dec. 17
Fair value of the plan assets:					
Financial instruments issued by the BPI Group					
Bonds	51 386		8 669		60 055
	51 386		8 669		60 055
Premises used by the BPI Group	193 934	503	8 773	2 802	200 408
	245 320	503	17 442	2 802	260 463

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

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 deviations¹ from 2013 to 2017 were detailed as follows:

Amount at 31 December 2012 Proforma²	(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	(40 541)
Adjustment in the ACT Table above the estimate	(13 017)
Change in the financial and demographic assumptions	
Mortality table	(10 985)
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 ³	(9 262)
Amount at 31 December 2016 (note 4.30)	(243 991)
Change in the financial and demographic assumptions	
Mortality table	(63 384)
Deviation in pension fund income	147 320
Deviation in pensions paid	(3 723)
Population adjustments	(19 694)
Disability pensions	(7 489)
Impact of the increase of domestic minimum age on the ACT table	(4 436)
Other	(15 946)
Change in consolidation perimeter – actuarial deviations from BPI Gestão de Activos and BPI Vida on 31 December 2017	125
Amount at 31 December 2017 (note 4.30)	(211 218)

- 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 (3 920) th. euro relating to deviations of mortality and (2 684) th. euro from disability pension.

The consolidated financial statements as of 31 December 2017 and 2016 proforma include the following amounts relating to coverage of the pension liability, in the captions INTEREST AND FINANCIAL GAIN AND LOSS WITH PENSIONS (note 4.37) and PERSONNEL COSTS (note 4.39):

	31 Dec. 17	31 Dec. 16 Proforma
Interest and financial gain and loss with pensions		
Interest cost relating to the liabilities ¹	30 281	31 197
Income on plan assets computed with the discount rate ²	(29 747)	(32 300)
	534	(1 103)
Personnel costs		
Current service cost ³	(7 083)	(4 109)
Increase in liabilities for early retirements	52 610	53 952
Compensation for early retirements	13 840	5 751
Change in the pension plan conditions		
SAMS ⁴		(22 174)
Other	2 336	
Voluntary termination ⁵	(11 648)	
	50 055	33 420

- 1) At 31 December 2017 and 2016, does not include, respectively, 56 th. euros and 60 th. euros related to costs incurred by BPI Gestão de Activos reclassified to the caption NET INCOME FROM DISCONTINUED OPERATIONS (note 2.1 and 4.9).
2) At 31 December 2017 and 2016, does not include, respectively, (54) th. euros and (57) th. euros related to income incurred by BPI Gestão de Activos reclassified to the caption NET INCOME FROM DISCONTINUED OPERATIONS (note 2.1 and 4.9).
3) At 31 December 2017 and 2016, does not include, respectively, (9) th. euros and (3) th. euros related to personnel costs incurred by BPI Gestão de Activos reclassified to the caption NET INCOME FROM DISCONTINUED OPERATIONS (note 2.1 and 4.9).
4) At 31 December 2016, does not include (41) th. euros related to personnel costs incurred by BPI Gestão de Activos reclassified to the caption NET INCOME FROM DISCONTINUED OPERATIONS (note 2.1 and 4.9).
5) At 31 December 2017, does not include (181) th. euros related to personnel costs incurred by BPI Gestão de Activos reclassified to the caption NET INCOME FROM discontinued operations (note 2.1 and 4.9).

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 and its coverage is made by a pension fund.

The main actuarial assumptions used to calculate the pension liability were established as follows:

	31 Dec. 17	31 Dec. 16
Demographic assumptions:		
Mortality table	TV 88 / 90-M TV 88 / 90-W – 3 years ²	TV 73 / 77-M – 2 years ¹ TV 88 / 90-W – 3 years ²
Incapacity table	EKV 80	EKV 80
Personnel turnover	0%	0%
Decreases	By mortality	By mortality
Financial assumptions:		
Discount rate		
Beginning of the period	2.00%	2.50%
End of the period	2.00%	2.00%
Pensionable salary increase rate	0.50%	0.50%
Pension increase rate ³	0.50%	0.50%

- 1) Life expectancy considered was 2 years greater than the mortality table used for men.
2) Life expectancy considered was 3 years greater than the mortality table used for women.
3) 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. 17	31 Dec. 16
Pensionable salary increase rate ¹	0.75%	0.40%
Pension increase rate ²	0.79%	0.52%
Pension fund income rate	5.75%	0.90%

- 1) Calculated based on average pensionable salary changes for current Directors in the beginning and in the end of the year.
2) Increase equal to the variation of the Consumer Price Index rate according to the pension plan rules.

At 31 December 2017 and 2016 the past service liability of this plan and respective coverage by the Pension Fund were as detailed follows:

	31 Dec. 17	31 Dec. 16
Total past service liability		
Liability for pensions under payment	43 398	20 732
Of which: [increase in the liability resulting from early retirements during the year]	[705]	
Past service liability of current and former administrators	12 582	31 534
	55 980	52 266
Net assets of the pension fund	51 219	41 790
Contributions to be transferred to the pension fund	4 132	8 900
Excess / (Insufficient) coverage	(629)	(1 576)
Degree of coverage	99%	97%

The average duration of the pension liability of Directors is 12 years, including both current and retired Directors.

The level 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, at the end of each year. In order to ensure the minimum funding level, BPI made:

- in February 2018 a contribution in the amount of 4 132 th. euro, after which the coverage ratio of the liabilities as at 31 December 2017, reached 99%;
- in January 2017 a contribution in the amount of 8 900 th. euro, after which the coverage ratio of the liabilities as at 31 December 2016, reached at 97%.

The level 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, at the end of each year.

The changes in the degree of coverage of the liabilities in the past five years were detailed as follows:

	2017	2016	2015	2014 Proforma	2013 Proforma
Total past service liability	55 980	52 266	43 979	43 744	39 137
Net assets of the pension fund	51 219	41 790	42 311	39 098	35 262
Contributions to be transferred to the pension fund	4 132	8 900	364	3 393	2 805
Excess / (Insufficient) coverage	(629)	(1 576)	(1 304)	(1 253)	(1 070)
Degree of coverage	99%	97%	97%	97%	97%

The changes in the present value of the past service liability of the plan in 2017 and 2016 were as follows:

	31 Dec. 17	31 Dec. 16
Liability at the beginning of the period	52 266	43 979
Current service cost	1 333	1 648
Interest cost	1 129	1 132
Actuarial (gain) and loss in the liability	2 074	6 888
Early retirements	705	
Pensions payable (estimate)	(1 527)	(1 381)
Liability at the end of the period	55 980	52 266

At 31 December 2017, 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 liability¹:

	(Decrease) / Increase	
	by %	amount
Change in the discount rate		
Increase by 0.25%	-2.9%	(1 645)
Redução de 0.25%	3.1%	1 727
Change in the salary increase rate²		
Increase by 0.25%	0.1%	61
Change in the pension increase rate³		
Increase by 0.25%	3.0%	1 663
Mortality Table		
+1 year	3.3%	1 872

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 2017 and 2016 were detailed as follows:

	31 Dec. 17	31 Dec. 16
Net assets of the Pension Funds at the beginning of the period	41 790	42 311
Contributions	8 900	364
Pension Fund income (net)		
Income on plan assets computed with the discount rate	1 057	1 072
Deviation of return on assets	1 344	(686)
Pensions paid by the Pension Funds	(1 872)	(1 271)
Net assets of the Pension Funds at the end of the period	51 219	41 790

In 2017 and in 2016 there were no assets in the Pension Funds of the Directors being used by BPI Group entities or securities issued by these entities.

As of 31 December 2017 and 2016 the net assets of the Banco BPI Directors' Pension Fund were as follows:

	31 Dec. 17		31 Dec. 16	
	Value	%	Value	%
Liquidity	1 314	2.6%	1 387	3.3%
Fixed rate bonds				
Listed	26 469	51.7%	21 898	52.4%
Floating rate bonds				
Listed	5 225	10.2%	2 875	6.9%
Shares				
Listed	14 043	27.4%	12 278	29.4%
Real estate	757	1.5%	351	0.8%
Other				
Listed	3 411	6.6%	3 001	7.2%
	51 219	100.0%	41 790	100.0%

▷

Contributions to the Pension Funds in 2017 and in 2016 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 2013 to 2017 were detailed as follows:

Amount at 31 December 2012 Proforma	(1 432)
Change in the actuarial assumptions	
Discount rate and pension increase rate	(2 262)
Mortality table	(1 192)
Deviation in pension fund income	(238)
Deviation in pensions paid	236
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	(3 926)
Deviation in pension fund income	(686)
Deviation in pensions paid	108
Changes on financial and demographic assumptions	
Discount rate	(3 038)
Other ¹	(3 850)
Amount at 31 December 2016 (note 4.30)	(11 392)
Deviation in pension fund income	1 344
Deviation in pensions paid	(345)
Changes on financial and demographic assumptions	
Mortality table	(3 414)
Other	1 340
Amount at 31 December 2017 (note 4.30)	(12 467)

1) Includes 4 100 th. euro in deviation regarding changes in retirement age for some Directors.

As of 31 December 2017 and 2016, the consolidated financial statements include in the caption INTEREST AND FINANCIAL GAIN AND LOSS WITH PENSIONS (note 4.37) and in the caption PERSONNEL COSTS (note 4.39), the following values related with the coverage of Directors' pension liabilities:

	31 Dec. 17	31 Dec. 16
Interest and financial gain and loss with pensions		
Interest cost relating to the liabilities	1 129	1 132
Income on plan assets computed with the discount rate	(1 057)	(1 072)
	72	60
Personnel costs		
Current service cost	1 333	1 648
Costs with increased liability for early retirement	705	
	2 038	1 648

4.27. Share Capital

At 31 December 2017 and 2016 Banco BPI's share capital amounted to 1 293 063 th. euro, represented by 1 456 924 237 ordinary shares, with no par value.

The Shareholders' General Meeting held on 26 April 2017 approved the following:

1) That Banco BPI's Board of Directors be authorised to:

- a) 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 results 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) Sell Banco BPI shares provided that:

- i) Shares are surrendered to Directors and Employees of Banco BPI and of its subsidiaries, including those resulting from the exercise of call option rights on Banco BPI shares by those Directors and Employees, under the terms and conditions set out in the Share Incentive Scheme; 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 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*).

2) That any acquisitions and disposal authorised by this resolution may be carried out within eighteen months from the resolution date.

3) That the provisions set forth in the preceding paragraphs apply, with appropriate adjustments, to the acquisition and disposal of Banco BPI shares by Banco Português de Investimento, S.A.

4) That, without prejudice of its freedom to decide and take action in accordance with the framework of authorities in the above paragraphs 1 to 3, the Board of Directors, take in consideration, where deemed reasonable due to relevant circumstances, the item 3 of the Regulation.

4.28. Other equity instruments and treasury shares

These captions are made up as follows:

	31 Dec. 17	31 Dec. 16
Other equity instruments		
Cost of shares to be made available to Group Employees		
RVA 2013	123	578
RVA 2014	81	63
RVA 2015		545
RVA 2016		243
RVA 2017	1 007	
Costs of options not exercised (premiums)		
RVA 2010		369
RVA 2011		37
RVA 2012	956	1 249
RVA 2013	109	1 225
	2 276	4 309
Treasury shares		
Shares to be made available to Group Employees		
RVA 2013		305
Shares hedging RVA options	377	10 336
Other shares		168
	377	10 809

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 4.46.

BPI Group's financial statements as of 31 December 2016 reflect 5 544 969 treasury shares, including 168 917 treasury shares to be made available under the RVA programme for which ownership was transferred to the Employees on the grant date.

In 2017 and 2016 the Bank recorded directly in shareholders' equity losses of (4 026) th. euro and (739) th. euro, respectively, on the sale of treasury shares hedging the variable remuneration (RVA) programme.

4.29. Revaluation reserves

These captions are made up as follows:

	31 Dec. 17	31 Dec. 16
Revaluation reserves		
Reserves resulting from valuation to fair value of financial assets available for sale (note 4.5):		
Debt Instruments		
Securities	24 453	30 464
Hedging derivatives	(25 066)	(43 424)
Equity Instruments	85 414	26 548
Other	1 421	154
Reserve for foreign exchange difference on investments in foreign entities		
Subsidiary and associated companies	51 967	(38 789)
Equity instruments available for sale	(5)	8
Legal revaluation reserve	703	703
	138 887	(24 336)
Deferred tax reserve		
Resulting from valuation to fair value of financial assets available for sale:		
Tax assets	937	4 912
Tax liabilities	(3 012)	(2 090)
Resulting from foreign exchange differences on investments in foreign entities		
Tax assets	6	
Tax liabilities	(8 864)	
	(10 933)	2 822
	127 954	(21 514)

As of 31 December 2017, the caption RESERVES RESULTING FROM VALUATION TO FAIR VALUE OF FINANCIAL ASSETS AVAILABLE FOR SALE – EQUITY INSTRUMENTS includes 46 884 th. euro originated by the revaluation at fair value of the participation owned by the BPI Group on SIBS – SGPS, S.A. (note 4.5).

The caption RESERVES FOR FOREIGN EXCHANGE DIFFERENCES ON INVESTMENTS IN FOREIGN ENTITIES includes:

- as at 31 December 2017, 88 584 th. euro resulting from the foreign exchange revaluation of the participation owned on BFA;
- as of 31 December 2017 and 2016, (37 854) th. euro and (40 744) th. euro, respectively, resulting from the foreign exchange revaluation of the participation owned on Banco Comercial e de Investimentos (Mozambique).

Deferred taxes have been calculated in accordance with current legislation and correspond to the best estimate of the impact of recognising the unrealized gains and losses included in the caption REVALUATION RESERVES.

▷

4.31. Non-controlling interests

These captions are made up as follows:

	Balance		Income statement	
	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16
Non-controlling interests:				
Banco de Fomento Angola, S.A.		466 273		168 820
BPI Capital Finance Ltd.		1 775	11	45
		468 048	11	168 865

4.30. Other reserves and retained earnings

These captions are made up as follows:

	31 Dec. 17	31 Dec. 16
Legal reserve	130 081	104 499
Merger reserve	2 530	2 530
Consolidation reserves and retained earnings	837 571	766 771
Other reserves	739 073	508 844
Actuarial deviations – Pensions liabilities		
Associated with the transferred liabilities	(193 538)	(193 538)
Associated with the liabilities that remain with the Bank	(223 685)	(255 383)
Actuarial deviations – final career premium	(929)	(776)
Taxes related to actuarial deviations	105 844	114 750
Loss on treasury shares	(9 110)	(5 084)
Taxes relating to gain on treasury shares	2 809	1 706
	1 390 646	1 044 319

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 2017 and 2016 the share premium account and legal reserve of the BPI Group companies which, under the applicable regulations, may not be distributed, amounted to 191 120 th. euro and 156 619 th. euro, respectively which, weighted by Banco BPI's effective participation percentage in these companies, amounted to 91 637 th. euro and 77 226 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 2017 and 2016 includes 26 414 th. euro and 11 656 th. euro, respectively, relating to the amount of the revaluation reserves of the companies recorded in accordance with the equity method, weighted by the BPI Group's (effective) participation in them.

In 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 that, in the latter case, include a reciprocal preference right over the onerous transfer of BFA's shares.

As part of the sale of 2% of BFA share capital to Unitel, which took place on 5 January 2017, Banco BPI and Unitel entered into a new Shareholders' Agreement relating to BFA. This new Shareholders' Agreement came into effect on the date of the sale. The full implementation of the new Shareholders' Agreement will automatically supersede the Shareholder's Agreement of 2008, without the need for any additional formality (note 4.12).

In August 2017 BPI Capital Finance repurchased all preferred shares issued and amortized the issue in its entirety. During the last quarter of 2017, Banco BPI liquidated BPI Capital Finance.

Non-controlling interests in BPI Capital Finance at 31 December 2016 include 1 756 th. euro, relating to preferred shares:

31 Dec. 16			
	Issued	Repurchased	Balance
"C" Series Shares	250 000	(248 244)	1 756
	250 000	(248 244)	1 756

The C Series preferred shares, with a nominal value of 1 000 euro each, issued in August 2003, entitled the holders to a non-cumulative preferred 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 preferred dividend at a rate equal to the three month Euribor rate plus a spread of 2.55 percentage points. The dividends were 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 were guaranteed by Banco BPI.

BPI Capital Finance, Ltd. could not pay any dividend on the preferred shares if, during the year or quarter in progress, such dividend plus amounts already paid exceed Banco BPI's distributable funds.

The C Series preferred shares were 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 preferred shares were 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 were subordinate to all liabilities of Banco BPI and "*pari passu*" with any other preferred 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. 17	31 Dec. 16
Guarantees provided and other contingent liabilities		
Guarantees and sureties	1 394 398	1 294 856
Stand-by letters of credit	47 448	62 954
Documentary credits	130 946	108 316
Sureties and indemnities	66	82
	1 572 858	1 466 208
Assets pledged as collateral		
European System of Central Banks	7 530 249	6 727 001
Deposit Guarantee Fund	43 819	45 062
Investor Compensation Scheme	5 725	5 042
European Investment Bank	1 362 939	864 522
Reports	93 414	61 527
Other	56	68
	9 036 202	7 703 222
Commitments to third parties		
Irrevocable commitments		
Options on assets	6	8 271
Irrevocable credit lines	737	1 356
Securities subscription	407 926	409 638
Term commitment to make annual contributions to the Deposit Guarantee Fund	38 714	38 714
Term liabilities for annual contributions to the Resolution Fund	4 640	2 636
Potential responsibility for the Investor Compensation Scheme	10 825	9 910
Other irrevocable commitments	1 457	531
Revocable commitments	2 821 200	2 921 423
	3 285 505	3 392 479
Responsibility for services provided		
Deposit and safeguard of assets	29 951 146	26 297 858
Amounts for collection	743 896	187 091
Assets managed by the institution	88 001	6 367 046
	30 783 043	32 851 995

As of 31 December 2016, the caption RESPONSIBILITIES FOR SERVICES PROVIDED – ASSETS MANAGED BY THE INSTITUTION included 2 418 252 th. euro of pension funds under management of BPI Vida e Pensões and 3 708 326 th. euro of assets under management by BPI Gestão de Activos.

The structure, by sector, of the guarantees provided by the BPI Group at 31 December 2017 and 2016 is as follows:

	31 Dec. 17		31 Dec. 16	
	Value	%	Value	%
Domestic activity:				
Agriculture, animal production and hunting	6 178	0.4	3 278	0.2
Forestry and forest operations	298		526	
Fishing	477		176	
Mining	3 291	0.2	3 179	0.2
Beverage, tobacco and food	32 365	2.1	43 303	3.0
Textiles and clothing	11 016	0.7	11 853	0.8
Leather and related products	2 113	0.1	1 673	0.1
Wood and cork	17 698	1.1	18 123	1.2
Pulp, paper, cardboard and graphic arts	9 470	0.6	9 543	0.7
Coke, refined petroleum products and fuel pellets	12 396	0.8	767	0.1
Chemicals, synthetic or artificial fibres, except pharmaceutical products	10 464	0.7	8 957	0.6
Base pharmaceutical products and pharmaceutical mixtures	605		2 215	0.2
Rubber and plastic materials	4 847	0.3	7 896	0.5
Other mineral non-metallic products	61 895	3.9	28 051	1.9
Metalworking industries	37 634	2.4	38 271	2.6
Computers, electronic, electrical and optical equipment	12 200	0.8	11 981	0.8
Transport equipment	21 017	1.3	24 969	1.7
Other manufacturing industries	9 085	0.6	8 420	0.6
Electricity, gas and water	38 903	2.5	35 887	2.4
Water treatment and collection	41 010	2.6	49 181	3.4
Construction	252 997	16.1	278 586	19.0
Wholesale and retail trade; motor vehicle and motorcycle repairs	183 594	11.7	199 299	13.6
Transport and storage	283 010	18.0	176 409	12.1
Restaurants and hotels	31 694	2.0	26 514	1.8
Information and communication activities	65 355	4.2	78 368	5.3
Investment holding companies	10 037	0.6	8 745	0.6
Financial intermediation, except for insurance and pension funds	78 935	5.0	34 259	2.3
Insurance, reinsurance and pension funds, except for mandatory social security	1 435	0.1	973	0.1
Auxiliary activities to financial services and insurance	423		425	
Real estate	25 528	1.6	20 516	1.4
Consulting, scientific, technical and similar activities	156 362	9.9	194 434	13.3
Administrative and support services	15 132	1.0	15 166	1.0
Public administration, defence and mandatory social security	24 858	1.6	8 441	0.6
Education	349		206	
Healthcare and welfare	11 053	0.7	9 391	0.6
Leisure, cultural and sports activities	16 791	1.1	36 053	2.5
Other service companies	24 641	1.6	15 825	1.1
Individuals				
Other	57 702	3.7	54 349	3.7
	1 572 858	100.0	1 466 208	100.0

At 31 December 2016 the amount of Guarantees provided by BFA present the following structure by sector (in th. euro):

	31 Dec. 16	
	Amount	%
Credit and financial institutions	36 251	17.4
Non financial enterprises	171 788	82.6
Individuals	81	
	208 120	100.0

As of 31 December 2017 and 2016, the caption ASSETS PLEDGED AS COLLATERAL – EUROPEAN SYSTEM OF CENTRAL BANKS is composed by the portfolio of assets pledged to in order to secure funding by the European Central Bank.

As of 31 December 2017 and 2016, the caption COMMITMENTS TO THIRD PARTIES – IRREVOCABLE COMMITMENTS – OPTIONS ON ASSETS corresponds to share options issued by the BPI Group under the share-based payments programme (RVA).

As of 31 December 2017 and 2016, the caption COMMITMENTS TO THIRD PARTIES – IRREVOCABLE COMMITMENTS – SECURITIES SUBSCRIPTION corresponds to Banco BPI's commitment to subscribe commercial paper if the securities issued are not totally or partially subscribed for by the market.

As of 31 December 2017 and 2016, the caption COMMITMENTS TO THIRD PARTIES – TERM COMMITMENT TO MAKE ANNUAL CONTRIBUTIONS TO THE DEPOSIT GUARANTEE FUND 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.

As of 31 December 2017 and 2016, the caption COMMITMENTS TO THIRD PARTIES – POTENCIAL RESPONSIBILITY FOR THE INVESTOR COMPENSATION SCHEME corresponds to BPI's irrevocable commitment, required under the applicable legislation, to pay to that System, if required to do so, its share of the amounts necessary to indemnify investors.

At 31 December 2017 and 2016, BPI Gestão de Activos and BPI Global Investment Fund Management had the following assets under management (values in millions of euro):

	31 Dec. 17	31 Dec. 16
Securitised investment funds	3 780	3 549
Real estate investment funds	367	324
Pension funds	2 581	2 171
Capitalisation funds	4 081	3 970
Clients	278	331
	11 087	10 345

4.33. Financial margin (narrow sense)

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16 Proforma
Interest and similar income		
Interest on deposits with banks	133	46
Interest on placements with credit institutions	8 211	4 500
Interest on loans to Customers	293 934	300 428
Interest on credit in arrears	6 118	5 956
Interest on securities held for trading and available for sale	18 331	37 145
Interest on securitised assets not derecognised	85 070	95 150
Interest on derivatives	42 791	70 651
Interest on debtors and other applications	31	1 049
Other interest and similar income	3 474	3 135
	458 093	518 060
Interest and similar expense		
Interest on resources		
Of central banks	(2 964)	157
Of other credit institutions	6 577	3 778
Deposits and other resources of Customers	20 430	50 267
Debt securities	2 925	7 718
Interest from short selling	619	982
Interest on derivatives	42 416	80 901
Interest on liabilities relating to assets not derecognised on securitised operations	6 746	8 319
Interest on subordinated debt	13 075	204
Other interest and similar expenses	1 041	2 094
	90 865	154 420

4.34. Income from equity instruments

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16 Proforma
Conduril	92	92
SIBS	2 788	3 813
Viacer	2 366	1 960
Vialitoral	936	2 376
Other	343	287
	6 525	8 528

4.35. Net commission relating to amortised cost

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16 Proforma
Commission received relating to amortised cost		
Loans to Customers	28 461	27 303
Other operations	1 342	1 134
Commission paid relating to amortised cost		
Loans to Customers	(8 804)	(6 874)
Other operations	(169)	(347)
	20 830	21 216

4.36. Net commission income

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16 Proforma
Commissions received		
On guarantees provided	12 852	13 227
On commitments to third parties	2 413	2 387
On insurance brokerage services	63 885	65 663
On banking services rendered	181 737	170 547
On operations performed on behalf of third parties	14 711	15 114
Other	546	838
	276 144	267 776
Commissions paid		
On guarantees received	47	47
On financial instrument operations	190	136
On banking services rendered by third parties	25 323	29 693
On operations realised by third parties	3 984	4 167
Other	249	261
	29 793	34 304
Other income, net		
Refund of expenses	29 959	30 071
Income from banking services	7 351	7 142
Charges similar to fees	(7 263)	(8 352)
	30 047	28 861

As of 31 December 2017 and 2016, the caption REFUND OF EXPENSES includes 19 763 th. euro and 20 062 th. euro, respectively, related with account maintenance expenses billed to Customers.

As of 31 December 2017 and 2016, the fees generated by insurance brokerage services provided are made up as follows:

	31 Dec. 17	31 Dec. 16 Proforma
Life insurance		
Savings	17 321	20 106
Housing	21 243	21 426
Consumer	2 154	2 438
Other	7 330	6 826
	48 048	50 796
Non-life insurance		
Housing	5 639	5 594
Consumer	1 324	787
Other	8 874	8 486
	15 837	14 867
	63 885	65 663

Remuneration for insurance brokerage services were fully received in cash, of which 98% relates to insurance brokerage services for Allianz and BPI Vida e Pensões.

4.37. Net income on financial operations

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16 Proforma
Gain and loss on operations at fair value		
Foreign exchange gain, net	9 948	9 710
Gain and loss on financial assets held for trading		
Debt instruments	(3 368)	2 106
Equity instruments	54 132	(11 454)
Other securities	(77)	406
Gain and loss on trading derivative instruments	(51 821)	19 639
Gain and loss on other financial assets valued at fair value through profit or loss	129	(47)
Gain and loss on financial liabilities held for trading	(335)	278
Gain and loss on the revaluation of assets and liabilities hedged by derivatives	(23 958)	19 668
Gain and loss on hedging derivative instruments	25 423	(19 657)
Other gain and loss on financial operations	1 305	3 708
	11 378	24 357
Gain and loss on assets available for sale		
Gain and loss on the sale of loans and advances to Customers	348	(1 570)
Gain and loss on financial assets available for sale		
Debt instruments	1 000	528
Equity instruments	1 621	22 932
Other securities	102	85
	3 071	21 975
Interest and financial gain and loss with pensions		
Interest cost	(31 410)	(32 329)
Income on plan assets computed with the discount rate	30 804	33 372
	(606)	1 043

As of 31 December 2017 and 2016, the captions GAIN AND LOSS ON TRADING DERIVATIVE INSTRUMENTS and GAIN AND LOSS ON FINANCIAL ASSETS HELD FOR TRADING – EQUITY INSTRUMENTS include (31 012) th. euro and 19 350 th. euro, respectively, related to equity swaps contracted with Customers, hedged with shares. The remaining amounts in these captions are essentially originated by the activity of BPI Alternative Fund, which was consolidated through the full consolidation method until March 2017, and by the derivative operations with Customers and their respective hedge in the market.

As of 31 December 2017 and 2016, the caption OTHER GAIN AND LOSS ON FINANCIAL OPERATIONS includes 1 241 th. euro and 3 518 th. euro, respectively, relating to gains on the repurchase of financial liabilities on securitized operations.

As of 31 December 2016, the gain of 22 945 th. euro in the caption GAIN AND LOSS ON FINANCIAL ASSETS AVAILABLE FOR SALE – EQUITY INSTRUMENTS 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).

4.38. Operating income and expenses

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16 Proforma
Operating income		
Gains on tangible assets held for sale	8 251	5 985
Gains on other tangible assets	11 937	9 027
Gains in investments in subsidiaries and associated companies	17 011	6 185
Other operating income	4 426	
	41 625	21 197
Operating expenses		
Subscriptions and donations	5 652	4 878
Contributions to the Deposit Guarantee Fund	18	12
Contributions to the Resolution Fund	3 876	3 205
Contributions to the Single Resolution Fund	11 355	14 939
Contribution to the Investor Compensation Scheme	7	8
Loss on other tangible and intangible assets	11 405	9 875
Loss in investments in subsidiaries and associated companies	182 890	
Other operating expenses	3 816	4 343
	219 019	37 260
Other taxes		
Indirect taxes	2 457	2 982
Direct taxes	4 821	3 231
	7 278	6 213

As of 31 December 2017, this caption includes the following values regarding the sale of 2% and the deconsolidation of Banco de Fomento Angola (note 4.9):

- gains in investments in subsidiaries and associated companies (9 333 th. euro) correspond to the realized gain (before taxes) on the sale of 2% of BFA shares;
- losses in investment in subsidiaries and associated companies (182 121 th. euro) correspond to the reclassification to net income of the amounts related with BFA that were recognized in the REVALUATION RESERVES in the consolidated balance sheet, related with exchange differences originated in the consolidation process by exchanging BFAs financial statements from kwanzas to euros, that were previously recorded in other comprehensive income, in accordance with IAS 21;
- taxes in the amount of 2 740 th. euro relative to the gain recorded in Banco BPI separate accounts.

As of 31 December 2017, this caption includes 7 677 th. euro regarding the realized gains on the sale of BPI Vida e Pensões to Caixabank (note 4.9).

In accordance with IFRIC 21, the cost with the periodic contributions to the Deposit Guarantee Fund and Resolution Fund is fully recognized upon receipt of the payment notifications for the year they respect to, which according to the legal terms, is in the first half of the year.

In April 2017 and 2016 Banco BPI made contributions to the Resolution Fund in the amount of 3 876 th. euro and 3 205 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 May 2017 and 2016, Banco BPI paid contributions of 11 354 th. euro and 14 937 th. euro, respectively, to the Single Resolution Fund. In 2017 and 2016, the total contribution attributable to Banco BPI amounted to 13 358 th. euro and 17 613 th. euro, respectively, the Bank having decided to constitute an irrevocable commitment for the difference (note 4.14 and 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.

4.39. Personnel costs

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16 Proforma
Remuneration	206 597	220 387
Long service premium	3	(24 823)
Final career premium	508	5 926
Pension costs	(3 078)	(2 154)
Changes in the conditions of the pension plan – SAMS		(22 174)
Other mandatory social costs	51 918	58 770
Early retirements and termination programs ¹		
Early retirements	67 155	59 702
Termination	38 648	
Other personnel costs	7 353	8 377
	369 104	304 011

1) As of 31 December 2017, it does not include 1 097 th. euro from early retirement and early termination costs from BPI Vida e Pensões and BPI Gestão de Activos personnel.

As of 31 December 2017 and 2016, the caption REMUNERATION includes the following costs relating to remuneration granted to the members of Banco BPI's Board of Directors:

- 6 199 th. euro and 4 382 th. euro, respectively, relating to remuneration paid in cash; and
- 993 th. euro and 1 161 th. euro, respectively, relating to accrued cost of the share-based remuneration programme (RVA) in accordance with IFRS 2.

During 2017, Banco BPI conducted an early retirement and early terminations program that resulted in the progressive termination of 515 workers' contracts, of which 289 due to early retirement, and 226 due to early termination, with a total cost of 90 000 th. euros. An additional 98 workers had already settled a voluntary agreement for contract termination, to which the same conditions of the program were applied. Hence, the total amount of terminations settled in 2017 amounts to 613 workers with a global cost of 106 900 th. euro.

▷

4.40. General administrative costs

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16 Proforma
General administrative costs		
Supplies		
Water, energy and fuel	6 992	7 260
Consumable material	1 954	2 312
Other	403	435
Services		
Rent and leasing	40 197	41 008
Communications and computer costs	30 507	29 445
Travel, lodging and representation	4 753	4 572
Advertising and publishing	8 408	7 935
Maintenance and repairs	10 877	11 221
Insurance	2 639	2 787
Fees	4 675	4 671
Legal expenses	3 591	5 204
Security and cleaning	3 549	3 683
Information services	4 344	4 129
Temporary labour	2 376	1 894
Studies, consultancy and auditing	7 661	10 565
SIBS	15 008	14 884
Other services	15 423	14 194
	163 357	166 199

As of 31 December 2017, the fee payment to Deloitte and its network¹ in the amount of 1 865 th. euro, is presented as follows, according to the nature an entity to which the services were provided:

Type of service	Banco BPI	Other ²	Total	Total (in %)
Deloitte & Associados SROC, S.A.				
Statutory audit	641	83	724	39%
Audit services required by legislation	310	163	473	25%
Other services	260		260	14%
Other Deloitte network entities				
Statutory audit		169	169	9%
Other services	235	4	239	13%
	1 446	419	1 865	100%

1) Accordingly with the definition of "network" established by the European Commission in the Recommendation n.º C (2002) 1873, 16 May 2002.

2) By order of decreasing importance in terms of the paid amounts: BPI Vida e Pensões, BPI Luxemburgo, BPI Gestão de Activos, BPI Suisse, Banco BPI – Offshore de Macau, Banco BPI Cayman, BPI Private Equity, Banco Português de Investimento, BPI Capital Africa, BPI Moçambique – Sociedade de Investimento e 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.

4.41. Income tax

At 31 December 2017 and 2016 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. 17	31 Dec. 16 Proforma
Current income tax		
For the period	9 307	14 194
Correction of prior years	243	(515)
	9 550	13 679
Deferred tax		
Recognition and reversal of temporary differences	53 824	(67 297)
Change in tax rate		23
On tax losses carried forward ¹	10 022	73 032
	63 846	5 758
Contribution over the banking sector	14 259	17 765
Total tax charged to the statement of income	87 655	37 202
Net income before income tax ²	(49 578)	133 487
Tax burden	-176.8%	27.9%

1) Includes the use of tax losses carried forward amounting to 17 401 th. euro and 73 516 th. euro, as of 31 December 2017 and 2016, respectively, 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).

In 2017 and 2016 Proforma the Bank recorded directly in retained earnings, income tax of 8 057 th. euro and (54 538) 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. 17		31 Dec. 16 Proforma	
	Net income before income tax ¹	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%]	123 210	28.0%	132 765	4.8%
Investment funds ²			722	
	123 210	28.0%	133 487	4.8%

1) Excluding impacts related with BFA sale (2%) and deconsolidation.

2) 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 approved for the periods in which they are expected to reverse.

Reconciliation between the nominal rate of income tax and the tax burden, in accordance with IAS 12, in December 2017 and 2016 Proforma, as well as between the tax cost / income and the product of multiplying the accounting profit by the nominal tax rate, are as follows:

	31 Dec. 17		31 Dec. 16 Proforma	
	Tax rate	Amount	Tax rate	Amount
Net income before income tax		(49 578)		133 487
Impact of the sale of 2% of BFA ¹		(172 788)		
Net income before tax adjusted to the sale of 2% of BFA		123 210		133 487
Income tax computed based on the nominal tax rate	28.1%	34 562	27.1%	36 196
Effect of tax rates applicable to foreign branches	0.1%	79	0.1%	114
Capital gain and impairment of investments (net)	-2.0%	(2 467)	-0.5%	(607)
Capital gain of tangible assets (net)	-1.5%	(1 879)	-1.4%	(1 870)
Non taxable dividends	-1.2%	(1 426)	-0.9%	(1 152)
Taxable temporary differences on subsidiary and associated companies (BFA and BCI)	6.7%	8 284	5.5%	7 291
Tax benefits	-0.4%	(522)	-0.5%	(617)
Change of the tax regime of provisions ²	14.1%	17 401	55.1%	73 516
Impairment and provision for loans ²	-10.6%	(13 034)	-71.7%	(95 757)
Non-deductible pension costs	-1.1%	(1 308)	0.4%	541
Correction of prior year income taxes	0.2%	243	-0.4%	(515)
Extraordinary investment tax credit			0.8%	1 065
Correction of prior years tax losses carried forward	-6.2%	(7 617)	0.0%	(2)
Contribution over the banking sector	11.6%	14 259	13.3%	17 765
Autonomous taxation	1.0%	1 234	1.1%	1 492
Other non taxable income and expenses	0.3%	336	-0.2%	(258)
	39.1%	48 145	27.9%	37 202
Taxes associated with the sale (2%) and deconsolidation of BFA		39 510		
	-176.8%	87 655	27.9%	37 202

1) It includes 9 333 th. euro from the surplus on the sale of 2% of BFA and (182 121) th. euro from the reclassification of aggregated exchange differences until January 2017 to net income.

2) On 31 December 2017, it corresponds to changes made in the fiscal report for the 2016 fiscal year and result from the application of paragraph 3 of *Regulatory Decree no. 5 / 2016* of 18 November.

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 separate 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 established 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 432 942 th. euro (350 078 th. euro considered in the 2016 financial statements and an additional 82 864 th. euro on the tax return for the 2016 financial year, as a result of changes in the interpretation of the referred standard), 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 90 918 th. euro of deferred tax assets regarding tax losses carried forward, under the scope of Banco BPI non-consolidated basis.

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, in 2016 the final value of taxable losses was 36 325 th. euro, which implied the constitution of deferred tax assets of 7 628 th. euro included in the caption CORRECTION OF PREVIOUS YEARS TAX LOSSES CARRIED FORWARD in the map above.

Special Regime Applicable to Deferred Tax Assets (REAID) approved by Law no. 61 / 2014

In 2014, the Bank adhered to the Special Regime Applicable to Deferred Tax Assets (REAID) 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 REAID, 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 REAID, 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.

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.

At 31 December 2017 and 2016, deferred tax assets and liabilities were as follows:

	31 Dec. 17	31 Dec. 16
Deferred tax		
Assets (note 4.13)	405 182	442 707
Liabilities (note 4.23)	(66 792)	(18 254)
	338 390	424 453
Recorded by corresponding entry to:		
Retained earnings	337 547	325 206
Other reserves – Actuarial deviations	75 611	107 357
Fair value reserve (note 4.29)		
Financial instruments available for sale	(10 933)	2 822
Discontinued operations	11	(5 067)
Net income	(63 846)	(5 865)
	338 390	424 453

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 of 31 December 2017, which were prepared based on the BPI Group's budget for the period 2018-2020. These projections were prepared assuming the maintenance of the tax regime of *Notice 3 / 95 of the Bank of Portugal* for impairment losses for loans.

As of 31 December 2017, the consolidated balance sheet of BPI Group includes 405 182 th. euros of deferred tax assets, of which:

- (i) 207 473 th. euro of deferred tax assets under the Special Regime Applicable to Deferred Tax Assets (REAIT), approved by *Law 61 / 2014*, of 26 August;
- (ii) 197 710 th. euro depending on the existence of future taxable income (not included in the special regime) including:
 - 90 650 th. euro related to impairment losses for loans and guarantees;
 - 9 288 th. euro related to other impairments and taxed provisions;

- 54 428 th. euro related to Employee benefits (actuarial deviations, transfer to Social Security, early retirements, final career premium and compensations and other benefits payable under the voluntary termination program, occurred during the year);
- 20 559 th. euro of tax losses carried forward (19 609 th. euro related to the non-consolidated activity of BBPI). According to *Law no. 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 2017, the breakdown of tax losses carried forward, by date of origin, entity and limit date is as detailed 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.	57 052	11 981	12	2026
2016	Banco BPI, S.A.	36 325	7 628	12	2028
2016	Banco Português de Investimento, S.A.	2 781	584	12	2028
2017	Banco Português de Investimento, S.A.	1 660	349	5	2022
2016	BPI Madeira, SGPS	83	17	12	2028
		97 901	20 559		

Banco BPI made use of 90 918 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 2017 were detailed as follows:

	Balance at 31 Dec. 16	Corresponding entry to net income		Corresponding entry to reserves and retained earnings		Discontinued operations	Balance at 31 Dec. 17
		Costs	Income	Increases	Decreases		
Deferred tax assets							
Fiscal losses	30 582	(9 778)	450	(679)	(16)		20 559
Application of article 4 of the Regime established in Law 61 / 2014	70 471	(9 373)	15 939				77 038
Taxed provisions and impairment	171 512	(12 971)					158 541
Tax deferral of the impact of the transfer of pensions	19 713	(1 516)	(1 512)				16 685
Actuarial deviations	43 872	(8 989)	(295)				34 588
Actuarial deviations after 2011	55 005	(5 626)			(8 865)		40 514
Voluntary termination program			6 925				6 925
Early retirements	31 861		5 419				37 280
Long service premium and career premium	1 848	(159)	(8 796)	46	(3)	(16)	(7 080)
Taxes over dividends	11 214		6 329				17 543
Financial instruments available for sale	5 568	(46)	(41)		(3 872)	(37)	1 572
Other	1 061	(918)	1 107		1	(234)	1 017
	442 707	(49 376)	25 526	(633)	(12 755)	(287)	405 182
Deferred tax liabilities							
Dividends to be distributed by subsidiary and associated companies	(12 024)	(47 823)	6 426	(8 859)	(11)		(62 291)
RVA		(1 103)		1 103			
Financial instruments available for sale	(2 284)			3	(1 084)	109	(3 256)
Repurchase of liabilities	(1 236)		695				(541)
Other	(2 710)	(338)	2 147	1	7	189	(704)
	(18 254)	(49 264)	9 268	(7 752)	(1 088)	298	(66 792)
	424 453	(98 640)	34 794	(8 385)	(13 843)	11	338 390

The changes in deferred taxes in 2016 were detailed 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
Application 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 BPI Group does not recognize 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. Until 31 December 2016 deferred tax liabilities were recorded with respect to the taxation in Angola of dividends to be distributed to the BPI Group companies, in the following year, originated by Banco de Fomento Angola annual net income.

The BPI Group does not record 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 and Banco de Fomento Angola, in which the deferred tax liabilities relating to taxation in Mozambique and Angola, respectively, 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.

4.42. Earnings of associated companies (equity method)

This caption is made up as follows:

	31 Dec. 17	31 Dec. 16 Proforma
Banco de Fomento Angola, S.A.	102 423	
Banco Comercial e de Investimentos, S.A.R.L.	8 892	5 872
Companhia de Seguros Allianz Portugal, S.A.	2 457	3 802
Cosec – Companhia de Seguros de Crédito, S.A.	5 565	4 133
InterRisco – Sociedade de Capital de Risco, S.A.	(71)	42
Unicre – Instituição Financeira de Crédito, S.A.	5 487	12 341
	124 753	26 190

As of 31 December 2017, the contribution of BFA to the consolidated Statement of income includes a non-recurrent negative impact of (119 321) th. euro, resulting from the classification of Angola as an hyperinflationary economy by the multinational auditing firms (note 2.2) and also from an extraordinary reinforcement in provisions.

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. 17	31 Dec. 16 Proforma
Contribution to consolidated net income	124 753	26 190
Income not included in the consolidated statement of income	11 086	(6 900)
Contribution to consolidated comprehensive income	135 839	19 290

4.43. Consolidated net income of the BPI Group

Contribution of Banco BPI and subsidiary and associated companies to consolidated net income in 2017 and 2016 is as follows:

	31 Dec. 17	31 Dec. 16 Proforma
Banks		
Banco BPI, S.A. ¹	77 115	95 633
Banco Português de Investimento, S.A. ¹	(2 973)	(1 851)
Banco de Fomento Angola, S.A. ¹	(119 473)	162 716
Banco Comercial e de Investimentos, S.A.R.L. ¹	8 136	5 372
Banco BPI Cayman, Ltd. ¹	8 497	7 615
Asset Management		
BPI Gestão de Activos – Sociedade Gestora de Fundos de Investimento Mobiliários, S.A.	7 329	4 673
BPI – Global Investment Fund Management Company, S.A.	1 958	1 760
BPI (Suisse), S.A. ¹	4 085	2 931
BPI Alternative Fund: Iberian Equities Long / Short Fund Luxemburgo ^{1,2}	794	765
BPI Obrigações Mundiais – Fundo de Investimento Aberto de Obrigações ^{1,2}		618
BPI Strategies, Ltd. ^{1,2}		(122)
Venture capital / development		
BPI Private Equity – Sociedade de Capital de Risco, S.A.	31	(239)
Inter-Risco – Sociedade de Capital de Risco, S.A. ¹	(71)	42
Insurance		
BPI Vida e Pensões – Companhia de Seguros, S.A. ¹	13 413	15 448
Cosec – Companhia de Seguros de Crédito, S.A.	5 565	4 133
Companhia de Seguros Allianz Portugal, S.A.	2 457	3 802
Other		
BPI, Inc.	(6)	(38)
BPI Madeira, SGPS, Unipessoal, S.A. ¹	(8)	(539)
BPI Moçambique – Sociedade de Investimento, S.A. ¹	(747)	(355)
BPI Capital Finance ²	13	
BPI Capital Africa ¹	(1 393)	(1 475)
Unicre – Instituição Financeira de Crédito, S.A. ¹	5 487	12 341
	10 209	313 230

1) Adjusted net income.

2) Participation that ceased being consolidated by the BPI Group, as explained in note 1.

At 31 December 2017, Banco de Fomento Angola's contribution includes:

- (211 621) th. euro¹ regarding the net loss from the sale of 2% of BFA shares;
- Extraordinary negative impact of (107 389) th. euro² arising from the classification of Angola as a hyperinflationary economy by the multinational auditing firms (note 2.2), and an extraordinary reinforcement of general provisions by BFA.

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. 17	31 Dec. 16 Proforma
Numerator		
Net income attributable to the shareholders of BPI from continuing operations	(12 491)	122 430
Net income attributable to the shareholders of BPI from discontinued operations	22 700	190 800
Numerator: Net income attributable to the shareholders of BPI (in thousands of euro)	10 209	313 230
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)	705	5 898
Denominator: weighted average number of shares, net of treasury shares (x 1000)	1 456 219	1 451 027
Basic earnings per share (in euro)		
Net basic earnings per share from continuing operations	(0.009)	0.084
Net basic earnings per share from discontinued operations	0.016	0.132
Consolidated basic earnings per share (in euro)	0.007	0.216

1) The loss from the sale of 2% of BFA shares in the amount of (677) th. euro is included in the contribution of Banco BPI.

2) Amount net of deferred taxes (10%).

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.

resolution condition under the RVA programme but not yet made available¹, and by the 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.

In the calculation of diluted earnings per share of Banco BPI the average weighted number of shares is adjusted by the sum of the average number of shares granted to Employees subject to a

▷

The following table shows the calculation of diluted earnings per share:

	31 Dec. 17	31 Dec. 16
Numerator		
Net income attributable to the shareholders of BPI from continuing operations	(12 491)	122 430
Net income attributable to the shareholders of BPI from discontinued operations	22 700	190 800
Numerator: Net income attributable to the shareholders of BPI (in thousands of euro)	10 209	313 230
Denominator		
Weighted average number of shares, net of treasury shares (x 1000)	1 456 219	1 451 027
Average weighted ordinary shares with dilutive effect (x 1000):		
Shares granted to Employees, under the RVA programme, under resolute conditions	21	234
Treasury shares allocated to cover the RVA option plan	665	5 516
Denominator: weighted average number of shares adjusted (x 1000)	1 456 906	1 456 776
Consolidated diluted earnings per share (in euro)		
Net diluted earnings per share from continuing activities	(0.009)	0.084
Net diluted earnings per share from discontinued activities	0.016	0.131
Consolidated diluted earnings per share (in euro)	0.007	0.215

4.44. Personnel

The average and period-end number of Employees² in 2017 and 2016 were as follows:

	31 Dec. 17		31 Dec. 16	
	Average for the period	End of period	Average for the period	End of period
Directors ¹	7	8	8	7
Management staff	2 448	442	653	651
Other staff	2 841	3 997	5 372	5 257
Other Employees	1 565	598	2 502	2 354
	6 861	5 045	8 535	8 269

1) This includes the executive directors of Banco BPI and Banco Português do Investimento.

1) For accounting purposes, the shares remain in the portfolio of treasury shares until delivery date, upon which the shares are written off.

2) Personnel of the Group's entities consolidated by the full consolidation method. This includes personnel of the foreign branches of Banco BPI.

4.45. Financial risks

Fair value

Fair value of financial instruments 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 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 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 Ativos*”) 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 history of 30 calendar days 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 classification 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 history of 30 calendar days available 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.

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.

The valuation of options 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 options is used the Black-Scholes model and their derivatives (commonly used models by the market in the valuation of this type of operation). The unobservable market inputs (implied volatility of the underlying assets) are collected from Bloomberg. On 31 December 2017 these inputs are included in the following ranges by type of underlying asset:

Implied volatility

Underlying	Min.	Max.
Euribor 1 month	85.59%	85.60%
Euribor 3 months	35.57%	132.31%
Euribor 6 months	22.22%	127.06%
Euribor 12 months	44.01%	170.23%
Exchange EUR / USD	5.97%	16.39%

- (ii) For exotic options or complex derivatives incorporating optional elements for which there are no valuation models available, the Bank contracts specialized entities that perform the valuation of these operations based on specific models that they develop using criteria and methodologies generally accepted by the sector for these types of instruments. On 31 December 2017, there were no outstanding operations of this type, therefore the Bank did not use valuations prepared by these entities.

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 valuation of the non-optional components, not adjusted for credit risk, is made based on discounted cash flows, using a methodology similar to that used for derivatives without an optional component. Nevertheless, the derivative instrument is classified (as a whole) in level 3.

On 31 December 2016, 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 (for example, default probability and loss given default).

In 2017, the Bank implemented a set of improvements to the methodology used in the calculation of the credit risk adjustments to derivatives traded in the over-the-counter market. Amongst other aspects, the risk parameters determined using internal models started being adjusted by market factors. Taking into consideration these improvements, on 31 December 2017, these operations were classified in level 2.

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 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,

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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 as at 31 December 2017 are listed in the following table and refer to the interbank market rates:

	1 month	3 months	6 months	1 years	2 years	3 years	5 years	7 years	10 years	30 years
EUR	-0.37%	-0.33%	-0.27%	-0.19%	-0.15%	0.03%	0.32%	0.57%	0.89%	1.50%
GBP	0.49%	0.52%	0.58%	0.77%	0.79%	0.88%	1.04%	1.15%	1.28%	1.43%
USD	1.57%	1.69%	1.84%	2.11%	2.06%	2.15%	2.24%	2.30%	2.38%	2.52%
JPY	-0.04%	-0.03%	0.02%	0.12%	0.05%	0.07%	2.69%	2.90%	3.15%	3.39%

	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years	10 years
Portuguese Public Debt	-0.10%	-0.10%	0.01%	0.06%	0.44%	0.85%	1.06%	1.51%	1.75%	1.94%
German Public Debt	-0.64%	-0.63%	-0.54%	-0.38%	-0.20%	-0.09%	0.04%	0.15%	0.28%	0.43%
Spread PT / DE	0.54%	0.52%	0.55%	0.44%	0.64%	0.95%	1.02%	1.36%	1.46%	1.52%

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 respective book value.

The fair value of financial instruments at 31 December 2017 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	909 851		909 851	909 851			909 851
Deposits at other credit institutions	276 354		276 354	276 354			276 354
Financial assets held for trading and at fair value through profit or loss	163 759	163 759		163 759			163 759
Financial assets available for sale	3 872 712	3 872 712		3 872 712		2 658	3 875 370
Loans and advances to credit institutions	724 727		725 681 ³	725 681	954		724 727
Loans and advances to Customers	21 658 782		20 010 031 ⁴	20 010 031	(1 648 751)		21 658 782
Trading derivatives ²	136 777	136 777		136 777			136 777
Hedging derivatives	12 740	12 740		12 740			12 740
	27 755 702	4 185 988	21 921 917	26 107 905	(1 647 797)	2 658	27 758 360
Liabilities							
Resources of central banks	1 995 374		1 996 222 ³	1 996 222	(848)		1 995 374
Resources of other credit institutions	1 982 648		1 938 556 ³	1 938 556	44 092		1 982 648
Resources of Customers and other debts	20 783 832		20 779 409 ⁵	20 779 409	4 423		20 783 832
Debt securities	236 978		231 784 ³	231 784	5 194		236 978
Financial liabilities relating to transferred assets	477 985		441 760 ⁴	441 760	36 225		477 985
Trading derivatives	170 048	170 048		170 048			170 048
Hedging derivatives	69 880	69 880		69 880			69 880
Other subordinated debt and participating bonds	305 077		331 341 ³	331 341	(26 264)		305 077
	26 021 822	239 928	25 719 073	25 959 000	62 822		26 021 822
	1 733 880			148 905	(1 584 975)	2 658	1 736 538
Valuation differences in financial assets recognised in revaluation reserves					86 217		
Total					(1 498 758)		

1) Unlisted securities for which it was not possible to determine fair value on a reliable basis.

2) This caption is presented in the balance sheet as Financial assets held for trading and at fair value through profit or loss.

3) Financial instruments recognized in the balance sheet at amortized cost classified as Level 2, in accordance with the fair value hierarchy established in IFRS 13.

4) Financial instruments recognized in the balance sheet at amortized cost classified as Level 3, in accordance with the fair value hierarchy established in IFRS 13.

5) Demand deposits valued at their nominal amount. Term deposits and other resources not payable on demand classified as Level 3, in accordance with the fair value hierarchy established in IFRS 13.

The fair value of financial instruments 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	5 783 897	(5 082 454)	701 443	(1 404 332)	5 783	2 111 558
Valuation differences in financial assets recognised in revaluation reserves					13 750		
Total					(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 recognized 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 the financial instruments recorded in the balance sheet at 31 December 2017, 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	145 521		18 238	163 759
Financial assets available for sale	3 502 426	5 752	364 534	3 872 712
Trading derivatives	305	128 770	7 702	136 777
Hedging derivatives	11	12 729		12 740
	3 648 263	147 251	390 474	4 185 988
Liabilities				
Trading derivatives	4	167 076	2 968	170 048
Hedging derivatives		69 880		69 880
	4	236 956	2 968	239 928

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

On 31 December 2017 and 2016, financial assets held for trading and at fair value through profit or loss included in Level 3 correspond essentially to bonds valued through indicative bid prices based on theoretical models or through models developed internally. They also include participating units in a non-harmonized investment fund.

On 31 December 2017 and 2016, financial assets available for sale included in Level 3 correspond essentially to non-listed shares, investments in private equity, participating units in venture capital funds and bonds valued through models developed in-house.

On 31 December 2017 and 2016 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.

The derivatives traded in the over-the-counter market that have been contracted with counterparties with whom the Bank does not have collateralization agreements were transferred from level 3 (in 2016) to level 2 (in 2017). This transfer is justified by the change in the calculation method of credit risk adjustments for these operations.

The book value of financial instruments at the beginning of the reporting period was used for the presentation of transfers between levels.

During 2017 there were no transfers of securities from level 2 to level 1. During 2016, the security LLOYDS BANK PLC-TV-29.05.2017 (802 th. euro) was transferred from level 2 to level 1 due to an increased in its liquidity, as a result of the increase in the number of contributors to quote the bond with binding offers.

During 2017 there were no transfers of securities from level 1 to level 2. During 2016, the following securities were transferred from level 1 to level 2, given a reduction in their liquidity:

	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 2016 and 2017 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 2016	61 936	365 040	157 980	(151)	584 805
Accrued interest and premiums (amount at 31 December 2016)	(253)	(965)	(8 245)	356	(9 107)
Gain / (loss) recognised in net income					
Net income on financial operations					
Potential gain / (loss)	117	(723)	7 459	(205)	6 648
Effective gain / (loss)	660	1 427	1 529	(790)	2 826
Impairment losses and other provisions		4 295			4 295
Gain / (loss) recognised in revaluation reserves		68 140			68 140
Purchases	12 025	10 490			22 515
Sales	(5 388)	(3 568)	(1 529)	790	(9 695)
Reimbursements	(3 069)	(42 693)			(45 762)
Transfers in		3 115			3 115
Transfers out	(212)		(152 216)		(152 428)
Accounting reclassification		(11 200)			(11 200)
Sale of BPI Vida and Pensões in the end of 2017	(47 590)	(30 410)			(78 000)
Accrued interest and premiums (amount at 31 December 2017)	12	1 586	(244)		1 354
Net book value at 31 December 2017	18 238	364 534	4 734		387 506

Note: The effective gain / (loss) on derivatives corresponds to amounts paid / received in the course of early settlement of the operations.

The gains / (losses) recognized in revaluation reserves during 2017 include 46 885 th. euro and 11 965 th. euro related to the revaluation of the financial investments in SIBS – SGPS, S.A. and Viacer – Sociedade Gestora de Participações Sociais, S.A., respectively.

The reimbursements of assets available for sale include (27 573) th. euro related to venture capital funds.

The transfers to other levels of financial assets held for trading and at fair value through profit or loss (212 th. euro) correspond to the bond OTRV May 2021 and is justified by an increase in its market liquidity.

The transfers from other levels of financial assets available for sale (3 115 th. euro) correspond to the shares of SIBS – SGPS, S.A., which were transferred from assets measured at historical cost to level 3, because an estimate of its fair value, in accordance with IAS 39, became available. The revaluation of the financial investment of the Bank in this entity was based on an independent valuation, which was based essentially in the income method and in multiples.

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For financial instruments recorded at fair value on the balance sheet, the changes between 31 December 2015 and 2016 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)	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 discounted 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 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.

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.

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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 2017 and in 2016 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. 17			31 Dec. 16			Effective interest rate on reclassification date
	Book value on reclassification date	Book value at 31 Dec. 17	Fair value at 31 Dec. 17	Book value on reclassification date	Book value at 31 Dec. 16	Fair value at 31 Dec. 16	
Reclassification of bonds in 2008							
Financial assets held for trading				(24 448)			
Loans represented by securities				11 393			6.37%
Held to maturity investments				13 055	14 416	13 371	6.29%
Reclassification of bonds in 2009							
Financial assets held for trading				(979)			
Loans represented by securities				131	181	215	5.34%
Held to maturity investments				848	1 902	1 866	5.98%
Reclassification of bonds in 2013							
Financial assets available for sale	(4 093)			(4 093)			
Loans represented by securities	4 093	5 017	5 003	4 093	5 199	3 928	1.94%
		5 017	5 003		21 698	19 380	

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. On 31 December 2016, these bonds were recorded in the portfolio of BPI Vida e Pensões, which was sold to the CaixaBank Group in December 2017.

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 2017 and 2016 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. 17		31 Dec. 16	
	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		172	(420)	257
Held-to-maturity investments			152	34
		172	(268)	291

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.

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 2017, was as follows:

BPI Group	Nominal value	Net book value / fair value	Net gain / (loss) on securities	Hedge accounting effect	Impairment recognized
Held for trading and at fair value through profit or loss	5 155	5 466	183		
Portugal	5 155	5 466	183		
Available for sale	3 278 205	3 311 383	17 680	(16 449)	
Portugal	3 278 205	3 311 383	17 680	(16 449)	
Total exposure	3 283 360	3 316 849	17 863	(16 449)	

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 2017 there was no objective evidence of impairment.

At 31 December 2017 the BPI Group had no exposure to Greek 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 2017 is as follows, by maturity date:

Maturity	2018	2019-2022	> 2023	Total
Portugal	2 982 602	334 247		3 316 849
	2 982 602	334 247		3 316 849

The ratings of Portugal are the following:

	31 Dec. 17			31 Dec. 16		
	S&P	Moody's	Fitch	S&P	Moody's	Fitch
Portugal	BBB-	Ba1	BBB	BB+	Ba1	BB+

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 2017, 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	276 354		276 354
Financial assets held for trading and at fair value through profit or loss	163 759		163 759
Financial assets available for sale	3 976 638	(101 268)	3 875 370
Loans and advances to credit institutions	724 727		724 727
Loans and advances to Customers	22 243 689	(584 907)	21 658 782
Derivatives			
Hedging derivatives	12 740		12 740
Trading derivatives ¹	136 777		136 777
	27 534 684	(686 175)	26 848 509
Off balance sheet items			
Guarantees provided	1 394 398	(17 319)	1 377 079
Irrevocable credit lines	737	(1)	736
Underwriting of commercial paper	407 926	(1 122)	406 804
	1 803 061	(18 442)	1 784 619
	29 337 745	(704 617)	28 633 128

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 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.

Breakdown of overdue loans

Overdue loans and interest at 31 December 2017, 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		833	9 209	119 768	74 672	204 482
Impairment		(455)	(6 421)	(78 227)	(49 002)	(134 105)
		378	2 788	41 541	25 670	70 377
Subject to collective assessment						
Overdue loans and interest	5	7 056	24 040	166 156	163 014	360 271
Impairment	(1)	(1 914)	(8 935)	(74 275)	(104 598)	(189 723)
	4	5 142	15 105	91 881	58 416	170 548

In addition, at 31 December 2017 collective impairment of 261 079 th. euro is recorded for performing loans to Customers.

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. BFA recognized impairment for loans to regular Customers amounting to 30 721 th. euro.

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 2017 was as follows:

Coverage	Loans with default			Collateral ¹		Impairment ³
	Performing amount associated with defaulting loans	Overdue	Total	Mortgages	Other collateral ²	
≥100%	105 235	169 788	275 023	272 430	2 592	88 670
≥75% and <100%	32 699	91 236	123 935	106 317	5 004	54 847
≥50% and <75%	1 246	43 872	45 118	28 280	390	28 225
≥25% and <50%	1 600	12 121	13 721	5 307	176	9 368
≥0 and <25%	167	6 391	6 558	621	292	5 213
Without collateral	17 944	241 345	259 289			174 252
Total	158 891	564 753	723 644	412 955	8 454	360 575

1) The value of collateral presented is the lower of the fair value of the collateral received and the amount owed at 31 December 2017.

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 36 747 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 2017 was as follows:

Coverage	Loans with impairment	Collateral ¹		Impairment ³
	Performing amount	Mortgages	Other collateral ²	
Loans not represented by securities				
≥100%	61 737	55 365	6 372	11 677
≥75% and <100%	8 281	7 457	50	4 415
≥50% and <75%	1 226	175	654	314
≥25% and <50%	5 293	1 480	538	2 914
≥0 and <25%	79 003	806	4 574	8 169
Without collateral	121 073			65 225
	276 613	65 283	12 188	92 714
Guarantees provided				
≥100%	2 624	776	1 848	273
≥75% and <100%	3 117	823	2 262	130
≥50% and <75%	265		132	27
≥25% and <50%	2 127	602		12
≥0 and <25%	1 500			213
Without collateral	64 370			12 069
	74 003	2 201	4 242	12 724
	350 616	67 484	16 430	105 438

1) The value of collateral shown is the lower of the fair value of the collateral received and the amount owed at 31 December 2017.

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 2017 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.€	885	137 778	1 765	84 012	1 389	194 763	3 764	74 067	148 906	21 700 003	3 144	93 292
≥ 0.5 M.€ and < 1 M.€	183	128 082	69	47 176	94	65 911	21	12 678	1 270	807 269	10	6 326
≥ 1 M.€ and < 5 M.€	298	613 117	85	201 728	78	140 773	11	15 640	113	160 336	5	6 915
≥ 5 M.€ and < 10 M.€	58	397 604	19	130 382	1	5 154			1	5 849		
≥ 10 M.€ and < 20 M.€	28	348 819	7	112 904	2	21 608						
≥ 20 M.€ and < 50 M.€	8	209 652	4	153 278								
≥ 50 M.€	2	179 073	1	53 813	3	237 755						
Total	1 462	2 014 125	1 950	783 293	1 567	665 965	3 796	102 386	150 290	22 673 457	3 159	106 533

1) Includes financial collaterals (shares, bonds, deposits) and other items.

At 31 December 2017 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		4 283 912	127 725	46 977	125 390
< 60%	1 007	424 855	28 180	35 555	29 868
≥ 60% and < 80%	167	128 019	5 301	20 949	13 887
≥ 80% and < 100%	97	128 863	2 961	2 828	1 940
≥ 100%	191	813 178	53 829	31 607	40 816
Construction and CRE					
Without collateral		244 963	2 443	25 798	25 543
< 60%	1 097	126 533	3 901	5 639	5 847
≥ 60% and < 80%	233	32 787	1 411	43 504	27 177
≥ 80% and < 100%	83	39 642	475	2 253	1 548
≥ 100%	154	71 112	1 698	14 333	11 060
Housing					
Without collateral		20 339	7	12 120	8 949
< 60%	86 523	4 421 530	13 366	96 059	26 170
≥ 60% and < 80%	40 827	3 919 367	13 806	116 194	42 531
≥ 80% and < 100%	21 010	2 090 515	9 278	145 222	54 715
≥ 100%	1 930	101 230	1 479	123 451	58 669
	153 319	16 846 844	265 861	722 490	474 110

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
≥ 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 presented 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	21 129 670	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 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 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 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

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 is considered an encumbered asset when an asset 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 2017, the composition of the encumbered and unencumbered assets is as follows:

	Book value	Fair value
ENCUMBERED ASSETS		
Portuguese public debt securities		
Sales operations with repurchase agreement	37 330	37 330
Commitment to the Deposit Guarantee Fund and to the Investor Indemnity System	50 030	50 025
Total portuguese public debt	87 360	87 355
Loans		
European Investment Bank (EIB) funding collateralized by mortgage bonds	743 064	
European Investment Bank (EIB) funding collateralized by public sector loans	268 413	
European Central Bank (ECB) funding collateralized by mortgage bonds	2 167 524	
Bonds collateralized with mortgage loans	417 748	
Bonds collateralized with administrative public sector loans	70 980	
Securitization operations	503 375	
Total loans	4 171 104	
Other assets		
Derivatives	255 934	
Credit Support Annex (CSA)	255 829	
Margins stock exchange	104	
Other collateral	64 132	
Collateral in cash (Derivatives Credit Support Annex)	30 814	
Collateral in favor of EIB	29 400	
Other	3 918	
Total other assets	320 066	
Total amount of the encumbered assets	4 578 530	
UNENCUMBERED ASSETS		
Equity instruments	398 717	398 717
Debt instruments	4 688 326	4 663 449
Loan	17 822 715	
Other assets	2 126 174	
Unencumbered assets total amount	25 035 932	5 062 166

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 2017 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	97 714	10 547
Total debt instruments	97 714	10 547
Other assets (derivatives)	10 391	
Total amount of encumbered received collateral	108 105	10 547

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 2017 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	254 867	300 915
Deposits		
European Central Bank funding	1 997 465	2 167 524
European Investment Bank funding	688 533	943 583
Sales operations with repurchase agreement	118 915	127 348
Other deposits	12 734	
Issued securities		
Bonds collateralized with mortgage loans	326 068	417 748
Bonds collateralized with administrative public sector loans	50 168	70 980
Securitization operations	483 198	503 375
	3 931 948	4 531 473
Other encumbrance sources		
Commitment to the Deposit Guarantee Fund	43 354	44 452
Commitment to the Investor Indemnity System	10 433	5 551
Contingent liquidity facility of European Central Bank		59
	53 787	50 062
Total amount of the encumbrance sources	3 985 735	4 581 535

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 de Investimento	Banco BPI	76 068
Provided guarantee	Banco BPI	Banco Português de Investimento	3 061

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 to the issuer for 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 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).

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 2017 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-	154 091		154 091
		A+ to A-	257 326		257 326
		BBB+ to BBB-	365 716		365 716
		BB+ to BB-	40 365		40 365
		B+ to B-	87 338		87 338
		< B-	3 379		3 379
	NR	NR	353		353
			908 568		908 568

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 2017 were as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Loans and advances to Customers	External rating	AAA to AA-	17 135		17 135
		A+ to A-	57 630	561	57 069
		BBB+ to BBB-	859 734	463	859 271
		BB+ to BB-	147 356	340	147 016
		B+ to B-	295 834	688	295 146
		< B-	139	1	138
	Project Finance Rating	Strong	113 537	788	112 749
		Good	1 011 416	6 624	1 004 792
		Satisfactory	140 687	3 985	136 702
		Weak	6 434	37	6 397
		Default	100 103	18 335	81 768
	Corporate Rating	E01 to E03	830 166	4 144	826 022
		E04 to E06	2 567 908	13 455	2 554 453
		E07 to E10	974 239	16 736	957 503
		ED1 to ED3	335 841	191 415	144 426
	Entrepreneurs and Business Rating	N01 to N03	63 110	276	62 834
		N04 to N06	640 990	3 190	637 800
		N07 to N10	771 656	7 840	763 816
		ND1 to ND3	146 742	77 944	68 798
	Scoring	01 to 03	4 277 535	3 314	4 274 221
		04 to 06	4 900 578	7 115	4 893 463
		07 to 10	2 274 172	22 274	2 251 898
		D01 to D03	709 073	196 636	512 437
	NR	NR	957 783	8 746	949 037
			22 199 798	584 907	21 614 891

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value.

The securities portfolio, by ratings, at 31 December 2017 was as follows:

Type of financial instrument	Origin	Rating Grade Class	Gross exposure	Impairment	Net exposure
Securities	External rating	AAA to AA-	6 135		6 135
		A+ to A-	5 752		5 752
		BBB+ to BBB-	3 507 543	441	3 507 102
		BB+ to BB-	59 063	29	59 034
	Internal rating	E01 to E03	25 250		25 250
	NR	NR	536 654	100 798	435 856
			4 140 397	101 268	4 039 129

Deposits and loans and advances to credit institutions, by ratings, at 31 December 2016 were characterised 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 includes 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
Loans 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
	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
Loans and advances to Customers	Regulation 11 / 2014 of National Bank of Angola	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.

Restructured loans

At 31 December 2017 and 2016 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 fulfil 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:

- regular payment of the instalments 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 instalments 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;
- 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;
- 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 2017 and 2016:

	31 Dec. 17				31 Dec. 16			
	Loans			Impairment	Loans			Impairment
	Performing	Overdue	Total		Performing	Overdue	Total	
Domestic Activity								
Companies	638 410	129 780	768 190	170 553	860 286	177 025	1 037 311	225 275
Loans to Individuals								
Housing	177 896	58 122	236 018	47 352	191 649	56 843	248 492	53 500
Other loans	64 262	46 393	110 655	46 658	86 135	55 602	141 737	52 873
	880 568	234 295	1 114 863	264 563	1 138 070	289 470	1 427 540	331 648

At 31 December 2016 restructured loan operations identified by Banco de Fomento de Angola amounted to 25 550 th. euro.

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 listed below:

- in the case of interest depending on market indices or other references which are only identifiable on a future date (e.g: 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 2017 were as follows:

	on demand	up to 3 months	from 3 months to 1 year	from 1 to 5 years	more than 5 years	undetermined	Total
Assets							
Cash and deposits at central banks	909 851						909 851
Deposits at other credit institutions	184 428	91 926					276 354
Financial assets held for trading and at fair value through profit or loss		1 500	9 122	12 383		140 391	163 396
Financial assets available for sale		949 105	2 085 332	475 000		422 377	3 931 814
Loans and advances to credit institutions		546 265	175 889	902	1 083		724 139
Loans and advances to Customers		2 052 874	2 048 335	6 182 055	11 331 208	564 753	22 179 225
Hedging derivatives ¹		742 899	1 705 863	4 258 933	197 612		6 905 307
Trading derivatives ¹		1 725 640	871 191	1 549 508	1 831 381		5 977 720
Non-current assets held for sale and discontinued operations							
Cash and deposits at credit institutions	33 097						33 097
Financial assets held for trading or available for sale				70			70
Contractual interest cash flows of derivatives		794	25 790	91 106	61 883		179 573
Contractual interest cash flows of other assets	2 937	137 114	371 392	1 479 016	2 011 653		4 002 112
Contractual interest cash flows of non-current assets held for sale and discontinued operations			2	5			7
	1 130 313	6 248 117	7 292 916	14 048 978	15 434 820	1 127 521	45 282 665
Liabilities							
Resources of central banks		637 000		1 363 831			2 000 831
Resources of other credit institutions		849 261	39 332	606 642	486 383		1 981 618
Resources of Customers and other debts	12 038 739	2 741 221	3 379 051	2 586 507	24 135		20 769 653
Debt securities		207 359	8 860	19 049			235 268
Financial liabilities relating to transferred assets					478 259		478 259
Hedging derivatives ¹		749 423	1 721 172	4 260 451	197 612		6 928 658
Trading derivatives ¹		1 732 322	870 961	1 549 508	1 831 381		5 984 172
Other subordinated debt and participating bonds			611		300 000		300 611
Contractual interest cash flows of derivatives		531	40 708	127 013	75 815		244 067
Contractual interest cash flows of other assets		1 532	35 349	83 932	124 577		245 390
	12 038 739	6 918 649	6 096 044	10 596 933	3 518 162		39 168 527

1) Includes the notional amount of swap operations.

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 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 Bank continuously tracks the evolution of its liquidity, monitoring the incoming and outgoing of funds in real time in accordance with the various origins and destinations. 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 remains at 2 000 million euro in December 2017, 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 September 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 is defined as the potential to incur losses due to unexpected changes in the price of instruments or operations (“price” includes share price or an index value, interest rate or exchange rate, types of prices that correspond to different types of market risk).

Market risk is particularly connected to trading activities, although it manifests itself in all businesses in which the value of the portfolio depends on market prices. Except for the foreign exchange risk, which is evaluated for all the activity, the market risk of the trading portfolio is managed differently from the rest of the Bank’s activity (commonly referred to as “banking portfolio”). The trading activity has had a reduced expression in BPI during the last years. Following its integration into the CaixaBank Group, the proprietary trading has been further reduced.

More information about market risks in the BPI Group is contained in the “Risk Management” section of the Directors’ Report.

Trading portfolio (trading)

Market risk in trading operations is assessed and controlled daily through the calculation of VaR – Value at Risk – using a standard model (of the “variance co-variance” type), based on the activity of the Banks of the BPI Group as a whole.

Calculated VaR corresponds to the maximum potential loss, with a confidence level of 99%, resulting from an adverse evolution of risk factors within a timeframe of two weeks (risk factors are price increase rates, indexes and interest rates that affect the value of the portfolio, or that are taken as representative of those prices, indexes and rates). The model uses, as risk factor volatility, the standard deviation of historical samples of their amounts on an annual basis and uniform weight. In calculating the overall risk, the effect of the diversification of investments is included in the model through the statistical effect of the correlation between risk factors (the correlation is calculated from annual historical samples and uniform weight of relevant pairs of risk factors). A normal distribution of risk factors is assumed, with average of zero and standard deviation leading to the above mentioned confidence level.

In 2017 and 2016 the average VaR in the Bank’s trading books was as follows:

	31 Dec. 17		31 Dec. 16	
	VaR (average)	VaR (maximum)	VaR (average)	VaR (maximum)
Interest rate risk	240	1 031	1 392	5 679
Currency risk	109	373	48	247
Equity risk	459	1 203	790	2 871

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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 ALCO Committee is the first line managing the market risks, within the strategy defined for the different lines of business and in compliance with the limits imposed internally and externally. The Global Risks Committee independently monitors and controls the market risk evolution, following the Bank’s exposure and the compliance with the existing limits.

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.

Repos are traded in the over-the-counter market mostly under standard contracts, which allow 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 2017 and 2016 the amount of asset derivative financial instruments¹ traded in the over-the-counter market, offset by related liability derivatives, by counterparty type, were as follows:

Counterparty	Financial assets presented in the financial statements	Related amounts not offset in the financial statements		Net value
		Financial instruments	Cash collateral received as guarantee	
31 Dec. 17				
Financial Institutions	26 988	(17 356)	(3 135)	6 497
Local and Administrative Public Sector	230			230
Other Financial Intermediaries	14 240	(3 436)		10 804
Companies	107 635	(93)		107 542
Individuals	99			99
Total	149 192	(20 885)	(3 135)	125 172
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
Total	203 450	(29 517)	(5 970)	167 963

1) Does not include embedded derivatives and listed derivatives in the amounts of 314 th. euro and 1 643 th. euro, at 31 December 2017 and 2016, respectively.

At 31 December 2017 and 2016 the amount of liability derivative financial instruments¹ 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 value
		Financial instruments	Cash collateral received as guarantee	
		31 Dec. 17		
Financial Institutions	217 970	(17 356)	(198 364)	2 250
Other Financial Intermediaries	19 448	(3 436)	(1 728)	14 284
Companies	2 478	(93)		2 385
Individuals	21			21
Total	239 917	(20 885)	(200 092)	18 940
		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
Total	309 840	(29 517)	(257 147)	23 176

At 31 December 2017 and 2016 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 value
31 Dec. 17			
Financial Institutions	50 388	(50 388)	
Total	50 388	(50 388)	
31 Dec. 16			
Financial Institutions	957	(957)	
Total	957	(957)	

At 31 December 2017 and 2016 the amount of debt securities sold with repurchase agreements, by counterparty type, was as follows:

Counterparty	Financial liabilities presented in the financial statements	Securities received with resale agreements	Net value
31 Dec. 17			
Financial Institutions	51 214	(51 214)	
Other Financial Intermediaries	40 691	(40 691)	
Total	91 905	(91 905)	
31 Dec. 16			
Other Financial Intermediaries	61 545	(61 545)	
Total	61 545	(61 545)	

1) Does not include embedded derivatives and listed derivatives in the amounts of 314 th. euro and 1 643 th. euro, at 31 December 2017 and 2016, 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:

Time band	Financial margin			
	31 Dec. 17		31 Dec. 16	
	Position	Impact	Position	Impact
on demand	(6 575 366)	(131 507)	(4 746 744)	(94 935)
on demand – 1 month	434 754	8 347	1 034 429	19 861
1 – 3 months	3 411 518	56 941	3 557 074	59 503
3 – 6 months	4 535 467	58 524	3 391 465	39 353
6 – 9 months	1 532 219	13 654	1 377 580	10 651
9 months – 1 year	956 571	2 027	772 261	1 659
Total	4 295 163	7 986	5 386 065	36 092

Note: The 2016 position does not consider the assumptions considered as of May 2017: rates of early repayment of the fixed rate loans and rates of early withdrawal of time deposits. For comparative purposes, the percentage of demand deposits in the "on demand" time band considered in 2016 was the same as in 2017.

The nominal positions were distributed, assuming a constant balance sheet, according to the next repricing date (refixing date for indexed rates, maturity date for fixed rates).

This analysis included assumptions on the stability and sensitiveness of demand deposits and behavioral option for term deposits and fixed rate loans. The demand deposits portfolio was distributed by repricing gaps in accordance with its historical stability and the non-stable deposits were classified as "on demand". To the fixed rate term deposits and loan portfolios have been applied expected rates of early withdrawal / repayment (respectively), in accordance with the historical analysis of the evolution of these portfolios.

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The amounts of impact indicate an estimate of the impact on the financial margin obtained at the end of 12 months starting on the day after the reference date resulting from a single and instantaneous change of 2% in all relevant interest rates. Therefore, the impact on each date depends on the amount and time distribution of the repricing gaps.

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 loss¹. This stress test was based on the following exposures in shares and participating units:

	31 Dec. 17	31 Dec. 16
Financial assets at fair value through profit or loss	6 055	6 746
Financial assets available for sale – at fair value and without impairment	199 008	135 044
Financial assets available for sale – at fair value and with impairment	91 167	107 349
Financial assets available for sale at historical cost	2 658	5 783
Participating units in liquidity, bond and real estate funds	3 014	3 015
	301 902	257 937

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 2017 and 2016, would result in a decrease of 59 246 th. euro and 49 828 th. euro, respectively,

in their fair value, implying the recognition of a loss of 19 444 th. euro and 22 819 th. euro, the remaining devaluation being reflected in the fair value reserve.

1) Excluding securities held by BPI Vida e Pensões at 31 December 2016.

Currency risk

Financial assets and liabilities at 31 December 2017, by currency, were as follows:

	EUR	USD	AKZ	Other currencies	Total
Assets					
Cash and deposits at central banks	1 123 785	14 278		48 142	1 186 205
Financial assets held for trading and at fair value through profit or loss	281 695	16 933	1 843	65	300 536
Financial assets available for sale	3 815 416	59 688		266	3 875 370
Loans and advances to credit institutions	422 662	268 649		33 416	724 727
Loans and advances to Customers	21 551 713	47 081		59 988	21 658 782
Hedging derivatives	11 695	982		63	12 740
Non-current assets held for sale and discontinued operations	7 264				7 264
Tangible and intangible assets	87 207			417	87 624
Investments in associates and jointly controlled entities	136 888		576 358	81 237	794 483
Tax assets	435 415				435 415
Other assets	487 627	6 810	57 627	4 999	557 063
	28 361 367	414 421	635 828	228 593	29 640 209
Liabilities					
Resources of central banks	1 995 374				1 995 374
Financial liabilities held for trading	167 645	2 441		(38)	170 048
Resources of other credit institutions	1 612 361	340 756		29 531	1 982 648
Resources of Customers and other debts	19 243 554	1 382 214		158 064	20 783 832
Debt securities	236 978				236 978
Financial liabilities relating to transferred assets	477 985				477 985
Hedging derivatives	69 233	565		82	69 880
Non-current liabilities held for sale and discontinued operations	4 471				4 471
Provisions	64 012			227	64 239
Tax liabilities	70 622				70 622
Other subordinated debt and participating bonds	305 077				305 077
Other liabilities ¹	617 649	4 935		1 320	623 904
Foreign exchange transactions pending settlement and position for term operations	1 407 884	(1 315 836)		(60 483)	31 565
	26 272 845	415 075		128 703	26 816 623
Shareholders' equity attributable to the shareholders of BPI	2 151 017	(131)	576 358	96 342	2 823 586
Foreign exchange position	(62 495)	(523)	59 470	3 548	
Hedging operation of the AKZ exposure		53 949	(53 949)		
Position subject to currency risk	(62 495)	53 426	5 521	3 548	
Stress Test		10 685	1 656	710	

1) Excludes the amount recorded in foreign exchange transactions pending settlement and position for term operations.

In the end of 2017 the Bank contracted an operation to hedge the risk of a position held in kwanzas (AKZ), through which the foreign exchange risk of this part of the accounting exposure in AKZ is converted into the risk of changes in the US Dollar exchange rate. This correction in the position used for risk calculation purposes is evidenced in the above table.

Financial assets and liabilities at 31 December 2016, by currency, were as follows:

	EUR	USD	AKZ	Other currencies	Total
Assets					
Cash and deposits at central banks	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 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 Moçambique 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.

At 31 December 2016 the consolidated balance sheet of the BPI Group includes a significant portion of assets and liabilities in kwanzas, 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.

At 31 December 2016 US dollar loans granted by BFA to Customers, are presented in the above table 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 instalments 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 instalments 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*.

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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 2017 is made up as follows:

Fair value types of hedge	Hedged items					Hedging instruments			
	Nominal amount	Interest, premiums and potential gain / loss	Impairment	Value corrections	Total	Notional amount	Interest and premiums	Revaluation	Fair value
Assets									
Loans to Customers	806 522	1 487	(3 162)	20 573	825 420	825 717	(6 507)	(24 741)	(31 248)
Fixed rate securities portfolio	475 000	15 987		25 066	516 053	495 018	(8 508)	(24 950)	(33 458)
	1 281 522	17 474	(3 162)	45 639	1 341 473	1 320 735	(15 015)	(49 691)	(64 706)
Liabilities									
Customer deposits	4 891 205	382		155	4 891 742	5 564 091	(5 561)	(1 918)	(7 479)
Debt Issues	35 268	(2)		63	35 329	29 999	(26)	(61)	(87)
	4 926 473	380		218	4 927 071	5 594 090	(5 587)	(1 979)	(7 566)

Note: Embedded options were not included.

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	Impairment	Value corrections	Total	Notional amount	Interest and premiums	Revaluation	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									
Resources of credit institutions									
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 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 2017 and 2016 were as follows:

Fair value types of hedge	31 Dec. 17	31 Dec. 16
Hedging derivatives	25 423	(19 657)
Hedged itmes		
Loans to Customers	(9 093)	(5 281)
Fixed rate securities portfolio	(17 945)	(21 800)
Resources of credit institutions		13 792
Customer deposits	2 292	30 610
Debt issues	788	2 347
	(23 958)	19 668
	1 465	11

IFRS 9 – Impact on disclosures of expected credit losses

Banco BPI completed the implementation of IFRS 9 – Financial Instruments in the last quarter of 2017, and at the current date is implementing improvements in the different processes affected by the adoption of this standard.

IFRS 9 establishes a set of accounting requirements for the recognition and measurement of financial assets and liabilities (except for the macro-hedging component). The date of initial application of the IFRS 9 is 1 January 2018, moment in which it replaces the International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement, applicable until 31 December 2017. IFRS 9 focuses essentially in three aspects (components), which are related to the classification and measurement of financial assets and liabilities, to the methodology used for estimating expected credit losses of financial assets and to the rules applicable in hedge accounting.

Regarding the classification and measurement, the IFRS 9 determines that the classification and measurement of financial assets is determined considering both the contractual cash flow characteristics and the business model for managing them, effectively reducing the number of classification categories currently set out in IAS 39. Financial assets that give rise to cash flows that are solely payments of principal and interest are classified and measured at amortised cost, if they are managed using a business model whose objective is to collect the contractual cash flows. These financial assets are classified and measured at fair value through other comprehensive income if they are managed using a business model whose objective is fulfilled by sale or by collecting all the future cash flows. The remaining financial assets, including those with embedded derivatives, must be classified and measured at fair value through profit or loss.

Impairments for expected credit losses must be recognised for all financial assets that have a credit nature and that are not classified and measured at fair value through profit or loss and the method used to estimate expected credit losses depends on the existence or not of a significant deterioration of the respective creditworthiness since initial recognition.

It is in respect of the methodology used for estimating impairment losses of financial instruments, based on the concept of expected loss, where IFRS 9 reflects the most substantial changes compared to the current model under IAS 39, which is based on the accounting of losses incurred for credit risk. In particular, IFRS 9 requires an entity to determine the impairment losses using an approach which differentiates between three stages, according to the deterioration of the credit risk verified in each reporting date, in relation to the level of credit risk at the moment of initial recognition of the financial asset, in such a way that the estimated impairment losses correspond to:

- (i) the expected loss if a default event occurs in a 12 month time horizon (stage 1), which is applicable to all assets that have a credit nature (from initial recognition), as long as there is no significant increase in its credit risk since the initial recognition;
- (ii) lifetime expected loss – the expected loss considering the probability of occurring an event of default in any moment in time until the maturity date of the financial instrument (stage 2 and 3), when a significant increase in credit risk has occurred since the initial recognition on an individual or collective basis. For the financial assets in default or classified in stage 3, the respective interest should be calculated and recognised based on the net carrying amount of the asset.

The assessment of whether there has been a significant increase in credit risk should consider reasonable and supportable information that is available without undue cost or effort that is an indicator of increases in credit risk from initial recognition and reflects historical, current and forward-looking information.

Noteworthy differences between the new expected loss model in IFRS 9 and the current incurred loss model of IAS 39 include:

- Upon initial recognition, IFRS 9 requires expected loss to be recognised rather than incurred loss;
- The degree of judgement required to incorporate forward-looking information and assumptions regarding the behaviour affecting the life of the instruments that should be considered and how the assumptions are incorporated in the measurement of expected losses, increases in the expected-loss model;
- The requirement to calculate full lifetime losses for exposures that have experienced significant increase in its credit risk since initial recognition (stage 2) and for the operations in default (stage 3).

Regarding financial liabilities, the categories defined in the IFRS 9 are similar to those in IAS 39, and their measurement will not change, only the requirement to recognise changes in fair value related to own credit risk directly in equity for financial liabilities designated under the fair value option.

For hedge accounting, the granularity in current IAS 39 requirements was replaced by a new model that better reflects internal risk management activities in the financial statements. There are changes with respect to IAS 39 in a number of other areas, such as hedged items, hedging instruments, the accounting of the time value of options and the assessment of effectiveness, which will enable the expansion of transactions to which is possible to apply hedge accounting and facilitate the application of hedge accounting, as well as benefit from the possibility of hedging non-financial risks.

In order to adopt IFRS 9, Banco BPI created in 2015 a multidisciplinary working team including members from multiple departments as well as members of the management bodies of the Bank. The work of this team was regularly monitored by the Executive Commission of the Board of Directors, the Global Risks Committee, the Risk Committee and the Board of Directors.

In addition to the different teams involved (risk, accounting, information systems, economic studies, concession and recovery of credit, among others) was created a Monitoring Committee, which met regularly, and is composed by the heads of departments involved and presided by the Chief Risk Officer of Banco BPI.

The most relevant tasks performed to ensure full compliance of IFRS 9 involved, among others, the following aspects:

- Modification of the department-level organisational model and redefinition of the governance model;
- Determination of the business model under which financial assets are managed;
- Analysis of the characteristics of cash flows deriving from financial instruments;
- Identification of the triggers or indicators for classifying financial instruments in stages 1, 2 or 3;
- Development of all risk parameters used in the calculation of the expected losses, properly calibrated to comply with the criteria for classifying financial instruments in stage 3;
- Necessary modifications in the tools currently available in the Bank for measuring the risk parameters needed to calculate expected losses and for the individual and collective analysis of the different instruments;
- Review of the internal processes and controls in the different areas affected by the adoption of this standard.

The most relevant qualitative and quantitative impacts resulting from the implementation of IFRS 9 until 1 January 2018 are described below:

Classification and measurement of assets

- Certain financial assets are reclassified from “Loans and receivables” to “Financial assets at fair value through profit or loss”, having concluded that either these assets are not managed within a business model comprising the collection of contractual cash flows and / or the sale of these financial assets, or that the characteristics of these contractual cash flows were insufficient to conclude that they correspond only to payment of principal and interest on the principal amount outstanding (SPPI test).
- Those equity instruments currently classified under “Available-for-sale financial assets” will be classified as “Financial assets at fair value with changes in other comprehensive income”, considering that the Bank is using the option to irrevocably designate most equity instruments in this category at the transition date. Gains or losses on equity instruments classified in this category and recognised in equity at the time of sale, and any impairment losses thereon, will not be recognised in the statement of profit or loss.

Impairment losses

Under IFRS 9, impairment losses are recognised earlier than under IAS 39. Upon initial recognition of financial assets, valuation adjustments must be made for the expected losses resulting from default events that could occur in the coming 12 months. If credit risk increases significantly, full lifetime expected credit losses are recognised.

In accordance with the methodology applied in the internal implementation project described above, the portfolio of financial instruments subject to impairment (financial assets at amortised cost and certain financial assets at fair value with changes in other comprehensive income and certain commitments and guarantee contracts) was separated out in the three stages described above at 1 January 2018. The parameters developed by the Bank were applied to these stages, using both historical information and the best assumptions on forward-looking information in order to measure expected loss (EL).

Those operations for which it is considered that there has been a significant increase in risk since the initial recognition, specifically, when it presents weaknesses that may involve assuming losses significantly higher than those expected at the time of the concession, will be classified in stage 2.

For the identification of weaknesses in operations and Customers, Banco BPI has a monitoring and qualification process that combines the use of statistical models with the individual analysis of the borrowers with significant exposures. In addition to the classification based on the tracking qualification, a criterion is also applied based on a relative increase in the probability of default (PD).

Complementing the above criteria, and unless they should be classified in stage 3, operations that have been restructured due to financial difficulties and not considered to be cured; exposures of Customers with material amounts overdue for more than 30 days; and operations in which can be determined by other indicators / triggers that there has been a significant increase in risk, will be classified in stage 2, unless it is proven that there was no significant increase of risk.

The incorporation of forward-looking information in the calculation of the EL is based on projections of the macroeconomic conjuncture under various potential scenarios. For each of these scenarios, the associated expected loss is estimated, which will be 12 months for

operations in stage 1 and the life of the operation in the rest of the cases. The EL that determines the coverage corresponds to the weighted average of the expected losses under each scenario, where the weighting is given by the plausibility of each conjuncture.

Hedge accounting

The Bank decided to adopt the requirements of IFRS 9 regarding accounting hedges, as it considers that this option is best aligned with the Bank's risk management strategy. Nevertheless, apart from the additional disclosure requirements, no impacts have emerged, as currently the Bank does not apply micro hedging accounting.

Estimate of impacts

Based on data at 31 December 2017, the best estimate of the impact of the adoption of IFRS 9 are as follows:

- An increase in impairment allowances of 36 million euro;
- Reclassification of financial instruments between portfolios with insignificant exposure;
- A negative impact on equity of 26 million euro.

At the date of the preparation of the annual consolidated financial statements, there is uncertainty regarding the tax effect of the above-mentioned adjustments, having been considered that the more reasonable assumption is that they will generate non-monetisable deferred tax assets. However, given the limited impact, Banco BPI will opt out of the voluntary phase-in period for absorbing the prudential impact of the initial adoption of IFRS 9.

Based on the above, Banco BPI's best estimate, taking into consideration the figures at 31 December 2017, is a decrease in the fully-loaded CET 1 ratio of 20 basis points at the transition date.

At the date of preparation of the annual consolidated financial statements, these impacts are the best estimate of the effects that could be most significant for the subject scope, but are not a complete and exact listing of all impacts that could ultimately derive from application of this standard upon definitive application as of 1 January 2018.

At the date of first application, in accordance with IFRS 9 and IAS 8, the amounts resulting from the accounting change are recognised in the Bank's reserve accounts. Therefore, Banco BPI will not re-state previous periods with the criteria established under IFRS 9 when it reports for the first time under this new standard, implying that the impacts from its implementation will be recognised under accumulated reserves at 1 January 2018.

▷

4.46. Share-based variable remuneration programme

As described in note 2.10, until 2016 Banco BPI had as a complementary remuneration policy a share-based variable remuneration programme (Remuneração Variável em Ações – RVA) which, whenever it was 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 would be, in part, 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.

Taking into consideration the Public Tender Offer launched by CaixaBank on February 2017 and the impact of this operation in the terms of the RVA, the Executive Committee decided to make available to the Employees the shares that were granted to them under the RVA and which were subject to a suspensive condition. It was also offered to the Employees that were holding options the possibility of reconverting the options granted into shares, by dividing the value in cash underlying the options granted and not exercised in each RVA for the value of each share defined for granting the shares, as well as their immediate distribution.

Following this decision of the Executive Committee and taking into account that almost all Employees accepted the proposed terms, the RVA programmes in force to date were terminated with the exception of the 2013 programme, in which two Employees kept the granted options.

Regarding the RVA Remuneration programmes granted to Executive Directors, the rules under the Remuneration Policy continue to be fully applicable, namely the rules regarding the deferral and the application of the suspensive condition.

As described in the section 2 and 3 of note 2.10, the General Assembly and the Board of Directors approved on April 2017 and on December 2017, respectively, new remuneration policies applicable to the Executive Directors and to the Employees Holders of Essential Functions.

The following table summarizes the terms under which the variable remuneration will be granted to those that are part of the above mentioned groups, as well as the dates of availability.

	Composition of the variable remuneration		Percentage of the remuneration available on the date of assignment	Percentage of the remuneration available on the date of assignment	Number of payment tranches	Deferral period
Excutive Directors	50% Cash	50% Eq. Instruments	40%	60%	5	60 months
Employees Holders of Essential Functions	50% Cash	50% Eq. Instruments	60%	40%	3	36 months

MODEL FOR VALUING THE EQUITY INSTRUMENTS GRANTED TO THE EMPLOYEES OF THE BPI GROUP

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 2015 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 2010	RVA 2011	RVA 2012	RVA 2013	RVA 2014 ²	RVA 2015 ²
BPI listing	1.25	0.37	0.87	1.81	1.40	1.02
Strike price ¹	1.25	0.37	0.87	1.81	1.40	1.02
Implicit volatility	35.97%	41.70%	39.78%	37.29%	36.90%	40.50%
Interest rate	5.15%	3.87%	3.18%	1.48%	1.38%	1.35%
Expected dividends	0.00	0.00	0.00	0.00	0.00	0.00
Value of the option	0.25	0.12	0.28	0.44	0.33	0.24

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.

2) Programmes only related to Directors whose attribution reference years are 2012 and 2013 respectively.

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.

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

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 2017 and 2016, the average price of the shares on the date in which the options were exercised was as follows:

Programme	Options exercised in 2017		Options exercised in 2016	
	Number of options	Average price of the shares	Number of options	Average price of the shares
RVA 2010			338 218	1.26
RVA 2011	300 672	1.13	77 075	1.10
RVA 2012	1 300	1.13	306 748	1.16

The following table presents the changes occurred in 2017 in the number of options in circulation, held by Directors and Employees of the BPI Group:

Movement	RVA 2010¹	RVA 2011	RVA 2012	RVA 2013	RVA 2014¹	RVA 2015¹
Number of outstanding options in 31 Dec. 16	1 502 410	300 672	1 240 591	2 988 429	3 584 433	772 299
Canceled options to due termination	426 820			128 894	645 027	233 270
Options exercised		300 672	1 300			
Options converted into shares			1 239 291	2 856 237		
Number of outstanding options in 31 Dec. 17	1 075 590			3 298	2 939 406	539 029

1) Programmes only related to the Directors whose attribution reference years are 2010, 2012 and 2013 respectively.

Following the decision made by the Executive Committee under the Public Tender Offer launched by Caixabank, related to the possibility of conversion of the options held by the Employees into shares marketable in the Public Tender Offer, the factors for calculating the number of shares granted in the conversion are presented in the following table.

	RVA 2012	RVA 2013	Total
Options converted	1 239 291	2 856 237	
Assignment price	0.277	0.443	
Assigned value	343 284	1 265 313	
Attribution price shares	0.866	1.806	
Number of shares resulting from conversion	396 401	700 616	1 097 018
Shares attributed as a result of the rounding-up to whole number of shares			4 065
Total number of shares			1 101 083

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.

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.

The existing RVA programmes on 31 December 2017 as well as its features, outstanding amounts and amounts recognized for the components of shares and options in each programme are presented in the following table:

Initial assignment																
Reference year	Programme	Date of assignment	Assignment amount	Strike price ¹	Periods for the delivery of the share tranches / exercise options				Options exercised or converted into shares under the PTO		31 Dec. 17		Cost recognized in equity	Cost not yet recognized in equity	Own shares to hedge options	
					Quantity	Amount	Start	End	Quantity	Quantity	Amount	Amount				
Employees																
Options																
2013	RVA 2013	2014-05-14	0.4430	1.8060	3 005 860	1 332	2014-08-15	2019-05-14	2 985 131	3 298	1	1				
					3 005 860	1 332			2 985 131	3 298	1	1				
Employees Holders of Essential Functions																
Shares																
2017	Variable remuneration deferred using equity instruments ⁴					839	2017	2020			839	617	222			
						839			839	617	222					
Directors																
Deleted shares and options ³																
Shares																
2012	RVA 2014 ²	2014-09-03	1.4010		57 627	81	2017-09-03		57 627	81		81				
2013	RVA 2015 ²	2015-07-10	1.0206		145 009	148	2018-07-10		145 009	148		123	25			
2017	Variable remuneration deferred using equity instruments ⁴					700	2017	2022			700	390	310			
					202 636	929			202 636	929	594	335				
Options																
2012	RVA 2014 ²	2014-09-03	0.3250	1.4010	3 584 433	1 165	2017-09-03	2020-09-03	645 027	2 939 406	955	955	0			
2013	RVA 2015 ²	2015-07-10	0.2411	1.0206	772 299	186	2018-07-10	2021-07-10	233 270	539 029	130	108	22			
					4 356 732	1 351			878 297	3 478 435	1 085	1 064	22	377		
						2 280				2 855	2 276	579	377			

1) Exercise price after the effect of Banco BPI capital in May 2011, August 2012 and June 2014.

2) Amount in condition precedent referring to 50% of the value attributed, whose settlement will be in cash.

3) Shares and options eliminated following the withdrawal of member of the Board of Directors.

4) Estimated cost with CaixaBank shares granted to Directors and Employees Holders of Essential Functions in the first quarter of 2018 with reference to the variable remuneration of 2017.

The existing RVA programs on 31 December 2016 as well as its features, outstanding amounts and amounts recognized for the components of shares and options in each programme are presented in the following table:

Reference year	Programme	Initial assignment		Periods for the delivery of the share tranches / exercise options				31 Dec. 16		Cost recognized in equity	Cost not yet recognized in equity	Own shares to hedge options ²
		Date of assignment	Assignment amount	Strike price ¹	Quantity	Amount	Start	End	Quantity	Amount	Amount	Amount
Employees												
2013	Shares											
	RVA 2013	14-05-2014	1.8060		702 879	1 269	2014-05-14	2017-05-14	168 917	305	284	21
				702 879	1 269				168 917	305	284	21
	Options											
	RVA 2010	29-04-2011	0.2460	1.1080	2 895 965	712	2011-07-30	2016-04-29	426 820	105	105	0
2011	RVA 2011	28-05-2012	0.1240	0.3580	1 194 011	148	2012-08-29	2017-05-28	300 672	36	36	0
2012	RVA 2012	19-12-2012	0.2770	0.8660	2 616 653	725	2013-03-19	2017-12-19	1 240 591	344	344	0
2013	RVA 2013	14-05-2014	0.4430	1.8060	3 005 860	1 332	2014-08-15	2019-05-14	2 988 429	1 324	1 324	0
				9 712 489	2 917			4 956 512	1 809	1 808	0	
					4 186			2 114	2 092		21	
Directors												
2012	Shares											
	RVA 2014	03-09-2014	1.4010		57 627	81	2017-09-03		57 627	81	63	18
	RVA 2015	10-07-2015	1.0206		145 009	148	2018-07-10		145 009	148	86	62
	RVA 2016 ³					2 235					789	1 446
					202 636	2 464			202 636	229	938	1 526
2010	Options											
RVA 2010	29-04-2011	0.2460	1.2450	1 075 590	265	2014-04-29	2017-04-29	1 075 590	265	265	0	
2012	RVA 2014	03-09-2014	0.3250	1.4010	3 584 433	1 165	2017-09-03	2020-09-03	3 584 433	1 165	906	259
2013	RVA 2015	10-07-2015	0.2411	1.0206	772 299	186	2018-07-10	2021-07-10	772 299	186	109	77
				5 432 322	1 616			5 432 322	1 616	1 280	336	
					4 079			1 844	2 218		1 862	10 336 258

1) Exercise price after the effect of Banco BPI capital in May 2011, August 2012 and June 2014.

2) Includes Employees and Directors options.

3) Value in condition precedent referring to 50% of the value attributed.

Impact in gains or losses recognized in equity

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 gains and losses 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 in 2017 and 2016 were as follows:

Gain or loss		Programme	31 Dec. 17	31 Dec. 16
Shares	In delivering the shares	RVA 2010	(4)	
		RVA 2011		
		RVA 2012		
		RVA 2013		
			(4)	
Options	In the exercise of options / conversion of options into shares under the PTO	RVA 2010	(1 519)	29
		RVA 2011	(839)	(215)
		RVA 2011	(2 493)	(553)
		RVA 2012	829	
			(4 022)	(739)
			(4 026)	(739)

Impact in net income

The costs relating to the share-based payment programme of the Employees of Banco BPI and of its subsidiaries are accrued under the captions PERSONNEL COSTS and INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, respectively, with a corresponding entry to OTHER EQUITY INSTRUMENTS caption, as established by IFRS 2 for share-based payment programmes. 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.

In 2017, following the Executive Committee decision referred previously, the costs accrued to date related to RVA programmes for Employees were reversed.

The total cost recognized for share-based payment programmes of Directors is summarized as follows:

Programme	31 Dec. 17			31 Dec. 16		
	Shares	Options	Total	Shares	Options	Total
RVA 2010		(98)	(98)			
RVA 2013	46	(10)	37	12	108	119
RVA 2014	18	49	67	27	388	415
RVA 2015 and 2016 ¹	(545)		(545)	387	0	387
Variable remuneration deferred in equity instruments	390		390			
Total	(91)	(59)	(150)	425	496	921

1) RVA 2016 em condição suspensiva cuja liquidação será em numerário.

The total cost recognized for share-based payment programmes of Employees is summarized as follows:

Programme	31 Dec. 17			31 Dec. 16		
	Shares	Options	Total	Shares	Options	Total
RVA 2013	16	(57)	(41)	88	(6)	81
RVA 2015				(513)	(798)	(1 311)
Variable remuneration deferred in equity instruments	617	0	617			
Total	634	(57)	577	(425)	(804)	(1 229)

4.47. Capital Management

On 31 December 2017 and 2016 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. 17	31 Dec. 16
Accounting Shareholders' Equity ¹	2 914 210	2 621 371
Potential gains on fair value reserve	67 320	9 900
Eligible minority interests		382 557
Actuarial deviations	(144 372)	(145 235)
Deferred tax assets arising from tax losses	(16 447)	(18 349)
Loans granted for the acquisition of shares, intangible assets and AVA ²	(43 604)	(30 740)
Investment in banking and insurance institutions ³	(474 771)	(30 175)
Negative additional Tier 1	(68 326)	(34 664)
Common Equity Tier 1	2 234 010	2 754 665
Tier 2	238 463	
Total equity	2 472 473	2 754 665
Risk-weighted assets	16 962 066	24 122 127
Common Equity Tier 1	13.2%	11.4%
Tier 1	13.2%	11.4%
Total ratio	14.6%	11.4%

1) Excluding fair value reserve and actuarial deviations.

2) Additional Valuation Adjustment, adjustment of additional valuation according to the *Delegated Regulation (EU) 2016 / 101*.

3) It includes (12 210) euro of goodwill on 31 December 2017.

Considering full implementation of the CRD IV / CRR rules, Banco BPI's "fully implemented" Common Equity Tier 1 on 31 December 2017 was 12.3%. On 31 December 2016 the "fully implemented" Common Equity Tier 1 was 11.1%.

In 2017 Banco BPI issued 300 000 th. euro worth of subordinated debt, eligible as tier 2.

Therefore, in 2017 and 2016 Banco BPI complied with the minimum capital requirements established by the ECB:

Phasing-In	Minimum requirements	
	2017	2016 ¹
CET1	9.25%	9.75%
T1	9.75%	9.75%
Total ratio	11.75%	9.75%

1) Additionally, for 2016 an early warning buffer of 0.25% was established on CET1 on a consolidated basis.

▷

In December 2017 Banco BPI received the ECB's decision on the minimum prudential ratio requirements to be in force as of 1 January 2018, which was based on the results by the Supervisory Review and Evaluation Process (SREP):

Minimum requirements for 2018					
Phasing-In	Consolidated				
	Total	From which:			
		Pillar 1	Pillar 2	Buffers ¹	Guidance Pillar 2
CET1	8.75%	4.50%	2.25%	2.00%	1.00%
T1	10.25%	6.00%	2.25%	2.00%	-
Total ratio	12.25%	8.00%	2.25%	2.00%	-

1) As determined by the Bank of Portugal, the capital preservation buffer for 2018 is 1.875%, the counter-cyclical buffer is currently set at 0% and the O-SII buffer for 2018 is 0.125%.

In accordance with these requirements to be complied as from 1 January 2018, and based on the observed figures as of 31 December 2017, Banco BPI complies with the minimum ratios required.

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.

4.48. 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 2017 were as follows:

Name of related entity	Head office	Effective participation	Direct participation
Associated and jointly controlled entities of Banco BPI			
Banco de Fomento Angola, S.A.	Angola	48.1%	48.1%
Banco Comercial e de Investimentos, S.A.	Mozambique	35.7%	35.7%
Companhia de Seguros Allianz Portugal, S.A.	Portugal	35.0%	35.0%
Cosec – Companhia de Seguros de Crédito, S.A.	Portugal	50.0%	50.0%
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	49.0%	
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 Ações	Portugal	8.5%	
Fundo de Pensões Aberto BPI Valorização	Portugal	40.8%	
Fundo de Pensões Aberto BPI Segurança	Portugal	21.9%	
Fundo de Pensões Aberto BPI Garantia	Portugal	8.5%	
Shareholders of Banco BPI			
La Caixa Group	Spain	84.5%	
Members of the Board of Directors of Banco BPI			
Fernando Ulrich			
Pablo Forero			
António Lobo Xavier			
Alexandre Lucena e Vale			
Allianz Europe Ltd. – that appointed Carla Bambulo as representative to act in her own name			
António Farinha Morais			
Cristina Rios Amorim			
Francisco Barbeira			
Gonzalo Gortázar Rotaeché			
Ignacio Alvarez-Rendueles			
Javier Pano Riera			
João Pedro Oliveira e Costa			
José Pena do Amaral			
Juan Alcaraz			
Lluís Vendrell			
Pedro Barreto			
Tomás Jervell			
Vicente Tardío Barutel			

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.	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 Ações	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			
La Caixa Group	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 Rotaeché			
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			
Pedro Barreto			
Santoro Finance – Prestação de Serviços, S.A.			
Tomás Jervell			
Vicente Tardio Barutel			

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 2017 were as follows:

	Associated and jointly controlled entities	Pension funds of Employees of the BPI Group	Total
Assets			
Financial applications and deposits	21 498		21 498
Loans net of impairment	12		12
Derivatives	1 843		1 843
Other assets	80 363		80 363
	103 716		103 716
Liabilities			
Deposits and technical provisions	55 437	293 069	348 506
Resources of other credit institutions	602 584		602 584
Provisions	21		21
Other liabilities	83		83
	658 125	293 069	951 194
Profit or loss			
Financial margin (narrow sense)	(3 081)	(886)	(3 967)
Net commission income	46 446	50	46 496
Income and operating charges	62		62
General administrative expenses	(953)	(15 352)	(16 305)
Impairment and net provisions for loans and guarantees	3		3
Net income from discontinued operations		2 150	2 150
	42 477	(14 038)	28 439
Off balance sheet items			
Guarantees provided and other contingent liabilities			
Guarantees and sureties	11 313	60	11 373
Open documentary credits	33 108		33 108
Guarantees received	84 005		84 005
Commitments to third parties			
Revocable commitments	467		467
Irrevocable commitments	971		971
Responsibilities for services rendered			
Deposit and safeguard of assets	1 122 790	1 210 366	2 333 156
Foreign exchange operations and derivative instruments			
Purchase	62 625		62 625
Sale	(62 629)		(62 629)
	1 252 650	1 210 426	2 463 076

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 2017 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	3 369			3 369
Financial assets available for sale	88		122 211	122 299
Loans net of impairment	1 371	7 837	87 522	96 730
Derivatives	1 979			1 979
Non-current assets held for sale and discontinued operations	165			165
Other tangible assets	243			243
Intangible assets	13 209			13 209
Other assets	17 699	1		17 700
	38 123	7 838	209 733	255 694
Liabilities				
Deposits and technical provisions	546 456	8 101	26 852	581 409
Resources of other credit institutions	3 087		630	3 717
Hedging derivatives	1 354			1 354
Provisions	2		116	118
Other subordinated liabilities	304 466			304 466
Other liabilities		24	19	43
	855 365	8 125	27 617	891 107
Profit or loss				
Financial margin (narrow sense)	(9 678)	(2)	446	(9 234)
Income from equity instruments			5 187	5 187
Net commission income	541	12	66	619
General administrative costs	(533)			(533)
Impairment losses and provisions for loans and guarantees		3	(60)	(57)
Net income from discontinued operations	(2)	164	3 321	3 483
	(9 672)	177	8 960	(535)
Off balance sheet items				
Guarantees provided and other contingent liabilities				
Guarantees and sureties	1 613	14	24 895	26 522
Guarantees received	66	2 876	2 231	5 173
Commitments to third parties				
Revocable commitments			32 401	32 401
Irrevocable commitments	237	849	37 361	38 447
Responsibilities for services rendered				
Deposit and safeguard of assets	5 510 394	195 272	45 087	5 750 753
Other	6 661 665		438	6 662 103
Foreign exchange operations and derivative instruments				
Purchase	254 103			254 103
Sale	(222 972)			(222 972)
Written-off loans			200	200
	12 205 106	199 011	142 613	12 546 730

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 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.

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 2016 are 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
Responsibilities 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
Responsibilities 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.

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 2017 the fixed remuneration of the members of the Board of Directors amounted to 4 796 174 euro.

To this amount it must be added 219 400 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
Artur Santos Silva ¹	126 000	25 900
Fernando Ulrich	750 000	n / a
Pablo Forero	393 332	11 100
António Lobo Xavier	49 000	23 300
Alexandre Lucena e Vale ²	245 817	n / a
Alfredo Rezende de Almeida ¹	30 584	25 900
António Farinha Morais ²	358 497	n / a
Armando Leite de Pinho ³	8 167	n / a
Carla Bambulo	49 000	18 500
Carlos Moreira da Silva ³	8 167	n / a
Cristina Rios Amorim	21 778	25 900
Francisco Barbeira ²	230 922	n / a
Gonzalo Gortázar Rotaache	21 778	n / a
Ignacio Alvarez Rendueles	365 811	22 200
Javier Pano Riera	21 778	22 200
João Pedro Oliveira Costa	489 260	n / a
José Pena do Amaral	531 600	n / a
Juan Alcaraz	21 778	n / a
Lluís Vendrell	49 000	18 500
Manuel Ferreira da Silva ^{1,4}	212 198	n / a
Maria Celeste Hagatong ^{1,4}	212 198	n / a
Mário Leite da Silva ⁵	12 250	n / a
Pedro Barreto	489 260	n / a
Tomas Jervell	49 000	n / a
Vicente Tardío Barutel	49 000	25 900

1) Resigned from the position, related to the 2014 / 2016 term, at 21 July 2017.

2) Does not include remuneration prior to the appointment of the Executive Committee of the Board of Directors.

3) Resigned from the position at 28 February 2017.

4) Includes 3 481 euro concerning diuturnities.

5) Resigned from the position at 7 February 2017, producing effects from 31 March 2017.

The Remuneration Committee decided to grant the members of the Executive Committee who were in office in 2016, variable remuneration for their performance in that year. 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

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the Executive Committee of the Board of Directors who were in office in 2016 were also remunerated in 2017 with the amounts detailed in the following table:

Variable remuneration (year 2016)

Amounts in euro

Name	Total	Not deferred	Deferred
Fernando Ulrich	465 465	232 733	232 733
António Domingues ¹	53 335	53 335	n / a
José Pena do Amaral	328 647	164 323	164 323
João Pedro Oliveira e Costa	328 647	164 323	164 323
Manuel Ferreira da Silva ²	328 647	164 323	164 323
Maria Celeste Hagatong	328 647	164 323	164 323
Pedro Barreto ³	328 647	164 323	164 323

1) Ceased functions by resigning on 30 June 2016.

2) To the stated amount, 67 000 euro were deducted due to the performance of functions in other entities in representation of the Bank.

3) To the stated amount, 15 122 euro were deducted due to the performance of functions in other entities in representation of 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 160 295 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.

Compensation paid or owed to former executive directors in respect of early termination of service during the year.

There were no payments made for early termination in 2017.

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 2017, 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 2017 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.

Pensions of the executive members of the Board of Directors

The Directors covered by the defined benefit pension plan and the liabilities related to this plan, on 31 December 2017, were as follows:

	Current	Retired	Total
Number of persons	5	8	13
Past service liabilities (th. euro)	7 600	31 599	39 199

If the remaining Directors of Banks of the BPI Group covered by a defined benefit pension plan are added to the previous table, the figures are the following:

	Current	Retired	Total
Number of persons	7	15	22
Past service liabilities (th. euro)	12 582	43 398	55 980

The pension rights acquired in 2017 related to retirement pensions of members of the Executive Committee amounted to 26 573 euro.

Loans to members of the Board of Directors

Mortgage loans

At 31 December 2017 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 1 172 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 2017, the balance of credit given to the members of Banco BPI's Executive Committee was 4 864 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 2017 the credit line balance relating to the members of Banco BPI's Executive Committee was 873 th. euro.

Credit lines for the exercise of RVA options and subscription for BPI shares in the 2008 capital increase

Balance at 31 December 2017		
	Credit line for the exercise of options ¹	Credit line for subscription for BPI shares
Banco BPI Executive Committee	4 864	873
Directors of Banco Português de Investimento ²	89	39
Managers and other Employees	1 592	163
Total	6 545	1 075

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 2017 by the "Remuneration Policy of Holders of Essential Functions" in force.

In 2017, the universe defined above encompassed 60 Employees.

In 2017, the aggregate remuneration of the universe referred to above amounted to 6 696 th. euro, relating only to fixed remuneration. Since no variable remuneration has yet been paid relating to 2017, the amounts disclosed refer to the variable remuneration paid in 2017 relating to 2016.

At 31 December 2017 the aggregate amount of annual pension rights acquired by the Employees under review was 31 984 th. euro.

The breakdown of the remuneration and pension rights indicated above between the above-mentioned groups was the following (amounts in th. euro):

Amounts in th. euro

	1-Responsible for risk-taking	2-Responsible for control functions	3-Operational functions	4-Trading / Sales	TOTAL
Number of Employees	15	9	34	2	60
Fixed remuneration	1 521	633	4 222	320	6 696
Payed variable remuneration ¹	517	134	1 542	205	2 398
Deferred variable remuneration ¹	78		222	103	403
Past responsibilities	4 598	1 203	15 194	169	21 164

1) Concerning the fiscal year of 2016.

A new Employee who falls within this group was recruited in 2017 for the Compliance Department.

In accordance with the terms of article 477 of the Portuguese Commercial Code (Código das Sociedades Comerciais), the shareholdings of the members of the Board of Directors at 31 December 2017 were as follows:

	Shares					Options			
	Held at 31 Dec. 16	Purchases	Sales	Held at 31 Dec. 17	Value at 31 Dec. 17	Shares pledged in guarantee	Shares pledged in guarantee	Loans	Loans
	A	B	C	D					
Artur Santos Silva ³	500 000		400 000	100 000	117				
Fernando Ulrich ⁴	2 092 180		58 724	2 033 456	2 385 1 585 040	348 510	4 173	719	
Pablo Forero ⁵									
Alexandre Lucena e Vale ^{5,6}				59 284	70	40 594	18 690	89	39
Alfredo Rezende de Almeida ³	2 250 000		2 240 000	10 000	12				
António Farinha Morais ^{5,6}									
António Lobo Xavier									
Armando Costa Leite de Pinho ⁷									
Carla Bambulo									
Carlos Moreira da Silva ⁷	66 333			66 333	78				
Cristina Rios Amorim ⁶									
Francisco Barbeira ^{5,6}									
Gonzalo Gortázar Rotaetche									
Ignacio Alvarez-Rendueles ⁵									
Javier Pano Riera ⁵									
João Pedro Oliveira e Costa ⁵	10 708	33 710	44 418						127 249
José Pena do Amaral ⁵	184 913		184 913					169	358 530
Juan Alcaraz ⁵									
Lluís Vendrell									
Manuel Ferreira da Silva ^{3,8}	930 884	10 884	941 768					402 901	402 901
Maria Celeste Hagatong ^{2,9}	885 151		477 835	407 316	478				
Mário Leite da Silva ¹⁰									
Pedro Barreto ⁵	500 000			500 000	587	378 399	94 600	615	358 530
Tomás Jervell									
Vicente Tardío Barutel									
Santorio Finance – Prestação de Serviços, S.A.	270 643 372		270 643 372						

A – Shares which at 31 December 2017 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 2017 were pledged in guarantee of loans to finance their acquisition resulting from the exercise of BPI share subscription rights under the capital increase.

C – Amount owed at 31 December 2017 on the loan referred to in A.

D – Amount owed at 31 December 2017 on the loan referred to in B.

1) Fair value of the shares.

2) Includes extinction by expiry.

3) Ceased functions on 21 July 2017, so the final position reports to that date.

4) Includes 58 724 shares held by the spouse, which were sold by the spouse on the PTO of CaixaBank on 8 February 2017.

5) Member of the Executive Committee.

6) Started functions on 21 July 2017, so the initial position reports to that date.

7) Ceased functions by resigning on 28 February 2017, so the final position reports to that date.

8) Includes 271 678 shares held by the spouse (of which 10 884 attributed as a result of the conversion of 44 371 options under the RVA 2013 programme), which were sold by the spouse in the PTO of CaixaBank on 8 February 2017. Includes 44 371 options on BPI shares held by the spouse, converted into shares on February 2017.

9) Includes 407 316 shares held by the spouse.

10) 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 and options held at 31 December 2017 were as follows:

	Shares					Options			
	Held at 31 Dec. 16	Purchases	Sales	Held at 31 Dec. 17	Value at 31 Dec. 17 ¹	Shares pledged in guarantee	Shares pledged in guarantee	Loans	Loans
	A	B	C	D					
Alexandre Lucena e Vale ²	155 308	29 756	125 780	59 284	70			121 305	121 305
Fernando Costa Lima ³	212 778	15 948		228 726	268			65 012	65 012
Ana Spratley Ferreira ⁴									
Bruno Miguel Silva ⁴									
Luís Graça Moura ⁴									
Pedro Monteiro Coelho ⁴									
Rui Carlos Lopes ⁵									

A – Shares which on 31 December 2017 were pledged in guarantee of loans to finance their acquisition resulting from the exercise of options granted under the RVA programme.

B – Shares which on 31 December 2017 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 on 31 December 2017, on the loan referred to in A.

D – Amount owed on 31 December 2017, on the loan referred to in B.

1) Fair value of shares.

2) Ceased functions on 8 May 2017, so the final position reports to that date.

3) Ceased functions on 31 December 2017, so the final position reports to that date.

4) Started functions on 9 May 2017, so the initial position reports to that date.

5) Started functions on 9 May 2017, so the initial position reports to that date. Ceased functions by resigning on 31 August 2017.

6) Includes extinction by lapsing.

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 2017 were as follows:

	Shares ¹			Options ¹				
	Held at 31 Dec. 16	Purchases	Sales	Held at 31 Dec. 17	Value at 31 Dec. 17 ²	Held at 31 Dec. 16	Purchases	Exercised ³ Held at 31 Dec. 17
Manuel Maria Meneses	114 179	10 475	124 654			42 702		42 702
Francisco Xavier Avillez ⁴	200 001	90 752	290 753			314 410		314 410
Susana Trigo Cabral	38 181		38 181					
Luis Ricardo Araújo	52 000	83 425	62 514	72 911	86	134 152		134 152
Graça Graça Moura ⁵	31 125		31 125					
Ana Rosas Oliveira ⁶	22 098	16 412	38 510			51 306		51 306
João Avides Moreira	20 892	41 191	62 083			61 240		61 240

1) Includes securities held by their spouses.

2) Fair value of shares.

3) Includes extinction by lapsing.

4) Ceased functions on 30 November 2017, so the final position reports to that date.

5) Includes 18 574 shares held by the spouse on 31 December 2016, sold on 8 February 2017 in the context of the PTO of CaixaBank.

6) Includes 7 177 shares held by the spouse of which 2 518 were attributed as a result of the conversion of 7 871 options under the RVA 2012 programme, which were sold by the spouse on 8 February 2017 in the context of the PTO of CaixaBank.

ARTUR SANTOS SILVA

On 8 February 2017 sold 400 000 shares at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

Ceased functions on 21 July 2017.

FERNANDO ULRICH

Has not traded any shares.

On 8 February 2017 his spouse sold 58 724 shares at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

PABLO FORERO

Started functions on 9 May 2017. 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 share capital, see the information below concerning Gonzalo Gortázar Rotaèche.

ALEXANDRE LUCENA E VALE

On 3 February 2017 were attributed to him 29 756 Banco BPI shares, resulting from the conversion of 121 305 options of RVA 2013.

On 8 February 2017 sold 125 780 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

Started functions on 21 July 2017. Has not traded any BPI shares from the date in which he started functions until 31 December 2017.

ALFREDO REZENDE DE ALMEIDA

On 8 February 2017 sold 2 240 000 shares at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

Ceased functions on 21 July 2017.

ANTÓNIO FARINHA MORAIS

Started functions on 21 July 2017. Has not traded any Banco BPI shares from the date in which he started functions until 31 December 2017.

ANTÓNIO LOBO XAVIER

Does not hold and has not traded any Banco BPI shares.

ARMANDO COSTA LEITE DE PINHO

Ceased functions by resigning on 28 February 2017. Has not traded any shares until that date.

At 31 December Arsopi – Holding, SGPS, S.A., of which he is the President of the Board of Directors, owned 2 942 267 shares of Banco BPI, which were sold on 8 February 2017 at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

At 31 December ROE, SGPS, S.A., of which he is the President of the Board of Directors, owned 4 442 291 shares of Banco BPI, which were sold on 8 February 2017 at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

At 31 December Security, SGPS, S.A. of which he is the President of the Board of Directors, owned 3 414 404 shares of Banco BPI, which were sold on 8 February 2017 at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

CARLA BAMBULO

Does not hold and has not traded any Banco BPI shares.

At 31 December Allianz Europe, Ltd. owned 120 553 986 shares of Banco BPI, which correspond to 8.27% of its share capital.

CARLOS MOREIRA DA SILVA

Ceased functions by resigning on 28 February 2017. Has not traded any shares until that date.

CRISTINA RIOS AMORIM

Started functions on 21 July 2017. Does not hold and has not traded any Banco BPI shares.

FRANCISCO BARBEIRA

Started functions on 21 July 2017. Has not traded any Banco BPI shares from the date in which he started functions until 31 December 2017.

GONZALO GORTÁZAR ROTAECHE

Started functions on 9 May 2017. Does not hold and has not traded any Banco BPI shares.

Is the Chief Executive Officer of CaixaBank, S.A., which owns 1 231 250 696 Banco BPI shares at 31 December 2017, representing 84.51% of its share capital.

IGNACIO ALVAREZ-RENDUELES

Does not hold and has not traded any Banco BPI shares.

For further information about the transactions and the participation of CaixaBank, S.A. in Banco BPI's share capital, see the information above concerning Gonzalo Gortázar Rotaache.

JAVIER PANO RIERA

Started functions on 21 July 2017. Does not hold and has not traded any Banco BPI shares.

JOÃO PEDRO OLIVEIRA E COSTA

On 3 February 2017 10 708 and 23 002 shares of Banco BPI were attributed to him, as a consequence of the conversion of 33 476 options of RVA 2012 and 93 773 options of RVA 2013, respectively.

On 8 February 2017 sold 44 418 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

JOSÉ PENA DO AMARAL

On 8 February 2017 sold 184 913 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

JUAN ALCARAZ

Started functions on 21 July 2017. Does not hold and has not traded any Banco BPI shares since that date.

LLUÍS VENDRELL

Does not hold and has not traded any Banco BPI shares.

For further information about the transactions and the participation of CaixaBank, S.A. in Banco BPI's share capital, see the information above concerning Gonzalo Gortázar.

MANUEL FERREIRA DA SILVA

On 8 February 2017 sold 670 000 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

On 3 February 2017 were attributed to his spouse 10 884 Banco BPI shares, resulting from the conversion of 44 371 options of RVA 2013. On 8 February 2017 his spouse sold 271 768 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

Ceased functions on 21 July 2017.

MARIA CELESTE HAGATONG

On 8 February 2017 sold 477 835 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

At 30 June 2017, her spouse held 407 316 shares of Banco BPI.

Ceased functions on 21 July 2017.

MÁRIO LEITE DA SILVA

Ceased functions by resigning on 31 March 2017. Has not traded any shares until that date.

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.

On 8 February 2017 sold 270 643 372 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

PEDRO BARRETO

Has not traded any shares.

TOMÁS JERVELL

Does not hold and has not traded any Banco BPI shares.

VICENTE TARDIO BARUTEL

Does not hold and has not traded any Banco BPI shares.

FERNANDO COSTA LIMA

On 3 February 2017 were attributed to him 15 948 Banco BPI shares, resulting from the conversion of 65 012 options of RVA 2013.

Ceased functions on 31 December 2017.

ANA SPRATLEY FERREIRA

Started functions on 9 May 2017. Does not hold and has not traded any Banco BPI shares between that date and 31 December 2017.

BRUNO MIGUEL SILVA

Started functions on 9 May 2017. Does not hold and has not traded any Banco BPI shares between that date and 31 December 2017.

LUÍS GRAÇA MOURA

Started functions on 9 May 2017. Does not hold and has not traded any Banco BPI shares between that date and 31 December 2017.

PEDRO MONTEIRO COELHO

Started functions on 9 May 2017. Does not hold and has not traded any Banco BPI shares between that date and 31 December 2017.

RUI CARLOS LOPES

Started functions on 9 May 2017. Does not hold and has not traded any Banco BPI shares between that date and 31 December 2017.

Ceased functions on 31 August 2017.

MANUEL MARIA MENESES

On 3 February 2017 were attributed to him 10 475 Banco BPI shares, resulting from the conversion of 42 702 options of RVA 2013.

On 8 February 2017 sold 124 654 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

FRANCISCO XAVIER AVILLEZ

On 3 February 2017 were attributed to him 58 459 and 32 293 shares of the Bank, resulting from the conversion of 182 762 options of RVA 2012 and 131 648 options of RVA 2013, respectively.

On 8 February 2017 sold 290 753 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

Ceased functions on 30 November 2017.

SUSANA TRIGO CABRAL

On 8 February 2017 sold 38 181 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

LUÍS RICARDO ARAÚJO

On 2 February 2017 acquired 62 514 shares, through the exercise of an equal number of options under the RVA 2011 attributed on 28 May 2012 at an exercise price of 0.358 euro (adjusted for capital increases) defined at the moment of attribution.

Sold on 2 February 62 514 shares at the price of 1.132 euro.

On 3 February 2017 were attributed to him 14 319 and 6 592 shares of the Bank, resulting from the conversion of 44 766 options of RVA 2012 and 26 872 options of RVA 2013 options, respectively.

GRAÇA GRAÇA MOURA

On 8 February 2017 sold 12 551 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

On 8 February 2017 her spouse sold 18 574 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

ANA ROSAS OLIVEIRA

On 3 February 2017 were attributed to her 13 894 shares of the Bank, resulting from the conversion of 43 435 options of RVA 2012.

On 8 February 2017 sold 31 333 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

On 3 February 2017 were attributed to her spouse 2 518 shares of the Bank, resulting from the conversion of 7 871 options of RVA 2012.

On February 8, 2017 her spouse sold 7 177 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

JOÃO AVIDES MOREIRA

On 2 February 2017 acquired 32 962 shares, through the exercise of an equal number of options under the RVA 2011 attributed on 28 May 2012 at an exercise price of 0.358 euro (adjusted for capital increases) defined at the moment of attribution.

Sold on 2 February 32 962 shares at a price of 1.132 euro.

On 3 February 2017 were attributed to him 5 543 and 2 686 shares of the Bank, resulting from the conversion of 17 329 options of RVA 2012 and 10 949 options of RVA 2013, respectively.

On 8 February 2017 sold 29 121 shares of Banco BPI at the price of 1.134 euro under the Public Tender Offer launched by CaixaBank, S.A.

4.49 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 th. euro, 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 announcement 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 an insolvency situation (failing or likely to fail) and decided to commence 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 was 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 2017, contributions to the Resolution Fund were made in the form of initial contributions, periodic contributions and contribution over the banking sector. In 2017, Bank made periodic contributions to the Resolution Fund and over the banking sector in the amounts of 3 876 th. euro and 17 763 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 extension 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 over 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 euro, of which 4 253 million euro granted by the Portuguese State and 700 million euro granted by a group of banks, of which 116 million euro were granted by the Bank.
- “Those 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.”

On 31 March 2017, the Bank of Portugal made a communication in which was stated, among others, the following aspects:

- “Bank of Portugal today selected LONE STAR to complete the sale of Novo Banco. The Resolution Fund has consequently signed the contractual documents of the transaction.”
- “Through the capital injection, LONE STAR will hold 75% of the share capital of Novo Banco and the Resolution Fund will maintain 25% of the share capital.”
- “The terms agreed also include a contingent capital mechanism, under which the Resolution Fund, as a shareholder, undertakes to make capital injections in case certain cumulative conditions are to be met related to: i) the performance of a specific portfolio of assets and ii) the capital levels of the bank going forward.”
- “The terms agreed also provide for mechanisms to safeguard the interests of the Resolution Fund and to align incentives as well as monitoring mechanisms, notwithstanding the limitations arising from State Aid rules.”
- “The completion of the sale is conditional on the customary regulatory approvals (including by the European Central Bank and the European Commission) and on a liability management exercise covering the senior bonds of Novo Banco and subject to bondholders' acceptance having created CET1 of at least € 500 million.”

On 7 July 2017, the European Commission decided not to oppose the notified concentration and to declare it compatible with the internal market.

Additionally, Novo Banco announced on 24 July 2017, a tender offer operation for the acquisition of several senior debt issues issued directly and indirectly by Novo Banco, with the purpose of strengthening its equity capital, an operation provided for in the sale process to Lone Star announced on 31 March. The cash offer provided for the purchase of securities with a minimum nominal amount of 6 276 million euro, of which at least 1 000 million euro issued by the London Branch of Novo Banco and was accompanied by an operation of consent solicitation for early redemption. This operation was concluded on 4 October 2017.

Additionally, it should be mentioned that on 1 September 2017, Banco Comercial Português, S.A., announced the following: *“Banco Comercial Português informs that, after having conveyed reservations regarding the contingent capitalization obligation by the Portuguese Resolution Fund which was announced to be included in a sale agreement of Novo Banco, has decided, in light of the legal deadline and for caution, to request the respective appreciation through administrative legal proceedings.*

This diligence, which centres exclusively on the referred capitalization obligation, does not comprise the request by the Bank of, nor entail, the production of any suspensive effects on the sale of Novo Banco, S.A. and, consequently, brings legally no impediment to such sale within the foreseen delays.”

On 2 October 2017, the Council of Ministers approved a resolution by which it authorized the conclusion by the Portuguese State, in its role of ultimate guarantor of financial stability, of a framework agreement with the Resolution Fund, for the provision of financial resources to the Resolution Fund, if and when it appears necessary for the fulfillment of its contractual obligations that may arise from the sale of a 75% stake in Novo Banco, S.A.

The abovementioned framework agreement was signed on the same date and determines that additional funds are to be made available when necessary to ensure fulfillment of any liabilities that may arise from the sale of Novo Banco, with an annual limit of 850 000 th. euro, while also establishing that the refund of any such funds will be scheduled taking in to consideration that one of the objectives of this framework agreement is to ensure the stability of the contributive burden that falls on the banking sector, i.e., to ensure that no special contributions or any other extraordinary contributions are required from the participants of the Resolution Fund.

On 18 October 2017, the Bank of Portugal and the Resolution Fund announced the conclusion of the sale of Novo Banco to Lone Star.

Currently it 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 2017 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 or any other liability or contingent liability assumed by the Resolution Fund.

Possible changes regarding these subjects may have 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 Portuguese 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 paragraph 11 of the preliminary announcement.

Once launched, in the terms of 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 Shareholders' 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 no. 298 / 92*, of 31 December as amended ("RGICSF") and the applicable provisions of *Directive no. 2013 / 36 / EU*, of the Parliament and the Council of 26 June 2013, of (EU) *Regulation no. 1024 / 2013*, of the Council, of 15 October 2013 and of (EU) *Regulation no. 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 no. 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) no. 139 / 2004*, of the Council, of 20 January of 2004, regarding the control of concentrations between undertakings;
- d) Obtain the authorization of 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 National Bank of Angola (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 39.01% of the voting rights of Banco BPI, which, considering the participation already held before the Offer – 45.50% – determined CaixaBank to be the holder of a share capital representing 84.51% of the voting rights of Banco BPI.

Sale of financial investments and businesses

On 23 November 2017 and 21 December 2017, Banco BPI publicly announced that, following the acquisition proposals presented to it by its shareholder CaixaBank S.A., the contracts relating to the following transactions were signed:

- Sale of shares representing the total share capital of BPI Vida e Pensões, Companhia de Seguros, S.A., to CaixaBank Group company VidaCaixa S.A.U. de Seguros y Reaseguros for the price of 135 million euro;
- Sale of the shares representing the total share capital of the companies BPI Gestão de Activos, Sociedade Gestora de Fundos de Investimento, S.A. and BPI Global Investment Fund Management Company S.A. (BPI GIF) to the CaixaBank Group company CaixaBank Asset Management SGIIC, S.A.U., for a consideration of 75 million euro, in the case of BPI Gestão de Activos, and 8 million euro in the case of BPI GIF;

- Sale by Banco Português de Investimento, S.A. to CaixaBank of the legal positions related to stock broking, research and corporate finance operations for a consideration equivalent to the book value of the net operating assets of those activities on the transaction closing date (amount estimated to be around 4 million euro).
- Sale of the legal positions related to the business activity involving the issue of payment instruments (debit and credit cards) to CaixaBank Payments Establecimiento Financiero de Credito de Entidades de Pago S.A. (CB Payments), a company 100% held by CaixaBank, for a consideration of 53 million euro. The operation includes also the sale of the outstanding credit arising from the utilization of credit cards for their book value net of impairments less the amount corresponding to the respective capital requirements.
- Sale of the legal positions related to the merchant acquiring business to Comercia Global Payments, Entidad de Pago, S.L., for a consideration of 60 million euro. Comercia is a joint venture vehicle of CaixaBank and Global Payments Inc. Global Payments Inc.

Within the framework of the transactions described above, a number of service contracts will be signed in terms of which Banco BPI will render a series of instrumental services to the companies sold or to the acquirers for performing the activities involved in those transactions.

Banco BPI's Board of Directors approved the transactions described above with the aim of improving over the medium and long term the commercial service to its Customers, creating synergies with the CaixaBank Group and enabling Banco BPI to concentrate on the banking business. Banco BPI will maintain the relationship with the Customers of the activities concerned, which it will carry out in the capacity of agent of the respective companies sold or to the acquirers.

Given that the transactions concerned constitute operations between related parties, the resolutions of the Board of Directors were preceded by an analysis and issuance of opinion by a Board of Directors committee composed of non-executive members of the Board of Directors and by the Supervisory Board.

The sale of BPI Vida e Pensões was concluded in the end of December 2017.

The conclusion of the other transactions will become effective as soon as the suspensive conditions to which they are subject are verified, which include the authorisations of the authorities that in each case may be applicable.

On 15 February 2018, Banco BPI publicly announced that, jointly with the Pension Fund of Banco BPI, signed a contract through which they agreed to sell to Viacer SGPS, S.A. their shareholdings in Viacer – Sociedade Gestora de Participações Sociais, Lda. (Viacer), a company which owns 56% of the share capital of Super Bock Group, SGPS, S.A.

Banco BPI holds a stake representing 14% of the share capital of Viacer, which it agreed to sell by the amount of 130 million euro and the Pension Fund of Banco BPI holds a stake representing 11% of the share capital of Viacer, which it agreed to sell by the amount of 103 million euro. This operation will have an impact of 60 million euro in Banco BPI's statement of income and of 47 million euro in

the net asset value of the Pension Fund of Banco BPI.

The transfer of the above mentioned shareholdings is subject to the condition precedent of obtaining a decision of non-opposition by the competent competition authority.

Depreciation of the Angolan Kwanza

On January 2018, the Angolan Central Bank (BNA) changed the exchange rate regime that was in force until that date, which consisted on an administered exchange rate determined by BNA independently of the relationship between supply and demand, to an exchange rate regime with a band of exchange rate fluctuation. As a consequence, an orderly and gradual process of depreciation of the Kwanza against the Dollar was initiated. Between 1 January 2018 and the date of the approval of the consolidated financial statements, the Angolan Kwanza depreciated 31%. The impact of this depreciation on Banco BPI's financial statements resulting from the 48.1% stake held in BFA amounts approximately to (90) million euro (after taxes).

5. NOTE ADDED FOR TRANSLATION

These consolidated financial statements are a translation of financial statements originally issued in Portuguese in conformity with the International Financial Reporting Standards as endorsed by the European Union, some of which may not conform to or be required by generally accepted accounting principles in other countries. In the event of discrepancies, the Portuguese language version prevails.

Statement from the Board of Directors



DECLARATION REFERRED TO IN ARTICLE 245 (1) C) OF THE SECURITIES CODE

Article 245 (1) (c) of the Securities Code prescribes that each one of the persons responsible for the company issues a declaration, the content of which is defined therein.

The Members of Banco BPI's Board of Directors, identified here by name, individually subscribe to the declaration transcribed as follows¹:

"I declare in the terms and for the purposes for article 245 (1) (c) of the Securities Code that, to the best of my knowledge, the directors' report, the annual accounts, the statutory audit certification and other documents forming part of Banco BPI, S.A.'s annual report, all relating to the 2017 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	Fernando Ulrich
Deputy-Chairmen	António Lobo Xavier
	Pablo Forero
Members	Alexandre Lucena e Vale
	António Farinha Morais
	Carla Bambulo ²
	Cristina Rios Amorim
	Fátima Barros
	Francisco Barbeira
	Gonzalo Gortázar
	Ignacio Alvarez-Rendueles
	Javier Pano
	João Pedro Oliveira e Costa
	José Pena do Amaral
	Juan Alcaraz
	Lluís Vendrell
	Pedro Barreto
	Tomás Jervell
	Vicente Tardío Barutel

Porto, 23 March 2018

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 26 April 2017 by Allianz Europe, Ltd. In terms of article 15(2) of Banco BPI, S.A.'s statutes.

Legal certification of accounts and audit report



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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 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 of December 31, 2017 (that presents a total of 29,640,209 t.euros and total equity of 2,823,586 t.euros, including a consolidated net income attributable to the shareholders of the Bank of 10,209 t.euros), the Consolidated Statements of Income, Profit and Loss and Other Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for the year then ended, and the Notes to the consolidated financial statements, which include a summary of 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 of December 31, 2017 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 and 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 for the year ended on December 31, 2017. 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 most significant risks of material misstatement identified

Loss of control over Banco de Fomento Angola, S.A. and valuation of the retained participation (Notes 4.9 and 4.12)

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), whose execution, on January 5, 2017, implied the reduction of the BPI Group's participation in BFA from 50.1% to 48.1%. Following this operation, the management understands that as from the date of its execution, Banco BPI ceased to control BFA, in accordance with IFRS 10 - Consolidated Financial Statements (IFRS 10). According to IFRS 10, in the context of recording the loss of control, the 48.1% interest retained by Banco BPI in BFA was initially recognized by its estimated fair value. Considering that Banco BPI maintained significant influence over the decisions on BFA's financial and operating policies, the participation retained by Banco BPI in BFA was subsequently measured using the equity method, in accordance with the requirements of IAS 28 - Investments in Associates and Joint Ventures. On December 31, 2017, the book value of the 48.1% participation in BFA held by Banco BPI amounts to 576,359 t.euros, and the contribution of BFA's net income to the consolidated net income for the year then ended was 92,825 t.euros. In addition, the consolidated net income for the year ended on December 31, 2017 also includes the impact of the sale of 2% of the participation in BFA and the consequent loss of control, that resulted in a total loss of 212,298 t.euros, which includes the reclassification to profit and loss of the negative foreign exchange reserves generated in prior years, in the amount of 182,121 t.euros.	Our audit procedures to address the identified risks of material misstatement included: • Analysis of the Bank's internal control procedures in the context of recording unusual transactions. • Obtaining and analyzing the documentation related to the sale of 2% of BFA's share capital. • Obtaining 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). • Analysis of the application of the equity method for the valuation of the participation retained by Banco BPI in BFA as of December 31, 2017; • Preparation and delivery of audit instructions to the BFA auditors, follow-up of the work performed and analysis of its sufficiency and of the respective conclusions, as expressed in the reporting documents issued by those auditors; • Obtaining and analyzing the study prepared by the Bank to assess the existence of any evidence of impairment applicable to the participation held in BFA as of December 31, 2017, in order to assess the reasonableness of the assumptions considered and the results obtained;

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the most significant risks of material misstatement identified

Loss of control over Banco de Fomento Angola, S.A. and valuation of the retained participation (Notes 4.9 and 4.12) (continued)

To the extent that the identification and recording of the loss of control over BFA constitutes a relevant non-recurring event and that this transaction and the subsequent valuation of the retained holding have a significant impact on Banco BPI's consolidated financial statements, this area was considered as a key audit matter.	Review of the disclosures related to the sale of 2% of the share capital of BFA and consequent loss of control, and to the subsequent valuation of the retained participation included in the consolidated financial statements as of December 31, 2017, considering the applicable accounting framework.

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the most significant risks of material misstatement identified

Impairment for loans to customers (Notes 2.3.4, 2.16, 4.7, 4.21 and 4.45)

The accumulated impairment losses for loans and provisions for guarantees and other commitments recorded by the Bank ("impairment losses") as of December 31, 2017 amount to 584,907 t.euros and 18,442 t.euros, respectively. Impairment losses represent the Bank's Managements' 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 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.	Our audit procedures to address the identified risks of material misstatement included: - 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 be mitigated. - 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 indicate potential higher risk of occurrence of deviation on the individual impairment assessment as well as on 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.

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the most significant risks of material misstatement identified

Impairment for loans to customers (Notes 2.3.4, 2.16, 4.7, 4.21 and 4.45) (continued)

The determination of impairment losses through individual analysis has an inherent 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 with 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 showing signs of impairment, probability of transition 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. Considering this is an area in which Management has to make estimates that incorporate a high degree of subjectivity or some complexity, as well as the materiality of the involved amounts in the context of the Bank's consolidated financial statements, impairment for loans to customers was considered as a key audit matter.	- Regarding the collective impairment model: (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; and (iii) validation on a sample basis of the inputs used to determine the main risk parameters. - 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 most significant risks of material misstatement identified

Liabilities with retirement pensions of pensioners and employees (Notes 2.7.1, 2.8, 2.16, 4.25, 4.26 and 4.39)

The Group 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) of the Banking Sector. As of December 31, 2017 the Group's liabilities for past services of its pensioners and employees with retirement pensions and other benefits amount to 1,601,350 t.euros. The Group's liabilities associated with the defined benefit plans as of December 31, 2017 were determined by the responsible actuary, considering a set of actuarial assumptions, including the discount rate, the growth rates of wages and pensions and the mortality table. During 2017, the Group conducted a program of early retirements and voluntary terminations, under which it has incurred total costs of 106,900 t.euros, that include, regarding the defined benefit liabilities, an increase, net of reductions, of past service liabilities amounting to 40,962 t.euros. Any changes in actuarial assumptions may have a relevant impact in the liabilities with past services related to pensions. Considering the importance of the actuarial assumptions for the purposes of determining liabilities with past services related to pensions in the context of the Bank's consolidated financial statements, this area was considered as a key audit matter.	Our audit procedures to address the identified risks of material misstatement included: • 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 registration 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 December 31, 2017, as provided in the Regulatory Standard No. 7/2007-R, of May 17, of the ASF. • Reading the actuarial study with reference to December 31, 2017 and discussion with the responsible actuary of 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 Management. • Review of the disclosures included in the consolidated financial statements of the Bank regarding 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 most significant risks of material misstatement identified

Recoverability of deferred tax assets (Notes 2.13, 2.16 and 4.41)

As of December 31, 2017, the Group's consolidated balance sheet includes deferred tax assets in the amount of 405,182 t.euros, of which 197,710 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: • 90,650 t.euros related to impairment losses for loans and guarantees; • 54,428 t.euros related to employee benefits (actuarial deviations, transfer of liabilities to the Social Security, early retirements, final career premium, compensation payable and other commitments under the voluntary terminations program occurred during the year); and • 20,559 t.euros of tax losses carried forward (19,609 t.euros originated in 2014 and 2016 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. The tax losses originated in 2014 and 2016 have a 12-year reporting period. 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 future taxable income 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 on its interpretation of the tax legislation.	Our audit procedures to address the identified risks of material misstatement included: • 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 Bank's Budget for the 2018-2020 period and additional information available on this matter. • Analysis 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 demonstrate 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 regarding 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 most significant risks of material misstatement identified

Recoverability of deferred tax assets (Notes 2.13, 2.16 and 4.41) (continued)

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.	

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the most significant risks of material misstatement identified

Resolution Fund (Note 4.49)

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 the owner of the entire share capital of Novo Banco, S.A. (Novo Banco) and Oitante, S.A.. In this context the Resolution Fund has obtained loans from the Portuguese State and a banking syndicate and has assumed other liabilities and contingent liabilities, including those related with litigation. The Bank participated in the banking syndicate through a loan agreement. In order to reimburse these loans and to meet other responsibilities already assumed or that 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 have to 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 funds 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.	Our audit procedures to address the identified risks of material misstatement included: • 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 September 28, 2016 and of the public communication from the Resolution Fund of March 21, 2017, regarding the new conditions of the loans to the Resolution Fund and the corresponding impact on its sustainability and financial soundness. • Analysis of the public announcement and of the contents of the resolution approved by the Council of Ministers of October 2, 2017, which authorized the conclusion by the Portuguese State, in its role of ultimate guarantor of financial stability, of a framework agreement for the provision of financial resources to the Resolution Fund, if and when it appears necessary for the fulfilment of its contractual obligations that may arise from the sale of a 75% stake in Novo Banco, S.A.. • Analysis of the framework agreement established between the Portuguese State and the Resolution Fund. • Analysis of the public communication from the Resolution Fund of October 18, 2017, regarding the conclusion of the sale of Novo Banco, S.A. to Lone Star.

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the most significant risks of material misstatement identified

Resolution Fund (Note 4.49) (continued)

According to a public notice from the Resolution Fund dated March 21, 2017, the conditions of the loans that the Resolution Fund has obtained to finance the resolution measures applied to BES and Banif, namely 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, were renegotiated in the first quarter of 2017, including the extension of the maturity date for December 31, 2046 and the possibility of adjusting that date, with the purpose of guaranteeing the ability 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. It was also established the <i>pari passu</i> 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. On March 31, 2017, the Bank of Portugal announced that it had selected Lone Star as the bidder that would advance to purchase Novo Banco, an operation whose conclusion was communicated by the Resolution Fund on October 18, 2017. The agreed terms include the existence of a contingent capitalization mechanism, according to which, the Resolution Fund agrees to make capital injections up to a maximum of 3,890,000 t.euros, in the case certain cumulative conditions materialize. After the conclusion of this sale process, Lone Star became the owner of 75% of the share capital of Novo Banco, S.A., with the Resolution Fund retaining a 25% equity stake On October 2, 2017, the Council of Ministers approved a resolution by which it authorized the conclusion by the Portuguese State, in its role of ultimate guarantor of financial stability, of a framework agreement with the Resolution Fund, for the provision of financial resources to the Resolution Fund, if and when it appears necessary for the fulfillment of its contractual obligations that may arise from the sale of a 75% stake in Novo Banco, S.A..	• Reading of the most recent Report and Accounts of the Resolution Fund available, which refers to the year 2016. • Analysis of a simplified model of cash flow projections of the Resolution Fund that was presented to us by the Bank when the loans obtained by the Resolution Fund were renegotiated. • Review of the accounting framework of the contributions to the Resolution Fund. • Obtaining a representation from the Bank's Management regarding their assessment that the liabilities and contingent liabilities assumed by the Resolution Fund, as well as the responsibilities arising from the transactions made by it will not imply the payment by the Bank of any special contributions or other extraordinary contributions to the Resolution Fund. • Review of the disclosures included in the consolidated financial statements related to 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 most significant risks of material misstatement identified

Resolution Fund (Note 4.49) (continued)

The abovementioned framework agreement was signed on the same date and determines that additional funds are to be made available when necessary to ensure fulfillment of the responsibilities assumed in the context of the sale of Novo Banco, with an annual limit of 850,000 t.euros, while also establishing that the corresponding refund will take into consideration that one of the objectives of this framework agreement is to ensure the stability of the contributive burden that falls on the banking sector, i.e., to ensure that no special contributions or any other extraordinary contributions are required from the participants of the Resolution Fund. The consolidated financial statements as of December 31, 2017 reflect the Bank's expectation that no special contributions or any other extraordinary contributions will be required by it to finance the resolution measures applied to BES and Banif or any other liability or contingent liability assumed by the Resolution Fund. 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 policies and principles 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 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, 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 that of 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 the accounting policies used and the reasonableness of the 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 exists, 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 responsible for our audit opinion;
- 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;
- 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 be perceived to threaten 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 required in article 451, numbers 4 and 5, of the Portuguese Commercial Code ("Código das Sociedades Comerciais"), as well as the verification that the consolidated non-financial information was presented.

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, 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 consolidated non-financial information required under the article 508-G of the Portuguese Commercial Code

In compliance with article 451, number 6, of the Portuguese Commercial Code ("Código das Sociedades Comerciais"), we inform that the Bank prepared a specific report about the consolidated non-financial information, as required under the terms of article 508-G of the Portuguese Commercial Code ("Código das Sociedades Comerciais"), which is presented together with the Management report.

About the additional elements included in article 10 of Regulation (EU) 537/2014

In compliance with article 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council of April 16, 2014, and beyond the key audit matters mentioned above, we further report the following:

- Deloitte & Associados, SROC S.A., has been the auditor of Banco BPI, S.A. since 2002. Our most recent appointment took place at the shareholders' general assembly held on April 26, 2017, solely for the year of 2017.
- The Management confirmed to us that it 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 skepticism 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 on this date.
- 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, March 26, 2018

Deloitte & Associados, SROC S.A.
Represented by Paulo Alexandre Rosa Pereira Antunes, 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.)

Report and opinion of the Supervisory Board



REPORT ON THE SUPERVISORY ACTIVITY CARRIED OUT IN 2017 BY THE SUPERVISORY BOARD OF BANCO BPI, S.A. ON THE BPI GROUP AND OPINION ON THE ANNUAL REPORT AND ACCOUNTS OF THE GROUP FOR FINANCIAL YEAR 2017

The present document relating to the 2017 financial year was prepared by the Supervisory Board of Banco BPI, S.A. (Banco BPI or BPI) for compliance with the requirements of article 420 of the Commercial Companies Code (CCC).

1. REPORT ON THE ACTIVITY OF THE SUPERVISORY BOARD IN FINANCIAL YEAR 2017

In 2017 the Supervisory Board held sixteen meetings which were attended by all of its members.

Besides these meetings, Supervisory Board members attended the eleven meetings of the Audit and Internal Control Committee (AICC) held during the year, which enabled them to:

- analyse all the documentation distributed as support for their work;
- hear the explanations given by the heads of each of the departments whose matters were reviewed;
- put questions and ask for clarifications concerning the documents analysed; and
- monitor directly the evolution of BPI's operations, paying special attention to compliance with legal requirements and regulations and the Company's memorandum and articles of association.

In 2017 the Supervisory Board also attended the General Meeting held on 26 April, where it monitored the process of analysis and approval of BPI Group's 2016 Annual Report and Accounts, the election of new members of the Corporate Bodies and the review of proposals of changes to the Bank's Articles of Association.

The Supervisory Board member Mr. Rui Guimarães took part in the Board of Directors' meeting of 23 March 2018, which approved the 2017 Annual Report and Accounts.

The Supervisory Board was also represented by Mr. Rui Guimarães in a meeting with the European Central Bank and Banco de Portugal Joint Supervisory Team (ECB-BdP JST) held on 28 November 2017 at the ECB's premises in Frankfurt, which was also attended by the Chairman of the AICC. At this meeting the aforesaid member of the Supervisory Board provided explanations about its activity, referring that it had suffered no significant impact as a result of the integration of BPI into the Group led by CaixaBank, S.A., (CaixaBank).

In compliance with the terms of reference legally entrusted to it and which form part of its Regulations, during 2017 the Supervisory Board monitored and analysed the works carried out by the Statutory Audit Firm / External Auditor (Deloitte & Associados, SROC, S.A., hereinafter referred to as Deloitte or Statutory Auditors), the Audit and Inspection Division and other Divisions of both the Bank and other companies of the BPI Group, and also the inspections carried out by the supervision authorities.

From the activities developed by the Supervisory Board, the following should be highlighted:

1.1. Watching over compliance with legal and regulatory provisions, the Company's Articles of Association and the rules issued by the supervision authorities, as well as with the general policies, standards and practices instituted internally

At the end of the year it reviewed BPI Group's Corporate Governance Report presented by the Board of Directors and ascertained that it translated the practices that it had regularly observed, and that, in accordance with the terms of article 420(5) of the CCC, it covered the items referred to in article 245-A of the Securities Code (SC).

Throughout the year, the Supervisory Board received information on the development of the inspections carried out by the supervision authorities and, after their conclusion, received and analysed the reports sent by these entities to BPI and all the correspondence subsequently exchanged. It also took part in the implementation of the corresponding recommendations.

In particular, the Supervisory Board monitored the on-site inspections conducted by the ECB-BdP JST as well as the respective progress reports systematically sent to these supervision entities.

The Board reviewed the reports on the audits conducted by the Audit and Inspection Division and the procedural reviews carried out by Deloitte, paying particular attention to the shortcomings identified and the recommendations made with a view to overcoming them, as well as to compliance with the deadlines set for their rectification, also regularly following up on the activity developed by the Compliance Division.



It also kept abreast of the outcomes of the works carried out by the Statutory Auditors on the processes instituted to ensure the safeguarding of Customers' assets.

Moreover, it regularly followed the ongoing process at the Bank of implementation of Accounting Standard IFRS 9.

1.2. Ensuring that the key targets set by the supervision authorities, namely through guidelines addressed to credit institutions and financial companies, are pursued by Banco BPI and the other companies of the Group subject to consolidated supervision

The Board paid particular attention to the guidelines issued by the Banco de Portugal, in particular in its *Notice 5 / 2008*, concerning internal control and risk control issues, having reviewed the operational procedures of Banco BPI and the remaining Group companies, including branches and subsidiaries, subject to supervision on a consolidated basis.

Accordingly, in June 2017 the opinions on the adequacy, effectiveness and consistency of the Internal Control Systems of the BPI Group companies, including branches and subsidiaries, subject to consolidated supervision, were sent to the ECB and the BdP.

To this effect, the Supervisory Board,

- reviewed the annual control reports prepared by the Boards of Directors of all the Group companies subject to joint supervision by the ECB and the BdP;
- analysed the opinions of the respective Statutory Auditors on the internal control systems underlying the processes of preparation and disclosure of financial information; and
- reviewed the reports prepared by the Audit and Inspection Division, the Compliance Division and the Global Risk Management Division.

Pursuant to the provisions of *Banco de Portugal's Notice no. 9 / 2012*, and after consultation with the Compliance Division, the Supervisory Board issued an opinion on the adequacy of Banco BPI's System for Prevention of Money Laundering and Terrorism Financing, which it sent to the ECB and the BdP also in June 2017.

The Supervisory Board also monitored the inspections carried out not only by the ECB and BdP but also by the CMVM (the Portuguese Securities Market Commission). In this context, it monitored the various audit actions conducted by the ECB-BdP JST, in particular those focusing on the following issues:

- ICAAP (Internal Capital Adequacy Assessment Process);
- Information Technology Systems, viewing the process of preparation of COREP (Common Reporting) and FINREP (Financial Reporting);
- Collective Impairment Models for Large Companies and Project Finance, in Spain; and
- Risk Assessment Model and Special Assessment Programme (SAP).

1.3. Verifying the adequacy of and monitoring compliance with the accounting policies, criteria and practices adopted and ensuring that the documents that support them are in order

The Supervisory Board analysed the results and findings of the audits to the financial statements carried out by the Statutory Auditors, as well as the information on accounting policies and practices in due course provided to it, both on a quarterly basis and for the consolidated results reported at the end of 2017 by Banco BPI.

It also analysed the 1st half of 2017 interim Report and Accounts and the 2017 Annual Report draft, as well as the Audit Reports issued by Deloitte on the financial statements of Banco BPI and the BPI Group.

1.4. Supervising the process of preparation and disclosure of financial information by the Company

On the one hand, the Board analysed in detail the financial information provided to it during the year, having contacted whenever necessary the heads of the Accounting, Planning and Statistics Division, which is the source of that information.

On the other hand, besides analysing the documents made available to it about the Statutory Certification of the Accounts of Banco BPI and BPI Group, the Supervisory Board maintained regular contacts with the Statutory Auditors, which enabled it to keep informed about the services rendered by them and to better understand the situations which in the Statutory Auditors' opinion Banco BPI should pay greater attention to.

The Board also analysed the opinions of the Statutory Auditors on the internal control system underlying the process of preparation and disclosure of financial information, drafted in accordance with the provisions of *BdP Notice no. 5 / 2008*. Furthermore, it analysed the recommendations arising from the review of procedures and controls relative to this process.



1.5. Approving, after consultation with the AICC, the Statutory Auditors' Annual Work Plan, in accordance with article 3(9)(e) of the Supervisory Board Regulations

The Statutory Auditors' Services Proposal for 2017 was approved at the Supervisory Board's meeting of 27 April 2017, upon obtaining the favourable opinion of the AICC.

1.6. Overseeing the independence of Banco BPI's Statutory Auditors (Deloitte) and, within that scope, assessing and deciding, after consultation with the AICC, on this entity's provision and terms of provision of non-audit services to the Group

After obtaining the opinion of the AICC, the Supervisory Board approved the fees for "Audit Services" and "Other non-audit services required by Law from the Statutory Auditors", for all the Group entities over which it has direct responsibility.

The Supervisory Board also approved the Review of Procedures Annual Plan to be developed in 2017 by Deloitte, after obtaining the approval of the AICC. In this context, it assessed the conclusions of these reviews, namely the ensuing recommendations and their implementation.

Under the terms of article 420(2) (d) of the CCC, the Supervisory Board verified the conditions of independence of BPI's Statutory Auditors, and approved, after obtaining the opinion of the AICC, the contracting of "Other non-audit services not required (and naturally not prohibited) by law, controlling the relative share of the fees charged for these services in accordance with the regulations in force.

The table below presents the fees (net of VAT or equivalent tax), in euro, invoiced by Deloitte to the BPI Group (i.e. to Banco BPI and the entities controlled by it) in each of the years in the 2014-2016 period, as well as the average in the period. The figures shown for 2017 concern the fees authorised by the Supervisory Board for the services to be provided by Deloitte to the BPI Group, excluding, under Audit Services, Banco Português de Investimento, S.A. and BPI Vida e Pensões – Companhia de Seguros, S.A., as these companies have a different Statutory Auditor. The total amount of fees (shown in the last line of the table) is broken down by the following items:

- "Audit Services"
- "Other Non-Audit Services Required by Law"
- "Other Non Audit Services not Required (Nor Prohibited) by Law"

Statutory Audit Fees (net of VAT or equivalent tax)

Amounts in euro

Services	Years				2014 / 2016 Average
	2014	2015	2016	2017	
Audit Services	846 547.00	765 525.00	861 525.00	724 350.00	824 532.33
Non-audit services required by law	562 575.00	524 400.00	519 150.00	473 000.00	535 375.00
Other non-audit services	360 096.08	219 400.00	453 710.00	194 950.00	344 402.03
Total fees	1 769 218.08	1 509 325.00	1 834 385.00	1 392 300.00	1 704 309.36€

2017 Fees for Other Non-Audit Services Not Required by Law / Total 2017 Fees: 14.0%.

2017 Fees for Other Non-Audit Services Not Required by Law / Average Fees for Audit Services in the 3 previous years: 23.6%.

Concerning the fees charged by the Statutory Auditor for "Other Non-Audit Services Not Required by Law", the following points are worth making:

- a) in 2017 the approved value of these fees represented 23.6% of the average fees charged for "Audit Services" in the three previous years, which is comfortably below the maximum legal limit of 70%; and
- b) in the 2014-2016 period, the fees charged for "Other Non-Audit Services Not Required by Law" represented 20.2% of the fees charged for all the services contracted, while in 2017 the amount approved for these services accounted for 14.0% of the total.

1.7. Proposing to the General Meeting the appointment of the Statutory Auditors, in accordance with Article 420 (2) (b) of the CCC and Article 3 (8) (a) of the Supervisory Board Regulations

The Supervisory Board kept abreast of and supported the steps taken by the Board of Directors in 2017 to obtain authorisation for the reappointment, on an exceptional basis, of Deloitte as Statutory Auditors during the 2017 financial year.



Although Deloitte had already reached the maximum duration foreseen for the performance of its functions as Statutory Auditor, its continuation in 2017 was considered advisable taking into account the following:

- CaixaBank's stake in BPI's share capital increased to 84.5%, leading to the Bank's inclusion within the sphere of the CaixaBank Group,
- CaixaBank obtained the approval from the Spanish Authorities, on an exceptional basis, for Deloitte to remain its Statutory Auditor during 2017, and
- it was necessary to carry out substantial coordinated works for the accounting and prudential consolidation of BPI in CaixaBank Group, as well as for the integration of the respective Internal Control Systems.

Once the CMVM's agreement for this reappointment had been obtained, the Supervisory Board monitored the entire process of selection of the Statutory Auditors for the 2018-2020, which entailed:

- sending calls for proposals to four entities – (i) EY Audit & Asociados – SROC, S.A., (ii) BDO & Asociados, SROC, Lda., (iii) KPMG & Asociados – SROC, S.A. (KPMG) and (iv) PricewaterhouseCoopers & Asociados – SROC, Lda. (PwC),
- analysing the proposals received from the last three entities referred above, and
- the process of selecting PwC (placed first in the tender) and KPMG (ranked second), according to pre-established criteria, which are considered to be valid taking into account the interests of the BPI Group.

Upon conclusion of this process, the Supervisory Board resolved to submit to the General Meeting, held on 26 April, a proposal to:

- on the one hand, reappoint on an exceptional basis and for one more year only Deloitte as BPI's Statutory Auditor, and
- on the other, pursuant to Article 3(3) of *Law 148 / 2015*, select PwC or KPMG to complete the term of office initiated in 2017, presenting the relative classification obtained in the tender by the two audit firms.

The proposal was approved, with the General Meeting having selected PwC.

1.8. Assessing the operational procedures to ensure that the activities concerned are properly managed, through appropriate risk management based on complete, reliable and timely accounting and financial information and adequate monitoring systems

The Supervisory Board paid particular attention to the guidelines issued by the BdP, namely through its *Notice no. 5 / 2018*, as well as the Guidelines on Internal Governance issued by the European Banking Authority.

The Supervisory Board essentially based its intervention on:

- the conclusions of the audits performed by the supervisors and the Audit and Inspection Division,
- the reviews of procedures carried out by the Statutory Auditor,
- the reports issued by the units responsible for the Risk Management, Compliance and Internal Audit functions, and
- the reports on the Internal Control Systems, issued by the management bodies of BPI and the Group companies.

This information was complemented by the clarifications provided by the members of the relevant Divisions and Boards of Directors, in particular during the AICC meetings.

The sections below describe the main aspects of the supervision carried out by the Supervisory Board on risk assessment and operational procedures.

1.8.1. Analysis of operational risks

The assessment of operational risks and the effectiveness of the measures adopted to control and mitigate them were carried out through the systematic review of the conclusions and recommendations of the internal audits and reviews of procedures carried out by the Statutory Auditors, jointly with the heads of the Divisions and Group companies which were the object of these actions.

The intervention of the Supervisory Board was also supported by specific operational risk assessment documents, namely:

- annual reports prepared by the Security Division on Business Continuity and Information Security;
- report on Operational Risk Management and Operational Losses, prepared by the Operational Risk Area of the Global Risk Management Division;
- half-yearly information on the evolution of loss incidents, prepared by the Audit and Inspection Division;
- semi-annual report on Quality Indicators and Complaints, prepared by the Efficiency and Organisation Division;



- report on outsourcing, prepared by the Procurement, Budget and Property Division, describing the contracts entered into, the levels of risk and the corresponding control and mitigation measures adopted; and
- two documents setting out the BPI Group's operational risk management policy: the Operational Risk Management Model and the Operational Risk Management Policy.

1.8.2. Analysis of credit risks

The Supervisory Board analysed throughout the year the evolution of credit risk based on the information provided by the Accounting, Planning and Statistics Division, the Global Risk Management Division and the Statutory Auditors, having:

- monitored the evolution of credit impairments;
- jointly reviewed with the Statutory Auditors the conclusions of the analysis performed to individual and collective impairments;
- analysed the information periodically produced on the Risk Appetite Statement (RAS), the Risk Appetite Framework (RAF) and the ICAAP;
- monitored the implementation of the recommendations resulting from the on-site inspection to the Collective Impairment Models for Large Companies and Project Finance – Spain;
- kept informed of Deloitte's half-yearly reports with the conclusions of the reviews of the process of quantification of impairment losses in Banco BPI's Loan Portfolio; and
- reviewed the Report on Credit Concentration relative to 31 December 2016.

In accordance with Article 109(3) of the General Law on Credit Institutions and Financial Companies (GLCIFC), business dealings between the company and shareholders with qualified holdings, or with entities with which they have any relationship, as well as the setting or revision of the exposure limits entailed by such dealings – in a total of four – were always submitted for prior pronouncement by the Supervisory Board, irrespective of the amount involved.

In this context, and following the change in the Bank's shareholding structure that resulted in CaixaBank obtaining the majority of its share capital, the Supervisory Board analysed and issued a favourable opinion on the conclusion of the following operations:

- issuance by the Bank of subordinated bonds, fully subscribed by CaixaBank;
- joint venture between CaixaBank and Banco Português de Investimento, S.A. to operate a joint investment banking programme in the Iberian market; and
- sale of Banco BPI businesses so subsidiaries of CaixaBank.

Under the terms of Article 85 (8) of the GLCIFC, the Supervisory Board also issued 12 opinions on the setting or revision of exposure limits, under normal market conditions, to entities in which the members of BPI's management or supervisory bodies held management positions or qualified holdings.

1.8.3. Analysis of financial risks

The Supervisory Board continued to monitor the financial markets with particular attention so as to be able to assess the strategy and actions pursued by the Group, focusing in particular on exposure to products and markets considered as of higher risk.

In this context it analysed:

- the Recovery Plan sent to the ECB, namely the recovery measures in stressed situations in the various scenarios defined, their effectiveness and the internal bodies responsible for their implementation; and
- the results of the periodic analyses made within the scope of the RAS, RAF and ICAAP.

1.8.4. Analysis of reputational risks

During 2017 the Supervisory Board analysed the information provided to it on BPI's Service Quality Indicators, which use as benchmark the European Customer Satisfaction Index as well as peer banks' service quality indices.

The Board reviewed the Investor Relations Division's report on the discharge of its functions of disclosing financial information and addressing the requests of investors, analysts and other market players.

It also analysed the Legal Division's report on the process of communication with the Tax and Customs Authority in the framework of compliance with tax obligations.

The rating agencies' follow-up reports were also subject to analysis.



The Supervisory Board also reviewed and followed up on all Irregularities Communications, with irregularities being understood as facts that breach or seriously compromise:

- a) compliance with the legal, regulatory, ethical and professional conduct principles to which the members of the corporate bodies and the Employees of the companies of BPI Group are bound in the exercise of their professional functions;
- b) the preservation of the assets of Clients, Shareholders and of BPI Group itself; or
- c) the preservation of the Group's image and institutional reputation.

As regards the Communications of Irregularities, all relating to Banco BPI, at the date of this report the situation was as follows:

- six communications were received in 2017, of which five were closed with no financial loss for the Bank;
- the only pending Communication received prior to 2017 (it had been outstanding since 2013) was closed by agreement between the parties in judicial proceedings; and
- one Communication received in 2017 is still pending the outcome of legal appeal.

1.8.5. Analysis of compliance risks

Besides regularly monitoring the interventions of the Compliance Division, the Supervisory Board assessed the following documents:

- Compliance Division's 2016 activity report and Activity Plan for 2017, having issued a favourable opinion on the latter, prior to its approval;
- Report on the status of the Compliance function at 31 May 2017, as laid down in Article 17 (1)(f) of *BdP's Notice no. 5 / 2008* and Article 305 (2)(g) of the Securities Code.
- Compliance Division's report on the Prevention of Money Laundering and Terrorism Financing, drafted under the terms of *BdP's Notice no. 9 / 2012*;
- reports and recommendations issued as a result of actions carried out in BPI and Group entities by the Audit and Inspection Division, the BdP, the CMVM and CaixaBank's Compliance team; and
- progress reports on the implementation in BPI of applicational processes and software for the mitigation of compliance risks and the harmonisation of procedures with CaixaBank.

1.8.6. Monitoring of audit works

In its monitoring of the audit areas, both internal and external, the Supervisory Board participated in the following processes:

- analysis of and drafting of opinion on the Audit and Inspection Division's Activity Plans for 2017 and 2018-2020;
- analysis and approval of Deloitte's Annual Procedural Review Plan, and monitoring the activity developed within the scope of this Plan, assessing the extent of its scope to ensure coverage of areas potentially exposed to higher risk;
- review of the conclusions of the audits carried out, both internal and external, follow-up of the recommendations considered relevant, analysis of the deadlines defined for their implementation and their degree of compliance;
- analysis of the half-yearly maps on the activity developed by the Audit and Inspection Division;
- monitoring of loss-generating occurrences;
- analysis of the reports on BPI Group's Internal Audit Function relative to 31 May 2017;
- analysis of documents issued to address the ECB recommendations and the ongoing standardisation process with CaixaBank, in particular concerning the following:
 - audits – drafting of and follow-up on recommendations;
 - Internal Audit function planning process: Plan for 2018, and
 - methodology of the Internal Audit Plan – Risk Assessment.

The Supervisory Board regularly took notice of the communications exchanged with the ECB and the BdP on the recommendations issued by the ECB-BdP JST teams.

1.9. Issuing an opinion on the Report, Accounts and Proposed Appropriation of Earnings submitted by the Board of Directors

Under the terms of Article 420 (1)(g) of the CCC, the Supervisory Board:

- oversaw the preparation throughout the year of the financial statements' supporting documents, namely meeting with the heads and technical staff of the Accounting, Planning and Statistics Division on 26 March 2018 in order to obtain detailed information about the preparation and closing of the accounts;
- regularly contacted the partners and professional staff of the Statutory Auditors, keeping itself informed about the work performed by them and, in particular, meeting with them on 26 March 2018 to obtain their view on the accounts at closing date and ascertain the status of their audit work;

- examined the following documents prepared for financial year 2017, which deserved its agreement:
 - the Management Report;
 - the Group's Financial Statements for 2017 – Consolidated Balance Sheet at 31 December, Consolidated Income Statement, Consolidated Cash Flow Statement and Consolidated Statement of Changes in Shareholders Equity – and the respective Notes;
 - BPI Group's Corporate Governance Report;
 - the Statutory Certification of Accounts and the Auditors Report; and
 - the Statutory Auditors' Additional Report to the Supervisory Board, drafted under the terms of article 11 of *Regulation (EU) no. 537 / 2014* and article 24 of *Law no. 148 / 2015* of 9 September.

2. OPINION OF THE SUPERVISORY BOARD

In view of the foregoing, the Supervisory Board is of the opinion that, with respect to the 2017 financial year, the BPI Group's Management Report, the Proposed Appropriation of Earnings 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 and accounting requirements, and therefore it recommends their approval by the General Shareholders' Meeting.

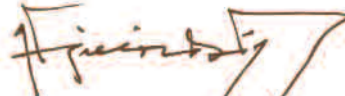
Finally, the statement signed individually by each of the members of the Supervisory Board with the object of complying with the legal requirement expressed therein is transcribed below:

"I hereby declare, under the terms and for the purposes of Article 245 (1) (c) of the Securities Code that, to the best of my knowledge, the Management Report, the Annual Consolidated Accounts, the Statutory Certification of Accounts and the Audit Report and the other accounts reporting documents of BPI Group, all relating to the 2017 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 financial results, and that the Management Report provides an accurate account of the Group's business, performance and financial position and contains a description of the principal risks and uncertainties faced by the Group."

27 March 2018



Abel Pinto dos Reis – Chairman



Jorge Figueiredo Dias – Member



Rui Campos Guimarães – Member

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Non-financial statement

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Non-financial statement

This Annex includes additional information to BPI's 2017 Annual Report. In this first edition, more detailed information is provided on the evolution, performance, position and impact of BPI's social responsibility activities throughout the year, in line with its objectives, management model and strategic lines.

I. BACKGROUND

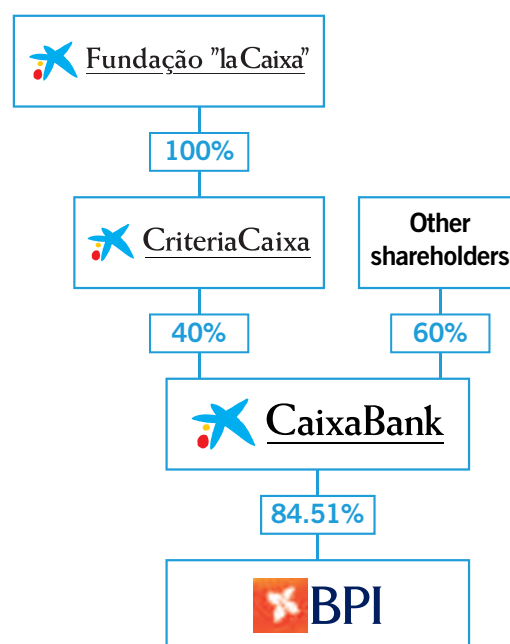
On February 8, 2017, CaixaBank announced that it had reached a 84.51% stake in Banco BPI, following the takeover bid launched on 18 April 2016. As a result, a new cycle for BPI began, as it became part of the CaixaBank Group. CaixaBank's key shareholder, with a 40% stake in its share capital, is CriteriaCaixa, a financial holding company, 100% controlled by "la Caixa" Banking Foundation.

"la Caixa" Banking Foundation is the largest foundation in Spain and one of the most important internationally, with a budget of €510 million in 2017 to support its social work. As a result of BPI's integration into the CaixaBank Group, the "la Caixa" Foundation started implementing its social action in Portugal, with an annual budget estimated to reach €50 million.

BPI is a public limited company with publicly traded capital. It is authorised by Banco de Portugal to conduct banking business and by the Securities Market Commission for the exercise of financial intermediation activities.

At BPI, issues related with environmental, social and workers concerns, equal opportunities for women and men, non-discrimination, respect for human rights, anti-corruption and bribery attempts are duly welcomed, handled and monitored by Internal Policies, Rules and Service Orders.

BPI's integration as a CaixaBank Group company entails the coordination and harmonisation with the Group's strategic guidelines, which will also materialise in BPI's adoption and improvement, throughout 2018, of policies related to those matters.



II. BRIEF OVERVIEW OF BPI'S BUSINESS MODEL

BPI is mainly focused on commercial and retail banking in Portugal, offering financial services and products to Corporate, Institutional and Individual Customers. The Bank has a Customer base of about two million people in the domestic market, which is managed through a specialist, fully-integrated and multichannel distribution network.

BPI also provides its Customers with investment funds, capitalisation insurance and pension funds and complements its insurance offering through an insurance distribution agreement with Allianz Portugal, in which the BPI Group has a 35%¹ stake. BPI's teams provide services in the areas of corporate finance and equities, in an integrated manner with CaixaBank.

BPI also holds shareholdings in African Banks (48.1% of BFA in Angola and 35.67% of BCI in Mozambique).

1.95
MILLION CUSTOMERS

Individuals and Small Businesses Banking

Includes Private Banking and investment funds distribution

4 931
EMPLOYEES

Corporate Banking

Corporate & Investment Banking (CIB)

505
COMMERCIAL UNITS

Insurance

Through an agreement with Allianz Portugal (non-life and life-risk insurance)

Shareholdings in African banks²

BFA (Angola): 48.1%

BCI (Mozambique): 35.67%³

STRATEGIC LINES

The strategic lines that steer BPI's activity are anchored on the lines that guide CaixaBank's activity, and are as follows:

1) In partnership with Allianz, which owns 65% of the capital.

2) Equity accounted companies.

3) Caixa Geral de Depósitos holds a 61.51% stake.

To be the Best Bank for Quality of Service, Reputation and Satisfaction

Objectives

- To foster Customer experience and improve satisfaction levels
- To consolidate BPI's reputation
- To be a benchmark in corporate management

Results

In 2017, BPI reaffirmed its absolute leadership in ECSI, the National Index of Customer Satisfaction, an indicator established at European level and built in Portugal through a partnership with Universidade Nova de Lisboa, the Portuguese Quality Institute and the Portuguese Association for Quality; in the BASEF Financial Sector Barometer published by Marktest, BPI confirmed, once again, the highest level of satisfaction among the five largest banks in the Portuguese financial system with respect to Global Satisfaction and Quality of Service indicators; the Bank also regained first place in overall evaluation in the Mystery Client survey, carried out in the second half of the year. According to DataE survey, which is the key reference for the corporate market, BPI ranks first in the categories “best bank for companies” and is satisfaction leader in NetBanking. Moreover, BPI also earned the award for ‘Best Private Bank in Portugal’, in the *Global Private Banking Awards 2017* (PWM and The Banker), while BPI Gestão de Activos was considered the ‘Best Domestic Equity Management Company’ for the seventh time in the past 9 years, in Morningstar Prizes.

Last year, expressions of public recognition and Brand reputation increased. Among the most relevant are: ‘Trusted Brand in Banking’ for the fifth year in a row, ‘Brand of Excellence in Portugal’ for the fourth consecutive year (*Superbrands Portugal*); ‘Best Price-Quality Relationship in Banking in Portugal’ (*Best Buy Awards Millennials 2017*); and ‘Senior Choice’, best products for Seniors for the third year in a row (Consumer Choice).



Customer satisfaction.

Portuguese trusted bank.

Best Private Bank in Portugal.

Best Corporate Bank.

Brand of Excellence.

To achieve recurring profitability in excess of the cost of capital

Objectives

- Achieve a recurring profitability of more than 10% in terms of ROTE (return on tangible equity) in 2020, reinforcing the commercial strategy in the Portuguese market.
- Achieve a cost-to-income ratio of less than or equal to 50% from 2020, while maintaining efforts to contain the cost structure.

Results in 2017¹

In 2017, net profit for the year from the domestic activity (excluding non-recurring items) stood at €193.4 million², reflecting an improvement of €34.2 million (+21%) compared to the recurring result of the previous year. The return on tangible equity (ROTE) in Portugal reached 9.6%, excluding non-recurring items, which represents a 1.0 p.p. increase compared to the previous year. As reported, BPI posted a ROTE of 6.2% (7.9% in 2016). Efforts to optimise the cost structure in the domestic activity allowed BPI to cut recurring overhead costs by €25.1 million (-5.3%) in 2017. BPI's cost-to-income in the domestic activity decreased by 4.6 p.p. to 65%.

1) A detailed analysis of Banco BPI's financial results for the year 2017 is given in the chapter 'Financial Review' of the Management Report.

2) Consolidated profit as reported amounted to €10.2 million, fully absorbing the costs and extraordinary accounting effects of the equity holding in Angola.

To be the leader in digital banking

Objectives

- To consolidate the loyalty and satisfaction of BPI's Individual and Corporate Customers.
- To develop Customers' digital relationship, experience and transactions.
- To implement strategies for new technologies.
- To increase investment in BPI's digital capabilities.

Results

BPI has developed a digital transformation programme which, based on Customer experience, involves the whole organization using Design Thinking methodologies to design and develop the simultaneous implementation across all contact channels.

In this regard, during 2017, BPI launched a series of new products and services with great impact for Customers, among which the following stand out:

- BPI Net, renewal of the homebanking service offering easier and more complete browsing;
- Personal Loans that can be taken out immediately;
- "As Minhas Finanças"(My Finances), a new service that allows access to a view of Customer's expenses and revenues, automatically organised by categories;
- GoBanking Empresas to give support to the activity of the salesforce of this segment, accessible in mobility.

To sustain digital growth and usage, BPI also invested strongly in infrastructure and equipment by distributing hybrids to the whole salesforce of Corporate Banking and by installing a WiFi network in 90% of its branch network.

#1

ONLINE SATISFACTION PERSONAL BANKING

Source: CSI Market Survey
(2nd ed. 2017)

#1

ONLINE BANKING PENETRATION PERSONAL BANKING

Source: BASEF Market
Survey (Dec 2017)

#1

ONLINE BANKING SATISFACTION CORPORATE BANKING

Source: DataE Market
Survey (Year 2017)

#2

ONLINE BANKING PENETRATION CORPORATE BANKING

Source: DataE Market
Survey (Year 2017)

International recognition also places BPI as a reference bank in digital banking. The Bank was awarded the following honours in 2017: 'Best Digital Transformation Project', awarded at Portugal Digital Awards 2017, at the initiative of Jornal de Negócios newspaper and IDC Portugal in partnership with Novabase and AXIANS, which distinguishes innovative projects that stand out in digital transformation; and 'Best Digital Bank' in the Distinction Awards in the Consumer and Corporate / Institutional categories, by the *Global Finance Magazine*.

To have the best prepared and most competitive team

Objectives

- To pursue training in critical professional skills.
- To increase investment in training and reinforce a culture of meritocracy and diversity.

Results

To ensure the provision of a high quality service to its Customers, BPI considers essential to invest in training aimed at developing the skills of its Employees.

In this regard, it has invested €2.1 million in training totalling 187 646 hours, of which 54% was online training. In the core themes of anti-corruption and labour risks, 3 374 Employees were trained in anti-corruption issues and 4 965 in occupational hazards.

III. ENVIRONMENTAL RESPONSIBILITY

Despite the low environmental impact of its main activity of marketing banking products and services, BPI is aware of its responsibility in this area, which is to manage the resources needed to keep its infrastructure operating and to review the potential environmental and social risks associated with project finance.

In this field, BPI will benefit from CaixaBank Group's know-how and experience. CaixaBank ranks amongst the leading corporations in the fight against global climate change, having been included, for the third consecutive year, in the "Climate A List" index, which contains the world's best rated companies in this area.

ENVIRONMENTAL MANAGEMENT

BPI acknowledges that its activity must be pursued in an environmentally sustainable manner, respecting the society, the environment and the resources available. To this end, and as set out in BPI Group's Code of Conduct, it adopts internal policies conducive to a rational, efficient and sustainable use of resources, in particular with regard to paper, water, energy and recycling of surplus and waste.

To this end, the Bank has been implementing a number of initiatives that led to a 12% reduction in energy consumption and a 8% drop in paper consumption, compared to the previous year. Among the most relevant initiatives the following stand out:

- **Energy efficiency:** replacing halogen lamps by LED lamps, reducing the number of hours lights are switched on in the central services and commercial buildings, using motion sensors and adjusting outdoor lights, implementing energy audits and controlling the workplace temperature;
- **Going paperless:** implementation of digital account opening procedures, as well as of the digital signature, tariff and account statement. Internal measures were also implemented to cut local printing and document scanning;
- **Paper recycling:** already implemented in all central services buildings.

This commitment is extended to all its Employees and it is also a concern when selecting its partners and service providers. In 2017, suppliers with ISO14001 Certificate accounted for 26% of the Bank's total procurement volume.

PRODUCTS AND SERVICES WITH ENVIRONMENTAL CRITERIA

Aware of the importance of adopting measures to assure environmental sustainability in its offer of products and services, BPI has credit lines available that promote energy efficiency and support several renewable energy investment projects.

WIND POWER, SOLAR /
PHOTOVOLTAIC /
HYDRO OR BIOMASS

472 M.€
FINANCING GRANTED

89
FINANCED PROJECTS

ENERGY EFFICIENCY
IN COMPANIES

50 M.€
BPI / EIB LOAN FACILITY – ENERGY EFFICIENCY

URBAN RENEWAL

221 M.€
JESSICA SCHEME
FINANCING GRANTED

80
JESSICA SCHEME
FINANCED PROJECTS

372 M.€
BPI / IFRRU 2020 SCHEME
CREDIT LINE

IV. SOCIAL RESPONSIBILITY

BPI interprets its Social Responsibility as a set of duties of the Institution in relation to the community where it is integrated and to the specific interest groups which depend on its activity: Clients, Shareholders, Employees and Investors.

The exercise of Social Responsibility takes place in multiple dimensions, namely the governance policy and its execution, compliance with its own rules of conduct, Investor relations, promotion of quality and service, human resources development policy, insertion in community life and support to its social solidarity, culture, education, science, research and entrepreneurship initiatives.

BPI is governed by the following principles of conduct:

- support to institutions of recognised relevance in the Portuguese society;
- which demonstrate the ability to become sustainable;
- in a rationale of continuity and long-lasting relationship.

TOWARDS SOCIETY

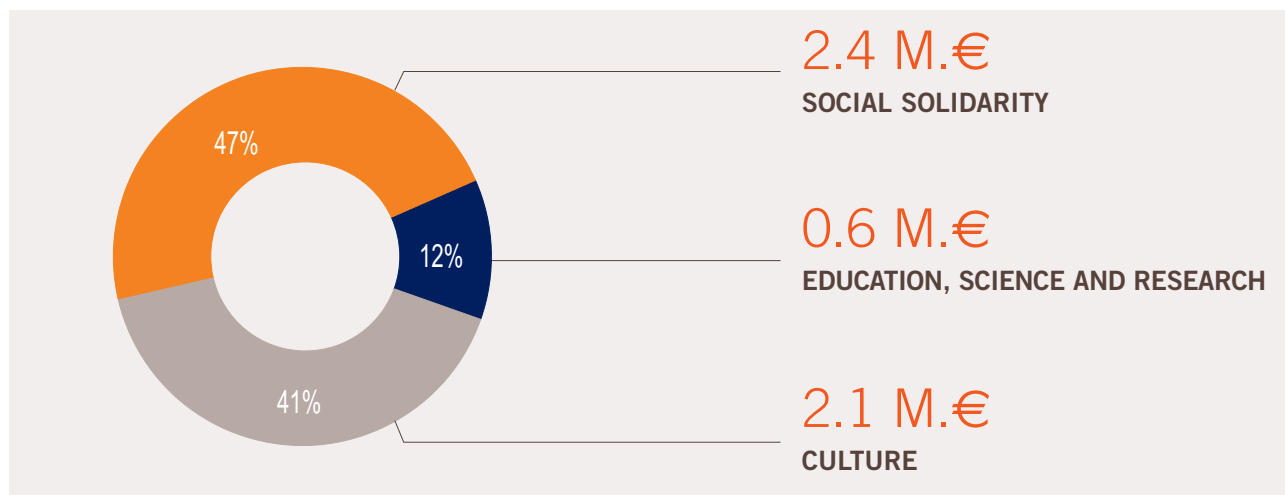
Sponsorship

In 2017, with the integration of BPI into the CaixaBank Group, “la Caixa” Foundation started to gradually establish itself in Portugal, expecting to reach an annual budget of €50 million to support projects of a social and cultural nature. Throughout 2018, the Foundation will implement its own programmes to integrate people with difficulties in accessing the labour market, to care for the elderly and give support to people with advanced illness. Research projects in health, roadshows, as well as alliances with Portuguese museums and entities will also be undertaken.

Concurrently, BPI set up a Social Responsibility Committee, whose members come from BPI, “la Caixa” Foundation and the civil society. It is the responsibility of the Committee to assist and advise the Board on issues related to BPI Group’s Social Responsibility.

Throughout 2017, BPI maintained its support to initiatives of the civil society, to which it contributed a total of €5.06 million. Over the last 10 years the average annual amount of aid provided by the Bank was €4.41 million, despite the situation.

The initiatives in favour of society have been focused on the support to the areas of social solidarity, culture, education, science, research and entrepreneurship.



Social Solidarity

In this context, BPI has been reinforcing its support through the BPI Capacitar, BPI Seniores and BPI Solidário Awards. In 2017, the Bank increased its allocation to €700,000 per Award, which enabled it to support 64 projects, selected from 944 applications, with donations totalling €2.1 million.

Over the past 8 years, these three Solidarity Awards have already provided €9 million for the implementation of 311 social inclusion projects and have benefited more than 86 000 people, making it one of the most important Social Responsibility initiatives. The Bank's Christmas initiative also deserves a note: this year, and for the 6th consecutive year, the Bank brought together Customers and Employees to offer gifts to children of solidarity institutions from all over the country. Since 2011, 100 thousand gifts have already been delivered.



Culture

BPI renewed in 2017 its support to domestic key art institutions, such as the Serralves Museum and Casa da Música, of which the Bank is a founder, and also to the Calouste Gulbenkian Foundation, as the main sponsor of the Great Performers Concert Cycle and of the Almada Negreiros exhibition.

Also worth mentioning are the renewal of sponsorship of Caramulo Museum, Elvas Contemporary Art Museum, National Culture Center, Casa de Mateus, Viriato Theatre in Viseu, and the support granted to the National Museum of Ancient Art, Júlio Resende Foundation – Lugar do Desenho and Micaelense Theatre.

Education, Science and Research

During 2017, a total of 29 protocols were renewed with the most relevant institutions of higher education in the country. Special emphasis is put on the longstanding support to Instituto Superior Técnico and to the Faculty of Economics of Universidade Nova de Lisboa, as well as to the partnership with the Foundation for Science and Technology to support The Lisbon MBA business management programme.

Also worth mentioning is the support granted for scholarships of excellence and / or prizes to the best students of the Algarve University, the Aveiro University and scholarships for university students coming from the five Portuguese-speaking African countries, through the renewal of the support to Fundação Cidade de Lisboa.

Entrepreneurship

The Empreendedor XXI Awards were launched in 2017, an initiative born 10 years ago in Spain and extended this year to the participation of Portuguese companies. Aiming at identifying, recognising and monitoring the most innovative Portuguese businesses that have been in operation for less than 3 years and show the highest growth potential, this award received 146 applications. The Prizes will be awarded in 2018, but it is already known that 34 companies will be distinguished with prizes in cash and through international monitoring programmes worth a total of €490 000.

Conflicts of interest policy and anti-money laundering and terrorist financing

Aware of the importance of an accurate and rigorous market performance that contributes to economic and social development, BPI has adopted a policy on conflicts of interest in the relationship with its Customers based on the following guidelines:

- Transparent and equitable treatment;
- Priority to the Customers' interests over its own interests or those of the Group companies or of the members of their governing bodies.

In this context, there are rules and procedures in place to prevent any potential conflict of interest; these are set out in the Group's Code of Ethics and Conduct, as well as in BPI's internal rules.

Moreover, the Bank has also a policy for anti-money laundering and terrorist financing to prevent BPI Group from engaging in illicit operations and to help combat organised economic and financial crime. This policy reflects BPI's commitment to these issues, by engaging its IT and human resources in ensuring compliance with a whole set of national and international laws, regulations and recommendations in these matters.



IN THE ORGANISATION

All BPI Employees should base their behaviour and actions on BPI Group's Code of Ethics and Conduct and on internal rules published on this subject.

BPI, like CaixaBank, bases its people management policy on its respect for their diversity, equality of opportunities and non-discrimination, steering its conduct by full and rigorous compliance with the law and high standards of ethical values, with particular emphasis on the following:

- Equality of opportunity and non-discrimination;
- Respect for people and their dignity;
- Reconciling work with personal life;
- Prevention of occupational hazards.

Therefore, in its relationship with its Employees and among the Employees themselves, any form of individual discrimination incompatible with the dignity of the human being is forbidden, in particular with respect to origin, ethnic origin, gender, sexual orientation, political opinion and/or religious belief. It is a paramount principle of the Bank to provide equal opportunities for access to work and career progression without any discrimination.

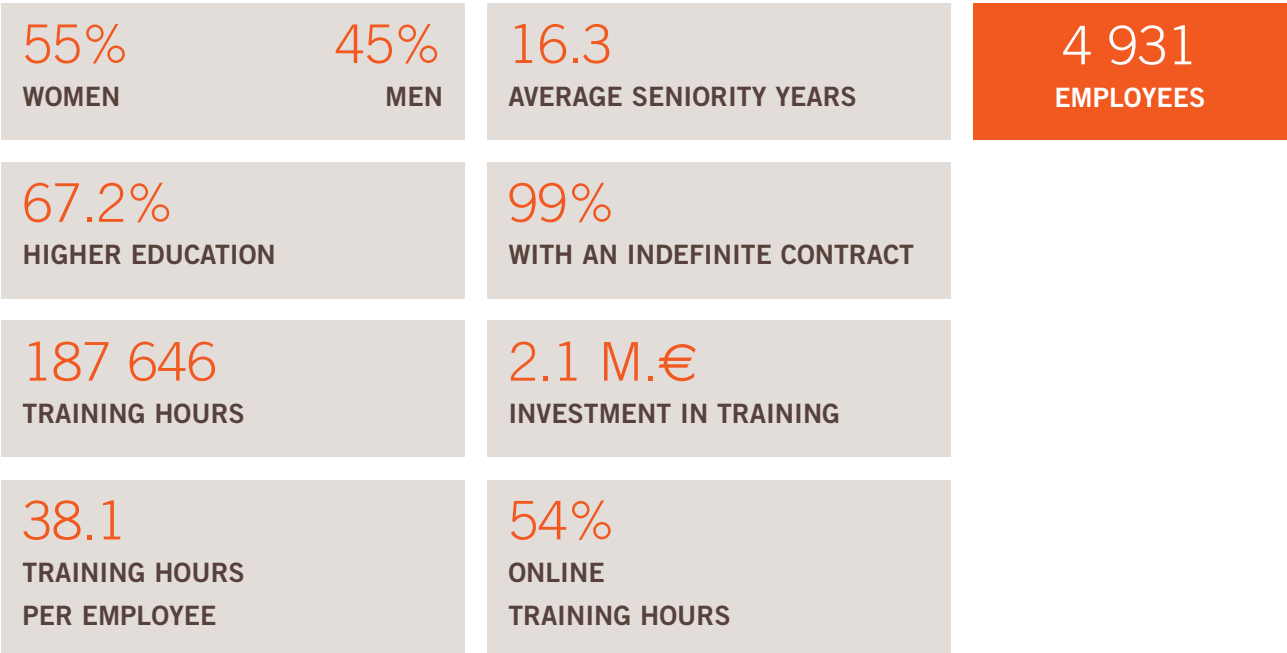
As a consequence, in all recruitment, selection and/or career progression processes, any form of discrimination is prohibited, and all actors, regardless of their position, must act objectively and for the sole purpose of identifying the people most appropriate to the profile and needs of the function, promoting at all times and circumstances equal opportunities.

All Employees, especially those who hold leadership or management positions, should promote on an ongoing basis and at all levels, relationships based on respect for the dignity of all, participation, equity and mutual collaboration, contributing to the creation and maintenance of a good work environment.

The Bank regards as unacceptable any form of harassment, particularly that based on discriminatory factors, abuse, intimidation, lack of respect, lack of consideration, or any other form of verbal, nonverbal or physical aggression, offensive or inappropriate behaviour or conduct.

Concurrently, BPI promotes a work environment where each one can collaborate in detecting and reporting these undesirable practices, ensuring non-retaliation and providing an internal channel for this purpose.

In respect of occupational hazards, BPI considers the safety and health of its Employees at work to be crucial, and it is its primary objective to permanently improve working conditions. In compliance with current laws, the Bank ensures a safe and healthy work environment and the prevention of occupational accidents and diseases.



V. BPI GROUP'S TOTAL TAX CONTRIBUTION

INTRODUCTION

This section deals with the total contribution of Banco BPI and the companies of its group (BPI Group) in the area of taxation, encompassing not only the payment of taxes and other levies for which the Bank and the companies of its group are taxable, but also compliance with a set of other duties of cooperation with the Tax Administration.

TOTAL TAX CONTRIBUTION

As referred above, BPI Group not only effectively pays a set of taxes for which the entities that compose it are taxable, but also fulfils a set of legal duties that entail its cooperation with the State in the collection of taxes and contributions due by third parties to the State and other public entities.

Levies for which Banco BPI and the companies of the BPI Group are taxable persons

Banco BPI and the companies of the BPI Group are taxable persons and as such pay several levies to the State and other public entities. These concern the following:

- i) direct taxes (namely corporate income tax);
- ii) indirect taxes such as Municipal Property Tax (IMI – *Imposto Municipal sobre Imóveis*), Municipal Property Transfer Tax (IMT – *Imposto Municipal sobre as Transmissões Onerosas de Imóveis*), Stamp Duty (IS – *Imposto de Selo*) and non-deductible VAT;
- iii) the contributions due by the financial sector, namely the Banking Sector Tax (CSB – *Contribuição sobre o Sector Bancário*), the Contribution to the Resolution Fund (*Contribuição para o Fundo de Resolução*) and the Contribution to the Single European Fund; and also
- iv) the Contributions to the Social Security.

Duties of cooperation with the State and other public entities

As mentioned above, Banco BPI and the companies of BPI Group are subject to and fulfil numerous duties of cooperation, which entail the collection and delivery of levies due by third parties to the State and other public entities, as well as compliance with a set of duties of providing information to the latter so that these may calculate and collect such levies.

Hence:

- a) BPI Group collects and hands over to the State the individual income tax withheld on the remunerations of its Employees, as well as their contributions to the Social Security;
- b) BPI Group collects and hands over to the State the individual / corporate income tax withheld on the payment to its Customers of income from the financial products it distributes within the scope of its activity;
- c) BPI Group charges and delivers to the State the Stamp Duty due on the operations and financial services provided to its Customers;
- d) BPI Group charges and delivers to the State, through the respective collection mechanism, the VAT levied on services provided and the on the transfer of assets;
- e) BPI Group reports to the Tax Authority and the Social Security all information required by law, namely in compliance with FATCA / CRS legislation, as well as in relation to the different ancillary obligations associated with the payment of income;
- f) finally, BPI Group also cooperates with the State in the seizure and transfer of valuables in the scope of tax enforcement proceedings where it is requested to do so.

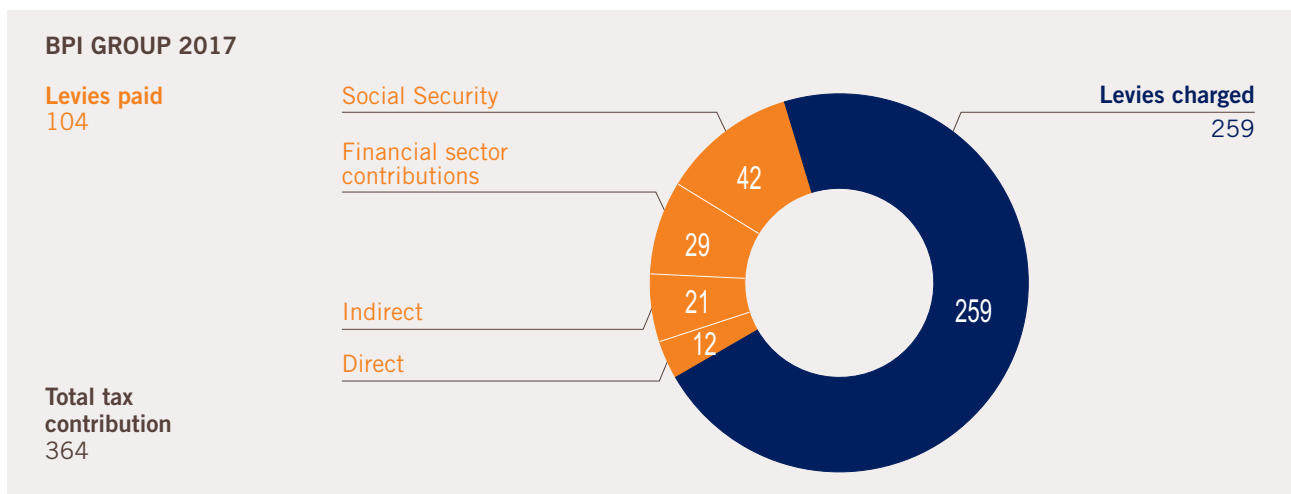
This section reports on what we have chosen to designate as Total Tax Contribution (TTC), about which it aims to provide a global, if not exhaustive indication. TTC is understood as the set of the various levies which Banco BPI and the BPI Group hand over to the State and other public entities, whether the taxable persons are the entities comprised in the BPI Group or whether such levies are due by third parties but collected and handed over by the BPI Group. The concept at hand does not permit to capture a set of other collaborations provided by the BPI Group to the State (namely those involving compliance with the duty to provide information) but even so will provide a more comprehensive picture than the information on taxes included in its financial statements.

TOTAL TAX CONTRIBUTION OF BPI GROUP IN 2017

In 2017, BPI Group's TTC amounted to €364 million, broken down as follows:

- a) €104 million in levies in respect of which Banco BPI and the companies of BPI Group are the taxable persons and which therefore were effectively borne by them; insofar as the BPI Group mostly develops its activity in Portugal, the largest share of this amount corresponds to levies paid to the Portuguese State / other Portuguese public entities, totalling €100 million (approximately 96% of the total amount of levies borne);
- b) €259 million in levies due by third parties but collected and handed over to the State and other public entities by BPI Group.

Detail of levies included in the Total Tax Contribution



As regards the levies borne by Banco BPI and the companies of the BPI Group, in their capacity as taxable persons:

- a) the levy in the largest amount corresponds to the Contributions to the Social Security (€42 million, or 40% of all levies borne);
- b) the second largest corresponds to the Financial Sector Contributions (€29 million, or 28% of the total);
- c) the third largest is the VAT borne and not deducted (€21 million, or 20% of the total), which is included in the indirect taxes category.

It should be noted that BPI Group has unused tax credits, which will have an impact on the current and future payment of income tax.

As regards the levies due by third parties that are collected and handed over by Banco BPI to the State / Other Public Entities:

- a) the largest share corresponds to VAT settled (€83 million, or 32% of the total);
- b) the second corresponds to individual / corporate income tax withheld at source on the financial products distributed (€69 million, or 27% of the total);
- c) the third is the individual income tax withheld on the payment of Employee remunerations (€57 million, or 22% of the total); and, finally,
- d) Stamp Duty charged (€43 million, or 17% of the total).

TAX RESPONSIBILITY AND CODE OF GOOD TAX PRACTICES

A final note to highlight that Banco BPI took part in the negotiations between the Tax and Customs Authority and several taxpayers concerning the Code of Good Tax Practices (which is not yet in force but is awaiting approval soon), whose principles it has already started applying. This Code was created within the scope of the Large Taxpayers Forum (*Fórum dos Grandes Contribuintes*), of which Banco BPI is a member.

The Code incorporates a set of principles and recommendations to be followed by taxpayers that wish to adhere to it and by the Tax and Customs Authority, with a view to improving the tax system and increasing legal security and mutual cooperation, based on good faith, legitimate expectations and the implementation of responsible tax policies.

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BPI Group
Corporate Governance Report

This report – which constitutes an integral part of Banco BPI's 2017 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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Part I – Information on Shareholder structure, organisation and corporate governance

A. SHAREHOLDER STRUCTURE

I. CAPITAL STRUCTURE

1. Capital structure

At 31 December 2017, the share capital of Banco BPI was 1 293 063 324.98 euros, represented by 1 456 924 237 common shares, with no par value, registered and book-entry. The shares are fully traded on the Euronext market.

On the same date – 31 December 2017 – Banco BPI's capital was held by 10 713 Shareholders. Of these, 10 463 were individuals holding 4.3% of capital, while 250 belonged to institutional investor classes and companies, which held the remaining 95.7% of capital.

2. Restrictions on the transfer of shares

The Articles of Association of the Company do not provide for restrictions on the transferability of shares, such as consent of sale clauses or limitations on ownership of shares.

3. Own shares

At the end of 2017, Banco BPI held 150 896 own shares, corresponding to 0.01% of share capital and voting rights.

4. Agreements in case of change in the control of the company

There is no significant agreement to which BPI is party and which enter into force, are amended or terminate in the event of change of control of the company. Six loans totalling 1 060 million euros contain clauses which, in the event of change of control, envisage consequences which, under certain circumstances, may include an early repayment obligation.

5. Regime which is subject to renewal or revocation of defensive measures

Banco BPI's articles of association do not establish defensive measures, such as measures that limit the number of votes that may be held or exercised by a single shareholder individually or in concert with other shareholders.

6. Shareholders' agreements

The Bank is not aware of the existence of any shareholder agreement concerning the exercise of corporate rights or the transferability 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 2017

Shareholders	No. of shares	% capital held
CaixaBank, S.A.	1 231 250 696	84.510%
Allianz SE	122 744 370	8.425% ¹

There are no special rights conferred to shareholders by the Articles of Association, and, accordingly, there are no shareholders holding special rights.

8. Number of shares and options on BPI shares and bonds held by members of the management and supervisory bodies

Held as of 31 December 2017

	Shares	Options on BPI shares	Bonds
Board of Directors			
Fernando Ulrich	2 033 456	0	0
António Lobo Xavier	0	0	0
Pablo Forero	0	0	0
Alexandre Lucena e Vale	59 284	0	0
António Farinha Morais	0	0	0
Carla Bambulo	0	0	0
Cristina Rios Amorim	0	0	0
Francisco Barbeira	0	0	0
Gonzalo Gortázar	0	0	0
Ignacio Alvarez-Rendueles	0	0	0
Javier Pano	0	0	0
João Pedro Oliveira e Costa	0	0	0
José Pena do Amaral	0	0	0
Juan Alcaraz	0	0	0
Lluís Vendrell	0	0	0
Pedro Barreto	500 000	0	0
Tomás Jervell	0	0	0
Vicente Tardío Barutel	0	0	0
Supervisory Board			
Abel Pinto dos Reis	0	0	0
Jorge Figueiredo Dias	0	0	0
Rui Campos Guimarães	0	0	0

1) Indirect interest of subsidiaries controlled by Allianz SE, the holding company of the Allianz Group, and attributable to Allianz SE pursuant to Article 20(1)(b) of the CVM (Código dos Valores Mobiliários – Portuguese Securities Code): a direct interest of 8.275% held by Allianz Europe Ltd. (wholly owned by Allianz SE) and a direct interest of 0.150% held by Companhia de Seguros Allianz Portugal (65% held by Allianz SE).

Note to the consolidated financial statements 4.48 – Related parties provides information on the securities individually held by the members of the Board of Directors, citing the events occurring during the year.

9. Special powers of the Board of Directors, especially as regards resolutions on the capital increase

The Shareholders attending the General Meeting on 26 April 2017 approved an amendment to the Banco BPI Articles of Association, under the terms of which they authorised the Board of Directors to approve increases in share capital and to define all of the terms and characteristics thereof, subject to the limitations and rules contained in the following subparagraphs:

- a) The authorisation includes the decision concerning one or more capital increases from new entries in cash and through the issuance of shares with the same category as those existing or other category as permitted by law or the articles of association;
- b) The total value of capital increases that are decided by the Board of Directors under the authorisation provided for in this paragraph cannot exceed € 500 000.000 (five hundred million euros);
- c) Subject to the limitation or withdrawal of this right by the General Meeting, capital increases will be addressed to Banco BPI shareholders, in accordance with their respective pre-emptive rights;
- d) Shares not subscribed by Banco BPI shareholders under their pre-emptive rights may, if so provided in the resolution approving the capital increase, be offered for subscription by third parties;
- e) The shares representing capital increases may be issued with or without additional paid-in capital and confer the rights to profits, reserves or others assets whose distribution will be decided upon after their issue;
- f) Resolutions to increase share capital require prior approval of the company's supervisory body;
- g) The authorisation is valid for a period of 5 years from 26 April 2017.

10. Information about the existence of significant relations of a commercial nature between the holders of qualified shareholdings and the company

Under the terms of Article 109(3) of the Legal Framework of Credit Institutions and Financial Companies (RGICSF – *Regime Geral das Instituições de Crédito e Sociedades Financeiras*), the granting of credit, in any form or type, to shareholders with qualifying holdings or to entities with whom they are in any controlling or group relationship is always submitted to the prior opinion of the Supervisory Board, regardless of the amounts involved in such business, and always requiring that the transactions in question be carried out under normal market conditions.

At the same time, and in accordance with Article 85 (8) of the RGICSF, business with entities in which members of the Bank's

Board of Directors or supervisory bodies are managers or in which they have qualifying holdings requires prior opinion of the Supervisory Board, regardless of the amounts in question, with such transactions always required to be carried out under normal market conditions.

The opinions of the Supervisory Board are issued based on detailed information presented for the evaluation of the respective operations by the Executive Credit Risks Committees and the Board of Directors and are also supported by information sent to the Board of Directors after evaluation by such bodies.

CaixaBank Group

Following the acquisition proposals submitted to it by its shareholder CaixaBank, S.A. and approval by the Boards of Directors of both entities, Banco BPI entered into contracts related to the following transactions on 23 November 2017 with said shareholder:

- a) Sale to the company of the CaixaBank VidaCaixa S.A.U. de Seguros y Reaseguros Group of shares representing all capital of BPI Vida e Pensões, Companhia de Seguros, S.A. (hereinafter BPI Vida), responsible for life insurance and pension fund management activities, respectively, for the price of 135 million euros;
- b) Sale to the company of the CaixaBank, CaixaBank Asset Management SGIIC, S.A.U. Group of shares representing all capital of the companies BPI Gestão de Activos, Sociedade Gestora de Fundos de Investimento, S.A. (hereinafter BPI GA) and BPI Global Investment Fund Management Company S.A. (hereinafter BPI GIF), which are currently responsible for pension fund management activities of the BPI Group, for the price of 75 million euros and 8 million euros in the respective cases of BPI GA and BPI GIF.

Even after completing the aforementioned transactions, BPI will maintain a relationship with the Cients in question, under which it will act as agent of the respective companies BPI Vida, BPI GA and BPI GIF. The sale of BPI Vida was completed in December 2017 and recognised in the financial statements for the year.

Within the scope of the aforementioned transactions, a set of service contracts is foreseen in which Banco BPI will provide a set of services to such companies that are instrumental to exercise of the activities involved in these transactions.

A contract was also signed on the same date for the sale to CaixaBank by Banco Português de Investimento, S.A., a company wholly owned by Banco BPI, of legal positions that are represented by and used in equity brokerage, research and corporate finance of Banco Português de Investimento. The sale will be carried out at a price equivalent to the book value of the net operating assets of those activities at the closing date of the transaction, which is estimated to be approximately 4 million euros.

Within the scope of the aforementioned transaction, a service contract will be signed under which Banco BPI will provide CaixaBank a set of services essential to exercise of the activity involved in this transaction.

In accordance with the provisions of the respective contract, the validity of such transaction was conditioned upon acquiring authorisations from authorities applicable in each case.

Likewise, following the acquisition proposals submitted to it by its shareholder CaixaBank, S.A. and approval by the Boards of Directors of both entities, on 21 December 2017 Banco BPI entered into agreements with said shareholder containing the main terms of the following transactions:

- a) Sale of the legal positions that constitute and are used in the business of issuing payment instruments (debit and credit cards) to CaixaBank Payments Establecimiento Financiero de Credito de Entidades de Pago S.A. (hereinafter referred to as CB Payments), a company wholly owned by CaixaBank, for the price of 53 million euros. The sale covered the credits arising from the use of credits cards of the transferred contract, with such credits transferred at book value net of impairment, less the value of the respective capital requirements.
- b) Sale of the legal positions that constitute and are used in the field of activity of merchant acquiring to Comercia Global Payments, Entidad de Pago, S.L. (hereinafter referred to as Comercia), for the price of 60 million euros. Comercia is a joint venture between CaixaBank and Global Payments Inc.

Within the scope of the aforementioned transactions, a set of service contracts will be signed under which Banco BPI will provide such companies a set of services essential to the exercise of the activities involved in these transactions. Additionally, Banco BPI will grant funding to CB Payments within the scope of the activity referred to in a) for credit made available to Cients and Comercia corresponding to the amounts, which, within the scope of the activity referred to in b), are owed to merchants.

The transactions in question will not involve the relocation of activities involved therein nor the transfer of Employees of Banco BPI or its group companies. The companies CB Payment and Comercia will operate in Portugal under the European system of freedom to provide services, which will be ensured, as mentioned above, through an agency agreement to be entered into between such companies and Banco BPI, whereby the relationship with Cients of these activities will be processed through Banco BPI.

Finally, on 21 March 2017, a Global Service Agreement was signed between Banco BPI and CaixaBank for the provision of certain services by the latter. Under this global agreement, specific services contracts have been entered into in the areas of Compliance and Internal Audit. A Global Service Agreement was

also entered into between Banco BPI and SILK Aplicaciones S.L.U. (CaixaBank's technological subsidiary).

Because all of the transactions in question represent transactions between related parties, the deliberations of the Board of Directors were preceded by the following:

- analysis and issuance of an opinion on each of these transactions by a committee of the Board of Directors, composed of the following non-executive members of the Board of Directors: Fernando Ulrich, who presided, António Lobo Xavier, Carla Bambulo, Cristina Rios Amorim and Tomás Jervell;
- analysis and opinion on each of these transactions by the Supervisory Board.

In addition, the deliberations in question were carried out without the participation of either non-executive directors of Banco BPI related to CaixaBank or executive directors.

In these transactions, Banco BPI relied upon:

- a) the collaboration of KPMG, as financial advisor;
- b) the legal advice of Campos Ferreira, Sá Carneiro & Associados (CS ASSOCIADOS) concerning the legal rules and recommendations applicable to transactions between related parties.

Allianz Group

BPI also has a partnership¹ with the Allianz Group for non-life and life insurance, represented by a 35% stake in Allianz Portugal² and an insurance distribution agreement through the Bank's commercial network.

As of 31 December 2017, the Allianz Group held an 8.4% equity interest in Banco BPI.

1) From which income results in the form of profit sharing (through equity holdings) and commissions (through the sale of insurance in the bank's network).

2) Consolidated participation in the accounts of Banco BPI by the equity method.

B. CORPORATE 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 **Board of Directors**, which includes an **Executive Committee** – composed of independent professionals from any shareholders or specific interests – to which the Board delegated broad management powers to conduct day-to-day activity, is responsible for management of the company.

Four specialised committees function within the Board of Directors:

- i) the **Audit and Internal Control Committee**, without prejudice to the legal powers attributed to the Supervisory Board and the powers of the Risks Committee, is responsible for: monitoring the activity of the Executive Committee; Ensuring compliance with legal and regulatory provisions, statutes and standards issued by supervisory authorities, as well as general policies, standards and practices implemented internally; Ensuring the adequacy and compliance of accounting policies, criteria and practices adopted and the regularity of supporting documents; Assessing the statutory audit; Monitoring the process for preparation and disclosure of financial information; Evaluating and promoting the effectiveness of internal control system, and, in coordination with the Risks Committee, performing the function of specialised monitoring of operational, compliance and reputational risks; Ensuring the independence of the Statutory Auditor, particularly when such auditor provides additional services to the company; Supporting and advising the Board of Directors on matters related to corporate governance, and, in particular, aspects related to governance of the Bank and the improvement of its governance and oversight model, with the objective of promoting compliance with principles and practices that ensure a diligent, effective and balanced management of the interests of shareholders and other stakeholders.
- ii) the **Risks Committee**, without prejudice to the overall powers with respect to risk, is responsible for advising the management body on the appetite for risk and general risk strategy, current and future, of the credit institution, assisting the management body on supervision in the execution of the credit institution's risk strategy by senior management, analysing whether the conditions of products and services offered to Clients account for the business model and risk strategy of the credit institution and presenting a correction plan to the management body when such analysis concludes that the cited conditions do not adequately reflect the risks

and examining whether the incentives established in the credit institution's remuneration policy account for risk, capital, liquidity and expectations with respect to results, including the dates of revenue.

- iii) the **Nominations, Evaluation and Remunerations Committee**, 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*.
- iv) The **Social Responsibility Committee** is responsible for supporting and advising the Board of Directors regarding matters related to the Bank's social responsibility, commenting on social solidarity, education, science, innovation and cultural patronage policies, respectively, pursued by the BPI Group, as well as on the configuration of specific initiatives and monitoring the process for the awarding of the respective BPI Capacitar, BPI Sénior and BPI Solidário prizes.

Supervisory powers are attributed to the Supervisory Board – whose essential powers include oversight of management, oversight of compliance with the law and Articles of Association of the Company, verification of accounts, oversight of the independence of the Statutory Auditor and External Auditor, respectively, as well the assessment of activity of the latter – and the **Statutory Auditor**, whose primary function is to examine and certify the accounts;

The **General Meeting**, made up of all Shareholders, deliberates on matters specially assigned to them by law or the Articles of Association – including the election of corporate bodies, the approval of the annual report, accounts for the year, distribution of profits, and capital increases – as well as, if so requested by the Board of Directors, on management matters of the company.

The **Remunerations Committee**, composed of three Shareholders, is elected by the General Meeting. Based on the opinion of the Nominations, Evaluation and Remunerations Committee, the Committee determines the remuneration of the members of corporate bodies of Banco BPI, observing the limits defined by the General Meeting with respect to fixed remuneration of members of the Board of Directors and variable remuneration of the Executive Committee.

The **Company Secretary** is appointed by the Board of Directors and performs the functions provided by laws and others assigned by the Bank.

As of 31 December 2017



1) For further information about the composition of the Board of Directors and its respective supporting committees, please refer to points 17, 27 and 28 of this Report.

2) Person nominated by Allianz Europe, Ltd. pursuant to Article 15(2) of the Articles of Association of Banco BPI, S.A.

3) Deloitte & Associados, SROC, S.A. nominated Paulo Alexandre de Sá Fernandes to represent it in carrying out its duties.

I. GENERAL MEETING

The General Meeting and the corporate body formed by all Banco BPI Shareholders.

GENERAL MEETING'S PRINCIPAL TERMS OF REFERENCE

- Election of members of the Board of Directors, the Supervisory Board, the Remunerations 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.
- Deliberation 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 Remunerations Committee

The presence of at least one member of the Remunerations Committee at the General Meetings is always assured.

Functioning rules

According to the law, the Annual General Meeting must meet by the end of May¹. In addition, the Committee Chairman must convene extraordinarily the General Meeting whenever this is requested by the Board of Directors, the Supervisory Board or by shareholders owning shares corresponding to the minimum number by imperative law and who so request by means of a signed written document which indicates in precise terms the matters that should appear on the agenda and which justify the need for the General Meeting, and must be accompanied by the relevant draft resolutions.

Constituent quorum and required majority

The General Meeting can deliberate at its first convocation irrespective of the number of shareholders present or represented, except if it deliberates on altering the Bank's statutes, merger, demerger, 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.

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.

11. Shareholders' General Meeting

The composition of the General Meeting Committee appears in the organisation chart "Governing bodies and Committees" (page 327 of the present report).

Members of the Board of the General Meeting were elected in the General Meeting on 26 April 2017 for a three-year term of office ending on 31 December 2019.

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 website, 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

Pursuant to Article 32(2) of the articles of association of Banco BPI, resolution for dissolution of the company requires the approval of seventy-five percent of votes cast, a greater majority than that provided for in Article 386(3) of the Commercial Companies Code (two-thirds of votes cast). In accordance with Article 31(2) of the same articles of association, the resolution to amend the former and latter provision are subject to the same qualified majority.

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 326 (“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.

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 its advisory committees at 31 December 2017 is presented in the organisation chart “Corporate Bodies and Committees” (page 327 of this report). Refer to Annex, page 390 concerning the date for 1st appointment and term of office.

On 22 January 2017, Carlos Moreira da Silva, member of the Board of Directors and member of the Nominations, Evaluation and Remunerations Committee, tendered his resignation and left office 28 February 2017.

On 31 January 2017, Armando Leite de Pinho, member of the Board of Directors and member of the defunct Corporate Governance Committee, tendered his resignation and left office on 28 February 2017.

On 7 January 2017, Mário Leite da Silva, member of the Board of Directors and member of the Audit and Internal Control Committee, tendered his resignation and left office on 31 March 2017.

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.”

Also in accordance with Article 29 of the Articles of Association: “Members of corporate bodies are elected for three-year periods, with the exception of the Statutory Auditor, who is elected for a four-year period, and all may be re-elected one or more times, subject to legal limits.”

18. Independence of the Board of Directors members

The organisation chart “Governing bodies and Committees” (page 327) presents the composition of the Board of Directors, indicating its members who make up the Executive Committee.

Non-executive members of the Banco BPI Board of Directors

At 31 December 2017

	Board of Directors consultative committees			Qualification concerning independence
	Audit and Internal Control Committee	Risks Committee	Nominations, Evaluation and Remunerations Committee	
Chairman				
Fernando Ulrich				Independent
Deputy-Chairman				
António Lobo Xavier	Chairman			Independent
Members				
Carla Bambulo		Member		✓
Cristina Rios Amorim		Member		Independent
Javier Pano		Chairman		✓
Juan Alcaraz			Member	✓
Gonzalo Gortázar				✓
Lluís Vendrell	Member		Member	✓
Tomás Jervell			Chairman	Independent
Vicente Tardío Barutel	Member			✓

Independent: Without prejudice to the other criteria for assessing the quality of "Independent", particularly those arising from joint recommendations of ESMA (European Securities and Markets Authority) and EBA (European Banking Authority) of 26 September 2017 (EBA / GL / 2017 / 12) and those resulting from the "Guide to fit and proper assessments" published by the ECB (European Central Bank) in May 2017, the qualification indicated in the table reflects the internal judgment of the Board of Directors of Banco BPI, formulated in light of recommendation II.1.7 of the Corporate Governance Code (Código de Governo das Sociedades) published by the CMVM and considering the specific circumstances of each member of the Board.

Pursuant to the CMVM recommendation, a member of the Board of Directors is considered to be independent if he or she is not associated with any specific interest group and is not in any circumstance likely to affect his or her exemption from analysis or decision, particularly by virtue of:

- 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;
- 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;
- 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;
- 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;
- 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.

- ✓ The director in question holds management position(s) in entity(s) owning a qualifying holding of at least 2% of the capital of Banco BPI or group entity of the former, 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 the members of the Board of Directors

Refer to Annex to this report (page 390).

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 point 7 on this report, shareholders with qualifying holdings exceeding 2% are legal persons. Thus, by definition, there is no family relationship between the members of the Board of Directors and shareholders with a qualifying holding exceeding 2%.

The professional relations of members of the Board of Directors with shareholders with a qualifying holding exceeding 2% are described in relation to each member in Annex to this document, indicating therein the professional positions held in

shareholders corresponding to legal persons with a qualifying holding exceeding 2%.

BPI was not informed of the existence of any significant relationship between members of the Board of Directors and shareholders corresponding to legal persons with qualifying holding exceeding 2% in BPI, in addition to those constituted as set forth 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 broadest management and representation powers of the Company are attributed, without prejudice to the specific powers that the law assigns to the Supervisory Board. BPI Group's main principles are defined thereby.



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 Remunerations 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 pursuing 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. Board of Directors consultative committees

Four specialised advisory committees within the scope of the Board of Directors, as provided for in the articles of association: the Audit and Internal Control Committee, the Risks Committee, the Nominations, Evaluation and Remunerations Committee and the Social Responsibility Committee.

The following is a summary of the powers of these committees:

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.

TERMS OF REFERENCE OF THE SOCIAL RESPONSIBILITY COMMITTEE

The **Social Responsibility Committee** is responsible for supporting and advising the Board of Directors regarding matters related to the Bank's social responsibility, commenting on social solidarity, education, science, innovation and cultural patronage policies, respectively, pursued by the BPI Group, as well as on the configuration of specific initiatives and monitoring of the process for the awarding of the respective BPI Capacitar, BPI Sénior and BPI Solidário prizes.

PRINCIPAL TERMS OF REFERENCE OF NOMINATIONS, EVALUATION AND REMUNERATIONS COMMITTEE

The Nominations, Evaluation and Remunerations 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 “BPI Group’s Governance”.

23. Number of meetings held and degree of attendance

The Board of Directors met 13 times in 2017. The attendance of each member at the meetings held was as follows:

Member	Attendance	Representation
Artur Santos Silva ¹	7	0
Fernando Ulrich	13	0
Pablo Forero ³	6	0
António Lobo Xavier	12	1
Alexandre Lucena e Vale ⁴	6	0
António Farinha Morais ⁴	6	0
Alfredo Rezende de Almeida ¹	5	1
Armando Leite Pinho ²	1	0
Carla Bambulo	12	1
Carlos Moreira da Silva ²	2	0
Cristina Rios Amorim ⁴	6	0
Gonzalo Gortázar ³	7	1
Ignacio Alvarez-Rendueles	12	0
Javier Pano Riera ⁴	5	1
João Pedro Oliveira e Costa	13	0
José Pena do Amaral	13	0
Juan Alcaraz ⁴	3	3
Lluís Vendrell	12	0
Manuel Ferreira da Silva ¹	5	1
Maria Celeste Hagatong ¹	6	0
Mário Leite da Silva ⁵	0	3
Pedro Barreto	13	0
Tomás Jervell	9	5
Vicente Tardío Barutel	10	2

In 2017, the Banco BPI Board of Directors considered and approved, among others, the following matters:

Principal resolutions / matters dealt with the Board of Directors' meetings

Dates	Resolutions / Matters
	Approval of plans, reports and budgets
26 Jan.	Approval of Recovery Plan (full version set to ECB)
26 Jan.	Approval of the proposed modification of the RAS (Risk Appetite Statement) / RAF (Risk Appetite Framework) scopes
26 Jan.	Proposal of RAS / RAF capital indicators
17 Mar., 25 Jul.	Funding and Capital Plan
26 Jan., 17 Mar., 26 Apr., 30 May, 25 Jul.	Monitoring of indicators of the Recovery Plan
17 Mar.	RAS Approval December 2016
26 Apr., 22 Sep.	Monitoring of RAS and RAF
17 Mar., 26 Apr., 30 May, 22 Sep., 22 Nov.	Assessment of the ICAAP (Internal Capital Adequacy Assessment Process) monitoring report
17 Mar., 26 Apr.	Assessment of the ILAAP (Internal Liquidity Adequacy Assessment Process) monitoring report
29 Jun.	Proposed elimination of quarterly ILAAP monitoring report
29 Jun.	Response to ICAAP action plan
25 Jul.	ECB response to Action Plan for ICAAP

1) Duties terminated on 21 July 2017.

2) Duties terminated on 28 February 2017.

3) Duties initiated on 9 May 2017.

4) Duties initiated on 21 July 2017.

5) Duties terminated on 31 May 2017.

Principal resolutions / matters dealt with the Board of Directors' meetings (cont.)

Dates	Resolutions / Matters
22 Sep., 22 Nov.	RAS Monitoring Report
22 Sep.	Risk Catalogue
25 Jul., 22 Sep., 24 Oct., 22 Nov., 14 Dec.	IFRS 9 – Status
24 Oct.	SREP – Draft letter of response to BCE
14 Dec.	Assessment of estimated earnings for 2017
14 Dec.	Assessment and approval of Plan and Budget for 2018-2020
14 Dec.	ILAAP – Updating of Internal Regulations
14 Dec.	ICAAP – Updating of Internal Regulations
14 Dec.	RAS: Remediation of the non-compliant metric related to Angola Risk
	Reporting of accounts and proposed appropriation of earnings
26 Jan.	Assessment and approval of consolidated accounts for 2016, as well as deliberation on public disclosure
17 Mar.	Assessment of BPI Group's situation in February 2017
17 Mar.	Approval of draft Reports and Accounts to be submitted to the General Meeting of Shareholders on 26 April 2017
26 Apr.	Assessment of BPI Group's situation in March 2017, as well as a resolution on disclosure thereof
30 May	Assessment of BPI Group's situation in April 2017
29 Jun.	Assessment of BPI Group's situation in May 2017
25 Jul.	Assessment of the consolidated accounts as at 30 June 2017 as well as resolution on disclosure thereof
22 Sep.	Assessment of BPI Group's situation in August 2017
19 Oct.	Assessment of the consolidated accounts as at 30 September 2017 as well as resolution on disclosure thereof
22 Nov.	Assessment of BPI Group's situation in October 2017
	Initiatives to present proposals to the General Meeting of Shareholders
15 Mar.	Approval of draft Notice of Meeting and proposals to be submitted to the General Meeting of Shareholders on 26 April 2017
	Monitoring the evolution of BPI Group's pension liabilities and assets of pension funds
26 Jan., 26 Apr., 30 May, 29 Jun., 25 Jul., 22 Sep., 19 Oct., 24 Oct.	Assessment of retirement and survivor's pension liabilities and coverage thereof by the pension fund, as well as the profitability achieved by such fund.
	Monitoring of Bank's exposure to larger risks and financing operations
26 Jan., 17 Mar., 26 Apr., 30 May, 22 Sep., 24 Oct., 22 Nov., 14 Dec.	Assessment of other transactions subject to the regime of Article 85 or 109 of the Banking Law
	Issuance of bonds
26 Jan.	Renewal of Euro Term Note Programme (EMTN Programme)
17 Mar.	Approval of conditions for the issuance of Tier 2 Instruments
	Internal operations
26 Jan., 17 Mar., 26 Apr., 30 May, 29 Jun., 24 Oct., 22 Nov., 14 Dec.	Information on activity of the Audit and Internal Control Committee
26 Jan., 17 Mar., 26 Apr., 30 May, 29 Jun., 22 Sep., 24 Oct., 22 Nov., 14 Dec.	Information on activity of the Risks Committee (formerly known as the Financial Risks Committee)
17 Mar., 26 Apr.	Information on the activity of the Corporate Governance Committee
26 Apr., 24 Oct., 22 Nov., 14 Dec.	Information on activity of the activity of the Nominations, Evaluation and Remunerations Committee
26 Apr.	Update of the Calendar of Board of Directors meetings for 2017
26 Apr.	Joint-venture agreement related to the investment banking area between CaixaBank and Banco Português de Investimento
26 Apr.	Onsite Inspection on Operational / IT Risk
26 Apr., 25 Jul.	KPMG Training Programme for Board members
26 Apr., 25 Jul.	Internal Relationship Protocol between CaixaBank and Banco BPI
26 Apr., 22 Sep.	Creation of the Social Responsibility Committee, approval of its rules of procedure and appointment of members thereof
26 Apr.	Creation of Overall Risks Committee, Permanent Credits Committee, ALCO (Asset-Liability) Committee and Risk Policies Committee
30 May, 29 Jun., 25 Jul.	Voluntary termination and early retirement program
29 Jun., 25 Jul.	Fit & Proper Process – new composition of Board of Directors

Principal resolutions / matters dealt with the Board of Directors' meetings (cont.)

Dates	Resolutions / Matters
29 Jun.	Evolution of network of individuals, entrepreneurs and businesses and the network of investment centres
25 Jul.	Appointment of Honorary Chairman, Members of the Executive Committee of the Board of Directors, Members of the Audit and Internal Control Committee, Members of the Risks Committee, Members of the Nominations, Evaluation and Remunerations Committee, Company Secretary and Alternate Secretary
25 Jul.	Distribution of Responsibilities of the Executive Committee of the Board of Directors
22 Sep.	Corporate Bodies: Resignation of Juan Ramón Fuertes
22 Sep.	Corporate Bodies: Letter from Bank of Portugal on the Supervisory Board
25 Jul.	Corporate and Investment Banking
25 Jul.	Situation at BCI (Banco Comercial de Investimentos – Mozambique)
25 Jul., 22 Sep., 22 Nov.	BPI Lisbon Facilities
22 Sep.	Mortgage Market Situation
24 Oct.	Paris Branch – Action plan
24 Oct., 22 Nov., 14 Dec.	Sale of businesses from BPI to companies in which CaixaBank has a stake
24 Oct.	Calendar for 2018 of sessions of General Meeting, Board of Directors and advisory boards of the Board of Directors
22 Nov.	BPI Suisse
22 Nov.	Appointment of person with lead responsibility for the Compliance Department
22 Nov., 14 Dec.	The CMVM's On-Site Supervision Action concerning the system for Prevention of Money Laundering and Terrorist Financing
22 Nov., 14 Dec.	Approval of Internal Policies: Remuneration of Identified Employees, Prevention of Non-compliance with Sanctions and Prevention of Money Laundering and Terrorist Financing
	Approval of amendment to the Code of Conduct
14 Dec.	New BPI Ratings
	Other matters of general interest to the Company
26 Jan.	Analysis of performance of Banco BPI shares in the stock market
30 May	Unicre
30 May	100-day program
28 Jul.	Retirement Benefits Regulation
22 Sep.	Status of Impresa Group
22 Nov.	MiFID II – Markets in Financial Instruments Directive II
22 Nov.	BFA: Compliance and risk of exchange rate devaluation
14 Dec.	Meetings of the Chairman of the Board of Directors, Supervisory Board, Audit and Internal Control Committee and Risks Committee with the Supervisor (ECB).

24. Bodies charged with the responsibility for carrying out the evaluation of the executive directors' performance

The Nominations, Evaluation and Remunerations Committee is responsible for conducting the performance evaluation of executive directors with a view to determining their annual variable remuneration.

The Remunerations Committee – responsible under the terms of the Articles of Association and the applicable Remuneration Policy for approving the variable remuneration of executive directors – takes into consideration the proposals and recommendations presented to it by the Nominations, Evaluation and Remunerations Committee in accordance with Article 7(4) of *Bank of Portugal Notice 10 / 2011*.

25. Predefined criteria for assessing executive directors' performance

Under the terms of the current Remuneration Policy, Executive Directors may be attributed variable remuneration in the form of a risk-adjusted bonus, based on the measurement of performance.

Performance measurement is carried out by ex-ante and ex-post adjustments, as a way of applying risk control. Guaranteed variable remuneration cannot be granted except when a new Executive Director is hired, and, in any case, such guaranteed variable remuneration may only be applicable to the first year in which duties are performed and is only due if it is verified that the Bank has a solid and strong capital base.

Quantitative (financial) and qualitative (non-financial) criteria, which must be specified and clearly documented, must be used for the measurement of performance and evaluation of individual results.

Variable remuneration applicable to Executive Directors is determined based on a “target bonus” defined for each of them by the Remunerations Committee, on proposal of the Nominations, Evaluation and Remunerations Committee.

The variable remuneration to be attributed will depend on the “level of achievement of objectives” determined for the Executive Director. The maximum percentage of this “level of achievement of objectives” that can be reached is 120%, in which case the Executive Director will be entitled to receive a variable remuneration equivalent to 120% of the “target bonus” value.

For the “level of achievement of objectives”, 50% of Banco BPI (corporate objectives) and 50% of individual objectives will be considered:

Banco BPI Objectives

Banco BPI's objectives should be determined for each year by the Remunerations Committee, on proposal of the Nominations, Evaluation and Remunerations Committee, and their weight should be a function of the parameters defined on the basis of the Bank's main objectives. These parameters may include but are not limited to all or some of the following:

- ROTE (return on tangible equity)
- Recurring operating expenses
- Risk Appetite Framework
- Regulatory compliance
- Quality

Whatever the case, the proposed composition and weighting of Banco BPI's objectives must be established in accordance with the provisions of the law and may vary between Executive Directors.

Individual objectives

The share of individual objectives (50 percent) must be globally distributed between the objectives associated with Banco BPI's strategy. The final evaluation will be carried out by the Remunerations Committee, on proposal of the Nominations, Evaluation and Remunerations Committee.

The final determination of variable remuneration will be approved by the Remunerations Committee, on proposal of the Nominations, Evaluation and Remunerations Committee.

26. Positions held by members of the Board of Directors

Refer to this point for the information included in the annex on page 390.

27. Details of the committees created within the Board of Directors and the place where the rules on the functioning thereof is available

As explained above (points 15 and 21), four specialised committees function within the Board of Directors:

- the Audit and Internal Control Committee;
- the Risks Committee;
- the Nominations, Evaluation and Remunerations Committee;
- the Social Responsibility Committee.

Under the terms of the Articles of Association, the cited committees, excluding the Social Responsibility Committee:

- a) are composed of members of the Board of Directors who are not on the respective Executive Committee, and, if the Board of Directors deems appropriate, by persons who do not belong to such body, freely chosen by the Board of Directors accounting for their specialised knowledge in the area of involvement in these Committees;
- b) the number of members of each Committee referred to in the preceding paragraph that are not classified as members of the Board of Directors will always be less than half of the total number of members of the Board.

The Risks Committee and the Nominations, Evaluation and Remunerations Committee are composed exclusively of non-executive members of the Board of Directors. The Audit and Internal Control Committee is comprised of 4 non-executive members of the Board of Directors and one member not on the Board. The Honorary Chairman of the Bank chairs the Social Responsibility Committee, which includes one member of the Executive Committee and 3 members who are not on the Board of Directors.

The full scope of powers of the aforementioned specialised Committees is found in the articles of association and respective rules of procedure. Both instruments are available on the “Investor Relations” website (www.ir.bpi.pt), under the section “BPI Group Governance”.

The powers of the Nominations, Evaluation and Remunerations Committee also are defined as provided for by *Bank of Portugal Notice 10 / 2011* and in the RGICSF.

28. Composition of the Executive Committee

The Executive Committee of the Board of Directors (Executive Committee) of Banco BPI is composed of eight executive Directors.

It is the policy of the BPI Group that members of the Executive Committee only hold other positions of responsibility by appointment of the Bank when the Bank has an interest in these companies.

Executive Committee	Main areas of responsibility
<i>Chairman</i> Pablo Forero	Compliance
<i>Members</i> Alexandre Lucena e Vale António Farinha Morais Francisco Barbeira Ignacio Alvarez-Rendueles João Oliveira Costa José Pena do Amaral Pedro Barreto	Legal Department, Corporate Secretary, Asset Management Support Unit Risk Management, Credit Recovery and Model Validation Digital Banking, Information Systems, Operations, Efficiency and Organisation, Procurement, Budget and Assets and Security Financial, Accounting, Planning and Statistics, Economic / Financial Studies, Special Analysis and Projects, Asset Management Individuals, Small Businesses and Premier, Private Banking, Business Support for Individuals, Consumer Finance, Real Estate and Personal Partnerships, Non-Residents Human Resources, Communication, Brand and Social Responsibility Corporate and Institutional, Special Operations, Corporate Products and Services, Corporate Business Development, Corporate and Investment Banking, Capital Markets-Distribution, Spain Branch

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 point 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 "BPI Group's 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 2017, the Executive Committee met 48 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.

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.

Information to the Board of Directors and to the Supervisory Board

The Chairman of the Executive Committee sends the Chairman of the Board of Directors and the Chairman of the Executive Committee, for their information, the notices of meetings of such committee before such meetings are held. The minutes of the respective meetings are also made available.

In addition to this information, the Executive Committee makes available to the Board of Directors and Supervisory Board a summary of all matters addressed in its meetings during such period.

Members of the Executive Committee provide, in a timely and appropriate manner, the information requested by other members of the corporate bodies.

29. Terms of reference and summary of activities undertaken of the consultative committees of the Board of Directors in 2017

29.1. Audit and Internal Control Committee

Terms of reference and activity

The Audit and Internal Control Committee is responsible, without prejudice to the powers of the Supervisory Board, for monitoring the activity of the Executive Committee, the process for preparation and disclosure of financial information, ensuring the effectiveness of the internal control system and performing, in coordination with the Risks Committee, the function of specialised monitoring of operational, compliance and reputational risks.

REPORT ON ACTIVITY OF THE AUDIT AND INTERNAL CONTROL COMMITTEE IN 2017

The Audit and Internal Control Committee of Banco BPI held 11 (eleven) meetings in 2017, analysing issues related to the powers attributed to it under the terms of its respective Rules of Procedure, as well as those resulting from the “Report on Activity of the Audit and Internal Control Committee in 2017”, approved by this Committee in the meeting held on 12 December 2016.

According to the terms of its Rules of Procedure, in addition to its members, the Chairman of the Board of Directors and the Member of the Executive Committee José Pena do Amaral, members of the Supervisory Board and representatives of the Statutory Auditor regularly participated in meetings of the Audit and Internal Control Committee, although without voting rights.

On the basis of the matters under consideration, some members of the Bank's Executive Committee, as well as Directors and parties with primary responsibility for areas, in addition to companies that are part of the BPI Group, whose matters were analysed in such meetings, also were invited to participate in certain meetings of the Audit and Internal Control Committee.

The analyses carried out and decisions taken by the Audit and Internal Control Committee primarily were based on the work performed by the External Auditor, the Internal Audit Department and other Banco BPI Departments, as well as companies that are part of the BPI Group, within the scope of their respective functions. Where applicable, they were also supported in inspection actions and communications of supervisory authorities.

It should also be noted that, by resolution approved by the Board of Directors of Banco BPI in a meeting held on 25 July 2017, the composition of the Audit and Internal Control Committee was changed to the following for the performance of duties during the term of office corresponding to the years 2017 to 2019:

Chairman: António Lobo Xavier
Members: Alfredo Rezende Almeida
Luís Vendrell Pi
Vicente Tardío Barutel

Finally, it should be noted that in April 2017 the Rules of Procedure of the Audit and Internal Control Committee were reviewed in order to adjust and reconcile the functions and powers of this Committee with the Risks Committee, and, additionally, to accommodate some powers of the defunct Corporate Governance Committee, and, in particular, aspects related to Banco BPI's governance and the improvement of its governance and supervisory model.

The activity conducted by the Audit and Internal Control Committee in 2017, corresponding to the powers assigned thereto under the terms of the respective Rules of Procedure, is summarised below.

1. Overseeing observance of the law and regulation, statutes and standards issued by supervisory authorities, as well as general policies and internal standards and practices

In this context, the Committee monitored compliance with legal, regulatory and internal rules in the areas covered by audit and review actions of Internal and External Audit procedures. To that end, the Committee assessed the conclusions of these actions that were regularly submitted to it, reporting on and monitoring the implementation of the resulting recommendations.

With this aim, the Audit and Internal Control Committee examined the following work in particular:

- report prepared by the Internal Audit Department on compliance by the BPI Group with rules on prudential reporting to supervisory bodies and on the reliability of the content thereof;
- report on ICAAP and respective quarterly monitoring, as well as corresponding internal audit report;
- the action plan within the framework of RAS / RAF, respective quarterly monitoring and proposals for review of metrics were evaluated. The internal audit report on RAF was also analysed;
- periodic reporting to monitor the implementation of the Accounting Standard IFRS 9;
- analysis, prepared by the External Auditor, of processes instituted in BPI Group companies to ensure the safeguarding of Client's assets;
- BPI Group Recovery Plan, prepared in accordance with applicable legal and regulatory provisions.

During the year the Committee also monitored developments in the processes related to periodic inspections conducted by supervisory bodies, in particular the following:

- Risk Assessment Model, concerning the “Small Business Credit” area;
- “On-Site Inspection” (OSI) of Collective Impairment Models for Large Companies and Project Finance – Spain;
- “Special Assessment Programme – SAP” inspection aimed at evaluating the risk management policies and processes associated with distressed loans;
- OSI of “ICAAP – Internal Capital Adequacy Assessment Process”.

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 adequacy and compliance with accounting policies, criteria and practices and the reliability of financial information was above all ensured through the assessment of conclusions from audits and procedural reviews carried out by Internal and External Auditors

At the same time, the Committee analysed in detail the financial statements and consolidated results of the BPI Group at 31 December 2016, as well as those relating to the first,

second and third quarters of 2017.

At the meeting held in March, the Audit and Internal Control Committee assessed the draft Annual Report and Accounts for the year 2016, as well as, with respect to such year, the draft opinion of the Supervisory Board on the Annual Report and Accounts and the draft Statutory Audit and Audit Report under the responsibility of the Statutory Auditor. The Reports and Accounts for the 1st half of 2017 and the Audit Reports prepared by Deloitte on semi-annual, individual and consolidated information were also evaluated in the meeting held in September.

Within the scope of such powers, the Committee also examined:

- conclusions from the review of financial statements of Banco BPI carried out by Deloitte in relation to 31 March and 30 September;
- the reports presented by the External Auditor on the process of quantifying impairment losses of Banco BPI's loan portfolio, with reference to 31 December 2016 and 30 June 2017, intended to comply with *Bank of Portugal Instruction no. 5 / 2013*, of 15 April;
- Banco BPI's "Quarterly Consolidated Information" reported in March and September, prepared in accordance with *CMVM Regulation no. 5 / 2008*;
- the document prepared by the Legal Department regarding the calculation of IRC (*Imposto sobre o Rendimento de Pessoas Coletivas* – Corporate Income Tax) and Deferred Taxes corresponding to the year 2016, as well as the review by Deloitte of IRC Form 22 Returns for Banco BPI and Banco Português de Investimento.

3. Evaluating and enhancing the effectiveness of the internal control systems

The effectiveness and coherence of the BPI Group's Internal Control Systems are an ongoing concern of the Audit and Internal Control Committee.

To that end, the Audit and Internal Control Committee periodically evaluated the operating procedures of Group companies in 2017, including their respective branches and subsidiaries. This evaluation essentially was based on the work carried out by the External Auditor and the Internal Audit, as well as on presentations and clarifications by Management and Departments with corresponding responsibilities.

An important indicator for the Committee to evaluate the adequacy of the Group's Internal Control Systems is the information provided periodically by the Internal Audit Department concerning compliance and expected deadlines for the implementation of recommendations formulated by Audits and Supervisors, with indication of the associated degrees of risk.

With respect to compliance with obligations to report to supervisory authorities on the adequacy and effectiveness of the internal control systems, the Committee analysed:

- the annual reports of the Risk Management, compliance and External Audit Functions of the BPI Group, BPI Gestão de

Activos (Asset Management) and BPI GIF (Luxembourg);

- the annual reports on the Internal Control Systems of Banco BPI and its subsidiaries and companies in which Banco BPI has a stake subject to supervision on a consolidated basis, as well as the respective opinions of the Supervisory Board of Banco BPI and respective Statutory Auditors;
- the annual reports on Prevention of Money Laundering and Terrorist Financing of Banco BPI, Banco Português de Investimento and BPI Gestão de Activos, as well as opinions from the respective supervisory bodies;
- with respect to BPI Vida, the annual report concerning the Internal Audit Function was analysed, as well as, for the first time, the Periodic Supervision Report, prepared in accordance with *Directive 2009 / 138 / EC*, of the European Parliament and of the Council, of 25 November, concerning access to insurance and reinsurance activity and the exercise thereof (Solvency II).

4. Evaluating and promoting the effectiveness of the non-financial risk system

Throughout the year, the Audit and Internal Control Committee analysed the documents related to the "Banco BPI Risk Appetite Statement" and the "Risk Appetite Statement on Banco BPI Units", as well as the "Risk Appetite Framework" (RAF). In this respect, the Committee assessed the respective quarterly monitoring during the year, as well as proposals to change metrics and annual review.

At the meeting held in April, the Audit and Internal Control Committee examined the report on Credit Concentration Risk, with reference to December 2016, prepared pursuant to BdP (Bank of Portugal) *Instruction 5 / 2011*.

In such meeting, the Committee also took note of the Market Discipline Report, prepared by Banco BPI in accordance with Part VIII of *Regulation (EU) no. 575 / 2013*, of the European Parliament and of the Council, of 26 June 2013, relating to prudential requirements for credit institutions and investment firms.

In particular, concerning the non-financial risk management system and in accordance with the respective Rules of Procedure, the Audit and Internal Control Committee specifically assessed the following risks.

a) Operational Risk

One of the main means used in evaluating and promoting the effectiveness of operational risk control was the aforementioned review of the conclusions and recommendations of the internal audits and reviews of procedures carried out by the External Auditor, together with those responsible for Departments and BPI Group companies subject to such actions.

This assessment made it possible to identify the most relevant deficiencies and formulate recommendations to the audited bodies and companies of the Group, as well as to convey suggestions to the Executive Committee concerning the matters in question.

In addition to the above, the following matters were also assessed during the year:

(I) Reviews of procedures of External Auditor:

- for the Tax Area of the Legal Department;
- for the International Private Banking Area;
- in the scope of the process of contracting operations corresponding to Housing Loans;
- for the Information Systems Department – General I.T. Controls;
- in the scope of the process to prepare “Common Reporting (COREP)”;
- for the Operations Department – Clients, Accounts and Markets;
- for the Risk Analysis and Control Department – Overall Risk Area, within the scope of monitoring the exposure to derivative operations and reporting operations;
- for the Private Banking Department, in the Resident Middle Office area;
- within the scope of identification and determination of impairment losses on an individual basis for credit to Clients under the supervision of the Credit Risk Department

(II) Audits of the Internal Audit Department:

- activity developed by BPI Vida e Pensões;
- Banco BPI Cayman;
- Offshore Cayman branch;
- Accounting, Planning and Statistics Department – Process for Preparation and Disclosure of Accounting and Financial Information;
- follow-up requested by supervisors on the processes “MAR – Small Business”; “4th and 5th Follow up’s to OSI-2015-PTBPI-50 – Collective Impairment Models related to Large Companies and Project Finance – Spain”; “SAP – Management of Distressed Loans”, 1st Follow up to OSI-2016-PTBPI-1298 – ICAAP;
- auditing of Definition of Default and NPE (Non-Performing Exposures);
- audit of Prudential Reporting Compliance;
- testing of the effectiveness of the internal control system for prevention of money laundering and terrorist financing;
- audit of Risk Appetite Framework (RAF);
- status of audit on implementation of accounting standard IFRS 9;
- report on “Single Supervisory Mechanism Liquidity Template Exercise 2017”.

At the same time, in the April meeting, the Committee analysed the annual reports on Business Continuity, Information Security and Operational Risk and Operational Losses, the coordination of which is the responsibility of the Department of Efficiency, Quality and Organisation. The Committee thus has become apprised of the activities carried out in these three areas, as well as of the objectives and initiatives underway, with a view to managing these risks in the context of the BPI Group.

The Committee also took note of the Internal Audit Department reports with the activity reports and main conclusions of the audits completed in the 2nd half of 2016, as well as in the 1st half of 2017, analysing the operational causes of the

occurrences detected and the measures decided for elimination thereof.

It also examined the statistical information presented by the Internal Audit Department on the evolution of financial claims at Banco BPI, referring to the 2014-2016 and 2015-2017 triennia, with a breakdown of the risks assumed by the Bank, attributed to Employees and former Employees.

In addition, the documents prepared by the Department of Efficiency, Quality and Organisation – Quality and Complaints Area, with information relating to indicators of quality and Client complaints received at Banco BPI, as well as the measures adopted with a view to mitigating or reducing the identified situations, were considered.

The report presented by the Department of Provisioning, Outsourcing and Assets related to services subject to outsourcing and respective risks also merited special attention, with indication of the methods and procedures used to ensure adequate control of this type of activity, in terms of security, risk mitigation, quality and price levels.

b) Compliance risk:

At the March meeting, the Audit and Internal Control Committee evaluated the Annual Plan and Activity Report of the Compliance Department for the year 2017, issued in the context of its power to coordinate activities in the context of management risks corresponding to Compliance, Money Laundering and Terrorist Financing and Market Abuse.

In addition, the Committee analysed the following in the June meeting:

- the annual reports on the Internal Control System of Banco BPI and its subsidiaries and companies in which Banco BPI has a stake subject to supervision on a consolidated basis, as well as the respective opinions of the Supervisory Board of Banco BPI, all prepared in accordance with BdP *Notice 5 / 2008*;
- the annual reports on Prevention of Money Laundering and Terrorist Financing of Banco BPI, Banco Português de Investimento and BPI Gestão de Activos, as well as opinions from the respective supervisory bodies.

Furthermore, at the June meeting, the Committee analysed the Reports on Systems for the Prevention of Money Laundering and Terrorist Financing of Banco BPI, Banco Português de Investimento and BPI Gestão de Activos, as well as respective Opinions of the Audit Bodies of these companies, all of them sent to the Bank of Portugal in compliance with BdP *Notices 9 / 2012* and *2 / 2014*.

Further, in accordance with the provisions of Banco BPI's Code of Ethics and Conduct, reports from the Compliance Department with information on the results from monitoring pursuant to such Code of Ethics were submitted quarterly to the Committee.

During the year, the Committee also stayed abreast of and monitored various interactions between the Compliance Department and the CMVM in the context of the supervisory

action that such entity has underway.

Finally, in December, the Committee assessed the new Policy for Prevention of Money Laundering and Terrorist Financing of Banco BPI.

c) Reputational risk

The Audit and Internal Control Committee assessed the various factors for assessing the quality of services, as well as the internal and external instruments used by Banco BPI for measurement thereof, including "Quality of Service Indicators". As cited above, the Quality and Complaints Area of the Department of Efficiency, Quality and Organisation apprised the Committee of the initiatives taken to promote the quality of support and service for the Bank's Clients.

At the same time, and in the context of the quarterly review of the complaints reports, the Committee assessed the reputational risk associated with the procedures followed in providing services and communication with Clients.

Moreover, at the October meeting, the Committee also analysed the report prepared by the Investor Relations Department on the process of communication with shareholders and investors, which contained a summary of the activity carried out by such Department during the year, as well as on reputational risk management in this area.

The report on the process of communication with the Tax and Customs Authority prepared by the Legal Department – Tax Area, was also analysed, within the framework of the relations established between Banco BPI and the Tax and Customs Authority relating to compliance with tax obligations.

Finally, as a result of the respective disclosure, the various reports on Banco BPI issued by credit rating agencies (Standard & Poor's, Moody's and Fitch Ratings) were evaluated.

5. Evaluating and promoting the effectiveness of internal audit activity

Monitoring of the Internal Audit Department activity and evaluation of its effectiveness were ensured during the year through the following actions:

- analysis of the activity conducted by the Internal Audit Department in each six-month period and status of the implementation of the Annual Plan;
- analysis of the evolution of accident rate handled by the Internal Audit Department in the last 3 years and presentation concerning what occurred in each six-month period;
- analysis of reports from the main audits performed by the Internal Audit Department each quarter;
- analysis of compliance with recommendations issued by the Internal Audit Department, External Auditors, BdP and the ECB, based on information provided by the Internal Audit Department, indicating the respective risk levels;
- approval of the Internal Audit Department Design Project;
- monitoring of Internal Audit Planning for 2018;
- approval of new Follow-Up Process for the Recommendations of the Internal Audit function;

- assessment of the Annual Statement of Independence of the person responsible for the Internal Audit function.

It also should be noted that the Audit Plan for the 2018-2020 period was approved at the last meeting of the year.

6. Monitoring and overseeing the Portuguese statutory auditors' independence

During the year, the Committee monitored and evaluated the activity and independence of the Statutory Auditor, particularly with respect to the provision of additional services.

In the context of these powers, the Audit and Internal Control Committee analysed and issued an opinion on the following matters:

- Plan for reviews of procedures of the External Auditor for 2017, with a view to approval by the Supervisory Board. Also within this scope, the Audit and Internal Control Committee assessed the conclusions of these reviews and monitored the implementation of the resulting recommendations;
- Proposed fees related to the annual activity plan of External Auditors of Banco BPI, Banco Português de Investimento and other BPI Group entities;
- Proposals for the provision of non-audit services submitted by External Auditors (or by the network entities to which they belong) to any BPI Group entities, with a view to their subsequent approval by the Banco BPI Supervisory Board, and, if the services in question are provided to Public Interest Entities (PIE) of the Group, by the Supervisory Boards of these PIE;
- Comments were made with respect to the fees of the External Auditor of Banco Português de Investimento and BPI Vida for the second half of 2017, as well as concerning fees of the new External Auditor of Banco BPI for 2018;

It bears mentioning that PricewaterhouseCoopers & Associados, SROC, Lda. (PwC) was appointed Statutory Auditor / External Auditor for 2017 with respect to the following companies in which Banco BPI has a stake: Banco Português de Investimento and BPI Vida.

Under the power set forth in Article Seventeen 17(6) of *Regulation (EU) no. 537 / 2014*, of 16 April 2014, of the European Parliament and of the Council, related to specific requirements for the statutory audit of Public Interest Entities, and after obtaining necessary authorisation from the CMVM for such purposes, Deloitte & Associados, SROC, S.A. was reappointed as Statutory Auditor of Banco BPI until the end of the 2017 calendar year, with PwC appointed to perform such duties starting in the 2018 year.

In this context, with special emphasis on the last quarter of the year, the Audit and Internal Control Committee monitored the transition work of Banco BPI's new External Auditor, providing clarifications and cooperation as requested during this process.

29.2. Risks Committee

REPORT OF RISKS COMMITTEE ACTIVITY IN 2017

Functions and composition of the Risks Committee

On 23 November 2016, after amendment to Banco BPI's articles of association and with the amendments applied to its rules of procedure on 4 December 2016, the Committee was renamed the "Risks Committee", assuming a broader scope of action than that defined by the rules of procedure of 24 July 2013, integrating all risks within the scope of its responsibilities.

Although the functions of the Audit and Internal Control Committee continue to be respected, it was defined that the Risks Committee should be informed of the most relevant conclusions regarding these risks, immediately reporting all material occurrences communicated to it.

Further, the new rules of procedure defined that the matters followed at the level of the Risks Committee should be of a more global nature, focusing essentially on the analysis of portfolios, risk policies and the analysis and control of non-financial risks.

Taking into account this amendment to the rules of procedure, a review was conducted at the beginning of 2017 of the list of documents that should be presented to the Risks Committee during the year in order to allow members of the Risks Committee to effectively monitor risks, in accordance with the functions attributed to the Committee:

- advise the Board of Directors on the Bank's Risks Policy, risk appetite and risk strategy, particularly in relation to its Risk Appetite Framework, ICAAP (Internal Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) and the preparation and content of the Market Discipline Report (Pillar 3);
- assist the Board of Directors in supervising implementation of the Bank's risk strategy by the Overall Risks Committee and review risk policies annually;
- analyse risk strategies at the aggregate level and by type of risk, risk appetite, issue recommendations to the Board of Directors and ensure that the Overall Risks Committee implements processes that promote compliance with approved risk policies;
- monitor the capital and liquidity management strategies as well as the strategy for managing all the relevant risks identified in the Risk Appetite Framework, in order to assess its consistency with the Risk Appetite Statement;
- periodically monitor the evolution of credit risk, namely the exposure to main Cients, sectors of activity, type of risk, geographical areas, impairment, credit quality indicators, concentration risk and Portuguese State risk;
- monitor the evolution of operational, compliance and reputational risks.
- monitor the development of internally adopted risk management and calculation models, including the methodology for calculation of internal ratings (IRB) and rating processes.

It was also established that the Risks Committee would be responsible for:

- analysing whether the conditions of products and services offered to Cients account for the business model and risk strategy of the credit institution's risk and presenting a correction plan to the Board of Directors, when analysis thereof indicates that such conditions do not adequately reflect the risks;
- examining whether the incentives established in the credit institution's remuneration policy accounts for the risk, capital, liquidity and expectations with respect to income, including dates of revenue;
- the Risks Committee was reorganised in July 2017 after the new Banco BPI Board of Directors took office. New members of the Risks Committee, who had participated as guests until obtaining authorisation to perform their duties, took part in the September meeting: Javier Pano (Chairman), Carla Bambulo (Member) and Cristina Amorim (Member).

After the new members of the Committee took office, the list of documents to be presented periodically to the Committee was reviewed again. The need for review was due to two specific factors:

- change in the structure of Bank Committees;
- update of risk documentation implemented in 2017, prepared to support this new structure of Committees.

Risks Committee meetings during 2017

Nine Risks Committee meetings were conducted in 2017.

Committee members, the CRO and other directors of the Executive Committee and other senior management of the BPI Group invited to attend the meetings in light of their expertise and connection to the topics discussed, in accordance with the provisions of the rules of procedure, participated in the meetings in accordance with rules of procedure.

Risks Policy

Banco BPI's Risk Appetite Framework was reviewed in 2017. The review of this document, which defines and monitors the risk appetite limits based on the risk strategy and policy established by the institution, followed the changes that occurred in 2017 and which, of course, were reflected in the Bank's risk policies.

The Risks Committee closely monitored the preparation of the new document:

- to begin reviewing the document, and taking into account the depth of the changes to be made, a revision was proposed to the Committee in April corresponding to the overall design of the new document, including a first outline of the metrics that would constitute the Bank's risk appetite framework;

- in preparing the new Risk Appetite Framework document, which describes the mechanisms of governance, definition, monitoring and control of risk appetite, the corporate policy established by CaixaBank for its subsidiaries was taken into account;
- in September 2017, the BPI RAF and its Level 1 monitoring report were formally approved, following the analysis and calibration carried out during the previous months, with the Risks Committee closely monitoring progress made. In addition to this report, a second RAF Level 2 monitoring report, which monitors more specific and detailed metrics, was approved in the RAF, aiming to allow more permanent monitoring of the various risk factors or anticipating breaches of level 1 metrics.

Risk assessment processes: ICAAP and ILAAP

The ICAAP and ILAAP documents reported on 31 December 2016 were analysed in the Risks Committee of 19 April 2017. The Committee issued a favourable opinion on these documents and on their Concise Statements.

In this meeting, the members of the Committee were informed of the final conclusions of these documents and were made aware of the Internal Audit reports on ICAAP and ILAAP.

The Risks Committee was informed with respect to ICAAP that BPI complied with minimum ratios and satisfied an adequate margin, adding that this evaluation is true not only for December 2016 but also for the projected scenarios.

The Risks Committee was informed in this meeting with respect to the Internal Audit report that the ICAAP document had been validated by Internal Audit, concluding that the document, ICAAP and other related documents were adequate overall for the Bank's strategy and risk management framework.

The Committee also assessed the Bank's comfortable liquidity position and issued a favourable opinion on the ILAAP Report.

On 19 April, the final assessment was followed by the prior monitoring of processes underlying ICAAP and ILAAP exercises were submitted to the Risks Committee in order to enable the proper follow-up of these processes.

Assessment of public disclosure of risk information

The "Market Discipline Report (Pillar III)" was presented to the Risks Committee on 19 April. The Committee analysed the document at this meeting and issued a favourable opinion thereof.

The document, consisting of information that must be disclosed to the public in accordance with the provisions of *Regulation 575 / 2013*, was approved by members of the Risks Committee, who stated that it adequately reflects the requirements set forth in the regulations in force.

This document included changes with respect to the previous year, which aimed not only at monitoring the changes that took place in the Bank during 2016, both at the Government level, and in terms of risk profile, but also including all elements necessary to comply with the requirements established in *Regulation 575 / 2013*.

Periodic monitoring of risks: RAS / RAF, ICAAP and ILAAP

In 2017, in conjunction with what had occurred the previous year, the Risks Committee monitored risks through analysis of periodic reports:

- ICAAP Monitoring Report – in 2017 the Risks Committee monitored the evolution of economic capital through analysis of the quarterly ICAAP report.
- RAF Monitoring Report – during 2017, the Committee closely monitored reformulation of the risk appetite framework and the evolution of RAF Level 1 metrics, contributing to the definition of the BPI risk profile through analysis of the proposed changes to the metrics and their limits.
- Monthly Risk Report – in 2017 information pertaining to Exposure to the Public Sector, Operational Risk, Credit Recovery, Risk Indicators and other periodic information of the risk function was presented in aggregate form, in single a report sent monthly to BPI risk governance bodies – the Monthly Risk Report.
- Pension Funds – in 2017 the Risks Committee monitored the status of the Bank's Pension Fund on a monthly basis.

Analysis of the trend in specific risks

In addition to the monthly or quarterly documents, the Committee also monitored the loan portfolio, defaults and impairment, and the evolution of these indicators, according to the powers assigned thereto in its rules of procedure.

As part of the monitoring of credit risk developments, the Committee assessed the following report throughout the year:

- evolution of the largest exposures to non-financial entities;
- evolution of largest impairments of Corporate and Business Banking;
- exposures of significant credit risk;
- evolution of distribution of the portfolio of Corporate and Business Banking by rating classes;
- evolution of largest exposures to construction and public works;
- evolution of largest exposures to the real estate sector;
- evolution of Loan Portfolio of groups controlled by entities resident in Spain;
- evolution of Loan Portfolio of non-residents in Portugal and Spain;
- analysis of significant non-compliances of Corporate Banking and Business Banking;
- evolution of Real Estate received in payment and respective impairment.

In April 2017, the Committee also assessed the document "Credit Concentration – 31 December 2016 – (According to Annex to Instruction 5 / 2011)" and observed that this risk remains at rather conservative levels within BPI as compared to the previous year.

The Risks Committee also took note of the most relevant reports of the Compliance function, in accordance with the rules of procedure thereof and the plan drawn up in early 2017: Report on Prevention of Money Laundering / Terrorist

Financing (regulatory), Compliance Function Report (regulatory), Compliance Department Activity Report and Self-Assessment Questionnaire (annual / regulatory).

A monthly progress report also was provided concerning the implementation of IFRS 9, allowing Committee members to track the project, preliminary results and all relevant matters related to this topic.

In 2017, as part of its powers, a monthly report was prepared on the activity of BPI's Overall Risks Committee. At this point in the meeting, Committee members also were informed of the points discussed in the Overall Risks Committee, relevant decisions taken therein and material occurrences reported in such forum.

Analysis of other issues

In addition to analysing the periodic reports and regular analysis, the Committee also considered various issues submitted to it during 2017, including:

- Annual Plan of Model Validation Unit
- Rating Report
- Recovery Plan
- Information about meetings with rating agencies and respective supporting documents
- Information about Large Exposures
- Basel IV Impacts.

29.3. Social Responsibility Committee

Terms of reference and activity

The **Social Responsibility Committee** is responsible for supporting and advising the Board of Directors regarding matters related to the Bank's social responsibility, commenting on social solidarity, education, science, innovation and cultural patronage

policies, respectively, pursued by the BPI Group, as well as on the configuration of specific initiatives and monitoring the process for the awarding of the respective BPI Capacitar, BPI Sénior and BPI Solidário prizes.

Activity of the Social Responsibility Committee in 2017

Dates	Resolutions / Subjects
21 November 2017	■ Definition, Overall Review of last 5 years and BPI Social Responsibility Execution Policy ■ Outlook for the Social Responsibility Policy in 2018 ■ Future developments of BPI's Corporate Social Responsibility

29.4. Nominations, Evaluation and Remunerations Committee

Terms of reference and activity

The Nominations, Evaluation and Remunerations Committee (Comissão de Nomeações, Avaliação e Remunerações – 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 Remunerations Committee in 2017

Dates	Resolutions / Subjects
9 March 2017	■ Issuance of collective opinion on the adequacy of the composition of the current Board of Directors (2014-2016 term of office); ■ Issuance of individual opinions and collective opinion on the adequacy of new members to be proposed to the Board of Directors in the 2017-2019 three-year period; ■ Issuance of individual opinion on the adequacy of Dr. Manuel Ferreira da Silva to the position of Chairman of the Board of Directors and respective Executive Committee of Banco Português de Investimento, S.A.
27 March 2017	■ Evaluation of the performance of members of the Executive Committee in 2016; ■ Opinion on the proposed “Banco BPI Remuneration Policy applicable to members of the Board of Directors and Supervisory Board”, to be submitted by the Remunerations Committee to the General Meeting of Shareholders of April 2017, as well as on the execution and application of the Remuneration Policy in effect in 2016.
30 March 2017	■ Approval by circulation on the addendum to the individual opinion on the adequacy of Dr. Manuel Ferreira da Silva to serve in the position of Chairman of the Board of Directors and respective Executive Committee of Banco Português de Investimento, S.A.
5 April 2017	■ Approval by circulation of the addendum to individual opinion on the adequacy of Gonzalo Gortázar and Pablo Forero for the position of non-executive director during the 2014-2016 term of office.
22 June 2017	■ Approval by circulation of individual opinions and collective opinion of adequacy of the composition of the Supervisory Board for the 2017-2019 term of office.
28 July 2017	■ Approval by circulation of the Nominations, Evaluation and Remunerations Committee Opinion on the proposed resolution of the Remunerations Committee for determination of fixed annual remuneration and indicative variable remuneration applicable in 2017 to executive directors.
9 November 2017	■ Approval by circulation of individual opinion on the adequacy of Professor Fátima Barros to serve as member of the Board of Directors.
14 December 2017	■ Approval by circulation of Opinion on Remuneration Policy of the Identified Body; ■ Approval by circulation of Opinion on appointment of the person with lead responsibility for the Compliance function.

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

This Committee's key powers are to supervise management of the Company, verify the accuracy of financial statements, oversee the audit of accounts and the independence of the Audit Firm or External Auditor – which, as a result of the policy adopted by the Bank, correspond to the same company –, as well as to evaluate this entity's activity. The full scope of powers of the Supervisory Board is set out in the articles of association and respective rules of procedure, both available on the “Investor Relations” website (www.ir.bpi.pt), under the section “BPI Group Governance”.

31. Supervisory Board's composition

In accordance with Article 22 of the Articles of Association, “The Supervisory Board is composed of a minimum of three and a maximum of five effective members, and there must be at least one alternate.”

In accordance with Article 29 of the Articles of Association: “Members of corporate bodies are elected for three-year periods, with the exception of the Statutory Auditor, who is elected for a

four-year period, and all may be re-elected one or more times, subject to legal limits.”

The elected members are deemed to be sworn in after the election and will continue to perform their duties until the election of those replacing them.

The General Meeting of 26 April 2017 elected members of the Supervisory Board to the 2017-2019 term of office.

However, considering that,

- under the terms of the law, the commencement of the duties of the elected members requires authorisation of the supervisor and that,
- within the scope of the authorisation process that was initiated for this purpose, the supervisor made statements leading to the conclusion that it would be appropriate to apply changes to the composition of the Supervisory Board that was elected, the members elected on 26 April 2017 did not take office, with the corresponding duties, by operation of law, remaining with members of the Supervisory Board that had been elected to the previous term of office.

Thus, on 31 December 2017, the Supervisory Board had the composition presented in the table below.

Composition of Supervisory Board

As of 31 December 2017

	Date of first appointment	End of current term of office
Chairman		
Abel António Pinto dos Reis	23 Apr. 2008	April 2018
Members		
Jorge de Figueiredo Dias	19 Dec. 2002	April 2018
Rui Campos Guimarães	23 Apr. 2014	April 2018
Alternates		
Luis Roque de Pinho Patrício	23 Apr. 2009	April 2018
Francisco Olazabal	22 Apr. 2014	April 2018

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:

- 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
- 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 2017

	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		
Luis 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, page 389 of this Report.

34. Supervisory Board's Regulations

The Supervisory Board's functioning Regulations are available on the Investor Relations website (www.ir.bpi.pt), under the section "BPI Group's Governance".

35. Number of meetings held and attendance

In 2017 the Supervisory Board conducted 17 meetings, in which all of its members were present.

In addition to participating in these meetings, members of the Supervisory Board were present at the 11 meetings of the Audit and Internal Control Committee.

36. Positions occupied in other companies and other important functions exercised by the members of the Supervisory Board

This information can be referenced in Annex on page 389 of this Report.

37. The Supervisory Board's involvement in the contracting of additional services from the statutory auditor / External Auditor not required by law

Approval of the Supervisory Board, after consultation with the Audit and Internal Control Committee, is required for provision by the Audit Firm / External Auditor to Banco BPI or other Group companies of "Other Non-Audit Services Not Required (and, of course, Not Prohibited) by Law", as well as the respective conditions.

Proposals for the provision of such services are analysed by the Supervisory Board on a case-by-case basis, based on detailed information provided by appropriate units or services. In its deliberations, the Supervisory Board oversees: (i) if they are services provided by Article 77(8) of the Bylaws of the Order of Statutory Auditors; (ii) if they may result in any kind of threat to the independence and objectivity of the Audit Firm; and (iii) the determination as to whether the fees charged for these services do not exceed 70% of the average amounts of fees due in each of the last three financial years for the statutory audit.

38. Other functions of the Supervisory Board

Under the general framework of the powers of the Supervisory Board expressed in point 30, in addition to the function set forth in the preceding point, the Supervisory Board is responsible for performing other duties, including the following which are worth of note:

- With respect to the company's Audit Firm / External Auditor:
 - when necessary, as in 2017, submit a proposal to the General Meeting relating to the hiring of the Audit Firm / External Auditor, with indication of the alternate entities and corresponding remuneration, and, between these entities, which warrants its preference;

- for all purposes, represent the company with the Audit Firm / External Auditor, being, in particular, the company's lead representative before it and the first recipient of the respective reports;
 - following consultation with the Audit and Internal Control Committee, approve the annual activity plan of the Audit Firm / External Auditor;
 - ensure that the company provides the Audit Firm / External Auditor adequate conditions to provide the services thereof;
 - evaluate the activity of the Audit Firm / External Auditor;
 - supervise the auditing of accounts and regularity in presentation of the company's financial statements;
 - supervise the independence of the Audit Firm / External Auditor, and, in this context, consider and deliberate, in particular, on the provision of additional services to the parent company or to other companies in its Group, as cited in point 37 *supra*; and
 - propose to the General Meeting the dismissal or termination of the service agreement of the Audit Firm / External Auditor, whenever there is just cause.
- With regard to internal control of risk management:
- at Banco BPI and other Group companies subject to supervision on a consolidated basis, certify the pursuit of the fundamental objectives established with respect to internal control and management of risks by banking and capital market supervisory bodies, in supervisory directives directed to credit institutions and financial companies;
 - in accordance with the Articles of Association, its operating rules and as set forth in its annual activity report, evaluate the functioning of the internal control and risk management systems, respectively, proposing any adjustments that may be necessary and deciding on the activity plans and resources allocated to internal audit services and services that ensure compliance with standards applicable to the company (compliance services).

IV. AUDIT FIRM / EXTERNAL AUDITOR

The entity responsible for auditing the accounts is appointed by the General Meeting, on proposal of the Supervisory Board. Although a natural person could perform these functions, the Bank has adopted the policy of assigning such functions to an Audit Firm. Such person, in representation of the Audit Firm, also performs, on a standing basis, the function of Statutory Auditor, and an alternate is always appointed.

The External Auditor is appointed by the Board of Directors on proposal of the Supervisory Board. The Bank has adopted the policy of appointing the same entity to perform the same functions of Audit Firm and External Auditor (such that, throughout this document, such entity has been and continues to be denoted by Audit Firm / External Auditor).

39. Identification of Audit Firm / External Auditor and statutory auditor partner representing it

Following a proposal presented by the Supervisory Board, the General Meeting of Shareholders of 26 April 2017 approved the appointment of the Audit Firm / External Auditor for the 2017-2020 period in the following terms:

- a) Appointment of Deloitte & Associados, SROC, S.A. to perform duties until the end of the 2017 calendar year, without prejudice to approval of accounts for the cited year; the proposal presented by the Supervisory Board on this matter was preceded by authorisation of the CMVM, in order to allow the reappointment of Deloitte & Associados, SROC, S.A., for a period of one year;
- b) Appointment of PricewaterhouseCoopers & Associados – SROC, Lda., represented by José Manuel Henriques Bernardo (principal) and Ana Maria Ávila de Oliveira Lopes Bertão (alternate), to perform duties during the 2018-2020 period.

In 2017, Deloitte & Associados, SROC, S.A. – which is part of the international network of Deloitte Touche Tohmatsu Limited and registered at the CMVM under no. 231 – was represented by Paulo Alexandre de Sá Fernandes (principal) – who, effective 1 August 2017, was replaced by Paulo Alexandre Rosa Pereira Antunes – and by Carlos Luis Oliveira de Melo Loureiro (alternate).

40. Number of years in which the Audit Firm / External Auditor and Statutory Auditor partner representing it perform their duties with the BPI Group

Deloitte has performed the duties of Audit Firm / External Auditor for the BPI Group in successive terms since 2002 and was represented by partner Paulo Alexandre de Sá Fernandes from 18 February 2016 to 31 July 2017 and by Paulo Alexandre Rosa Pereira Antunes effective 1 August 2017.

As referred to in the previous point, Deloitte will cease to serve as Audit Firm / External Auditor for the BPI Group on the date of approval of the accounts for 2017.

41. Services provided by the Audit Firm / External Auditor to the Group

The Audit Firm / External Auditor is primarily responsible for conducting the “Audit Services” (which includes all examinations and all necessary checks for Account Review and Certification) as well as “Other Non-Audit Services Required by Law” (which include those which, for purposes of the Reliability Guarantee corresponding to the information provided, are based on the Law or instructions issued by supervisory authorities, namely the ECB, the Bank of Portugal and the Portuguese Securities Market Commission (CMVM)).

In addition to these services, the Audit Firm / External Auditor develops “Other Non-Audit Services Not Required (and, of course, Not Prohibited) by Law”, which are performed at the request of Banco BPI and entities controlled thereby, after having obtained a favourable opinion from the Audit and Internal Control Committee. The nature of such Services may vary significantly from year to year.

The internal procedures adopted in the contracting of “Other Non-Audit Services Not Required (Or Prohibited) by Law” were presented in point 37 *supra*.

The fees charged by the Audit Firm / External Auditor in 2017 to remunerate different services rendered to the Bank and the BPI Group are identified below in point 47.

V. EXTERNAL AUDITOR

See point IV.

42. Identification of External Auditor

See point 39.

43. Number of years in which the External Auditor and Statutory Auditor partner representing it performs the duties thereof with the BPI Group

See point 40.

44. Policy and frequency of rotation of the Audit Firm / External Auditor and Statutory Auditor partner representing it

BPI recognises and endorses the concerns expressed by the CMVM, the European Commission and the International Organisation of Securities Commissions (IOSCO), among other entities, concerning the safeguarding of the independence of Auditors with respect to the Client for auditing and welcomes the professional requirements recorded in this context in the Bylaws of the Order of Statutory Auditors. BPI believes that this independence is essential to ensure confidence in the reliability of its reports and the credibility of financial information published.

BPI is of the opinion that Deloitte & Associados, SROC, S.A. is independent in accordance with applicable regulatory and professional requirements and that its objectivity is not compromised, having always incorporated various mechanisms to safeguard its independence in its governance practices and policies.

The firm that audits the accounts of the BPI Group, as well as those responsible for such work do not have – aside from that which results from the normal course of their professional collaboration and to the extent that BPI has knowledge – any interest, effective or imminent, of a financial, commercial, labour, family or other nature, in BPI Group companies that would permit a reasonable and informed third party to consider that their independence may be compromised.

In accordance with the provisions of applicable legislation, the Supervisory Board supervised the independence of Deloitte & Associados, SROC, S.A., particularly through:

- a) obtaining written confirmation of the auditor's independence as provided for in Article 63 of the Bylaws of the Order of Statutory Auditors, approved by *Law no. 140 / 2015*, of 7 September;
- b) confirmation of compliance with the rotation requirements of the responsible partner; and
- c) identification of threats to independence and safeguard measures adopted for their mitigation.

BPI Group has adopted the principles of not entering into any employment contract with any person who has been a partner of an audit firm and who has provided audit services in BPI Group companies before at least three years after the termination of the provision of such services.

Particularly for public interest entities, the Bylaws of the Order of Statutory Auditors establish maximum periods for performance of duties by their Audit Firm / External Auditor as well as auditing by the partner responsible for direct guidance for or execution of the Audit.

Of course, the Bank generally welcomes this policy, which ensures the rotation of entities or persons related to the Audit Firm / External Auditor function and, accordingly, which promotes its independence and the renewal of procedures that embody the performance of such function.

Considering the exceptionality resulting from:

- i) the profound change in the shareholding structure in February 2017, with the conclusion of the takeover bid launched by CaixaBank, S.A.;
- ii) the consequences of this change reflected in changes that will need to occur with respect to the Bank's structure and the need to carry out a set of work that requires the joint involvement of the Bank's accounting and audit areas and its Statutory Auditor; and
- iii) the fact that, in these circumstances, the process to replace the Statutory Auditor would be inappropriate, in the sense that it is understood that such replacement would undermine quality and would hinder the speed of such work;

Banco BPI requested that the CMVM authorise the reappointment of the current Statutory Auditor for the maximum period of one year (i.e., until the end of 2017), and such authorisation was granted.

In view of this authorisation, the Supervisory Board made the following proposal to the General Meeting of Shareholders of

26 April 2017 concerning appointment of the Audit Firm / External Auditor for the 2017-2020 period:

- a) Appointment of Deloitte & Associados, SROC, S.A. to perform duties until the end of the 2017 calendar year, without prejudice to approval of accounts for the cited year;
- b) Appointment of PricewaterhouseCoopers & Associados – SROC, Lda., represented by José Manuel Henriques Bernardo (principal) and Ana Maria Ávila de Oliveira Lopes Bertão (alternate), to perform duties during the 2018-2020 period.

As mentioned in point 39 above, these proposals were approved.

45. Body responsible for evaluation of the Audit Firm / External Auditor and frequency with which this evaluation is conducted

The Supervisory Board is responsible for evaluation of the Audit Firm / External Auditor, as explained above in point 38. In addition to the regular monitoring and supervision of the Audit Firm / External Auditor, the evaluation of this entity is conducted on an annual basis.

Under the terms of its rules of procedure, the Supervisory Board is responsible, as cited in point 38, for proposing to the General Meeting the dismissal or termination of the service agreement of the Audit Firm / External Auditor, whenever there is just cause.

46. Services provided by the Audit Firm / External Auditor to the BPI Group

See point 41.

47. Annual remuneration paid by the BPI Group to the Audit Firm / External Auditor or entities belonging to the Network thereof

On 31 December 2017, the remuneration attributable to Deloitte and its network¹, in the amount of 1 865 th.euros, is composed as follows, according to the nature and the company to which services were provided:

Fees billed by the Audit Firm / External Auditor and by entities in the network thereof in 2017

Type of service	th. €	% of total
Deloitte & Associados SROC, S.A.		
Auditing	724	39%
Non-audit services required by law	473	25%
Other non-audit services	260	14%
Other entities of the Deloitte network		
Auditing	169	9%
Other non-audit services	239	13%
	1 865	100%

Deloitte and its network have not provided the BPI Group any services deemed prohibited under Article 77(8) of the Bylaws of the Order of Statutory Auditors.

1) According to the definition of “network” established by the European Commission in its Recommendation No. C (2002) 1873, of 16 May 2002.

C. INTERNAL ORGANISATION

I. ARTICLES OF ASSOCIATION

48. The rules governing amendment to the articles of association

Pursuant to Article 31 of the Articles of Association, amendment requires the approval of two-thirds of the votes cast at a General Meeting expressly convened for such purposes, with the exception of amendment of Article 32(1) as well as Article 31(2), which requires approval of 75% of votes cast.

The matters referred to in the aforementioned provisions for which a majority of 75% of the votes cast are as follows:

- article 32(1) – provision establishing a qualified majority for dissolution of the company;
- article 31(2) – provision establishing that the aforementioned amendment of Article 31(1), as well as amendment thereof, requires the aforementioned 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.

In the case of reporting of irregularities that justify the intervention of services of the Bank, particularly the Audit and Inspection Department, the Chairman of the Supervisory Board

presents such irregularities to the Chairman of the Board of Directors, who issues the appropriate orders. The Supervisory Board may request the intervention of the Bank's services, particularly the Audit and Inspection Department, whenever deemed necessary for the handling of the reporting of an irregularity and may do so directly or by request addressed to the Chairman of the Board of Directors.

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

Banco BPI's internal control system is based on the objectives and guidelines defined by the Board of Directors and the Audit and Internal Control Committee, monitored closely by the latter committee, corresponding to a structure that includes, among others, an Overall Risk Management Department, an Audit Department and a Compliance Department.

The supervision and evaluation of this system are carried out by the Supervisory Board, which not only works in full coordination with the Audit and Internal Control Committee but also has direct intervention in the supervision of the main risks and the definition of 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 Overall Risks Committee is responsible for the BPI Group's overall risk management. This body is dependent upon and reports directly to the Risks Committee. Within its core powers, this Committee is responsible for ensuring that the levels of risk and decisions taken are in accordance with the risk strategy established by the Board of Directors through the Risk Appetite Framework. At the level of the Risks Committee, responsibilities for the risk departments is assigned to a Director without direct responsibility for commercial departments.

At a higher level there is also a specialised executive committee, the Permanent Credit Committee, which focuses on analysis of the most important operations.

The Risks Committee – advisory body of the Board of Directors – is responsible, without prejudice to the legal powers attributed to the Supervisory Board, for monitoring the policy for management of all financial risks from BPI's activity, particularly liquidity, interest rate, exchange rate, market, credit and operational risks, as well as monitoring the policy for management of the Company's Pension Fund.

The ALCO Committee, which functions under the Executive Committee, is responsible for monitoring, managing and controlling the structural risks of (i) Liquidity, (ii) Interest Rate and (iii) Exchange Rate within the BPI Group.

52. Other functional areas responsible for risk control

The Bank has a centralised and independent structural unit for risk analysis and control, in accordance with the best organisational practices in this area and the requirements of the Basle Accord. The Overall Risk Management Department is responsible for monitoring all overall risks and managing the Bank's Risk Datamart.

The Credit Risk Department is responsible for ensuring an independent assessment of the commercial risk structures of the various bidders or guarantors and the characteristics of operations. The Overall Risk Management Department is responsible for assigning ratings, and the Rating Committee has the power to repeal them for higher exposure Clients. Quantitative models and expert models (expert analysis) are available to support this assignment of ratings, produced by the Overall Risk Management Department. The Overall Risk Management Department is also responsible for tracking the loan portfolio, conducted independently from the risk contracted by the Bank.

The Credit Recovery Department assumes the management of recovery processes in the event of default.

Operational risk management in the BPI Group is based on two specific bodies – Operational Risks Committee and the Operational Risk Area – and on members from each of the Group's bodies – operational risk pivots – that ensure the identification and management of operational risk in their areas of activity.

The Compliance Department covers all areas, processes and activities of the BPI Group companies in Portugal and its mission is to contribute to the prevention and mitigation of “compliance risks”, as constituted by the risk of legal or regulatory sanctions, financial loss or reputational loss as a result of failure to comply with laws, regulations, code of conduct and good banking practice, promoting respect by the BPI Group and its Employees for all applicable regulations through independent intervention, in conjunction with all of the Bank's organisational units. The

non-covered entities of the Group have their own mechanisms, adapted to the products and services they are marketing and the size of each.

53. Details and description of the major types of risk

Risk management of the BPI Group relies on the identification, monitoring and analysis of exposure to different types of risks – credit risk, country risk, market risk, liquidity risks, operational risks, legal risks and other risks – and the adoption of strategies to maximise profitability within pre-established (and properly supervised) limits. Management is complemented by the *a posteriori* analysis of performance indicators.

The main risks to which the Group is exposed in conducting business are described in detail in a separate chapter of the Annual Report (page 75) which is considered an integral part of this report by reference.

54. Description of the procedure for identification, assessment, monitoring, control and risk management

The policy, procedures and division of powers between the various bodies and departments on matters of the Group's risk control and risk management are described in detail in a separate chapter of the Annual Report and are considered an integral part of this report by reference (pages 75 to 104).

55. Internal control and risk management systems implemented in the company regarding the procedure for reporting financial information

The Investor Relations Office, which is part of the Finance Department, is the body responsible for preparing and disseminating BPI's financial information documents – quarterly and annual results and semi-annual and annual reports and accounts.

The aforementioned process of preparation and disclosure of financial information is defined and the relevant risks of this process are identified in internal regulations of mandatory compliance.

The execution of the controls defined to mitigate each risk must be demonstrated, internally and externally, by the party responsible for execution thereof, through production of evidence defined for each case.

The process takes place in permanent dialogue with the Executive Committee and persons with lead responsibilities in the departments involved. The documents to be disclosed and their timing – depending on the specific document – require express approval of the Executive Committee and / or the Board of Directors. In accordance with the procedures established for

each situation, such documents are also submitted for assessment by advisory committees of the Board of Directors and / or by the Supervisory Board.

It is BPI's practice to distribute the documents as soon as the stock exchange closes on the same date in which the Executive Committee or the Board of Directors approves them.

The process for preparation and disclosure of the financial information documents is subject to annual evaluation by the external auditors.

IV. INVESTOR ASSISTANCE

56. Department responsible for investor assistance

The Investor Relations Office, which is part of the Finance Department, has the main functions of assuring authorities and the market that Banco BPI is compliant with legal and regulatory reporting obligations, responding to requests for information from shareholders, investors, financial analysts and other agents, and supporting the Executive Committee in matters related to Banco BPI's status as entity listed on the market.

Within the scope of the first of those responsibilities, the dissemination of information within the framework of "privileged information", the provision of quarterly information on the Group's activity and results and the preparation of annual and semi-annual reports and accounts should be emphasised.

In 2017, as a listed company, BPI participated in 6 reverse roadshows and held about 50 individual meetings with institutional analysts and investors.

Throughout the year, BPI also maintained contact with financial analysts who cover Banco BPI shares.

The Investor Relations Office is composed of two full-time members with appropriate qualifications and experience in financial and communication matters.

57. Representative for relations with the market

Luís Ricardo Araújo, who is also responsible for the Finance Department and the Investor Relations Office, is Banco BPI's Market Relations Representative.

58. Requests for information

Within the scope of its functions, the Investor Relations Office responds to various request for information from shareholders, investors, financial analysts and other agents. When information is public, there is generally an immediate response to requests for information and clarification – via telephone, e-mail and letter – on financial information, activity, dividends, general meetings and other meetings of an equivalent nature.

In other situations – provided that they fall under the powers of the Investor Relations Office – the response time depends on the nature and complexity of the request, the availability of information and the potential need to obtain contributions from other bodies or departments of the Group.

In general, all public disclosure documents issued by BPI as part of its relationship with the market (including preparatory documents for general meetings) are available in electronic format upon request.

All public information about BPI can be requested from the Investor Relations Office through the contact page of its website, by telephone, e-mail, fax or letter.

CONTACTS OF INVESTOR RELATIONS OFFICE

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
Website: www.ir.bpi.pt

V. WEBSITE

59. Website Address

BPI has a website, in Portuguese and English, exclusively dedicated to the disclosure of institutional information about BPI. This website is available at 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 to in point 60 is available on the Banco BPI website under 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 to in point 61 is available on the Banco BPI website under the section "Mandatory Information to Investors".

62. Place where information is provided on the identity of members of the corporate bodies, the market relations representative, the Investor Relations Office, respective functions and means of access

Information on the identity of corporate bodies is available on Banco BPI's website, under the section "Mandatory Information to Investors".

The information relating to the identity of the market relations representative, of the Investor Relations Office, respective duties and means of access are available at the Banco BPI website under the section "Mandatory Information to Investors".

63. Place where the financial statements of the previous five years are made available, as well as the calendar of corporate events, including, among other information, sessions of the General Meeting and disclosure of annual, half-yearly and quarterly accounts

The financial statements for each financial year, six-month period and quarter of the previous five years are available on the Banco BPI website under the "Financial Data" section.

The calendar of social events, including other information, the sessions of the General Meeting and the disclosure of annual, semi-annual and quarterly accounts is available on the Banco BPI website under "Calendar of Events".

64. Places where the notice for the General Meeting and all preparatory and subsequent information related thereto is disclosed

The information cited in item 64 is available on the Banco BPI website under "General Meeting of Shareholders".

65. Place where the collection of past resolutions adopted in sessions of the General Meetings of the Company is made available, as well as share capital represented and voting results, for the previous three years

The information cited in item 65 is available on the Banco BPI website under "General Meeting of Shareholders".

D. REMUNERATION

I. POWER TO FIX REMUNERATION

66. Power to fix the remuneration of the Company's governing bodies and Senior Management

The Remunerations Committee is the body responsible for fixing the remuneration of the members of the management and oversight bodies.

Pursuant to the law and the Identified Employee Remuneration Policy, the Board of Directors is responsible for determining the remuneration of Bank Employees, namely those referred to in Article 115(C)(5) of the RGICSF, or rather, Employees who:

- i) are in top management; with it being understood that all Employees who report directly to the Executive Committee of the Board of Directors or any of the members thereof are within this scope;
- ii) are responsible for the assumption of risks; with it being understood that Employees who are responsible for the taking of decisions pertaining to the assumption of risks, and within the realm of credit risk, those who participate in these decision under the specific plan for analysis and evaluation thereof are within this scope, or rather those who are current members of the Overall Risks Committee, the Standing Committee on Credits, the ALCO Committee and the Risk Policies Committee, as well as those with lead responsibility from the Credit Risk Department, the Private Credit Risk Department and the Finance Department;
- iii) receive remuneration that places them on the same remuneration scale as members of the Executive Committee or those Employees referred to in points (i) and (ii) *infra* and at the same time meet any of the qualitative or quantitative requirements provided for in *Commission Delegated Regulation (EU) no. 604 / 2014*, of 4 March 2014; or
- iv) are responsible for control functions within the scope of *Bank of Portugal Notice 5 / 2008*, i.e., Employees who assume the position of primary responsibility of the Compliance Department, the Internal Audit Department and the Risk Analysis and Control Department, as well as Employees who report directly to those with lead responsibility for the Compliance Department and the Internal Audit Department.

II. REMUNERATIONS COMMITTEE

Powers

According to the articles of association (Article 28), the remuneration of members of elected corporate bodies will be determined by the Remunerations Committee, following consultation with the Nominations, Evaluation and Remunerations Committee with respect to the remuneration of Members of the Executive Committee of the Board of Directors.

The Remunerations Committee, therefore, has the following responsibilities:

- define the Remuneration Policy of members of corporate bodies and apply (by proposing amendments and interpreting the provisions thereof) the Retirement Benefits Regulation for members of the Executive Committee of Banco BPI;
- within the framework of the Remuneration Policy approved in the General Meeting, determine the remuneration of members of corporate bodies of Banco BPI (in the case of the Executive Committee of the Board of Directors, following consultation with the Nominations, Evaluation and Remunerations Committee).

In the exercise of its powers, the Remunerations Committee takes into consideration the proposals and recommendations presented to it by the Nominations, Evaluation and Remunerations Committee in accordance with Article 7(4) of *Bank of Portugal Notice 10 / 2011*.

67. Composition of Remunerations Committee

Pursuant to the articles of association of Banco BPI, the Remunerations Committee is composed of three members elected every three years by the General Meeting, which must also elect two alternates.

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 Remunerations 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 convened at the General Meeting on 26 April 2017 approved the following composition of the Remunerations Committee for the 2017-2019 three-year period:

Principal members:

- José Villalonga Pons
- Xavier Coll Escursell
- Carlos Moreira da Silva

Alternate members:

- Armand Reixach de Linares
- Abel Suárez Busquets

68. Knowledge and experience in remuneration policy issues by members of the Remunerations Committee

All members of the Remunerations Committee have knowledge and experience concerning remuneration policy.

III. REMUNERATION STRUCTURE

69. Description of the remuneration policy of the management and supervisory bodies, as provided for in Article 2 of Law 28 / 2009 of 19 June

Decree-Law no. 157 / 2014, of 24 October, which went into effect on 24 November 2014, amended Article 2 of Law no. 28 / 2009 such that paragraph 4 thereof provides as follows: "Credit institutions and financial companies are subject to the rules on remuneration policy established in the Legal Framework of Credit Institutions and Financial Companies (RGICSF), approved by Decree-Law no. 298 / 92, of 31 December."

Therefore, although Banco BPI is currently subject to the provisions set out in the RGICSF and without prejudice to the detailed references to this matter in the subsequent paragraphs of this chapter, below is a description of the full content of the "Banco BPI Remuneration Policy applicable to members of the Board of Directors and Supervisory Board" (hereinafter "Remuneration Policy"), approved in the General Meeting of 26 April 2017.

BANCO BPI REMUNERATION POLICY APPLICABLE TO MEMBERS OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD

1. SUBJECTIVE SCOPE

This Remuneration Policy is applicable:

- to members, executive and non-executive, of the Board of Directors of Banco BPI, S.A. (Banco BPI);
- to members of the Supervisory Board of Banco BPI.

2. OBJECTIVE SCOPE

This Remuneration Policy is applicable to the persons referred to in Section 1 who perform those functions at Banco BPI.

Banco BPI will promote the adoption by its subsidiaries, with necessary modifications arising in particular from the proportionality and adequacy criteria, respectively, set forth in the General Regime of Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*, hereinafter General Regime) and from the need for compatibility with other legal regulations, this policy and the principles arising therefrom.

3. DEFINITION OF REMUNERATION POLICY

The definition of the Remuneration Policy is the responsibility of the Remunerations Committee, assisted by external experts and consultants this Committee intends to consult.

In defining the Remunerations Committee of Banco BPI, the Remunerations Committee accounts for the principles and objectives listed in section 4.

The defined Remuneration Policy must be compatible with Banco BPI's corporate strategy and long-term objectives, values and interests, as defined by the relevant corporate bodies.

In the definition of the Remuneration Policy, and in a manner that accounts for and is adequate and proportional to the nature, characteristics, dimension, organisation and complexity of Banco BPI activities, the Remunerations Committee also must account for applicable legal principles and rules, particularly those set forth in the General Regime of Credit Institutions, approved by Decree-Law 298 / 92, of 31 December (hereinafter referred to as RGIC) and in *Bank of Portugal Notice 10 / 2011*.

In defining the Remuneration Policy, the Committee of the Board of Directors appointed by the Nominations, Evaluation and Remunerations Committee (the Nominations, Evaluation

and Remunerations Committee) will be responsible for collaborating and performing the functions set forth in the RGIC, Article 7 of *Bank of Portugal Notice 10 / 2011* and its Operating Rules.

In the process of defining the Remuneration Policy, the Remunerations Committee and / or the Nominations, Evaluation and Remunerations Committee may consult those responsible for audit, compliance and risk management units, from whom contributions may be requested that are deemed relevant and with respect to the risks in which each one of these functions is involved.

3.1 Remunerations Committee

3.1.1 Responsibilities

Pursuant to Article 28(2) of Banco BPI's articles of association, the remuneration of the members of Banco BPI's management and supervisory bodies is determined by the Remunerations Committee, with consultation with the Nominations, Evaluation and Remunerations Committee with respect to members of the Board of Directors who are members of the Executive Committee.

At least one member of the Remunerations Committee is always present at Banco BPI's General Meeting of Shareholders.

3.1.2 Composition of Committee

Under the terms of Banco BPI's articles of association, the Remunerations Committee is composed of three members elected every three years by the General Meeting, who among them will elect the Chairman thereof, who will have a casting vote.

3.2. Comparables used

In defining the remuneration of Banco BPI's management and supervisory bodies, the Remunerations Committee properly considers the remuneration policies and practices of comparable Iberian banks.

3.3. Annual evaluation

The Nominations, Evaluation and Remunerations Committee promotes an annual analysis and evaluation of the application of the Remuneration Policy, with a view to determining whether this application affects the management of the institution's capital and liquidity risks, respectively, that call for a review of such policy, and, if applicable, the identification of adjustment measures to be adopted.

In the analysis and evaluation under consideration, the Nominations, Evaluation and Remunerations Committee may consult, among others, those responsible for the audit, compliance and risk management units, from whom contributions may be requested that are deemed relevant for this purpose and with respect to the risks in which each one of these functions is involved.

The Nominations, Evaluation and Remunerations Committee will notify the Remunerations Committee of the results of such analysis and coordinate with the latter the annual presentation to the Annual General Meeting of the conclusions reached.

4. GENERAL PRINCIPLES AND OBJECTIVES

The Remuneration Policy takes into account the general principles and objectives, which are organised in the following points:

The remuneration policy is intended to promote behaviours that ensure the generation of long-term value and the sustainability of results over time, within a framework that is coherent and contributes to the promotion of sound and prudent risk management. In this sense, the remuneration component based on variable remuneration takes into account not only the fulfilment of objectives, but also the manner in which they are achieved.

The individual objectives of the recipients of the remuneration policy are defined on the basis of the commitment they reach and establish with those responsible.

The remuneration policy's strategy is based on attracting and retaining talent by providing its recipients with participation in a distinctive corporate and entrepreneurial project, the possibility of professional development and competitive conditions of global compensation.

Under these global compensation terms, the remuneration policy is based on a competitive position related to the amount of fixed remuneration and social benefits.

Fixed and social benefit components constitute the predominant part of the general remuneration conditions, where, in general, the variable remuneration concept tends to be conservative because of its potential role as a risk generator.

4.1. Remuneration structure

4.1.1 Non-Executive Directors and members of the Supervisory Board

Pursuant to Article 28(1) of the articles of association, the remuneration of non-executive members of the Board of Directors (Non-Executive Directors) and members of the Supervisory Board is composed exclusively of fixed remuneration, paid monthly, not including any variable remuneration and, therefore, is not dependent on Banco BPI's results. In the case of the Chairman of the Board of Directors and of the Non-Executive Directors who are members of the advisory and support bodies of the Board of Directors as provided for in the articles of association, a complementary fixed remuneration is added to such base remuneration.

4.1.2 Executive Directors

4.1.2.1. The remuneration of Executive Directors is composed of fixed remuneration and a variable remuneration in the form

of a bonus. The variable remuneration may not be allocated in exceptional cases, particularly if the attribution thereof limits Banco BPI's capacity to strengthen its capital base and, in all cases, all types of current and future risks always will be taken into consideration in the granting of such remuneration.

The fixed remuneration of the Executive Directors includes the remuneration they may receive for serving in management positions in BPI Group companies or in other entities of interest thereto, such that this remuneration is deducted from the amount payable by BPI as fixed remuneration.

Taking into account the objective of maintaining a reasonable and prudent balance between the fixed and variable components of remuneration;

- the fixed remuneration amounts of Executive Directors must be sufficient; and
- the percentage representing variable remuneration in the form of bonuses (not therefore considering other possible variable components such as the Long-Term Incentive set forth in Section 6) on the annual fixed remuneration should generally be relatively low, not exceeding, as a rule, 40 percent.

Under the terms of the law, the annual variable remuneration of any one of the Executive Directors may not exceed the total amount of fixed remuneration earned by the respective Executive Director in the immediately preceding year.

The approval and attribution of a higher value than that cited above, which at maximum may be equal to twice the fixed remuneration, will be conditional upon compliance with the legally requirements established for this purpose.

The classification as fixed or variable of a remuneration component is carried out in accordance with the legal rules on remuneration defined for financial institutions.

4.1.2.2. Variable remuneration in the form of a bonus is as follows:

- 50 percent will be paid in cash;
- the remaining 50 percent will be paid in instruments once the applicable taxes (withholdings or payments on account) have been paid; whenever payment is made in the form of instruments, such payment preferably will be made in CaixaBank shares; However, Banco BPI may deliver other instruments admitted for payment of variable remuneration, under the conditions and pursuant to the requirements provided for in Article 115-E of the RGIC, Delegated Regulation (EU) No. 527 / 2014 [sic] (hereinafter "Regulation 527 / 2014") and EBA Guidelines.

The aforementioned variable remuneration is subject to the deferral rules set forth in Section 5.1.

4.1.2.3. In addition to the variable remuneration in the form of bonus, a long-term incentive based on CaixaBank instruments or referenced to their value (hereinafter "LTI"), as established in Section 6, may be defined for all or some Executive Directors.

4.2 Overall limits applicable to members of the management and supervisory body

For the 2017-2019 three-year period, the following limits apply to the total annual remuneration to be attributed, and the distribution of remuneration for each member of the following bodies is performed in compliance with the principles and rules set forth in this Remuneration Policy, by resolution of the Remunerations Committee:

4.2.1. Non-Executive Directors (not including, for this purpose, attendance fees): € 1 600 000

4.2.2. Executive Directors:

- a) Fixed part: € 5 500 000
- b) Variable Part (variable remuneration in the form of a bonus): € 1 400 000

The amount provided for in a) does not include the retirement benefits referred to in point 4.7 and the value referred to in b) infra does not include the LTI referred to by Section 6.

4.2.3. Members of Supervisory Board:

- a) Chairman: € 80 000
- b) Members (each): € 70 000

4.3 Determination of remuneration

4.3.1 Non-Executive Directors and members of the Supervisory Board

The actual remuneration of Non-Executive Directors (comprising the base fixed remuneration and the complementary remuneration of the Chairman of the Board of Directors and the remuneration due for participation in committees of the Board) and of the members of the Supervisory Board is defined at the beginning of each three-year period by the Remunerations Committee.

4.3.2 Executive Directors

4.3.2.1 Fixed Remuneration

The determination of the value of fixed remuneration of Executive Directors is carried out by the Remunerations Committee, in consultation with the Nominations, Evaluation and Remunerations Committee, within the limits defined in point 4.2.

The value of this remuneration is adjusted annually taking into account the level of responsibility of the Executive Director, or his / her professional career and market remuneration for positions equivalent to those occupied by Executive Directors, with such adjustment determined by the Remunerations Committee, following consultation with the Nominations, Evaluation and Remunerations Committee.

4.3.2.2 Variable remuneration in the form of bonus

The value of variable remuneration in the form of bonus for Executive Directors is determined by the Remunerations Committee, upon consultation with the Nominations, Evaluation and Remunerations Committee, in accordance with the rules defined in Section 5.

4.4 Profit sharing

Banco BPI does not have a policy of remunerating its Directors through profit sharing.

4.5 Other benefits

4.5.1 Retirement Benefits – main characteristics

Members of the management body benefit from pension plans applicable to the majority of Banco BPI Employees in the same circumstances, to the extent that they have been Banco BPI Employees before performing these duties and their employment contract has been suspended by law.

The Executive Directors who were part of the Executive Committee of the Board of Directors for the 2014-2016 term or who served therein in prior terms of office (or, in the case of the previous governance model, Management) also are entitled, under a defined benefit regime, to an additional retirement benefit, approved at the meeting of the Bank's Board of Directors on 25 July 1995. This supplementary retirement benefit provides the respective beneficiaries with a retirement supplement whose monthly value is a function of the monthly salary in force on 31 December 2009 for the office of the Executive Committee corresponding to that in which such beneficiary serves and the number of years of performance of duties thereof.

The rules governing the cited benefit are set out in the Regulation on Retirement Benefits for Members of the Board of Directors, approved in the aforementioned meeting of the Board of Directors and which is reproduced in the annex, with the amendment provided for in the addition of a new Article 1(4), intended to define the persons to whom such benefit is directly applicable.

Executive Directors (whether those on the Executive Committee to the Board of Directors until the end of the 2014-2016 term of office or others) may be entitled to a complementary pension under a defined contribution regime, under the terms of which the Remunerations Committee defines each benefit.

It is provided that the following are deducted from the pensions provided by the Executive Directors' plan:

- pensions granted by Social Security which fall into any of the following two categories:
 - those relating to functions performed in the BPI Group;
 - those relating to functions provided to third-party entities by appointment of the BPI Group and which the BPI Group has recognised for that purpose;
- pensions attributed by other pension plans of the BPI Group.

Members of the management and supervisory body who are not, nor have been, Executive Directors (or, in the case of the previous governance model, members of the Management) receive no retirement benefit attributed by the Bank.

BPI does not attribute any discretionary pension benefits to its Executive Directors.

4.5.2 Situations of dismissal or termination of current or previous functions

It is not provided that, in the event of dismissal or early termination of the duties of a member of the Board of Directors, the Bank will pay such member any compensation, in addition to, any item provided for under the provisions of applicable laws.

5. SPECIFIC RULES APPLICABLE TO VARIABLE REMUNERATION OF EXECUTIVE DIRECTORS

As referred to in Section 4, only the remuneration of Executive Directors includes a variable component, which, in addition to that defined therein, is also subject to the following rules:

5.1. Variable Remuneration in the form of Bonus

5.1.1. General aspects

Executive Directors may be attributed variable remuneration in the form of a risk-adjusted bonus, based on measurement of performance. Performance measurement is carried out by *ex-ante* and *ex-post* adjustments, as a way of applying risk control.

Guaranteed variable remuneration cannot be granted except when a new Executive Director is hired, and, in any case, such guaranteed variable remuneration may only be applicable to the first year in which duties are performed and is only due if it is verified that the Bank has a solid and strong capital base.

5.1.2. Performance measurement

Quantitative (financial) and qualitative (non-financial) criteria, which must be specified and clearly documented, are used for the measurement of performance and evaluation of individual results.

Variable remuneration applicable to Executive Directors is determined based on a “target bonus” defined for each of them by the Remunerations Committee, on proposal of the Nominations, Evaluation and Remunerations Committee.

The variable remuneration to be attributed depends on the “level of achievement of objectives” determined for the Executive Director. The maximum percentage of this “level of achievement of objectives” that can be reached is 120%, in which case the Executive Director is entitled to receive variable remuneration equivalent to 120% of the “target bonus” value.

For the “level of achievement of objectives”, 50% of Banco BPI (corporate objectives) and 50% of individual objectives will be considered:

Banco BPI Objectives

Banco BPI's objectives should be determined for each by the Remunerations Committee, on proposal of the Nominations, Evaluation and Remunerations Committee, and their weight should be a function of the parameters defined on the basis of the Bank's main objectives. These parameters may include but are not limited to all or some of the following:

- ROTE (return on tangible equity)
- Recurring operating expenses
- Risk Appetite Framework
- Regulatory compliance
- Quality

Whatever the case, the proposed composition and weighting of Banco BPI's objectives must be established in accordance with the provisions of the law and may vary between Executive Directors.

Individual objectives

The share of individual objectives (50 percent) must be globally distributed between the objectives associated with Banco BPI's strategy. The final evaluation will be carried out by the Remunerations Committee, on proposal of the Nominations, Evaluation and Remunerations Committee.

The final determination of variable remuneration will be approved by the Remunerations Committee, on proposal of the Nominations, Evaluation and Remunerations Committee.

5.1.3. Special cases of restriction

Variable remuneration is subject to reduction, if, at the time of performance appraisal, a requirement or recommendation from Banco BPI's prudential supervisory authority is in effect to restrict Banco BPI's dividend distribution policy, or if required as such by the competent authority, all in accordance with the provisions of the RGIC.

5.1.4. Variable remuneration: portion paid immediately and deferred portion

One portion of variable remuneration is paid immediately after the attribution thereof, in the sense that the cash and instruments corresponding to such non-deferred portion of variable remuneration are transferred to the Executive Director.

The other portion of variable remuneration (deferred portion) is subject to a deferral period, phase in accordance with point 5.1.5. The cash and instruments whose attribution is subject to the deferral period are only transferred to the Executive Director after the respective phase of the deferral period.

The percentage of deferral applicable to variable remuneration of Executive Directors is 60 percent.

This percentage of deferral may be modified if competent authorities establish absolute or relative limits for determination of “particularly high variable remuneration amounts”, pursuant to the provisions of EBA Guidelines.

5.1.5. Deferral period

On the date of payment of variable remuneration, the non-deferred portion thereof (hereinafter “Initial Payment Date”), or rather, the cash and instruments that comprise that non-deferred portion of variable remuneration, are paid. Half of this non-deferred portion of variable remuneration is paid in cash and the remaining half is paid in instruments.

Provided that the reduction assumptions set out under Section 5.2 are not met, the deferred portion of risk-adjusted variable remuneration will be paid in five tranches, the amounts and dates of which are as follows:

- 1/5 12 months after Initial Payment Date
- 1/5 24 months after Initial Payment Date
- 1/5 36 months after Initial Payment Date
- 1/5 48 months after Initial Payment Date
- 1/5 60 months after Initial Payment Date

5.1.6. Payment of cash and instruments

Half of the amount payable on each of the dates provided for in the previous paragraph is paid in cash and the remaining half is paid in instruments, once the applicable taxes (withholdings or payments on account) have been paid. Without prejudice to the provisions regarding the retention policy, the ownership of instruments is transferred to the Executive Director on the date of payment.

Whenever there is payment in instruments, such payment is preferably made in CaixaBank shares; However, Banco BPI may deliver other instruments admitted for payment of variable remuneration, under the conditions and in accordance with the requirements provided for in *Article 115-E* of the RGIC, *Regulation 527 / 2014* and EBA Guidelines.

5.1.7. Retention policy

All instruments delivered are subject to a retention period of one year from the date upon which they are paid / delivered, during which period the Executive Director cannot dispose of them.

During the retention period, the rights inherent to the instruments are held by the Executive Director.

5.1.8. Payment of income on deferred cash and instruments

Interest at the rate set for bank accounts of Employees will be applied to the cash value subject to deferred variable remuneration, which will fall due and will be paid on the date of payment of such amount in cash.

For instruments subject to deferred variable remuneration, a cash value corresponding to the amount of interest or dividends paid during the deferral period to holders of instruments of the same category will be delivered to the Executive Director on the date in which such instruments are transferred thereto. The aforementioned value also will include, in the case and by reference to instruments that are shares, the value of the shares attributed during the same period by capitalisation of reserves, as well as the value of rights related to capital increases for cash inflows that have been included with such shares, measured in terms of the average price reached by such rights during their trading period.

5.1.9. Termination or suspension of professional relationship

The termination or suspension of the management relationship, in particular in the event of sick leave, early retirement or retirement by age limit, will not result in interruption of the payment cycle of variable remuneration; without prejudice to the provisions relating to the reduction and recovery of the variable remuneration provided for in point 5.2.

In the event of death, the Human Resources Department, together with the Risk Analysis and Control Department, must determine, and, if necessary, propose the process for settlement of pending payment cycles in accordance with the general principles of the RGIC and this Remuneration Policy.

5.1.10. Special situations

In special unforeseen situations (i.e., corporate transactions that affect the ownership of instruments delivered or deferred), specific solutions must be applied in accordance with the law and principles of the Remuneration Policy, so as not to artificially dilute or alter the value of the corresponding compensation.

5.1.11. Time-in-service requirement

It is a necessary condition for receipt of variable remuneration in the form of a bonus that the Executive Director maintains his or her management relationship with Banco BPI on 31 December of the year in which such variable remuneration expires.

5.1.12. Incompatibility with personal hedging strategies or avoidance schemes

In accordance with the provisions of *Article 115-E(15)* of the RGIC, the Executive Directors agree not to use any risk hedging mechanism to mitigate or neutralise the effects from alignment of risks inherent in the remuneration arrangements or through the payment of the variable remuneration component through special purpose vehicles or other methods with equivalent effect.

5.2. Reduction and Recovery of Variable Remuneration

5.2.1. Reduction assumptions

In accordance with the provisions of the law, the right of Executive Directors to receive variable remuneration amounts, in whole or in part, including those pending payment, either in cash or by delivery of instruments, may be reduced in the event of poor financial performance of Banco BPI as a whole or of a specific division or specific area thereof. For this purpose, Banco BPI must compare the performance evaluation conducted with the subsequent behaviour of variables that contributed to achievement of the objectives.

The assumptions that lead to reduction of variable remuneration are as follows:

- significant failures in risk management by Banco BPI or by a business or risk control unit, including the existence of qualifications in the external auditor's audit report or circumstances that reduce the financial parameters that served as the basis for calculation of variable remuneration;
- increase in capital requirements for Banco BPI or one of its business units, unless foreseen at the time of assuming the risk exposure that generates such needs;
- regulatory sanctions or court convictions for events that may be attributable to the Executive Director or to units dependent upon such Executive Director;

- failure to comply with the institution's internal regulations or codes of conduct, including, in particular:
 - regulatory violations attributable to them and classified as serious or very serious;
 - violation of internal regulations that are classified as serious or very serious;
 - failure to comply with the suitability and correction requirements applicable thereto;
 - regulatory violations attributable thereto and that, irrespective of whether they involve losses or not, may jeopardise the solvency of a business line, and, in general, involvement or responsibility in conduct that has generated significant losses.
- irregular conduct, individual or collective, especially considering the negative effects from the marketing of inappropriate products and responsibilities of Executive Directors in making these decisions;
- dismissal for just cause (total reduction in this case);
- when the respective payment or consolidation is not sustainable according to Banco BPI's financial situation as a whole, or if not justified based on the results of Banco BPI as a whole or of business units dependent upon the Executive Director in question;
- any others established by law or by decision of competent authorities.

5.2.2. Recovery assumptions

In cases where the causes giving rise to these situations described in a) above occurred at a time prior to payment already made of any variable remuneration amount, whereby if such situation were to have been considered, the cited payment would not have been made in whole or in part, the Executive Director must reimburse Banco BPI for the part of the variable remuneration unduly received, together with any income, if any, that has been paid thereto under point 5.1.8. This reimbursement will be paid in cash or instruments, as the case may be.

In particular, cases in which the Executive Director in question has contributed significantly to the achievement of weak or negative financial results, as well as case of fraud or other malicious conduct or gross negligence causing significant losses, will be considered particularly serious cases.

5.2.3. Common standards

The Remunerations Committee is responsible for proposing to the Board of Directors the application of reduction or loss of right to payment of deferred amounts, or their total or partial recovery, depending on the characteristics and circumstances of each particular case.

According to the provisions of the EBA Guidelines, the assumptions for the reduction of variable remuneration are applicable throughout the deferral period of the remuneration in question. The assumptions for recovery of the variable remuneration are applicable for a period of one year from payment of variable remuneration, unless there is fraud or negligence of the Executive Director.

The implementing provisions of LTI must establish the specific rules for reduction or recovery of benefits provided to Executive Directors, adapting the assumptions for reduction and recovery provided for in the Remuneration Policy to the nature and purposes of the LTI.

5.2.4. General principles of labour or contractual law

Under the provisions of the RGIC, proposals to reduce or recover variable remuneration should take into account the general principles of contract or employment law.

6. INSTRUMENT-BASED LONG-TERM INCENTIVES

Executive Directors (all or some of them) may benefit from a long-term incentive plan based on instruments as a form of multi-year variable remuneration (LTI).

The LTI may be structured as a variable remuneration scheme that allows its participants to receive, after a certain period of time, an amount in shares or other instruments, or options on them, or in cash, provided that certain conditions established in the LTI are met.

The decision on the existence and definition of specific LTI conditions (including those relating to the payment cycle and reduction and recovery clauses), which should be adapted to and compatible with the principles of this Remuneration Policy:

- are the responsibility of the Remunerations Committee, with consultation of the Nominations, Evaluation and Remunerations Committee;
- must be approved by the General Meeting of Banco BPI whenever terms dictate that such approval is mandatory in accordance with the law.

7. DISCLOSURE AND UPDATE

The Remuneration Policy is disclosed on the Bank's intranet and Banco BPI's institutional website (www.bancobpi.pt) and is available for consultation by anyone.

This Policy and its implementation are subject to annual review by the Remunerations Committee, with consultation with the Nominations, Evaluation and Remunerations Committee, with the Remunerations Committee responsible for presenting changes to Shareholders as deemed justified.

BOARD MEMBERS RETIREMENT RIGHTS REGULATION

(Approved at the General Council meeting on 25 July 1995, with the alterations approved at the General Meeting of 22 April 2010, 31 May 2012 and 26 April 2017)

Article 1

1. The Bank's Senior Management members have the retirement rights provided in the Articles of Association and which are regulated there, as long as they meet the following conditions:
 - a) They have reached the age of 60 or are incapacitated to do their job;
 - b) At the moment of the facts referred to in the previous paragraph, they have been elected to a board director position or meet the requirements foreseen in article 4;
 - c) They have held this post for at least three consecutive or non-consecutive years.
2. For the purpose of the requirement provided in paragraph c) in the point above, the time that is counted is:
 - a) All the time as a board director, even before this Regulation;
 - b) All the time working as a Board Director prior to the alteration to the structure of the Bank and as a Board Director of SPI – Sociedade Portuguesa de Investimentos, SARL.
3. If the structure of the bank is once again altered to Board of Directors, instead of Senior Management, the provisions of this Regulation still apply to the Board Directors since what is to be regulated is the retirement right of the members of the Bank's management body.
4. It is hereby established that the people this Regulation applies to directly, are those who sit on the Board of Directors' Executive Committee in the 2014-2016 term of office or who are part (or in the case of the previous governance model, the Senior Management) in terms of office before this.

Article 2

1. Retirement gives the beneficiaries the right to receive a pension from the Bank, calculated using the fixed monthly salary as at 31 December 2009 of the senior management meaning those who met the conditions provided in article 1, updated at the increased rate that is the same as applied to remuneration level 18 by the Collective Work Agreement (ACT) for the banking industry.
2. The amount of the pension will be the result of applying the percentages given below to the salary mentioned in point 1 in this article, depending on whether it is a situation of incapacity for the job or retirement by age limit and will be calculated depending on the number of years they held the senior management post:

<i>No of years in a senior management post</i>	<i>Situation of incapacity for the job</i>	<i>Situation of retirement due to age limit</i>
> 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 set pursuant to the previous points will be altered annually in line with the CPI.
4. Regardless of the provision in article 1, point 1 paragraph c), if the incapacity arises as a consequence of a work accident or occupational disease, the beneficiary has the right to a pension, the amount of which is the result of applying a percentage that starts at 10% and increases by another 10% for every complete year as a member of Senior Management apart from the first year up to a maximum of 100%, to the salary mentioned in point 1 of this article.
5. For the purpose of applying the provisions in the previous points, in the case of beneficiaries who have been in management positions in any Bank controlled by Banco BPI with their headquarters in Portugal, regardless of whether they have held the post before or after they were acquired, the number of years in the relevant job (first column of the table in point 2) will correspond to the sum of the number of years as a member of Senior Management and the number of years in management in the bank or banks controlled by Banco BPI.

Article 3

1. For the purposes provided herein, the right to retire may be exercised as of when the Director turns 60 or is incapacitated to continue in their job.
2. Any Director who wishes to retire must advise the General Council that within three months of the communication, they will meet the conditions established in this Regulation.
3. If the Director is to retire because of incapacity, the General Council may, if it deems it necessary, require the Director to undergo a medical examination by whoever the Council appoints.

Article 4

1. Those who have completed 9 consecutive or non-consecutive years as a Director and who, having stopped being one, remain in a management position at any Bank controlled by Banco BPI, in other jobs at Banco BPI or in a BPI Group company, or in a job outside the BPI Group but in its interest and were appointed by it, when they turn 60 or before 60 if they are incapacitated to do their job, have the right to receive a retirement pension which is calculated by applying the percentages given in article 2 point 2 if they retire because of their age, to the amount mentioned in article 2 point 1.
2. The amount of the pension mentioned in the previous point will be:
 - a) Updated pursuant to the provisions in article 2 point 3;
 - b) Reduced by 20% if the beneficiary was no longer part of the BPI Senior Management or the management body of the Banks mentioned there by resignation without fair cause or if they had not been re-elected, unless they continue to work for the BPI Group until they are 60.

Article 5

1. If any Director dies after they have retired or if they are still working but could have retired pursuant to the terms of article 4 of this Regulation, the relatives have the right to a survivor's pension.
2. The amount of the survivor's pension provided in the previous point is calculated using a pension to which the beneficiary would have the right to according to this Regulation if they had been retired or what they actually received depending on the case and it will be updated annually in line with the CPI.
3. The percentages and the conditions to award a survivor's pension to the relatives of the deceased Director shall be governed, in the part that is not especially foreseen in this Regulation, by the rules of the general Social Security regime that are in force and are given in annex.

Article 6

1. All the amounts of the pensions that the beneficiaries receive or will receive for the length of service provided to the BPI Group, or that they have recognised for the purpose, will be discounted from the pensions mentioned in the previous articles.
2. If and as soon as the interested party has the right to the pensions mentioned in the previous point, they must ask for

them and tell the Bank they have been awarded and the changes to the amounts – under penalty of the Bank not paying the pension it owes – and prove, whenever so requested, the amounts actually received, so the Bank can calculate the amount of the pension it must pay or any reimbursement the beneficiary may have to make.

3. The pensions provided in this Regulation will be paid 14 times a year with 12 on the calendar months, one in June and the other one before Christmas.
4. Any Director who was removed from the Senior Management because of fair cause or lost their term of office or was not re-elected for a reason that constituted fair cause for dismissal will lose any right they had under the terms of this Regulation.

Article 7

1. The Bank can transfer the liabilities that arise from the retirement rights regulated here to an insurance company or a pension fund.
2. This transfer requires the prior written agreement of the beneficiaries whenever it implies altering the retirement conditions or a reduction in the benefits or guarantees they had enjoyed.
3. The Bank shall bear the cost of taking out insurance contracts against the risk of the Bank disappearing to ensure the continuation of the pension payments after the disappearance.
4. The Senior Management is authorised to enter into the insurance contracts mentioned in the previous point.

Article 8

The competent Bank services will organise all the files arising from the application of this Regulation, including drawing up the retirement process.

Article 9

The General Council may delegate the powers that are conferred in article 3 and all the questions regarding the interpretation and integration of this Regulation to the Remunerations Committee.

Article 10

This Regulation replaces the one that came into force on 29 November 1990 but, as regards the members of the Senior Management currently in office, it only applies to those who had opted to be subject to it prior to 31 December 1995.

The Banco BPI articles of association provide that the governing body members have a fixed remuneration, while the members of the Executive Committee have a fixed remuneration and a variable remuneration which is calculated depending on criteria that were defined in the remuneration policy of the Board of Directors and supervisory body members.

The remuneration of the elected member of the governing bodies will be set by the Remunerations Committee after hearing from the Appointment, Assessment and Remunerations Committee (CNAR in the original Portuguese) regarding the remuneration of the Executive Committee members.

The Remunerations Policy defines the limits for the total annual remuneration to be awarded to the Board of Directors and supervisory body members.

The Remuneration Policy for 2017 / 2019 was approved at the General Meeting on 26 April 2017 and foresees the following limits:

- a) Non-executive board members (not including attendance fees): € 1 600 000;
- b) Executive directors:
 - fixed part: € 5 500 000
 - variable part: (variable remuneration paid as a bonus): € 1 400 000
- c) Supervisory Board Members: Chair € 80 000; members € 70 000 (each).

As mentioned in point 77, the executive directors were awarded variable remuneration in 2017 for their performance in 2016 (AVR 2016 CECA), pursuant to the proposal to this effect presented by the Remunerations Committee to the shareholders at the General Meeting of 26 April 2017 pursuant to article 28, point 5 of the articles of association.

Taking into account the overall amount of the fixed remuneration paid to the executive directors who worked in 2016 of € 2 341 648, it is considered that there is a reasonable and prudent balance between the total variable remuneration paid in 2017 with reference to 2016, to the sum of € 2 215 369 (equivalent to 1% of the consolidated net profit of Banco BPOI in 2016), and the amount of the fixed remuneration as the fixed component represented 95% of the total.

Whereas,

- 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 defines the criteria the Remunerations Committee shall use to decide on the overall amount to award each year to the members of the Executive Committee and the amount to award to each member of this body;
- b) the governance report notes the individual amounts paid to the members of the governing bodies in the year the report refers to. This information lets the shareholders know exactly how much the remuneration was for each of the members of the governing bodies and, if that is the case, to issue an opinion on the matter and they can also compare this information with the overall limits established in the remuneration policy to estimate minimally what this remuneration will be the next year.

This ensures that there is:

- minimum foreseeability, within reasonable bounds, of the potential maximum remuneration of each member of the

governing bodies;

- information about the effective remuneration of each of the members of the governing bodies and the possibility of the shareholders issuing an opinion, if they so decide;
- effective transparency about the individual remuneration policy of each of the members of the governing bodies.

70. Alignment of the interest of the board directors with the interest of the company

The conjugation of the statutory rule that states that the terms of office for the Board of Directors and the Supervisory Board last three years along with the rule provided in the Remuneration Policy of the deferred payment in five annual tranches of equal amount of the variable remuneration (with half of the amount to be paid on each date composed of cash and the other 50% in financial instruments) and the rule that all the financial instruments that are awarded are subject to a retention period of one year as of the date they were paid / awarded, results in the compatibility between the incentives arising from the variable remuneration awarded to the executive directors and the long-term interests of BPI.

71. Variable remuneration component and the impact of the performance assessment on this component

The Executive Directors' remuneration is composed of a fixed component and a variable component in the form of a bonus.

The variable component in the form of a bonus is, in turn, composed of a part in cash and a part in financial instruments, preferably CaixaBank shares awarded pursuant to the Remuneration Policy.

The amount of the variable component in the form of a bonus to the Executive Directors is calculated by the Remunerations Committee after hearing from the CNAR in accordance with the following rules:

- a) The Executive Directors can be awarded a variable component in the form of a bonus adjusted to the risk, based on their performance.
- b) No guaranteed variable remuneration can be awarded, unless in the case of a new Executive Director and, in any case, that guaranteed variable remuneration only applies to the first year in the job and will only be payable if there is a sound and solid capital base at the Bank.
- c) Quantitative (financial) and qualitative (non-financial) criteria are used to assess the individual performance results and these must be specified and clearly documented.
- d) The variable remuneration for the Executive Directors is calculated using a "target bonus" defined for each director by the Remunerations Committee upon a proposal from the CNAR.
- e) The variable remuneration to be awarded will depend on the "objective realisation level" set for the Executive Director. The

maximum percentage of this “objective realisation level” is 120%, in which case the Executive Director has the right to receive a variable remuneration equivalent to 120% of the “target bonus”.

- f) The “objective realisation level” must consider 50% each for Banco BPI objectives (corporate objectives) and individual objectives.
- g) Banco BPI objectives: The Remunerations Committee must set the Banco BPI objectives for every year upon a proposal from the CNAR and its weight must depend on the parameters defined using the main Bank objectives. These parameters may include among others, all or any of those shown below:

- ROTE (return on tangible equity)
- Recurrent operating expenses
- Risk Appetite Table
- Regulatory conformity
- Quality

- h) The proposed composition and weighting of the Banco BPI objectives must be established, whatever the case, in compliance with the provisions of the law and can vary among the Executive Directors.
- i) Individual objectives: Part of the individual objectives (50%) must be distributed globally among the objectives associated with the Banco BPI strategy. The final assessment is made by the Remunerations Committee upon a proposal from the CNAR.
- j) Special cases of restriction: The variable remuneration can be reduced if, at the time of the performance assessment, there is a demand or recommendation in force from the Banco BPI prudential supervision authority to restrict the dividend distribution policy, or if that was demanded by the competent authority, all of which must be in accordance with the General Credit Institution Regime (RGIC in the original Portuguese).

72. Deferred payment of the variable remuneration component

Part of the variable remuneration is paid immediately after it is awarded, in that the money and financial instruments that are the part of the variable remuneration that are not deferred, are transferred to the Executive Director.

The deferred part of the variable remuneration is subject to a step-by-step deferral period as follows:

- a) On the date of the variable remuneration payment, the part that is not deferred must be paid (hereinafter called the Initial Payment Date), i.e. the money and financial instruments that are the part of the variable remuneration that are not deferred must be transferred to the Executive Director. Half of this variable remuneration that is not deferred is paid in cash and the other half is in financial instruments.

- b) The deferred part of the variable remuneration adjusted to the risk must be paid in five tranches as shown below, as long as the reduction suppositions provided in Section 5.2 of the Remuneration Policy, transcribed in point 69 above do not occur:

- 1/5 12 months after the Initial Payment Date
- 1/5 24 months after the Initial Payment Date
- 1/5 36 months after the Initial Payment Date
- 1/5 48 months after the Initial Payment Date
- 1/5 60 months after the Initial Payment Date

The deferred cash and instruments are only transferred to the Executive Director after the end of the respective deferral period.

The deferral percentage applied to the variable remuneration of the Executive Directors is 60%. This deferral percentage can be altered if the competent authorities establish absolute or relative limits to calculate the “particularly high variable remuneration amounts” pursuant to the EBA Guidelines.

73. Miscellaneous information about variable remuneration in shares

The criteria for awarding variable remuneration in shares are given in point 72 above. Below are the criteria for the executive directors to keep the shares they receive as part of their variable remuneration, about any contracts regarding these shares, namely hedging contracts, or the transfer of risk, respective limit and their relationship with the amount of the total annual remuneration.

The remuneration policy contains rules about permanence, where it states that one of the conditions needed to receive the variable remuneration in the form of a bonus is that the Executive Director is still a Banco BPI board director on 31 December on the year that the variable remuneration is due.

Bearing in mind the provision in article 115-E, point 15 of the RGIC, the remuneration policy also foresees rules that determine the incompatibility with personal hedging strategies or evasion mechanisms, committing the executive board directors not to use any risk hedging mechanism to mitigate or neutralise the effects of the alignment by the risks inherent in the remuneration schemes or through the payment of the variable remuneration component by using entities that are instrumental or other methods with the same effect.

74. Criteria on which the awarding of variable remuneration in options is based and indication of the deferral period and the exercise price

The current remuneration policy does not foresee awarding share options or financial instrument options as a component of the variable remuneration.

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 members of the Board of Directors who are or have been Executive Directors in the period 2014 / 2016 or who were members of that body (or in the case of the earlier governance model, of the senior management) in earlier terms of office, also enjoy as a defined benefit, a supplementary retirement benefit, as approved to the Bank's General Council meeting of 25 July 1995 and which provides them with a retirement supplement the monthly amount of which depends on their monthly income as Executive Directors and how long they stayed in that post.

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).

These Executive Directors therefore 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 Board of Directors and supervision bodies who are not and have not been Executive Directors (or in the case of the earlier governance model, of the senior management) do not enjoy any retirement benefit attributed by the bank.

There is a provision that the pensions paid under the Social Security which fall within any one of the following three categories shall be deducted from the pensions paid under the Executive Directors' plan:

- 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 main characteristics of the retirement benefits system that applies to the executive directors mentioned above arise from the Regulation, approved at the General Meeting of 31 May 2012, the last alteration to which was approved at the General Assembly of 26 April 2017 as transcribed below:

"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 this post for at least three consecutive or non-consecutive years.*
2. *For the purpose of the requirement provided in paragraph c) in the point above, the time that is counted is:*
 - 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.
4. It is hereby established that the people this Regulation applies to directly are those who sit on the Board of Directors' Executive Committee in the 2014-2016 term of office or who are part of it (or in the case of the previous governance model, the Senior Management) in terms of office before this.¹

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.

1) Alteration approved at the General Meeting of 26 April 2017.

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 as at 31 December 2017, who are the beneficiaries of a pension plan as a defined scheme involving € 7 600 th. which is equivalent to the current amount of the liabilities for past services:

Amounts in thousands of euros	
Executive directors	Amount
José Pena do Amaral	3 226
Pedro Barreto	1 065
João Oliveira e Costa	476
António Farinha Morais	2 833

Alexandre Lucena and Vale e Francisco Manuel Barbeira have the pension scheme as a result of the ACT and / or Social Security involving an amount of € 801 th. which is equivalent to the current amount of the liabilities for past services:

Amounts in thousands of euros	
Executive directors	Amount
Alexandre Lucena e Vale	564
Francisco Manuel Barbeira	237

In 2017, the annual cost of retirement and survivor's pensions calculated based on the actuarial evaluation of 31 December 2016 was € 378 th. broken down as follows:

Amounts in thousands of euros			
Executive directors	Current service costs	Cost net of interest	Cost for the year
José Pena do Amaral	191	3	194
Pedro Barreto	116	1	117
João Oliveira e Costa	52	1	53
António Farinha Morais	0	3	3
Alexandre Lucena e Vale	10	1	11
Francisco Manuel Barbeira	0	0	0

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

Remuneration regarding 2017

In 2017, the overall fixed remuneration of the members of the Board of Directors was € 4 796 174.

Over and above this amount there were attendance fees of € 219 400 for their participation in the meetings of the advisory boards and those that are foreseen in the articles of association to provide support to the Board of Directors.

Amounts in euros

Board of Directors	Fixed remuneration	Attendance fees
Artur Santos Silva ¹	126 000	25 900
Fernando Ulrich	750 000	—
Pablo Forero	393 332	11 100
António Lobo Xavier	49 000	23 300
Alexandre Lucena e Vale ³	245 817	—
Alfredo Rezende de Almeida ¹	30 584	25 900
António Farinha Morais ³	358 497	—
Armando Leite de Pinho ²	8 167	—
Carla Sofia Bambulo	49 000	18 500
Carlos Moreira da Silva ²	8 167	—
Cristina Rios Amorim	21 778	25 900
Francisco Manuel Barbeira ³	230 922	—
Gonzalo Gortázar Rotaesche	21 778	—
Ignacio Alvarez Rendueles	365 811	22 200
Javier Pano Riera	21 778	22 200
João Pedro Oliveira Costa	489 260	—
José Pena do Amaral	531 600	—
Juan Alcaraz	21 778	—
Lluís Vendrell	49 000	18 500
Manuel Ferreira da Silva ^{1,4}	212 198	—
Maria Celeste Hagatong ^{1,4}	212 198	—
Mário Leite da Silva ⁵	12 250	—
Pedro Barreto	489 260	—
Tomás Jervell	49 000	—
Vicente Tardío Barutel	49 000	25 900

The members of the Board of Directors who are members of the Executive Committee may have the right to a variable remuneration for their performance in 2017.

The existence and the amount of this variable remuneration depend on a decision to be taken by the Remunerations Committee which will be taken after the Annual General Meeting scheduled for 20 April 2018.

Remuneration of the members of the Board of Directors Executive Committee regarding 2016

In 2016, the overall fixed remuneration of the members of the Board of Directors Executive Committee was € 2 341 648.

Amounts in euros

Executive committee	Fixed remuneration
Fernando Ulrich	465 465
António Domingues ⁶	232 948
José Pena do Amaral	328 647
João Pedro Oliveira Costa	328 647
Manuel Ferreira da Silva	328 647
Maria Celeste Hagatong	328 647
Pedro Barreto	328 647

On 26 April 2017, the General Shareholder Meeting approved the Remunerations Committee proposal, under the transitory provision provided in article 28 point 5 of the articles of association and bearing in mind the limits set in the Remuneration Policy approved by the General Meeting of 28 April 2016, to attribute the following variable remuneration to the members of the Board of Directors Executive Committee who were in office in 2016 (identified below). This remuneration is regarding their performance in that year and in proportion to the period of time they were in office:

- to the Chair of the Executive Committee € 465 465.00;
- to the Vice-Chairman of the Executive Committee € 53 334.53;
- to each of the members of the Executive Committee € 328 646.50.

This remuneration complied with the 1% limit of the consolidated net profit for 2016 and the limitation that the variable remuneration cannot be greater than the fixed remuneration.

Taking into account:

- the provision given in the remuneration policy that 50% of the variable remuneration is paid in BPI shares and share options (RVA) is designed and presents the characteristics that are apt to pursue a specific goal, which is to align (or improve the alignment) of the interests of the beneficiaries with those of the Bank and its shareholders;
- the central point or connection of this alignment of interests is the value of the BPI shares: better individual performance affects the performance of Banco BPI which drives up the value of the BPI shares; the increase in the value of BPI shares improves the individual position of the Executive Directors as

1) Resigned on 21 July 2017, regarding the 2014 / 2016 term of office.

2) Resigned on 28 February 2017.

3) Excludes remuneration from before the appointment to the Board of Directors Executive Commission.

4) Includes € 3 481 for seniority payments.

5) Resigned on 31 March 2017.

6) Resigned on 30 June 2016.

they own BPI shares or instruments where the value depends on the share value;

- meanwhile, as CaixaBank has acquired control of about 85% of Banco BPI through a takeover it launched, there has been a significant reduction in the free-float of BPI shares and, consequently, a very considerable reduction in the liquidity of the shares (it should be recorded that only 7% are dispersed among the public); these facts represent a substantial alteration in the circumstances that existed when the current remuneration policy and the RVA were defined;

The shareholders also approved the Remunerations Committee proposal at that General Meeting under which, exceptionally, all the variable remuneration awarded for the performance of the members of the executive committee in 2016 would be paid in cash, but 50% of it would still be subject to the same limitations and deferrals provided in the current remuneration policy.

Therefore, and as a result of that decision, apart from the regular amounts of fixed remuneration shown in the previous year's report and given above, the members of the Board of Directors Executive Committee who were in office in 2016 were also awarded the amounts shown below:

Variable remuneration (performance in 2016)

Amounts in euros

Executive committee	Total	Not deferred	Deferred
Fernando Ulrich	465 465	232 733	232 733
António Domingues ¹	53 335	53 335	n / a
José Pena do Amaral	328 647	164 323	164 323
João Pedro Oliveira e Costa	328 647	164 323	164 323
Manuel Ferreira da Silva ²	328 647	164 323	164 323
Maria Celeste Hagatong	328 647	164 323	164 323
Pedro Barreto ³	328 647	164 323	164 323

The total remuneration (fixed and variable) earned by the members of the Executive Committee in 2016 was € 4 503 683 as shown below.

Total remuneration of the Executive Committee members in 2016

Amounts in euros

Total remuneration
Fernando Ulrich
António Domingues
José Pena do Amaral
João Pedro Oliveira Costa
Manuel Ferreira da Silva
Maria Celeste Hagatong
Pedro Barreto

78. Any amounts paid, for any reason whatsoever, by other companies in a control or group relationship, or are subject to a common control

Apart from the director Manuel Ferreira da Silva², regarding whom, part – worth € 160 295 – of the fixed remuneration mentioned in point 77 was paid by Banco Português de Investimento, S.A., no other member of the Executive Committee received any remuneration, not from 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 explained in the previous point, the members of the Executive Committee who were in office in 2016 were awarded the variable remuneration for their performance in that year in 2017.

In accordance with the decision approved at the General Meeting of 26 April 2016, that remuneration was exceptionally all paid in cash even though it was still subject to the rules provided in the Remuneration Policy in force at that date, namely regarding the rules on limitation and deferral provided therein as shown in the table in point 78.

80. Compensation paid or owed to former executive directors concerning contract termination during the financial year

There was no payment for early termination in 2017.

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

Notwithstanding what is mentioned in point 69 above about the applicability of Law 28 / 2009 on credit institutions, in 2017, the remuneration of the members of the Supervisory Board overall was € 198 800 gross. The individual amounts are shown below:

Remuneration of the Supervisory Board

Amounts in euros

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 2017, the overall amount of the remuneration awarded to the chair of the General Meeting was € 14 000 paid in 14 instalments.

1) Resigned on 30 June 2016.

2) € 67 000 was deducted from this amount for work representing the Bank in other companies Resigned on 21 July 2017, regarding the 2014 / 2016 term of office.

3) € 15 122 was deducted from this amount for work representing the Bank in other companies.

The Chair of the General Meeting does not benefit, under this circumstance, from any retirement rights.

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

Regarding this matter, the provision of article 403 point 5 of the Companies Code states: "If the dismissal is not based on fair cause, the board director has the right to indemnity for damages as stipulated in the contract he entered into or under the general terms of the law, but the indemnity cannot exceed the amount of the remuneration he or she could expect to receive until the end of the period they were elected for."

There are no contractual limitations / conditions foreseen for compensation to pay for the dismissal of a board director without fair 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 board members or company officers that foresee compensation in the case of resignation, dismissal without fair cause or termination of the labour relation following a change to the control of the company, except those given under the applicable general law.

VI. SHARE-ALLOCATION AND / OR STOCK OPTION PLANS

85. Details of the plan and the number of persons included therein

Between the beginning of 2001 and the end of 2016, the BPI Group had a variable remuneration programme using BPI shares (RVA Programme) for executive directors and Group Employees which consisted of awarding part of the variable remuneration every year in BPI shares and Banco BPI share purchase options.

The 26 April 2017 General Meeting approved a new Remuneration Policy for the members of the Board of Directors and the Supervisory Board, the RVA Programme was extinguished for Executive Directors keeping the application of variable remuneration awards in shares (RVA) conducted in previous years, which remains in force.

Likewise and as regards the other Employees, the RVA Programme was extinguished and no longer applies (i) in relation to Identified Employees, with the approval of the new Identified Employees Remuneration Policy by the Board of Directors on 14 December 2017, and (ii) as regards the other Employees with the Executive Commission decision of 23 January 2018.

86. Characterisation of the share and options incentive plan

The programme was extinguished as stated in point 85.

In the notes to the consolidated financial statements "4.46. Variable remuneration plan in shares (RVS)" of this Report and Accounts (page 251), gives information about the accounting impact of the programme.

87. Stock options for the company workers and Employees

Following the takeover bid launched by CaixaBank and its impact on the "Variable Remuneration in Shares (RVA) programme conditions, the Board of Directors Executive Committee approved, on 1 February 2017, the possibility of the Employees who own Banco BPI stock options to reconvert the stock options into shares by dividing the underlying monetary value of the options that had been awarded by not exercised in each RVA for the share price set to award the shares in the same RVA or adjusted by capital operations that had occurred, i.e. it allowed each worker to get the shares that they would have had the right to in each RVA if they had taken this choice instead of options.

In 2017, the Board of Directors Executive Committee decided not to award the Employees BPI stock options under the RVA programme for their performance in 2016 and this variable remuneration was fully paid in cash as there was a takeover bid in progress for the Bank that CaixaBank has preliminarily announced on 18 April 2016 and the results were announced on 08 February 2017.

88. Control mechanisms foreseen in any Employee participation system in the capital as far as the voting rights are not exercised by them directly (article 245-A, point 1 paragraph e)

Neither the RVA programme nor its regulations foresee any control mechanisms for situations where the voting rights are not exercised directly by the Employees who have been awarded BPI shares to do so.

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 General Regime for Credit Institutions and Financial Companies (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.

The centralised computer applications also store:

- information about exposure per Client (which is used as the basis to calculate the assets weighted for the purpose of capital ratios);
- the integrated position of the Clients.

The Accounting, Planning and Statistics Department (DCPE) gathers and prepares information detailing Banco BPI exposures to the counterparts mentioned above. Apart from the DCPE, the Company Secretary and the Investor Relations Department also intervene overall in the process mentioned above.

90. Indication of the transactions which were subject to control in the year under review

See point 10.

The reported information complied with article 109 of the RGICSF about credit used and guarantees provided by Banco BPI, S.A. at 31 December 2017.

Amounts in thousands of euros

	Credit used	Guarantees provided
CaixaBank and related entities	2 575	1 271
Allianz and related entities	8	508

The reported information complied with article 85 of the RGICSF about credit used and guarantees provided by Banco BPI, S.A. at 31 December 2017.

Amounts in thousands of euros

	Credit used	Guarantees provided
Board of Directors		
António Lobo Xavier		
Related companies	5 923	23 176
Francisco Manuel Barbeira		
Related companies	18 387	10 812
José Pena do Amaral		
Related companies	16	665
Tomás Jervell		
Related companies	46 064	1 434
Vicente Tardío Barutel		
Related companies	8	495
Supervisory Board and Statutory Auditor		
Jorge Figueiredo Dias		
Related companies	1	4
Deloitte & Associados, SROC, S.A.		
Related companies		129

Notes:

"Related Entities" are the legal persons dominated by the board director or where he or she has a qualified stake as well as those where he or she is the manager.

Includes credit operations and guarantees provided to related companies simultaneously with more than one Board Director to the sum of € 16 030 th. and € 664 885 th. respectively.

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

In accordance with IAS 24, related entities are those where Banco BPI directly or indirectly has significant influence on its management and its financial policy – Associated companies and those under joint control and Pension Funds – and the entities that have significant influence over the management of the Bank – Shareholders and members of the Board of Directors of Banco BPI.

The overall amounts of the assets, liabilities, profits and Off-balance sheet liabilities regarding operations conducted with related parties are shown in the note to the consolidated financial statements 4.48 – Related parties in this Report and Accounts (page 259).

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 Remunerations 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 Remunerations 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 Board of Directors' executive committee is based on the real performance and discourages excessive risk-taking.	Yes	Item 69
III.2. The remuneration of the non-executive members of the Board of Directors and the remuneration of the members of the supervision body should not include any amount that depends on the company's performance or value.	Yes	Item 69
III.3. The variable component of the remuneration must be reasonable in comparison with the fixed component and upper limits must be set for all the components.	Yes	Item 69
III.4. A significant part of the variable component must be deferred for at least three years and the right to receive it must depend on the continuing positive performance of the company over that period.	Yes	Item 69
III.5. The board members must not enter into contracts either with the company or third parties that would mitigate the inherent risk in the variability of the remuneration set by the company.	Yes	Item 69

1) Except when mentioned in other way.

	Adoption	References in the Governance Report ¹ Item
III.6. Until the end of their term of office, executive directors must keep company shares they have received through variable remuneration schemes, up to twice the amount of the total annual remuneration, except for those shares they need to sell to pay taxes arising from the benefit of these shares.	Yes	Item 69
III.7. When the variable remuneration includes options, the beginning of the period of exercise the option must be deferred for at least three years.	Yes	Item 69
III.8. When a board director's resignation is not due to a serious breach of their duties or not being fit for the normal performance of their job but, even so, leads back to inadequate performance, the company must have the proper and necessary legal instruments so no indemnity or compensation, other than what is legally due, can be demanded.	Yes	Item 83
IV. AUDITING		
IV.1. The External Auditor must, as part of their responsibilities, check the application of remuneration systems and policies for the governing bodies, the effectiveness, and workings of the internal control mechanisms and report any deficiencies to the company's supervisory body.	No	-
IV.2. The company, or any entities it has a dominant relationship with, shall not hire any other services except auditing services from the External Auditor nor from any entities in the same group or network related to the External Auditor. If there are any reasons to hire such services – which must be approved by the audit body and explained in their Annual Report on corporate governance – these must not exceed 30% of the total amount of services provided to the company.	Yes	Item 37
IV.3. Companies must ensure auditors are changed every two or three terms of office, depending on whether these last for four or three years respectively. Keeping the auditors longer than this must be based on a specific opinion from the supervisory body that expressly weighs the auditor's independence and the advantages and costs of their replacement.	Yes	Item 44
V. CONFLICTS OF INTEREST AND TRANSACTIONS WITH RELATED PARTIES		
V.1. The company's dealings with shareholders who own a qualified holding, or with entities who have any relationship with them, pursuant to article 20 of the Securities Code, must be conducted under normal market conditions.	Yes	Item 89
V.2. The supervisory body must establish the procedures and criteria needed to define the relevant level of significance of dealings with qualified shareholders – or with entities who have any relationship with them as provided in article 20, point 1, of the Securities' Code, and the deal of significant relevance shall depend on the prior opinion of the body.	Yes	Items 90, 91, 92
VI. INFORMATION		
VI.1. The companies must provide access to information on their site about their evolution and current economic and financial situation and their governance in Portuguese and English.	Yes	Item 59 to 65
VI.2. Companies must ensure they have an investor support office and a permanent contact with the market who can answer investor inquiries in good time and keep a record of the requests and how they were handled.	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 Remunerations 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. Disclosure of the applicable Remuneration Policy and information about the remuneration of the members of the Board of Directors, the Supervisory Board and the so-called “Identified Employees”, pursuant to and for the purpose of compliance with articles 16 and 17 of Bank of Portugal Notice No. 10 / 2011

3.1.1. Information about members of the Board of Directors and the Supervisory Board

The Bank complies with the obligation to disclose the information referred to in the above-mentioned rules regarding the members of the Board of Directors and the Supervisory Board through this Governance Report, the notes to the financial statements and other information they contain about the remuneration policy that the Bank follows.

3.1.2. Information about the so-called “Identified Employees” *Remuneration policy of the “Identified Employees”*

Pursuant to the RGICSF, not only the members of the Board of Directors (executive and non-executive) and the Supervisory Board are subject to the rules on the remuneration policy it contains, but so too are the Employees (designated by BPI as “Identified Employees”) who:

a) are part of the top management, which is understood to include all Employees who report directly to the Board of Directors Executive Committee (CECA) or any of its members;

b) are responsible for taking risks, it is understood that this includes the Employees who take the decisions to take risks and, in the domain of credit risk, those who participate in this decision in the specific area of its analysis and assessment, i.e. all those who are effective members of the Global Risks Committee, the Permanent Credit Committee, the ALCO Committee (Asset-Liability Committee) and the Risks Policy Committee as well as the heads of the Credit Risk Department, the Individual Credit Risk Department and the Financial Department;

c) they receive a remuneration that puts them on the same remuneration scale as the members of the Executive Commission or the Employees mentioned in a) and b) and also meet any of the quantitative or qualitative requirements provided in the *Delegated Regulation (EU) No. 604 / 2014* of the Commission of 4 March 2014; or

d) they are responsible for control functions in the sense of *Bank of Portugal Notice 5 / 2008*, i.e. Employees who are the heads of the Compliance Department (DC), Internal Auditing Department (DAI) and the Overall Risk Management Department (now the DGR, previously called the DACR in Portuguese), along with the Employees who report directly to the heads of the CD and DAI.

Pursuant to the provision in article 115-C point 5 of the RGICSF, the Board of Directors of Banco BPI approved the Remuneration Policy of Identified Employees on 14 December 2017, as described below.

This policy was applied in full in 2017.

REMUNERATION POLICY OF THE BANCO BPI "IDENTIFIED EMPLOYEES"

1. Subjective scope

This remuneration Policy applies to Banco BPI Employees who:

- i. Are part of the **top management**, which is understood to include all Employees who report directly to the Board of Directors Executive Committee (CECA) or any of its members;
- ii. Are **responsible for taking risks**, it is understood that this includes the Employees who take the decisions to take risks and, in the domain of credit risk, those who participate in this decision in the specific area of its analysis and assessment, i.e. all those who are effective members of the Global Risks Committee, the Permanent Credit Committee, the Asset-Liability Committee and the Risks Policy Committee as well as the heads of the Credit Risk Department, the Individual Credit Risk Department and the Financial Department;
- iii. Receive a remuneration that puts them on the same remuneration scale as the members of the Executive Commission or the Employees mentioned in points (i) and (ii) above and also meet any of the quantitative or qualitative requirements provided in the *Delegated Regulation (EU) No. 604 / 2014* of the Commission of 4 March 2014; or
- iv. Are **responsible for control functions** in the sense of *Bank of Portugal Notice 5 / 2008*, i.e. the Employees who are the heads of the Compliance Department (CD), Internal Auditing Department (DAI) and the Risk Analysis and Control Department (DACR), along with the Employees who report directly to the heads of the DC and DAI.

In the last quarter of each year, the CECA shall approve the Human Resources Department (DRH) proposed list of names who, as they are in the categories mentioned in paragraphs i) and iv) above must, therefore, be considered to be covered by this Policy as of 1 January the next year.

The DRH shall use the qualitative and quantitative criteria provided in *Delegated Regulation No. 604 / 2014*, particularly the work done up until 30 September the year before regarding the qualitative criteria and shall use all the fixed remuneration paid in the year before and the total variable remuneration awarded for performance in the same year as a baseline for the quantitative criteria.

Employees who are included in the list mentioned in the previous paragraph shall be called "Identified Employees" in this document.

Notwithstanding the above-mentioned obligation, the DRH shall propose an updated list of Identified Employees to the CECA whenever there are any changes to the respective jobs. The group of Identified Employees includes everyone who has performed functions that meet the qualitative criteria for at least 3 months. This Policy will be applied proportionally by complete months, to any Identified Employees who stop performing the functions that led to their qualification before the end of the year.

The DRH shall advise each of the people on the list of their situation as an "Identified Employee" for the purpose of this Policy, informing them of the meaning and the reason behind the decision along with the date as of when they would be considered to be subject to this Policy.

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. General principles and objectives

3.1 Principles

The Remuneration Policy takes into account the general principles of Banco BPI remuneration as shown below:

- i. The remuneration policy aims to encourage behaviour that ensures the generation of long-term value and the sustainability of the long-term profits. The variable remuneration, therefore, takes into account meeting the objectives and how they are reached.
- ii. The individual objectives of the remuneration policy beneficiaries are defined using the commitment that they reach and establish with their superiors.
- iii. The remuneration policy bases its strategy on capturing and retaining talent by providing the professionals with participation in a distinctive social and business project, the possibility of professional development and competitive conditions of total compensation.
- iv. Under the scope of these overall compensation terms, the remuneration policy focusses on a competitive positioning in the amount of the fixed remuneration and social benefits, based mainly on its ability to capture and retain talent through both remuneration components.

- v. The fixed components are the largest part of the general remuneration conditions, where, generally the variable remuneration concept tends to be conservative because of its potential role as a risk generator.
- vi. The promotion system is based on an assessment of the skills, performance, commitment, and professional qualification constantly over time.

3.2 Objectives

The objectives of this Remuneration Policy are:

- i. To contribute towards promoting and being coherent with sound, prudent risk management;
- ii. To have a configuration that does not encourage taking on higher levels of risk than those tolerated by Banco BPI; and
- iii. To avoid creating or contributing towards conflicts of interest.

4. Definition of the Remuneration Policy

The Board of Directors is responsible for defining the Remuneration Policy with assistance from any experts and external consultants it deems to consult.

The Board of Directors bears in mind the objectives mentioned in point 3.2 when it defines the Banco BPI Remuneration Policy.

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 and in *Bank of Portugal Notice 10 / 2011*.

The Board of Directors' Nominations, Evaluation and Remunerations Committee (CNAR) shall participate in defining the Remuneration Policy and it shall be responsible for collaborating and undertaking the jobs foreseen in the General System, in article 7 of the *Bank of Portugal Notice No. 10 / 2011* and its operating Regulation.

In defining the Remuneration Process, the Board of Directors may hear the heads of the auditing, compliance, and risk management units, who it may ask to contribute regarding the risks where each of these areas intervene if they consider it relevant.

5. Structure

The Remuneration Policy is structured taking into account the Banco BPI situation and profits, mainly including:

- i. a fixed remuneration based on the level of responsibility and the career of the Identified Employee, which shall be a significant part of their total compensation;
- ii. when so decided, a variable remuneration of incentives tied to compliance with pre-set objectives and a prudent management of risks; and
- iii. social assistance and social benefits, in the group institutions where they have been established.

The variable remuneration may not be awarded in exceptional cases such as if its award would limit the ability of Banco BPI to bolster its equity base, and in any case, it will always take into consideration all kinds of current and future risks.

Legally, the annual variable remuneration of any of the Identified Employees cannot be greater than the total amount they earned from their fixed remuneration in the previous year.

The approval and attribution of any amount that is higher than that mentioned above, up to a maximum limit of twice the fixed remuneration, depend on meeting the legally established requirements to do so.

The classification of a remuneration component as fixed or variable shall imply complying with the following rules in matters of remuneration set for financial institutions.

5.1. Fixed remuneration

The fixed remuneration calculated for each Employee and is the result of applying the respective work contract and the Collective Work Agreement for the banking sector (ACT) and it is also based on the relevant professional experience and the organisational responsibility of the Employee.

The CECA may decide to award retribution supplements and / or job supplements and / or special retribution for work outside office hours.

5.2. Variable remuneration

The variable remuneration is composed as follows:

- 50% is paid in cash;
- The other 50% is paid in instruments, once the applicable taxes have been paid (withholding or payments on account); whenever there is reason to pay in instruments, this will preferentially be made in CaixaBank shares; however, Banco BPI can award other instruments admitted for the payment of the variable remuneration, on the conditions and pursuant to the requirements provided in article 115-E of the General System, in the *Delegated Regulation (EU) No. 527 / 20145* (hereinafter called "*Regulation 527 / 2014*") and EBA guidelines.

The variable remuneration is subject to the deferral rules provided in section 7.

Furthermore, apart from a variable remuneration, some or all of the Identified Employees may be awarded a variable remuneration component involving a long-term incentive based on CaixaBank instruments or that are referenced to their value (hereinafter LTI), as established in Section 8.

5.3 Special rules that apply to Employees who are responsible for control functions

The remuneration of the Employees who are responsible for control functions (mentioned in Section 1, paragraph iv) is mainly based on fixed remuneration.

The remuneration of these Employees may include variable remuneration, calculated pursuant to Section 6, which must never be more than 25% of the total remuneration and must only be paid in cash, notwithstanding the application, with the necessary adaptations, of the rules provided in section 7, namely as regards subjecting 40% of this variable remuneration to the deferral provided therein.

Identified Employees who work in control functions must be remunerated in compliance with the objectives related to their jobs regardless of the business areas they control; consequently the professional objectives connected with the control areas, used to calculate their performance for the payment of the variable remuneration, are established using the performance parameters agreed by the professional and the area head, without being related with the results of the business areas they control and supervise.

6. Determination of the Variable Remuneration to be granted to each Employee

6.1. 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 Employee performance assessment takes into account not only the year that this variable remuneration regards, but also previous ones so that this assessment and consequently the variable remuneration to be awarded takes into account a

multi-year view, ensuring that the assessment process is based on long-term performance and that the payment of the remuneration components that depend on it are shared over the period that takes into consideration the underlying economic cycle and the BPI business risks.

The setting of the overall amount of the variable component of the Employees' remuneration also, although without there being an automatic relationship of dependency, takes into consideration the variation of the overall amount defined for the variable remuneration of the other Banco BPI workers.

6.2. Special cases of restriction

The variable remuneration can be reduced if, at the time of the performance assessment, there is a demand or recommendation in force from the Banco BPI prudential supervision authority to restrict the dividend distribution policy, or if that was demanded by the competent authority, pursuant to the power they have been awarded by the regulations, all of which must be in accordance with the General Credit Institution Regime (RGIC in the original Portuguese).

No guaranteed variable remuneration can be awarded, unless in the case of a new Employee and, in any case, that guaranteed variable remuneration only applies to the first year in the job and will only be payable if there is a sound and solid capital base at the Bank.

7. Award, deferral, and provision

7.1. Variable remuneration: part paid immediately and part deferred

Part of the variable remuneration is paid immediately after it is awarded, in that the money and financial instruments that are the part of the variable remuneration that is not deferred are transferred to the Identified Employee.

The deferred part of the variable remuneration is subject to a step-by-step deferral period as provided in point 7.2. The deferred cash and instruments are only transferred to the Identified Employee after the end of the respective deferral period of each tranche.

The deferral percentage applied to the variable remuneration of the Identified Employees is 40%.

This deferral percentage can be altered if the competent authorities establish absolute or relative limits to calculate the "particularly high variable remuneration amounts" pursuant to the EBA Guidelines.

Insofar as it is not prohibited by the applicable regulations, the provisions in this Policy regarding the composition and deferral period of the variable remuneration will not apply to the variable remuneration of the Identified Employees that, in any given year, are not higher than € 50 000 in which case they will be paid in full in cash without being subject to any percentage being deferred.

7.2. Deferral period

On the date of the variable remuneration payment, the part that is not deferred must be paid (hereinafter called the "Initial Payment Date"), i.e. the money and financial instruments that are the part of the variable remuneration that

is not deferred must be transferred to the Identified Employee. Half of this variable remuneration that is not deferred is paid in cash and the other half in financial instruments.

The deferred part of the variable remuneration must be paid in three tranches as shown below, as long as the reduction suppositions provided in Section 7.11 of the Remuneration Policy, below do not occur:

- 1/3 12 months after the Initial Payment Date
- 1/3 24 months after the Initial Payment Date
- 1/3 36 months after the Initial Payment Date

7.3. Payment in cash and in instruments

Half of the amount to be paid on each of the dates given in the previous point is paid cash and the other half in instruments, once the applicable taxes have been paid (withholding or payments on account).

Notwithstanding the provision regarding the retention policy and the reduction and reversal mechanisms, the ownership of the money and the instruments that make up the variable remuneration are transmitted to the Identified Employee on the payment date and, in the case of part of this remuneration being deferred, after the deferral periods.

7.4. Definition of the number and value of the shares

The number of the instruments to be awarded is calculated by the quotient of the amount to be awarded to the Identified Employee pursuant to this policy and the value of the instrument on the day immediately before the initial due date.

The number of shares must always be rounded up to the next unit number.

7.5. Retention policy

All the instruments that are awarded are subject to a retention period of a year from the date they are transmitted, during which time the Identified Employee cannot sell them.

The Identified Employee enjoys all the rights that are inherent in the instruments during the retention period.

7.6. Payment of the income from deferred instruments

As regards the instruments awarded as part of the deferred variable remuneration, the Identified Employee will be given a cash amount equivalent to the amount of the interest or dividends that have been paid during the deferred period to the owners of instruments of the same category, on the date they are transited to the Employee. The above-mentioned amount also includes, if and regarding the instruments that are shares, the value of the shares awarded during the same period by incorporation of reserves along with the value of the rights regarding capital increases by cash injections that have taken place regarding those shares, measured using the average share price the rights reached during their trading period.

7.7 Termination or suspension of the professional relationship

Except in case of dismissal for fair cause, the termination or suspension of the professional relationship, namely in case of sick leave, early retirement or retirement due to age, will not affect the right to receive the deferred variable remuneration nor interrupt the cycle of its payment; notwithstanding the provisions regarding the reduction and reversal of the variable remuneration provided in point 7.11.

In case of death, and exceptional cases duly argued by the DRH, the deferral of the variable remuneration stops and the payment must be made to the heirs as quickly as possible.

7.8 Special Situations

In unforeseen special situations, (i.e. corporate transactions that affect the ownership of the instruments that have been awarded or deferred) specific solutions must be applied in compliance with the law and the principles of the Remuneration Policy so as not to dilute or artificially alter the value of the underlying considerations.

7.9. Permanence requirement

Except for situations that are justified and expressly agreed, in the case of a suspension or rescission (except on the Bank's initiative without fair cause), the work contract with the Identified Employee who receives variable remuneration, the general criteria is applied that the Identified Employees who stop work before the end of the year should not receive variable remuneration for their performance in that year.

7.10. Incompatibility with personal hedging or evasion mechanism strategies

Bearing in mind the provision in article 115-E, point 15 of the General System, the Identified Employees undertake not to use any risk hedging mechanism to mitigate or neutralise the effects of the alignment by the risks inherent in the remuneration schemes or through the payment of the variable remuneration component by using entities that are instrumental or other methods with the same effect.

7.11 Reduction and Reversal of the Variable Remuneration

All deferred remuneration is still subject to the reduction or reversal mechanisms, such as:

- a) **Reduction mechanism:** the system the bank can use to totally or partially reduce the amount of the variable remuneration in relation to the deferral period provided in 7.2 that has not yet occurred;
- b) **Reversal mechanism:** the system the bank can retain the variable remuneration in relation to the deferral period that has not yet occurred and definitively not make it available.

7.11.1 Reduction and reversal suppositions

In line with the provisions in the law, Identified Employees may see their variable remuneration reduced or reverted if Banco BPI has poor financial performance either as a whole or just in a specific area or department. Banco BPI must, therefore, compare the performance assessment with the prior behaviour of the variables that contribute towards attaining the objectives.

The suppositions that lead to the reduction or reversal of the variable remuneration are given below:

- 1) significant failings in risk management by Banco BPI or by a business or risk control unit, including reservations in the external auditor's report or circumstances that reduce the financial parameters that are used as the basis to calculate the variable remuneration;
- 2) an increase in capital needs at Banco BPI or one of its business units, except those foreseen when the exposure to the risk that generated the needs was assumed;
- 3) regulatory sanctions of judicial convictions for facts that can be assigned to the Identified Employee or the units that depend on him or her;
- 4) non-compliance by the Identified Employee of the institution's internal regulations or code of conduct, including in particular:
 - a) breaches of regulations that are classified as serious or very serious;
 - b) breach of internal regulations that are classified as serious or very serious;
 - c) non-compliance with requirements of reputation and correctness that are demanded of them;
 - d) breaches of regulations, regardless of whether they imply losses or not, that put the solvency of a business line at risk and, generally, the involvement or responsibility in conduct that causes significant losses;
- 5) irregular individual or collective conduct, particularly considering the negative effects of selling inadequate products and the liability of the Identified Employee in taking these decisions;
- 6) dismissal for fair cause (in which case the reduction is total);
- 7) when the respective payment or consolidation is not sustainable according to the financial situation of Banco BPI as a whole, or it is not justified based on the BPI earnings as a whole or of the business units that depend on the Identified Employee in question;
- 8) any others established by law or the decision of competent authorities.

Particularly serious cases will be considered where the Identified Employee has significantly contributed towards getting poor or negative financial results, such as the cases of fraud, wilful misconduct or serious negligence that causes significant losses.

7.11.2 Common rules

The DRH is responsible for proposing the reduction or reversal of the total or partial deferred amounts to the CECA, depending on the characteristics and circumstances of each particular case.

According to the provisions in the EBA Guidelines, the variable remuneration reduction suppositions apply over the entire remuneration deferral period in question. The possibility of variable remuneration reversal applies during the period of a year after the payment of part of the variable remuneration to be reverted.

The provisions of the application of long-term incentives (LTI) shall establish specific rules on the reduction or reversal of payment instalments to the Identified Employees, adapting the reduction and reversal suppositions in the Remuneration Policy as required to the nature and purpose of the LTI.

7.11.3 General principles of labour or contract law

Pursuant to the provisions in the General System, the proposals to reduce or revert the variable remuneration must take into account the general principles of law regarding contracts and employment.

8. Long-term incentives based on instruments

The Identified Employees (all of them or just some) may benefit from a long-term incentive plan based on instruments as a form of multi-annual variable remuneration (LTI).

The LTI can be structured as a variable remuneration scheme that allows the participants to receive, after a specific period of time, an amount in shares or other instruments, or options on them, or in cash, as long as certain conditions in the LTI have been met.

The decision about the existence and the definition of the specific conditions of the LTI (including those about the payment cycle and reduction or reversal clauses) which must be adapted and be compatible with the principles of this Remuneration Policy:

- a) depend on the Board of Directors, following an opinion from the CNAR;
- b) must be approved by the Banco BPI General Meeting, whenever the terms make that approval obligatory under the law.

9. Disclosure, updating, and evaluation

This Remuneration Policy is published on the Bank's intranet and the Banco BPI institutional website (www.bancobpi.pt) where anybody can access and read it.

The Board of Directors of Banco BPI shall periodically revise the general principles of this Remuneration Policy and they are responsible for supervising its implementation.

Therefore, they will revise the principles and procedures in this document every year so as to include or, when appropriate, propose the modifications, adaptations, implementation rules or guidelines, recommendations or necessary regulatory criteria.

The DAI must produce an annual internal, central, independent assessment report, within the time period, with the reach and in compliance with the legally established requirements.

10. Other benefits

10.1 Retirement Benefits

As explained below, the retirement benefits awarded to the Employees are defined and consist of the benefit arising from the pension plan provided in the Collective Work Agreements (ACT) for the banking sector entered into with the Northern (SBN), Central (SBC) and Southern and Islands (SBSI) unions on the one hand and the National Union of Managers and Bank Specialists (SNQTB) and the Independent Banking Union (SIB) on the other. In some cases, as a result of previously assumed commitments, the Identified Employees may be subject to specific Pension Plans, set up by closed groups of Employees that cannot be altered.

The system to protect against invalidity, old-age or death that applies to bank Employees works differently, namely depending on the date they joined the banking sector, meaning there are two pension plans:

a) Defined benefit pension plan

That ensures monthly payments after retirement, invalidity, and death, according to the social protection system provided in the ACT for the banking sector.

This plan covers Employees who joined the sector up until 1 March 2009 or until 1 October 2008 as long as they were not members of the SNQTB or SIB unions, including here the Employees enrolled in the Bank Employee Family Bonus Fund (CAFEB) on 31 December 2010 and integrated in the General Social Security System (RGSS) on 1 November 2011 and Employees who, having joined the sector before these dates, are already covered by the RGSS and, additionally, by the system provided in the ACT as well as the relatives of these Employees with the right to monthly payments upon their death.

This plan guarantees the beneficiary Employees the following instalments:

- i) in case of invalidity and presumable invalidity of Employees who retire from work: Pursuant to clause 94 of the banking sector ACT, the right to a pension calculated using the amount of their level of remuneration given in the pensions table (Annex V to the ACT) plus the amount of their seniority pay as soon as they retire;
- ii) in the case of old-age and invalidity of Employees who, for any reason, are not covered by the social protection system provided in the ACT at the time they retire: a pension pursuant to article 98, when they are placed in a situation of invalidity or old age by the applicable social protection system.

b) Defined contribution pension plan

This covers the Employees who joined after 2 March 2009 or between 1 October 2008 and 2 March 2009 as long as they were not members of the SNQTB or SIB unions – “new bank workers”, covered by the general social security system (RGSS) that ensures protection, namely in the case of old age, invalidity and death pursuant to the specific legislation.

This is a pension plan – clause 93 of the ACT – where the contributions are previously defined in the banking sector ACT, where 1.5% of the effective monthly retribution, including the holiday and Christmas bonus, is paid by the worker and 1.5% by the Bank. The Employee can decide on which open pension fund the amounts should be credited to and they can also change this choice no more than once a year.

10.2 Other non-pecuniary benefits

The Identified Employees do not get other forms of cash and non-cash remuneration, except those referred in this Policy or that arise from the normal application of the ACT or labour law.

11. Interpretation and integration

The CNAR is liable for interpreting and integrating any loopholes in this Policy.

12. Effective date

This Policy comes into force the day it is approved by the Board of Directors, revoking the “Remuneration Policy of Essential Job Holders”, as approved by the Board of Directors on 11 December 2015, at the same time.

The Board of Directors
Lisbon, 14 December 2017

3.1.3. Information provided in compliance with the provision in article 17 of Notice No. 10 / 2011 of the Bank of Portugal about the remuneration policy of the Identified Employees:

a) Competent bodies of the institution to conduct the individual performance assessment

Pursuant to the Identified Employees' Remuneration Policy, the Executive Committee (CECA) is competent to assess the individual performance.

b) Predetermined criteria for the individual performance assessment that is the basis for the right to a variable remuneration component

The determination of the specific amount of variable remuneration to be awarded is made by the CECA after an opinion from the CNAR and it takes into account:

- a) the performance assessment of each Employee which must consider, among others, the undertaking of their jobs beyond what is demanded, financial and non-financial criteria and the performance of the structure unit they are responsible for given the overall BPI results;
- b) the respect for the rules and procedures that apply to the activity they do, namely the internal control rules and, whenever applicable, those regarding the relations with Clients and investors;
- c) the sustained and adapted performance of the BPI risk considering among others the variation 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 setting of the overall amount of the variable component of the Employees' remuneration also, although without any automatic relationship of dependency, takes into consideration the variation of the overall amount defined for the variable remuneration of the other Banco BPI workers.

The Identified Employees who work in control functions are remunerated in accordance with the compliance with objectives related to their jobs, regardless of the business areas they control.

Consequently, the professional objectives connected with the control areas used to calculate their performance for the payment of the variable remuneration, are established using the performance parameters agreed by the professional and the area head, without being related with the results of the business areas they control and supervise.

c) The relative importance of the variable and fixed components of the remuneration along with the maximum limits for each component

The fixed remuneration calculated for each Employee and is the result of applying the respective work contract and the Collective Work Agreement for the banking sector (ACT) and it is also based on the relevant professional experience and the organisational responsibility of the Employee's job, so there is no predefined maximum limit for the fixed remuneration.

The CECA may decide to award retribution supplements and / or job supplements and / or special retribution for work outside office hours.

The variable remuneration is composed as follows:

- 50% is paid in money (cash);
- the other 50% is paid in instruments, preferably CaixaBank shares.

Furthermore, apart from a variable remuneration, some or all of the Identified Employees may be awarded a variable remuneration component involving a long-term incentive based on CaixaBank instruments or that are referenced to their value (hereinafter LTI).

The remuneration of the Employees who are responsible for control functions is mainly based on the fixed remuneration. The remuneration of these Employees may include variable remuneration, which must never be more than 25% of the total remuneration and must only be paid in cash, notwithstanding the application, with the necessary adaptations, of the rules provided as regards subjecting 40% of this variable remuneration to the deferral provided in the Policy.

d) How the variable remuneration payment is subject to continuation of the positive performance of the institution over the deferral period

Pursuant to the Remuneration Policy in force, part of the variable remuneration is paid immediately it is awarded (in that the cash and instruments that are part of the non-deferred part of the variable remuneration are transferred to the Identified Employee's ownership) and the other part of the variable remuneration (the deferred part) is subject to a phased deferral period, pursuant to which, it will be paid in three tranches as long as none of the reduction suppositions occur:

- 1/3 12 months after the Initial Payment Date
- 1/3 24 months after the Initial Payment Date
- 1/3 36 months after the Initial Payment Date

Among the circumstances foreseen in the Policy that can lead to a reduction in the variable remuneration that cannot be completed the time period mentioned above, there is: an increase in the capital requirements of Banco BPI or one of its business units, (except those foreseen when the exposure to the risk that generated the needs was assumed), along with cases where the respective payment or when the respective payment or consolidation is not sustainable according to the financial situation of Banco BPI as a whole, or it is not justified based on the BPI earnings as a whole or of the business units that depend on the Identified Employee in question.

e) Criteria used to award the variable remuneration in options and indication of the deferral period and the exercise price

No variable remuneration is foreseen to be awarded in options.

f) Main parameters and basis of any annual bonus system and any other non-pecuniary benefits

The Employees do not get other forms of cash and non-cash remuneration, except those referred to in this Policy or that arise from the normal application of the ACT or labour law.

3.1.4. Main characteristics of the retirement benefits system that benefit the Identified Employees

As explained below, the retirement benefits awarded to the Employees are defined and consist of the benefit arising from the pension plan provided in the Collective Work Agreements (ACT) for the banking sector entered into with the Northern (SBN), Central (SBC) and Southern and Islands (SBSI) unions on the one hand and the National Union of Managers and Bank Specialists (SNQTB) and the Independent Banking Union (SIB) on the other. In some cases, as a result of previously assumed commitments, the Identified Employees may be subject to specific Pension Plans, set up by closed groups of Employees that cannot be altered.

The system to protect against invalidity, old-age or death that applies to bank Employees works differently, depending on the date they joined the banking sector, meaning there are two pension plans:

a) Defined benefit pension plan

That ensures monthly payments after retirement, invalidity, and death, according to the social protection system provided in the ACT for the banking sector.

This plan covers Employees who joined the sector up until 1 March 2009 or until 1 October 2008 as long as they were not members of the SNQTB or SIB unions, including here the Employees enrolled in the Bank Employee Family Bonus Fund (CAFEB) on 31 December 2010 and integrated in the General Social Security System (RGSS) on 1 November 2011 and Employees who, having joined the sector before these dates, are already covered by the RGSS and, additionally, by the system provided in the ACT as well as the relatives of these Employees with the right to monthly payments upon their death.

This plan guarantees the beneficiary Employees the following instalments:

- in case of invalidity and presumable invalidity of Employees who retire from work: Pursuant to clause 94 of the banking sector ACT, the right to a pension calculated using the amount of their level of remuneration given in the pensions table (Annex V to the ACT) plus the amount of their seniority pay as soon as they retire;
- in the case of old-age and invalidity of Employees who, for any reason, are not covered by the social protection system provided in the ACT at the time they retire: a pension pursuant to article 98, when they are placed in a situation of invalidity or old age by the applicable social protection system.

b) Defined contribution pension plan

This covers the Employees who joined after 2 March 2009 or between 1 October 2008 and 2 March 2009 as long as they were not members of the SNQTB or SIB unions- “new bank workers”, covered by the general social security system (RGSS) that ensures protection, namely in the case of old age, invalidity and death pursuant to the specific legislation.

This is a pension plan – clause 93 of the ACT – where the contributions are previously defined in the banking sector ACT, where 1.5% of the effective monthly retribution, including the holiday and Christmas bonus, is paid by the worker and 1.5% by the Bank. The Employee can decide on which open pension fund the amounts should be credited to and they can also change this choice no more than once a year.

3.1.5. Quantitative information provided in compliance with the provision in article 17 of Notice No. 10 / 2011 of the Bank of Portugal about the remuneration policy of the Identified Employees

a) The annual amount of the fixed and variable components of the remuneration and the number of Employees beneficiaries

The Identified Collective at Banco BPI comprises 60 Employees.

The fixed remuneration paid in 2017 to these individuals was € 6 696 and the variable remuneration paid in 2017 but with reference to 2016 was € 2 398 th. Totalling € 9 094 th. broken down into the following areas of activity:

- Investment Banking, € 525 th.;
- Commercial Banking, € 3 053 th.;
- Asset Management, € 719 th.;
- Rest of the Identified Collective, € 4 798 th.

Out of all the Identified Collective, none was awarded an overall remuneration over € 1 million.

b) Amounts and types of variable remuneration broken down by cash remuneration, shares, share-linked instruments and other types

All the 2017 variable remuneration with reference to 2016 to the sum of € 2 398 th. was fully paid in cash. From this amount, € 1 996 th. was actually paid and € 403 th. was subject to deferral.

c) Amount of unpaid, deferred remuneration, broken down by invested and non-invested components

The accumulated amount of variable remuneration awarded in previous years and that is deferred and pending payment was € 634 th. at the end of 2017. This amount refers in full to cash, and there are no deferrals in shares or equity instruments.

d) Annual amounts of due deferred remuneration, paid or subject to reductions as a result of the alterations introduced depending on the Employees' individual performance

There was no payment or reduction of any annual amounts of deferred remuneration in 2017 as a result of adjustments introduced as a result of the individual performance of Employees.

e) Number of new hirings in the year

There was one new hiring in this group in 2017.

f) Amount of payments made or due annually due to early termination of the work contract with Employees, the number of beneficiaries of these payments and the largest payment made to an Employee

The amount that was agreed to pay for compensation for voluntary resignations, was € 40 533 th. and 290 Employees benefited from these payments. The highest amount paid to an Employee, in this case, was € 1 284 th.

EXPERIENCE, PROFESSIONAL QUALIFICATIONS AND OTHER MANAGEMENT AND OVERSIGHT POSITIONS HELD IN OTHER COMPANIES OR ENTITIES BY THE GOVERNING BODIES OF BANCO BPI, S.A.

PRESIDING BOARD OF THE GENERAL MEETING

At 31 December 2017

Carlos Osório de Castro (Chairman)



Date of birth	12 September 1959
Nationality	Portuguese
Date of first appointment	22 July 2016
End of current term	31 December 2019

Academic qualifications

Law Graduate, Universidade de Coimbra
Masters in 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.
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.

Maria Alexandra Magalhães (Board Secretary)



Date of birth	11 November 1967
Nationality	Portuguese
Date of first appointment	20 April 2005
End of current term	31 December 2019

Academic qualifications

2010: MBA, IE Madrid
2003: Post-graduation in Human Resources – Universidade Moderna do Porto
1996: “Master Quality Management” – Institut Méditerranéen de la Qualité / École Supérieure de Commerce et Technologie – France
1990: Degree in economics, Universidade do Porto

Management and supervisory positions at other companies

Chairman of the Board of Directors of Sarcol – Sociedade Gestão Investimento Imobiliário, S.A.
Director of Serai, Unipessoal Lda.

Other positions

Consultant at Dynargie

Previous professional experience

Various positions held at Sarcol Group

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 2019

Academic qualifications

Law graduate, Universidade Católica Portuguesa
Master in Civil Law, Faculdade de Direito Universidade Católica Portuguesa
Ph. D. in Law, Faculdade de Direito da Universidade de Coimbra

Other positions

Chairman of the General Meeting Committee of Sonae Investimentos SGPS, S.A.
Non-executive member of the Board of Directors of Escola de Gestão Empresarial (UCP-CRP (Católica Porto Business School))

Luís Manuel Alves de Sousa Amorim (Board Secretary)



Date of birth	1 September 1963
Nationality	Portuguese
Date of first appointment	23 April 2008
End of current term	31 December 2019

Academic qualifications

1986: Business Management graduate – Universidade Católica Portuguesa
Management and supervisory positions at other companies

2000-...: Director at 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: Specialist at 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 April 2018

Academic qualifications

1960: Economics graduate of the Universidade de Economia do Porto
1952: Accounting Course, Instituto Comercial Porto
1948: General Commerce Course, Colégio Universal, Porto

Management and supervisory positions at other companies

2007-2017: Chairman of the Supervisory Board of COSEC – Companhia de Seguros de Créditos, S.A.
2000-2016: 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: Non-executive director at Fernando & Irmãos, SGPS, S.A.
1993-1997: Member of the Management Board of Caixa Central de Crédito Agrícola Mútuo
1986-1992: Chairman of the Guarantee Fund Department at Crédito Agrícola Mútuo
1976-1992: Director at the Bank of Portugal
1961-1964: Assistant lecturer at Faculdade de Economia do Porto
1957-1975: Employee, specialist, auditor and manager at Banco Português do Atlântico
1952-1953: Employee of Banco Espírito Santo

Jorge de Figueiredo Dias (member)



Date of birth 30 September 1937
Nationality Portuguese
Date of first appointment 21 April 1999
End of current term April 2018

Academic qualifications

1977: Chair professor
1970: Ph.D. in Law (Legal Sciences) from Coimbra University Law School
1959: Law graduate of the Universidade de Coimbra

Other positions

Member of the Board of Directors at 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 Board of Directors of 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 (member)



Date of birth 11 August 1949
Nationality Portuguese
Date of first appointment 23 April 2014
End of current term April 2018

Academic qualifications

1998: Postdoc in Industrial Management and Engineering, School of Engineering, University of Porto
1981: Ph.D. in Operational Research, University of Lancaster, UK
1976: Master of Arts in Operational Research, University of Lancaster, United Kingdom (UK)
1971: 5-year degree in Mechanical Engineering, School of Engineering, University of Porto, Portugal

Previous professional experience

2011-2014: Member of the Board of Directors of EGP – U.Porto, an association aimed at supporting the Porto Business School
2011-2014: Non-executive member of the Board of Directors of Efaced, a large industrial group with headquarters in Porto
2009-2012: Chairman of APGEI – A not for profit association aimed at promoting the Industrial Management and Engineering profession in Portugal, Porto
2005-2015: Member of the Board of Directors of the Serralves Foundation (Deputy-Chairman between 2011 and 2013 and Executive Deputy-Chairman between 2013 and 2015), Porto
2003-2009: CEO of COTEC Portugal – an Association of large companies operating in Portugal aimed at promoting Innovation, Porto
1995-2000: Dean of ISEE, the Institute of the University of Porto that originated the current Porto Business School
1986-1989: CEO of INEGI – The Institute of Mechanical Engineering and Industrial Management, Porto
1971-2011: Lecturer at the School of Engineering, University of Porto, where he became Chair Professor in 1999

HONORARY CHAIRMAN

Artur Santos Silva



Date of birth 22 May 1941
Nationality Portuguese

Academic qualifications

1985: Stanford Executive Program, Stanford University
1963: Law graduate, Universidade de Coimbra

Other positions

Patron of the Fundação la Caixa
Chairman of the Banco BPI Social Responsibility Committee

BOARD OF DIRECTORS

Fernando Ulrich (Chairman of the Board of Directors)



Date of birth 26 April 1952
Nationality Portuguese
Date of first appointment 22 March 1985
End of current term 31 December 2019

Academic qualifications

1969-1974: Attended Business Administration course of the Instituto Superior de Economia de Lisboa

Other positions

Member of the Board of Associação Portuguesa de Bancos

Previous professional experience

2017-: Chairman of Banco BPI
2005-2017 (Jan.): Chairman of the Board of Directors of BFA
2004-2016: Deputy Chairman of the Board and Chairman of the Executive Committee of Banco BPI
2002-2004: Deputy Chairman of the Executive Board of Banco BPI
1999-2002: Deputy Chairman of the Board and of the Executive Committee of BPI SGPS
1995-2016 (Dec.): Deputy-Chairman and as of 2007 Chairman of the Board of Directors of Banco Português de Investimento (investment bank of BPI Group)
1995-1999: Deputy Chairman of the Board of Managing Directors of BPI SGPS
1991-2016: Chairman of the Board of Directors of BPI Vida e Pensões – Companhia de Seguros
1990-2016: Chairman of the Board of Directors of BPI Gestão de Activos
1989-1995: Deputy Chairman of BPI-Banco Português de Investimento
1985-1989: Executive Director at BPI-Banco Português de Investimento
1983-1985: Deputy Manager at SPI – Sociedade Portuguesa de Investimento
1981-1983: Chief of Staff of the Minister of Finance and Planning
1979-1980: Specialist at the Secretariat for Foreign Economic Cooperation at the Portugal foreign ministry (Relations with EFTA, OECD, and GATT)
1975-1979: Member of the Portuguese delegation at OCDE (Paris) responsible for economic and financial matters
1973-1974: Head of the financial markets section at the 'Expresso' weekly paper

Pablo Forero (Deputy-Chairman and Chairman of the Executive Committee)



Date of birth 19 February 1956
Nationality Spanish
Date of first appointment 23 November 2016
End of current term 31 December 2019

Academic qualifications

Economics Degree, majoring in Macroeconomics, Universidad Autónoma de Madrid

Previous professional experience

2013-2016: Chief Risk Officer, CaixaBank, S.A.
2011-2013: Member of the Executive Committee, CaixaBank, S.A. and General Manager, Treasury and Capital Markets
2009-2011: Director – Asset Management, CaixaBank, S.A.
1998-2009: Member of the Asset Management Committee and Global Investments Committee, JP Morgan Asset Management, London
1990-1997: Director – Asset Management, JP Morgan Asset Management, Madrid
1984-1990: Markets Director, Manufacturers Hannover Trust CO., Madrid
1981-1984: Auditing department Director, Arthur Andersen & CO, Madrid

António Lobo Xavier (Deputy-Chairman)



Date of birth 16 October 1959
Nationality Portuguese
Date of first appointment 23 April 2008
End of current term 31 December 2019

Academic qualifications

1988: Master's degree in Legal-Political Science from Faculdade de Direito da Universidade de Coimbra
1982: Law graduate, Universidade de Coimbra

Management and supervisory positions at other companies

Non-executive director at SonaeCom – SGPS, S.A.
Non-executive director at NOS SGPS, S.A.
Non-executive director at Mota Engil, S.A.
Non-executive director at Fábrica Têxtil Riopole, S.A.

Other positions

Curator member of the Belmiro Azevedo Foundation
Partner at "Morais Leitão, Galvão Teles, Soares da Silva e Associados – Sociedade de Advogados"
Chairman of the presiding board of the general shareholder meeting of Têxtil Manuel Gonçalves, S.A.
Chairman of the presiding board of the shareholder's meeting of Ascendum, S.A.
Member of the Board of Directors of Fundação Casa da Música
Non-executive member of the Board of Directors of the Fundação Francisco Manuel dos Santos
Member of the Advisory Council for the President of the Portuguese Republic (since 7 Apr. 2016)
Chairman of the General Meeting of AEM – Associação de Empresas Emitentes de Valores Cotados em Mercado

Previous professional experience

2000-2002: Director at 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 legal consultant in the areas of Financial and Tax Law
1983-1996: Member of the Portuguese Parliament
1983-1988: Trainee assistant lecturer at the Law Faculty of the Universidade de Coimbra

Alexandre Lucena e Vale (Executive director)

Date of birth	10 November 1964
Nationality	Portuguese
Date of first appointment	26 April 2017
End of current term	31 December 2019

Academic qualifications

2007: Stanford Executive Program – Stanford Executive School, Stanford University

1987: Law graduate, Faculdade de Direito Universidade de Lisboa

Management and supervisory positions at other companies

Board member at BPI Capital Africa Proprietary Limited

Board member at BPI Moçambique – Sociedade de Investimento, S.A.

Other positions

Board member of Associação de Empresas Emitentes de Valores Cotados em Mercado

Member of the General Council of Instituto Português de Corporate Governance

Chairman of the general shareholder meeting of Leacock-Investimentos, SGPS, S.A.

Chairman of the general shareholder meeting of Prestibel-Empresa de Segurança, S.A.

Previous professional experience

2007-2016: Member of the Board of Directors of Banco Português de Investimento, S.A.

2000-2001: Head of the Legal Department of Banco Português de Investimento, S.A.

1998-1999: Manager of Banco Português de Investimento, S.A.

1997-1998: Manager of BPI – Serviços Financeiros

1993-1996: Lawyer at BFE – Serviços Financeiros

1991-1993: Legal consultant of Sociedade Independente de Serviços Financeiros

1991-1992: Legal consultant of GICES – Sociedade Gestora de Fundos de Investimento Imobiliário

1990-1992: Legal consultant of Citibank Portugal

1988-1990: Lawyer at CISF

1988: Lawyer at Instituto de Qualidade Alimentar

1986-1988: Teaching assistant in Compared Legal Systems, Family Law and General Theory of Civil Law at Lisbon Law School

António Farinha Morais (Executive director)

Date of birth	2 August 1951
Nationality	Portuguese
Date of first appointment	11 December 1998
End of current term	31 December 2019

Academic qualifications

1974: Degree in Finance from Universidade Técnica de Lisboa's Instituto Superior de Economia

Previous professional experience

2014-2016: General Manager of Risk at Banco BPI

2002-2013: Executive director at Banco BPI

1992-1996: Director at Banco de Fomento e Exterior and Banco Borges & Irmão

1992: Director at Companhia de Seguros, UAP

1989-1991: Director at Banco Pinto & Sotto Mayor

1984-1989: Director at SEFIS and Eurofinanceira, BFE Group investment companies

1981-1989: Manager of Financial services and Capital markets at Banco de Fomento e Exterior

1978-1981: Investment projects analyst at Banco de Fomento e Exterior

1975-1982: Lecturer at Instituto Superior de Ciências do Trabalho e da Empresa and Instituto Superior de Contabilidade e Administração de Lisboa

Carla Bambulo (Director)

Date of birth	28 August 1973
Nationality	Portuguese
Date of first appointment	29 January 2015
End of current term	31 December 2019

Academic qualifications

2004: Masters degree in Insurance and Pension Fund Management (curricular part) – Universidad de Barcelona – IFA

1999: Degree in Applied mathematics and Computing Universidade Técnica de Lisboa – Instituto Superior Técnico

Management and supervisory positions at other companies

Non-executive director of Allianz Brasil

Non-executive director of Allianz Technology, S.L.

Other positions

Member of the Remunerations Committee at Allianz Mexico

Previous professional experience

2015-....: Head of Business Division for Iberia and Latin America da Allianz SE

2013-2014: Senior Business Consultant for Iberia and Latin America da Allianz SE

2011-2012: Manager of Strategic Planning, Risk and Actuarial 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

Cristina Rios Amorim (Director)



Date of birth	6 November 1968
Nationality	Portuguese
Date of first appointment	26 April 2017
End of current term	31 December 2019

Academic qualifications

1992: MBA in International Banking and Finance, Birmingham Business School, The University of Birmingham, UK
1991: Degree in Economics, Porto University Faculty of Economics

Management and supervisory positions at other companies

Deputy-Chairman and CFO at Amorim Investimentos e Participações, SGPS, S.A.
Non-executive director and head of the financial area supervision at Corticeira Amorim, SGPS, S.A.
Non-executive director at Amorim – Sociedade Gestora de Participações Sociais, S.A.

Other positions

Member of the General Council at AEP – Associação Empresarial de Portugal
Member of the Direction at BCSD Portugal – Conselho Empresarial para o Desenvolvimento Sustentável
Member of the General Council at AEM – Associação de Empresas Emitentes de Valores Cotados em Mercado

Previous professional experience

2012-...: Non-executive director at Corticeira Amorim, SGPS, S.A.
1997-...: Head of the financial area supervision at Corticeira Amorim, SGPS, S.A.
2012-...: Deputy-Chairman and CFO at Amorim Investimentos e Participações, SGPS, S.A.
1997-2017: Representative for Market Relations at Corticeira Amorim, SGPS, S.A.
2003-2012: Board member and CFO at Amorim Investimentos e Participações, SGPS, S.A.
1997-2003: Financial Manager at Amorim Investimentos e Participações, SGPS, S.A.
1994-1997: Corporate Finance at Amorim Investimentos e Participações, SGPS, S.A.
Mar.-Dec. 1993: Analyst: Soserfin – Sociedade de Investimentos e Serviços Financeiros, S.A.
Jan.-Mar. 1993: Junior Analyst: Rothschild & Sons Ltd. and Rothschild Asset Management Ltd.
Oct.-Dec. 1992: Corporate Finance Trainee: S.G. Warburg España – Madrid

Francisco Manuel Barbeira (Executive director)



Date of birth	7 October 1973
Nationality	Portuguese
Date of first appointment	26 April 2017
End of current term	31 December 2019

Academic qualifications

2010: Stanford Executive Program, Stanford University Graduate School of Business
1996: Degree in Systems Engineering and IT, Universidade do Minho

Management and supervisory positions at other companies

Non-executive director at SIBS, SGPS, S.A.
Non-executive director at Unice – Instituição de Crédito, S.A.

Previous professional experience

2015-2017: Manager of the Digital Department of Banco BPI, S.A.
2011-2017: Manager of the Information Department of Banco BPI, S.A.
2009-2011: Manager Organisation and Remote Channels of Banco BPI, S.A.
2004-2009: Marketing Manager of Banco BPI, S.A.

Gonzalo Gortázar Rotaache (Director)



Date of birth	12 October 1965
Nationality	Spanish
Date of first appointment	23 November 2016
End of current term	31 December 2019

Academic qualifications

1992: Master Business Administration, INSEAD, Fontainebleau
1989: Degree in Business Administration, ICADE E-3, Universidad Pontificia de Comillas
1988: Degree in law, ICADE E-3, Universidad Pontificia de Comillas

Management and supervisory positions at other companies

CEO CaixaBank, S.A.
Chairman of VidaCaixa
Non-executive Deputy-Chairman of Repsol

Previous professional experience

2014-...: CEO, CaixaBank, S.A.
2011-2014: CFO, CaixaBank, S.A.
2009-2011: CEO, Criteria
1993-2009: Morgan Stanley, Financial Institutions Group
1989-1991: Bank of America Spain, Corporate and Investment Banking
1988-1989: Financial Advisor, Bancapital

Ignacio Alvarez-Rendueles (Executive director)



Date of birth	8 July 1965
Nationality	Spanish
Date of first appointment	22 April 2009
End of current term	31 December 2019

Academic qualifications

1991: The Wharton School, University of Pennsylvania MBA, Major in Finance
1988: C.U.N.E.F. Universidade Complutense de Madrid, Degree in Business and Economic Science

Previous professional experience

2011-2015: CaixaBank, S.A. – Deputy General Director, Member of the Management Committee
2008-2011: Caja de Ahorros y Pensiones de Barcelona “la Caixa” – Executive Director, International Banking
2000-2008: Goldman Sachs International – Managing Director, Investment Banking
1993-2000: Salomon Brothers International – Director, Investment Banking
1992-1993: S.G. Warburg & Co. – Associate, Investment Banking
1989-1990: Salomon Brothers International – Financial Analyst, Investment Banking

José Pena do Amaral (Executive director)



Date of birth	29 November 1955
Nationality	Portuguese
Date of first appointment	21 April 1999
End of current term	31 December 2019

Academic qualifications

1978: Degree in Economics from Instituto Superior de Ciências do Trabalho e da Empresa

Management and supervisory positions at other companies

Director at Companhia de Seguros Allianz Portugal, S.A.

Other positions

Chairman of the Board of Directors of Casa da Música
Chairman of the Advisory Board of Lisbon MBA

Previous professional experience

2004-2017: Non-executive director at Banco de Fomento Angola, S.A.

2002-2017: Director at BPI Madeira, SGPS, Unipessoal, S.A.

2001-2005: Member of the Portuguese Presidency Economics Council

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 Jalles & Vasconcelos Porto consultants office; correspondent for Expresso, RTP and Deutsche Welle in Brussels

1980-1982: Head of the ANOP delegation in Brussels

1979-1980: Editor of the Diário de Notícias economics supplement

1975-1980: Professional reporter at Diário de Notícias

João Pedro Oliveira e Costa (Executive director)



Date of birth	15 October 1965
Nationality	Portuguese
Date of first appointment	23 April 2014
End of current term	31 December 2019

Academic qualifications

1989: Degree in Business Administration, Universidade Católica Portuguesa

Management and supervisory positions at other companies

Director at BPI Suisse, S.A.

Previous professional experience

2007-2016: Board member and member of the Executive Committee at Banco Português de Investimento, S.A.

2000-2007: Central Manager of Banco Português de Investimento, S.A.

Lluís Vendrell Pi (Director)



Date of birth	7 March 1972
Nationality	Spanish
Date of first appointment	29 July 2015
End of current term	31 December 2019

Academic qualifications

2017: Chartered Financial Analyst, CFA Institute

2010: PDG, IESE Business School

1996: Law graduate from Universitat Autònoma de Barcelona

1995: Erasmus Programme at Limerick University (Ireland)

Management and supervisory positions at other companies

Director at BPI Suisse, S.A.

Previous professional experience

2011-....: Head of Legal Corporate M&A Area of CaixaBank, S.A.

2007-2011: General Counsel at Criteria CaixaCorp, S.A.

2002: Secondment at Sidley Austin Law Firm (New York office)

1996-2007: Lawyer at Uría Menéndez Law Firm (Barcelona office)

Javier Pano Riera (Director)



Date of birth	27 March 1962
Nationality	Spanish
Date of first appointment	26 April 2017
End of current term	31 December 2019

Academic qualifications

Degree in management from ESADE, Barcelona

Other positions

CaixaBank, S.A. – Chief Financial Officer

Previous professional experience

2004-2014: Head of Treasury and Capital markets do CaixaBank, S.A.

1996-2004: CaixaBank Asset Management CIO

1993-1996: Asset Management & Private Banking CIO at CaixaBank, S.A.

1987-1993: Managing Director and CIO at Gesindex Asset Management, Barcelona

1985-1987: Financial & Accounting Division at Croissant Express, Barcelona

Juan Alcaraz Garcia (Director)



Date of birth	3 November 1961
Nationality	Spanish
Date of first appointment	26 April 2017
End of current term	31 December 2019

Academic qualifications

1991-1992: PDG, IESE Business School, Madrid
1979-1984: Degree in Economics and Management from CUNEF, Universidad Complutense de Madrid

Management and supervisory positions at other companies

Nuevo Microbank, S.A.U.: Non-executive Vice-Chairman of the Board of Directors
CaixaBank Payments, E.F.C., E.P.S.A.: Non-executive Chairman of the Board of Directors
CaixaBank Consumer Finance, EFC, SAU: Non-executive member of the Board of Directors
SegurCaixa Adeslas, S.A., S.S.R.: Non-executive member of the Board of Directors

Other positions

CaixaBank, S.A.: Chief Business Officer

Previous professional experience

2003-2007: Chief Business Officer, Banco Sabadell
1998-2003: Managing Director, Santander Central Hispano
1990-1998: Managing Director, Banco Central Hispano
1989-1990: Financial analyst, Nebrusa
1984-1989: Senior Analyst Audit & Transactions, Arthur Andersen
1978-1984: Manager, Sintel

Pedro Barreto (Executive director)



Date of birth	3 March 1966
Nationality	Portuguese
Date of first appointment	3 March 2004
End of current term	31 December 2019

Academic qualifications

2001: Stanford Executive Program
1989: Degree in Business Administration from Universidade Católica Portuguesa

Management and supervisory positions at other companies

Deputy-Chairman of the Board of Directors of BCI – Banco Comercial e de Investimentos, S.A.
Chairman of the Board of Directors of BPI Madeira, SGPS, Unipessoal, S.A.

Previous professional experience

2014-2017: Director at Unice – Instituição Financeira de Crédito, S.A.
2014-2017: Non-executive director at SIBS SGPS, S.A.
2014-2017: Non-executive Director of SIBS, Forward Payment Solutions, S.A.
1984-1988: IT division of Soporcel – Sociedade Portuguesa de Celulose

Tomás Jervell (Director)



Date of birth	16 April 1971
Nationality	Portuguese
Date of first appointment	28 April 2016
End of current term	31 December 2019

Academic qualifications

2017: BPI's Board Academy KPMG 2017 / 2018
2017: Strategic Management in Banking, INSEAD
2000: Advanced Management Programme for Executives – Universidade Católica Portuguesa
1995: Degree in Business Administration – Universidade Portucalense – Infante D. Henrique

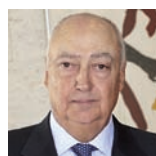
Management and supervisory positions at other companies

Executive Chairman of NORS / Auto Sueco.
Chairman of the Conselho de Gerência da Auto-Sueco, Lda.
Vogal do Conselho de Administração da Ascendum, S.A.

Previous professional experience

2002-2008: NORS / AutoSueco Chief Financial Officer
2000-2002: NORS / AutoSueco Planning and Management Director
1997-1999: Biosafe – indústria de Reciclagem, S.A. Sales and Marketing Director
1996: Volvo North America, Corporate Controller

Vicente Tardio Barutel (Director)



Date of birth	19 November 1947
Nationality	Spanish
Date of first appointment	23 April 2014
End of current term	31 December 2019

Academic qualifications

1971: 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 Companhia de Seguros y Reaseguros, S.A. (Spain)

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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

