Annual Report

Banco BPI 2007

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Report

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Index

Leading business indicators

(Consolidated figures in millions of euro, except where indicated otherwise)

	2003	2004	2005	2006	2007	Δ% 06/07
Net total assets	26 195.3	24 010.3	30 158.7	35 565.5	40 545.9	14.0%
Assets under management[1, F]	8 583.9	9 671.3	14 338.8	15 183.8	15 741.7	3.7%
Business volume[2, F]	40 595.0	43 452.1	49 328.0	56 406.8	64 479.1	14.3%
Loans to Customers (gross) and guarantees[3]	20 690.1	21 958.9	24 409.2	28 263.0	32 483.5	14.9%
Total Customer resources[F]	19 905.0	21 493.2	24 918.8	28 143.7	31 995.6	13.7%
Business volume[2] per Employee[4] (thousands of euro)	5 811	6 170	6 583	6 806	6 900	1.4%
Operating income from banking[F]	754.3	794.5	898.8	1018.1	1 215.5	19.4%
Operating income from banking per Employee[4] (thousands of euro)	102	110	122	129	138	7.2%
Administrative overheads, depreciation and amortisation[F] / operating income from banking[5]	65.3%	62.6%	57.7%	56.6%	53.7%	-
Net profit[F]	163.8	192.7	250.8	308.8	355.1	15.0%
Cash flow[G] after taxation[F]	292.2	300.2	390.6	410.3	531.1	29.4%
Return on average total assets (ROA)[F]	0.6%	0.8%	0.9%	1.0%	1.0%	-
Return on Shareholders' equity (ROE)[6, F]	13.9%	15.2%	23.7%	24.3%	22.4%	-
Loans in arrears for more than 90 days (in the balance sheet) / Customer loans[F]	1.2%	1.1%	1.3%	1.1%	1.0%	-
Loan impairments (in the balance sheet) / Customer loans[F]	-	-	1.6%	1.4%	1.4%	-
Cost of risk[7, F]	0.25%	0.33%	0.24%	0.19%	0.23%	-
Cover of pension obligation recognised in the balance sheet[F]	101.4%	100.3%	100.2%	110.7%	114.4%	-
Shareholders' Equity	1 227.3	1 231.5	1 181.4	1 450.6	1 635.1	12.7%
Ratio of own funds requirements[8, G]	9.9%	9.8%	11.5%	9.4%	9.9%	-
Tier I[8]	6.7%	6.5%	7.3%	7.4%	6.2%	-
Data per share adjusted (euro)						
Cash flow after taxation[F]	0.39	0.40	0.52	0.55	0.71	28.5%
Net profit[F]	0.22	0.26	0.34	0.41	0.47	14.2%
Dividend[F]	0.09	0.10	0.12	0.16	0.19	16.9%
Book value[F]	1.61	1.62	1.58	1.94	2.17	11.9%
Weighted average no. of shares[F] (in millions)	753.3	751.8	747.9	746.2	751.6	0.7%
Adjusted closing price (euro)	2.92	2.98	3.86	5.91	5.36	(9.3%)
Total Shareholder return	38.5%	5.1%	33.7%	56.3%	(7.0%)	-
Stock market capitalisation at year end[F]	2 219.2	2 264.8	2 933.6	4 491.6	4 073.6	(9.3%)
Dividend yield[F, G]	4.1%	3.4%	4.0%	4.1%	3.2%	-
Retail branches[9] (number)	609	615	622	692	803	16.0%
Corporate and institutionals centers network[10] (number)	54	52	52	55	59	7.3%
BPI Group staff complement[11] (number)	7 025	7 080	7 493	8 288	9 345	12.8%

Table 1

Note: 2005, 2006 and 2007 accounts prepared in accordance with International Accounting Standards (IAS/IFRS); 2003 and 2004 accounts in accordance with the Portuguese standards laid down in the Chart of Accounts for the Banking Sector (Plano de Contas para o Sector Bancário – PCSB).

1) Unit trust (mutual) funds, PPR and PPA, capitalisation insurance, structured products[G], assets under discretionary management and advisory mandates of institutional Clients and assets of pension funds under management (including the Group's staff pension funds).

2) Loans, guarantees and total Customer resources.

3) To ensure comparability, 1 264 M.€ of securitised mortgage loans written off from the balance sheet in 2007, were added back.

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

5) The operating income from banking excludes recoveries of loans and interests in arrears written-off.

6) In the calculation of the ROE for 2004, shareholders' equity was added by the goodwill[G] recorded in the consolidation of SIC, in June 2004, that for accounting purposes was, at that time, fully written off against reserves.

7) Loans provisions (PCSB) and loan impairments (IAS / IFRS) in the year, deducted of recoveries of loans in arrears written-off (in the income statement) / Customer loans

8) Calculated in accordance with Bank of Portugal rules governing minimum own funds requirements (Notice 7 / 96).

9) Includes traditional branches, housing shops, investment centres and automatic shops in Portugal, branches in Angola, investment centres in Angola and branches in Paris.

10) Distribution network specialising in serving companies, 1 Project Finance[G] centre, Institutionals, the branch in Madrid and corporate centres in Angola.

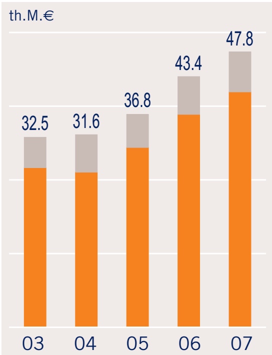
11) Group staff complement in the domestic activity and in the international activity. Includes term Employees and temporary workers, and excludes bursaries and trainees.

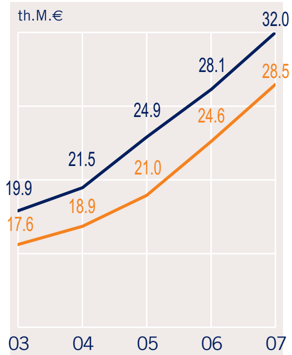
GROWTH, PROFITABILITY, STRENGTH AND VALUE 2003-2007

Net total assets plus disintermediation[F]

Net total assets[1]
Disintermediation[2]

1) Corrected for duplication of balances.
2) Off-balance sheet Customer resources.



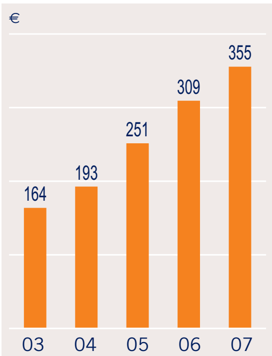


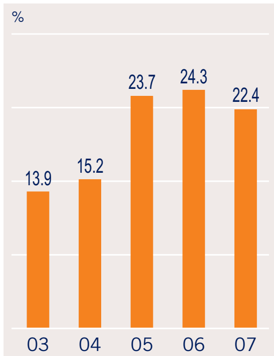
Loans and Customer resources

— Total Customer resources[1]
— Loans to Customers

1) Corrected for duplication of balances.

Net profit

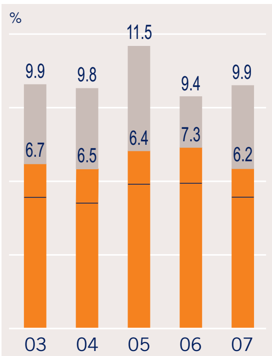


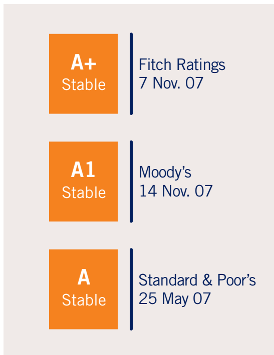


ROE

Own funds requirements ratio
According to Bank of Portugal rules

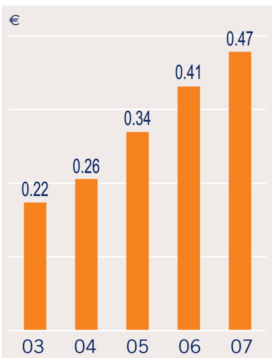
Tier II
Tier I
Core Capital –

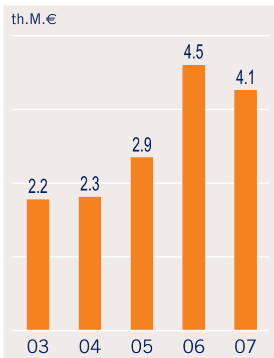




BPI Ratings
Long-term rating notations

Net profit per share





Stock market capitalisation

Figure 1

Introduction

A SINGULAR YEAR

The 2007 year will go down in BPI's history as a singular year owing to a combination of factors and circumstances that should be difficult to repeat:

- the failure of BCP's takeover bid;
- the Bank's strong performance, mirrored in the growth indicators and return on shareholders' equity, outstripping the market's key figures;
- the merger proposal presented to BCP;
- the unfolding of a severe international financial crisis with unprecedented characteristics and unavoidable negative repercussions for the banking sector and the global economic landscape.

The takeover bid and the merger proposal

On 7 May 2007 a special stock exchange session was realised that formally marked the rejection of the hostile takeover bid launched by BCP for BPI on 13 March 2006, i.e. some 15 months earlier. An overwhelming majority of shareholders – more than 96% of the capital – decided not to sell their shares at 7 euro, the final price which resulted from the revised price initially offered of 5.70 euro. Indeed, the credibility of the initial offer price had been questioned by the market right from the very beginning, bearing in mind that the Bank's share price was always quoted above that figure during the entire period of the bid's duration.

Confirming the sentiment behind the positions taken by the majorities (which always exceeded 75%) at the three general meetings, BPI's shareholders stated quite categorically that they preferred to keep the Bank independent and give their backing to the expansion project embodied in the medium-term business plan presented by the Executive Committee in April 2006.

On 25 October 2007, in the wake of the deterioration in BCP's internal crisis, BPI's Board of Directors – acknowledging the responsibility attaching to its major shareholder status and its standing as a financial institution, – decided to submit to BCP's Board of Directors a concerted merger proposal, integrating all the shareholders of both banks willing to accept it and based on two general assumptions:

- the international environment and the specific situation pertaining to the Portuguese financial system may warrant consolidation initiatives in the banking sector, oriented towards the acceleration of growth rates in common business areas, the conquest of new markets and the rationalisation of the financial institutions' operating conditions, with the overriding goal of ensuring high profitability levels for the benefit of their Shareholders, Customers and Employees;
- in order to attain those goals, complete strategic clarity, adequate complementarity of the institutions, good governance rules, a solid shareholder structure and cohesive and competent management are indispensable, backed by motivated, prepared and experienced teams;

The internal rift in BCP's governing bodies led BPI's Board of Directors to make public the terms of the proposal in order to avert a situation that could be interpreted as an invitation addressed to only one group of shareholders, given that in terms of the law such an approach must always be directed at the Board of Directors in office.

The negotiations did not permit arriving at an outcome compatible with the materialisation of the assumptions underpinning the proposal. They were, therefore, terminated by agreement between the parties on 25 November, after having concluded that it was impossible to build a common platform which could be presented to the general meetings of each one of the institutions.

Recognition and Results

The manner in which the universe of stakeholders associated to the Bank responded to the takeover bid confirmed the solid state of the business culture built up by BPI over more than 25 years, and is worthy of being duly underlined: it was not just about resistance, but rather a movement of rational affirmation, translated into the shareholders' force and cohesion, Employees' intuitive mobilisation and the inestimable support of our Customers.

This conjugation – which warrants a special word of gratitude to all who made it possible – contributed unequivocally to achieving the highest levels of absolute and relative performance in the Bank's history in spite of the dispersion of efforts that the takeover bid process inevitably entailed. It also put to the test the consistency and flexibility of the executive organisation. In two years – between 31 December 2005 and 31 December 2007 – BPI's business volume (measured by the sum of loans and resources) grew 32% in consolidated terms, by far the best result of all the banks operating in Portugal. If we take into account only domestic activity, growth was 30% and the distance relative to competitors is even greater, with the specific circumstance of new business contracted, in absolute terms, surpassing the level attained by much larger institutions. These results were achieved with an average return on shareholders' equity of 23% over the two years mentioned, 40% more than the biggest quoted Portuguese banks.

Chairman of the Board of Directors

Artur Santos Silva

BPI's performance was recognised publicly through the attribution of practically all the distinctions awarded in Portugal by independent evaluation institutions, national and international, amongst which one can single out the following:

- Best large bank in 2006 (ex-aequo) and 2007 – Exame magazine;
- Best of European Business, "growth" category in 2006 and 2007 (Roland Berger, CNN, Jornal de Negócios, Universidade Católica);
- Best fund management company of Domestic Funds in 2007 (Diário Económico / Standard & Poor's);
- Best Private Banking in Portugal in 2007 (Euromoney Private Banking Survey);
- Financial sector's most attractive brand in 2007 ("Brandia Central and Marklab");
- Second most trusted banking brand in 2006 and 2007 ("Selecções do Reader's Digest").

The Bank's ascendant trend is also reflected in an eloquent manner in the Basef 2007 final report, the most comprehensive survey of the Portuguese banking market based on consumer polls and published without interruption by Marktest over more than 20 years. BPI climbs in percentage terms in 27 of the 38 indicators considered, being situated in the top three places in 50% of the total, with special mention of the maintenance for the fifth consecutive year of the leading place amongst the major banks in all the indicators relating to service quality and Customer satisfaction.

Growth and Capital

Despite the negative impact of the international financial turmoil which affected the latter half of the year in a profound manner, BPI's consolidated net profit was 355 million euro in 2007 – in line with the business plan presented in April and which represents a 15% improvement on 2006 and 1.8 times growth over the past three years. This result was underpinned in 2007 by the expressive increase in operating income (+19.4%), increases of 14% in net interest income, 13% in commissions and 60% in profits from financial operations. Administrative overheads, depreciation and amortisation (excluding costs related to the takeover bid) were up 11.8%, appreciably influenced by new branch openings, although operating profit rose by more than 27% notwithstanding the higher costs.

The accelerated growth in the Group's business operations over the past three years was in fact accompanied by a major programme directed at the expansion of the distribution networks in Portugal and Angola, which posted a combined increase of roughly 36% since the end of 2004. In 2007, 88 branches, 4 investment centres and three corporate centres were opened in Portugal. It is envisaged that in 2008 BPI will boast a total of 700 branches and 40 investment centres, drawing very close to the size of the banks ranked in the national market's top places. This expansion explains virtually all of the more than 700 new Employees recruited in 2007, an increase of approximately 10%.

Within the ambit of international operations, Banco de Fomento Angola contributed around 77 million euro to net profit, 15% more than in 2006, in spite of the significant impact of the increase in the average tax rate relative to the previous year (29.7 against 19.5%) and once again more than that forecast in the business plan. BFA accelerated the brisk pace of growth of the past three years and continued to be the market leader in terms of loans and resources expressed in dollars, which expanded by 72% and 52%, respectively. The number of Customers at the end of the year pierced through the 400 thousand barrier, 36% more than in 2006.

As in Portugal, the development of BFA's activity is being supported by a sizeable investment in the distribution network, which increased by 27%, integrating at the end of the year 94 units. It is important to underline in parallel the contribution that the bank is making to the modernisation of the Angolan payments system – through the leadership in the issue of debit and credit cards – and to the development of virtual channels, with more than 30 thousand Customers using BFA Net, 140 ATM's and 400 automatic payment terminals, which represent in the latter two cases market shares of 30 and 40%, respectively. In 2007, the number of BFA Employees rose by more than 20% to a headcount total of 1 528 people, virtually all of whom Angolans and who corresponded to 16% of the Group's total workforce.

Executive Committee of the Board of Directors
José Pena do Amaral | António Farinha Morais | Pedro Barreto | Manuel Ferreira da Silva (behind)
António Domingues (Deputy-Chairman) | Fernando Ulrich (Chairman) | Maria Celeste Hagatong (in front)

BPI's growth indicators in domestic and international operations are underpinned by a solid qualitative trend:

- the return on shareholders' equity was 22.4% in 2007;
- the cost of credit risk remains at a very low level in spite of the climb from 0.19 to 0.23% of the average portfolio;
- the cover of pension obligations was situated at 114% at the end of the year, corresponding to a financial surplus of 353 million euro;
- the efficiency ratio has been posting constant improvement over the last five years, declining from 66.7% in 2002 to 53.7% in 2007;

Against a backdrop of crisis that swept through the international financial sector from the start of the second half of 2007 and originating in the US, it is worth highlighting BPI's comfortable liquidity position. The negative impact on 2007 pre-tax earnings stemmed from the impairment charges of 25 million euro in a total investment portfolio of 56 million euro (acquisition cost) in Structured Investment Vehicles (SIV).

The major capital expenditure programme directed at the expansion of the distribution networks in Portugal and Angola, in conjunction with the losses on the bond and available-for-sale financial assets portfolios, exerted negative pressure on capital indicators, which at the close of 2007 were situated at reasonable levels, but below the Bank's publicised goals. At its meeting of 6 March 2008, the Board of Directors decided to include in the agenda for the ordinary General Meeting a proposal to reinforce the shareholders' equity. This capital increase will enable BPI to face with absolute tranquillity and autonomy the new and demanding environment created by the international financial turmoil, taking advantage of the important commercial capacity installed recently in a phase in which some of the assumptions of the accelerated growth cycle of the past three years will be difficult to maintain.

Governing bodies

Shareholders' General Meeting

Chairman
João Vieira de Castro

Deputy-Chairman
Manuel Cavaleiro Brandão

Secretaries
Galucho – Indústrias Metalomecânicas, S.A.[1]
Represented by Carlos Rosa Justino
Produtos Sarcol, S.A.
Represented by Maria Alexandra Magalhães

Remunerations Committee

Chairman
IPI – Itaúsa Portugal Investimentos, SGPS, Lda.

Members
Arsopi – Holding, SGPS, S.A.
HVF, SGPS, S.A.

Portuguese Statutory Auditor

Member in office
Deloitte & Associados, SROC, S.A.
Represented by Augusta Francisco
Alternate member
Carlos Luís Oliveira de Melo Loureiro

Nomination, Evaluation and Remuneration Committee

Chairman
Artur Santos Silva

Deputy-Chairman
Ruy Octávio Matos de Carvalho

Members
Carlos da Câmara Pestana
Herbert Walter
Marcelino Armenter Vidal
Roberto Egydio Setúbal

Corporate Governance Committee

Chairman
Artur Santos Silva

Deputy-Chairman
Armando Leite de Pinho

Members
Carlos Moreira da Silva
Edgar Alves Ferreira
Klaus Dührkop
Tomaz Jervell

Board of Directors

Chairman
Artur Santos Silva

Deputy-Chairmen
Carlos da Câmara Pestana
Fernando Ulrich
Ruy Octávio Matos de Carvalho

Members
Alfredo Rezende de Almeida
António Domingues
António Farinha Morais
Armando Leite de Pinho
Criteria CaixaCorp, S.A., Sociedad Unipersonal
Represented by Marcelino Armenter Vidal
Carlos Moreira da Silva
Edgar Alves Ferreira
Isidro Fainé Casas
Jorge de Figueiredo Dias
José Pena do Amaral
Klaus Dührkop
Manuel Ferreira da Silva
Maria Celeste Hagatong
Pedro Barreto
RAS International, N.V.
Represented by Herbert Walter
Roberto Egydio Setúbal
Tomaz Jervell

Audit Committee

Chairman
Artur Santos Silva

Deputy-Chairman
Ruy Octávio Matos de Carvalho

Members
Alfredo Rezende de Almeida
Jorge de Figueiredo Dias
Marcelino Armenter Vidal

Company Secretary

Member in office
Manuel Correia de Pinho

Alternate member
Alexandre Lucena e Vale

Executive Committee of the Board of Directors

Chairman

Fernando Ulrich

Deputy-Chairman
António Domingues

Members
António Farinha Morais
José Pena do Amaral
Manuel Ferreira da Silva
Maria Celeste Hagatong
Pedro Barreto

1) Mr. Carlos Rosa Justino – representing Galucho – Industrias Metalomecânicas, S.A. – renounced the office.

Figure 2

Shareholders

At 31 December 2007 Banco BPI's capital was held by 13 220 Shareholders, of whom 12 803 were individuals owning 8.4% of the capital, while 417 institutional investors and companies owned 91.6% of the capital.

Shareholders owning more than 2% of Banco BPI's capital
At 31 December 2007

Shareholders	No. of shares held	% of capital held	% of voting rights (according to the Securities Code)[1]
Grupo La Caixa[2, 3]	190 185 268	25.0%	25.0%
Grupo Itaú[4]	139 080 000	18.3%	18.3%
Grupo BCP[5]	75 954 921	10.0%	10.0%
Grupo Allianz[6]	67 076 733	8.8%	8.8%
Arsopi[7]	22 318 049	2.9%	2.9%
HVF SGPS, S.A.	21 681 062	2.9%	2.9%
JP Morgan Chase[8]	20 829 327	2.7%	2.7%
Credit Suisse[9]	16 588 973	2.2%	2.2%

Note: shareholder positions recorded at 31 December 2007 at the securities clearing house (Central de Valores Mobiliários – CVM), based on the information received from the Central de Valores Mobiliários.
At 31 December 2007 the BPI Group held 6 286 575 own shares corresponding to 0.83% of Banco BPI's share capital.

Table 2

1) In terms of statutory provisions, the exercise of voting rights is limited to 17.5%.
2) Through Catalunya de Valores, SGPS, Unipessoal, Lda., (10.02%), 100% held by Criteria CaixaCorp, S.A., which in turn is 78% owned by the La Caixa Group's parent entity, Caixa d'Estalvis i Pensions de Barcelona ("La Caixa") and through Criteria CaixaCorp, S.A.(15.0%).
3) At 31 December 2007, Euroclear Bank, based on the information received from the Central de Valores Mobiliários, had a shareholding in Banco BPI's capital of 9.17%. Excluding the direct shareholding held by Criteria CaixaCorp, S.A., which is kept in this custodian bank, the shareholding held by Euroclear Bank in Banco BPI capital is 0.63% and therefore is not included in the table above.
4) Through IPI – Itaúsa Portugal Investimentos – SGPS, Lda., 100% held.
5) Through BCP and companies controlled by it.
6) Through the subsidiaries controlled by Allianz SE: direct shareholding of 8.64% held by Allianz Europe Ltd. (100% held by the Allianz Group) and a direct shareholding of 0.19% held by Companhia de Seguros Allianz Portugal (65% held by the Allianz Group).
7) Shares held by companies of the Arsopi Group and by its Shareholders.
8) According to an announcement made by JP Morgan Chase & Co, on 2 October 2007 the shareholding in Banco BPI which was imputable to that company comprised 20 829 327 shares corresponding to 2.74% of Banco BPI's capital and voting rights. This shareholding was wholly owned by subsidiaries of JP Morgan Chase & Co.
The overall shareholding attributed to JP Morgan Chase & Co subsidiaries at 31 December 2007, based on the information received from the Central de Valores Mobiliários, comprised 60 662 018 shares representing 8% of the capital and voting rights. However, the information received from the CVM is not sufficient to identify, of the total of the aforementioned shareholding in Banco BPI, what is imputable to JP Morgan Chase & Co and which shareholdings are imputable to third parties under safe custody contracts, neither is it possible to identify shareholdings which could be held and imputable to JP Morgan Chase & Co which are deposited with third parties.
9) The shareholding owned by the Credit Suisse Group on 26 April 2007, according to the announcement made to the market on 2 May 2007. The information received from the CVM is not sufficient to identify the shareholding imputable to Credit Suisse at 31 December 2007. According to a communication received from Credit Suisse following a sale made on 13 February 2008, Credit Suisse reduced its shareholding from 15 502 927 shares (2.04% of Banco BPI's capital) to 12 043 385 shares (1.58% of Banco BPI's capital).

Shareholder value creation

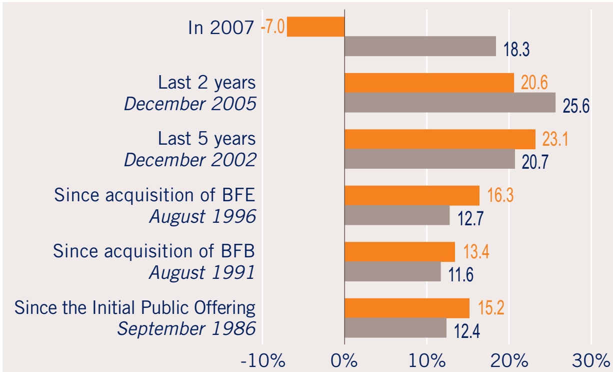
Return on investment (ROI)

BPI management's overriding goal is to create value for its Shareholders.

BPI has consistently created value over time. An investor who subscribed for shares[G] at the time of the Initial Public Offering directed at the general public in September 1986, had achieved an annual average return on investment (ROI)[F] of 15.2% to the end of 2007, whereas if he had opted for an alternative investment in Portuguese equities – measured by reference to the PSI Geral index – he would have obtained an annual average return of 12.4%.

The following table shows the various annual average rates of return earned by a shareholder who, having invested in BPI shares at the beginning of the year, had disinvested at the end of the same year or at the end of each one of the following years:

Banco BPI shareholder average annual return
Until 31 December 2007



■ BPI
■ Market[1]

Chart 1

1) Market return calculated on the basis of the PSI Geral index (total return).

Value creation for BPI shareholders[1] (Dec.97-Dec.07)

Percentage return; annual average rates

Entry[2] \ Exit[3]		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1998	**BPI**	**31.1**	**15.7**	**3.5**	**(7.2)**	**(4.9)**	**2.2**	**2.7**	**6.4**	**11.4**	**9.3**
	Market[4]	26.2	19.2	9.3	1.4	(3.5)	(0.3)	2.2	3.9	6.8	7.9
1999	**BPI**		**2.5**	**(7.4)**	**(16.3)**	**(11.3)**	**(2.1)**	**(0.9)**	**3.7**	**9.4**	**7.4**
	Market		12.6	1.6	(5.8)	(9.7)	(4.9)	(1.4)	1.1	4.6	6.1
2000	**BPI**			**(16.0)**	**(23.8)**	**(15.1)**	**(3.1)**	**(1.4)**	**3.9**	**10.3**	**8.0**
	Market			(8.2)	(13.8)	(16.1)	(8.8)	(4.0)	(0.7)	3.5	5.3
2001	**BPI**				**(30.4)**	**(14.7)**	**1.1**	**2.1**	**7.9**	**14.9**	**11.4**
	Market				(19.0)	(19.8)	(9.0)	(2.9)	0.8	5.6	7.4
2002	**BPI**					**3.0**	**19.9**	**14.7**	**19.2**	**25.9**	**19.6**
	Market					(20.7)	(3.5)	3.2	6.5	11.4	12.5
2003	**BPI**						**38.5**	**20.6**	**24.8**	**32.0**	**23.1**
	Market						17.4	17.7	17.5	21.3	20.7
2004	**BPI**							**5.1**	**18.5**	**30.0**	**19.5**
	Market							18.0	17.6	22.6	21.5
2005	**BPI**								**33.7**	**44.5**	**24.8**
	Market								17.2	25.0	22.7
2006	**BPI**									**56.3**	**20.6**
	Market									33.3	25.6
2007	**BPI**										**(7.0)**
	Market										18.3

Table 3

1) The calculations are based on the assumption that during the investment period, the shareholder in question reinvested his dividends on the day immediately after their receipt in order to acquire new BPI shares. It was also assumed that the same shareholder took part in all the capital increases and convertible-debt issues reserved for shareholders, subscribing for the maximum number of securities to which he was entitled.
2) Entry (at the beginning of the year).
3) Exit (at the end of the year). BPI's closing price at 31 December 2007 of € 5.36.
4) PSI Geral index.

BPI'S PERFORMANCE IN THE PERIOD 2005-2007

BPI's performance in the three-year period 2005-2007 corresponding to the term of office of the Bank's governing bodies, can be viewed objectively from three perspectives:

- in the evolution of the most important consolidated indicators relating to business expansion, the increase in commercial capacity, efficiency, financial solidity and profitability;
- in qualitative terms from the standpoint of service quality, strengthening of the brand and the relationship of trust with Customers, Employees and business partners;
- in BPI's fulfilment in 2006 and 2007 of the objectives laid down in the business plan, publicly announced in April 2006 and revised in April 2007, as described in a separate section of the financial review chapter.

The results achieved by the Bank in the last three years are also enhanced by an environment which, despite the Portuguese economy having registered a moderate recovery, proved to be very demanding, above all in 2006 and 2007. Indeed,

- between March 2006 and May 2007, BPI was the object of a hostile takeover bid which represented additional pressure on the Bank;
- from the second half of 2007, the crisis which erupted in the international financial markets had a major impact on banks' activity.

From January 2005 till December 2007 the following was observed: ▷

Business growth

Consolidated assets grew by around 70%, totalling close to 41 thousand million euro (th.M.€). Loans advanced and total Customer resources climbed by nearly 50% to 28 th.M.€ and 32 th.M.€, respectively.

In Portugal, the Bank gained market share in all markets, segments and products defined as being priority. The loan portfolio expanded 48% to 27.5 th.M.€. Loans to companies grew by 78%, loans to individual entrepreneurs and small businesses by 47% and mortgage loans by 27%.

Total Customer resources were up 44% to 30 th.M.€, with Customer deposits expanding a noteworthy 53% to 16.1 th.M.€. Likewise, BPI maintained prominent positions in asset management activity. Assets under management amounted to 15.7 th.M.€ at the end of 2007, which placed the Bank third in the ranking of investment fund management companies in Portugal with a market share of 16.1%.

Investment banking more than doubled its contribution from 11.3 M.€ in 2004 to 24.9 M.€ in 2007. In the equities business, BPI has clearly asserted itself as an Iberian broker: it reinforced its position in the brokerage of Portuguese equities, achieving leadership in 2007 with a market share of 16%, expressively developing the brokerage business covering Spanish equities and becoming one of the Iberian houses with the most extensive research coverage both in Spain and in Portugal. Moreover, it maintained a strong competitive position in

Net total assets

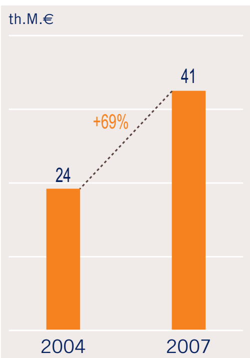


Chart 2

Loans to Customers

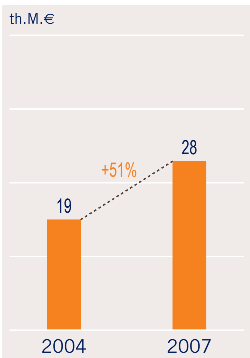


Chart 3

Customer resources

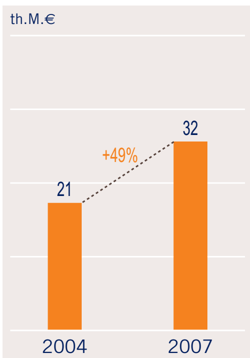


Chart 4

Own funds (BoP)

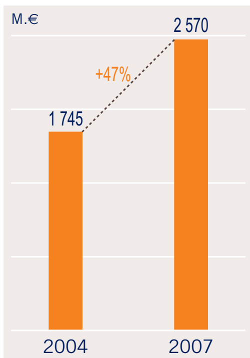


Chart 5

the segments of capital-market operations, mergers and acquisition and consultancy. In Private Banking, assets under discretionary management and advisory mandates almost doubled to 2.5 th.M.€ (+91% relative to the end of 2004).

In Angola, BFA defended its overall leadership in lending and deposits, attaining in 2007 market shares of 23% and 20%, respectively, and which correspond to first and second places. The Customer loans and resources portfolios presented accumulated growth rates of 391% and 237%, respectively. In addition, BFA reinforced its clear leadership in the cards business, reaching a market share of 37%. As regards the use of automatic and electronic channels, it achieved market shares of between 30% and 40%. As a result of the marked intake of new Customers, their number had climbed to above 400 thousand by the end of the year.

Reinforcement of commercial capability

In Portugal, whilst conquering market share, the Bank expanded the traditional retail network by 30% to a total of 662 branches, at the end of 2007, as well as enlarging its network of investment centres by more than 50% to 23 units. The expansion programme entailed reinforcing the workforce by more than 1 300 people (+20%).

In Angola, BFA expanded the branch network by 160%, from 32 outlets to 83, giving it the country's second biggest branch network. 2006 saw the launching of the investment centres, currently comprising four units, at the same time as it extended the number of corporate centres to the present network of seven. This enlargement is part of an ambitious plan which also involves reinforcing the human resources team – boosted by 160% to more than 1 500 people –, the introduction of innovative products and services and a segmented approach to Customers. It is important to point out that, as from 2006, BFA inaugurated an investment banking unit which provides *corporate finance*, *project finance* [G] and *private equity* [G] *services*.

Efficiency

The Bank's efficiency in the utilisation of its resources has evolved very positively. Between 2004 and 2007, the efficiency ratio – measured by the relationship between administrative overheads, depreciation and amortisation and operating income improved from 62.6% to 53.7%.

In domestic activity, the efficiency indicator improved from 65.9% to 58.1% despite the cost pressure flowing from the major capital expenditure on the branch network and the reinforcement of the staff complement (+30% and +20%, respectively) in a phase in which the return on investment was only partially reflected in the increase in business and revenue.

Profitability and financial base

The Bank's consolidated net profit has climbed 84%, from 193 M.€ to 355 M.€, the return on assets (ROA) advanced from 0.8% to 1% and the return on shareholders' equity (ROE) improved from 15.2% in 2004 to 22.4% in 2007, evidencing values which are clearly above the 20% level in any of the past three years.

Staff complement

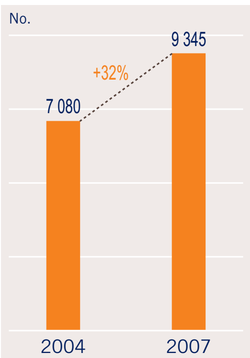


Chart 6

Physical network

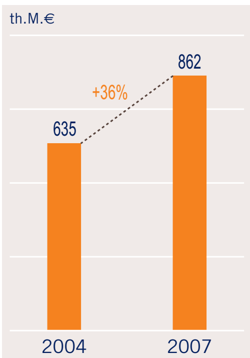


Chart 7

Net operating income

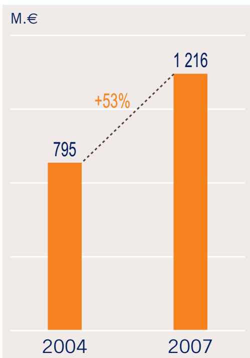


Chart 8

Administrative overheads, depreciation and amortisation

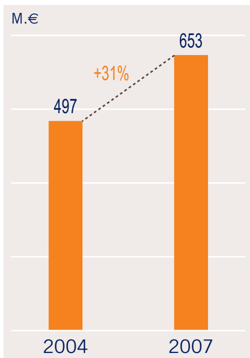


Chart 9

The increase in the Bank's profitability was achieved whilst preserving the good indicators relating to financial strength which have traditionally characterised BPI:

- the indicator of loans in arrears for more than 90 days declined from 1.1% in 2004 to 1.0% in 2007, and the net loan loss (concept that measures the amount of impairment charges in the year after deducting recoveries of overdue loans previously written off) improved from 0.33% to 0.23%, while in domestic activity it was fixed at 0.12%;
- the Bank saw the pensions fund's financial situation considerably reinforced, with assets increasing from 1 582 M.€ to 2 798 M.€ (+77%). At 31 December 2007 the fund presented a financial surplus relative to the liabilities it is meant to cover of more than 350 M.€;
- the capital ratio rose from 9.8%, at 31 December 2004 to 9.9% at 31 December 2007, with Tier I funds of 6.2% e and core equity of 5.0%; own funds were 47% higher, from 1 745 M.€ to 2 570 M.€, after accommodating the negative impact of the regulatory alteration relating to the deduction from own funds (effective from December 2006) of participating interests of more than 20% in insurance undertakings, which had a negative impact on the capital ratio of 0.6 percentage points, measured at the time of the aforesaid alteration.

Brand, service and trust

The Bank's performance in the three-years under review as gauged by the aforementioned economic and financial indicators, should be analysed within the context of the Bank's qualitative behaviour from the standpoint of the brand, the improved service quality and the reinforced relationship with Customers, Employees and business partners founded on trust. The public's widespread and continuing acknowledgement of these qualities can be illustrated, not exhaustively, by the following facts:

- virtually all the indicators relating to the BPI brand's reputation and recognition depict an ascendant trajectory, resulting in the attributes of best bank, trust, efficiency and solid financial base being further underlined;
- the Bank has systematically obtained the highest Customer satisfaction indices amongst the five largest financial institutions on the Portuguese market;
- BPI branches were considered to be the best in Europe out of a group of 66 banks from twelve European countries in a survey conducted by the Lafferty Group in May 2006;
- BPI conquered second place in the polls "Trusted Brands" compiled by the Reader's Digest Selections in 2007 and 2008;
- the Brand's value increased 41% in two years to 633 M.€, in 2007, with the BPI brand name now occupying sixth place in the ranking of the best Portuguese brands, in a study carried out by Interbrand, the North American company which is world leader in brand valuations.

Value creation for the Shareholders

Between the end of 2004 and 31 December 2007, the creation of value for our Shareholders – management's foremost objective – measured by the average rate of return on the investment in BPI shares was situated at 24.8% per annum. In the same period, earnings per share grew by 84% (22.6% annually) and dividends distributed by 87% (23.2% annually).

Efficiency ratio

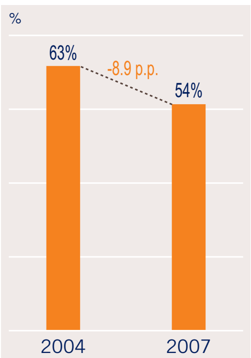


Chart 10

ROE

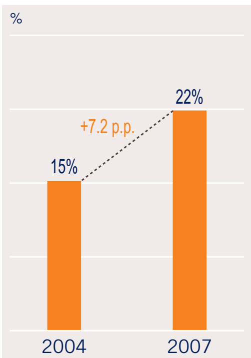


Chart 11

Net profit

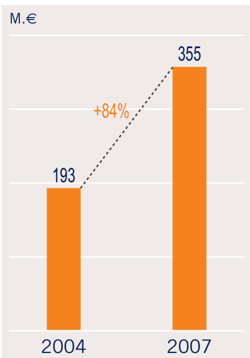


Chart 12

Pension funds

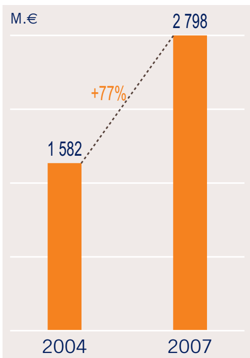


Chart 13

The identity of BPI

A company is just like a person: it has its own identity and personality, it stands out for its character, its principles, its way of doing, its objectives.

Banco BPI's identity is marked by the financial and business culture of Banco Português de Investimento. The essential traits of this culture are management independence, organisational flexibility, team work, recognition of merit, the ability to anticipate, strict management of risks and the secure creation of value.

Earning a just return from the Bank's business operations through the adoption of superior management and service practices constitutes a fundamental goal of our activity. The safeguarding of Customer interests, with dedication, loyalty and confidentiality, is one the core principles of the business ethics and code of conduct assumed by the Bank's Employees.

An institution's identity asserts itself through its own attributes, which gain consistency and credibility in its daily interaction with Customers and the community. In particular, BPI values two of these attributes: Experience and Harmony.

Experience is the reflection of the training undergone by our teams and the important professional capital accumulated during the history of each one of the institutions which gave rise to the Bank. It translates itself into the dimension of our commercial presence, the soundness of our financial indicators, the security of our growth and in our proven ability to achieve and lead.

We wish to combine Experience with Harmony, which expresses the permanent ambition of serving our Customers and the community with the highest standards of ethics and quality. It is a projected aspiration for the future, always open-ended, imposed by the constant desire to refine so that we do better. It is our most challenging mission that, in the final analysis, justifies all others.

Historical milestones

LEADERSHIP, INNOVATION AND GROWTH

1981

Sociedade Portuguesa de Investimentos was conceived in **1981** with a well-defined project for a decade that had just started: to finance investment projects launched by the private sector, to participate in the creation of a dynamic capital market and to contribute to the country's industrial modernisation. BPI counted on a diversified shareholder base that included a strong domestic component, represented by 100 of the most dynamic companies in the country, and five of the most prominent international financial institutions.

1985

SPI was transformed into an investment bank in **1985**, thereby allowing it to attract sight and term deposits, grant short-term loans, participate in the interbank markets and engage in currency operations. A year later, in 1986, the bank's future direction was marked by the opening of its capital to the general public and the listing of its shares on the Lisbon and Oporto Stock Exchanges.

1991

In **1991**, a decade after its formation, BPI had already conquered an undisputed leadership in the principal areas of Investment Banking, playing a major role that gained further momentum as the decade advanced thanks to the privatisation programme in Portugal, and assumed its ambition to consolidate its position as one of the country's premier financial groups. It was in this spirit that it resolved to acquire **Banco Fonsecas & Burnay**, thereby marking BPI's entry into the Commercial Banking arena, affording it a substantial gain in size in preparation for the corporate concentration process in the Portuguese financial system.

It was the Group's overriding objective to guarantee the provision of a complete range of financial services to companies and individuals alike. An alliance was then forged with the Itaú Group, initially through its equity participation in BFB. In 1993, this interest was converted into a direct shareholding in BPI, following which Banco Itaú became one of the key shareholders.

1995

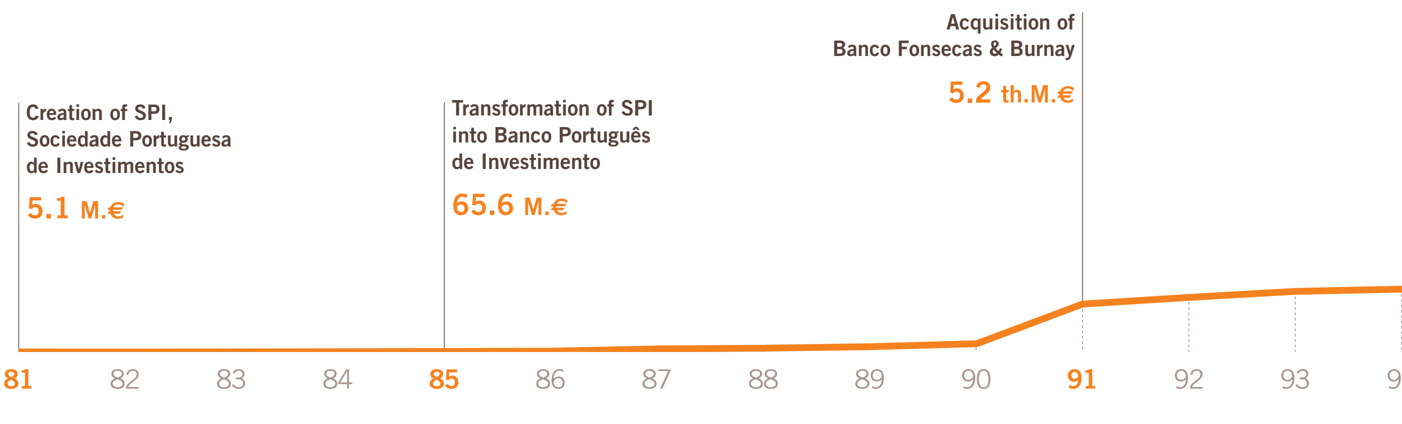
The Institution's composition was reorganised in **1995**: the original BPI was transformed into an SGPS (**holding company**), following which it became the only Group company to be listed on the stock exchange, controlling Banco Fonsecas & Burnay and Banco Português de Investimento, formed in the meantime through the transfer of the assets and liabilities allocated to the business activity traditionally conducted by this type of institution and hitherto undertaken by BPI.

This reorganisation precipitated the specialisation of the Group's various units and was accompanied by an important reinforcement of its shareholder structure with the entry of two new strategic partners of considerable size to team up with the Itaú Group: La Caja de Ahorros y Pensiones de Barcelona ("La Caixa"), and the German insurance group Allianz.

1996 / 1998

A year later (in **1996**) the **acquisition of Banco de Fomento and Banco Borges** marked the beginning of the process involving the integration of the BPI Group's three banks that would culminate, two years later, with the creation of Banco BPI, providing it with the largest single-brand banking network in Portugal. **Banco BPI was formed** in **1998** by the

Net total assets plus disintermediation



merging of **Banco Fonsecas & Burnay (BFB), Banco de Fomento e Exterior (BFE) and Banco Borges & Irmão (BBI)**, to be joined later that year by Banco Universo (an in-store bank), acquired in the meantime. After the merger, the structure was significantly simplified: BPI SGPS now comprises just two banking institutions: Banco Português de Investimento, named BPI – Investimentos, and a new commercial bank called Banco BPI.

1999-2001

The next three years – **1999 to 2001** – have confirmed BPI's potential for growth, modernisation and structural reinforcement engendered by the 1998 merger: the Group has boosted market shares in all the key areas of commercial banking, it has expanded and streamlined its distribution structure, rapidly transforming itself into a multi-channel bank, it has thoroughly renovated its technological capability and built up one of the financial system's most dynamic brand names.

2001-2005

In **2002**, BPI concluded an **important reorganisation programme** that endowed the Group with a much simpler legal configuration, more attuned to its business model and more conducive to the obtainment of cost savings and efficiency gains in the Group's functioning. In essence, the programme involved the centralisation at Banco BPI of commercial banking business and the concentration at Banco de Investimento of its natural business. BPI SGPS incorporated Banco BPI and simultaneously its business object was altered to embrace Commercial Banking, adopting the name Banco BPI and assuming the command position at the helm of the whole Group. Banco de Fomento was formed in Angola in the wake of the transformation of Banco BPI's Luanda branch into a fully-fledged Angolan-law bank.

At the same time, BPI intensified the **programme directed at the rationalisation, rejuvenation and qualification** of its human resources, the upgrading of its technology, the streamlining of its distribution channels and boosting Brand development. This process is constantly evolving and seeks to reinforce in a decisive manner the essential skills required to affirm the goals that form the springboard for the Bank's plans for the future: efficiency, quality and service.

In **2004**, **Artur Santos Silva**, BPI's founder and leader from its first hour, ceased executive functions, retaining the chairmanship of the Board of Directors.

2006-2007

In October **2006**, BPI completed 25 years of activity (taking as the reference the formation of SPI – Sociedade Portuguesa de Investimentos, in 1981). May **2007** saw the unsuccessful conclusion of the hostile takeover bid launched for the Bank in March 2006 – accepted by a mere 3.9% of BPI's capital –, and which was unanimously rejected from the outset by the Bank's Board of Directors, considering it to be "totally unacceptable". BPI thus pursued its sustained strategy of creating value for Shareholders, Employees and Customers, the merit of which is objectively expressed in the annual **average return of 16% on BPI shares** since its foundation up till the end of the 2007 financial year.

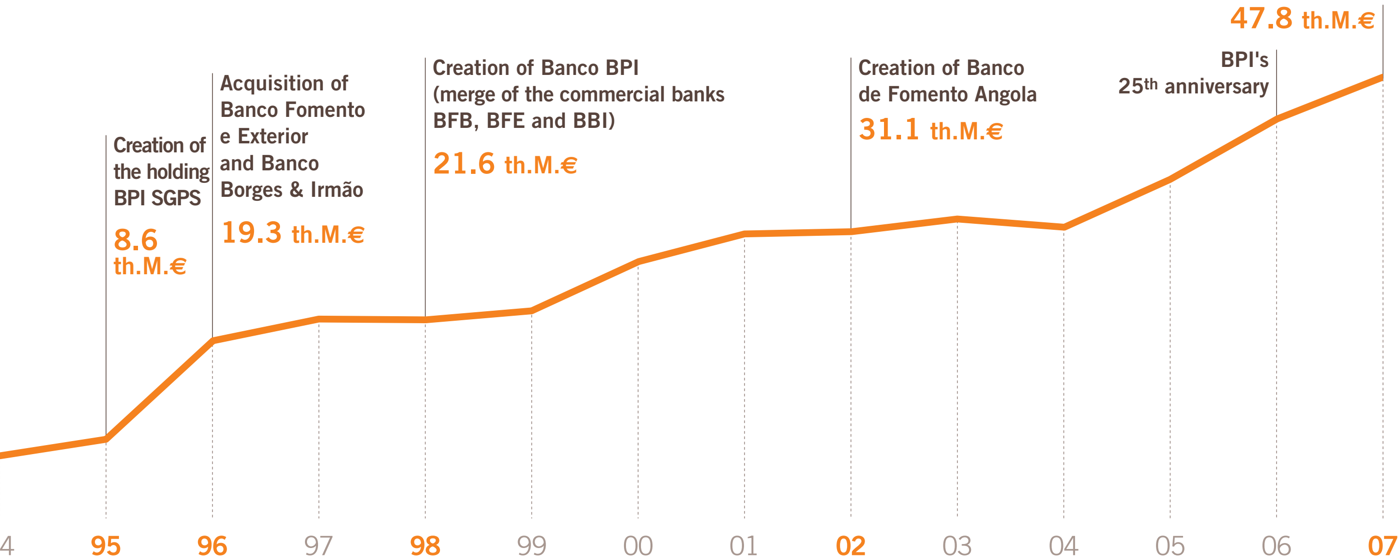


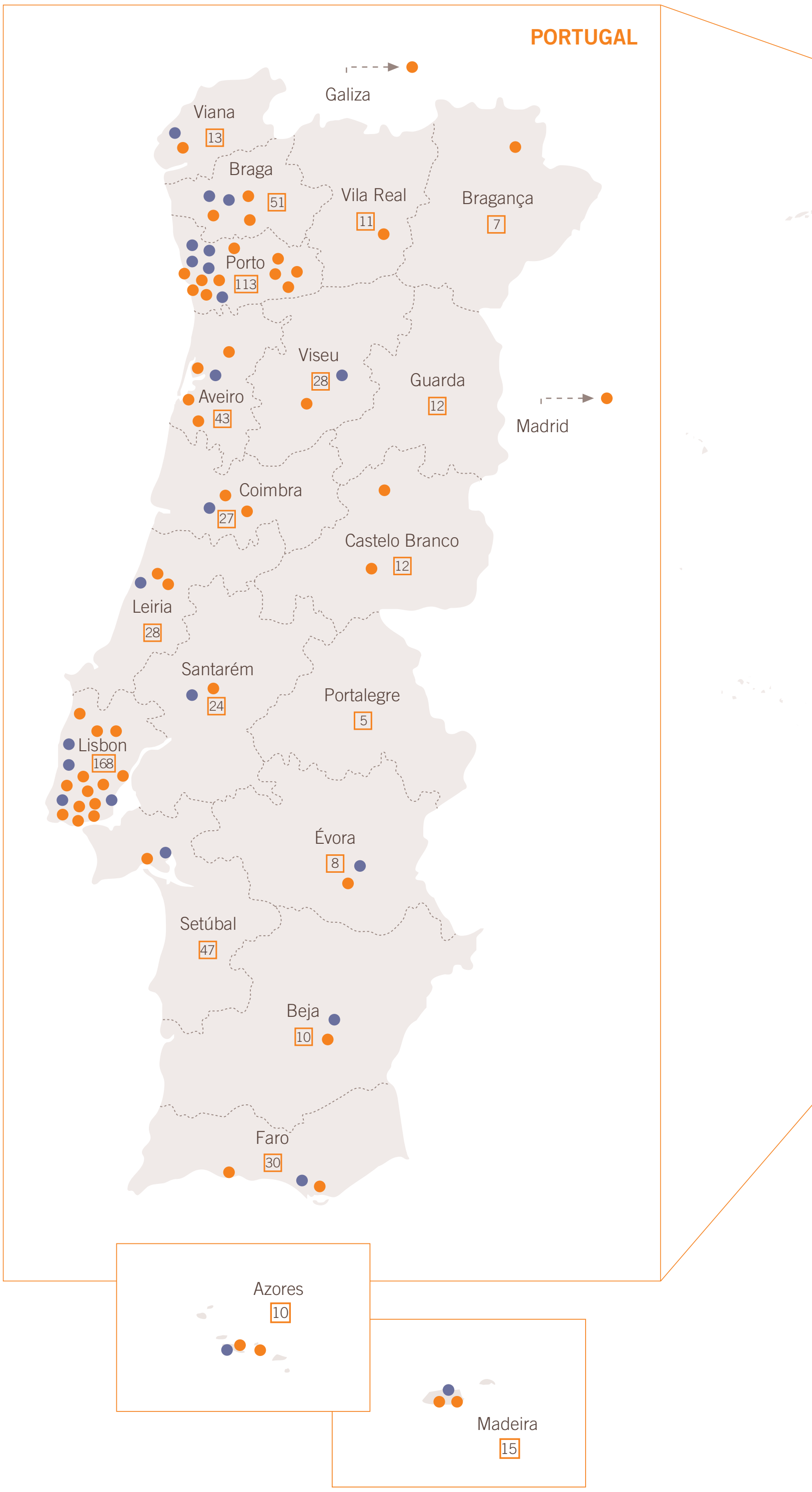
Figure 3

Distribution channels

DOMESTIC OPERATIONS

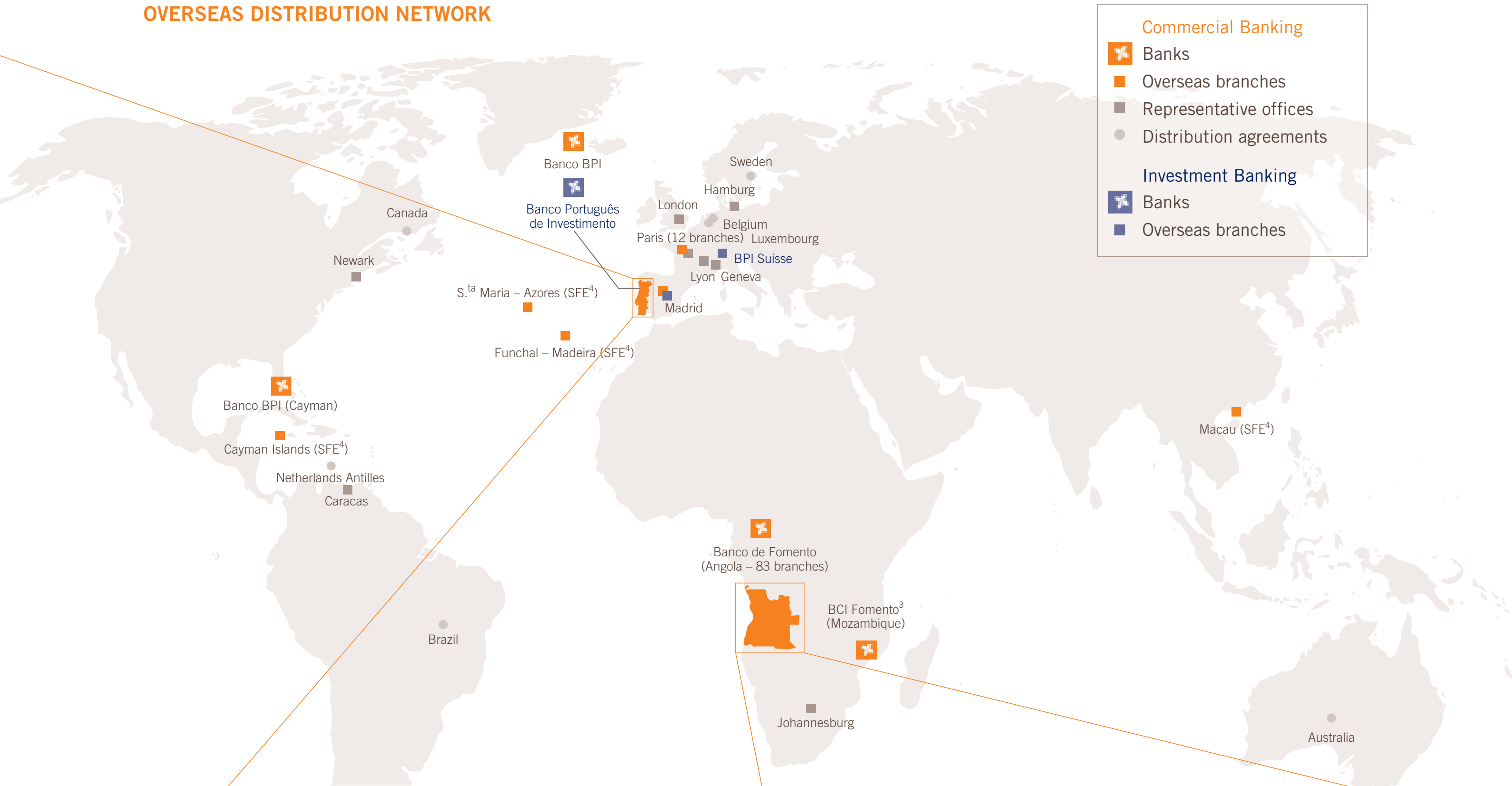
Individuals and Small Businesses Banking	2006	2007
Clients (thousand)		
Individuals	1 172	1 211
Small businesses	143	157
(Turnover below 2.5 M.€)		
Physical network		
Traditional branches □	574	662
Investment centres ●	19	23
Housing shops	19	19
Automatic bank (ATM)	1 241	1 372
External promoters	5 312	8 846
Remote channels (thousand)		
BPI Net (regular users)	384	464
BPI Directo (regular users)	330	400
BPI Imobiliário (real estate properties)	562	680
Customer resources (M.€)	18 723	21 367
Loans granted (M.€)	13 119	14 662

Corporate Banking, Institutional Banking and Project Finance	2006	2007
Clients		
Companies	14 757	14 919
Project Finance	232	211
Institutional[1]	911	963
Madrid branch	128	178
Physical network ●		
Corporate centres	41	44
Project Finance centre	1	1
Institutional centres	6	6
Madrid branch[2]	1	1
Remote channels (thousand)		
BPI Net Empresas (regular users)	56	65
Customer resources (M.€)	1 965	2 365
Loans granted (M.€)	13 738	15 568



1) Local authorities, autonomous regions, social security system, universities, public utility associations, State Business Sector and other non-profit entities.
2) The corporate banking distribution network in Portugal includes the Madrid branch.
3) 30% shareholding.
4) SFE – Sucursal Financeira Exterior (off-shore financial branch).

OVERSEAS DISTRIBUTION NETWORK



Banco de Fomento Angola	2006	2007
Clients (thousand)	299	405
Physical network		
Number of branches	66	83
Investment centres	2	4
Corporate centres	6	7
Automatic bank (ATM)	93	137
Active POS	107	322
Remote channels		
BFA Net Particulares (subscribers)	17 367	29 827
BFA Net Empresas (subscribers)	1 994	2 606
Customer resources (M.€)	1 440	1 958
Loans granted (M.€)	624	961

BCI Fomento (Mozambique)	2006	2007
Clients (thousand)	84	90
Physical network		
Number of branches	38	41
Automatic bank (ATM)	67	85
Active POS	671	728

Support structures to Portuguese communities	2006	2007
Representative offices	5	7
Paris branches	12	12
Distribution agreements	8	8

Figure 4

The BPI Brand

In 2007, the BPI Brand increased its value by 41% and saw its reputation and recognition indicators reinforced, reflected in a very diversified series of distinctions granted by prestigious independent institutions, national and international. The Bank also continued to present the highest satisfaction indices from amongst the five biggest financial institutions in the Portuguese market, and the best efficiency level with regard to advertising investment.

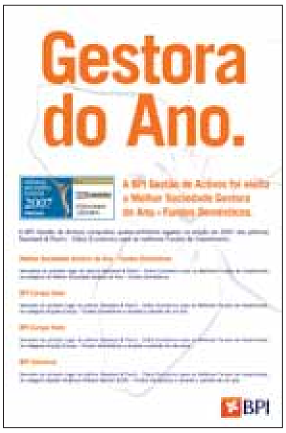
Reputation and recognition

The BPI brand was rated as the financial sector's most attractive according to "Brands' Magnetic Fields' 07", a unique study carried out by the brand-management company Brandia Central in partnership with MarkLab. This survey evaluated the attraction capacity of brands based on three factors: the confidence they inspire, the prestige associated with them, and the identification they are able to generate amongst consumers. Besides being the most attractive brand in the financial sector, the BPI brand was considered to be the eighth most attractive of all the brands in Portugal.

For the second year running, BPI achieved second place amongst the most trusted banking brands in the 2008 edition of the survey "Trusted Brands", published annually by the Reader's Digest Selections. From 2006 to 2007, the result attained rose from 23% to 24%. In the first and third places are CGD and Millennium BCP, whose results fell from 33% to 31% and from 19% to 16%, respectively.

Amongst the other honours attributed to the Bank in 2007, the following warrant special mention:

- BPI was elected for the second consecutive year the *"Best Large Bank"* in Portugal, as part of the Banking & Insurance rankings organised by the magazine Exame;
- BPI Gestão de Activos was distinguished with the award "Best Management Company of the year – Domestic Funds" by Standard & Poor's and Diário Económico, in the 2007 edition of prizes for the best unit trust (mutual) funds.
- In the same selection, BPI Europa Valor obtained two first places in the categories "Equities Europe – domestic funds" for one and three-year time frames – and BPI Universal was the winner in the category "Neutral global dynamic management (EUR) – domestic funds for a period of one year.
- BPI's Private Banking was rated by Euromoney the "Best Private Banking in Portugal", according to the results of a poll held annually by the magazine, one of the most prestigious publications in the financial sector world-wide;
- For the second consecutive year, BPI was the only financial company distinguished with the award "Growth – Large Companies" awarded to it in the third edition of the rating "Best of European Business", organised by Roland Berger, in partnership with Jornal de Negócios and the Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE).



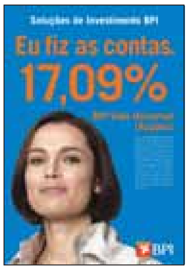
Qualities and value

According to the grassroots study covering the financial system (BASEF) published by Marktest, BPI continues to merit the highest satisfaction index from amongst the five biggest banks in the Portuguese financial system. This position was confirmed by the results of the European Customer Satisfaction Index (ECSI), another independent survey described in a separate chapter of this report dedicated to quality. As concerns the perception of the qualitative attributes, the BASEF results reveal that the BPI brand recovered in the majority of the categories considered the third position occupied within the whole financial system after CGD and Millennium BCP, which are substantially larger banks. In relation to 2006, BPI registers rises in virtually all the indicators and climbs to third place in the ranking of the attributes “best bank”, “1st choice bank”, “trust”, “efficiency” and “financial strength”.

Interbrand, the North American company which is world leader in the valuation of brands, attributed a value of 633 M.€ to the BPI brand, which represents a 41% increase relative to the previous estimate and constitutes a climb of one slot to sixth position in the ranking of the best Portuguese brands. In the past two years, the BPI brand has posted a 53% increase in value.

Investment and communication

The financial sector maintained a high level of advertising investment in 2007. Although this was down 2% when compared with 2006, it was nevertheless the third biggest investor out of all the sectors of activity considered. BPI reduced its investment by 65% relative to the preceding year occupying ninth place in the financial sector’s ad spend ranking with a share of 3%. In 2007, BPI secured first place in the efficiency ratio of investment, measured by the relationship between spontaneous recollection / investment volume.



Insofar as communication policy is concerned, the 2007 financial year characterised itself by the reorientation of investment to the creation of multiple promotional offers focused on specific segments and needs, backed by an advertising campaign less centred on television. In this context, mention is also made of the greater attention paid to boosting sponsorships, the development of *cross-selling initiatives*, the reinforcement of the competitiveness of the Bank’s product range and the intensification of the close relationship with the Customer – namely, through regional marketing which contributed to the promotion of the 90 new branches opened around the country.

Financial structure and business

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

Domestic activity

The Group's commercial bank Banco BPI serves more than 1.4 million Customers in Portugal – Individuals, Companies and Institutions – through its multi-channel distribution network comprising 662 retail branches, 23 investment centres, 19 branches specialising in home loans, a network of 8 846 external promoters, 44 Corporate Centres and 6 Institutional Centres, telephone banking (BPI Directo) and a homebanking service (BPI Net).

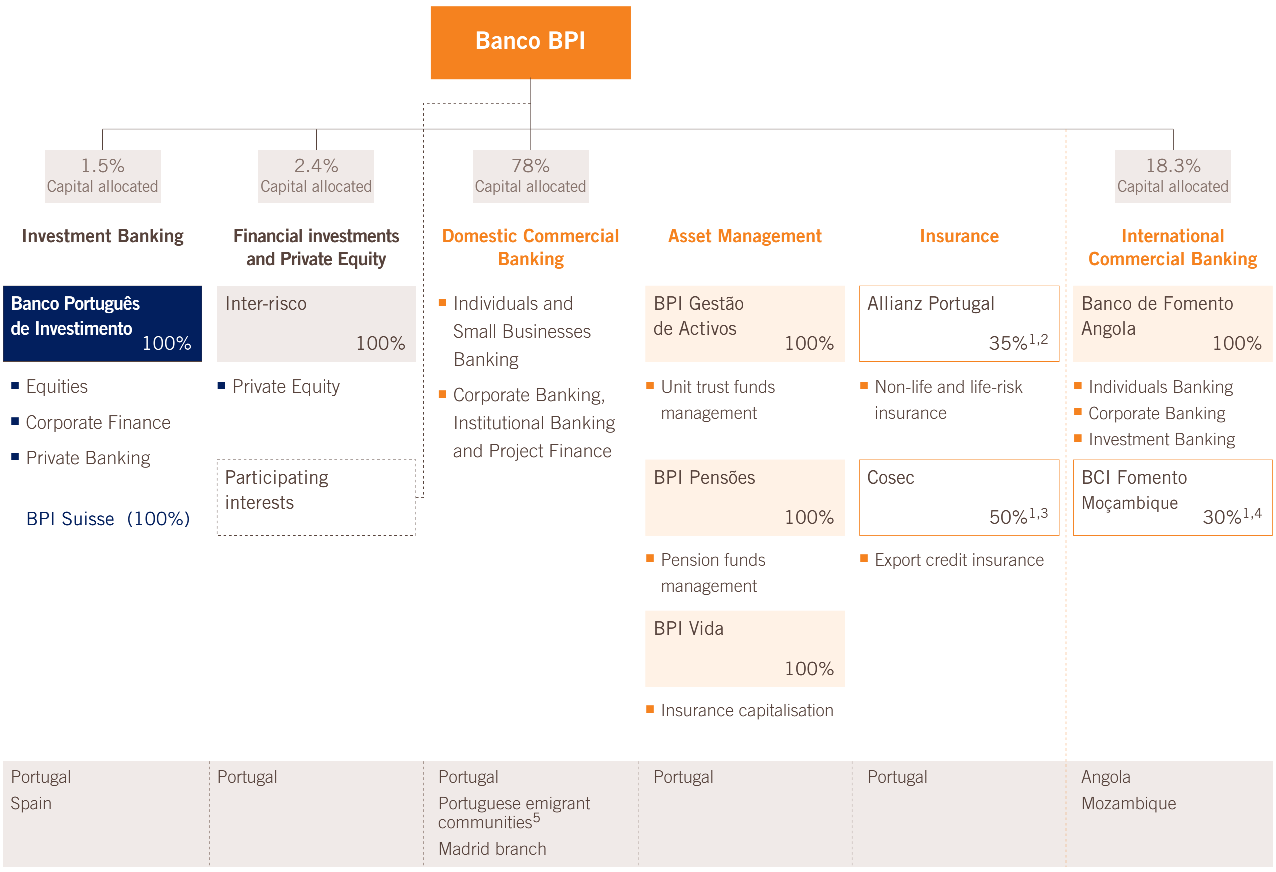
Banco Português de Investimento, the BPI Group's original matrix, is engaged in investment banking business – Equities, Corporate Finance and Private Banking – at Iberian Peninsula level.

In asset management activity, BPI is a prime player in the management of unit trust (mutual) funds, pension funds and life-capitalisation insurance, which it distributes via Banco BPI and Banco Português de Investimento.

International activity

In Angola, BPI is the leader in commercial banking activity with a market share close to 25% through its 100%-stake in Banco de Fomento. BFA served a universe of 405 thousand Customers at the end of 2007.

Main units of the BPI Group



Note: The percentages indicated refer to the participations (direct and indirect) of Banco BPI in each company.

Figure 5

1) Equity-accounted subsidiaries.
2) In association with Allianz, which holds 65% of the capital.
3) In association with Euler Hermes, a company of Allianz Group.
4) In partnership with Caixa Geral de Depósitos and a group of Mozambican investors that, together, hold 70% of the share capital.
5) The BPI Group has overseas branches, representative offices and distribution agreements in overseas cities with large communities of Portuguese emigrants.

Corporate Governance

Guiding principles

Since its beginning BPI has embraced a set of guiding principles for its governance policy which include the creation of value as Top Management's and Employees' primary objective, transparency, independence of executive management, and justness in the relationship with Shareholders, Customers and Employees.

BPI's governance practice founded on those principles embodied – in the majority of cases before legally required to – the corporate governance regulations and recommendations issued by the Portuguese Securities Market Commission (CMVM – *Comissão do Mercado de Valores Mobiliários*).

Annual governance report

In the BPI Group's corporate governance report, presented as an annex to the Board of Directors' Report, it is important to highlight:

- the detailed description of the composition, terms of reference and activity carried out by the BPI Group's management and control bodies;
- the report on the protection of Shareholders' interests, including the measures implemented by BPI with a view to stimulating their participation in the company's affairs, in particular, at General Meetings;
- the characterisation of BPI's remuneration policy and the information regarding the amounts earned by the members of the Board of Directors, including an exhaustive description of the share incentive scheme (Portuguese initials – RVA programme);
- the description of the policies and practices adopted by BPI – expressed in the regulations and binding Code of Conduct for the management bodies and Employees – with the object of safeguarding against the occurrence of conflicts of interest situations or the violation of professional confidentiality, ensuring diligence and loyalty in securities brokerage operations, promoting the combat against terrorism and money laundering, and preventing the occurrence of insider trading[G].

RECOGNITION IN 2007

Corporate Governance

Investor Relations & Governance Awards

BPI was distinguished in the Investor Relations & Governance Awards with the prize for the "Best information about *Corporate Governance*". In this category, BPI had already received the top award (four times, between 2001 and 2004) and two honourable mentions (in 2005 and 2006).

BPI also received an honourable mention for "Best annual report in the financial sector", the category in which in previous years (between 1987 and 2006), it had already received the first prize eleven times, as well as an honourable mention.

The "Investor Relations & Governance Awards" is an event promoted by Deloitte, Semanário Económico and Diário Económico which is aimed at rewarding excellence in the communication of financial information by companies listed on Euronext Lisbon.

IRG Awards 2007
Investor Relations & Governance Awards
Best
Report and Accounts
of the financial sector*
of Euronext Lisbon
BPI

IRG Awards 2007
Investor Relations & Governance Awards
Best
information
concerning Corporate
Governance
of Euronext Lisbon
BPI

* honourable mention.

Social responsibility

BPI interprets its corporate social responsibility as being the set of duties and obligations the Institution is bound by in relation to the Community in which it is integrated and to the specific interest groups that depend on its activity: Customers, Shareholders, Employees and Investors, represented in the capital market where the share is subject to permanent scrutiny.

From this perspective, the exercise of corporate social responsibility assumes multiple dimensions of quite contrasting natures which from the outset entail compliance with the Law and applicable regulations, the observance of specific conduct rules, the corporate governance policy and its execution, the relationship with Investors, the promotion of a quality service and the policy of human resources advancement, as well as the support for initiatives within Society in fields such as Health, Solidarity, Education and Culture.

Governance

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

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

Indeed, the Bank has adopted – in the majority of cases, ahead of time – the corporate governance recommendations issued by the CMVM, while simultaneously keeping abreast of the latest pronouncements in this domain by the European Commission, the OECD and other national and international bodies.

Investor relations

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

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

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

Comprehensive information about investor relations activity during 2007 is provided in the BPI Group's Corporate Governance Report.

Service quality

During 2007 and giving continuity to the policy pursued in previous years, the quality of service provided to Customers constituted one of the main strategic priorities, asserting itself as one of the BPI brand's most outstanding attributes.

Recognition of this quality is manifested in the levels of Banco BPI's perceived quality and in the degree of Customer satisfaction, as gauged in a continuous and regular manner through the Service Quality Index (IQS).

On the other hand, during the course of 2007 BPI endeavoured to enhance quality from the perspective of internal service and Employee satisfaction, having created for this purpose a new instrument for appraising the service provided by the Central Units to the Commercial Networks (IQS Central Units), which constitutes an important driver for continuing improvement. This step is contributing to an ever-increasing sustainability of the quality levels, permitting the reinforcement of the orientation to Customer service in the central structures' functioning, with an expected positive reflex on the level of both Customers' and Employees' satisfaction.

Special attention was paid in 2007 to the topic of Customer attendance as a manner of boosting the culture of differentiated service and valued by the market, not only through the continued use of the *Mystery Customer* surveys for appraising and monitoring effective practices, but also the development of pilot projects supported on the theorisation of key attendance methodologies and their implementation at a group of branches.

Advancement of human resources

During the year, roughly 96% of the Employees deployed in operations in Portugal participated in in-house and external training courses, which compares very favourably with the universe of 70% in 2006. Each Employee received on average 28.4 training hours. The investment in training as a percentage of payroll costs recorded an increase compared with 2006, being situated at 1.3%. In this group is included assistance given to 85 Employees attending post-graduate courses.

Mention is also made of the fact that as regards e-learning and for the first time, the entire universe of the Bank's Employees was enrolled in the course devoted to the Prevention of Money Laundering and Financing of Terrorism. At the same time, the promotion of self-training was promoted founded on the possibility of self-enrolment at any course to be chosen from a specific catalogue.

In Angola, 2007 saw the conclusion of an ambitious training plan initiated in the previous year, involving the whole of BFA's Commercial Network and various areas of the Central Services.

Close to 100 classroom-type training sessions were realised, which were attended by 570 Employees. 64% were devoted to recently-graduated Employees.

26 practical-training secondments took place in Luanda for Employees who assumed leadership functions. In addition, 10 practical-training secondments were realised in Portugal for Employees whose specialisation justifies this investment.

Patronage

As part of its social investment policy, BPI continued to support in 2007 a diversified spectrum of important projects and initiatives in the areas of Health, Solidarity, Education, Investigation and Culture, namely in Portugal, Angola and Mozambique.

In Angola, local activities are funded by the BFA – Banco de Fomento Angola (100%-held by BPI) – Social Fund, to which the Bank decided to allocate (since 2005) 5% of annual net income for a period of five years.

Health and Social Solidarity BPI gave continuity in 2007 to its policy of lending regular support to social-welfare institutions, with special emphasis on those working in the areas of child protection, health and solidarity.

In the sphere of **Child Protection**, the following institutions benefited from our support: CerciEspinho – Cooperativa de Educação e Reabilitação de Crianças Inadaptadas (cooperative for children with deficiencies), the Associação Portuguesa para os Direitos dos Menores e da Família (association for the rights of minors and the family), CADIn – Centro de Apoio ao Desenvolvimento Infantil (infant development centre), the "Swatch – Perfect World" project which has as its goal the construction of the Centro de Acolhimento de Crianças em Risco do MSV – Movimento ao Serviço da Vida (child shelter centre), AAjude – Associação de Apoio à Juventude Deficiente (disabled youth support centre), Obra do Frei Gil, Centros de Educação Especial "O Ninho" (special education centres) in Rio Maior, Liga dos Amigos do Hospital Maria Pia (hospital charity) and the Children International Summer Villages.

In Angola, amongst the various projects supported were the Casa do Gaiato de Benguela (boys and girls shelter home) and the "Merenda Escolar" project which, in partnership with the Congregation of Mama Muxima Catholic nuns, offers daily breakfast and afternoon snacks to more than a thousand children from the Coreia suburb, one of the city of Luanda's poorest.

In the **Health** arena, we highlight the support and assistance given to the following institutions and charities: Cruz Vermelha Portuguesa (Portuguese Red Cross), Associação Portuguesa de Paralisia Cerebral (cerebral palsy), Encontrar+Se – Associação de Apoio a Pessoas com Perturbação Mental Grave (support for the seriously mentally ill), Fundação Portuguesa de Cardiologia (cardiology association), Abraço – Associação de Apoio a Pessoas com VIH / Sida (HIV / AIDS support group), Liga Portuguesa Contra o Cancro (fight cancer association), ATT – Associação de Tratamento de Toxicodependências (drug addiction treatment association), and the hospital support groups Associação dos Amigos do Hospital Magalhães Lemos, Associação dos Amigos do Hospital Santa Maria and Liga dos Amigos do Hospital Santo António.

In Angola, of special note was the collaboration the with National Oncology Centre and, in partnership with the USAID (American Agency for International Aid and Development), the project for the creation of 5 *Jangos Juvenis*:

- the National Oncology Centre is the country's only hospital unit dedicated to the prevention, diagnosis and treatment of cancer. The Bank's support enabled the centre to acquire equipment and thus improve its free consultations programmes, and to hold seminars for the technical staff and preventative information lectures directed at the population;

- the *Jangos Juvenis* Project have as their objective the prevention of HIV / AIDS at community level, chiefly amongst the youth, and is the result of an initiative of the PSI / Angola, which has the backing of the Health, Youth and Sports Ministries. As part of this project, two new Jangos (Cunene and Huambo) were opened during 2007.

In the **Social Solidarity** field, the main initiatives centred on the support given to the Comunidade Vida e Paz, Fundação Ajuda à Igreja que Sofre, Conferência de São Vicente de Paulo, Centro Social da Paróquia da Senhora da Conceição, CEERIA in Alcobaça, Associação CAIS's congress dedicated to "Empowerment", Pro Dignitate – Fundação de Direitos Humanos, Leigos para o Desenvolvimento, Associação Novo Futuro and Igreja Paroquial de São Nicolau.

Reference is also made to the admission as a member of the association EIS – Empresários pela Inclusão Social (entrepreneurs for social inclusion), in which one of the principal concerns is the combat against school failure and abandonment.

In Angola, the following projects merit special mention:

- the electrification of the poor zones of the Kilamba Kiaxi and Viana municipalities which continued to be developed during 2007, the completion of which is scheduled to take place next year. This project has BFA's backing of 1.2 million dollars for a period of three years;

- the construction of 50 public-drinking fountains in the poorer areas of Luanda, which brings together EPAL (Empresa Pública de Águas), AdP (Águas de Portugal) and BFA. This project was completed during 2007.

Research, Innovation and Education In the **Research** field we highlight the contribution made for the first time to the Molecular Medicine Institute of the Universidade de Lisboa's Medical Faculty, a leading specialist institution which dedicates itself to four research areas linked to the health sciences: neurosciences, oncology, cellular and development biology, and immunology and infectious-disease sciences.

Also noteworthy was the tri-annual support previously granted to IPATIMUP, the scientific research institute in the areas of oncology and genetics, in which BPI was particularly involved in the organisation of a group of companies which in a systematic manner lend support to this important institution.

The decision to participate as an associate of INEGI – Instituto de Engenharia Mecânica e Gestão Industrial (mechanical engineering and industrial management institute), one of the most important institutions serving as the interface between the Universidade do Porto and the business community, assumed special significance. INEGI undertakes intensive work in research and development and is unique for its active partnership with national and international companies in the development of product, process or organisational innovation projects.

Equally important was the participation in the creation of five more scientific and teaching laboratories at the Universidade de Coimbra's Science and Technology Faculty, in addition to the three already inaugurated in 2005.

Support was also given to CIM – Centro Internacional de Matemática (International Mathematics Centre) (Universidade de Coimbra).

In the realm of **Innovation** the principal initiative embarked on in 2007 was the support granted to START – Prémio Nacional de Empreendedorismo (national entrepreneurship prize). The START 2007 prize, the result of a partnership between BPI, Microsoft and Universidade Nova de Lisboa, seeks to encourage entrepreneurship and innovation in Portugal, to reward and disseminate new ideas for the creation of companies, to foster the preparation of sound business plans and to involve, in a coordinated manner entrepreneurs, researchers and the business community. More than 500 business ideas were submitted, with the winner being Stemmaters, whose objective is the development of new regenerative therapies for bone, cartilage and skin stem cells. The 40 thousand euro prize was incorporated into the new company's share capital.

Also worthy of mention was the SME Innovation Cotec – BPI prize, which in 2007 was awarded "ex-aequo" to Alert, whose business is the development of clinical software, and to Frulact, whose principal activity is producing fruit preparations specially destined for the milk industry.

BPI continued to sponsor the COHITEC programme, also a Cotec initiative, which seeks to enhance the knowledge generated by the technological research undertaken by universities and other institutions falling under the Portuguese scientific and technological system through the support for high-tech start-ups[G] with high growth potential.

Backing was also given to the conferences staged by APEGEI – Associação Portuguesa de Gestão e Engenharia Industrial and by the Instituto Português da Qualidade.

In the **Education** arena, BPI reinforced its collaboration with higher education institutions, notably the long-term protocols entered into with Instituto Superior Técnico, the Science and Technology Faculty and the Law Faculty of Universidade de Coimbra (Institute of Banking Law, Stock Markets and Insurance, European Institute, Economic Sciences Bulletin), the Fine Arts Faculty of Universidade de Lisboa, as well as the Student Associations of the Instituto Superior Técnico and the Lisbon Medical Faculty.

Prizes were awarded to the best students from the Universidade do Algarve, Universidade de Aveiro (Economics and Engineering), Universidade da Beira Interior, Universidade Católica Portuguesa (Masters degree in Economic and Business Sciences), Universidade de Coimbra (Science and Technology), Universidade de Lisboa (Fine Arts), Instituto de Ciências Biomédicas Abel Salazar, as well as support for the holding of specialist conferences and scientific-pedagogic projects at certain of these universities. Also meriting mention was the awarding of prizes to the best finalists from the Polytechnic Institutes of Leiria, Tomar and Viana do Castelo.

Support was given to the conferences organised by the Universidade de Coimbra (Economics), Universidade do Porto (Economics and Engineering), Universidade do Minho, Universidade Católica Portuguesa (in the case of the last-mentioned, BPI supported the commemorations of its fortieth anniversary).

Also deserving mention was the support for AR.CO – Centro de Arte e Comunicação Visual, whose role in the training in the plastic arts field is particularly important.

In Angola the main initiatives were the support for two post-graduate courses, one in Banking Law and the other in Public Administration, at Universidade Agostinho Neto, as well as the granting of prizes to the best final year students at Universidade Católica de Angola. The courses resulted from a scientific collaboration between Universidade Agostinho Neto, the Law Faculty of Universidade de Lisboa and the Social and Political Sciences Institute of Universidade Técnica de Lisboa.

In Mozambique, BCI Fomento gave continuity to the partnership accord with Escola Nacional de Artes Visuais and reinforced the quality and diversity of the multimedia libraries integrated within its organic structures, one in Maputo and the other in Beira. The agreement with the school materialises in the staging of joint initiatives in the training of young professionals in the arts field. The multimedia libraries include a library, a video archive and an Internet-café open to the public, with the one in Maputo having supported during 2007 the publishing and publication of various books.

Culture BPI's cultural patronage policy continued to give priority to a group of institutions and initiatives linked to contemporary art, music and the promotion of the Portuguese language.

The chief news of the year under review was the formalisation of the status of the principal patron of the Casa da Música (music hall) for a period of three years.

On the other hand, the partnership with the Calouste Gulbenkian Foundation was renewed for the realisation of the cycle of concerts devoted annually to the World's Great Orchestras, an event which has been running for more than a decade and constitutes a fundamental showcase for musical programming in Portugal.

BPI also gave support to the anniversary celebrations of the Treaty of Rome on the occasion of the Portuguese EU Presidency.

In the Arts field, the Bank maintains the status of patron of the Serralves Museum and was once again the sole sponsor of the Annual Grand Exhibition, this time dedicated to the North American Robert Rauschenberg, with the title "Travelling 70-76".

It also backed for the second consecutive year Arte Lisboa, the country's biggest contemporary art fair, and became the patron of the new Museu de Arte Contemporânea de Elvas.

Also for the second year running, BPI sponsored the Portuguese Language National Contest in partnership with Expresso, SIC and Jornal de Letras. This competition was held in the first half of 2007 and attracted more than 30 thousand participants.

Special reference is made to the medium-term support given to the renovation of the André Gouveia university residence in Paris, in cooperation with the Calouste Gulbenkian Foundation.

Also noteworthy was the exhibition of the works by the painter Vieira da Silva at the São Paulo Museum of Modern Art.

Within the ambit of cultural patronage, support was given to the Museu do Caramulo, Museu da Presidência da República, to the Teatro Viriato in Viseu, and to the Foundations Museu do Douro, Casa de Mateus, Eça de Queiroz, Eugénio de Andrade, Júlio de Resende, Luís Miguel Nava (annual poetry award), Maria Isabel Guerra Junqueiro, Cooperativa Árvore, Centro Nacional de Cultura, Instituto Português de Fotografia, Instituto Manuel Teixeira Gomes, Sociedade Nacional de Belas Artes, Bienal de Vila Nova de Cerveira, Associação dos Amigos da Torre do Tombo, Fundação Cidade de Lisboa (cycle of conferences). BPI once again sponsored the principal concert held annually at the Coliseu do Porto and the Ponte de Lima Opera Festival.

In Angola, BFA sponsored the III National History of Angola Gathering, the 4th edition of the Coopearte project, the collective exhibition of plastic artists oriented towards cultural promotion and exchange, the programme of activities and events of the Centro Cultural Português and the publishing of the Portuguese Language Manual by the authors Maria Helena Miguel and Maria Antónia Alves, lecturers at the Universidade Católica de Angola.

Special reference is made to the support given to the get-together in Luanda of all the foundations from the Community of Portuguese-speaking Countries (*Comunidade dos Países de Língua Portuguesa* – CPLP).

In Mozambique, the main highlights were amongst Banco BCI Fomento's cultural sponsorships those to the National Song and Dance Company, the 2nd Maputo Documentary Film Festival "Dockanema" and the 3rd Maputo Music Festival.

Also worth noting was the support given to the staging of the Mozambique Week promoted by the Republic of Mozambique Embassy.

Human resources

At 31 December 2007, the BPI Group's workforce numbered 9 345. At the end of 2007 there was an increase of 763 people (+10.8%) deployed in domestic operations, and 294 people (+23.8%) in international operations in Angola, which in turn was due to the commercial network's expansion drive.

Banco BPI staff complement

Distribution by geographical and business area in 2007

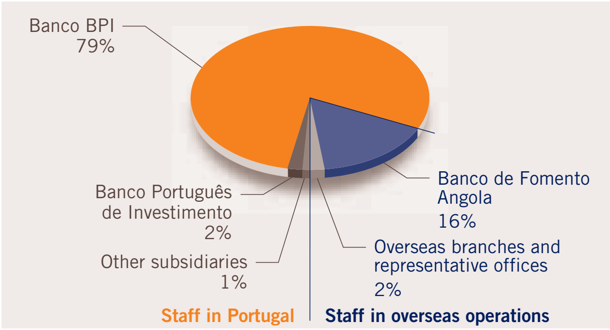


Chart 14

BPI Group Employees

	Year-end figures			Year-average figures		
	2006	**2007**	**Δ%**	**2006**	**2007**	**Δ%**
Domestic activity						
Banco BPI	6 658	7 356	10.5%	6 559	7 010	6.9%
Banco Português de Investimento	129	145	12.4%	131	137	4.6%
Other subsidiary companies	93	100	7.5%	96	94	(2.1%)
Subtotal – activity in Portugal[1]	**6 880**	**7 601**	**10.5%**	**6 786**	**7 241**	**6.7%**
Overseas branches and representative offices	174	216	24.1%	166	197	18.7%
Subtotal – domestic activity	**7 054**	**7 817**	**10.8%**	**6 952**	**7 438**	**7.0%**
International activity						
Banco de Fomento Angola	1 234	1 528	23.8%	958	1 375	43.5%
Subtotal – international activity	**1 234**	**1 528**	**23.8%**	**958**	**1 375**	**43.5%**
Total[1]	**8 288**	**9 345**	**12.8%**	**7 910**	**8 813**	**11.4%**
Of which:						
Activity in Portugal						
Fixed-term contracts	590	856	45.1%	575	705	22.6%
Temporary employment[2]	145	193	33.1%	167	201	20.4%
Overseas branches and representative offices						
Fixed-term contracts	22	25	13.6%	16	23	43.8%
Temporary employment[2]	-	-	-	-	-	-

1) Includes fixed-term contracts and temporary employment of persons with no binding work contracts with BPI. The number of Employees with stable binding work contracts with BPI in the activity in Portugal increased 6.6% from 6 145, in 2006, to 6 552, in 2007.

2) Temporary employment costs are recorded in the books under the caption General and administrative overheads.

Table 4

BANCO BPI

The strong expansion of the Bank's commercial network, with the opening of 88 branches of the traditional network, 4 investment centres and 3 corporate centres, absorbed the large majority of the new Employees recruited during 2007, while the focus continued to be centred on the selection of young university graduates with above-average behavioural and technical aptitudes.

Banco BPI Employees
Selected indicators

	2006	2007
Employees (no.)	6 658	7 356
Employees as % of the Group total staff	80%	79%
with higher education	41.5%	44.1%
with higher education (at the Individuals network)	35.0%	38.2%
Average age	39.5	39.0
Average period of service in BPI	13.1	12.4
Men	48.3%	47.6%
Women	51.7%	52.4%
Employees per branch[1]	6.0	5.9

1) Based on the number of Employees at the traditional and in-store network (3 436 in 2006 and 3 384 in 2007).

Table 5

Of the total 7 356 Employees working at Banco BPI at the close of 2007, 81.4% were deployed in commercial activity, while 18.6% formed part of the central support services.

The efficiency gains obtained in the functioning of the central services have permitted an absolute reduction in the human resources allocated to support activities, despite the overall increase in the staff complement that took place in 2007.

Banco BPI Employees[1]
Distribution by area of activity

	2006	2007	Δ%
Retail Branches network[2]	3 789	4 339	14.5%
Corporate Centres[3]	412	438	6.3%
Non-traditional channels[4]	343	396	15.5%
Product factories[5]	524	652	24.4%
Marketing	154	161	4.5%
Commercial activity	**5 222**	**5 986**	**14.6%**
Central services	**1 436**	**1 370**	**(4.6%)**
Total	**6 658**	**7 356**	**10.5%**

1) Activity in Portugal. Includes temporary workers (145, in 2006, and 193, in 2007) and fixed-term contracts (578, in 2006, and 856, in 2007).
2) Branches, investment centres and respective support structure (the following divisions: loans to individuals and small businesses, retail network projects, and commercial support office).
3) Corporate Centres and Credit Risks Division.
4) Telephone Banking, Internet, Automated Banking and Protocol Banking.
5) Cards, mortgage loan financing (which includes 19 housing shops), personal loans and motor-car finance.

Table 6

Banco BPI staff complement
Distribution by area of activity

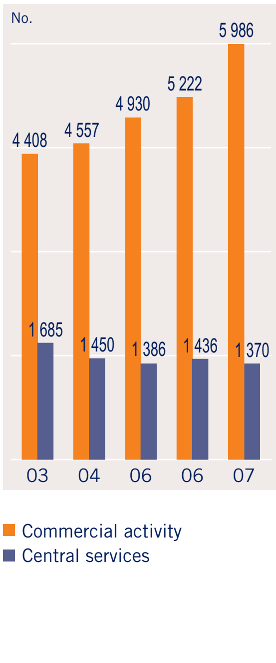


Chart 15

Distribution by functional areas

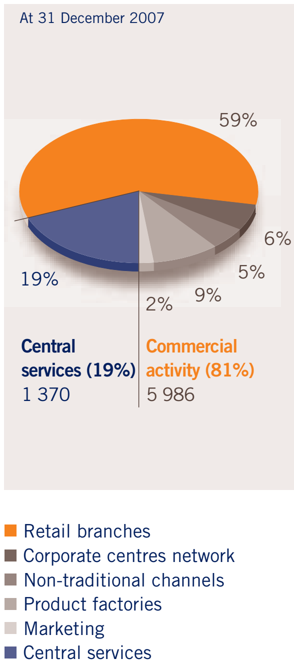


Chart 16

BANCO PORTUGUÊS DE INVESTIMENTO

Banco Português de Investimento's activity remains centred on the Equities, Corporate Finance and Private Banking businesses, the backbone of which is a young, experienced and highly-qualified workforce with specific technical skills. This structure has permitted attaining a very pronounced expansion in activity in the respective business areas.

Banco Português de Investimento Employees
Selected indicators

	2006	2007
Employees	129	145
Employees with higher education	75.2%	73.8%
Average age	38.0	37.7
Average period of service in BPI	10.5	9.7
Men	59.7%	56.6%
Women	40.3%	43.4%

Table 7

Banco Português de Investimento
Staff complement

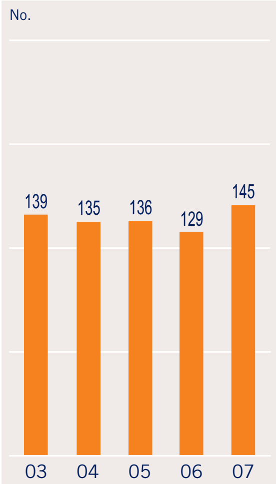


Chart 17

Staff complement with university degree

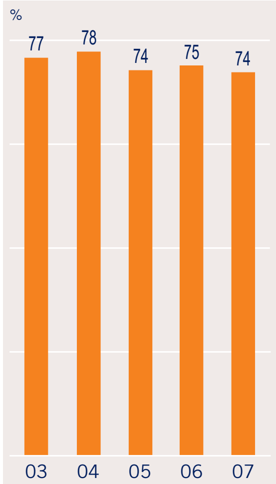


Chart 18

BANCO DE FOMENTO ANGOLA

At the end of 2007, BFA's headcount stood at 1 528 Employees, of whom only 14 were expatriates (BPI's Portuguese staff seconded to Angola).

BFA's human resources are characterised primarily by their youth and training:

- the average age of Employees is 29;
- 56% of these either attend university or have already graduated.

Banco de Fomento Angola Employees
Selected indicators

	2006	2007
Employees	1 234	1 528
Employees with higher education[1]	57%	56%
Average age	28.1	29.3
Men	50.0%	51.6%
Women	50.0%	48.4%

1) Includes attendance and graduation.

Table 8

Banco de Fomento Angola
Staff complement

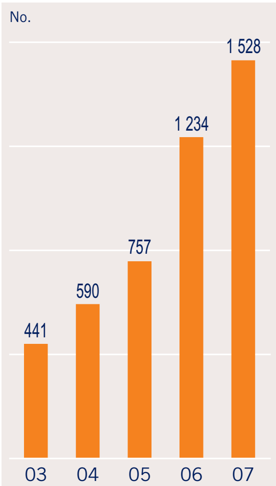


Chart 19

Staff complement with university degree

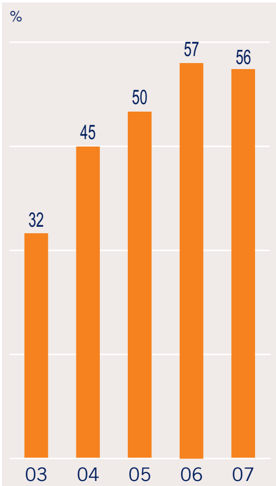


Chart 20

TRAINING

Activity in Portugal

During the year, roughly 96% of the Employees deployed in Portugal received internal and external training. The training of newly-graduated Employees occupied a large proportion of the training schedule as a consequence of the opening of new branches: 61% increase in the total number of induction and integration programmes relative to the preceding year.

The Branch Network accounted for about 84% of training courses.

The training rate (expenditure on training as a percentage of payroll costs) was situated at 1.28% in 2007.

Training continued to be focused on sales, with a major practical component. New instruments designed to lend support to training in a working environment were conceived and disclosed.

Classroom-type training sessions were attended by 29 744 participants (54% more than in 2006), out of a total of 142 904 hours (18% more than in the previous year).

E-learning involved 38 167 participants out of a total of 65 268 training hours. Courses essentially covered BPI's computer applications and the range of BPI products. The Bank's entire workforce attended courses addressing the Prevention of Money Laundering and Financing of Terrorism. In parallel, an initiative aimed at promoting self-learning was unveiled offering the possibility of self-enrolment based on the existence of a catalogue of courses.

Training – Activity in Portugal

	2006	2007
Global training		
Percentage of Employees with training	70.41%	95.95%
In-house courses	67.75%	91.06%
External courses	2.66%	4.90%
Average no. of training hours per Employee	31.44	28.41
Average duration of training (hours)	4.6	3.07
Percentage of personnel allocated to training	0.12%	0.12%
Training rate	1.18%	1.28%
Classroom training		
Percentage of Employees with training	66.20%	69.83%
In-house courses	63.56%	91.06%
Average no. of training hours per Employee	26.57	26.80
Average duration of training (hours)	6.3	4.80
Average no. of participants per session	2.5	2.02
Training rate	1.04%	0.96%
Investment in training per participant (€)	571	460
E-learning training		
Employee participation	57.34%	92.85%
Average duration of training per Employee (hours)	7.9	9.2
Investment in training per participant (€)	92	111.6
Support for personal advancement		
Graduates	155	173
Post-graduates	81	85

Table 9

Technology

INFORMATION SYSTEMS IN PORTUGAL

BPI's IT platform comprises information systems and physical infrastructures based on a multi-channel architecture, and on the full integration of web technologies and transactional platforms.

The computer components – commercial and operational – are made available in a common interface accessible throughout the Group which encompasses an increasing number of business, back-office[G] and training processes.

The overriding objectives during the lifecycle of BPI's information systems from the moment of conception to implementation of the solutions and, essentially, in the production phase, are robustness, scalability, security and the IT platform's availability from the business, operational and Customer-service support perspective.

The efficiency and availability indices attest to the proposed objectives and evidence the efficacy and rationality which constitute the cornerstones of the technology capability at BPI.

Efficiency, availability and performance in Portugal
Selected Indicators

	2006	2007
Central systems processing capacity (in millions of instructions per second – MIPS)	1 451	1 647
Middle range systems processing capacity (in transactions per minute – tpm)	813 710	1 127 862
Central and middle-range systems storage capacity (in terabytes)	24.1	30.5
PC's per Employee[1]	1.4	1.3
Employees with access to the intranet and e-mail	100%	100%
Page views on the intranet, per day (thousands)	1 400	1 700
Employees with access to the Internet	33%	40%
Availability of transaction sites	99.8%	99.5%
Page views on the Internet per day (all the BPI sites) (thousands)	1 456	1 600
Systems availability at the branches before 8.30 a.m.	99.2%	99.7%
Real time[G] in cards: from 7 a.m. till 4 p.m.	99.96%	99.6%
Response time to transactions at the branches (less than three seconds)	99.5%	98.6%
Transactions on the multi-channel platform per day (thousands)	630	1 280
Technological help desk: resolution of problems in less than two hours	88%	88%

1) Including PC's without specific user and PC's dedicated to management, monitoring and testing tasks.

Table 10

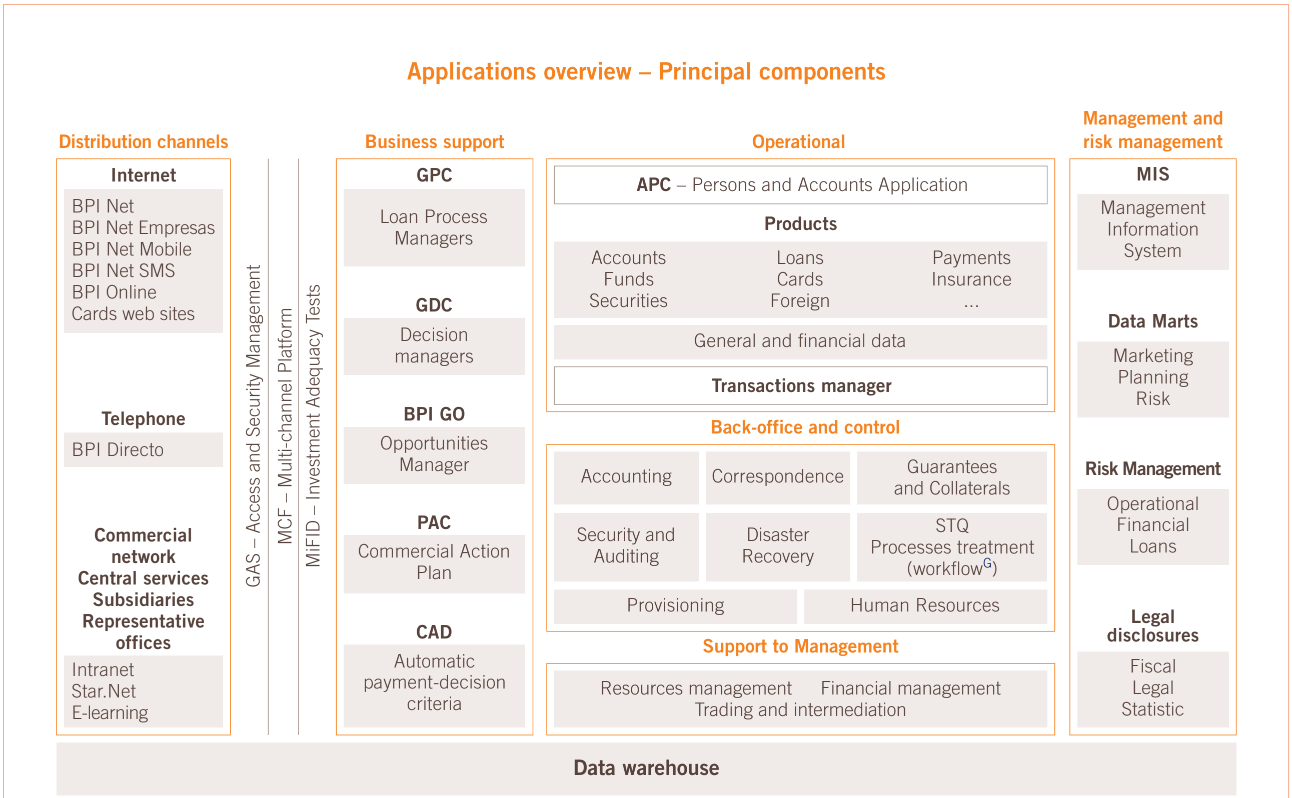


Figure 6

ACTIVITY IN 2007

During 2007, special emphasis was placed on structuring projects of great scale and extreme complexity, amongst which we highlight the Transaction Processing Reformulation Process, the MiFID Project (Market In Financial Instruments Directive) and the Papiro Project. Priority was also given in particular to projects supporting the increase in business and commercial activity, and the response to the alterations imposed by regulatory requirements.

Considering all the work undertaken in 2007, the following projects and initiatives merit special mention due to the significant progress made.

Decision and business support

- Development of a new system for processing national transfers with the aim of facilitating and improving the processing of Customers' orders, as well as rationalising and decentralising operations-related tasks associated with this activity.

- Implementation as part of the automation of business processes of a new decision-support application. Besides the increase in overall efficiency, this tool has the advantages of permitting a complete audit of the processes and rapidly adapts to the new decision rules. The application, the use of which will be extended, was specially suitable in loan-decision processes, incorporating new functionalities and variables to be considered in the restructuring of processes.

Optimisation of processes

Work on the Transaction Processing Reformulation Project was completed. Its chief objectives, which were fully realised, were the following.

- Significant and lasting reduction in the handling time of mass operations.

- Unification of data supports.

- Elimination of constraints stemming from the concurrence of processes.

- Almost uninterrupted availability of BPI's main systems and channels.

Efficiency

The Papiro Project is intended to curb the circulation of paper in the Bank's processes and, in tandem with other processing optimisation and restructuring initiatives, constitutes an essential step towards bolstering efficiency. In 2007, the project made substantial progress given that it began functioning on an experimental basis at certain branches, at the same time as the implementation of the architecture supporting centralised management of images is taking place.

Compliance and risk

2007 was marked by the need to adapt the Bank's systems to a number of regulatory requirements. This was the case with the decree-law harmonising the treatment of value dates and rounding-off rules at national level; and the MiFID (Market in Financial Instruments Directive) and SEPA (*Single Euro Payments Area*) projects, both community-wide initiatives. The latter led to a series of structural interventions that ended up also resulting in the innovative increase in the number of functionalities offered to Customers and greater internal efficiency.

An IT system was implemented which permits monitoring and controlling more effectively the whole lifecycle of cheques. This also has the advantage of offering additional functionalities to both the commercial network and to Customers through sites on the Internet.

RESTRUCTURING AND OPTIMISATION OF BPI'S TRANSACTION PROCESSING

The increase in the volume of operations stemming from the increase in the number of the Group's Customers in recent years, not only at the physical network but also in the remote channels, the importance of which is drawing very close to that of the physical network, attained very significant values, especially in 2007.

Considering certain of the technological and structural limitations of some of the options of the processing-operational architecture, the conclusion was reached that it was important to avoid future constraints stemming from the large-scale and ongoing increase in volumes to be processed. Work commenced towards the end of 2006, therefore, on a major structural project, designated the Transaction Processing Restructuring Project, commissioned on 10 November 2007.

This project's essential goals are summarised in the following points:

- to create structural conditions that do not imply basis restrictions on the processing of an unlimited number of Customers or operations;

- to ensure that BPI's fundamental principles prevail, namely, security, robustness, flexibility and efficiency;

- to ensure that the new architecture proves to be capable of increasing the service levels provided to the business, namely, as regards operating timetable, information made available, overall quality and the satisfaction of new needs;

- to ensure efficient cost management of the systems, promoting concomitantly the creation of conditions for more ambitious and complete operational continuity and disaster-recovery plans.

The result of BPI's technological renovation translated itself into the IT platform's increased robustness, security and flexibility. The following were the most significant gains.

- Internal and remote channels available approximately 24 hours a day: reduction in the period during which transactions cannot be processed at night time from approximately 120 to 20 minutes.

- Overall optimisation of the central system's resources, which translated into a reduction of roughly 15% in the utilisation of installed processing capacity (MIPS). The prior restructuring of the technological infrastructure was crucial for this operation's success.

- Maintenance of the performance quality notwithstanding the fact that structural alterations were introduced resorting to potentially more consumption-intensive technologies. Nonetheless, these afford more robustness, security and modularity.

INFORMATION SYSTEMS IN ANGOLA

ACTIVITY IN 2007

Evolution of the information systems

The development of BFA's information systems has been geared to the ever-increasing automation of processes and the development of new applications in such a way as to keep pace with the strong business expansion in Angola.

Work therefore continued on reinforcing internal capacity, and the specialisation and training of the technical staff, as well as the launch of structural projects of both an infrastructural and applications nature.

Infrastructure, control and security

The information technologies area participated actively in the process involving the expansion of BFA's distribution network with the mounting of the IT and communications infrastructures for 17 branches, two investment centres, one corporate centre and two bank attendance posts. Three of the existing branches were also completely remodelled.

In coordination with the supplier of BFA's central banking application, load and benchmarking[G] tests were conducted in order to assess the system's future capacity. According to the results of those trials, the potential growth and performance are adequate for BFA's requirements and strategy.

In order to boost the Bank's security and centralised management mechanisms for all work posts – a policy that forms part of the best international practices – the entire distributed systems' infrastructure was altered and the central services' and part of the branch network's equipment and configurations standardised. This project will be totally completed during the first half of 2008.

Still in relation to the infrastructures, the AS / 400 system was upgraded in order to ensure greater processing capacity and redundancy and, therefore, so as to guarantee better tracking of the expanding range of products and services and the rising number of users and Customers.

Efficiency, availability and performance of BFA information systems
Selected indicators

	2006	2007
Central systems processing capacity (CPW[1])	10 900	14 200
Storage capacity (in terabytes)	3.1	3.1
PC's per Employee[2]	0.88	0.88
Employees with access to the e-mail	48%	50.5%
Employees with access to the intranet[2]	95%	90%
Number of processes available through the intranet	5%	5%
Employees with access to the Internet[3]	16%	7.1%
Page views on the Internet, per day (th.)	10	51
Availability of transaction sites	99.8%	99%
Transactions on the multi-channel platform per day (th.)	8.1	15.7
Active debit cards (th.)	75.8	130
Branches: opening before 8 a.m.[3]	99.3%	98.5%
Response time to transactions at the branches – Luanda (less than two seconds)	98%	98%
Response time to transactions at the branches – province (less than eight seconds)	98%	99.8%
Technological help desk: resolution of problems (less than two hours)	90%	88%

1) Commercial Processing Workload (capacity of processing commercial transactions); benchmark IBM for IBM AS / 400 systems.
2) Increase in absolute value.
3) Causes external to the information systems.

Table 11

Efficiency and business support

In order to obtain efficiency gains through automation and improvement of processes, services were subcontracted, namely in the printing area.

A specific solution was installed in the help-desk and support areas, with the objective of improving the quality of service and making the management of users' requests and the programming and management of internal and external support activities more effective, including the inventory of the Bank's computer equipment.

The execution of operations on APT and ATM with Visa cards was made possible thanks to the development of acquiring operations for these credit cards.

As regards the presence on the Internet, a new version of BFA's public site was made available (http://www.bfa.ao), where the organisation of content was improved in response to the increasing success of this mode of communication between BFA and its Customers.

Highlights of the year

2007

January

17 Moody's reiterates the long-term rating of A2 and positive outlook for Banco BPI.

19 The Shareholders of Banco BPI elect at the first General Meeting of 19 January, Dr. Manuel Eugénio Cavaleiro Brandão to the Office of Deputy-Chairman of the Shareholders' General Meeting.

The Shareholders of Banco BPI approve at the second General Meeting of 19 January, the motions tabled by the Board of Directors, which encompassed an authorisation for the Board of Directors to deliberate on the disposal of the Bank's and BPI Vida's shareholdings in BCP and a motion relating to the programme for the expansion of Banco BPI's branch network.

25 Release of the consolidated results for the 2006 financial year: net profit of 308.8 M.€ which represents a 23.1% year-on-year improvement. The ROE was 24.3%.

26 Standard & Poor's reiterates the A- long-term rating for Banco BPI.

February

BPI achieved 2nd place amongst the most trusted banking brands in the 2007 edition of the "Trusted Brands" survey, published annually by the Reader's Digest Selections.

March

1 Takeover Bid: Preliminary decision of the Competition Authority declaring its non opposition to the operation, which includes a number of undertakings assumed by BCP to the Competition Authority.

12 Takeover Bid: Board of Directors of Banco BPI informs that it has unanimously deliberated not to make any pronouncement on the content of the Competition Authority's preliminary decision.

14 Takeover Bid: A year after the publication of the preliminary announcement of BCP's offer, BPI presents to the market the performance of the key indicators over the preceding 12 months.

16 Takeover Bid: Competition Authority's final decision which pronounces its non opposition to the BCP / BPI concentration operation, by means of a number of commitments assumed by BCP.

BPI Gestão de Activos was judged the "Best Management Company of the Year – Domestic Funds" in the 2007 edition of the Standard & Poor's – Diário Económico awards for the best Unit Trust Funds.

April

5 Takeover Bid: Registration of the Bid by the CMVM; BPI's Board of Directors unanimously deliberates to reaffirm the rejection of the bid and the recommendation that the Shareholders of Banco BPI also turn it down.

10 Takeover Bid: Start of the offer period.

20 BPI's Shareholders unanimously approve at the Annual General Meeting, the annual report and accounts, the distribution of a 16 euro cents dividend per share in respect of the 2006 financial year, and a vote of confidence and praise to the Board of Directors and the Audit Committee, extended to all and each one of the members of the governing bodies for the manner in which they exercised their respective functions during 2006.

BPI's Shareholders approve in GM the long-term dividend policy, with 99.9% of the votes cast.

BPI's Shareholders also approve at the same GM, by 99.3% of the votes cast, the granting of an authorisation to the Board of Directors for the acquisition and disposal of treasury stock, subject to the suspensive condition that the Takeover Bid launched by Banco Comercial Português, S.A for Banco BPI, S.A. shares is unsuccessful.

24 Disclosure of the 2007-2011 Business Plan.

Takeover Bid: Revision of the price offered by BCP, from 5.70 to 7.00 euro per share.

Release of the consolidated results relating to the first quarter of 2007: net profit of 96.8 M.€, which represents 30% year-on-year growth. The ROE was 26%.

26 Takeover Bid: Release by BPI's Board of Directors of the report on the acceptability and conditions of the Takeover Bid launched by BCP following the announcement of the revised price. It is considered that BCP's revised offer constitutes an attempt to buy the bank by significantly undervaluing it and that it is not in the interests of its Shareholders, Customers and Employees.

May

4 Takeover Bid: End of the offer period.

Banco BPI pays a dividend of 16 cents per share, which corresponds to a pay-out of 39.4% and a dividend yield[G] of 4.1%.

7 Takeover Bid: Determination of the outcome of the Takeover Bid, accepted by a mere 3.9% of Banco BPI's capital. Considering the success conditions set for the Takeover Bid, it did not produce any effect.

25 Standard & Poor's upgrades Banco BPI long term credit rating from A- to A.

July

4 At the Investor Relations & Governance Awards, event promoted by Deloitte, *Semanário Económico* and *Diário Económico*, with the aim of recognising excellence in financial communication by companies listed on the Euronext Lisbon market, BPI was distinguished with the award for the Best Information about Corporate Governance, as well as receiving an honourable mention in the category Best Annual Report in the financial sector.

27 Release of the consolidated results relating to the first six months of 2007: net profit of 193.1 M.€, which represents 30% year-on-year growth. The ROE was 25%.

31 Banco BPI launches the third home-loan securitisation operation, in the amount of 1 500 M.€, consolidating amongst international investors and the rating agencies the quality of BPI's home-loan portfolio and the Bank's abilities as an originator.

September

20-21 Banco Português de Investimento stages in Cascais the fourth Iberian conference for small and mid caps, an event attended by 80 institutional investors and 25 Iberian companies.

BPI was judged for the second year running the "Best Large Bank" in Portugal, within the ambit of the Banking & Insurance sector, in a poll organised by the business magazine Exame.

October

25 Proposal by BPI’s Board of Directors to BCP’s Executive Board of Directors regarding a merger between BPI and BCP.

Consolidated results relating to the first nine months of 2007 are released: net profit amounts to 249.4 M.€, which represents year-on-year growth of 14%. The ROE was 21%.

30 BPI’s Board of Directors reiterates the proposal of 25 October and manifests its willingness to embark on talks aimed at reaching an agreement with regard to the proposed merger.

November

5 BPI and BCP announce that the commencement of discussions aimed at a merger agreement will take place on 6 November, behind closed doors to ensure confidentiality.

6-7 Banco Português de Investimento organises in New York the second conference of Iberian banks, which counted with the participation of 25 institutional investors and 9 Iberian banks.

19 Approval by BPI's Board of Directors of the document to be presented to BCP's BD relating to the merger proposal.

25 Announcement of the unsuccessful conclusion of the discussions initiated on 6 November aimed at a possible merger between the two banks.

BPI was considered to be the financial sector’s most attractive brand according to “Brands’ Magnetic Fields’ 07”. This survey assessed the capacity of brands to attract Portuguese consumers based on three dimensions: the Confidence they inspire, their perceived Prestige and the Identification they manage to generate amongst consumers.

2008

January

24 Disclosure of results: The BPI Group reports a consolidated net profit for the year of 355.1 M.€, which reflects a 15% increase on the earnings reported in 2006. The ROE was situated at 22.4%.

BPI’s Private Banking was distinguished as the “Best Private Banking” in Portugal, according to the Euromoney Private Banking Survey 2008. This award results from the poll conducted annually by Euromoney, one of the world’s most highly-regarded financial publishers.

February

For the second consecutive year, BPI achieved 2nd place amongst the most trusted banking brands, in the 2008 edition of the survey “Trusted Brands” published annually by the Reader's Digest Selections.

March

6 Banco BPI's Board of Directors deliberated to submit for approval at the next Shareholders' General Meeting a motion to increase the share capital which will generate cash proceeds of 350 M.€.

BCP'S TAKEOVER BID FOR BPI'S CAPITAL

TAKEOVER BID – CHRONOLOGY OF THE FACTS

2006 facts

1	**13 March 2006**	Publication of the bid's preliminary announcement for 100% of Banco BPI's capital
2	**15 March 2006**	Announcement of Banco BPI's Board of Directors highlights hostile nature of the bid
3	**31 March 2006**	Delivery by the bidder of the application for registration of the bid at the CMVM and notification to the Competition Authority
4	**10 April 2006**	Report of Banco BPI's Board of Directors on the acceptability and the conditions of the bid and disclosure of the Bank's Business Plan
5	**20 April 2006**	Approval at BPI's General Meeting of the change to the limitation on voting rights from 12.5% to 17.5%
6	**12 June 2006**	BCP informs about the Bank of Portugal's decision not to oppose
7	**5 July 2006**	BCP informs about the Insurance Institute of Portugal's non opposition
8	**14 July 2006**	Commencement of the in-depth investigation phase by the Competition Authority
9	**23 October 2006**	BPI announces plan to open 80 branches in Portugal in 2007, and 30 new branches in Angola
10	**14 November 2006**	Announcement of the revocation of the pre-emption agreement between BPI Shareholders
11	**13 December 2006**	Banco BPI's Board of Directors deliberates to request the convening of an Extraordinary General Meeting (EGM)

2007 facts

2007 (Jan. – Feb.)

12 **19 January 2007**
EGM approves the plan for the opening of branches and grants power to the Board of Directors to decide on the sale of the stake held by Banco BPI and BPI Vida in BCP

13 **25 January 2007**
Release of BPI's 2006 earnings: net profit of 308.8M.€ exceeded the 291M.€ projected in the Business Plan

14 **29 January 2007**
BCP informs about the conclusion of contracts with Santander and the BCP Pension Fund for the purchase of 10.5% of BPI' share capital, and about the undertaking relating to the process involving the possible sale of assets

15 **1 February 2007**
BPI's announcement concerning the testimonial (exposition) submitted to the CMVM on the agreement announced between BCP and Banco Santander

■ BPI ■ BCP ■ Authorities

TAKEOVER BID

On 13 March 2006, Banco Comercial Português (BCP) unveiled a preliminary announcement of a Takeover Bid for the entire capital of Banco BPI at a cash price of 5.70 euro per share. The offer was announced as being subject to the verification by the end of the offer period of a number of conditions along the following general lines: minimum acceptance level of 50.01% of the share capital and voting rights, in the event that, on the date the offer closes, there are no legal or statutory limits on the counting of votes cast by a shareholder or related shareholders; or conversely, of 90%.

After revising the offer price to 7.00 euro per share on 24 April 2007, the results of the operation were ascertained at the special stock exchange session held on 7 May 2007. The offer was accepted by Shareholders representing just 3.9% of Banco BPI's share capital, with the result that in terms of the conditions laid down for the Takeover Bid's success, the offer did not produce any effect.

Extraordinary General Meeting of BPI approves branch-expansion plan and authorises the Board to decide on the disposal of the stake held in BCP

In the wake of doubts raised about the legal capacity of BPI's Board of Directors to approve, during the offer period, the expansion plan for 2007 announced at the time the results for the third quarter of 2006 were released, and following the request for clarification from the CMVM, BPI informed that the programme envisaged a gradual opening of new outlets, with the result that by the closure of the bid launched by BCP, no more than 20 new branches would be opened in Portugal, except if a resolution to the contrary was passed in General Meeting. With regard to the branches to be opened in Angola, BPI clarified on the same date that in 2007 15 of the 30 branches merely corresponded to opening ahead of schedule of the branches projected in the Business Plan for 2008.

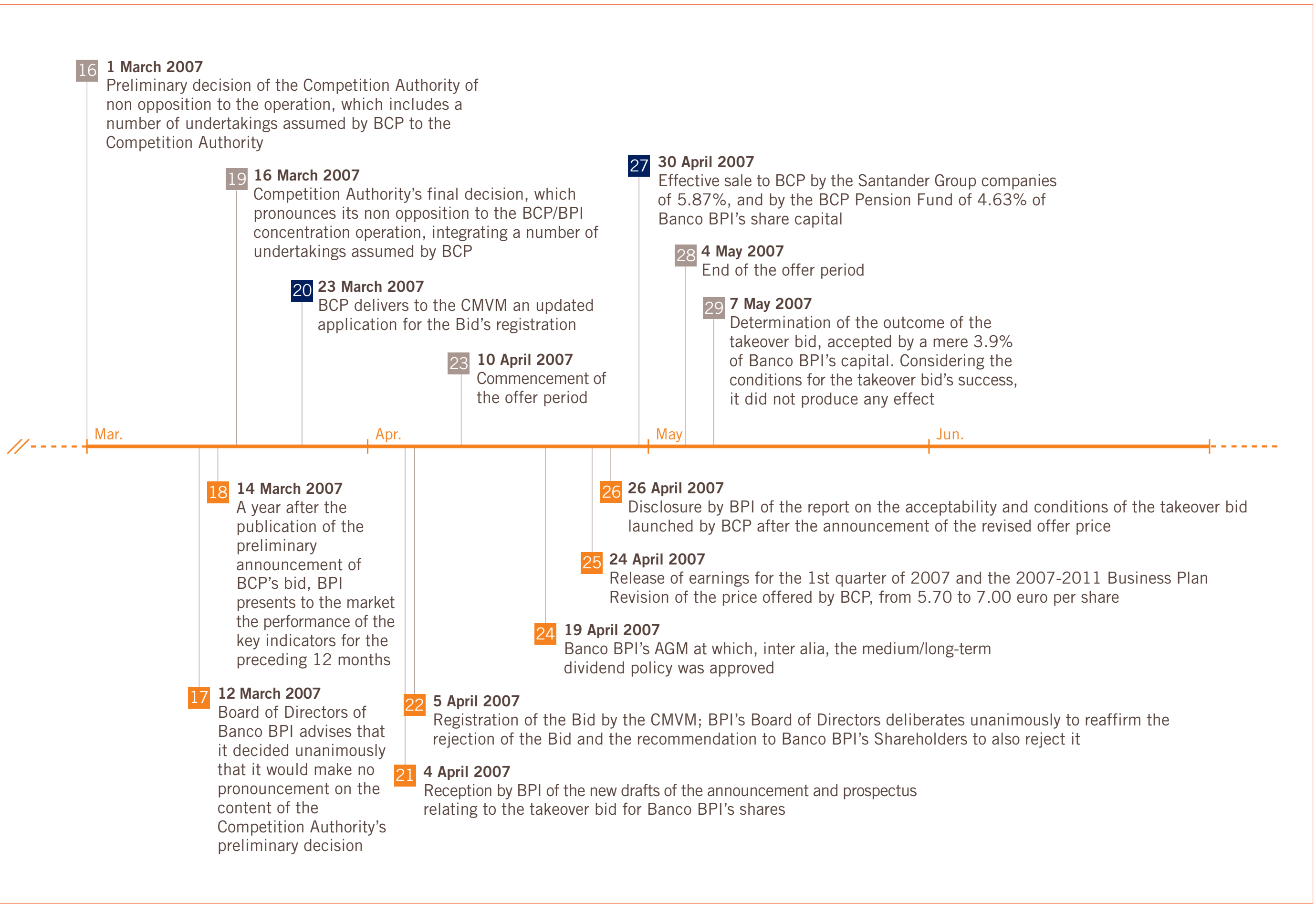


Figure 7

On 13 December 2006, Banco BPI's Board of Directors decided to request the convening of an extraordinary GM to deliberate on (1) a proposal of the Board relating to the programme for the expansion of Banco BPI, S.A.'s branch network and (2) a motion of the Board that it be authorised to decide upon the disposal of Banco BPI, S.A.'s and BPI Vida – Companhia de Seguros de Vida, S.A.'s holdings in BCP's share capital (4.44%). At the General Meeting of 19 January 2007, which had the highest ever shareholder participation since BPI became a quoted company – representing 79.31% of the Bank's capital –, the Board's motions were carried by 81.8% of the votes cast.

Release of Banco BPI's 2006 results

On 25 January 2007, Banco BPI released its 2006 results. Net profit of 308.8 M.€ exceeded the 291 M.€ forecast for 2006 in the Business Plan for the 2006-2010 period.

Agreement between BCP and Banco Santander Totta

On 29 January 2007, BCP announced that it had entered into contracts with companies of the Santander Group (Portugal) and with the BCP Pension Fund for the purchase of Banco BPI shares corresponding to 10.5% of the latter's capital (5.87% and 4.63%, respectively), with these transactions being subject to the approval by the competent authorities. They also included stipulations relating to a possible sale of assets.

Following this announcement, BPI submitted a exposition to the CMVM, copies of which were sent to the Bank of Portugal and the Insurance Institute of Portugal. It also made public the respective conclusions regarding the legal problems which, in its opinion, emanated from the announced transactions, namely:

- that the information disclosed was not clear or transparent, reason for which BCP and the Santander Group should publicise the contracts entered into;

- that the reference made in point 4 of BCP's announcement ("Effective from the date of the conclusion of the contracts, the vendors would henceforth hold the shares on behalf of BCP, which will own all the rights attaching thereto ...") should not be permitted on the grounds that it anticipates the effects that justified the subjection of the announced acquisitions to authorisation;

- that the stipulation regarding the price adjustment and the granting of a "qualified position" to Banco Santander Totta with respect to the sale of Banco BPI branches / assets should not be authorised since it violates the principle of the equality of treatment of Shareholders;

- that BCP should not be authorised to acquire, off the stock exchange (over the counter), shares that will confer on it more than 10% of Banco BPI's share capital "given that there is no legitimate interest that leads to the waiver of the prohibition contemplated in article 180(1)(a) of the Portuguese Securities Code";

- that the sale, off the market, by BCP's Pension Fund to BCP of its equity holding in Banco BPI under the conditions disclosed was illegal within the framework of the regulations governing pension funds.

The Competition Authority's non-opposition decision

The Competition Authority's preliminary decision on the BCP / BPI concentration is made public on 1 March 2007. The preliminary decision was not to oppose the concentration, and included a number of undertakings assumed by BCP.

On 12 March 2007, the Board of Directors of Banco BPI publicly announced having unanimously deliberated not to make any pronouncement on the content of the Competition Authority's preliminary decision, reiterating the declarations made on 10 April 2006 to reject that Bid and its judgment that "The integration of BPI into BCP, within the context of the Bid, would adversely affect our Customers, from the standpoint of convenience, pricing and the range of products and services".

On 16 March 2007, the Competition Authority authorised the BCP / BPI concentration operation, in terms of which BCP assumed the following commitments:

- disposal of BCP's and BPI's holdings in Unicre;
- development of an acquiring operation;
- sale of 60 BPI branches to an entity outside the BCP Group;
- sale of a portfolio of business Customers (SME) in the amount of 450 M.€;
- measures relating to the mobility of business Customers, namely, the exemption of commissions charged for the unilateral rescission of accounts and for the supply of the historical records relating to the company's banking relationship.

Presentation to the market

On 14 March 2007, Banco BPI's Executive Committee made a presentation to the market entitled "A year later, bigger, better and stronger", in which it highlighted the evolution of the Group's key indicators relative to the date of the Takeover Bid's preliminary announcement, 13 March 2006.

Registration of the bid and the reaction of Banco BPI's Board of Directors

On 23 March 2007, BCP delivered to the Securities Market Commission an up-dated application for the Bid's registration. The CMVM registered the bid on 5 April.

On the same date, BPI's Board of Directors unanimously deliberated to reaffirm the rejection of the Bid and the recommendation that Banco BPI's shareholders also turn it down. In the same announcement, BPI's Board of Directors emphasised that "the Bank of Portugal expressed opposition to the fact that Millennium bcp, together with the entities whose voting rights are imputed to Millennium bcp, hold Banco BPI shares which represent 10% or more of the respective share capital or of the voting rights, should BCP not manage, in the terms and within the ambit of the Takeover Bid, to achieve control of Banco BPI." The Board of Directors of Banco BPI also clarified that the Bank of Portugal communicated in a letter dated 12 December 2006 to its Chairman, that the deliberation of the above-mentioned opposition presupposed "(...) that control of Banco BPI would only be attained if BCP obtained a majority of the countable votes at a Shareholders General Meeting of Banco BPI.".

The offer period commenced on 10 April 2007 and terminated on 4 May.

Banco BPI's Annual General Meeting

Banco BPI's General Meeting was held on 19 April 2007, at which, *inter alia,* the medium / long-term dividend policy was approved.

Disclosure of the results for the first quarter of 2007 and the 2007-2011 Business Plan

The results for the first quarter of 2007 were released on 24 April 2007. These reflected a net profit of 96.8 M.€, up more than proportionally to the 338 M.€ profit figure projected for 2007 in the 2006-2010 business plan. On that date, BPI disclosed to the market a new business plan for 2007-2011, which replaced the 2006-2010 business plan. The new business plan forecasts earnings for the BPI Group which will exceed the 2006 figure by more than twofold by the end of 2011 (666 M.€ in 2011 versus 309 M.€ in 2006), surpassing the goals appearing in the previous 2006-2010 business plan.

Revised price offered by BCP from 5.70 to 7.00 euro per share

On 24 April 2007 – the last legally-permitted day – BCP announced a revised price offered to 7.00 euro for each share representing Banco BPI's capital, payable in cash. In the presentation made to the market on that date, BCP revised upwards the overall amount of the synergies envisaged given that the cost synergies changed from 232 M.€ to 215 M.€ (net of the impact of the undertakings assumed by BCP to the Competition Authority), while additionally 74 M.€ of revenue synergies began to be considered.

Report of Banco BPI's Board of Directors on the acceptability and conditions of the Takeover Bid launched by BCP

In the wake of the announcement of the revised price, BPI released, on 26 April 2007, the Board of Directors' report on the acceptability and conditions of the Takeover Bid launched by BCP, which it annexed to the 2007-2011 business plan.

PRINCIPAL POINTS OF THE BOARD OF DIRECTORS REPORT ON THE BID'S ACCEPTABILITY AND CONDITIONS

- "The revised price of 7.00 euro offered by BCP continues to be a totally unacceptable offer.
- The revised price of 7.00 euro per share offered by BCP is, in reality lower than the original price of 5.70 offered on 13 March 2006, in relative terms, taking into consideration the stock market performance since then.
- BCP's revised price of 7.00 euro has a relatively lower underlying valuation implicit in the original offer price of 5.70 euro in terms of the price / earnings per share ratio (P/E).
- BCP's revised price of 7.00 euro does not completely reflect BPI's intrinsic value (i.e. standalone value), given the recent operating and financial performance and the growth potential reflected in its 2007-11 Business Plan.
- BPI can create much more value for its Shareholders.
- BPI's Board of Directors reiterates the principal messages addressed to BPI Shareholders and included in the report dated 10 April 2006.".

The conclusion was as follows: "BPI's Board of Directors considers that BCP's revised offer constitutes an attempt to buy the Bank that significantly undervalues it and does not serve the interests of its Shareholders, Customers and Employees. Consequently, the Board of Directors unanimously rejects BCP's Bid and recommends to BPI's Shareholders that they also turn it down by not selling their shares."

Sale to BCP of 10.5% of BPI's capital by Santander Group companies and BCP's Pension Fund

The effective sale to BCP by Santander Group companies of 5.87% and by the BCP Pension Fund of 4.63% of Banco BPI's share capital, respectively, took place on 30 April 2007, as announced in January 2007.

Determination of the results of BCP's bid for BPI

With the end of the offer period on 4 May, the results of the bid were ascertained at a special stock-exchange session held on 7 May 2007. The bid was only accepted by Shareholders representing 3.9% of Banco BPI's share capital, with the result that in the light of the conditions set for the Takeover Bid's success, it did not produce any effect.

PROPOSED MERGER BY INCORPORATION OF BCP INTO BPI

PROPOSED MERGER – CHRONOLOGY OF THE FACTS

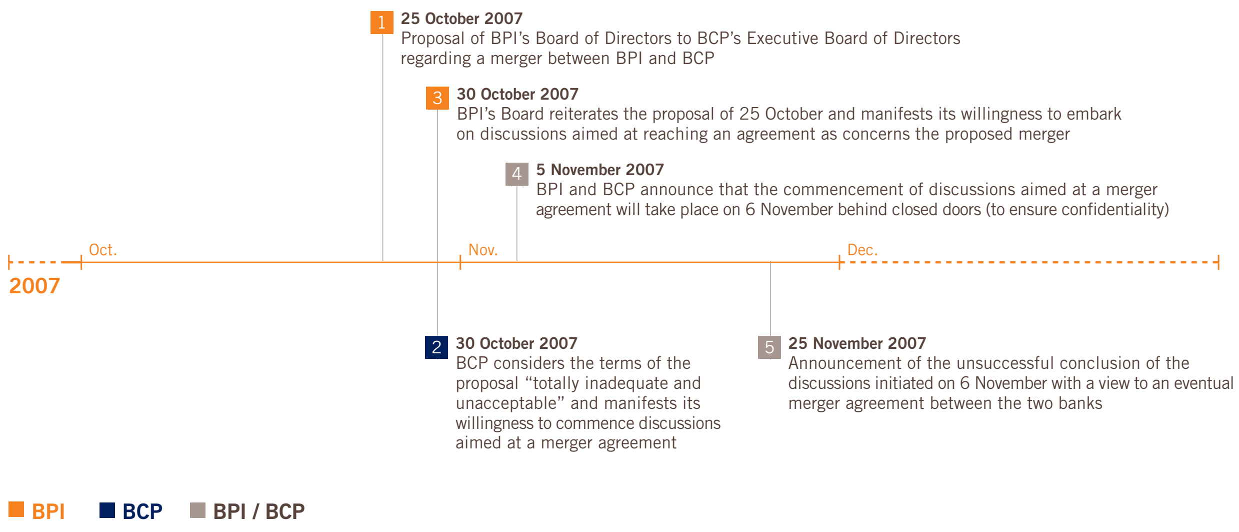


Figure 8

PROPOSED MERGER

On 25 October 2007, date of the disclosure of the results for the third quarter of 2007, BPI disclosed a proposal from its Board of Directors addressed to BCP's Executive Board of Directors regarding a merger between the two banks.

Terms of the proposal – main highlights

- Merger by incorporation of Banco Comercial Português, S.A. into Banco BPI, S.A.
- Exchange ratio: each BCP share would correspond to 0.5 BPI shares.
- Name of the entity resulting from the merger: Banco Millennium BPI, S.A.
- Alteration to the management and supervision structure, with the adoption of the model contemplated in the Commercial Companies Code: Board of Directors (BD) with Executive Committee, Supervisory Board and Portuguese Statutory Auditor (and external auditor).
- Increase in the maximum number of members of the Board of Directors to 31, 22 of whom non executive. Of the total Board members, 18 would be indicated by BCP and 13 indicated by BPI. The Chairman of the BD would be indicated by BCP and the Deputy-Chairman indicated by BPI. The CEO would be indicated by BPI and he would indicate 8 executive members (chosen from amongst the current members of the governing bodies and top management of BPI (four) and of BCP (four)). Shareholders with a holding in Banco Millennium BPI of up to 9% would indicate 1 member, and those with shareholdings of between 9% and 18% would designate 2 members. Shareholders with holdings of more than 18% would designate 3 members to the BD.
- Authorisation to the BD to deliberate on capital increases of up to 25% of the capital at the date of the authorisation or its renewal.
- Reduction in the qualified majority from 75% to 2/3 of the votes cast at Shareholders' General Meetings for altering the provision in the Statutes relating to the limitation of voting rights cast by a single shareholder.

- Consecration of a transitional provision applicable to the first term of Office of the Board of Directors (initiated immediately after the merger becomes effective). According to this provision, a majority of 2/3 of the members of the Board of Directors is required to approve the resolutions relating to the removal and nomination (appointment) of members of the Executive Committee.

- Provision that BPI and Millennium BCP could, before the merger becomes effective, dispose of the holdings that they have in Millennium BCP and BPI, respectively, to the shareholders of BPI and Millennium BCP, respectively. The aforesaid transactions are aimed at avoiding that those shares are extinguished or become treasury stock of Banco Millennium BPI, respectively, which would have a negative impact on the latter's shareholders' equity, obliging an increase in that shareholders' equity of roughly one thousand million euro. The terms of the transactions referred to must be the object of approval at the General Meetings of Banco BPI and Millennium BCP convened to deliberate on the merger.

With a view to the rapid definition concerning the possibility of forging an agreement regarding the merger, BPI announced that the proposal would remain in effect until the end of 15 November 2007.

Commencement of discussions

On 30 October 2007, in a letter addressed to the Chairman of Banco BPI's Board of Directors, BCP stated that "the terms proposed for the conclusion of the operation are totally inadequate and unacceptable. (...)" but, "bearing in mind the merit that a union of the two institutions potentially holds out", expressed its willingness to embark upon negotiations aimed at a merger agreement, "providing that such a process is initiated without preconditions of any nature".

On the same date, the Board of Directors of Banco BPI reiterated the proposal presented on 25 October and manifested its willingness to begin discussions aimed at reaching an agreement on the proposed merger of the two banks.

On 5 November 2007, the two banks notified the market the decision to start negotiations on 6 November 2007, with a view to a possible merger agreement. The two Boards of Directors also agreed to hold the relevant discussions behind closed doors so as ensure confidentiality, with the result that, save for agreement of both parties to the contrary, information would only to given to the market once the negotiations were concluded.

Unsuccessful conclusion of the negotiations

On 25 November 2007, both banks announced that the discussions initiated on 6 November and aimed at reaching a possible merger agreement, had terminated without success.

Background to operations

MACROECONOMIC BACKGROUND

The world economy continued to grow at a brisk pace in 2007 notwithstanding the turnaround observed in the closing stages of the year and which was more evident in the United States, although also noticeable in Europe and Japan. Latest estimates point to the global economy growing at an average rate of still close to the 5% registered in 2006. However, the deceleration became more pronounced in the last quarter, and was more intense in the developed countries. This situation heralds a significantly less favourable trend in 2008.

In the emerging economies, economic growth still posted a slight acceleration in 2007, due primarily to China, India and the African economies. Those countries benefited from the strong impetus from domestic demand, the discipline imposed on their respective macroeconomic policies and, in the case of the raw materials' exporters, from the spike in the prices of food and energy products. Their dependence on the developed countries, however, would tend to point to some deceleration in 2008.

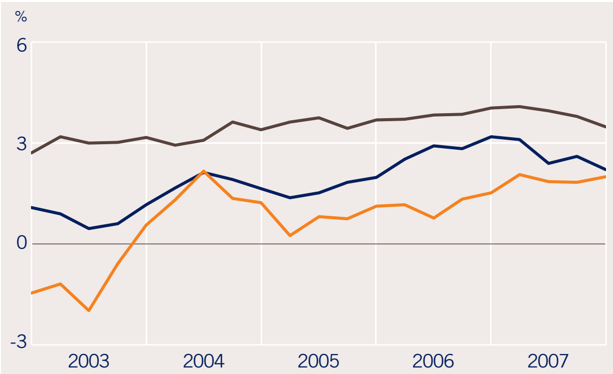
The fundamental aspects to be emphasised in 2007's macroeconomic landscape are not those relating to the growth figures observed (the ascertainment of which, in fact, is still preliminary), but rather the turnaround which took place, as regards growth deceleration and the rise of inflation.

The immediate cause of the American economy's slowdown was the crisis in the home-mortgage market, which began to manifest itself from February onwards and which deteriorated during the latter half of the year. The impact of this relatively small segment of the global financial market was greatly amplified by the rapid and increasingly complex financial innovation of recent years and, by what we now understand to be the markedly pro-cyclical character of the regulatory mechanisms in force in the international financial system. Initially viewed as a simple liquidity crisis, it became rapidly clear that it was in fact a more complex matter which involved the very capacity of credit expansion, on which depends the confidence of the financial markets, as well as of the American consumers – the principal source of demand at global level.

We therefore witnessed a mounting effort by the financial authorities to control the liquidity problems, but also to restore confidence to the economy. The Fed showed itself to be particularly dynamic in this domain, initiating a steep downward trajectory in interest rates revealing as the main priority combating the risk of a slowdown in economic activity. The ECB continued to consider that the risk of rising inflation was the European economy's chief concern notwithstanding the uncertainty resulting from the international financial turbulence. From that institution's viewpoint, the trend noted in the Euro zone on the growth, employment and corporate earnings' fronts, coupled with the emerging economies' strong growth, should be sufficient to ensure the economy's growth, in parallel with its potential. Accordingly, although it interrupted midway through the year the gradual hike in interest rates which it had been pursuing, the ECB did not regard it advisable to reduce them.

GDP growth

Year-on-year rates of change



— Portugal
— Spain
— Euro zone

Chart 21

Source: Eurostat.

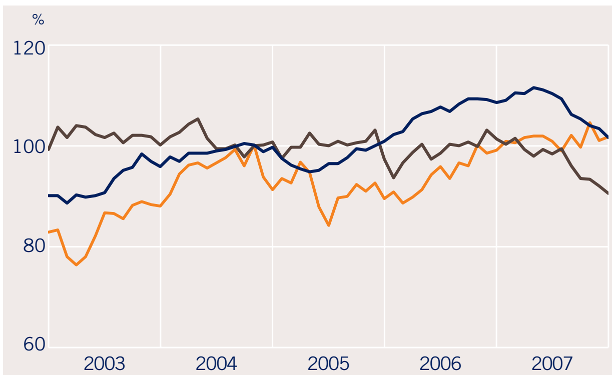
Meanwhile, the rising inflation rate to above 3% per annum in the Euro zone against the ECB's target of not exceeding 2%, reinforced that concern, constituting a factor limiting the leeway available to the economic policymakers of the developed countries. The reasons for this rise are to a large extent structural, linked to the burgeoning demand in the emerging countries and the limitations of global supply, the adjustment of which will inevitably be slow. The central banks remain, nevertheless, responsible for ensuring that this exogenous increase in prices is not reflected in wages and margins at internal level, as was the case in the 70's with disastrous consequences for subsequent economic growth.

Economic growth in Portugal in 2007 is estimated to have been 1.9%, in line with the upward trajectory which in this year was founded on the revival in business investment, in addition to the rise in net exports that had already been responsible for the positive performance observed in the previous year.

Besides this, efforts continued to be directed at substantially reducing the budgetary and external deficits, with the first-mentioned expected to exceed the goals laid down under the Stability and Growth Pact, dropping below 3% of the GDP. The moderation in households' consumption and the restrictive posture of budgetary policy, although indispensable for the correction of the imbalances that place at risk stability and the economy's growth potential, have inhibited, in the short term, economic expansion at a faster pace. However, the trend noted in 2007 holds out the prospect of a more significant contribution from domestic demand to economic growth in 2008. It is believed that this will be a consequence of investment and the concomitant decline in unemployment, as well as from the lower budgetary pressure resulting from the battles already won on the consolidation front. Furthermore, as regards exports, it is worth mentioning the diversification that is taking place, both in terms of markets and products, as well as the increase in the export of services. This is a welcome development at a time when global growth tends to be centred outside the customary markets. These relatively more favourable prospects for the Portuguese economy are in fact well reflected in the behaviour of the economic sentiment indicator published by the European Commission.

As a result of the turbulence on the international financial markets, conditions for the granting of credit and banks' funding became more restrictive during the course of 2007. In spite of the exceptional liquidity-injection operations carried out by the ECB, interbank interest rates for periods of more than one month began to be situated appreciably above the benchmark rate, incorporating a high counterparty risk, at the same time as it became more difficult to access certain market instruments. Hence, although the situation relating to Portuguese banks remained robust in terms of earnings and defaulting loan ratios, the worsening international climate dictated the need to focus efforts on deposit-taking activity, while also imposing more stringent conditions on the granting of loans to individuals and companies. Besides the increase in spreads[G], banks became stricter with regard to contractual terms and the guarantees required.

Business climate indicator



— Portugal
— Spain
— Euro zone

Chart 22

Source: Eurostat.

Despite these overriding factors, the growth rate of credit to the economy (adjusted for securitisation[G] operations) accelerated from 10.7% to 11.7% between the end of 2006 and 2007, resulting in turn from the conjugation of the slow down in the financing of home purchases (from 9.9% to 8.5%) and the acceleration in credit to non-financial companies (from 10.8% to 14.3%). The ratio of non-performing loans declined in the case of non-financial companies from 1.54% in 2006 to 1.47% at the end of 2007, while that relating to individuals was unchanged at 1.74%. Meanwhile, total deposits and similar placements grew by 7.1%, against 8.4% in the previous year.

Detailed forecasts for Portugal and the Euro zone

Growth rates in %

	2007			2008		
	Portugal		Euro zone	Portugal		Euro zone
	BP[1]	EC[2]	EC[2]	BP[1]	EC[2]	EC[2]
Private consumption	1.2	1.2	1.7	1.1	1.3	2.1
Public consumption	(0.2)	(0.3)	2.1	0.0	0.4	2.0
Fixed investment	2.6	0.9	4.7	3.3	2.3	2.9
Exports of goods and services	7.0	6.7	5.7	4.9	5.6	5.3
Imports of goods and services	4.1	3.4	5.3	2.9	3.3	5.5
PIB	**1.9**	**1.8**	**2.6**	**2.0**	**2.0**	**2.2**
Inflation[3]	**2.4**	**2.4**	**2.0**	**2.4**	**2.4**	**2.1**
Current balance account[4]	(8.2)	(9.0)	0.0	(7.3)	(8.8)	0.0

1) Bank of Portugal forecasts, Economic Bulletin, Winter 2007.
2) European Commission, Autumn forecasts, November 2007.
3) Harmonised Index of Consumer Prices.
4) As percentage of GDP.

Table 12

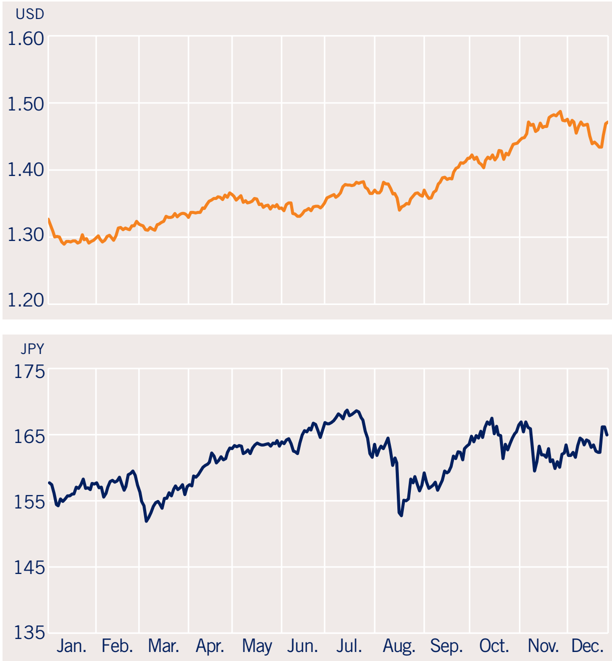
MARKETS

Currency market

2007 was dominated by the euro's virtually uninterrupted strengthening against the dollar, a trend which became more intensive in the second half of the year. This state of affairs was only interrupted sporadically in periods of greater turbulence on the financial markets, in which the dollar benefited from its status of a safe-haven currency. The arguments in favour of the dollar became increasingly weak during the course of the year to the extent that they were undermined by the American economy's downswing, coupled with the adjustment of the structural imbalances and the decrease in the yield differential between euro- and dollar-denominated assets. This last-mentioned factor was due firstly to the rise in interest rates in the euro area and, in the second half of the year, to the decline in key rates in the US. More recently, the 1.50 EUR / USD exchange rate has proven to be a difficult level to breach, strengthening the theory that relative currency stability falls within the 1.43-1.49 band. Indeed, notwithstanding the fact that the EMU economy is showing itself to be more balanced and robust than its US counterpart, it nevertheless runs the risk of contagion. Thus, the divergence in the growth rate and the discrepancy in interest rates should diminish in the next few months, thereby ceasing to fuel the European currency's upward movement.

The Japanese currency registered significant oscillations against the euro throughout the year. Whereas in the first half of the year, the yen benefited from the prospects of improved economic activity and the climb in local interest rates, it suffered a severe correction in the summer due to the downside revision of economic growth projections. Subsequently, the yen appreciated as a result of the sudden unwinding of short positions to finance investments in assets with higher yields and denominated in other currencies (the so-called carry trade) during the period of turmoil that swept across the financial markets. More recently, the confirmation of a modest rhythm of growth and the resurgence of deflationary fears have reinforced the possibility of the euro gaining ground relative to this Asiatic currency.

Euro exchange rates in 2007



USD / EUR
JPY / EUR

Chart 23

Source: ECB, Reuters.

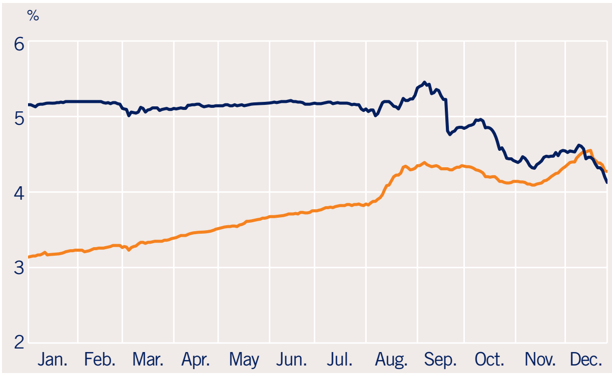
Money market

With unchanged benchmark rates since June 2006, the turbulence shaking the financial markets triggered by the sub-prime crisis and the tensions in the interbank market in the US, induced the American Federal Reserve to cut the key interest rate three times, from 5.25% to 4.25% in December. After the start of the financial crisis, but prior to the Federal Reserve's action, rates on the money market behaved in an anomalous fashion, distancing themselves from the official benchmark. Banks began to demand a risk premium for funding operations between each other. The lack of Libor dollar rates' adherence to the traditional benchmark reflected a climate of distrust in the money market, which was corrected over the months with the aid of the official rate cut and the change to the procedures for the provision of funds by the monetary authorities. In January, the Federal Reserve once again cut the fed funds rate by 125 basis points, trimming it to 3%. The Libor rates are forcing in advance the continued downward direction of the benchmark rate to somewhere around 2%.

Confidence in the pace of growth in economic activity in Europe justified the hike in the refinancing rate from 3.5% to 3.75% in March, and to 4% in June. Despite the ECB's declarations oriented towards a more restrictive monetary policy founded on inflationary concerns, the benchmark rate remained unaltered in the second half of 2007. However, the three-month Euribor rate rose above the 4.90% mark in December, thus manifesting the atypical conditions prevailing on the interbank market. The start of the new year and the increased provision of medium–term funds by the ECB facilitated the return to normality in the early stages of 2008, at a time when the three-month Euribor reverted back to levels close to 4.30%.

The global deceleration and the emergence of the first signs of a weakening in real activity in Europe kindled expectations of a decline in short-term interest rates during 2008. This prospect can be ascertained from the behaviour of Euribor futures: the euro money-market curve has been horizontal, indicating that normality has not yet been totally re-established. Should that be the case, then we can expect to see a steeper fall in this market's key rates.

Six-month interest rates in 2007

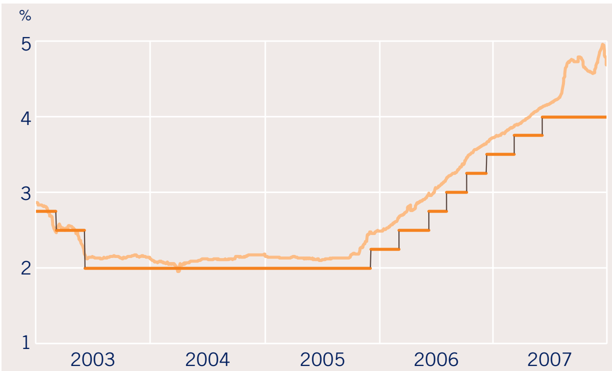


— Euribor
— Libor USD

Chart 24

Sources: BPI, Reuters.

Evolution of the refi rate and its impact on the 3 month Euribor



— Refi rate
— 3 month Euribor

Chart 25

Source: Reuters.

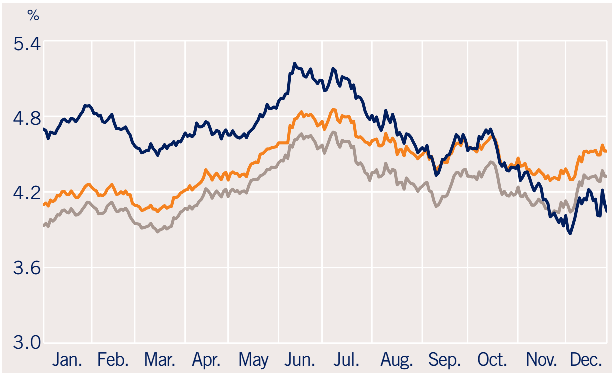
Bond market

If it is true that in the US during the first half of the year long-term interest rates (i.e. 10 years) presented a relatively unequivocal rise, climbing from 4.5% to 5.20%, due to fears of stagflation and a reduction in Asiatic central banks' holdings of treasuries in the second half of the year, it is also a fact that the agitation in the financial markets, spurring fears of an economic downswing and mitigating inflationary risks, benefited public debt thanks to its characteristics of a safe-haven asset. Accordingly, rates fell more noticeably in the short-term spectrum, having provoked a considerable upward slope in the yield curve. Expectations that they will continue to adopt expansionist monetary policies tends to favour more sloping curves. However, the approximation of the end of the cycle of short-term interest rate cuts limits the reduction in yields, while there may even be a slight correction, above all in the shorter maturities. At the end of January, the yields on three and ten-year paper were trading at respectively 1.96% and 3.98%.

In Europe, long-term interest rates shadowed the movements in American public debt, although depicting less abrupt movements. Prices are also reflecting expectations of an economic downturn and the fall in short-term interest rates which has not yet materialised. This time lag in the ECB's policy *vis-à-vis* the Federal Reserve explains the less pronounced decline in yields in Europe in the second half of the year, and the consequent inversion in the spread signal between German and American debt. At the beginning of 2008, ten-year treasuries in local currency offered a return of around 30 basis points below that provided by the corresponding bunds. In January 2007, this differential was a positive 75 b.p., having narrowed to 50 b.p. in June. In the euro area, the premium on sovereign debt rose relative to German debt throughout 2007. In the case of Portuguese Treasury Bonds, this difference, which remained stable at around 15 basis points in the first half of the year, climbed to 28 b.p. in September, dropping to 20 b.p. at the close of the year.

Risk aversion in the financial markets increased considerably in the second half of the year, which chiefly penalised financial institutions due to the impact on earnings of the losses associated with the mortgage-loan crisis. Although in the early months of the year the credit-risk premiums had remained relatively stable, by the latter half of the year they had widened appreciably, returning the figures last seen in 2002 / 3. Notwithstanding the existence of liquidity in the financial markets, the uncertainty surrounding global economic activity (already in the deceleration stage) and the dissemination of the mortgage-loan (sub-prime) crisis explain the preference for less risky financial assets which, for their part, justify the higher spreads, in particular, for the classes with the worst credit ratings. It should be added that, although companies present solid structures and high cash-generating capacity, the economic cooling down kindles fears of high default rates, thereby hindering a possible correction in the recently-observed spike in risk premiums.

Ten-year interest rates in 2007



— Portugal (EUR)
— Germany (EUR)
— USA (USD)

Chart 26

Sources: BPI, Reuters.

Corporate credit risk premiums
Euro-denominated issues (2003-2007)

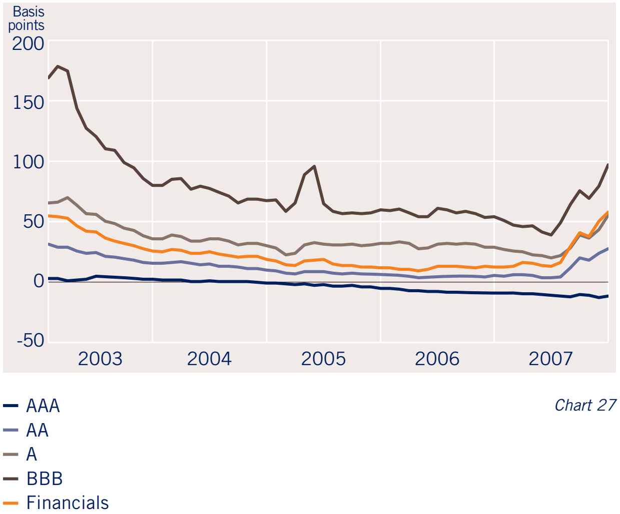


Chart 27

Equity markets

The equity markets started 2007 with a very positive behaviour. The disclosure of good macroeconomic data, the maintenance of intensive activity in the mergers and acquisitions arena, and the presentation of positive earnings by the vast majority of companies explain the advance in the leading stock-market indices in the first few months of the year.

Meanwhile, the emergence of problems in the North American real-estate market and fears of an eventual contagion spreading to the real economy, as well as the subsequent liquidity crisis on the financial markets, were responsible for the reversal in that positive trend. The markets experienced a significant increase in volatility[G], as well as a "flight to quality": investors began to favour more liquid assets which are regarded as being defensive in unstable times.

In spite of all these fears and uncertainties, which became more intense in the closing months of the year, the vast majority of European stock markets ended the year with gains, such as the DAX posting an advance of 22%. For their part, the North American markets' indices also registered positive returns, with the Nasdaq, Dow Jones and S&P 500 climbing 10%, 6% and 4%, respectively. It is important to point out that the smaller and medium-sized companies were particularly penalised in this new context of the financial markets, as evidenced – for the first time in recent years – by an underperformance relative to their larger stock-market cap counterparts.

DJ Europe Stoxx Banks, DJ Euro Stoxx and S&P500 indexes' evolution in 2007

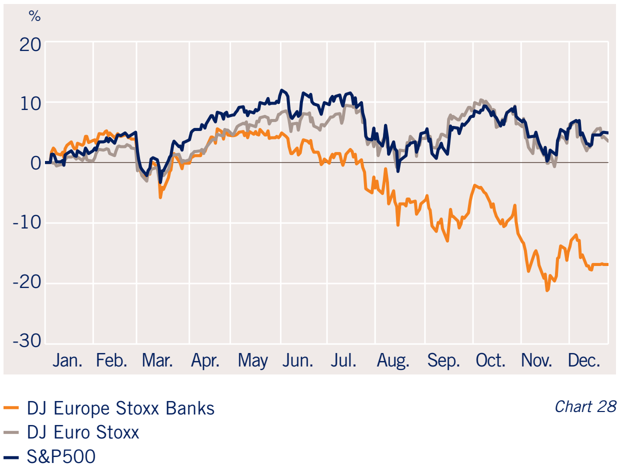


Chart 28

Source: Reuters Knowledge.

The Iberian markets evolved in line with the other equity markets, with the PSI-20 and IBEX 35 accumulating rises in 2007 of 16% and 7%, respectively. It is worth noting that during the year the Spanish market was adversely affected by concerns about a possible correction in the property market and the possible negative effects that this would have in other areas of activity and economic growth in Spain.

In sectorial terms, the emergence of problems in the sub-prime market in the United States led to a strong sectorial rotation. In this regard, we witnessed in August a shunning of companies in sectors more sensitive to private consumption and economic growth, and a greater interest in companies considered to be more defensive, such as the telecom and utility companies. It should be highlighted that the Spanish construction sector featured for its negative performance in 2007, reflecting the signs of the property market's cooling down and concerns about the high level of corporate borrowings against a backdrop of more restrictive financing conditions stemming from the scarcity of liquidity in the financial markets.

The initial public offering (IPO) market continued to be very dynamic in 2007. In Portugal, REN and Martifer made their stock-market debuts, whilst in Spain 11 more companies were floated on the market (Clínica Baviera, Criteria Caixa Corp, Codere, Iberdrola Renovables, Fluidra, Laboratórios Almirall, Laboratórios Farmaceuticos Rovi, Realia, Renta 4, Reyal Urbis and Solaria).

PSI-20 and IBEX 35 indexes' evolution in 2007

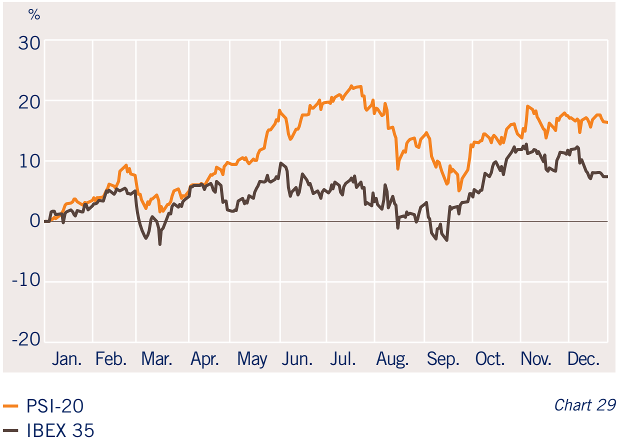


Chart 29

Source: Reuters Knowledge.

BACKGROUND TO OPERATIONS IN ANGOLA

Angolan economy

Angola continues to form part of the world's most dynamic economies, recording robust growth rates. After having grown by 17% in 2006, the expansion accelerated to 24.4% in 2007. The crude-oil sector continues to be the chief factor behind the Angolan economy's strong dynamism, posting an increase of 21.8% in 2007 compared with the previous year's 13%. This sector accounts for some 57% of gross domestic product, a figure that has stabilised in the past two years. In the next few years, as the volume of crude-oil output is expected to stabilise, this sector's contribution should diminish progressively, reflecting the normalisation of economic activity and the diversification of the local manufacturing capability. Following the extractive industry, construction is the most important sector. This reflects the authorities' efforts to rehabilitate and create infrastructures (notably, in the transport area), and thus to ensure the development of local markets, the free flow of local production and the population's mobility.

Economic projections for Angola

	2005[E]	2006[E]	2007[E]	2008[F]
Real GBP growth (y-o-y, %)	20.6	18.6	24.4	16.2
Oil sector	26.0	13.1	21.8	13.3
Non-oil sector	14.1	25.7	27.9	19.5
Inflation (y-o-y, %)	18.5	12.2	11.8	10.0
Oil production (millions of barrels)	454.9	514.6	626.6	710.6
Average exchange rate (AKZ / USD)	87.2	80.3	76.8[1]	75.0[1]

Source: Ministry of Finance (OGE 2008 e OGE 2007 Revised). *Table 13*
1) BBPI calculations.
E – estimated; F – forecasted; y-o-y – year-on-year rate of change.

Inflation rate in Angola

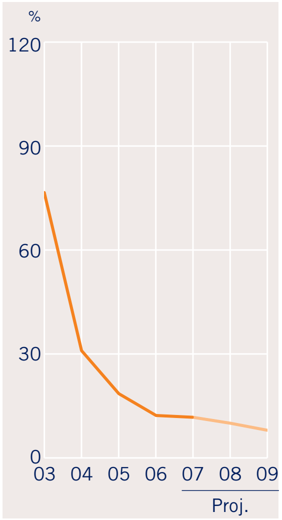


Chart 30

Real GDP growth in Angola

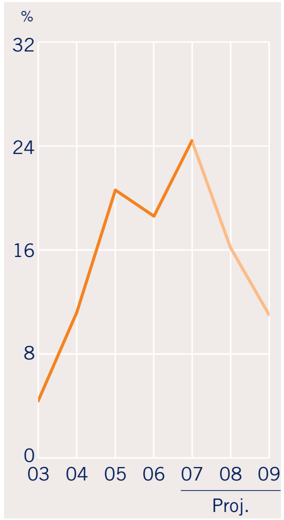


Chart 31

Sources: Banco Nacional de Angola (BNA – Central Bank of Angola) and International Monetary Fund (IMF).

Angolan GDP breakdown by business sector
In 2007

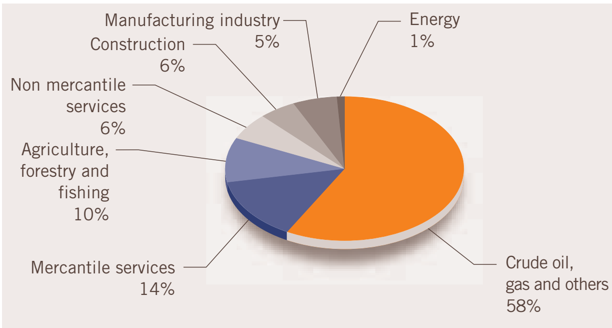


Chart 32

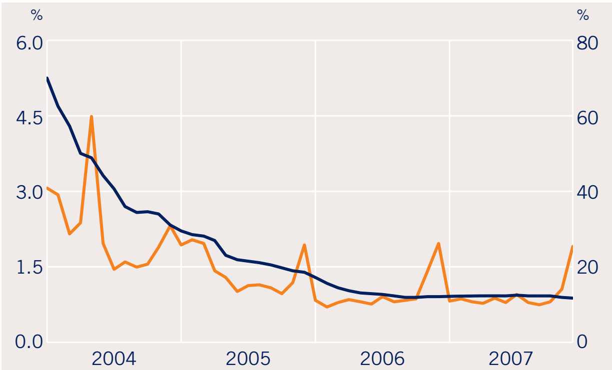
Official forecasts for 2008 point to GDP growth of 16%, fuelled by the crude-oil sector but above all by the economy's other sectors which, taken together, should expand by 19.5%. Besides the projects aimed at the revitalisation of the transport, communications and energy infrastructures, the preparations for the staging of the African Nations soccer championship in 2010 will give a further impetus to public investments. The non-oil sector's progress is attributable to private initiative, the dynamism of which has been mirrored in the recent trend in credit to the private sector. This posted an impressive quantitative leap of 76% in 2007. The decrease in bureaucracy, illustrated by the emblematic creation of a centralised and agile service for the constitution of companies, has been an important incentive for the flourishing of private initiative.

In 2008, public investment will assume a key role in the promotion of growth to the extent that the State General Budget for 2008 (SGB 2008) envisages a considerable increase in public investment following several years in which the realisation of capital spending was situated well below that projected due to sluggishness in its execution. The public accounts, which recorded a positive balance of 22.0% of GDP in 2007 should, according to the SGB 2008, register a deficit of 8.6% of GDP due to the hefty increase in public investment, which should represent about 23.4% of GDP (10.3% in 2007). In view of the need for reconstruction and the normalisation of economic relations, it is foreseeable that capital spending will persist at high levels in Angola. Within the scope of the debate concerning the inter-generational appropriation of crude-oil resources, the application of the revenue associated with oil in public-domain works is in line with the logic of investing the windfall gains earned in the present. The Treasury has been issuing medium-term Treasury Bonds to fund specific public projects with a view to the development of a local capital market. The creation of a stock exchange falls within the scope of this project, the launch of which is scheduled to be announced shortly.

In 2007, inflation stabilised at values which are compatible with the strong economic growth. Although the official target of 10% has not been attained, by being situated at 11.8% it has broken through the 12% mark which has proven to be a major resistance level. Projections for 2008 point to a deceleration in inflation to 10%.

Angola benefits from a healthy external position. In 2007, the external deficit, that is, the current account balance probably recorded a surplus of 9.7% of GDP which, in the meantime, represents a significant decline relative to the figure achieved in 2006 (23.3%). A number of factors – the population's improved quality of life, progress in the mobility of people and merchandise, the reconstruction drive and the great dependence that Angola has on the rest of the world to satisfy its basic needs – justifies the contraction in the external accounts' surplus. This is particularly true if we take into account the eventuality of an external shock, entailing a contraction in world-wide demand for oil and a correction to the international price. Foreign exchange reserves continue to climb, surpassing the USD 10-billion mark at the end of 2007. This robust accumulation has permitted a tranquil management of monetary and currency policy.

Monthly and year-on-year inflation



— Monthly inflation (left-hand scale)
— Year-on-year inflation (right-hand scale)

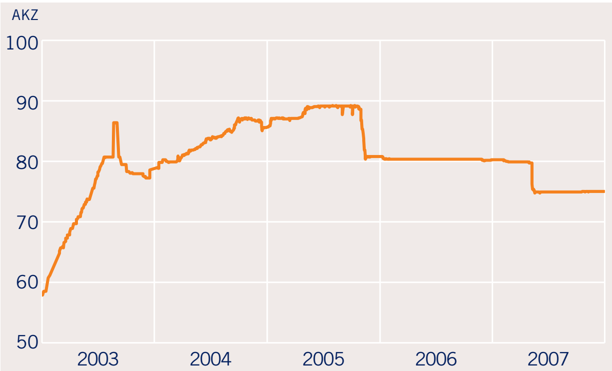
Chart 33

Source: BNA.

Turning to international relations, a noteworthy event was Angola's joining the Organisation of the Petroleum Exporting Countries (OPEC) in 2007, having been attributed a quota of 1.9 million barrels a day, close to Angola's current potencial production estimate. After some 15 years without assuming liabilities to the Paris Club creditors, at the end of 2006 and the first quarter of 2007, it settled the outstanding debt, namely principal and interest in the amount of USD 2 300 million. In 2007, it resumed the payment of overdue debt and decided to pay the arrear interest in the total amount of USD 1 800 million. The normalisation of relations with this group of creditors facilitates access to the international markets. In fact, at a later stage Germany and Spain announced the granting to credit lines to the Angolan State.

Anchored to a comfortable external position, the AKZ / USD exchange rate has been relatively stable at 75, following the local currency's appreciation in May. It will be recalled that previously the Angolan currency traded at around 80 kwanzas to the dollar. Since October, the local currency has slipped marginally, to the extent that the exchange rate has been progressively heading towards the 75.10 mark.

Kwanza / Dollar exchange rate (AKZ/USD)



Source: Banco Nacional de Angola (BNA).

Chart 34

After the interruption in May of a prolonged period beginning in 2006 of negative real interest rates, the monetary authorities specified minimum values for the placement rates at auctions of Central Bank securities (TBC), earmarked for the absorption of surplus liquidity and to promote the development of an interbank money market. The threshold was set at 15% for 91-day securities, with interest rates having stabilised since then at around those levels. In August, the authorities revoked the possibility of using Central Bank Securities and Public Debt Securities in local currency with maturities over 91 days for purposes of compliance with compulsory reserve requirements. This action generated a temporary contraction in the system's liquidity, which in turn curbed the demand for regular TBC placings. However, by the end of the year, normality had already been re-established and the placing of TBC once again began to attract interest and bids at the start of the year.

Interest rates in the placement of Central Bank securities issued in the last 2 years

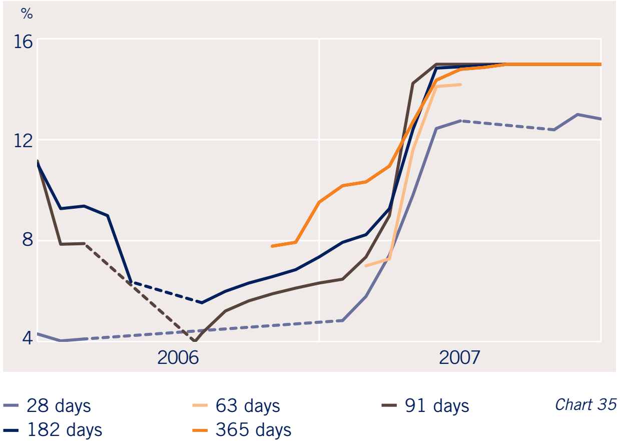


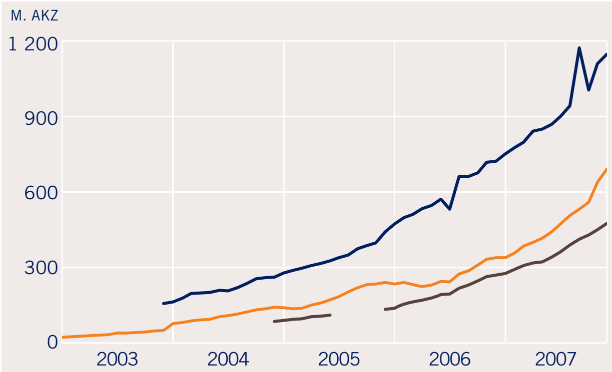
Chart 35

Source: Banco Nacional de Angola (BNA).

Angolan financial system

The financial system continues to display strong dynamism, acting a modernising agent and the advocate of development, above all with respect to the emergence of private initiative. In 2007, new licences were granted for the opening of banks, while the branch network of existing banks expanded significantly (currently about 410; in 2006, there were 310) with the aim of reaching the whole population and thus increase the number of users of banking services which, nevertheless, remains relatively low when compared with the region's other countries. Credit to the private sector grew by 76% in December year-on-year, while deposits climbed 41.5%. The Angolan financial system's strong dynamism and the growing influence its exercises over economic growth are borne out by the trend in the transformation rate for deposits into loans, which rose from 47% in 2006 to 60% at the close of 2007, closing the gap on the average for the region. Of special note is the drop in the proportion of loans and deposits in foreign currency, which accounted for roughly 74% of the total in December 2006, dropping to 65% a year later. In relation to credit, the weight of loans in dollars fell from 60% to 51%; however, adjusting the total credit of Treasury issues indexed to the exchange rate, this percentage rises to around 80%.

Evolution of Loans and Deposits

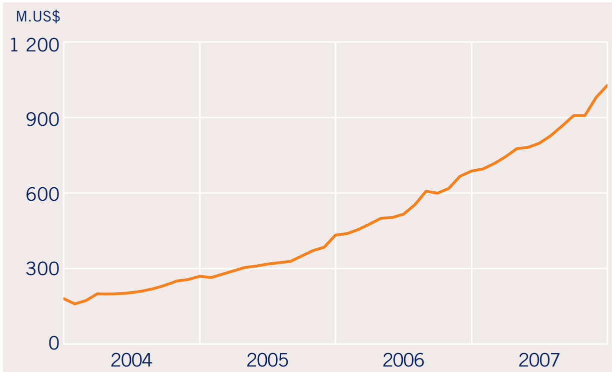


— Total loans
— of which: to the private sector
— Total deposits

Chart 36

Source: BNA.

Evolution of foreign exchange reserves in the last 4 years



Source: BNA.

Chart 37

Domestic Commercial Banking

INDIVIDUALS AND SMALL BUSINESSES BANKING

OVERVIEW

Individuals and Small Businesses Banking was responsible for a resources portfolio of 21 366.6 M.€ and a loan and guarantees portfolio of 14 661.9 M.€ at the end of 2007. These figures correspond to high annual growth rates: 14.1% for resources and 11.8% for loans and guarantees, outstripping the 2006 increases.

Particularly noteworthy was the expressive expansion in balance sheet resources, which posted an annual growth rate in 2007 of 20.8%.

In 2007, 88 new traditional branches and four investment centres were opened which, coupled with the ongoing enlargement of the external promoters network, is mirrored in the year's good performance.

Also contributing to the good performance noted in 2007 was the competitiveness of BPI's product range, as well as the advertising campaigns promoting various key products. Nearly 190 commercial initiatives of the direct marketing type were realised during the year (an average of 12 campaigns a month) directed at the individuals segment, and three at the small businesses segment. This drive led to 4.1 million proactive contact opportunities for the different channels. Roughly 65% of the contacts were made by the branches, while the others were carried out by way of telemarketing, mailing, e-mail or SMS.

2007 was also marked by the number of new accounts opened, a factor influencing the capture of new business. More than 152 thousand new accounts were opened, or 32% more than in 2006. The business value per account opened was 18.9 thousand euro, which is 12% higher than that recorded in the previous year. Besides the positive contribution from the branches opened, it is important to note that the old branches (that is, those opened before 2005) contributed to this good performance considering that 16% more new accounts were opened at these than in the preceding year. At the end of the year, Individuals and Small Businesses Banking had almost 1.4 million Customers.

Individuals and Small Business Banking
Selected indicators

Amounts in M.€

	2006	2007	Δ%
Total Customer resources[1]	18 723.2	21 366.6	14.1%
On-balance sheet resources	14 494.9	17 503.0	20.8%
Off-balance sheet resources	4 228.3	3 863.5	(8.6%)
Loan and guarantees portfolio[2]	13 118.6	14 661.9	11.8%
Ratio of loans in arrears[3]	1.4%	1.5%	+0.1 p.p.
Accounts opened (in thousands)	114.9	151.6	31.9%
Total business per account opened (th.€)	16.9	18.9	11.6%

1) Securities not included.
2) Figure for 2007 includes 1 264 M.€ from securitization operations derecognized from the balance-sheet.
3) Loans in arrears for more than 90 days.

Table 14

Individuals and Small Businesses Banking

Loans and guarantees

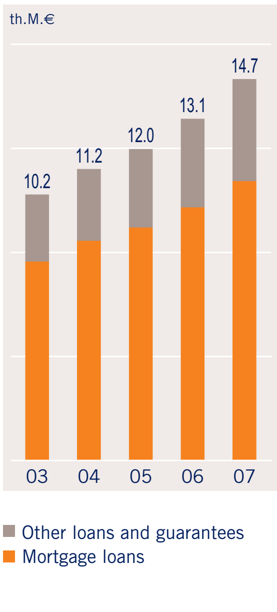


Chart 38

Customer resources

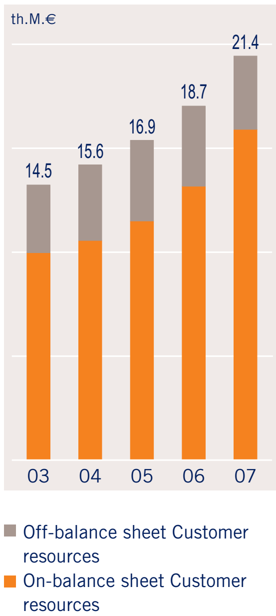


Chart 39

CUSTOMER RESOURCES

In 2007 Customer resources registered portfolio growth of 2 643.4 M.€, corresponding to an annual growth rate of 14.1%.

With a portfolio variation of 2 767.7 M.€, time deposits were once again the most robust component compared with the other resource items, continuing to be the major driving force behind the expansion in Customer resources.

The caption Bonds and structured products[G] also performed well, much better than in 2006 and outpacing the overall trend for resources.

Time deposits

The rise in interest rates, which made the return on time deposits more attractive relative to other investments, and the competitiveness of BPI products, enabled time deposits to present in 2007 an expansion of 2 767.7 M.€, which corresponds to an annual rate of change of 40.6%.

Time deposits
Selected indicators

Amounts in M.€

	2006	2007	Δ%
Time deposits	5 965.9	8 780.2	47.2%
Savings accounts	847.1	800.6	(5.5%)
Total	**6 813.1**	**9 580.8**	**40.6%**

Table 15

On analysing the items making up time deposits – savings accounts and time deposits proper –, it will be seen that the last-mentioned are the chief explanation behind the expansion in this aggregate, with a variation of 47.2% in 2007.

Individuals and Small Business Banking
Customer resources[1]

Amounts in M.€

	2006	2007	Δ%
Sight deposits	3 225.0	3 259.8	1.1%
Time deposits	6 813.1	9 580.8	40.6%
Bonds and structured products[2] placed with Customers	1 141.4	1 374.8	20.5%
Unit trust funds[3]	2 751.5	2 320.8	(15.7%)
PPR and PPA[4]	1 919.5	2 066.9	7.7%
Insurance capitalisation[5]	2 812.3	2 709.4	(3.7%)
Preference shares	60.4	54.1	(10.5%)
Total Customer resources	**18 723.2**	**21 366.6**	**14.1%**

1) Does not include securities portfolio.
2) Guaranteed-capital and limited-risk bonds.
3) Excludes PPR and PPA.
4) Includes PPR in the form of insurance capitalisation recorded in the balance sheet (442.8 M.€, in 2006, e 524.2 M.€, in 2007).
5) Excludes PPR.

Table 16

Individuals and Small Businesses Banking
Customer resources in 2007

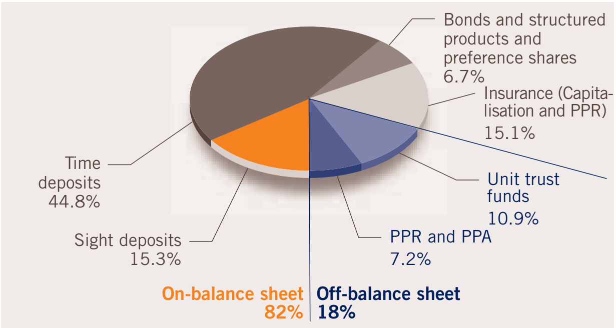


Chart 40

Bonds and structured products placed with Customers

The bond and structured products portfolio grew 20.5% in 2007, that is, well above that registered in 2006 and above the overall trend in resources.

Of special note is the 50.7% increase in bonds, whereas structured products expanded by 7.5%. As regards bonds, mention is made of the placing of 206 M.€ in a single issue – *BPI Rendimento Mais 2007* –, subscriptions to which took place at the end of the year.

Bonds and structured products placed with Customers
Selected indicators

Amounts in M.€

	2006	2007	Δ%
Bonds	342.6	516.2	50.7%
Structured products	798.8	858.6	7.5%
Total	**1 141.4**	**1 374.8**	**20.5%**

Table 17

Unit trust funds

The portfolio of unit trust (mutual) funds (excluding PPR and PPA) fell by 15.7% during 2007 to 2 320.8 M.€. This drop is fundamentally explained by the decrease noted in the money-market and variable-yield funds, and was due to the increase in redemptions from September onwards. On the other hand, the capital-growth funds behaved well, with the relevant portfolio increasing by 128 M.€, corresponding to an annual growth rate of 33.8%.

At the close of 2007, the BPI Group's unit trust funds' market share stood at 11.3%, excluding PPR / PPA and guaranteed-capital funds. This figure gave it the fifth place in the relevant ranking.

In 2007, the range of BPI unit trust funds was enlarged with the launch of BPI Selecção – a mixed equities fund of funds which invests in equity and bond investment finds, and is managed by BPI Gestão de Activos. BPI Selecção has as its objective offering to Customers, through a single instrument, a selection of BPI unit trust funds, thereby affording the possibility of investment in a diversified portfolio.

Unit trust funds[1]
Selected indicators

Amounts in M.€

	2006	2007	Δ%
Liquidity and variable-rate bonds	1 339.3	866.0	(35.3%)
Diversification	888.2	804.7	(9.4%)
Fixed-rate bonds	31.9	30.2	(5.2%)
Capital growth (equities)	379.5	507.7	33.8%
Real estate	112.7	112.2	(0.5%)
Total	**2 751.5**	**2 320.8**	**(15.7%)**

1) Excludes PPR and PPA.

Table 18

In 2007, BPI sought to encourage the constitution of periodic-savings plans associated with unit trust funds through the dissemination of periodic-investment plans and the staging of the campaign *Your future month by month*. At the end of the year, investment plans had already been placed with almost 15 thousand Customers who represented approximately 9% of total Customers invested in unit trust funds.

Retirement-savings plans (PPR)

The retirement-savings plans portfolio of Individuals and Small Businesses Banking Customers grew by 8.63% to 2 022.6 M.€ at the end of 2007. In terms of subscriptions, the BPI Group recorded a market share of 16.9% in 2007, occupying the third position in the ranking.

Retirement / education savings plans (PPR/E)

Portfolio evolution

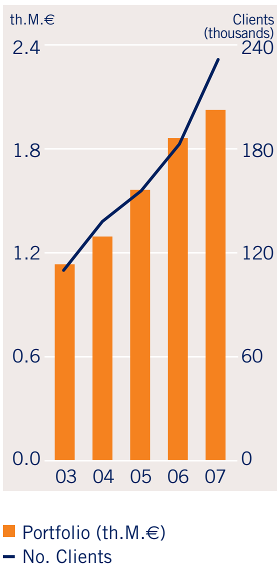


Chart 41

Periodic subscription plans

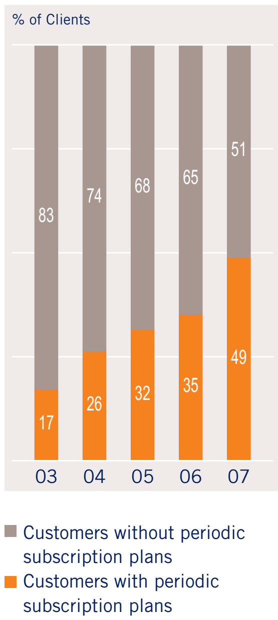


Chart 42

Some 232 thousand Customers had a retirement-savings plan with BPI at the close of 2007, which corresponds to an increase of 48 thousand Customers subscribing to this product. This increase exceeds the growth recorded in 2006 by 80%.

The placing of plans with periodic contributions for Customers with retirement-savings plans continued to be one of the Bank's priorities It is important to mention that in December 2007, 49% of the Customer base with retirement-savings plans had associated regular contribution arrangements, which represents a net increase of nearly 50 thousand regular-contribution plans in the year under review, or three times greater than the increase registered in 2006.

In 2007, continuity was given to a series of initiatives directed at reinforcing Banco BPI's positioning in the retirement-related field. Of these initiatives, we highlight the following:

- offer of advantageous conditions to Customers who choose BPI to plan for retirement, namely, the exemption from subscription commissions and the possibility of switching between the Bank's retirement plans without incurring commission;
- campaign promoting the early payment of retirement-savings plans, with the attribution of gifts to Customers who pay in advance the maximum amount in order to benefit from tax incentives;
- campaign *Start to prepare for retirement at the age of 30 with €25 / month*, with the object of encouraging younger Customers to begin saving for retirement.

Capitalisation insurance

At 31 December 2007, the capitalisation insurance portfolio (excluding PPR in the form of insurance) totalled 2 709.4 M.€, which conferred BPI the third biggest market share with 16.8% in December 2007.

In 2007, a few initiatives were carried out with the goal of boosting BPI's positioning in capitalisation insurance and to facilitate Customers' access to these products. Amongst these measures, we highlight the incentive for regular savings, through the disclosure of regular-investment plans applicable to all capitalisation insurance, and the availability at BPI Net of operations for subscriptions and additional investment in those products.

LOANS TO CUSTOMERS

The portfolio of loans and guarantees to individuals and small businesses amounted to 14 661.9 M.€ at the close of 2007. This figure corresponds to an annual growth rate of 11.8%, which is higher than the 9.5% registered in 2006. The portfolio's variation in 2007 was 1 543.2 M.€, that is, 35% higher than the corresponding figure for 2006.

Owing to its importance in total lending to the individuals and small businesses' segment – i.e. 73.4% –, the trend in mortgage loans is the chief explanation for the overall trend in loans. In 2007, this component of the loan book posted a growth rate of 10.5%. Of note too was the 15% growth in personal loans.

There was also an increase in the loan portfolio directed essentially at individual entrepreneurs and small businesses, namely, leasing, commercial loans, guarantees and sureties, with growth rates outstripping those registered in 2006.

Individuals and Small Business Banking
Customer loans and guarantees

Amounts in M.€

	2006	2007	Δ%
Mortgage loans[1,2]	9 735.0	10 757.6	10.5%
Personal loans[3]	554.4	637.5	15.0%
Credit cards[4]	172.2	180.0	4.5%
Car finance[5]	307.8	331.6	7.7%
Commercial loans[6]	1 625.4	1 844.7	13.5%
Guarantees and sureties	182.0	215.8	18.6%
Equipment and property leasing[5]	520.9	666.9	28.0%
Factoring with recourse	20.8	27.8	33.5%
Total[2]	**13 118.6**	**14 661.9**	**11.8%**

Table 19

1) Loans secured by fixed property. Corresponds primarily to home loans and loans for home alterations.
2) Figure for 2007 includes 1 264 M.€ from securitization operations derecognized from the balance-sheet.
3) Includes consumer loans and credit lines made available for privatisations.
4) Includes outstanding credit of non-Bank Customers.
5) Includes car financing and leasing originated by Individuals and Small Businesses Banking.
6) Includes overdrafts, current account loans, discounted bills receivable and other loans which form part of the loans products tailored mainly for entrepreneurs and small businesses.

Individuals and Small Businesses Banking
Loans and guarantees to Customers in 2007

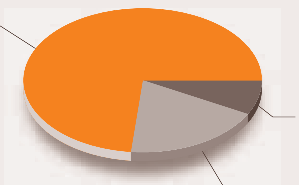


Chart 43

Mortgage loans

There was a very positive trend in the mortgage-loan business throughout 2007. The portfolio totalled 10 757.6 M.€ at 31 December 2007, having expanded 10.5%, that is, 2 p.p. higher than that observed a year earlier. This performance led to an increase in BPI's mortgage-loan market share over the year: 9.6%.

Mortgage loans
Selected indicators

Amounts in M.€

	2006	2007	Δ%
Loan portfolio			
Loan portfolio balance[1]	9 735.0	10 757.6	10.5%
Market share – portfolio balance[2]	9.4%	9.6%	0.2 p.p.
Average amount per contract	49.9	51.9	4.0%
Ratio of loans in arrears for more than 90 days	1.26%	1.45%	+0.19 p.p.
Impairments (in the balance sheet) as % of gross loan portfolio	0.56%	0.81%	+0.25 p.p.
Loan contracting			
Loans contracted in the year	1 672.0	2 150.7	28.6%
Market share – contracting[3]	8.9%	10.3%	1.4 p.p.
Loan-to-value ratio	61%	64%	3 p.p.
Average amount per contract	74.2	72.4	(2.4%)
Weighted average period of the loan (in years)	32.8	33.3	1.5%

Table 20

1) Figure for 2007 includes 1 264 M.€ from securitization operations derecognized from the balance-sheet.
2) Market value includes securitised loans.
3) The market-share figure for 2006 was adjusted due to the revision of the estimated market values.

In the relation to the contracting of mortgage loans, BPI reached 2 150.7 M.€ in 2007, 28.6% more than in the previous year. Consequently, market share in new-loan contracting rose significantly, from 8.9% in 2006 to 10.3% in 2007. This increase in new contracting was mainly due to the enlargement of the branch network and the efficacy of the Bank's commercial thrust, especially that noted with the partners of the agency network. Also contributing to this growth was the increase of 241% in transfers of loans from other institutions relative to 2006, that is, more than treble the previous year's new business contracted. This trend reflects the success of the campaign encouraging the transfer of loans to BPI and which also benefited from the new legal framework. In 2007 a significant set of legal enactments came into force which harmonised the different practices of the various credit institutions. Amongst the changes introduced were the aspects related to the commission charged in cases of early repayment and the rounding off of the interest-rate benchmark.

During 2007, other initiatives were adopted, amongst which we highlight the following.

- Reformulation of the product for non-resident foreigners.

- Slight increment in the spreads applied by the Bank for operations with higher financing / security (loan-to-value) relationships.

- Campaign realised between 2 July and 10 September, in terms of which home-loan propositions targeted at younger Customers were exempted from initial costs. These loans were granted through a special home-loan line, the funds for which were lent to BPI by the German bank KFW.

The average term of the new loans in 2007 maintained their upward trend of recent years to be situated at 33.3 years. As regards the average amount contracted, this declined in 2007 to 72.4 thousand euro due to the increase in the transfers of loans from other credit institutions to BPI, the balances on which are on average of smaller amounts.

Performance of the specialised sales channels

The specialised sales channels – housing shops, branches with housing areas and real-estate agents – accounted for 51.7% of the total new mortgage loans contracted in 2007, representing an increase of 5.4 p.p. relative to the previous year. Special mention is made of the real-estate agents' network (which includes financial consultants), which grew by 74.5% relative to 2006.

Mortgage loans contracted by distribution channel

	2006	2007
Housing shops	7.2%	8.2%
Real-estate brokers	22.7%	30.8%
Branches with home-loan "areas"	16.4%	12.7%
Branches without home-loan "areas"	53.7%	48.3%
Total	**100.0%**	**100.0%**

Table 21

Mortgage loans contracted by distribution channel
In 2007

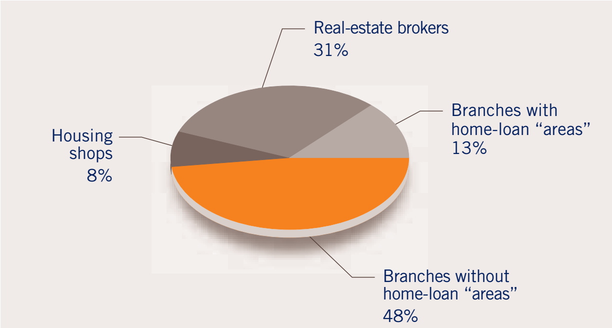


Chart 44

BPI Imobiliário

The BPI Imobiliário Internet site continues to offer the biggest on-line data base of properties and property development for sale in the country. At the end of 2007, it included some 680 thousand property-sale announcements, that is, 21% more than in 2006. With regard to the demand for properties, some 61 thousand requests for visits were recorded, which is twice the number of requests generated in 2006. Approximately 583 thousand email messages were directed at some 29 thousand subscribers to the alert service.

In 2007, a number of training courses were held at the branch network and Housing Shops with a view to explaining the potential of the BPI Imobiliário site. As a result of this drive, the number of adhering partners rose 10%, reaching a total of 2 717 at the end of the year.

BPI Imobiliário web site
Selected indicators

	2006	2007	Δ%
No. of property announcements	561 763	679 757	21.0%
No. of requests for visits made via the site	30 671	60 771	98.1%
No. of messages sent to subscribers of the alert service	568 961	582 733	2.4%
No. of subscribers of the alert service	23 255	28 586	22.9%
No. of active partners	2 478	2 717	9.6%

Table 22

Personal loans

The personal loans portfolio expanded by 15% in 2007 to 637.5 M.€ at the end of the year. New loans contracted amounted to 348 M.€, up 25.4% in relation to 2006, including 42% growth in the contracting of new consumer credit.

Personal loans
Selected indicators

	2006	2007	Δ%
Loan portfolio (M.€)			
Consumer credit	510.3	609.3	19.4%
Loans for acquisition of securities	44.1	28.2	(36.1%)
Total loan portfolio	**554.4**	**637.5**	**15.0%**
Ratio of loans in arrears for more than 90 days	2.66%	1.52%	(1.14 p.p.)
Impairments (in the balance sheet) as % of gross loan portfolio	3.56%	2.26%	(1.30 p.p.)
Loans contracted (M.€)			
Consumer credit	234.9	333.5	42.0%
Loans for acquisition of securities	42.6	14.6	(65.9%)
Total loans contracted	**277.5**	**348.0**	**25.4%**
Average period of loan (in years)	5.9	6.8	15.7%

Table 23

BPI's product range as regards the financing of education expenses was broadened in 2007 with the launch of *Crédito Formação BPI com Garantia Mútua*. This new type of loan was the outcome of a collaboration between the Ministry of Science, Technology and Higher Education, a group of banks (amongst which BPI) and the mutual-guarantee companies (Norgarante, Lisgarante and Garval), thus providing yet another solution for supporting students interested in higher-education courses.

Motor car finance

In the ranking of motor-car finance in the form of long-term rental (LTR) and leasing, the BPI Group became the leader in these market segments with a market share[1] of 21.3%. As regards the business as a whole, new car-finance contracted amounted to 294 M.€ in 2007, up 21% on the previous year. The new business channel Rent-a-Car posted growth of 103% relative to the previous year.

The car-finance portfolio relating to individuals and small businesses totalled 331.6 M.€ at the close of 2007, up 7.7% on the year. This portfolio represents 60% of the total value of the BPI Group's car-finance portfolio. In 2007, Individuals and Small Businesses Banking was responsible for the contracting of motor-car finance of 159.8 M.€, up 5.5% when compared with 2006.

It is also worth referring to the good performance in the placing of vehicle-maintenance service, with new business contracted increasing by 36.3%.

Motor car finance
Selected indicators

Amounts in M.€

	2006	2007	Δ%
Loan portfolio			
Long-term rental	89.8	90.1	0.4%
Credit	75.4	75.4	0.1%
Leasing	142.7	166.1	16.4%
Total loan portfolio	**307.8**	**331.6**	**7.7%**
No. of maintenance contracts	377	514	36.3%
No. of Allianz insurance policies	2 876	3 046	5.9%
Ratio of loans in arrears for more than 90 days	1.28%	1.12%	-0.16 p.p.
Impairments (in the balance sheet) as % of gross loan portfolio	1.59%	1.81%	0.22 p.p.
Credit contracted in the year[1]	**151.5**	**159.8**	**5.5%**

1) Discounted contract value of the first rental / initial instalment.

Table 24

At the end of the year, significant changes to this product's pricing came into effect with the goal of making it the most competitive, comprehensive and flexible on the market. The following were the most salient innovations:

- lower rates and spreads;
- same rates for all the financing modes – long-term rental, leasing and credit with ownership reservation;
- same rates for new and used vehicles;
- grid of rebates which permit reducing the base rate / spread in accordance with the contracting of insurance and maintenance, as well as the Customer's involvement with the Bank.

Commercial loans, guarantees and sureties, leasing and with-recourse factoring

The commercial loans, guarantees and sureties directed essentially at individual entrepreneurs and small businesses continued to evidence in 2007 the good performance of the past two years. The annual growth rate of 17.3% noted in 2007 is 4.2 p.p. higher than that recorded in the previous year, and is also above the average growth rate for loans advanced by Individuals and Small Businesses Banking.

The sustained increase in this business continues to be driven by Banco BPI's ongoing focus on providing support for Portuguese small and micro companies.

1) By number of vehicles financed.

Commercial loans, guarantees and sureties, leasing and factoring
Selected indicators

Amounts in M.€

	2006	2007	Δ%
Loan portfolio			
Commercial credit[1]	1 625.4	1 844.7	13.5%
Guarantees and sureties	182.0	215.8	18.6%
Equipment leasing	170.2	199.4	17.2%
Property leasing	350.7	467.4	33.3%
Factoring with recourse	20.8	27.8	33.5%
Total loan portfolio	**2 349.2**	**2 755.2**	**17.3%**
Ratio of loans in arrears[2] for more than 90 days	1.44%	1.56%	+0.12 p.p.
Impairments (in the balance sheet) as % of gross loan portfolio	1.70%	1.94%	+0.24 p.p.

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

Table 25

As concerns the main products designed for this important Customer segment, we highlight the excellent performance of equipment and real-estate leasing operations with individuals, businessmen and small businesses, which grew 28% in 2007, that is, outstripping the previous year's expansion by 7.6 p.p. Individuals and Small Businesses Banking was responsible at the end of 2007 for 50% of the BPI Group's leasing portfolio.

Credit cards

The principal business indicators in 2007 relating to credit cards registered a positive trend, presenting growth rates that outperformed those of 2006. The number of credit cards rose by 3% to attain a portfolio of 523 thousand cards at the end of the year. Accumulated billing was 956 M.€, 8.5% more than in the preceding year. The amount outstanding on credit cards was up 4.5%, with the relevant figure being 180 M.€ at the end of 2007.

This positive trend can be attributed to the combination of a number of factors:

- restructuring of the product range destined for the individuals' segment, initiated in 2006 and which was reflected in 2007 in the incentive to use the card and in the higher card sales, primarily in the second half of the year;
- launch in 2006 of the Business and Corporate cards directed at the corporate segment, which resulted in a higher penetration of cards amongst medium and large-sized companies;
- launching of four new products directed at the Private Label cards;
- marked increase in the quality of Customer service and operating efficiency, mirrored in decreases in response time and in the number of complaints.

Credit cards
Selected indicators

	2006	2007	Δ%
No. of cards at the end of the year (th.)	508.0	523.0	3.0%
Market share[1]	7.9%	8.1%	0.2 p.p.
Billing (M.€)	881.0	956.0	8.5%
Loan portfolio (M.€)[2]	172.2	180.0	4.5%
Ratio of loans in arrears for more than 90 days	4.56%	3.35%	-1.21 p.p.
Impairments (in the balance sheet) as % of gross loan portfolio	6.66%	5.07%	-1.59 p.p.

1) Source SIBS.
2) Outstanding of Individuals and Small Businesses Banking Customers and non-Clients.

Table 26

Debit cards

In 2007, debit cards presented a positive trend, recording higher growth rates than those observed in 2006 in all the captions indicated. The number of debit cards placed with BPI Customers stood at 933 thousand in December 2007. This figure corresponds to a market share of 9.9%, that is, a 0.5 p.p. improvement on 2006.

Billing relating to debit cards in the year under review was 4 122 M.€, which is 11.8% more than in the previous year.

Debit cards
Selected indicators

	2006	2007	Δ%
No. of cards at the end of the year (th.)	870.5	933.0	7.2%
Market share[1]	9.4%	9.9%	0.5 p.p.
Billing (M.€)	3 688.0	4 122.0	11.8%

1) Source SIBS.

Table 27

Automatic payment terminals (POS)

In the last quarter of 2007, as a consequence of the launching of the campaign entitled *Verde, Negócio, Verde* (Green, Business, Green), there was a steep increase in the automatic payment terminals business (POS), which resulted in a significant increase the corresponding market share. This climbed from 8.2% in 2006 to 9.9% in 2007.

Banco BPI's present capability of 19 500 POS's, or 38.8% more than in 2006, presented a total billing in the year of 1 487 M.€ on the terminals for which BPI is the support bank.

Automatic payment terminals
Selected indicators

	2006	2007	Δ%
No. of POS at the end of the year (th.)	14.1	19.5	38.8%
Market share	8.2%	9.9%	1.5 p.p.
Billing (M.€)	1 372.5	1 486.7	8.3%

Table 28

Domiciled-salary accounts

The restructuring of the various options associated with the Conta Ordenado BPI (domiciled-salary account) reinforced its competitiveness and permitted securing, in a year marked by the main competitors' strong emphasis on this product, 63 thousand salary accounts. This result outstrips last year's figure by 80% and represents growth in the penetration rate of 3.7 p.p. relative to 2006.

As regards the product options, the debit interest rate of 9.5% was the market's lowest at the time of launching. Also noteworthy are the benefits offered to those Customers who domicile in an automatic manner their salaries at BPI, i.e. the exemption from maintenance charges and annual debit-card fees, as well as the offer of public-liability insurance.

Turning to 2008, the success rates are expected to continue, in part taking into account the results achieved by the campaign *Fui promovido*, ("I was promoted"), in terms of which 10% of the amount of the salary domiciled at BPI was offered to the Customer in the form of a PPR (retirement-savings plan). This campaign began in October 2007.

Insurance

Within the ambit of the strategic partnership with Allianz Portugal, Banco BPI extended to four the number of autonomous-sale insurance products during 2007, with the launch of a multi-risks home policy and a health-insurance policy targeted at companies, unincorporated small businesses and for self-employed professionals.

In 2007, the autonomous-sale insurance policies – Vitall BPI (life), Medicall BPI (health) and Habitall BPI registered subscriptions from more than 60 000 Customers, which represented an overall premium value of more than 11 M.€.

PHYSICAL DISTRIBUTION NETWORK

During the course of 2007, BPI pursued and intensified its expansion plan for the physical distribution network with the opening of 88 traditional branches and four investment centres.

At the end of the year, Individuals and Small Businesses Banking comprised a total of 662 traditional branches, 23 investment centres catering for high net-worth Customers, and 19 housing shops, the majority of which are situated in shopping malls.

Physical distribution network
Selected indicators

	2006	2007
High-street branches	561	652
New layout	199	303
Home loans areas	64	67
Internet areas	375	469
Investment centres	19	23
Housing shops	19	19

Table 29

Traditional branch network

BPI maintains its commitment to guaranteeing its satisfactory physical implantation in the market. To this end, 154 traditional branches have been opened since the beginning of 2005: 26 in 2005; 40 in 2006; and 88 in 2007. This expansion has permitted a 30.3% increase in the traditional network over the past three years.

Around 57% of the aforementioned branches were opened in 2007, with particular incidence in the second half of the year with the inauguration of 67 branches.

INVESTMENT CENTRES

At the end of the year, Banco BPI's network specially catering for high net-worth Customers or those with the potential to accumulate financial assets, was composed of 23 investment centres. In 2007, four new investment centres were opened; these are located in Beja, Maia, Valença and Ponat Delgada.

Through the investment centres, BPI offers besides traditional banking services, a personalised support service to the Customer in the selection of financial solutions. This service is founded on a stable and long-term relationship between the Customer and the respective financial advisor.

Investment Centres
Selected indicators

Amounts in M.€

	2006	2007	Δ%
Customers resources	2 840.8	3 275.3	15.3%
Resources ex-securities	2 495.7	2 872.0	15.1%
Securities	345.2	403.3	16.8%
Loan portfolio	376.5	438.2	16.4%

Note: the figures for 2006 were adjusted by the loans and resources portfolios of Customers who during 2007 were transferred from traditional branches to the investment centres network.

Table 30

The total resources of the investment centres' Customers registered 15.3% growth in 2007 to total 3 275.3 M.€ at the end of the year. It is also worth highlighting the positive behaviour of time deposits and bonds and structured products: the relevant portfolios grew by 43.9% and 64.1%, respectively.

Although this network is more geared to the attraction of resources, lending activity also performed well. Lending grew by 16.4% in 2007, with the loan portfolio amounting to 438.2 M.€.

Network of external promoters

At the end of the year, Banco BPI's Network of External Promoters comprised 8 846 promoters, 3 500 of whom commenced their activity as the Bank's promoters in 2007.

The volume of business from Customers canvassed by the Network of External Promoters amounted to 1 904 M.€ at the close of 2007. This figure represents an increase of 1 000 M.€ in the year under review and corresponds to an annual growth rate of 111%. This sales force in 2007 reached a total of 39 826 Customers, having signed up roughly 20 thousand new Customers during the year.

The Network of External Promoters contributed in a positive manner to the expansion in BPI's Individuals and Small Businesses Banking business: it was responsible for 19% of the expansion in its business in 2007.

HOMEBANKING SERVICES

During 2007, significant increases were witnessed in the use of the services available through the new channels; consolidating the migration of operations from the telephone channel and the branches to the internet channel. As to the latter, of particular note was the increase in stock exchange transactions, explained by the strong adherence by Customers to the BPI Net brokerage service, which contributed to growth in BPI's market share in financial intermediation.

Also noteworthy was the increase in the total availability of the home-banking service, namely during night-time, as well as the wider transactions options made available to Customers.

The following statistics refer to the home-banking service at the end of the year:

- 840 thousand users (up 15% relative to 2006);
- 689 thousand active users (up 14% relative to 2006);
- 75% of the total of the Bank's account-balance consultations (*vs.* 80% in December 2006);
- 81% of the Bank's total transactions (*vs.* 79% in 2006).

BPI Net

- 464 thousand active users[1] (21% more than in 2006);
- 61.4 million consultations made (16% more than in 2006);
- 9.3 million transactions carried out (29% more than in 2006).

BPI Net Empresas

- 89 thousand subscribers (21% more than in 2006);
- 65 thousand user companies (16% more than in 2006);
- 33% growth in the volume transacted relative to 2006.

BPI Directo

- 400 thousand active users[1] (21% more relative to 2006);
- 966 thousand calls received (17% less than in 2006: the decline is mainly attributable to the automatic attendance facility);
- 59% of the calls received by BPI Directo were dealt with by automatic attendance;
- 68% of the calls received were attended in less than 20 seconds.

Online brokerage

- 17.6% market share in 2007 of BPI Net Bolsa and BPI Online (17.0% in 2006);
- 30 thousand Customers (+14% relative to 2006).

BPI Net and BPI Directo
Subscribers[1]

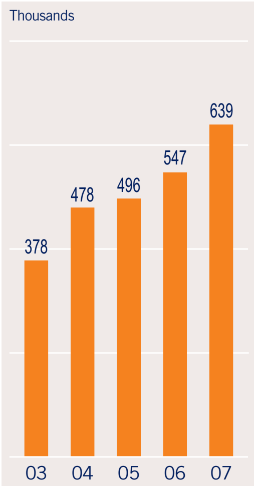


Chart 45

Transactions and consultations

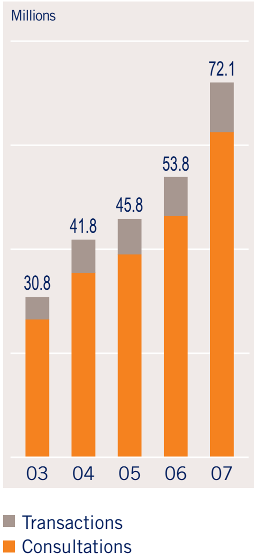


Chart 46

1) Subscribers are those Customers whose initial password has been changed in the first utilisation. Single contract and password, simultaneously valid for BPI Net and BPI Directo.

Centralisation of telephone calls attendance
No. of branches reached[1]

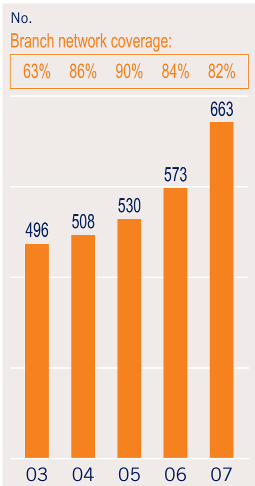


Chart 47

1) Traditional branches.

BPI Imobiliário
Properties available on the Website

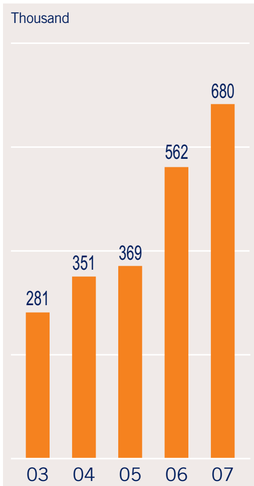


Chart 48

1) Includes active subscribers of both BPI Net and BPI Directo services.

TELEMARKETING – SALES AND SURVEYS

Telemarketing activity increased, both as regards net revenue and in terms of the Customers contacted. This growth was the result of the channels' synergies, namely, attendance, telemarketing and Internet, as well as the focus on traditional telemarketing campaigns with greater potential.

CONTACT CENTRE

Contact centre operations were characterised by the maintenance of a high level of activity, with the number of operations concentrated in this area continuing to rise. In this regard, new lines were introduced for attending Customers (real-estate partners, partners in cards and partners in point-of-sales credit). In global terms, the quality of service (taking into consideration the percentage of calls attended in less than 20 seconds) improved when compared with the previous year (+5%), with this improvement being more pronounced in the last quarter of the year when it attained a figure of 71%.

As regards the in-house helpdesk service, continuity was given to the strategy of centralising attendance and the respective specialisation, namely, in home loans. The most salient indicators were as follows:

- 68% of the average level of service quality (+5% relative to the previous year);
- 1 467 thousand calls for the call centre (-2% relative to 2006);
- 418 thousand calls to the centralisation line (+7% relative to 2006);
- 506 thousand Employee calls (+34% relative to 2006);
- 228 thousand email messages received (+231% relative to 2006, of which 41% from Customers and 59% from Employees).

PROVISION OF INFORMATION BY INTERNET – INFORMATION SITES

The recourse to the Internet in order to consult information continues to increase, as does the concentration of these channels as the most favoured means of contacting Customers, as well as for the creation of business opportunities. During 2007, additional functionalities were unveiled (search for content and products and issue of requests to be contacted – call me) for users, at the same as proceeding with the integration of new product areas (insurance) and information (MiFID and SEPA). The chief activity indicators are:

- 586 million page visits (+10% relative to 2006);
- 35 million accesses (+15% relative to 2006);
- 14 campaigns by SMS (*vs.* 23 in 2006);
- 419 thousand SMS sent in 2007 (+32% relative to 2006).

SERVICE QUALITY

During 2007, BPI put into practice a plan formulated with the object of consolidating the quality gains achieved in prior years. It simultaneously launched new projects with a view to enhancing the level of service quality to its Customers, as well as having sought to cultivate internally the adoption of refined service models at the central units.

Banco BPI's action is in this manner guided by five fundamental concerns: monitoring the quality perceived by the market and analysis of the relative positioning in the banking sector; continuing improvement in the quality of Customer attendance; improvement in the quality of the performance of internal processes having an influence on service; monitoring of the quality of internal service provided to the commercial network by the structures involved in business processes; involvement of the sales teams in the search for solutions to maintain and enhance the quality of service and motivation for the same purpose.

The principles inherent in these fundamental pillars led to the taking of concrete steps, which are summarised as follows.

- The recourse to internal methods centred on Customer satisfaction and attendance was stepped up – Service Quality Index (Portuguese initials IQS), Mystery Customer, interviews with Employees and regular visits by the Quality Division to the branches –, both to assess the level of perceived quality and to identify any deviations relative to the defined goals.
- The internal communication strategy dealing with the quality theme was consolidated through the dynamic promotion of an Internet site, exclusively dedicated to service quality, on which the best practices adopted and the results obtained by the principal indicators are publicised.
- Training covering service quality was intensified, extending it to all the new Employees of the commercial network, and posed the issue of quality in Banco BPI's strategic vision and in the sphere of accountability of the commercial teams.
- Methodologies were developed aimed at enhancing the quality of the attendance and the consolidation of the type of service provided through the identification of 14 basic moments of attendance, together with the launch of a pilot project for the implementation of these methodologies at the commercial network.
- Methods were developed for the monitoring of service quality within the ambit of the processes and products with the most impact on Customers' satisfaction.
- The service quality index was created for the central units (IQS UC), which constitutes an indicator of in-house Customer satisfaction with the quality of the service provided by the central units, based on a survey whose objective is the periodic gathering of the network's Employees' opinion.
- Work continued on improving the complaints-handling process, at the same time as in-depth work was carried out aimed at optimising processes.

IQS – Service Quality Index

The IQS continues to be Banco BPI's basic instrument for monitoring Customer satisfaction and the perception they have of the quality of service provided by the commercial network and the other contact channels.

The IQS includes three components for appraising the levels of Customer satisfaction in the market (IQS Competition, IQS Bank and IQS Branch).

IQS Competition
Bi-annual survey aimed at assessing the Bank's positioning *vis-à-vis* the competition with respect to quality.

IQS Bank
Annual survey conducted involving some 1 200 Banco BPI Customers, with a view to evaluating the level of the Bank's service from the standpoint of an organisation.

IQS Branch
Quarterly survey realised involving some 22 000 Banco BPI Customers, with the object of assessing the quality of service provided by each Branch.

Overall conclusions of the Bank's IQS

The results of the Bank's 2007 IQS point to the continued perception of high quality service. The overall IQS Bank reached 800 points in 2007, on a par with the 2006 result (on a scale with a maximum of 1 000 points).

Overall conclusions of the IQS Branch for 4th quarter of 2007

In the fourth quarter of 2007, the IQS Branch registered 872 points, confirming that the degree of Customer satisfaction with respect to the quality of service at BPI branches remains high. In the series of service-quality factors, we highlight the "personal attendance" factor, in relation to which the satisfaction levels surpassed the overall satisfaction level – IQS.

Service quality in branches
IQS Branch in the 4th quarter 2007

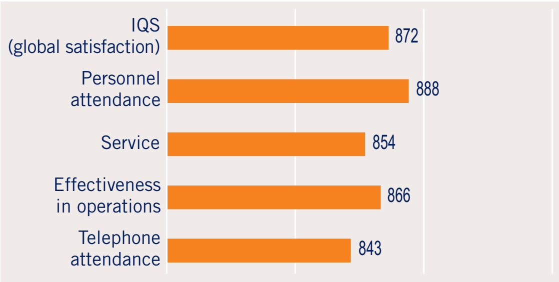


Chart 49

Service Quality Index – IQS Central Units

In the implementation of the defined quality policy, Banco BPI has invested continuously and progressively in the development and quality-assessment techniques and instruments which make the increase and sustainability of service quality to external and internal Customers viable.

During the course of 2007, the IQS Central Units was developed – an indicator capable of reflecting the commercial networks' satisfaction level with the service provided by the central units involved in business processes. This indicator is based on a half-yearly survey aimed at gathering the opinion of all the Employees of Individuals and Small Businesses Banking.

In line with the methods developed for monitoring service quality relating to the processes and products with the most impact on Customer satisfaction, this indicator constituted a key instrument during 2007 for gauging the central units' efficacy and response capability.

Keeping abreast of this indicator and the respective internal dissemination constitute a motor for the continuous improvement in quality and permit reinforcing the orientation towards better Customer service within the ambit of the central structures.

Complaints management

During 2007, work continued on improving the complaints-handling process following an increase in the number of complaints linked to Banco BPI's growth, i.e. the increase in the number of branches, Customers and operations. The average response time remained unchanged at six days. In this regard, it is also worth referring to the conduct of monthly audits directed at complaining Customers with the object of assessing the degree of their satisfaction.

INCREASE IN COMMERCIAL CAPACITY

Banco BPI invested heavily in boosting its commercial capacity in 2007, having defined the following guidelines:

- expansion of the commercial networks, with the goal of increasing the proximity and capacity of the commercial teams;
- implementation of new solutions for optimisation and improvement of commercial processes;
- reinforcement of the instruments for management of commercial activity and the launch of instruments for identification of critical factors in internal support services to the commercial networks;
- creation of a new commercial dynamic with the launching of the Vitória Commercial Drive Programme.

Vitória Commercial Drive Programme

Although Banco BPI's growth in recent years has outpaced the market, there still exists an important potential worth exploring. The differences between the various commercial staff are particularly important, since they indicate the possibility of growth by the dissemination of the best practices and better organisation of commercial activity.

In order to exploit this latent commercial potential, a programme was unveiled in January 2007 aimed at boosting commercial dynamism at the commercial networks, with the following objectives having been set:

- reduce the time devoted to non-commercial activities;
- establish homogeneous practices throughout the networks;
- stimulate sales growth;
- better liaison between the networks.

The programme was initiated at the Individuals and Small Business network, having been extended during 2007 to the other commercial networks: Investment Centres, Corporate Centres, Large Corporations, Institutional Banking, Housing Shops, Private Banking and Emigration Division.

This initiative was implemented throughout 2007, with some phases expected to take place during 2008.

Individuals and Small Businesses Network

At the Individuals and Small Businesses Network, the first survey phase identified more than 100 improvement measures in the different facets of commercial activity.

The concern with immediate-impact measures was reflected in the fact that around 40% of the measures identified have already been adopted.

The implementation of decisions, with a far-reaching reflection on the sales culture and systemic commercial practice, occurred in stages which encompassed in sequence the entire branch network. The launch at each branch entailed on-the-job training and the dedicated monitoring of a local team.

Impact and results

The measurement and ongoing monitoring of the results of the implementation of the measures and new work practices were an important aspect of the initiative, which was mirrored in the reinforcement of management information made available to branch Employees and the network's hierarchy.

The implementation of the measures was reflected in the sharp increase in commercial contacts and the consequent 25% growth in the number of products sold and in the new Customers canvassed per Employee. The Incentives and Motivation System's (SIM) indicators also rose 13%.

These figures also take into consideration the medium-term horizon, which reflects the sustainability of the measures and respective incorporation into the branches' normal activity.

Given the excellent results achieved, the sustainability of the measures is a priority in the follow through done after the implementation, while the necessary adaptations are in progress for incorporating the new commercial culture into all the management instruments.

BPIGO IN 2007

BPIgo is the application developed by Banco BPI with the object of supporting the entire Customer-relationship management process, promoting efficiency and efficacy gains in the sales force's work.

Founded on a multi-channel infrastructure, the application integrates at a single access point, the relevant knowledge and the commercial monitoring plan for each Customer, advocating a consistent communication over time and in all commercial contacts.

In 2007, the development of BPIgo was oriented by three pillars:

- Vitória Commercial Drive Programme;
- Management information of commercial activity;
- Support for commercial activity in investment products.

These key areas reinforced the commitment to the BPIgo application, as a crucial element of knowledge, operation and coordination of Banco BPI's commercial activity.

A number of ad hoc and new functionalities were also added to these elements, resulting from the policy of continuously improving the application.

Vitória Commercial Drive Programme

The Vitória Commercial Drive Programme was aimed at optimising the commercial operations of Banco BPI's various commercial networks, having also been reflected in numerous changes and improvements to BPIgo.

With the goal of improvement, BPIgo was the object of refinements geared towards the simplification and optimisation of functions related to the management of Customer contact, the management of potential Customers and the publication of management information reports focused on key indicators relating to monitoring of commercial activity.

Given that the Programme covers various commercial networks, adaptations were made to the application to cater for the special needs of all the networks.

An intensive training drive was realised aimed at boosting and harmonising knowledge relating to the application's use, promoting in line with the Programme's orientation, the implementation of the best practices in the use of the applications supporting commercial activity.

Management information for commercial activity

Pursuing the definition of the new commercial practices under the Vitória Commercial Drive Programme, and given the need to better adapt the information already available for decision making, a general revision of management information concerning commercial activity was carried out.

In this context, the existing forms were reformulated and new forms implemented with the following objectives:

- to measure and stimulate commercial pro-activity, comparing performance with predefined objectives and peer performance;
- to analyse the information relating to marketing activity;
- to monitor commercial trends on a daily basis, interpreting the indicators which best characterise the activity.

This review process also included the adoption of a new technological platform of business reporting, which permitted simplifying the process of form development. The technological capacities of the new platform also produced benefits for the end users, who saw improvement in the utilisation experience.

Support for commercial activity with investment products

In the framework of the adaptations stemming from the Markets in Financial Instruments Directive (MiFID), significant improvements were also made to the BPIgo application with regard to support for commercial activity.

Besides the necessary steps to be taken in order to ensure an adequate knowledge about the Customer as required by MiFID (*Know Your Customer*), the instruments needed for the provision of superior commercial support to Customers as regards investment products were also included in BPIgo.

CORPORATE BANKING, INSTITUTIONAL BANKING AND PROJECT FINANCE

At the end of 2007, Corporate Banking, Institutional Banking and Project Finance's loan and guarantees portfolio amounted to 15 568 M.€, 13% higher than the corresponding figure for 2006. Customer loans were situated at 12 409 M.€, up 19% relative to December 2006. Credit in the form of guarantees stood at 2 941 M.€, having posted an increase of 87 M.€, (up 3%).

Up to the end of the third quarter of 2007, the loan portfolio registered growth of 31% relative to the same period last year. In the meantime and following the changes which occurred in the international markets from August onwards, the economic climate affected the ongoing growth recorded up till then as a consequence of the Bank having adhered from the outset to a policy of adjusting its pricing to the new market conditions, a move which was not matched by the majority of our competitors in Portugal.

During 2007, all the segments of Corporate Banking, Institutional Banking and Project Finance presented positive trends, including the expansion noted in Project Finance's loan and guarantees portfolio, which climbed from 1 739 M.€ at the end of 2006 to 2 586 M.€ at the close of 2007, that is, growth of 49%.

In December 2007, resources totalled 2 365 M.€, compared with 1 965.5 M.€ at the end of the previous year, and corresponding to a 20% growth rate. Since 2003, resources have expanded 47%.

Corporate Banking, Institutional Banking and Project Finance
Selected indicators

Amounts in M.€

	2006	2007	Δ%
Loans and guarantees[1]			
Large corporations	4 955.7	5 398.5	8.9%
Companies (SME)	5 009.5	5 463.9	9.1%
Project Finance	1 739.1	2 586.0	48.7%
Institutional Banking and State Business Sector	2 033.2	2 119.4	4.2%
Loans and guarantees	**13 737.6**	**15 567.8**	**13.3%**
Resources[2]	**1 965.5**	**2 364.5**	**20.3%**

1) Includes loans to Customers, loans to credit institutions, debt securities and guarantees.
2) Includes sight deposits and time deposits.

Table 31

Corporate Banking, Institutional Banking and Project Finance

Loans and guarantees

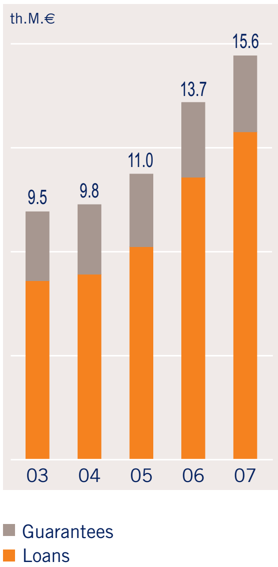


Chart 50

Customer resources

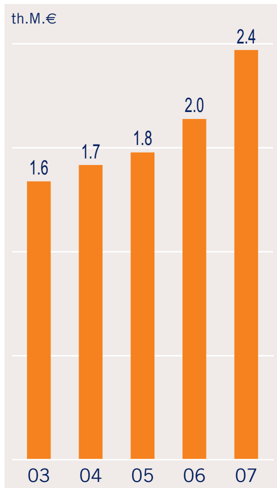


Chart 51

LARGE CORPORATIONS

The loan and guarantees portfolio of the large corporations' segment grew 9% in the past year, that is, advancing from 4 955.7 M.€ in December 2006 to 5 398.5 M.€ in December 2007.

A major contributing factor behind this trend was the fostering of the commercial relationship with the principal Iberian groups, both Portuguese and Spanish.

COMPANIES

The loan and guarantees portfolio of companies also posted 9% growth, climbing from 5 009.5 M.€ in December 2006 to 5 463.9 M.€ in December 2007.

This evolution is primarily due to the following factors:

- reinforcement of the corporate network through the creation of three new corporate centres (in Beja, Oporto and Leiria) which were added to the Bank's network of corporate centres, one of the country's largest;

- greater proximity to corporate Customers, achieved in particular thanks to the staging of a number of seminars and other initiatives in various points of the country (these involved more than 1 500 Customers), as well as to the publication of a monthly electronic newsletter for the corporate segment providing details of BPI product innovations and other important information;

- aggressive strategy targeted at canvassing for and boosting the loyalty of new business Customers, which over the past four years has resulted in the inflow of some 3 850 new Customers;

- permanent development and improvement in the spectrum of bank products and services commercialised through the corporate centres, underlining in 2007:

  - the BPI Export line, designed to finance and support incentives for exports;

  - the Angola Express credit line for financing the exports of consumer and intermediate goods to Angola, in partnership with BFA;

  - derivative products, conceived to cater for companies' specific needs and which up until quite recently were only available to the large corporations segment;

  - the BPI PME Garantia Mútua line, a credit line integrated into the mutual guarantee system and earmarked for financing SME's;

  - the new banking protocol with *Turismo* Portugal, which permits supporting the financing of tourism projects according to the priorities defined in the National Strategic Plan for Tourism;

  - the service covering the advising on, structuring and mounting of special financial operations, the new business volume of which amounted to some 782 M.€;

  - the improvement in the service offered through the new channels – BPI Net Empresas – with the enlargement of its functionalities, namely, the changes introduced in order to serve companies who conduct their business operations at Iberian level;

- permanent updating of the human resources deployed in the corporate network by means of in-house and external training courses which in 2007 occupied a total of 12 446 hours;

- speed in credit decisions and corresponding speed in the approval process, while safeguarding the risk-evaluation criteria in force, guaranteeing greater depth and quality in the service rendered to Customers.

Public incentive programmes and systems

BPI continued to support companies in the tourism sector, having been one of the signatory banks to the new Banking Protocol with Turismo de Portugal, signed in June 2007.

Within the ambit of Fincresce – a programme launched by IAPMEI with the objective of providing optimal financing conditions for high-performing SME's with appropriate risk profiles and which pursue strategies focused on growth and reinforcing competitiveness – Banco BPI assumed a leading position amongst the five adhering banks during 2007.

Cosec

In 2007, Banco BPI's partnership with COSEC surpassed the goals set, registering an expressive increase in the sales of credit insurance through the Corporate Banking network: the number and value of policies doubled relative to 2006.

This trend meant that BPI became COSEC's biggest sales channel by a wide margin by contributing with 52% of the new Customers signed up.

In 2007, COSEC began to make available commercial managers at BPI's corporate centres located in regions with the greatest commercial potential, notably in Aveiro, Leiria, Braga, Setúbal, Viseu and Faro. This proximity, associated with the Corporate Banking network's enhanced efficiency, explains this commercial success.

Mutual Guarantee

Banco BPI continued to contribute to the dynamic development of mutual guarantee business under the protocols in force with Norgarante, Lisgarante, Garval and since May 2007, with Agrogarante, constituted to specifically lend support to the small and medium-sized companies segment (SME), to unincorporated business and to young first-time farmers falling within the agricultural and agro-industrial sector.

In 2007, the Bank was once again the business leader in the mutual guarantee system, both in the number of operations (37.2%) and in the amount contracted (25.1%).

The BPI SME Mutual Guarantee line unveiled in June 2006 continued to provide treasury and investment support to micro, small and medium-sized companies, in particular where such operations involve relatively small amounts (up to 250 thousand euro).

PROJECT FINANCE

The project finance segment once again revealed robust activity in 2007, with the loan and guarantees portfolio attaining a figure of 2 586 M.€ at year's end, corresponding to 48.7% growth relative to December 2006. The Bank's loan portfolio thus saw a gain in this segment's weighting. On the same date, the total amount of operations on hand, including amounts not yet advanced, stood at 2 950 M.€.

The trend registered in project finance activity continues to reflect the importance of BPI's involvement in the structuring, mounting and participation in projects covering strategic sectors, notably in the renewable energies, transport, infrastructures and public services areas. It also reflects the intensification of the Bank's representation in global projects, above all in the Spanish market.

2007 was also marked by the realisation of the Bank's first direct participation in financing operations in the African market with the granting of a mandate in May by the Mozambique government to Banco BPI, jointly with the French bank Calyon for the structuring, organisation and underwriting of the financing for the return of *Hidroeléctrica de Cahora Bassa* (HCB) to the Mozambique state, in the amount of USD 800 million. The financial closing of the operation took place on 27 November and guaranteed the Mozambique government the funds required to comply with the agreement reached with the Portuguese government for the acquisition of 85% HCB's capital on that same date.

The Calyon / BPI consortium was selected following an international tender called for by the Mozambique government on 5 February 2007, in which other banking consortia composed of international, South African and Portuguese institutions participated.

Amongst the operations in which BPI was involved in 2007, special reference is made to the following.

Structuring, mounting and financing of project finance operations

- **Eólicas de Portugal** – Work continued on the involvement as mandated lead arranger in the process entailing the financing of a group of 40 wind farms to be built by the consortium *Eólicas de Portugal*, formed by Enernova (EDP Group), Enercon, Generg and TP – Sociedade Térmica Portuguesa. This consortium won the national tender launched by the government in August 2005 for the attribution of wind-powered energy generation. It envisages the installation of around 1 200 megawatts and an investment of 1 000 M.€ between 2008 and 2013.
- **Generg** – Mandated lead arranger in the organisation, mounting and underwriting[G] of the financing to Generg, SGPS, S.A., (renewable energy group held by Electrabel and by the principal Portuguese foundations – Fundação Oriente, FLAD and Fundação Gulbenkian), of the last two groups of a complete portfolio of wind farms in the total amount of 202 M.€. The whole portfolio involves financing of 498 M.€ for an installed capacity of 442 megawatts.
- **EDF EN Portugal** – Mandated lead arranger in the organisation and underwriting of the refinancing provided to four companies controlled by EDF EN Portugal, S.A., (renewable energy subsidiary of EDF Énergies Nouvelles, a French promoter of the EDF group) of the portfolio of four wind farms comprising a total of 206 megawatts. Total financing and bank guarantees: 257.5 M.€.
- **Soares da Costa Concessões** – Sole lead arranger in the financing of the acquisition of holdings in the capital of SCUTVIAS – Auto-estradas da Beira Interior, S.A., and CPE – Companhia de Parques de Estacionamento, S.A., in the global amount of 69.95 M.€.
- **Águas de Cascais** – Sole lead arranger in the provision of interim finance for the refinancing under the project-finance regime of the public-service concession of the Cascais municipality's water and sanitation supply systems. Financing and concession guarantee in the total amount of 37.5 M.€.
- **Águas do Planalto** – Mandated lead arranger in the structuring, mounting and financing of the public-service concession for the operation of the water supply and distribution in the municipalities of Carregal do Sal, Mortágua, Santa Comba Dão, Tábua and Tondela in the total amount of 27 M.€.
- **Enerbigorne** – Sole lead arranger in the structuring, mounting and financing of the wind farm at Tendais (Cinfães), with a capacity for 10 megawatts, in the amount of 16.7 M.€.
- **Latinity** – Sole lead arranger in the structuring, mounting and financing of the Felgar wind farm (Moncorvo), with capacity of 8 megawatts, in the amount of 13.5 M.€.

Public-private partnerships and public administration areas

- **Ministry of Health** – Support for the *Estrutura de Missão Parcerias.Saúde* in the role of leader of the consulting consortium, advising within the ambit of the respective tenders for the hospitals of Loures, Cascais, Braga and Vila Franca de Xira; preparing the tenders for the hospitals of Central Algarve and Todos os Santos; advising the bodies of the Ministry responsible for the management of the National Health Service's Attendance Centre and of the S. Brás de Alportel Physical Rehabilitation Centre. Financial consultant for the computation of the comparable public cost of the Todos os Santos Hospital. Financial consultant of the hospital units in the implementation of the externalisation processes of the clinical support services.
- **Western Lisbon Hospital Centre (Centro Hospitalar de Lisboa Ocidental)** – Consulting service relating to the externalisation of the imageology and nuclear medicine services.
- **Aveiro Port Administration** – Financial consultancy work for the preparation and implementation of the commercial operation model for the port of Aveiro's new terminals.
- **Lisbon Municipality** – Financial consultancy in the structuring and preparation of the PPP tender for the construction and maintenance of the municipality's schools.
- **Maia Municipality** – Assessment of the water, sanitation, SUW collection and street cleaning, and support in the creation of a municipal company for the operation of the systems.
- **Funchal Municipality** – Economic-financial evaluation of the water and sanitation systems.
- **Oeiras Municipality** – Financial consultant for the conception of a monitoring and control system of the entities in which the Oeiras MC has participating interests.
- **Vimágua** – Financial advising in the demonstration of the medium and long-term economic-financial feasibility of Vimágua and the structuring of the relationship with the Guimarães and Vizela municipal councils.

Organisation and mounting of financial restructurings and financing solutions in the state business sector

- **Refer** – Financial consultancy work in the structuring of the bases of a contract-programme to be entered into with the State.

- **EGF – Empresa Geral de Fomento** – Financial consulting as part of the preparation of candidacies for financing from the European Investment Bank.
- **EDIA** – Economic-financial evaluation and support in the choice of the strategic partner for the operation of the hydroelectric component of the Alqueva and Pedrógão dams.

Other consultancy assignments

- **Auto-Estradas do Atlântico** – Permanent financial consultant to the Eastern motorway concession.
- **Vialitoral** – Permanent financial consultant to the SCUT highway concession in Madeira.
- **Norscut** – Financial consultant within the ambit of the process of restoring financial equilibrium under the Northern Interior SCUT concession contract.
- **Galp Gás Natural (ex-Transgás)** – Permanent financial consultant in the revision of the financial model for Galp Energia's natural gas business.
- **Eiffage** – Financial consultant in the preparation of the candidacy to the tender for the Marão tunnel concession.

International area

Mozambique

- **Renascer** – Mandated lead arranger in the operation of energy prepayment of the Hidroeléctrica de Cahora Bassa scheme, in the total amount of 800 M.US$, as part of the operation involving the return of the majority control of the company's capital to the Mozambique state.

Spain

- **AES Energia Cartagena** – Participation in its capacity of lead manager in the refinancing of the CCGT power plant with an installed capacity of 1 200 megawatts, in Spain. Total amount of 742 M.€.
- **Metro Ligero Oeste** – Participation in the capacity of lead manager in the financing of the construction and operation of the light metro system lines in Madrid involving an amount of 566 M.€.
- **Tirme** – Participation as lead arranger in the financing of the construction and operation of a solid-waste treatment plant on the island of Majorca, in the total amount of 494 M.€.
- **Ausol** – Participation as senior lead arranger in financing the construction, operation and maintenance of the Costa do Sol highway (105 Km) in Spain. Total amount of 487 M.€.
- **La Boga** – Participation as joint lead arranger in the refinancing of three wind farms and the financing of three others, involving a total 280 megawatts, located in the Burgos region of Spain. Total amount of 350 M.€.
- **Acciona Eolica Castilla La Mancha** – Participation in the role of lead manager in financing the construction and operation of four wind farms with an installed capacity of 75 megawatts in the Albacete region of Spain. Total amount of 180 M.€.
- **Fotowatio** – Participation as arranger in financing the construction and operation of a photovoltaic power facility with 20 megawatts, in the Trujillo region of Spain involving a total amount of 176 M.€.
- **Hydro Management** – Participation as senior lead arranger in the financing of a desalination unit in the Múrcia region of Spain, involving a total figure of 131.5 M.€.
- **Centro Tecnológico Palmas Altas** – Participation in financing the construction, operation and maintenance of a business and technology park, promoted by Abengoa and located in the city of Seville, in a total amount of 125.6 M.€.
- **Hospital del Norte** – Participation as lead arranger, in financing the construction and operation of the Hospital del Norte in Madrid involving a total amount of 100 M.€.

Ireland

- **Eurolink Motorway Operations (M3)** – Participation as the lead arranger in financing the construction, operation and maintenance of the motorway concession in Ireland (Clonee – North of Kells, 50 Km), in the total amount of 317.2 M.€.
- **N6** – Participation as the lead arranger in financing of the construction, operation and maintenance of the motorway concession in Ireland (Galway – Ballinasloe, 63 Km), in the total amount of 301 M.€.

France

- **MEIF / GIF** – Participation as lead manager in financing the construction, development and operation of two wind farms situated in south-western France, with a total installed capacity of 77.7 megawatts, in the total amount of 109.5 M.€.

Canada

- **Canaport** – Participation as lead manager in financing of an industrial complex for the reception, storage and re-gasification of liquefied natural gas on the eastern coast of Canada in the total amount of 756 M.USD.

INSTITUTIONAL BANKING AND STATE BUSINESS SECTOR

In 2007, the loan, guarantees and other similar products portfolio of the Institutional Banking and State Public Sector Division posted growth of 4%, to reach an overall amount of around 2 119 M.€.

The increase in loans to the institutional sector essentially contributed to this result. In spite of the strongly competitive conditions that have prevailed over the past five years, this posted a 9% growth rate.

During 2007, the Bank reinforced its partner of reference activity in the provision of financial advice to the institutional and state business sectors. It did so not only in the structuring of operations for the hedging of interest-rate risk, but also in lending support for the revision of the international ratings of the Lisbon, Oporto, Sintra and Cascais municipalities, both in the formulation and realisation of structured financing applications, and in advising public-sector companies and institutions with a view to procuring loans from the European Investment Bank and on the international capital markets.

As regards this last aspect, special mention is made of the following cases.

- The signature in Lisbon in March 2007 of that community financial institution's contract for the loan to the Housing and Urban Rehabilitation Institute (*Instituto de Habitação e Reabilitação Urbana*), aimed at providing financial support under exceptional conditions for investments in urban rehabilitation promoted by the urban rehabilitation companies Porto Vivo, Lisboa Ocidental and the Housing and Urban Rehabilitation Institute itself.

- The involvement, also in the role of financial adviser, in the long-term financing operation (totalling 400 M.€) for Metropolitano de Lisboa (Lisbon underground entity) on the international capital markets.

In the state business sector, Banco BPI responded with resounding success to the challenges posed earlier by the Águas de Portugal group, leading for the first time in this sector the private placing on the European market of a loan to the group's holding company, in partnership with two international financial institutions.

COMMUNICATION WITH CUSTOMERS

In 2007, the following were the most salient communication initiatives referring to Customers.

Seminars for Customers

During the year under review, several get-togethers with Customers were held, amongst which:

Angola and BPI Exportação seminars: Initiative unveiled in 2006 and which was followed through during 2007. Nine sessions with Customers were organised, the object of which was the debate and analysis of the specific nature of the Angolan market and the presentation of a set of financial products specially designed to boost the exports of national companies to Angola and other markets.

BPI seminars dealing with incentives for the development of the agro-industrial sector: five regional sessions were staged, at which the support programmes directed at companies in the agro-industrial and forestry sectors were debated. At these workshops BPI's financial solutions for the sector were also presented, with particular reference to the Mutual Guarantee – Agrogarante.

A seminar entitled Understanding China: Workshop was held in Lisbon, at which the issues related to China's economic and social development were debated and to which the Bank invited Prof. David Gosset, professor at CEIBS China European International Business School, China's biggest business school whose headquarters are in Shanghai.

More than 1 500 companies and entities participated at these seminars and other gatherings held for Customers.

Newsletter BPI Empresas

This is an electronic Newsletter with up-to-date information about products and services for the Corporate segment, as well as covering studies and other useful information for business activity, Currently, this monthly newsletter is distributed via email to roughly 10 thousand Corporate Banking Customers.

BPI NET EMPRESAS

BPI Net Empresas is a Corporate Internet Banking service geared to corporate and institutional Customers, and is the principal means of electronic interaction with the Bank's Corporate Banking Customers.

The continuing growth in the recourse to this service remained intact during 2007, with the number of Corporate Banking subscribers recording a 12% increase as a result of the availability of new functionalities, tailored to companies' needs.

Amongst the new features on offer is the possibility of accessing accounts at BPI's Madrid branch in order to carry out consultations and online operations via BPI Net Empresas.

OFFICE FOR ANGOLA

The Angolan economy continues to register a noteworthy performance and a growth rate which is amongst the world's fastest. The Angolan government has been giving priority to a policy of public investment, namely on infrastructures within the context of a market economy, underpinned by a modern legal environment conducive to Foreign Direct Investment.

The interest that Angola has aroused amongst the Portuguese business community has, therefore, been gaining momentum. Accordingly, Angola presents itself as a commercial partner of the future.

Symptomatic of this interest is the growing number of requests directed to the Office for Angola by corporate Customers, which in turn led to contacts with more than 300 entities in 2007. Of these, 60% were companies contacted for the first time, which corresponds to a growth rate of roughly 28,5% relative to the previous year.

Functioning as a pivotal structure focused on the Angolan market, the Office for Angola has geared its activity to the following major operational areas:

- strengthening the BPI Group's affirmation to Portuguese companies with interests in Angola, enhancing the value of BFA's unparalleled positioning in the Angolan financial system and maximising the advantages of the BPI / BFA relationship *vis-à-vis* the competition;

- furthering the relationship with the companies which are the Bank's Customers and which already have business dealings with the Angolan market, adopting measures capable of improving the monitoring of the respective business in Angola, that is,

  - assisting them identifying new business opportunities;

  - identifying possible financing needs or the provision of services, whether it be on the part of BFA or of Banco BPI;

  - continuing to disseminate economic and legal framework information or data about the financial instruments available for the Angolan market.

As a consequence of this activity, a significant number of new operations were detected and channelled to BFA involving the granting of credit and the provision of guarantees or services. At the same time, new Customers were identified who turned out to be the source of business for both the Bank and BFA.

CUSTOMER SEGMENTATION AND COMMERCIAL NETWORK

The Corporate Banking, Institutional Banking and State Business Sector areas manage in an integrated manner the Bank's relationship with BPI's business and institutional Customer base, as well as the respective range of products and services.

Corporate Banking Customers are segmented according to turnover – large corporations and companies –, as well as according to the respective specifics – Project Finance, Institutional Banking and the State Business Sector, backed by a network of 52 corporate and institutional centres.

2007 saw the maintenance of the two support areas for Large Corporations (North and South) and the three regional divisions (North, Centre and South and the Islands) to serve the rest of the corporate market, thereby ensuring national coverage and greater proximity. These areas coordinate 44 corporate centres. With the object of reinforcing the presence in certain regions, three new corporate centres were opened in 2007, in Beja, Leiria and Oporto.

The Large Corporations South area includes a corporate centre set up to lend support to Spanish and other multinational companies with a view to undertaking a specialised service that is more adapted to the characteristics of these Customers.

Institutional Banking has a specific commercial network which ensures the quality of service, proximity and competence in the service rendered to the Customer (local authorities, public sector, foundations and other institutional Customers), and it is composed of five institutional services: North, Centre, South, Madeira and Azores and a Corporate Centre for the State Business Sector.

The Project Finance area concentrates its activity on the financing of project finance operations and public-private partnerships (PPP), providing consultancy, organisation and mounting services, as well as participating in the financing of highly-complex large-scale projects.

Bancassurance

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

BPI Customers thus have at their disposal an extensive range of insurance products which cover both life assurance – death and disability insurance – and the other branches – motor insurance and all-risks insurance: household, fire, alterations and installations, public liability, theft, personal accident, unemployment and sickness.

The positive performance that has been observed in the bancassurance is reflected in the indicators relating to activity and revenue, as well as in the number of insurance policies sold in 2007. The key figures are as follows:

- commissions rose by 36.3% to 31.8 M.€;
- life and non-life insurance premiums totalled respectively 52.1 M.€ and 46.4 M.€, which correspond to growth of 19% in life risk and 34% in non-life risk (the market posted growth of 5.2% and 0.1% in life and non-life insurance premiums respectively);
- the trend in the number of insurance policies has also been positive; at the end of 2007, there were more than 400 thousand active life-risk policies and more than 340 thousand active non-life insurance policies;
- life business – 92.7% of Customers were either Satisfied or Very Satisfied[1] (91% in 2006);
- non-life – 88.25% of Customers were Satisfied or Very Satisfied[1] (86.8% in 2006).

Commissions
Intermediation of insurance products

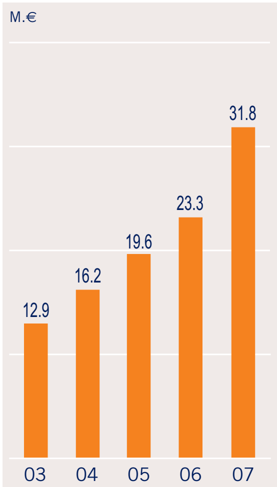


Chart 52

1) Survey conducted by Qmetrics.

Asset Management

OVERVIEW

The volume of financial assets managed by the BPI Group's Asset Management area at the end of 2007 amounted to 15.7 thousand M.€, which corresponds to an increase of 558 M.€ in relation to the previous year. Contributing to this result were the expansion in BPI Vida's portfolios, the growth in assets under discretionary management and Private Banking's advisory services, the growth in absolute return products, the expansion in institutional Customers' managed accounts, and the increase in structured products. As regards unit trust (mutual) funds, there was a 5.5% drop as a result of redemptions made in the closing months of the year, as well as the closure of an income-distribution fund.

Assets under management — Amounts in M.€

	2006	2007	Δ%
Unit trust (mutual) funds	4 645	4 389	(5.5%)
Pension funds	3 493	3 514	0.6%
Capitalisation insurance	4 350	4 510	3.7%
Private Banking	2 144	2 538	18.4%
Institutional Customers	372	498	33.9%
Hedge funds	421	580	37.9%
Structured products	1 331	1 455	9.4%
Total[3]	**15 184**	**15 742**	**3.7%**

1) Adjusted for duplication of balances.

Table 32

Assets under management

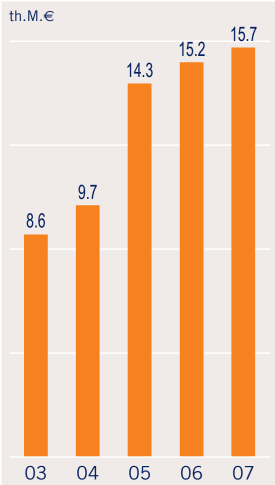


Chart 53

Breakdown of assets under management
At 31 December 2007

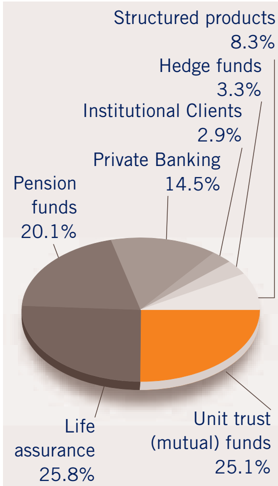


Chart 54

UNIT TRUST FUNDS

The unit trust funds managed by the BPI Group totalled 4 389 M.€ at the close of 2007. The funds domiciled in Portugal totalled 4 139 M.€, while there were BPI funds domiciled in Luxembourg amounting to 250 M.€.

Unit trust funds under management Amounts in M.€

	2006	2007	Δ%
Bonds and money market	1 469	1 112	(24.3%)
Capital growth (equities)	692	808	16.7%
Tax efficiency (PPR/E and PPA)	1 553	1 616	4.0%
Diversification	931	853	(8.3%)
Total	**4 645**	**4 389**	**(5.5%)**

Table 33

The market and the BPI Group

Despite a promising first half of the year, 2007 ended up being a difficult year for the unit trust funds industry. The market declines occurring since August, in particular falling bond prices, triggered a drop in the value of funds whose risk was until then considered to be very low. Investors' reaction entailed strong movements in unit redemptions, with the capital being diverted to alternative investments such as bank deposit accounts. As a consequence of this movement, which became more pronounced in the last four months of the year, the national unit trust funds market witnessed net redemptions of 3 836 M.€ in 2007, which is by far the industry's worst result in Portugal. The overall amount of domestic funds fell in Portugal from 29 137 M.€ at the beginning of 2007 to 25 763 M.€ at the end of the year, equivalent to an 11.6% decline.

As concerns the BPI Group, net repurchases in 2007 were 302 million, to which was added a further 88 M.€ redeemed with the closing in October of a periodic income-distribution fund. These outflows from BPI Group funds were however lower than those registered by the majority of the other large-scale fund managers. The overall decline recorded by BPI Funds was 256 M.€, or 5.5%.

The movement in fund redemptions occurred on a global scale and, in the case of the European harmonised funds (UCITSIII), redemptions exceeded subscriptions for the first time during the 2nd half of the year, extending to all these collective-management instruments. In previous crises, the falls in one investment class ended up being offset by subscriptions to another, and had always resulted in an overall net gain.

Bond funds

Investors' withdrawals were primarily directed at the bond funds. In Portugal in 2007, according to the APFIPP's data, net withdrawals from variable-yield money-market funds exceeded 4 thousand M.€, while in fixed-rate funds the figure was 221 M.€. The predominantly bond funds of funds lost 503 M.€.

Closure of BPI Renda Trimestral

On 2 October, BPI Gestão de Activos wound up the income–distribution fund specialising in variable-yield bonds, BPI Renda Trimestral. At the end of each quarter, this fund paid out the income earned in the period. With the decision to close it down, it was the intention to safeguard the participants' future interest in an income-distribution fund at a time when it did not seem possible to generate income for distribution. This decision proved to be very opportune and warranted by the deterioration in market conditions that still prevails.

Unit trust funds under management

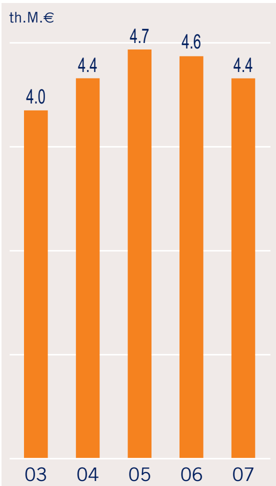


Chart 55

Breakdown of unit trust funds under management
At 31 December 2007

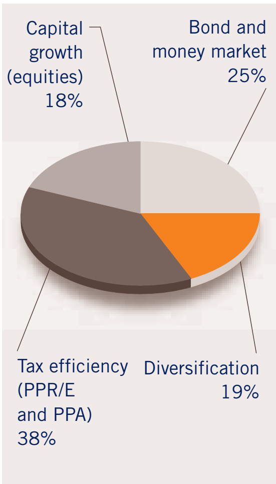


Chart 56

Equity funds

Although on a reduced scale, the equity funds in Portugal had a net inflow of cash in 2007. According to the APFIPP (industry association), the national equity funds received a net inflow of 39 M.€; the European equities funds 19 M.€; the international equities funds 99 M.€; and those specialising in sectorial equities 73 M.€.

At the BPI Group, this movement was particularly visible thanks to the prestige attained by certain of the equity funds managed by BPI Gestão de Activos. The equity funds registered a net inflow of 178 M.€ thanks to the net inflows of 66 M.€ to the Fundo BPI Reestruturações, 75 M.€ to the European funds (Value and Growth) and 41 M.€ to the BPI Portugal fund.

PPR

The attention to the selling of PPR as a savings instrument continued to be one of the BPI Group's priorities: the active promotion of the PEP (regular instalment plans) continued throughout the year which embraced more than 117 thousand Customers. The PEP are an excellent mechanism for building a retirement plan on a consistent basis, regardless of the moments when the market behaves in a random fashion.

BPI Reforma Acções PPR

BPI Reforma Acções was the PPR which for the second consecutive year posted the market's highest return, earning a return of 8.8% (14.1% in 2006). This savings fund had net subscriptions of 28 M.€, a comparatively high figure for a fund with shareholder risk.

BPI Selecção

BPI Gestão de Activos launched a new fund towards the end of September which invests in a selection of the BPI Group's funds (mainly equities). Despite the fact that it was launched when the markets were already in turmoil and that it had not benefited from any commercial campaign directed at the public, it still managed net sales of 21 M.€ in the first three months of activity.

RECOGNITION IN 2007

In the 2007 edition of the Standard & Poor's – Diário Económico awards for the best unit trust funds, BPI Gestão de Activos achieved the following.

BPI Gestão de Activos

Best Fund Manager

Domestic Funds

BPI Europa Valor

First place

European Equities – Domestic Funds, one year

BPI Europa Valor

First place

European Equities – Domestic Funds, tree years

BPI Universal

First place

Neutral Global Dynamic Management (EUR) – Domestic Funds, one year

PENSION FUNDS

BPI Pensões ended the 2007 financial year managing 35 pension funds, corresponding to a total volume of financial assets of 3 514 M.€. Although the number of funds was unchanged from that of the previous year and the volume under management was up slightly by 0.6%, 2007 was a year of continued success in the attraction of new Clients by BPI Pensões. There was an increase in the number of corporate pension plans from 94 to 100, at the same time as virtually all the companies opted to fund their pension plans to resorting to opened funds already in existence.

BPI Pensões continued in the year under review and in line with previous years to capture practically all the new pension plans formed in Portugal. These inflows of new Clients enabled the company to compensate for (in terms of volume under management) the departure of a pension fund with net assets of 382 M.€.

In 2007, mention is also made of a total volume of contributions and transfers of around 133 M.€ and a total volume of pension and benefit payments of 180 M.€.

Pension funds under management

Chart 57

At the end of the year, BPI Pensões maintained its second place in the ranking of pension-fund management companies in terms of the volume of managed assets. The estimated market share was 19.1%, not taking into consideration the amounts allocated to PPR and PPA, or the amounts under the management of Sociedade Gestora do Fundo de Pensões do Banco de Portugal (the Bank of Portugal's pension-fund management company) and of the company Previsão, whose sole purpose is the management of the pension funds of the respective shareholders.

Attracting new Clients

As was the case in the previous year, 2007 was a busy year in terms of the capture of new Clients: ten new mandates for the management of pension funds commenced for the following companies or economic groups:

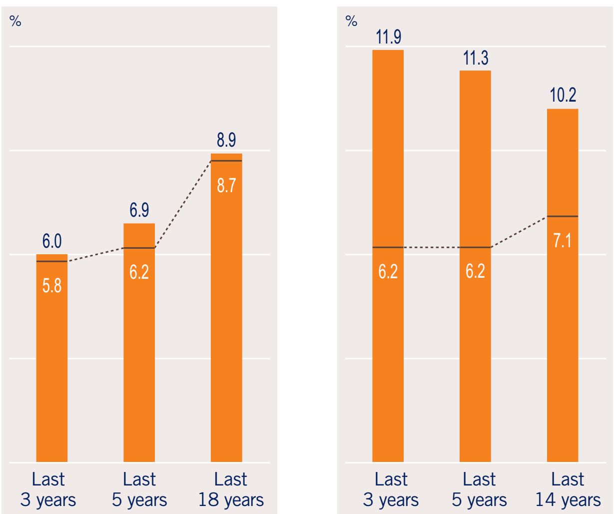
- Bacardi-Martini Portugal
- EEG, SEGMA and SOGEO (Grupo EDA)
- FBM Recursos Humanos – Sociedade Unipessoal, Lda.
- Hewlett-Packard Portugal
- Hilti (Portugal)
- IMM – Material Management, S.A.
- Milupa Produção – Fabrico de Produtos Alimentares
- Portgás (Grupo EDP)
- Tabaqueira

Pension fund returns

Notwithstanding the turbulent behaviour of the equity and bond markets, notably in the latter half of the year, the pension funds reported very favourable returns. The median return posted by the pension funds managed by BPI Pensões was 3.9%, while the average return weighted by the amounts of the respective funds reached 15.2%.

In conducting a longer-term analysis, it can be concluded that the company has consistently presented extremely positive results, confirmed in market surveys relating to 2007 of the two renowned consultants: Mercer Investment Consulting and Watson Wyatt International Ltd. – Portugal.

Pension funds long term returns



Source: Mercer Investment Consulting.

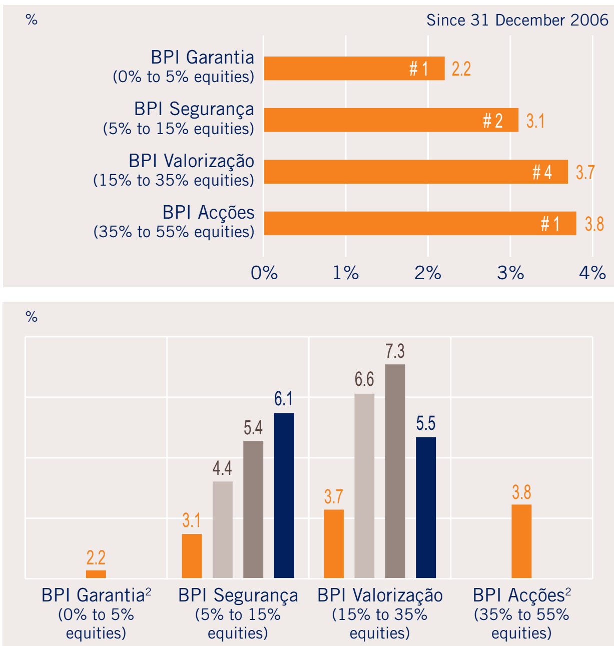
Source: Watson Wyatt International Ltd. – Subsidiary in Portugal.

■ BPI Pensões weight average
– Market median

Chart 58

Insofar as the return generated up until 2007 by the four open-end pension funds managed by the company is concerned, the results obtained continued to be very favourable. We highlight the maintenance of the top slots obtained by the open-end pension funds BPI Valorização and BPI Segurança in terms of long-term profitability, as well as the short-term performance of the two pensions funds constituted in the last quarter of 2005 – the open-end funds BPI Acções and BPI Garantia – which also earned them first place relative to the competition.

Open-end pension funds returns[1]



■ Since 31 Dec. 06
■ Last 3 years
■ Last 5 years
■ Last 10 years

Chart 59

1) Annual rates; returns until 28 December 2007.
2) Pension funds incorporated in the last quarter of 2005.
Source: APFIPP.

RECOGNITION IN 2007

BPI Valorização open-end pension fund wins awards from the magazine IPE – Investment & Pensions Europe

The BPI Valorização open-end pension fund was distinguished in 2005, and yet again in 2007, with the Country Award prize for Portugal, attributed by the magazine *IPE – Investment & Pensions Europe*.

According to IPE, the awarding of the prize was essentially due to the fact that the fund adopted a model built internally for the selection of funds investing in equities whose objective is to select those which consistently out-perform the benchmark[G].

Adaptation to legislative and regulatory alterations

2007 was marked by important changes in the legislative sphere, amongst which the Social Security Base Law, Law 4 / 2007of 16 January, and Decree-Law 187 / 2007 of 10 May, which laid down new rules for calculating social security pensions.

As regards rules and standards applicable to our activity, there were also major changes, with special reference to the governance structures of pension funds, their investment policies and the composition of the assets forming part of their respective net assets.

Within the ambit of MiFID, the new rules for the commercialisation of individual subscriptions to the open-end pension funds were also published. These rules were drawn up by the CMVM as part of the new oversight functions attributed to it.

Those legislative and regulatory alterations implied that BPI Pensões dedicates special attention both to the actuarial valuations and to the updating of the management contracts and the pension-fund membership contracts.

CAPITALISATION INSURANCE

Bearing in mind that 2007 was marked by the uncertainty and volatility[G] sweeping the financial markets, we witnessed a change in the behaviour of investors. Having shown themselves less averse to risk in recent years, preferring products with higher expected returns, in the year under review investors opted rather for time deposits, the rates on which were more attractive.

At BPI Vida, this behaviour led to an increase in new subscriptions to capitalisation insurance not linked to unit trust funds (+35%), especially the BPI Novo Aforro Familiar product which was 37% higher relative to the previous year. However, BPI Vida's total new business written in 2007 registered a drop of 15%, essentially due to the decrease in sales of products linked to unit trust funds (-30%) and retirement-savings plans (-41%).

The products sold by BPI Vida and which are referred to the table below were the best performers during 2007.

Life capitalisation assurance business written Amounts in M.€

	2006	2007	Δ%
BPI Novo Aforro Familiar	239.4	327.6	36.8%
BPI Taxa Garantida 8 anos	2.1	3.2	52.9%
BPI Vida Universal (Acções)	4.5	21.6	378.6%
Poupança Dollar	0.2	0.5	120.4%

Table 34

It is important to note that the variations seen in BPI Vida's new business written reflected that which occurred on the Portuguese insurance market, in which we witnessed equally an increase in the new contracting of capitalisation insurance not linked to unit trust funds (+33%) and a decline in the PPR sales (-13%) and unit-linked capitalisation insurance (-4%).

The volume of BPI Vida assets under management at 31 December 2007 was 4 510 M.€, which corresponds to slight growth relative to 31 December 2006: +3.7%.

2007 was also marked by the following events.

- The BPI Group adopted the procedures envisaged in Decree-Law 144-2006 and the ISP's Standard 17 / 2006-R. It should be noted that this Decree-Law, which transposes into Portuguese legislation Directive no. 2002 / 92 / CE of the European Parliament and Council, seeks to ensure that any activity resulting in the presentation or proposal of an insurance or reinsurance contract be viewed in a similar manner, irrespective of the distribution channel used (including bancassurance operators). It requires increased professionalism, credibility and transparency in broking activity. In this fashion, in order to meet the new requirements, Banco BPI and Banco Português de Investimento constituted themselves as insurance brokers linked to BPI Vida, having given all the new Employees additional training, accredited by the ISP.

- BPI Vida participated in the Quantitative Impact Study III – QIS III, a new study solicited by the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS) within the scope of the Solvency II project. The results of this study are important for the choice of methodologies and parameters to apply under the new solvency model.

- Work also started on the implementation of the procedures stipulated in Decree-Law 384 / 2007, which seek to guarantee greater security for the beneficiaries of life assurance contracts in the event of death.

Life capitalisation assurance

New business per year

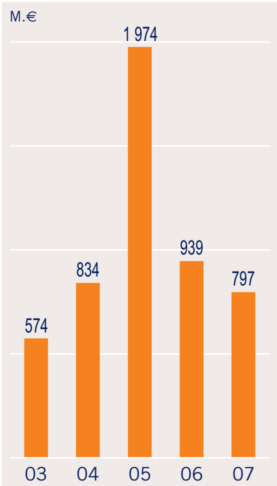


Chart 60

Assets under management

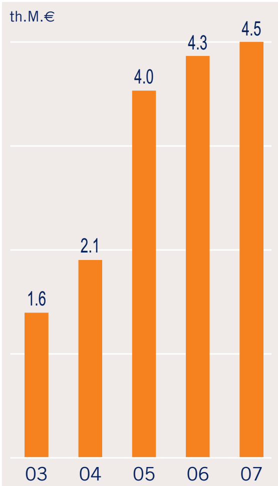


Chart 61

Investment Banking

OVERVIEW

The contribution from Investment Banking activity – corporate finance, brokerage, equities trading and private banking – to net profit was 24.9 M.€. This figure is marginally higher than that recorded in the previous year, although it should be borne in mind that in 2006 the contribution was more than double the 2005 figure. The share in consolidated net profit was situated at 7% in 2007.

The return on Investment Banking shareholders' equity, characterised by the minimal consumption of capital (1.4% of the Group's average shareholders' equity in 2007), was situated at 99%.

In the brokerage business, BPI registered a 128% increase in the volume of shares brokered, attaining leadership in the brokerage of Portuguese shares with a market share of 16.1%, while net brokerage and placing commissions rose by 119% to 23.3 M.€. There was also an expressive increase in brokerage commissions from institutional Customers (148%) and from the brokerage of Spanish equities (106%).

In the equity market's operations, a highlight was the placing of a block of 15% of Jerónimo Martins's capital, which was one of the biggest placings on the secondary market in 2007, and one of the largest ever realised solely by a Portuguese bank. Also noteworthy was the placing of a block of 4.6% of Brisa's capital and the mounting and organisation of an equity swap operation between Sonae SGPS and Banco BPI. BPI participated in REN's IPO in Portugal, and participated for the first time in the IPO's of Spanish companies (Clínica Baviera, Criteria).

For the fourth year running, BPI organised the Iberian Small & Mid Caps conference, which was attended by 25 companies and more than 80 specialist investors. It organised for the second consecutive year a conference of Iberian banks in the USA, at which nine banks and 25 American investors participated. Still in the USA, BPI staged a conference devoted to Infrastructures and Utilities, which counted with the presence of eight Iberian companies and 24 investors.

Investment Banking
Selected indicators

Amounts in M.€

	2006	2007	Δ%
Contribution to the consolidated net profit	24.8	24.9	0.7%
Average allocated capital	22.3	22.3	0.0%
As % of the Group's average Shareholders' Equity	1.8%	1.4%	-
ROE	104.0%	99.4%	-
Assets under discretionary management or effective advisory (Private Banking)	2 144	2 538	18.4%
Market shares			
Equity brokerage	11.6%	16.1%	-
On-line brokerage (BPI Net Bolsa and BPI Online)[1]	17.0%	17.6%	-

1) Market share in online brokerage through the internet site.

Table 35

BPI was the financial intermediary responsible for four takeover bid operations involving a global amount of 409 M.€. It was also responsible for Sonae Capital's demerger operation and was the co-lead-manager of the public offer for sale which formed part of REN's initial offering. In the mergers and acquisitions segment, BPI concluded deals worth in aggregate around 1 211 M.€. BPI also advised a vast number of entities, amongst which we refer to the advice given to NAER in the preparatory work for the tender procedure leading up to the privatisation of ANA – Aeroportos de Portugal.

The volume of private banking business was 3 283 M.€ at the end of 2007, up by 12%. Assets under discretionary management and subject to advisory mandates increased by 18% to 2 538 M.€.

CORPORATE FINANCE

In 2007, BPI maintained its traditionally strong competitive position in the Portuguese corporate finance market, posting high market shares in all the segments in which it operates.

In the market operations' segment, BPI was the financial intermediary responsible for four takeover bid operations involving a global amount of 409 M.€, which is equivalent to a 78% market share. BPI was also responsible for Sonae Capital's demerger operation and the respective share listing process. It also acted as co-lead manager in the public offer for sale which formed part of REN's initial offering.

In the mergers and acquisitions segment, BPI concluded deals worth in aggregate around 1 211 M.€, a figure which according to Bloomberg, corresponds to a market share of 17%.

BPI also advised a vast number of entities in their investment and financing decisions, carrying out valuations and acting as agent in the procurement of the funds required for their investment projects.

Amongst the processes in which it was involved, we refer to the advisory assignment undertaken for NAER in the preparatory work for the tender procedure for the privatisation of ANA – Aeroportos de Portugal.

The following is a list of some of the public advisory assignments carried out by BPI, which translated themselves (in the case of deals) into success commissions.

CORPORATE FINANCE ADVISORY ASSIGNMENTS

- **Amorim Desenvolvimento** – Advising in the analysis aimed at taking a decision on the disinvestment and conducting the respective disposal process.
- **Allianz Portugal** – Advising on the organisation and mounting of a public offer for distribution of shares reserved for Employees.
- **Cin** – Advising in the analysis aimed at taking a decision on the investment and in the realisation of the corresponding acquisition.
- **Cerealis** – Advising in the analysis aimed at taking a decision on the investment.
- **Comendador Rodrigo Leite** – Advising on the disposal of the stake in Tertir.
- **NAER** – Advising in the preparatory process involving ANA's privatisation and the contracting of the conception, construction, financing and operation of the New Lisbon Airport.
- **Partex** – Advising on the determination of the fair value of the company's crude-oil interests.
- **Ricon** – Advising in the process aimed at reinforcing the shareholder position in the capital of Gant.
- **SF – Sociedade de Controlo** – Advising in the process leading to the loss of CIN's publicly-traded company status.
- **Sonae, SGPS** – Advising on the demerger of Sonae Capital.
- **Sonae, SGPS** – Advising on the structuring of the operation for the acquisition of Carrefour Portugal.
- **Sonae Capital** – Advising in the process relating to the listing of the company's shares.
- **Sonae Turismo** – Advising on the group's valuation and on the acquisition of the shares belonging to Torralta's minority shareholders.
- **Tertir** – Advising on the candidacy for the operating concession within the scope of Silopor's activity in Beato, Trafaria and Vale Figueira.
- **Vertix** – Assistance in the two takeover bids launched for Media Capital, as well as that for TVI.
- **Violas** – Assistance in the takeover bid launched for Solverde and in the process leading to the loss of its publicly-traded company status.

EQUITIES

Brokerage

During 2007, the BPI Group brokered deals involving equities worth 21 406 M.€, corresponding to growth of 128% relative to the figure traded during 2006.

The positive performance meant that the BPI Group assumed the leading position amongst the financial intermediaries registered with the CMVM in terms of share brokerage. The BPI Group's market share was 16.1% during 2007, which compares with the 11.6% obtained in 2006. It therefore climbed from fourth place in the brokerage of equities in Portugal obtained in 2006 to the leading position in 2007.

This increase in the volume of transactions enabled BPI to earn net broking and placing commissions in 2007 of 23.3 M.€, which corresponds to a positive rate of change of 119% relative to 2006. It should be pointed out that the growth in broking and placing commissions was already in 2006 82% higher than in 2005.

Besides the implicit recognition on the part of Customers of the value of the service rendered by BPI, these results reflect:

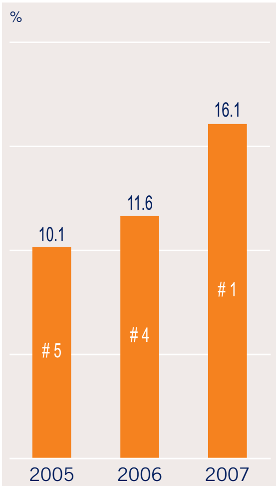
- a clear growth in the business conducted with institutional Customers: in 2007, net brokerage commissions charged to institutional Customers represented 15.8 M.€, or 148% more than in 2006;

- a positive environment for the equity markets in general and for the Portuguese stock market in particular: the volume traded in Portuguese shares on the Euronext registered 86% growth in 2007 relative to 2006;

- BPI's affirmation in the brokerage of Spanish shares and amongst Spanish investors. In 2007, BPI managed to increase the total commissions derived from the brokerage of Spanish shares and with the brokerage service to Spanish Customers by 106%.

It is important to mention that the market share of the BPI Group's internet brokerage platforms – BPI Netbolsa and BPI Online – continued to increase, climbing to 17.6% in 2007 against 16.4% in 2006. They were therefore clearly above the BPI Group's natural share in retail banking. Through these channels, the BPI Group brokered trades worth 2 766 M.€, which represents a positive year-on-year variation of 50% when compared with the preceding year.

Market share in equities broking in Portugal



Source: CMVM.
Note: includes financial intermediaries registered at the CVMV; receipt and transmission of orders for the account of third parties on the Portuguese stock market and on international markets.

For statistical purposes, only the institutions 100% controlled by the Group were considered as belonging to a financial group.

Chart 62

IBERIAN BROKER WITH SPECIALISATION IN SMALL AND MEDIUM CAP COMPANIES

BPI's equities brokerage business model is founded on the provision of a high value-added service to its institutional and individual Customers.

With regard to institutional Customers, BPI's positioning is based on:

- a research product specialising on the Iberian market and specially focused on small and medium cap listed companies;
- keeping close to the principal institutional investors (Iberian and international), both in the generation of investment ideas and in the approximation of these investors to the companies.

At the end of 2007, the team dedicated to these Customers was composed of 31 Employees: 15 formed the analysis team and 16 assumed commercial functions, of which 11 are based at the Madrid office.

As regards individual investors, the BPI Group mainly uses two channels:

- BPI NetBolsa, which forms part of the homebanking services for Banco BPI Customers;
- BPI Online, the Investment Bank's exclusive channel. All the research produced by BPI is equally made available through these channels.

Both the channels are founded on the same trading technological platform. This platform is managed by BPI's Equities Department, both as regards maintenance and development and from the aspect of content production and specialised Customer support.

Equity capital markets

Amongst the operations realised by BPI on the Portuguese equity market, we highlight the following:

- the market placing of a block (by means of an accelerated bookbuiliding operation) of 15% of Jerónimo Martins's capital; an operation which having involved 362 M.€ was one of the biggest placings in the secondary market in 2007 and one of the largest ever realised solely by a Portuguese bank;

- the placing of a block of 4.6% of Brisa's capital, a private placement operation realised exclusively by BPI which involved 275 M.€.

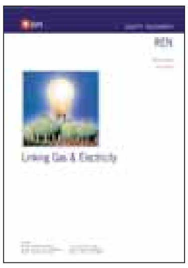
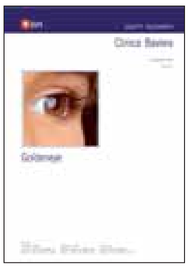
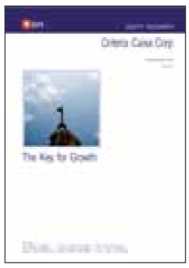
In these two deals, BPI acted on the seller's side. In both cases, the sellers were fund managers and BPI Customers on the secondary market.

BPI undertook the mounting and organisation of an equity swap operation between Sonae SGPS and Banco BPI. This operation, resulting from the sale of 6.7% of Sonae SGPS's treasury stock to Banco BPI, permitted Sonae SGPS to transform its position in own shares into cash.

As concerns initial public offerings (IPO), BPI participated in REN's IPO in Portugal. On the Spanish stock market, BPI participated for the first time in the IPO of Spanish companies:

- Clínica Baviera – April 2007 – BPI acted as co-lead manager of the institutional tranche;

- Criteria – October 2007 – BPI acted as co-manager of the international institutional tranche.

BPI also played a very active role in block placement operations, including the placing of 5% of Banco Pastor, 3% of Corporación Dermoestética's capital and various blocks of Galp Energia shares.

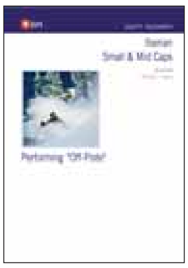
BPI provided support to several investors in the formation of important positions – stake building – in Iberian companies, amongst which the purchase of important positions in Enagas, Galp, MotaEngil and REN.

Research and sales

In 2007, the scope of research activity was extended, with the analysis starting of another 14 Iberian companies resulting from IPO's or of small and medium-sized cap companies: Banesto, Banif, Clínica Baviera, Ercros, Galp Energia, GAM, Grifols, Inapa, Mecalux, Miquel Y Costas, Natra, Natraceutical, Tavex and Vueling.

At the end of 2007, the BPI Equity Research's work encompassed 96 companies (68 in Spain and 28 in Portugal). It should be pointed out that BPI Equity Research analyses more companies which do not form part of the principal Spanish index (IBEX 35) than those which do. BPI is currently one of the Iberian houses with the broadest research coverage both in Spain and in Portugal.

In 2007, 522 research reports were compiled (excluding daily summaries). The Iberian Small & Mid Caps Guide, a quarterly product, is today a key reference work for the community of institutional investors specialising in this type of company. In addition, the reports covering the following areas are also prepared: strategy, sectors and a survey on renewable energies.



BPI continued to organise a number of events with the object of approximating companies to the institutional investors' community. Amongst these, we highlight the following.

- IV Conference of Iberian Small & Mid Caps. BPI organised for the fourth consecutive year, this time in Cascais, this conference which is already regarded as being a key event for institutional investors specialising in this category of companies. 25 companies and more than 80 specialist investors sent representatives to this forum.

- For the second year running, BPI organised a conference of Iberian banks in the US. Nine banks took part in this event, which was held in November in New York (Banesto, Banif, Bankinter, BBVA, BCP, BES, Banco BPI, Popular and Santander), as well as 25 American investors.

- Still in New York, but this time in June, BPI staged a conference devoted to the theme "Infrastructures and utilities", having counted with the participation of the following companies: Abertis, Brisa, EDP, Endesa, Iberdrola, MotaEngil, REE and Sacyr. 24 investors attended this event.

BPI Iberian Infrastructures and Utilities Conference	IV BPI's Iberian Small & Mid Cap Conference	II Iberian Banks Conference
Abertis; Brisa; EDP; Edesa; Iberdrola; MotaEngil; REE; Sacyr.	Abengoa; Acerinox; Altri; Banco BPI; Banif; Brisa; Cimpor; Clínica Baviera; GAM; Indra; Jerónimo Martins; La Seda; Martifer; Mecalux; MotaEngil; Natra; OHL; REN; Sogecable; Sonae Indústria; Sonae SGPS; Tavex; Tubacex; Viscofan; Vocento.	Banesto; Banif; Bankinter; Banco Popular; BBVA; BES; BCP; BPI; Santander.
5 and 6 June	20 and 21 September	6 and 7 November
BPI	BPI	BPI

Also in 2007, BPI realised 27 road shows for companies and analysts. As part of the commercial activities realised in 2007, BPI organised some 900 meetings between companies and institutional investors at which roughly 160 different institutional investors were present.

RECOGNITION IN 2007

BPI's research continued to obtain good classifications in the rankings which evaluate the quality of estimates and recommendations made. In 2007, AQ, a renowned British company which specialises in analysing the efficiency of recommendations and estimates produced by analysts rated BPI Equity Research the second best Iberian research house for the efficacy of its recommendations. Also according to AQ, BPI was the second best research house in Spain. Starmine, another British firm which quantifies and analyses the work of research houses, also classified BPI as the second best from amongst the IBEX 35 universe in terms of the quality of its recommendations.

AQ

Banco Português de Investimento Equity Research

#2 Biggest
hit ratio
Iberian Mid Caps

BPI

STARMINE

Banco Português de Investimento Equity Research

#2 Biggest
Research house
IBEX 35

BPI

Trading

Equities trading activity conducted by BPI's Equities Department, which covers the portfolios managed in Banco BPI's balance sheet, contributed positively – with 13.4 M.€ – to the profits from financial operations in 2007.

The value-at-risk[G] (two weeks with confidence level of 99%) observed in those portfolios was 2.4 M.€. The relationship between the results obtained and this risk measurement characterises the scrupulous manner in which these portfolios are managed. BPI Equities Department's trading activity was governed by the principle of a strong preservation of gains and the proper management of risk. It should be noted that the risks assumed in equities seek to obtain, regardless of the market environment, positive absolute returns. To achieve this, we resort to techniques developed in the "alternative" funds industry.

In 2007, BPI also earned considerable profits from the sale of options on Iberian equities.

PRIVATE BANKING

BPI Private Banking's business volume at the end of 2007 totalled 3 283 M.€, which represents growth of 12% relative to the end of 2006. Assets under BPI Private Banking's discretionary management and advisory mandates posted growth of 18% in the year under review. At the end of 2007, they amounted to 2 538 M.€.

The solutions managed on a discretionary basis by BPI Private Banking at the end of 2007 reached a total volume of 1 057 M.€. The loan portfolio grew 16% relative to the end of 2006, while assets relating to stable shareholdings under custody fell by 10% in the same period.

Private Banking
Selected indicators

Amounts in M.€

	2006	2007	Δ%
Assets under management	2 144	2 538	18%
Discretionary management	979	1 057	8%
Advisory services	1 165	1 481	27%
Stable investments under custody	627	561	(10%)
Loans advanced	158	184	16%
Business volume	**2 928**	**3 283**	**12%**

Table 36

The behaviour of the financial markets in the second half of 2007 had an impact on the returns of the solutions managed discretionarily by BPI Private Banking. Nonetheless, 2007 was marked in commercial terms by an accelerated rhythm of new Client and new asset inflows. The new volume of assets attracted, not only from new but also from existing Clients, was sufficient to compensate for the effects of the financial markets' retreat registered during the second half of 2007.

BPI Private Banking Capitalisation Insurance
Annual gross yields[1]

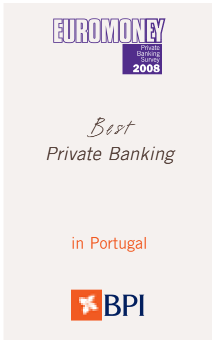
Denomination	Last year	Last 2 years	Last 3 years	Last 4 years	Last 5 years
BPI Capitalização PB – Ultra Conservative	0.09%	1.13%	1.41%	2.28%	2.31%
BPI Capitalização PB – Conservative	(0.27%)	2.49%	3.35%	4.13%	3.97%
BPI Capitalização PB – Balanced	(0.31%)	3.39%	5.07%	5.75%	5.34%
BPI Capitalização PB – Agressive	(0.60%)	4.99%	8.04%	8.83%	7.19%

1) Till 28 December 2007.

Table 37

RECOGNITION IN 2007

The quality of BPI's private banking and Client satisfaction therewith was acknowledged 2007, with Euromoney's award of the prize for the Best Private Banking in Portugal. This prize is attributed after the conduct of an annual world-wide poll by the Euromoney magazine. The winners are chosen based on the qualitative and quantitative evaluation carried out by the sector's rivals of their peers.



Private Equity

During 2007, BPI's Private Equity activity was divided between monitoring the portfolio, the management of the venture-capital funds in which the Group has participating interests, the analysis of new opportunities, and the development of fund-raising activity. Also of note was the end of the Fundo Caravela – Fundo de Capital de Risco's investment period in July 2007, having made an overall investment of 21 M.€ in seven companies during the 4 years of the fund's life.

At the end of 2007, Inter-Risco managed a group of assets totalling around 64.6 M.€ at market values, including its own portfolio and third party funds.

The Caravela Fund – a venture-capital fund promoted by the BPI Group –, is endowed with a capital of 30.0 M.€, and was the Private Equity area's favoured investment vehicle in 2007. Four new investments totalling 13 M.€ were made – in Mastertest, NewCoffee Co., Accountec and ASFC. Through these four investments, the intention is to develop build-up strategies in the sectors of each investment with projects spearheaded by professional management teams endowed with a strategic vision of the business and the sector. These investment operations culminated with the closing of the Caravela Fund's investment period, during which a total of 71% of the fund was invested. The remainder has been retained for injecting into the investments already structured.

August 2007 saw the sale of the shareholding in Chipidea, the Caravela Fund's first divestment. The disposal of Chipidea in a deal worth USD 147 million, represented for the Caravela Fund an annual return of 30.9% and an investment multiple of 2.6 times the capital invested.

With the closure of the Caravela Fund's investment period, Inter-Risco made a start to fund-raising activity in the first half of the year for the formation of a new private equity fund geared towards investments in national companies embarking on consolidation and internationalisation strategies.

The current investment portfolio comprises the following.

Private Equity holdings
At 31 December 2007

Company	% held	Activity
Douro Azul	11.26%	Cruise operator on the river Douro and hotel business
Arco Bodegas Unidas	2.14%	Wine production and sales
Fernando & Irmãos	10.00%	Holding that controls Quinta da Aveleda – wine production and sales
Caravela Gest	20.00%	Food retailer (Haagen Dazs)
Tecmic	24.45%	Microelectronics
Serlima	22.97%	Facility management services (cleaning, maintenance and industrial laundries)
NewCoffee Co.	33.33%	Coffee processing and sales
Mastertest	30.00%	Motor vehicle inspection centres
Accountec	42.63%	Business Process Outsourcing services (accounting, consultancy)
ASFC	33.33%	Packing in solid urban-waste containers
Sociedade de Vinhos Borges	12.50%	Wine production and sales
TvTel	10.51%	Telecommunications and cable television
Conduril	9.21%	Construction

Table 38

Financial investments

At the end of 2007, the principal available-for-sale[1] investments made by the Group totalled around 1 029.8 M.€ and corresponded to the investments in BCP, Galp, Impresa, and Vista Alegre Atlantis.

The value of disposals made in 2007 was approximately 406.1 M.€, having realised gains of 77.9 M.€.

At the end of the year, the portfolio recorded unrealised gains of 137.0 M.€. These were recorded in shareholders' equity, under the caption Fair value reserve.

Financial investments
At 31 December 2007

Company	% held	Balance sheet value (M.€)
BCP	5.2%	552.2
Galp SGPS	3.0%	461.5
Impresa – SGPS	3.7%	12.8
Vista Alegre Atlantis	17.3%	3.3
Total		**1 029.8**

Table 39

1) At 31 December 2007, the available-for-sale equiy portfolio amounted to 1 083.7 M.€ with unrealised capital gains of 156.7 M.€.

International Commercial Banking

COMMERCIAL BANKING IN ANGOLA – BANCO DE FOMENTO ANGOLA

BFA's contribution to the BPI Group's consolidated net profit in 2007 was 73.8 M.€. At the end of 2007, Banco de Fomento Angola's (BFA) shareholders' equity stood at 258 M.€ and total assets amounted to 2 348 M.€, that is, 16% and 6% respectively of the Group's corresponding indicators.

In the period under review, there was a significant increase in the number of BFA Customers (additional 106 thousand in the last 12 months, corresponding to +36%), at the same time as there was the increased recourse to electronic banking (32 thousand more subscribers).

Resources

Customer resources registered in 2007 (when measured in euro) 36% growth to 1 958 M.€ (up 52% in the respective denomination currency, Dollar or Kwanza[1]). BFA's market share in deposits was situated at 20% in December, placing it second in the market rankings. In the more competitive segments of the Angolan banking system – corresponding to deposits made in dollars and time deposits in local currency –, BFA's market shares were 20% and 33%, respectively, that is, second and first positions in the market table.

Loans

The loan portfolio measured in euro recorded expansion of 54% to total 961 M.€ (72% growth in the respective denomination currency, Dollars or Kwanza), with loans in American dollars being the component of the balance that grew the most. According to Central Bank statistics, BFA's market share in December 2007 was 23% (for this purpose, credit includes loans, treasury bills (BT) and treasury bonds (OT), as well as financial investments). This figure corresponds to first place in the market ranking. As regards the component of credit expressed in USD, BFA occupied first position with a market share of 29%.

Banco de Fomento Angola
Selected indicators

Amounts in M.€

	2006	2007	Δ%
Total assets	1 715.0	2 348.2	36.9%
Loans to Customers (net)	623.8	961.1	54.1%
Loans in arrears for more than 90 days	1.4%	1.0%	-
Customers resources	1 440.4	1 958.3	36.0%
Shareholders' equity	193.3	257.9	33.4%
Operating income from banking	142.7	196.2	37.5%
Net interest income	86.5	131.2	51.6%
Commissions and other operating income	33.0	43.6	31.9%
Profits from financial operations	23.2	21.5	(7.4%)
Administrative overheads, depreciation and amortisation	46.4	60.0	29.4%
Administrative overheads, depreciation and amortisation / operating income from banking	32.5%	30.6%	-
Personnel costs / operating income from banking	14.1%	13.0%	-
BFA's contribution to the BPI Group's net profit	63.0	73.8	17.1%
No. of Employees	1 234	1 528	23.8%
Traditional branches	66	83	25.8%
Investment centres	2	4	100.0%
Corporate centres	6	7	16.7%
No. of Customers	298 700	404 773	35.5%
Customers using BFA NET	19 361	32 433	67.5%
Of which, individuals	17 367	29 827	71.7%
companies	1 994	2 606	30.7%
ATM machines (no.)	93	137	47.3%
Debit cards issued (valid)	254 531	359 734	41.3%
No. of points-of-sale (POS)	107	322	200.9%

Table 40

Customer loans

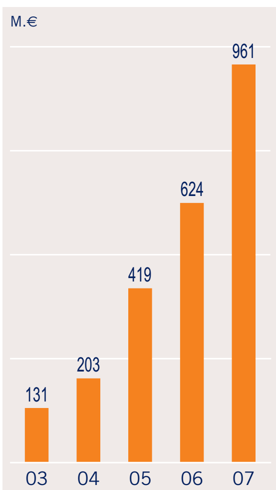


Chart 63

Customer resources

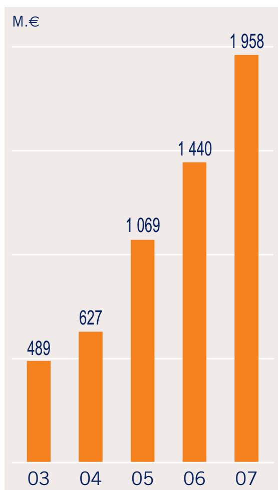


Chart 64

1) In 2007 the Kwanza and the Dollar – the two legal tender currencies in Angola – depreciated by 4% and 10% respectively against the Euro, with the result that the growth rate for loans advanced and deposits made in kwanzas and dollars, which reflect BFA's commercial performance – when measures / converted into euro (currency of the Group's consolidated accounts) –, are lower due to the aforesaid exchange-rate trend.

At 31 December 2007, 71.7% of the loan portfolio was allocated to the corporate segment, with the remaining 28.3% referring to the individuals' segment.

Securities

At 31 December 2007, BFA's securities portfolio totalled 902.2 M.€, that is, equivalent to roughly 38% of assets. The portfolio's maturity profile is essentially short term, given that the dealing securities (Central Bank securities), which account for 53% of the securities portfolio, have an average residual maturity of 3.5 months. In turn, treasury bonds have an average residual maturity of 1.8 years.

Leader in the issue of treasury bonds

In March, BFA signed a contract with the Angolan Ministry of Finance for the special 400 M.US$ Treasury Bond issue to help fund public works and investments in 2007. As syndicate leader, BFA subscribed for 50% of the issue.

Agreement with the IFC

In June, BFA signed a USD 50 million agreement with the IFC relating to the integration into the Global Trade Finance Program, a programme promoting and backing external trade with emerging markets, while it is currently the only Angolan bank recognised as issuer and confirmer.

PARTNERSHIP AGREEMENTS FOR THE AGRICULTURAL SECTOR

In July, BFA and the Cooperatives League of the USA (CLUSA) signed a partnership agreement within the scope of the ProAgro Angola – Agricultural and Financial Development Programme, sponsored by Chevron and the North American Agency for International Development (USAID). This five-year programme valued at USD 5.5 million is co-financed by the US Government and Chevron and is directed at the promotion of agricultural development in Angola.

In October, a new partnership was forged between USAID and BFA, with the object of partially covering the risks assumed by BFA in the granting of loans to the farming sector.

BFA made available up to USD 15 million for financing with terms of up to six years, while the portfolio is secured to the extent of 25% by the USAID guarantee. This protocol is a complementary instrument to the ProAgro Angola programme.

In December, BFA signed a finance convention with the Banco de Desenvolvimento Angolano, via which financing to the agricultural and stockbreeding sector is to be boosted.

Banco de Desenvolvimento Angolano has as its primary mission financing investment projects which fall within sectors deemed to be priority by the Economic Development Programme, making available medium and long-term credit lines to economic agents via the commercial banks.

Cards

BFA continued to consolidate its position of the chief operator of Multicaixa cards during 2007, having attained a 37% share of new business (in relation to the 983 thousand issued and active cards), at the same time making available 137 active ATM's out of a total of 441 for the entire banking system.

In relation to credit cards. BFA launched in May the BFA Classic card, having placed some 6 400 cards with its Customers by the end of 2007 (BFA Gold and BFA Classic).

A Visa acquiring operation was also launched with BFA having gained the status of principal member of Visa and putting at the disposal of the respective Customers 25 point-of-sales terminals in the first month of activity.

Distribution network

BFA continued during 2007 to expand the physical distribution network throughout the whole of Angola, opening 17 new branches, one corporate centre and two investment centres since December 2006.

At the end of 2007, BFA boasted a network comprising 83 branches (47 in Luanda and 36 in the provinces), seven corporate centres and four investment centres. This branch network is the second biggest in the Angolan market.

Traditional branches

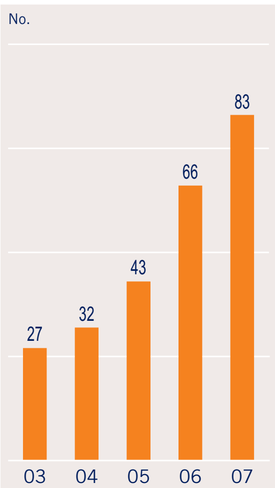


Chart 65

Employees

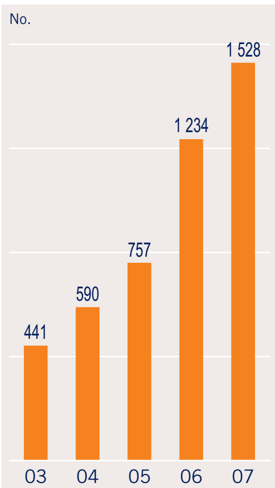


Chart 66

RECOGNITION IN 2007

BFA was distinguished in 2007 with the prize for the Best Participation – Services at the III edition of the Food Fair. 130 national and international exhibitors from the US, Portugal and Brazil took part in this event.

The award is recognition for the strong commercial presence displayed by a team which, interacting with the public and exhibitors, made known the various financial solutions developed by BFA for the corporate segment.

For the fifth consecutive year, BFA received in 2007 the prize awarded by Deutsche Bank Trust Company relating to the best automatic processing of foreign-exchange operations (Straight Through Processing – Excellence Award), rewarding the fact that 96% of the payment orders issued by BFA were processed automatically without the need for any subsequent correction.

Deutsche Bank

Excelence Award

Straight Through Processing

2007

BFA

III Edition of the Food Fair

Best Participation

Services

2007

BFA

COMMERCIAL BANKING IN MOZAMBIQUE – BCI FOMENTO

BCI Fomento's contribution to Banco BPI's consolidated net income, corresponding to the 30% interest in its capital, decreased from 4.2 M.€ in 2006 to 3.3 M.€ in 2007.

The shareholding in BCI Fomento is equity accounted. At the end of 2007, this shareholding was recorded in Banco BPI's consolidated balance sheet at 13.1 M.€. At that date, BCI Fomento shareholders' equity attained a counter value of 44 M.€.

Total assets amounted to 547.2 M.€, which represents growth of 33.6% relative to 2006.

Deposits

Deposits taken from Customers in 2007 (when measured in euro) posted growth of 32.4%, climbing to 454.0 M.€. Deposits in local currency represented the most dynamic component of the aforementioned growth. BCI Fomento's market share as regards deposits was situated at 26% at the end of November 2007, that is, virtually unchanged from that registered in December 2006.

Loans

The loan portfolio (expressed in euro) posted an increase of 11%, amounting to 248 M.€. This growth is fully explained by the trend in local-currency loans which, in turn, was fuelled by the obligation to set aside provisions in the amount of 50% of the value of operations in foreign currency granted to non-exporters.

Loan provisions in 2007 totalled roughly 4.1 M.€, mainly reflecting the policy of prudent risk provisioning.

In 2007 BCI Fomento continued to gain market share in the Mozambiquan financial systems as regards lending business. At the end of November 2007, this market share stood at 30% (versus 26% in December 2006 and 27% in December 2005).

The securities portfolio (valued in euro) registered growth of about 97%, totalling 67.8 M.€ at the end of 2007.

BCI Fomento
Selected indicators

Amounts in M.€

	2006	2007	Δ%
Total assets	409.7	547.2	33.6%
Loans to Customers (net)	224.0	248.0	10.7%
Customer deposits	342.8	454.0	32.4%
Shareholders' equity	39.4	43.7	10.9%
BCI Fomento's contribution to the BPI Group's net profit	4.2	3.3	(21.9%)
No. of Employees	637	715	12.2%
Traditional branches	38	41	7.9%
No. of ATM machines	67	85	26.9%
No. of POS	671	728	8.5%
No. of Customers	84 435	90 242	6.9%

Table 41

Distribution network

During 2007, BCI Fomento continued to boost the physical network of branches, opening three new branches. It also enlarged its ATM network, adding another 18 units to the Rede Ponto 24 system, as well as extending the number of POS terminals by 57 units. At the end of the year, it boasted 41 branches, 85 ATM and 728 POS terminals. These channels serve a universe of 90.2 thousand Customers.

At the end of 2007, BCI Fomento's workforce numbered 715.

Financial review

Selected Indicators

(Amounts in M.€, except when indicated otherwise)

	2006	2007			Δ% 06/07
	Consolidated	Domestic operations	International operations	Consolidated	Consolidated
Net total assets	35 565.5	38 275.3	2 361.4	40 545.9	14.0%
Assets under management[1, F]	15 183.8	15 741.7	-	15 741.7	3.7%
Business volume[2, F]	56 406.8	61 245.1	3 234.0	64 479.1	14.3%
Loans to Customers (gross) and guarantees[3]	28 263.0	31 207.9	1 275.6	32 483.5	14.9%
Total Customer resources[F]	28 143.7	30 037.2	1 958.3	31 995.6	13.7%
Business volume[2] per Employee[4] (thousands of euro)	6 806	7 835	2 116	6 900	1.4%
Net operating income from banking[F]	1 018.1	1 019.3	196.2	1 215.5	19.4%
Net operating income from banking per Employee[4] (thousands of euro)	129	137	143	138	7.2%
Administrative overheads, depreciation and amortisation[5, F] / net operating income from banking	56.6%	58.1%	30.6%	53.7%	-
Administrative overheads[F] / net operating income from banking	52.8%	54.5%	26.0%	49.9%	-
Personnel costs / net operating income from banking and equity accounted results[6]	32.6%	-	-	30.5%	-
Administrative overheads, depreciation and amortisation / net operating income from banking and equity accounted results[6]	55.4%	-	-	52.5%	-
Net profit[F]	308.8	278.0	77.1	355.1	15.0%
Data per share adjusted (euros)					
Net profit[F]	0.41	-	-	0.47	14.2%
Dividend[F]	0.16	-	-	0.19	16.9%
Book value[F]	1.94	-	-	2.17	11.9%
Weighted average no. of shares[7, F] (in millions)	746.2	-	-	751.6	0.7%
Net operating income from banking and equity accounted results / ATA[6]	3.2%	-	-	3.2%	-
Profit before taxation and minority interests / ATA[6]	1.3%	-	-	1.2%	-
Return on average total assets (ROA)[F]	1.0%	0.8%	3.7%	1.0%	-
Profit before taxation and minority interests / average Shareholders equity and minority interests[6]	27.0%	-	-	25.8%	-
Return on Shareholders' equity (ROE)[F]	24.3%	20.6%	32.2%	22.4%	-
Loans in arrears for more than 90 days / Customer loans[F]	1.1%	1.0%	1.0%	1.0%	-
Loan impairments (in the balance sheet) / Customer loans[F]	1.4%	1.2%	5.8%	1.4%	-
Loan impairments in the year, deducted of recoveries of loans in arrears written-off (in the income statement) / Customer loans[F]	0.19%	0.12%	3.50%	0.23%	-
BPI Group Employees' pension funds assets	2 470.5	2 798.5	-	2 798.5	13.3%
Pension obligation cover[F]	110.7%	114.4%	-	114.4%	-
Shareholders' Equity[8]	1 450.6	1 364.1	271.1	1 635.1	12.7%
Own funds[9]	2 011.2	-	-	2 569.9	27.8%
Risk weighted assets[9]	21 292.0	-	-	25 924.7	21.8%
Ratio of own funds requirements[6, 9, G]	9.4%	-	-	9.9%	-
Tier I[6, 9]	7.4%	-	-	6.2%	-

Table 42

1) Unit trust (mutual) funds, PPR and PPA, capitalisation insurance, structured products, assets under discretionary management and advisory mandates of private banking and institutional Clients and assets of pension funds under management (including the Group's staff pension funds).
2) Loans, guarantees and total Customer resources.
3) To ensure comparability, 1 264 M.€ of securitised mortgage loans written off from the balance sheet in 2007, were added back.
4) Number of Employees of the companies which are consolidated in full.
5) Personnel costs, outside supplies and services, depreciation and amortisation.
6) Calculated in accordance with the Bank of Portugal's Instruction 16 / 2004. ATA – Average total assets.
7) Weighted average number of shares, considered in calculation of the earnings per share (basic). It is comprised of the number of shares outstanding subtracted by the average treasury stock portfolio. At the end of 2006 and 2007, the number of shares outstanding was 760 million.
8) Excludes minority interests.
9) Calculated in accordance with the Bank of Portugal's rules regarding minimum own funds requirements (Notice 7 / 96).

CONSOLIDATED

OVERVIEW

BPI turned in a very positive performance in 2007 in both its domestic and international operations.

The BPI Group's consolidated net profit rose by 15% in 2007 to 355.1 M.€. The growth in earnings from domestic and international operations was 15.1% and 14.7%, respectively. Domestic activity generated a net profit of 278 M.€ (78% of consolidated net profit), while that earned from international operations was 77.1 M.€ (22%).

The return on the Group's average shareholders' equity (ROE) was situated at 22.4%. The ROE from domestic operations (to which 85% of the Group's average capital was allocated) was 20.6% in 2007, while the ROE from international operations (to which the remaining 15% of the Group's average capital was allocated) was 32.2%.

Consolidated net profit

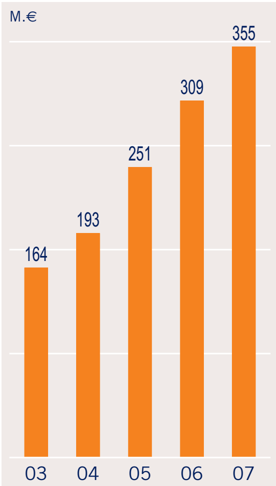
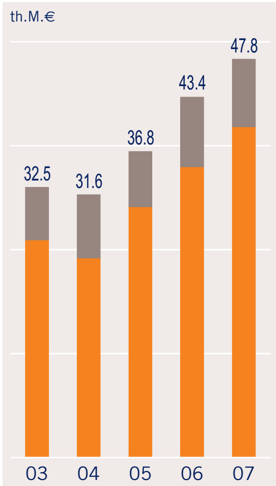


Chart 67

Consolidated net assets and disintermediation



Disintermediation[1]
Net total assets[2]

1) Off-balance sheet Customer resources.
2) Corrected for duplication of balances.

Chart 68

ROE by business areas

Amounts in M.€

	Domestic operations[1]								International operations of Commercial Banking[2]		BPI Group (consolidated)	
	Commercial Banking		Investment Banking		Participating interests and other		Total					
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Average risk weighted assets	**17 985.2**	**20 667.4**	**383.2**	**389.2**	**503.2**	**639.7**	**18 871.6**	**21 696.3**	**644.9**	**1 080.9**	**19 516.5**	**22 777.2**
Shareholders' equity (average)	837.9	993.2	98.9	115.6	153.7	240.4	1 090.6	1 349.2	181.1	239.3	1 271.7	1 588.5
Adjustment for capital reallocation	134.4	150.5	(76.7)	(93.3)	(57.7)	(57.2)	-	-	-	-	-	-
Capital allocated (adjusted)	**972.3**	**1 143.8**	**22.3**	**22.3**	**96.0**	**183.2**	**1 090.6**	**1 349.2**	**181.1**	**239.3**	**1 271.7**	**1 588.5**
Net profit	192.7	200.4	24.8	24.9	24.1	52.7	241.5	278.0	67.2	77.1	308.8	355.1
Adjustment to profit due to capital reallocation	2.8	4.5	(1.6)	(2.8)	(1.2)	(1.7)	-	-	-	-	-	-
Net profit (adjusted)	**195.5**	**204.9**	**23.2**	**22.1**	**22.9**	**51.0**	**241.5**	**278.0**	**67.2**	**77.1**	**308.8**	**355.1**
ROE[3]	**20.1%**	**17.9%**	**104.0%**	**99.4%**	**23.9%**	**27.8%**	**22.1%**	**20.6%**	**37.1%**	**32.2%**	**24.3%**	**22.4%**

Table 43

Geographical segmentation of the BPI Group's activity

1) Domestic operations comprise the commercial banking activity conducted in Portugal, including the provision of banking services to non-residents abroad (namely, amongst Portuguese emigrant communities) and those of the Madrid branch, as well as the activities relating to investment banking, private equity and other investments.

2) International operations comprise the activity conducted by Banco Fomento Angola, as well as the appropriation of the 30% equity interest held in BCI Fomento in Mozambique and the activity of BPI Dealer in Mozambique (92.7% held). International operations' contribution to net profit in 2007 from Banco Fomento Angola amounted to 73.8 M.€, from BCI Fomento was 3.3 M.€ and from BPI Dealer Mozambique was 0.008 M.€.

Calculation of ROE by business areas

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

The BPI Group's performance in the year is also mirrored in the following facts.

- Consolidated Customer loans portfolio grew by 15.7%, while total Customer resources were up 13.7%.

- In Portugal, 88 new branches and four investment centres (16% increase in the retail network) were opened, as well as three corporate centres. The workforce deployed in domestic operations increased by 763 Employees (+10.8%) due in large measure to the expansion of the distribution network. In Angola, 2007 saw the opening of 17 new retail branches (+26%), two investment centres and one corporate centre. At 31 December 2007, the staff complement stood at 1 528 Employees, 24% more than in December 2006.

- Consolidated operating income from banking grew by 19.4%. The increase in operating income from banking in domestic operations was 16.4%, while in international operations the figure was 37.5%.

- Administrative overheads, depreciation and amortisation were up 13.3%, which in part reflects the distribution network's expansion in Portugal and Angola, as referred to above. In domestic operations, costs increased by 11.9%, while in international operations they were up 29.4%.

- The efficiency ratio improved from 56.6% in 2006 to 53.7% in 2007. In domestic operations, the efficiency ratio stood at 58.1% while in international operations it was situated at 30.6%.

In domestic operations, the competitive position, brand awareness and service quality were important factors behind the expansion in commercial activity, thereby taking advantage of the Portuguese economy's revival. This was reflected in market-share gains, Customer loans rose by 14.7% while Customer resources were up 12.5%. Customer resources carried in the balance sheet, fuelled by the 26.5% growth in deposits, posted growth that was more in line with the loan portfolio's expansion.

In international operations, business in Angola continued to record expressive growth underpinned by BFA's strong competitive position, an expanding commercial infrastructure and an innovative product range. Customer loans grew by 54% and Customer resources by 36%, both benefiting from the buoyant Angolan economy and the population's burgeoning demand for banking products.

Contribution by business area to consolidated net profit in 2007

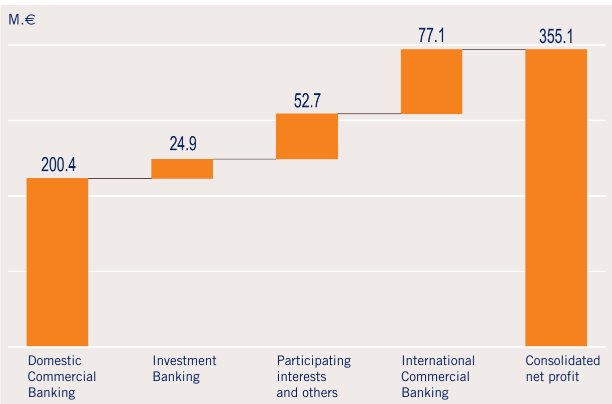


Chart 69

Average capital allocated by business area in 2007

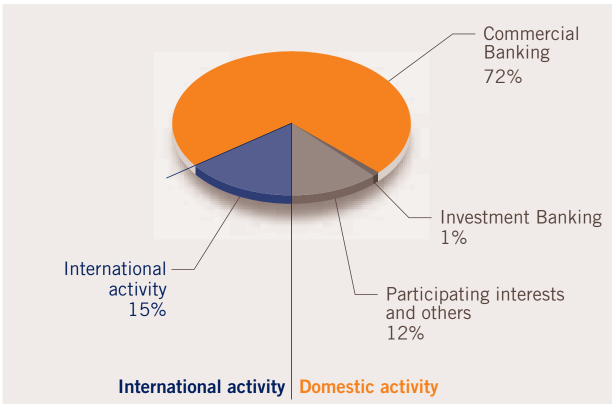


Chart 70

The instability observed on the international financial markets in the second half of the year and the associated confidence crisis, led to a significant deterioration in the conditions for accessing bank funding.

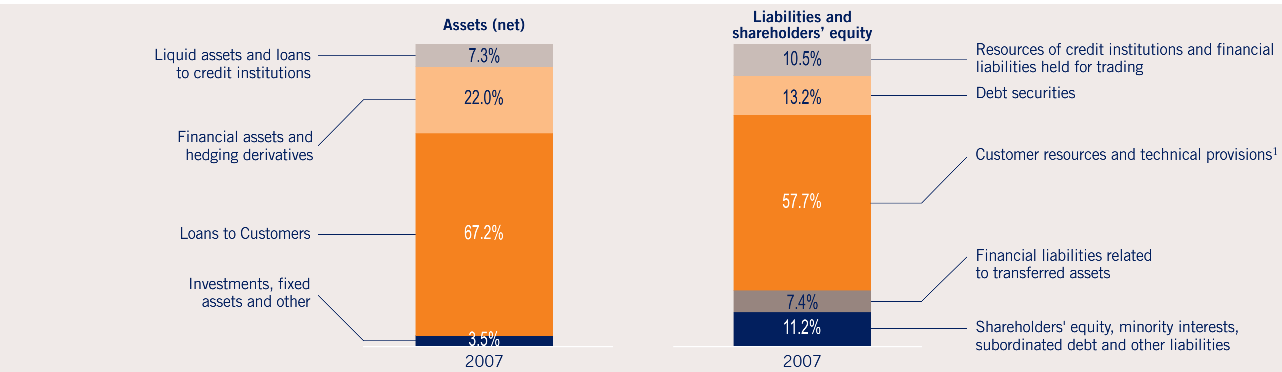
However, BPI maintained a comfortable liquidity position, having fulfilled in the main its medium and long-term funding programme mapped out for 2007 by July.

In the meantime, BPI continued to present good indicators relating to the quality of the Customer loans portfolio. The ratio of loans in arrears for more than 90 days stood at 1.0% for both domestic and international operations. Consolidated net loan loss, as measured by impairment charges for the year after deducting recoveries of overdue loans previously written off, was situated at 0.23%. In domestic operations, this figure was 0.12% (0.11% in 2006), whereas in international operations it stood at 3.5% by virtue of the fact that BFA sets aside general impairment allowances which are indexed to the expansion in loans and guarantees and, consequently, not associated to any particular delinquency. In Angola, loan impairment allowances covered overdue loans six times.

At the close of 2007, the pension funds' net assets totalled 2 798.5 M.€ and were equivalent to 114% of pension liabilities. BPI thus has a financial surplus derived from the pension funds of 353.1 M.€.

At 31 December 2007, the consolidated own funds requirements ratio[G] according to the Bank of Portugal's rules stood at 9.9%, the Tier I ratio at 6.2% and the core Tier I ratio at 5.0%. In June 2007, in accordance with Bank of Portugal instructions, 50% of the deductions from own funds relating to equity holdings in financial institutions and insurance undertakings began to be allocated to core Tier I funds (and consequently to Tier I funds), whereas previously they were allocated in full to Tier II. This alteration had a negative impact (calculated with reference to December 2007) of 0.34 percentage points on each one of the Tier I and core Tier I ratios.

Consolidated balance sheet structure in 2007



1) Related to capitalisation insurance with discretionary share in profits.

Chart 71

FULFILMENT OF THE BUSINESS PLAN

2006-2010 BUSINESS PLAN

On 10 April 2006, BPI disclosed to the market its Business Plan for the period 2006 to 2010, which forecasts that the Bank's profits will double in five years to 519 M.€ in 2010 (251 M.€ in 2005). This document was an integral part of the Board of Directors' report entitled "A totally unacceptable Bid" on the acceptability and conditions of the takeover bid launched by BCP for BPI. The Business Plan detailed BPI's growth and value creation potential.

The plan projects by 2010 – against a backdrop of the Portuguese economy's recovery and the maintenance of high growth levels in the Angolan economy – 10% annual growth for Customer loans and 9% for Customer resources, the increase in operating income from banking at an annual average rate of 10%, the improvement in the cost-to-income[G] indicator from 58% to 48%, a ROE above 22%, and the growth in earnings and dividends per share of 16% and 20% per annum, respectively.

The results obtained in 2006 were globally higher than those forecast in the Business Plan. Net profit was up 23% to 309 M.€, or 6% more than the earnings forecast in the Business Plan; the dividend rose by 33%; Customer loans were 17.5% higher, outpacing the 11.4% growth projected in the plan; Customer resources grew 13.6% versus the plan's 10% forecast; and operating income from banking grew by 13.3% against the plan's 9.7%. Administrative overheads, depreciation and amortisation increased 11%, in line with the Business Plan projection (forecast rise of 10.8%).

2007-2011 BUSINESS PLAN

On 24 April 2007, a year after the disclosure of the 2006-2010 Business Plan, BPI made public its new plan for the period 2007 to 2011. In general terms, the 2007-2011 Business Plan sets out more demanding targets than the previous one, commencing with the fact that it is based on the results achieved in 2006, thereby constituting a higher starting point than that envisaged in the initial plan.

The new 2007-2011 Business Plan forecasts growth in consolidated net profit of 17% per annum on average up till 2011, to 666 M.€ (570 M.€ in 2010). It projects annual average increases in Customer loans and resources of 13% and 11%, respectively, and 12% per annum for operating income from banking. The plan projects yearly growth in administrative overheads, depreciation and amortisation of 7.3%, due primarily to the 14% expansion of the branch network in Portugal in 2008, and the more than twofold increase in the size of the distribution network in Angola over five years. The Business Plan also foresees an improvement in cost-to-income from 57% in 2006 to 45% in 2011, a return on shareholders' equity of 23% or better over that period, and a payout[G] ratio (percentage of annual net profit distributed) equal to or more than 40% between 2007 and 2011.

Results in 2007 vs. 2007-2011 Business Plan

In 2007, BPI was able to meet in global terms the objectives laid down for the year in the Business Plan despite the economic landscape having turned out to be more challenging than initially envisaged, above all in domestic operations. This deterioration was, from the outset, due to the contraction in spreads[G] across virtually all credit segments and, most notably in the second half of the year, to the financial markets' turmoil that led to an increase in the cost of resources and the worsening of the conditions for accessing liquidity on the international markets.

The consolidated Customer loans portfolio and total Customer resources expanded by 16% and 14% respectively in 2007, marginally exceeding that projected in the Business Plan; consolidated operating income from banking grew 19%, outstripping the Business Plan's forecast by six percentage points. The efficiency ratio improved from 56.6% in 2006 to 53.7% in 2007, outperforming the plan's target for 2007 of 55.5%. Operating profit climbed 27% to 562 M.€, 11 percentage points above the Business Plan's forecast.

Consolidated net profit grew by 15% in 2007 to 355 M.€, that is, 2% below (-7.4 M.€) the consolidated net profit of 363 M.€ envisaged in the Business Plan for the 2007 financial year. This fact can be ascribed to net profit from domestic operations being slightly lower than expected and to the good performance on the international front, which exceeded expectations.

BPI Group (consolidated) – comparison with the Business Plan 2007-2011

Amounts in M.€

	Dec. 06	Dec. 07	Δ 06/07	2007E BP	Δ 06/07 BP
Loans to Customers[1]	24 630	28 495	16%	28 449	16%
Customer Resources	28 144	31 996	14%	31 805	13%
Net operating income from banking	1 018	1 216	19%	1 154	13%
Administrative overheads, depreciation and amortisation	576	653	13%	640	11%
Operating profit	442	562	27%	513	16%
Net profit	309	355	15%	363	17%

1) Includes credit derecognised from assets in December 2007.
BP – Business Plan.

Table 44

Domestic operations

In domestic operations, BPI registered significant growth in activity in 2007, with the key business indicators surpassing the Business Plan objectives. It is worth pointing out that the Bank expanded its distribution network by more than anticipated in 2007, which thus had a negative impact on costs. In the meantime, the new branches will gradually generate more revenue to the extent that they capture new business.

Total Customer loans and resources expanded by 15% and 12%, respectively, in 2007, outpacing the forecasts embodied in the Business Plan. Operating income from banking was up 16%, or six percentage points more than projected. The retail branch network expanded 15% to 662 branches, the investment centres by 21% to 23 centres. The staff headcount increased 11% to 7 817 Employees (446 more than the Employees envisaged in the Business Plan at the close of 2007), due above all to the distribution network's expansion.

Administrative overheads, depreciation and amortisation totalled 593 M.€ in 2007, which corresponds to 12% growth relative to 2006. Excluding costs of 9.9 M.€ relating to the takeover bid and which were not taken into consideration in the forecasts, administrative overheads, depreciation and amortisation were 2.7% more than those foreseen in the Business Plan.

The efficiency ratio improved from 60.6% in 2006 to 58.1% in 2007, beating the 58.8% target set in the Business Plan. Operating profit was 23% higher at 426 M.€, outstripping the Business Plan's figure by eight percentage points.

The net profit earned from domestic operations rose 15% to 278 M.€. Excluding the costs associated with the takeover bid, net profit was 286 M.€, which is 2% lower than the 292 M.€ forecast in the plan for 2007.

Domestic operations – comparison with the Business Plan 2007-2011

Amounts in M.€

	Dec. 06	Dec. 07	Δ 06/07	2007E BP	Δ 06/07 BP
Loans to Customers[1]	24 006	27 534	15%	27 369	14%
Customer Resources	26 703	30 037	12%	29 579	11%
Net operating income from banking	875	1 019	16%	967	10%
Administrative overheads, depreciation and amortisation	530	593	12%	568	7%
Operating profit	345	426	23%	399	15%
Net profit	242	278	15%	292	21%
No. of Employees	7 054	7 817	11%	7 371	4%
No. of retail branches	574	662	15%	654	14%
No. of investment centres	19	23	21%	27	42%

1) Includes credit derecognised from assets in December 2007.
BP – Business Plan.

Table 45

International operations

Turning to international operations, BFA once again experienced expressive business growth in 2007, in line with that envisaged in the Business Plan, and continued to execute the programme aimed at the strong expansion of the distribution network.

BFA's Customer loans and Customer resources portfolios expressed in dollars – the principal currency used in transactions in the Angolan economy – grew by 72% and 52%, respectively, which is comparable with the growth projections contained in the Business Plan of 73% and 54%, respectively. The number of Customers increased 36% to 405 thousand at the end of 2007. Operating income from banking rose 37.5% in 2007, or six percentage points higher than that projected in the Business Plan.

17 new retail branches were opened in the year (+26%), as well as two investment centres and one corporate centre, which represents overall growth of 27% for the distribution network. The workforce increased by 24% (+294 Employees) to 1 528 Employees.

Operating profit was 41% higher at 136 M.€.

The net profit attributable to international operations grew 15% to 77 M.€ in 2007, 9% (+6 M.€) more than the Business Plan projection.

It is important to note that the net profit from international operations includes in Angola specific impairment charges for overdue loans[1], which in 2007 represented 0.64% of the average loan portfolio. It also includes general impairment allowances (provisions) of 4%[2] of the loan and guarantees portfolio, which corresponds to the maximum allowed for tax purposes in Angola. As a percentage of the loan portfolio, general loan impairment allowances in 2007 amounted to 2.87%. Accordingly, the charge for loan impairment losses (specific and general) in 2007 represented 3.50% of the average loan portfolio. The Business Plan took into consideration actual impairment losses corresponding to 1.75% of the average loan portfolio, with the result that impairment charges (before tax) in 2007 were 14 M.€ more than provided for in the Business Plan.

The net profit from international operations in 2007 (with impairment charges on a comparable basis with the Business Plan) was 86 M.€, that is, more than the 71 M.€ forecast in the Business Plan.

International operations – comparison with the Business Plan 2007-2011

Amounts in M.€

	Dec. 06	Dec. 07	Δ 06/07	2007^E BP	Δ 06/07 BP
Loans to Customers	624	961	54%	1 080	73%
Customer Resources	1 440	1 958	36%	2 225	54%
Net operating income from banking	143	196	37%	187	31%
Administrative overheads, depreciation and amortisation	46	60	29%	72	56%
Operating profit	96	136	41%	115	19%
Net profit	67	77	15%	71	5%
No. of Employees	1 234	1 528	24%	1 567	27%
Distribution network[1]	74	94	27%	112	51%

1) Includes retail branches, investment centres and corporate centres.
BP – Business Plan.

Table 46

1) At the end of 2007, BFA's ratio of loans in arrears for more than 90 days stood at 1.0%, while total loan impairment allowances, specific and general, were six time greater than the amount of those arrear loans.
2) In Angola, banks must set aside a minimum of 2% and a maximum of 4% of their loan and guarantees portfolios as provisions for general credit risks.

Consolidated income statement

Amounts in M.€

	2006	2007	Δ%
Net interest income (narrow sense)	540.7	608.0	12.4%
Unit linked gross margin	7.5	10.7	42.2%
Income from securities (variable yield)	14.7	22.3	51.2%
Commissions related to deferred cost (net)	18.4	20.9	13.9%
Net interest income	**581.3**	**661.9**	**13.9%**
Technical results of insurance contracts	3.3	13.1	300.0%
Commissions and other similar income (net)	301.9	342.6	13.5%
Profits from financial operations	123.8	197.5	59.5%
Operating income and charges	7.8	0.4	(94.6%)
Net operating income	**1 018.1**	**1 215.5**	**19.4%**
Personnel costs	339.2	379.2	11.8%
Other administrative expenses	198.1	228.6	15.4%
Depreciation of fixed assets	39.0	45.4	16.2%
Administrative overheads, amortisation and depreciation	**576.4**	**653.2**	**13.3%**
Operating profit	**441.7**	**562.3**	**27.3%**
Recovery of loans written-off	21.0	20.9	(0.8%)
Loan provisions and impairments	56.5	112.3	98.7%
Other impairments and provisions	6.0	18.3	205.6%
Profits before taxes	**400.3**	**452.5**	**13.1%**
Corporate income tax	100.3	108.6	8.3%
Equity-accounted results of subsidiaries	22.1	28.0	26.8%
Income attributable to minority interest	13.3	16.8	26.5%
Net profit	**308.8**	**355.1**	**15.0%**
Cash flow after taxation	**410.3**	**531.1**	**29.4%**

Table 47

Consolidated balance sheet Amounts in M.€

	2006	2007	Δ%
Assets			
Cash and deposits at central banks	559.9	1 126.4	101.2%
Amounts owed by credit institutions	369.5	281.5	(23.8%)
Loans and advances to credit institutions	906.7	1 540.9	69.9%
Loans and advances to Customers[1]	24 630.1	27 230.5	10.6%
Financial assets held for dealing	4 345.1	4 591.4	5.7%
Financial assets available for sale	3 064.9	3 925.4	28.1%
Hedging derivatives	407.5	412.2	1.1%
Investments in associated companies and jointly controlled entities	141.8	151.0	6.5%
Other tangible assets	289.3	316.9	9.5%
Intangible assets	8.8	15.5	75.6%
Tax assets	133.4	141.4	6.0%
Other assets	708.5	812.9	14.7%
Total assets	**35 565.5**	**40 545.9**	**14.0%**
Liabilities and shareholders' equity			
Financial liabilities held for dealing	201.8	534.7	164.9%
Credit institutions' resources	3 960.2	3 731.9	(5.8%)
Clients' resources and other loans	16 235.5	20 621.9	27.0%
Debts evidenced by certificates	5 464.6	5 341.9	(2.2%)
Technical provisions	2 811.1	2 774.6	(1.3%)
Financial liabilities associated to transferred assets	3 368.1	3 008.2	(10.7%)
Hedging derivatives	480.8	544.6	13.3%
Provisions	54.9	72.9	32.8%
Tax liabilities	85.7	125.3	46.1%
Participating bonds	27.2	27.3	0.2%
Other subordinated loans	588.9	930.8	58.1%
Other liabilities	559.3	926.5	65.7%
Share capital	760.0	760.0	-
Share premium account and reserves	424.8	539.4	27.0%
Other equity instruments	8.7	10.8	24.2%
Treasury stock	(51.7)	(30.2)	41.5%
Net profit	308.8	355.1	15.0%
Minority interests	276.7	270.3	(2.3%)
Total shareholders' equity and minority interests	**1 727.3**	**1 905.5**	**10.3%**
Total liabilities and shareholders' equity	**35 565.5**	**40 545.9**	**14.0%**
Note:			
Bank guarantees	3 321.7	3 613.7	8.8%
Off-balance sheet Customer resources[2]	8 415.9	8 210.7	(2.4%)

Table 48

1) In December 2007, BPI sold 35% of the bonds relating to the capital tranche of the mortgage-loan securitisation operations which resulted in the derecognition of loan assets totalling 1 264 M.€.

2) The amount of unit trust funds included in these resources has been corrected for fund units held in the portfolios of the Group's banks.

DOMESTIC OPERATIONS

OVERVIEW

Domestic operations generated a net profit of 278.0 M.€ in 2007, which corresponds to a 15.1% improvement (that is, +36.5 M.€) relative to 2006. The return on shareholders' equity in 2007 was 20.6%.

The growth in business volume attributable to domestic operations was very significant. Customer loans expanded by 14.7% and total Customer resources by 12.5%. Balance sheet Customer resources rose by 19.4%, propelled by the 26.5% expansion in deposits. Off-balance sheet Customer resources decreased 2.4% under the influence of some re-intermediation for placements carried in the balance sheet, notably, in the final quarter of the year.

The pressure of the narrowing of intermediation margins[G] continued to be felt on both the lending and resource-taking sides. This pressure became more pronounced in the latter half of the year with the outbreak of the instability on the financial markets and with the consequent deterioration in the conditions for banks seeking to access funding.

Operating income from banking from domestic operations rose 16.4%.

The trend in costs has been influenced by the execution of the expansion programme for the distribution network in Portugal. In 2007, the distribution network in Portugal grew by around 14%, at the same time as the workforce increased by 763 Employees (+10.8%). This increase was to a large extent explained by the branch network's expansion. Administrative overheads, depreciation and amortisation included also costs related to the BCP takeover bid for BPI (1.1 M.€ in 2006 and 9.9 M.€ in 2007). Excluding the costs relating to the takeover bid, total costs increased by 10.3% (+54.5 M.€).

The efficiency indicator improved from 60.6% in 2006 to 58.1% in 2007, while operating profit (before impairments and loan recoveries) posted a 23.4% improvement to 426.1 M.€ in 2007.

Net profit from domestic activity

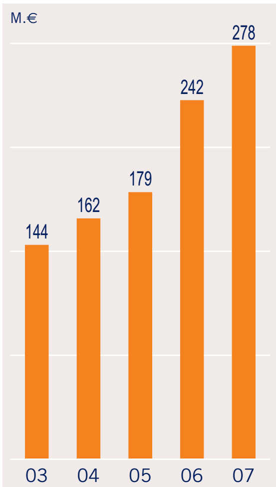


Chart 72

Net profit from domestic operations in 2007

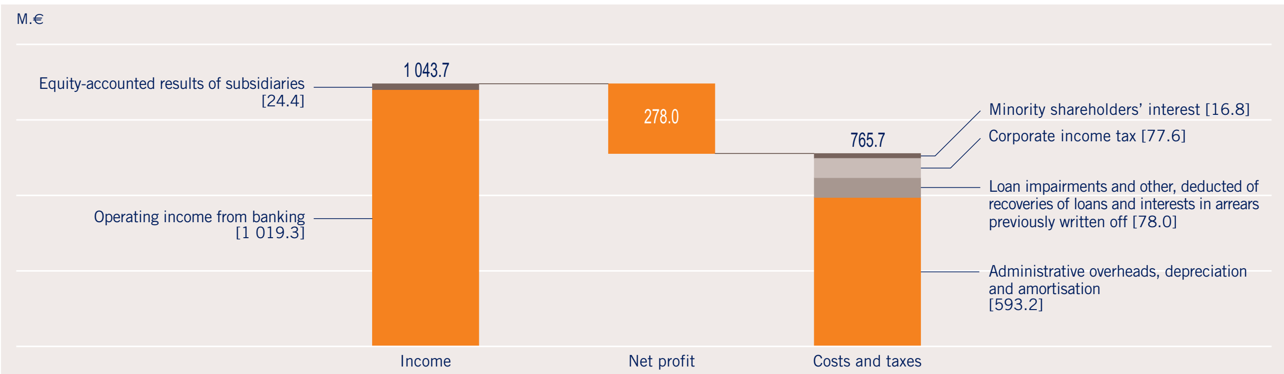


Chart 73

The quality indicators relating to the Customer loans portfolio maintained their very positive values.

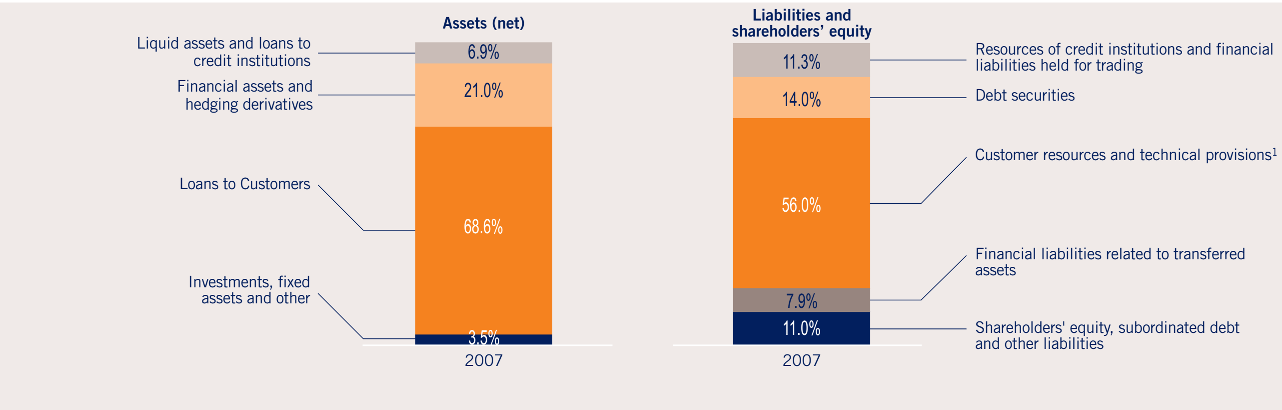
The ratio of loans in arrears for more than 90 days was 1.0% at the close of 2007.

Net credit loss[1] was 32.0 M.€ in 2007, corresponding to 0.12% of the average balance on the loan portfolio. This figure is comparable with the 23.7 M.€ registered in 2006 (0.11% of the average loan portfolio).

At the end of 2007, BPI had a portfolio of Structured Investment Vehicles (SIV) with an acquisition cost of 56.3 M.€ and a Net Asset Value (revaluation of the SIV's assets at market prices) of 31.3 M.€.

The difference of 25 M.€ between the acquisition cost and the net asset value was recognised as an impairment loss for the 2007 financial year.

Domestic operation balance sheet structure in 2007



1) Related to capitalisation insurance with discretionary share in profits.

Chart 74

1) Net credit loss corresponds to impairment charges for the year, after deducting recoveries of loans and interest in arrears previously written off.

FUNDING AND LIQUIDITY

Throughout the year BPI maintained comfortable liquidity positions and a balanced funding structure adapted to the needs stemming from the strong business expansion despite the international financial crisis which erupted in the 2nd half of the year. This brought in its wake restrictions and considerably exacerbated the conditions under which banks access liquidity and medium and long-term funding.

Customer resources carried in the balance sheet grew in 2007 in line with the expansion in lending. Deposits and debt securities placed with Customers climbed by 3 500 M.€, which corresponds to a relative variation of 24.8%, and compares with a loan portfolio net variation of 3 527 M.€ (relative loan portfolio variation of 14.7%).

Meanwhile BPI fulfilled its medium and long-term financing programme envisaged for 2007 (2.3 th.M.€), reinforced liquidity in the balance sheet and reduced the relative importance of the money market in its financing structure from 14.0% at the end of 2006 to 11.6% at the end of 2007.

Medium and long-term financing in 2007

In 2007, the market was tapped for 2 322 M.€ in medium and long-term funds, with an average maturity of 5.4 years. About 751 M.€ was earmarked for the refinancing of issues which matured during the year.

Matured debt — Amounts in M.€

	2006	2007
Senior debt	799	586
Subordinated debt	175	105
MLT Loans	370	60
	1 344	**751**

Table 49

1 500 M.€ were raised on the market through the home-loan securitisation operation[G], Douro Mortgages (the third such operation involving home loans and the fourth securitisation operation realised by BPI). Executed midway through July and already in a deteriorating market environment, nonetheless this operation achieved a spread of 0.16% over the 3-month Euribor[G] in its AAA tranche, which compares very favourably with other similar operations floated at the same time.

In addition, under the Euro Medium Term Notes programme (EMTN) a few major private placings were carried out: two issues of subordinated bonds[G], one placed with international investors (100 M.€), another placed with the Bank's Customers (300 M.€), as well as two senior debt issues which totalled 222 M.€. Mention is also made of a 5-year loan raised from an international financial institution under a bilateral agreement (200 M.€).

Funding structure
Domestic activity

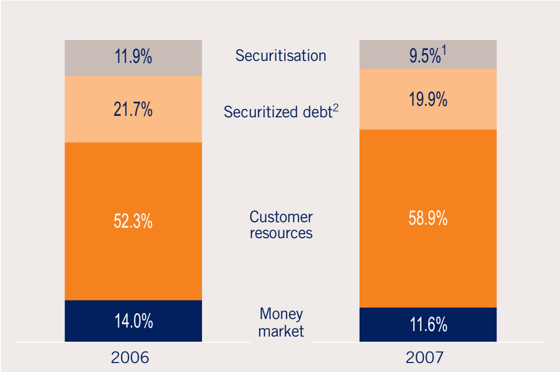


Chart 75

1) In December 2007, BPI sold 35% of the bonds relating to the capital tranche of the mortgage-loan securitisation operations which resulted in the derecognition of loan assets totalling 1 264 M.€.
2) Senior and subordinated, placed with institutional investors and Customers.

Average spread[G] of European banks debt[1]
Lehman Euro-Aggregate Banking Index

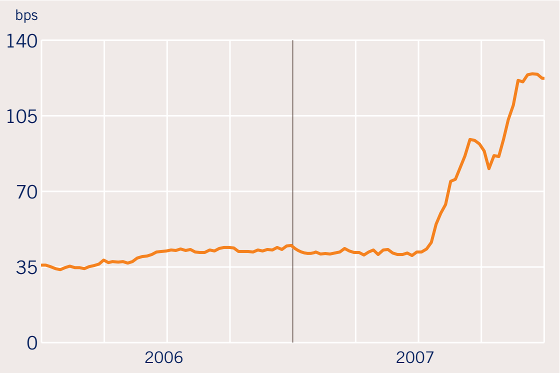


Chart 76

Source: Lehman Brothers.
1) Senior and subordinated issues, denominated in euros and with the classification "investment grade"[G].

Issued debt — Amounts in M.€

	2006	Average maturity (years)	2007	Average maturity (years)
Securitisation	1 500	6.0	1 500	6.0
Senior debt	1 275	4.0	222	3.4
Subordinated debt	127	12.0	400	5.0
MLT Loans	186	6.9	200	4.0
	3 088	**5.5**	**2 322**	**5.4**

Table 50

Liquidity

At 31 December 2007, the Bank had a liquidity surplus of 1 434 M.€ invested with the Bank of Portugal and other financial institutions. Simultaneously, total short-term indebtedness was 2 606 M.€ spread between money market borrowing and securities repos. In this manner, BPI had a net debtor position on the money market of 1 172 M.€, which corresponded to 3.1% of total assets attributable to domestic operations. This position was less than half of the position at the end of the previous year.

Money market – short term — Amounts in M.€

	Dec. 06	Dec. 07
Lending	214	1 434
Borrowing	2 862	2 606
Short term Money market GAP	**(2 648)**	**(1 172)**

Table 51

BPI also had assets that can be mobilised in a very short period of time totalling 3 576 M.€. These were broken down between eligible assets at the ECB (1 127 M.€) and quoted bonds and securities which are easily realisable in the short term (2 449 M.€).

Immediate liquidity (31 Dec. 07) — Amounts in M.€

Liquid assets	**Total**	**Of which: serving as collateral in operations with 3rd parties**
Eligible for the ECB		
Securities[1]	455	0
Loans[1,2]	672	0
Eligible for the ECB	1 127	0
Other assets		
Bonds[3]	1 535	330
Equities[4]	914	0
Other assets	2 449	330
Total	**3 576**	**330**

Table 52

Note: in domestic operations.
1) Net of "haircut".
2) Value dependent on the approval from the Bank of Portugal.
3) Net of repurchase operations (repos).
4) Liquid and listed participating interests: Galp, Cofina, Iberdrola and Sonae.

Refinancing of M/LT debt in 2008

Maturities of medium and long-term securities in 2008 amount to 1 357 M.€: 1 032 M.€ of senior bonds, 280 M.€ of subordinated bonds and 45 M.€ of bilateral loans. Close to 70% of the maturities (943 M.€) will occur in the second half of the year. The Bank envisages refinancing this debt with recourse to the EMTN Programme, and also through the issue of mortgage bonds, with the result that it is in this respect completing the mounting of a 7 000 M.€ programme.

Already at the start of 2008, a Euro Commercial Paper (ECP) programme was placed, with a total amount of 5 000 M.€. The Bank thus has an additional short-term funding programme which will enable it to secure funds with various maturities up to one year, in euro or in foreign currency (dollars, pounds, yen, Swiss francs etc). Furthermore, the ECP is typically subscribed to by money-market funds, with the result that this instrument will permit the Bank to diversify its short-term funding base.

Medium and long term debt redemption — Amounts in M.€

	1st Qtr. 08	2nd Qtr. 08	3rd Qtr. 08	4th Qtr. 08	2008
Senior debt	150	219	511	152	1 032
Subordinated debt			30	250	280
MLT loans	45				45
	195	**219**	**541**	**402**	**1 357**

Table 53

Medium and long term institutional debt
Maturity profile at 31 December 2007

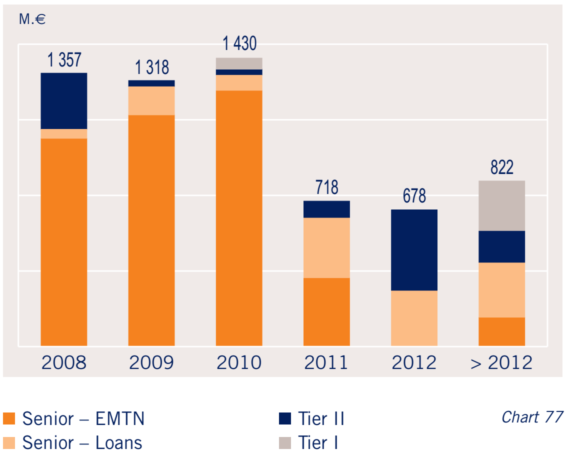


Chart 77

Domestic operations income statement

Amounts in M.€

	2006	2007	Δ%
Net interest income (narrow sense)	454.2	476.8	5.0%
Unit linked gross margin	7.5	10.7	42.2%
Income from securities (variable yield)	14.7	22.3	51.2%
Commissions related to deferred cost (net)	18.4	20.9	13.9%
Net interest income	**494.8**	**530.7**	**7.3%**
Technical results of insurance contracts	3.3	13.1	300.0%
Commissions and other similar income (net)	269.1	298.5	10.9%
Profits from financial operations	100.6	176.1	75.0%
Operating income and charges	7.5	0.9	(87.6%)
Net operating income	**875.3**	**1 019.3**	**16.4%**
Personnel costs	319.2	353.8	10.9%
Other administrative expenses	177.1	203.0	14.6%
Depreciation of fixed assets	33.7	36.4	7.9%
Administrative overheads, amortisation and depreciation	**530.0**	**593.2**	**11.9%**
Operating profit	**345.4**	**426.1**	**23.4%**
Recovery of loans written-off	21.0	20.8	(1.2%)
Loan provisions and impairments	38.5	84.0	118.1%
Other impairments and provisions	5.4	14.8	175.8%
Profits before taxes	**322.5**	**348.1**	**7.9%**
Corporate income tax	85.1	77.6	(8.8%)
Equity-accounted results of subsidiaries	17.4	24.4	39.7%
Income attributable to minority interest	13.3	16.8	26.5%
Net profit	**241.5**	**278.0**	**15.1%**
Net interest income (narrow sense)	**319.1**	**413.2**	**29.5%**

Table 54

Domestic operations balance sheet

Amounts in M.€

	2006	2007	Δ%
Assets			
Cash and deposits at central banks	411.5	845.4	105.5%
Amounts owed by credit institutions	359.1	276.5	(23.0%)
Loans and advances to credit institutions	912.6	1 525.2	67.1%
Loans and advances to Customers[1]	24 006.2	26 269.4	9.4%
Financial assets held for dealing	4 048.1	4 114.6	1.6%
Financial assets available for sale	2 957.5	3 500.0	18.3%
Hedging derivatives	407.5	412.2	1.1%
Investments in associated companies and jointly controlled entities	129.9	137.9	6.1%
Other tangible assets	233.3	238.1	2.1%
Intangible assets	8.5	14.6	72.6%
Tax assets	133.4	141.4	6.0%
Other assets	707.0	800.2	13.2%
Total assets	**34 314.5**	**38 275.3**	**11.5%**
Liabilities and shareholders' equity			
Financial liabilities held for dealing	201.8	534.7	164.9%
Credit institutions' resources	4 411.7	3 772.6	(14.5%)
Clients' resources and other loans	14 779.8	18 644.7	26.1%
Debts evidenced by certificates	5 464.6	5 341.9	(2.2%)
Technical provisions	2 811.1	2 774.6	(1.3%)
Financial liabilities associated to transferred assets	3 368.1	3 008.2	(10.7%)
Hedging derivatives	480.8	544.6	13.3%
Provisions	46.5	57.5	23.5%
Tax liabilities	66.4	95.3	43.6%
Participating bonds	27.2	27.3	0.2%
Other subordinated loans	588.9	930.8	58.1%
Other liabilities	545.2	908.9	66.7%
Share capital, share premium account and reserves and other equity instruments	1 055.8	1 116.3	5.7%
Treasury stock	(51.7)	(30.2)	41.5%
Net profit	241.5	278.0	15.1%
Minority interests	276.7	270.3	(2.3%)
Total shareholders' equity and minority interests	**1 522.5**	**1 634.4**	**7.4%**
Total liabilities and shareholders' equity	**34 314.5**	**38 275.3**	**11.5%**
Note:			
Bank guarantees	3 199.7	3 348.0	4.6%
Off-balance sheet Customer resources[2]	8 415.9	8 210.7	(2.4%)

1) At December 2007, BPI sold 35% of the bonds relating to the capital tranche of the mortgage-loan securitisation operations which resulted in the derecognition of loan assets totalling 1 264 M.€.

2) The amount of unit trust funds included in these resources has been corrected for fund units held in the portfolios of the Group's banks.

Table 55

REVENUE

Net interest income

Net interest income in domestic operations increased by 35.9 M.€ to 530.7 M.€, which represents an improvement of 7.3% relative to 2006.

Narrow net interest income was up 5% to 476.8 M.€ and, representing 90% of the overall amount of net interest income, accounted for two thirds of the respective increase in 2007. The business expansion permitted compensating for the contraction in loan and time-deposit spreads[G].

As for the other components of net interest income, which together represented about 10% of the total figure:

- the gross margin on unit links[1] climbed 42% (+3.2 M.€) as a result of the strong growth in these products portfolio;
- dividends received increased 51% and totalled 22.3 M.€; this includes 16.1 M.€ relating to BCP (11.3 M.€ in 2006) and 2.1 M.€ relating to GALP;
- commissions associated with the amortised cost were 20.9 M.€ (18.4 M.€ in 2006).

Net interest income Amounts in M.€

	2006	2007	Δ%
Net interest income (narrow sense)	454.2	476.8	5.0%
Gross margin on unit links products	7.5	10.7	42.2%
Income from securities – dividends	14.7	22.3	51.2%
Commissions relating to the amortised cost (net)	18.4	20.9	13.9%
Net interest income	**494.8**	**530.7**	**7.3%**

Table 56

Narrow net interest income

Narrow net interest income from domestic operations was up 5.0% (+22.7 M.€ in absolute terms).

Average remunerated assets and liabilities grew by around 19%, which generated a positive volume-effect of roughly 82 M.€ on net interest income. This compensated for the contraction of 11 basis points in the average spread between remunerated assets and liabilities.

The expansion in the Customer loans portfolio of 18.8% (+4 078 M.€) – based on the average balance – represented roughly 85% of the increase in interest-earning assets and was, therefore, the principal explanation for the latter's expansion.

On the resources side, the 25.6% (+3 202 M.€) increase in the average balance of Customers' deposits, above all the expansion in time deposits, meant that the recourse to funding on the capital market was undertaken on a smaller scale than in previous years.

Net interest income in 2007

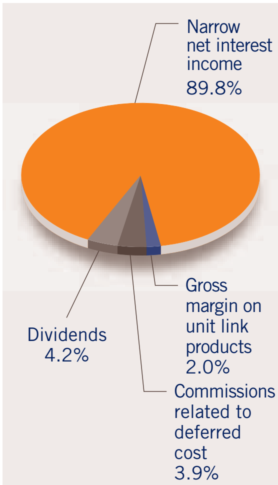


Chart 78

Narrow net interest income

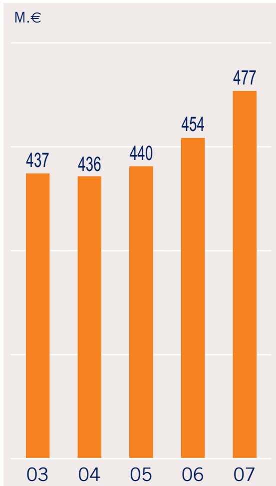


Chart 79

1) Income from capitalization insurance, without discretionary profit sharing.

The trend towards the narrowing of spreads continued in 2007, on both the assets and liabilities side, with the intermediation margin having decreased in all credit segments. On the resources side, the narrowing of spreads became more pronounced in the second half of the year, particularly noticeable in time deposits with the intensification of competition for the attraction of deposits.

Nonetheless, the environment of rising interest rates on the market compensated to a certain degree this narrowing, bearing in mind that a part of those deposits does not bear interest. This effect explains the widening of the average spread on deposits by 0.19 percentage points[1].

Overall, the adverse climate pervading the financial markets in the latter half of the year had a minor repercussion on the cost of BPI's medium and long-term funding in 2007, given that the medium and long-term financing plan laid down for the year (around 2.3 th.M.€) had to large extent been executed by the end of July 2007, and that the Bank presented high liquidity. The situation regarding BPI's liquidity is covered in a separate section of this chapter.

Trend in interest income and expense

Amounts in M.€

	2006	2007	ΔM.€	Δ%
Interest-earning assets				
Placements with credit institutions	41.8	56.7	+15.0	+35.8%
Loans to Customers	938.9	1 339.2	+400.2	+42.6%
Bonds and other fixed-income securities[1]	91.5	131.1	+39.6	+43.3%
Interest income from interest-earning assets	**1 072.2**	**1 526.9**	**+454.8**	**+42.4%**
Interest-bearing liabilities				
Amounts owed to central banks and to other credit institutions and financial liabilities held for trading, excluding derivatives	141.1	196.0	+55.0	+39.0%
Customer deposits and other remunerated resources	237.0	458.0	+220.9	+93.2%
Debt securities[2]	178.0	219.0	+41.0	+23.0%
Subordinated debt and participating bonds	27.1	32.5	+5.4	+19.8%
Financial liabilities associated to transferred assets	68.2	156.3	+88.1	+129.2%
Interest cost on interest-bearing liabilities	**651.4**	**1 061.8**	**+410.4**	**+63.0%**
Subtotal	**420.8**	**465.1**	**+44.4**	**+10.6%**
Other income and costs	21.6	22.3	+0.7	+3.1%
Trading derivatives	12.8	6.4	(6.4)	(50.0%)
Hedging derivatives	(1.0)	(17.0)	(16.0)	-
Narrow net interest income	**454.2**	**476.8**	**+22.7**	**+5.0%**

Note: does not include BPI Vida's interest-earning assets and interest-bearing liabilities, bearing in mind that the margin earned on capitalisation insurance is essentially recorded in the captions Gross margin on unit links and Technical results of insurance contracts.

1) Debt securities in the portfolio of dealing assets and in the portfolio of assets available for sale.

2) Includes income from bonds indexed to indices, hedged by derivative instruments. The results of built-in derivatives and on hedging derivatives are recorded separately in the caption Hedging derivatives.

Table 57

The following table presents the average interest rates corresponding to the average balance on remunerated assets and liabilities, and the spreads on these *vis-à-vis* the market average. The 3-month Euribor rate was used as the market benchmark (moving average).

1) The 3-month Euribor rate (moving average) was used for this purpose.

Average interest rates on remunerated assets and liabilities

Amounts in M.€

	2006				2007			
	Average balance	Interest	Average interest rate	Average spread[1]	Average balance	Interest	Average interest rate	Average spread[1]
Interest-earning assets								
Loans to Customers	21 672	939	4.3%	1.4%	25 750	1 339	5.2%	1.1%
Companies, institutionals and project finance	7 986	328	4.1%	1.2%	9 923	505	5.1%	1.0%
Mortgage loans	8 952	348	3.9%	1.0%	9 817	480	4.9%	0.8%
Other loans to individuals	925	72	7.8%	4.9%	1 050	77	7.3%	3.2%
Loans to small businesses	2 051	114	5.6%	2.6%	2 370	149	6.3%	2.1%
Other	1 757	77	4.4%	1.4%	2 590	129	5.0%	0.8%
Other interest-earning assets[2]	3 215	133	4.1%	1.2%	3 941	188	4.8%	0.6%
Interest-earning assets	**24 887**	**1 072**	**4.3%**	**1.4%**	**29 691**	**1 527**	**5.1%**	**1.0%**
Interest-bearing liabilities								
Customer resources[3]	12 497	237	1.9%	1.0%	15 699	458	2.9%	1.2%
Financial liabilities associated to transferred assets	2 310	68	3.0%	(0.0%)	3 807	156	4.1%	0.0%
Other interest-bearing liabilities[4]	10 536	346	3.3%	(0.4%)	10 706	448	4.2%	0.0%
Interest-bearing liabilities	**25 343**	**651**	**2.6%**	**0.4%**	**30 212**	**1 062**	**3.5%**	**0.6%**
Note:								
Euribor 3 months			2.9%				4.1%	

Table 58

Note 1: BPI Vida's remunerated assets and liabilities and corresponding interest income and expense were excluded from the table for the reason that the interest income and expense earned on capitalisation insurance is essentially recorded in the captions Gross margin on unit links and Technical results of insurance contracts.

Note 2: The above table does not include the net profit / loss on derivatives. After taking into account the net profit / loss on derivatives (11.8 M.€ in 2006 and – 10.6 M.€ in 2007) the intermediation margin between remunerated assets and liabilities decreased from 1.8% in 2006 to 1.6% in 2007.

1) Spread in relation to the annual average of the 3-month Euribor: interest-earning assets = average yield - Euribor 3M; interest-bearing liabilities = Euribor 3M - average yield.

2) Bonds and other fixed-income securities in the portfolio of dealing assets and in the portfolio of assets available for sale and placements with credit institutions.

3) Deposits, cheques, orders payable and other Customer resources.

4) Includes amounts owed to central banks and to other credit institutions and financial liabilities held for trading, excluding derivatives, includes debt securities, subordinated debt and participating bonds.

Technical result of insurance contracts

The income from capitalisation insurance with discretionary profit sharing[1] increased from 3.3 M.€ in 2006 to 13.1 M.€ in 2007.

1) Corresponds to the gains and losses on the management of resources taken and allocated to such capitalisation insurance, after deducting the liabilities to Customers (mathematical provisions and profit sharing).

Commissions

Commissions and other net income climbed by 10.9% to 298.5 M.€. Commercial Banking commissions, which represent 85% of that total, were up 7.5%, while those derived from investment banking (accounting for 15% of the total) were 35% higher.

As concerns commissions from commercial banking, the following should be noted:

- commissions associated with insurance broking rose by 36% (+8.5 M.€). This increase reflects on the one hand the good performance in the sales of insurance policies associated with loans and the Allianz autonomous-sale product which commenced in 2005, while 2007 saw the launching of the third autonomous-sale policy – Habitall BPI home insurance. On the other hand, it reflects the increase in variable commissions on insurance as a consequence of the favourable behaviour of claims. Commissions on the placing of insurance grew 38% to 17.3 M.€, while the portfolios' appropriated net profits were up 35% to 14.4 M.€.

- asset management commissions (unit-trust and pension funds) grew 10.7% (+7.0 M.€). Contributing to this result was the increased relative weight of the capital-growth funds which, being more value-added oriented, earn higher per unit commissions. This trend compensated for the overall decline in the volumes of funds under management engendered by the decrease in the money-market and bond funds.

- the behaviour of commissions associated with loans and guarantees[1], which were down 5.2% (-3.2 M.€) relative to 2006, was largely due to the application of the legal provision that cut the maximum commission to be charged for the early repayment of home loans to 0.5% of the capital repaid (in the case of variable-rate loans).

Commissions derived from investment banking climbed by 35% (+11.6 M.€) when compared with 2006, benefiting from the 95% growth in brokerage and placing commissions. BPI's increasing affirmation as an Iberian broker, specialising strongly in small and medium cap companies and whose equities research largely covers the Iberian market, has contributed to the improvement in market share in the broking of Portuguese equity trading, as well as to the significant growth in the broking of Spanish equities, in particular, for institutional Customers.

Commissions and other similar income (net) Amounts in M.€

	2006	2007	Δ%
Commercial Banking commissions			
Unit trust funds and pension funds	65.1	72.1	10.7%
Commissions associated with loans and guarantees	61.2	58.1	(5.2%)
Income from cards	50.2	51.8	3.2%
Deposits and related services	25.9	25.0	(3.2%)
Intermediation of insurance products	23.3	31.8	36.3%
Banking services[1]	7.5	15.5	105.4%
Securities-related services	2.3	(0.2)	(107.0%)
Other	0.7	0.0	(95.8%)
Commercial Banking commissions	**236.3**	**254.1**	**7.5%**
Investment Banking commissions			
Unit trust funds	11.2	11.6	3.4%
Portfolio management and advisory services	2.7	2.4	(11.3%)
Brokerage and placing	12.2	23.8	94.7%
Consultancy and valuations (Corporate Finance)	4.5	3.9	(15.0%)
Other	2.1	2.7	31.5%
Investment Banking commissions	**32.8**	**44.4**	**35.4%**
Total	**269.1**	**298.5**	**10.9%**

1) The increase in banking service commissions is essentially related with commissions for consultancy services.

Table 59

Commissions in 2007

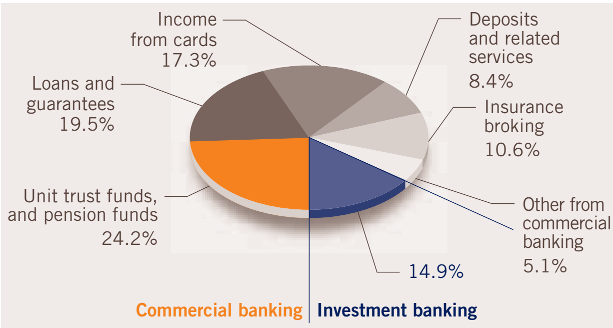


Chart 80

1) Part of the commissions associated with loans has been accounted for (since 2005) on the accrual basis over the term of the associated loan, and is included in net interest income under the caption Commissions relating to the amortised cost.

Profits from financial operations

Profits from financial operations were 176.1 M.€ in 2007, or 75.4 M.€ higher than those earned in 2006.

The profits on operations at fair value and on available-for-sale assets were up 29.1 M.€ to 115.5 M.€ in 2007. Their relative importance in operating income from banking from domestic banking operations was situated at 11.3% in 2007, which compares with the figure of 9.9% in 2006, and the average of 7.1% for the last five years. It is important to mention however that the more unfavourable behaviour of the equity and bond markets in the second half of the year had an impact on the trend in profits from financial operations. Profits on operations at fair value and on available-for-sale assets amounted to 84.2 M.€ in the first half of the year, and 31.3 M.€ in the second half.

The biggest contribution to the profit on operations at fair value and on available-for-sale assets in 2007 corresponded to profits from equities: 61.8 M.€ in 2007 (+7.1 M.€ relative to 2006). Gains of 18.2 M.€ were also realised on bonds (+5.2 M.€ relative 2006), which corresponded above all to gains realised on the sale of corporate bonds and Brazilian public debt.

Interest and financial gains and losses with pensions (net financial income with pensions) totalled 60.6 M.€ in 2007. The growth noted in 2007 reflects the increase in the fund's surplus funding *vis-à-vis* the liabilities it is meant to cover (from 239.6 M.€ at the end of 2006 to 419.6 M.€ in June 2007), as well as the increase in the positive differential between the fund's expected rate of return and the discount rate, that is, the rate applied to update liabilities. Those differentials were 0.75% and 0.5% in the first and second halves of 2006[1], respectively, whereas in the first and second halves of 2007 they were situated at respectively 1% and 2.5%[2].

Profits from financial operations — Amounts in M.€

	2006	2007	Δ M.€
Profit in fair value operations and available for sale assets			
Equities	54.7	61.8	+7.1
Bonds	13.0	18.2	+5.2
Structures products	5.1	9.1	+4.0
Hedge funds	3.9	5.1	+1.2
Currency	9.4	11.9	+2.5
Others	0.3	9.3	+9.1
Profit in fair value operations and available for sale assets	**86.4**	**115.5**	**+29.1**
Interests and financial gains and losses with pensions			
Expected pension funds return	117.2	173.8	+56.7
Interest cost	(102.9)	(113.2)	(10.3)
Interests and financial gains and losses with pensions	**14.2**	**60.6**	**+46.4**
Total	**100.6**	**176.1**	**+75.4**

Table 60

1) At June 2006, the discount rate was increased from 4.5% to 4.75%, whilst the fund's expected rate of return stood at 5.25%.
2) In the first semester of 2007, the fund's expected rate of return was increased to 5.75%, whilst the discount rate was held steady at 4.75%. In June 2007, the fund's expected rate of return was increased to 7.5% and the discount rate increased to 5%.

ADMINISTRATIVE OVERHEADS, DEPRECIATION AND AMORTISATION

Administrative overheads (i.e. personnel costs, outside supplies and services), depreciation and amortisation were up 11.9% relative to 2006. Excluding the costs associated with BCP's takeover bid for BPI, (of 1.1 M.€ in 2006 and 9.9 M.€ in 2007), administrative overheads, depreciation and amortisation relating to domestic operations rose by 10.3%. These costs were particularly influenced by the physical-distribution network's expansion in Portugal, which translated itself into the opening of 88 new branches (+15.2%) and four investment centres (+21.1%).

This trend was nevertheless outpaced by the increase in revenue, thereby permitting an improvement in efficiency indicators: the indicator "administrative overheads, depreciation and amortisation as a percentage of net operating income from banking" improved from 60.6% in 2006 to 58.1% in 2007.

Administrative overheads, depreciation and amortisation

Amounts in M.€

	2006	2007	Δ%
Personnel costs	319.2	353.8	+10.9%
Outside supplies and services	177.1	203.0	+14.6%
Administrative overheads	**496.3**	**556.8**	**+12.2%**
Depreciation and amortisation	33.7	36.4	+7.9%
Total	**530.0**	**593.2**	**+11.9%**
Efficiency ratio[1]	**60.6%**	**58.1%**	**-**

1) Administrative overheads, depreciation and amortisation, excluding costs with early retirements, as percentage of operating income from banking.

Table 61

Administrative overheads, depreciation and amortisation

From 2003 until 2007

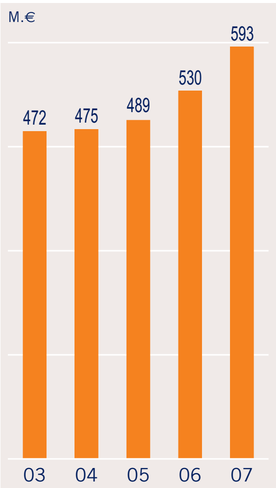


Chart 81

As % of net operating income[1]

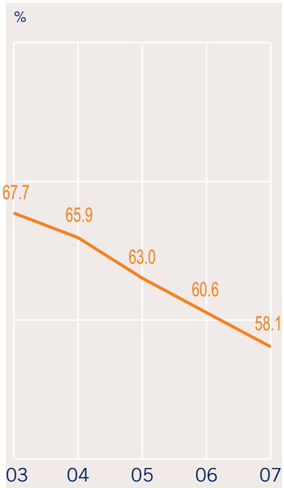


Chart 82

1) Administrative overheads, depreciation and amortization, excluding early-retirement costs, as % of net operating income.

Personnel costs

Personnel costs were 10.9% higher in 2007 (+34.7 M.€) relative to 2006.

Personnel costs

Amounts in M.€

	2006	2007	Δ%
Remunerations			
Fixed remunerations and social charges	228.2	252.7	+10.7%
Variable remunerations	50.0	50.8	+1.5%
Others	10.0	14.8	+48.3%
Remunerations	**288.2**	**318.3**	**+10.4%**
Pension costs[1]	31.1	34.5	+10.9%
Subtotal	**319.3**	**352.8**	**+10.5%**
Costs with early retirements	(0.1)	1.0	-
Total	**319.2**	**353.8**	**+10.9%**

1) Includes current service cost (29.7 M.€ in 2006 and 33.9 M.€ in 2007), the amortisation of actuarial deviations, fund income recorded outside the corridor and the amortisation of the pension plan's conditions.

Table 62

The increase in personnel costs is largely explained by the 10.7% (+24.5 M.€) growth in fixed remuneration and social charges, which reflect:

- the 6.7% increase in the average number of Employees (+452 people), owing above all to the expansion of the distribution network;
- the 2.75% revision of the salary scales;
- the updating of the monetary-related clauses as part of the revision of the ACTV (Collective Employment Agreement for the Banking Sector).

Personnel costs in 2007

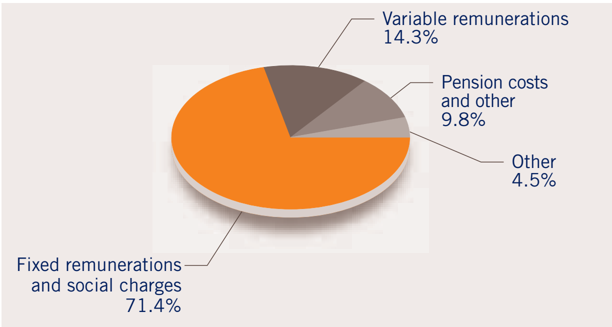


Chart 83

Costs associated with variable remuneration increased 1.5%. This trend was particularly influenced by the fact that all the variable remuneration relating to 2006 was paid in cash, with the result that it was fully recognised as a cost of the year[1]. Conversely, the practice of awarding part of the variable remuneration in the form of BPI shares and share-purchase options was resumed in 2007. Variable remuneration was equivalent to 14% of total personnel costs in 2007.

Also noteworthy is the increase in pension costs by 10.9% (+3.4 M.€), resulting from the higher current-service cost. This increase was strongly influenced by the alteration made to the actuarial assumptions in June 2007, which originated an increase of roughly 7% (+166.3 M.€) in the amount of liabilities.

Outside supplies and services

The costs associated with outside supplies and services rose 14.6% (+25.9 M.€) relative to 2006. They included costs relating to BCP's takeover bid for BPI of 1.1 M.€ in 2006 and 9.9 M.€ in 2007. Excluding the takeover bid costs, outside supplies and services were up 9.8% (+17.2 M.€) relative to 2006.

Outside supplies and services in 2007

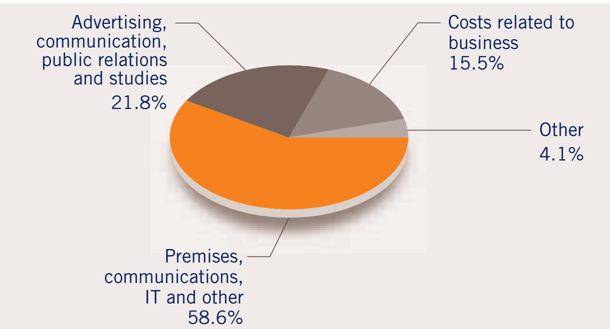


Chart 84

Outside supplies and services Amounts in M.€

	2006	2007	Δ%
Advertising, communication, public relations and studies			
Advertising campaigns	27.8	22.1	(20.5%)
Studies and advising[1]	5.1	22.1	329.1%
Subtotal: advertising, communication, public relations and studies	33.0	44.2	34.1%
Costs related to business			
Cards and automatic banking	11.6	11.8	1.6%
Treasury, compensation and cheques	8.1	8.6	6.7%
Home loans, consumer credit and motor car financing	5.2	7.5	44.7%
Others	3.7	3.7	(1.7%)
Subtotal: costs related to business	28.6	31.5	10.4%
Costs with premises, communications, IT and other			
Premises	41.1	43.0	4.7%
Communications	21.9	24.9	13.8%
IT	18.5	19.0	2.5%
Other	27.1	32.1	18.4%
Subtotal: costs with premises, communications, IT and other	108.6	119.0	9.6%
Costs related with human resources	6.9	8.2	18.8%
Other costs	0.0	0.0	-
Total	**177.1**	**203.0**	**14.6%**

1) Includes costs of 1.1 M.€ in 2006 and 9.9 M.€ in 2007, related to the takeover bid.

Table 63

1) The variable remuneration paid in cash is recognised in full as a cost of the relevant financial year. The cost relating to the remuneration paid in the form of shares and share options (the RVA scheme) is amortised on a straight-line basis from the beginning of the year to which it refers up till the date it becomes freely disposable by Employees in the case of shares, and up until the beginning of the exercise period in the case of options.

Costs related to the size of the operating structure – cost of premises, communications and IT systems, and other – were 9.6% higher, that is, up 10.4 M.€ in absolute terms.

Consultancy costs (excluding those relating to the takeover bid) registered an increase of 8.2 M.€, while costs associated with the business were up 3.0 M.€ (+10.4%), chiefly reflecting the expansion in home loans.

The increase in those costs was partially offset by a reduction in advertising costs (-20.5%, that is, -5.7 M.€).

Depreciation and amortisation

Depreciation and amortisation charges in domestic operations increased by 7.9% to 36.4 M.€ in 2007 (2.7 M.€ more than in 2006). This situation is mainly explained by the distribution network's expansion and the modernisation of the IT systems.

Depreciation and amortisation

Amounts in M.€

	Depreciation and amortisation in the year			Net fixed assets	
	2006	**2007**	**Δ%**	**31 Dec. 06**	**31 Dec. 07**
Intangible assets	3.1	4.8	+53.3%	8.5	14.6
Tangible assets					
Premises	8.8	7.8	(11.3%)	142.4	132.4
Computer hardware	8.7	10.6	+20.7%	17.2	17.5
Other tangible assets	13.0	13.2	+1.3%	61.9	68.0
Capital expenditure in progress				11.7	20.2
Tangible assets	30.6	31.6	+3.2%	233.3	238.1
Total	**33.7**	**36.4**	**+7.9%**	**241.8**	**252.7**

Table 64

IMPAIRMENTS AND PROVISIONS

Customer loan impairments

In domestic operations, the cost of credit risk remained at levels close to those recorded in 2006.

The cost of credit risk – measured by loan impairment charges as a percentage of the performing loan portfolio – was situated at 0.21%, identical to the 2006 figure. This figure is situated below the average (0.28%) registered in the last five years.

In loans to individuals, impairment losses as a percentage of the average balance on the loan portfolio increased from 0.24% in 2006 to 0.28% in 2007. This increase was counterbalanced by the decrease in loans to companies and institutional Customers and project finance, from 0.19% in 2006 to 0.12% in 2007.

Recoveries of arrear loans and interest previously written off from assets were 20.8 M.€ in 2007, fractionally lower than those registered in 2006 (21.0 M.€).

Net credit loss, which corresponds to the amount of impairment losses recognised in the year net of recoveries of overdue loans and interest previously written off, amounted to 32.0 M.€ in 2007, which corresponded to 0.12% of the loan portfolio's average balance. This figure is comparable with 0.11% for the average loan portfolio in 2006, and with the 0.19% average for the past five years.

Loan impairments as % of loan portfolio

From 2003 until 2007

— Loan impairments[1]
— Loan impairments, deducted of recoveries of loans and interests in arrears written-off[1]

1) Generic and specific loan provisions under PCSB.

Chart 85

In 2007

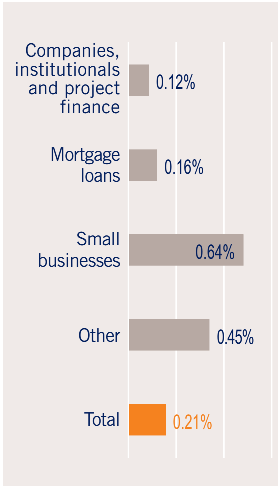


Chart 86

Loan provisions and impairments

Amounts in M.€

	2006	As % of the loan portfolio[1]	2007	As % of the loan portfolio[1]
Loan provisions and impairments				
Corporate banking, institutional banking and project finance	16.4	0.19%	13.3	0.12%
Individuals and small businesses banking				
Mortgage loans[2]	9.2	0.10%	16.6	0.16%
Loans to individuals – other purposes	14.7	1.54%	6.3	0.58%
Loans to small businesses	5.3	0.26%	15.2	0.64%
Individuals and small businesses banking	29.3	0.24%	38.1	0.28%
Other	(1.0)	(0.18%)	1.4	0.22%
Loan provisions and impairments[2]	**44.7**	**0.21%**	**52.8**	**0.21%**
(-) Recovery of loans written-off	21.0	0.10%	20.8	0.08%
Net credit loss[2, 3]	**23.7**	**0.11%**	**32.0**	**0.12%**

Table 65

Note: in the table above, no SIV impairments (25 M.€ in 2007) were included.

1) Average performing loan portfolio.

2) For analysis purposes, the 2006 figures include impairment charges of 6.2 M.€ effected in 2007 and relating to the revaluation of properties pledged as security at 31 December 2006.

3) Loan provisions and impairments deducted of recoveries of loans and interests in arrears previously written off.

Impairment losses on Structured Investment Vehicles (SIV)

At 31 December 2007, BPI had a portfolio of SIV (Structured Investment Vehicles), the acquisition cost of which was 56.3 M.€. The net asset value of those SIV (with the respective assets revalued at market prices) was 31.3 M.€.

The difference of 25 M.€ between the acquisition cost and net asset value was recognised as an impairment loss in 2007.

Other impairments and provisions

Impairments and provisions for securities and other purposes totalled 14.8 M.€ in 2007, of which 1.0 M.€ corresponded to impairment charges on available-for-sale financial assets. In 2006, impairments and provisions of 5.4 M.€ for securities and other purposes were recognised.

EQUITY-ACCOUNTED RESULTS OF SUBSIDIARIES

Subsidiaries consolidated using the equity method contributed 24.4 M.€ to consolidated net profit from domestic operations in 2007, or 39.7% more than that earned in the previous year.

The subsidiaries in the insurance area contributed 14.0 M.€ in 2007 (14.1 M.€ in 2006). The appropriated profit relating to the participating interests in Allianz Portugal and in Cosec amounted to 13.2 M.€ and 0.9 M.€, respectively.

The increase in the equity-accounted earnings of the subsidiaries was due to:

- the higher contribution of +4.8 M.€ from Finangeste, owing mainly to the gains realised on the sale of assets.

- the larger contribution of +2.2 M.€ (to 4.0 M.€ in 2007) from Viacer, bearing in mind that the 2006 result was penalised by the Unicer Group's restructuring costs.

Equity-accounted results of subsidiaries Amounts in M.€

	2006	2007	Δ%
Subsidiaries in the insurance area			
Allianz Portugal	12.8	13.2	+3.0%
Cosec	1.3	0.9	(34.5%)
Subsidiaries in the insurance area	14.1	14.0	(0.5%)
Viacer	1.8	4.0	+123.5%
Finangest	1.5	6.3	+316.8%
Other	0.03	0.04	+62.6%
Total	**17.4**	**24.4**	**+39.7%**

Table 66

Equity-accounted results of subsidiaries in 2007

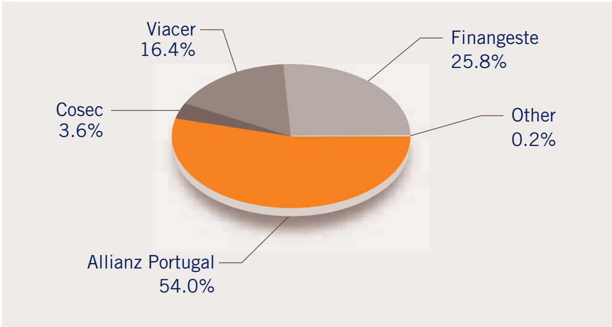


Chart 87

MINORITY SHAREHOLDERS' INTERESTS

Minority shareholders' interests in net profit, which essentially correspond to the dividends on the preference shares issued by BPI Capital Finance, increased by 26.5%, from 13.3 M.€ in 2006 to 16.8 M.€ in 2007, reflecting the increase in market interest rates. The preference shares are denominated in euro and confer the right to a non-cumulative preferential dividend indexed to the three-month Euribor.

At the end of 2007, the balance sheet value of preference shares was 269.4 M.€.

LOANS AND RESOURCES

Customer loans

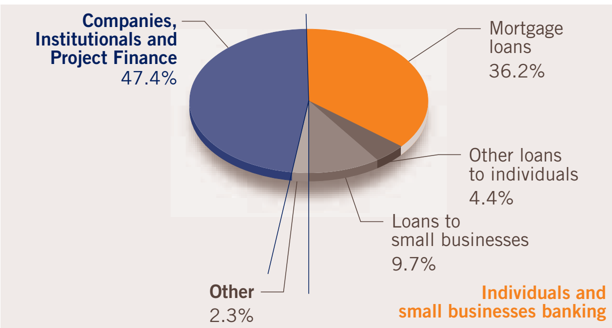
The domestic operations' loan portfolio increased by 14.7%, fuelled by the 19.3% expansion in the loan portfolio of corporate and institutional banking and project finance. Loans to individuals grew by 11.6% in 2007.

Loans to companies expanded 15.8% in 2007, compared with the 29.2% increase posted in 2006. As a consequence of the strong market volatility and the considerable deterioration in conditions under which banks can access funding, BPI proceeded to adjust midway through the second half of the year the spreads applied, specially in loans to companies. This action was reflected in a significant deceleration in the expansion of corporate loans in the latter half of the year.

The greater moderation in the growth in corporate loans was observed in activity both in Portugal and at the Madrid branch. In Portugal, corporate loans rose by 8.4% in 2007 (+506 M.€), against the 2006 figure of 14.1%. At the Madrid branch, loans to companies increased by 619 M.€, resulting in a loan book balance of 1 670.8 M.€ at the end of 2007.

The Project Finance area grew by 54.2% (+780 M.€), reflecting BPI's increasing participation in international projects.

Loan portfolio in 2007[1]
Breakdown by Customer segment



1) After derecognition of mortgage loans, as a result of the sale of part of the bonds relating to the capital tranche of the securitisation operations made.

Chart 88

Customer loan portfolio — Amounts in M.€

	2006	2007	Δ%
Corporate banking, institutional banking and project finance			
Corporate Banking	7 111.2	8 236.6	15.8%
Project finance	1 438.7	2 218.5	54.2%
Institutional and State Business Sector Banking	1 853.1	1 953.7	5.4%
Corporate banking, institutional banking and project finance	**10 403.0**	**12 408.9**	**19.3%**
Loans to Individuals and Small Businesses			
Mortgage loans[1]	9 732.0	10 753.9	10.5%
Loans to individuals – other purposes	1 033.4	1 153.7	11.6%
Loans to small businesses	2 193.1	2 552.3	16.4%
Loans to Individuals and Small Businesses	**12 958.5**	**14 459.9**	**11.6%**
Other	582.3	591.0	1.5%
Total loans in arrears	267.1	284.2	6.4%
Loan impairments	278.0	326.2	17.3%
Interests	73.3	115.9	58.1%
Net loan portfolio	**24 006.2**	**27 533.7**	**14.7%**
Bank guarantees	3 199.7	3 348.0	4.6%

1) At 31 December 2007 and to ensure comparability, 1 264 M.€ of securitised mortgage loans written off from the balance sheet in 2007, were added back.

Table 67

Loans to Customers

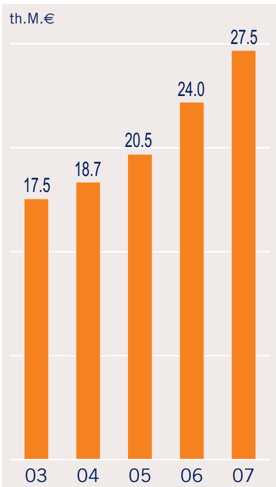


Chart 89

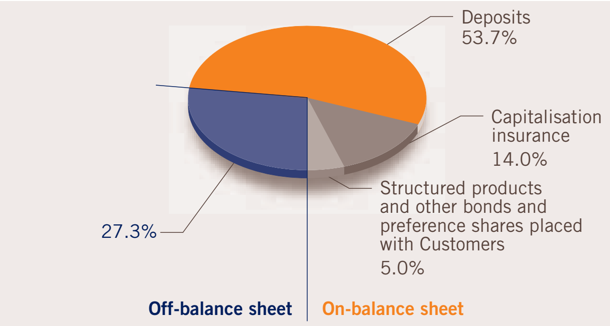
In the segment loans to individuals and small businesses, the most dynamic component was loans to small businesses, up 16.4% in 2007 compared with 12.5% in 2006.

Mortgage loans also registered an acceleration in 2007. The portfolio growth rate was situated at 10.5%, which is comparable with rises of 6.0% and 8.5% in 2005 and 2006, respectively. The growth in BPI mortgage lending business in 2007 outstripped the market's 8.5%[1]. BPI continued to adopt stringent criteria in the loan-approval process.

Resources taken

Total Customer resources in domestic operations expanded 12.5% to 30 037.2 M.€ at the end of 2007. The growth in Customer resources carried in the balance sheet was 19.4%. These represented some 73% of total Customer resources at the end of 2007.

Total Customer resources[1] in 2007



1) Corrected for duplication of balances. *Chart 90*

The growth in **balance sheet resources** was chiefly the result of the 43% expansion (+3 469 M.€) in time deposits. Time deposits benefited from the increase in the respective remuneration rates which kept pace with the rise in market interest rates, thereby making these investments more attractive relative to other placements.

Off-balance sheet resources – unit trust funds, PPR, PPA and pension funds – were down 2.4% relative to 2006 as a consequence of the 13.2% drop in unit trust funds under management.

Total Customer resources[1, F]

Amounts in M.€

	2006	2007	Δ%
On-balance sheet resources			
Sight deposits	4 703.7	4 616.4	(1.9%)
Term and savings deposits	8 032.8	11 501.7	43.2%
Total deposits	12 736.5	16 118.0	26.5%
Capitalisation insurance (BPI Vida)[2]	4 159.9	4 199.3	0.9%
Structured products – guaranteed capital / limited risk and fixed-rate bonds	1 330.5	1 455.1	9.4%
Preference shares placed with Customers	60.4	54.1	(10.5%)
On-balance sheet resources	**18 287.4**	**21 826.5**	**19.4%**
Off-balance sheet resources			
Unit trust (mutual) funds	3 006.0	2 609.1	(13.2%)
Equity (PPA) and retirement (PPR) savings plans	1 553.2	1 615.9	4.0%
Hedge funds	350.0	460.9	31.7%
Pension funds[3]	3 506.6	3 524.8	0.5%
Off-balance sheet resources	**8 415.9**	**8 210.7**	**(2.4%)**
Total	**26 703.3**	**30 037.2**	**12.5%**

Table 68

1) Corrected for double counting: placements of unit trust funds and pension funds managed by BPI in the Group's deposits, structured products and unit trust funds.
2) BPI Vida savings products with discretionary participation in results are recorded in the balance sheet under the caption Amounts owed to Customers (1 424.7 M.€, at 31 December 2007) and those with discretionary profit sharing are recorded under the caption Technical provisions (2 774.6 M.€, at 31 December 2007).
3) Includes BPI Group Employees pension funds.

Customers resources

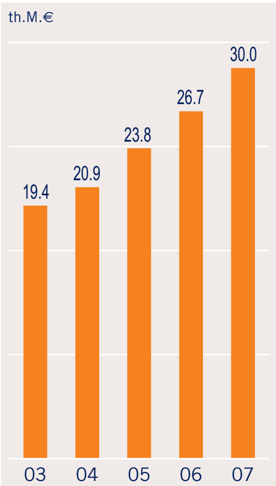


Chart 91

1) Banking credit aggregates: home loans to private individuals (includes emigrants). Source: Bank of Portugal, Statistical Bulletin.

The behaviour of the unit trust funds' resources under management was greatly affected by the significant increase in market volatility in the second half of the year.

The bond and money-market funds which, in the first six months of the year, registered a 9% decrease (not annualised) in the amounts under management, saw this trend worsen in the last six months, leading to a 24% decline in amounts under management for the year as a whole.

The capital-growth and diversification funds, which recorded at the end of the June a non-annualised 18% increase in amounts under management, were also negatively affected in the second half of the year, but despite this still posted growth of 2.4% between the end of 2006 and 2007. A large proportion of the resources resulting from fund redemptions were channelled into balance sheet placements generating interest, notably time deposits.

At the end of 2007, the capital-growth and diversification funds which, by virtue of the fact that they offer more added value, benefit from higher management commissions per unit, represented around 60% of the total unit trust funds (against 52% at the end of 2006).

The PPR and PPA plans posted growth of 4% (+62.7 M.€) to 1 615.9 M.€ at the end of 2007.

PORTFOLIO OF SECURITIES AND PARTICIPATING INTERESTS

At 31 December 2007, the total portfolios of dealing and available-for-sale assets and investments in associated companies and jointly-controlled entities totalled 7 752.5 M.€, which corresponded to 20.3% of total assets employed in domestic operations.

Financial assets and investments in associated companies and jointly controlled entities

Amounts in M.€

	2006	2007	Δ%
Financial assets held for dealing			
Bonds of public-sector issuers	435.3	485.5	11.5%
Corporate bonds and bonds of other entities	2 423.0	1 994.2	(17.7%)
Shares	472.9	855.8	81.0%
Participating units	545.6	559.6	2.6%
Derivatives with positive fair value	171.3	219.5	28.2%
Financial assets held for dealing	**4 048.1**	**4 114.6**	**1.6%**
Financial assets available for sale			
Bonds of public-sector issuers	1 038.7	838.6	(19.3%)
Corporate bonds and bonds of other entities	1 326.7	1 518.6	14.5%
Shares	541.2	1 083.4	100.2%
Participating units	48.0	56.9	18.5%
Other	2.8	2.5	(11.1%)
Financial assets available for sale	**2 957.5**	**3 500.0**	**18.3%**
Investments in associated companies and jointly controlled entities	**129.9**	**137.9**	**6.1%**
Total	**7 135.5**	**7 752.5**	**8.6%**

Table 69

The portfolio of dealing assets amounted to 4 114.6 M.€, which is slightly higher than the corresponding figure at the end of 2006. Of this total, 69% (2 841.1 M.€) corresponded to BPI Vida's investment portfolio allocated to cover capitalisation insurance. The remainder of the dealing portfolio was up from 601.0 M.€ in December 2006 to 1 273.5 M.€ at the end of 2007.

The available-for-sale assets portfolio grew from 2 957.5 M.€ in December 2006 to 3 500.0 M.€ at the end of 2007. This increase is primarily due to the portfolio of foreign corporate bonds (+204.6 M.€) and to the increase of 542.2 M.€ in the equities portfolio between 31 December 2006 and 31 December 2007. With regard to the equities portfolio, mention is made of the acquisition of a 3% shareholding in Galp (market value of 461.5 M.€ at the end of 2007) and the increase in the participating interest held by Banco BPI and BPI Vida in BCP from 4.4% to 5.2%. The portfolio of public-issuer bonds decreased by 200 M.€, mainly because of the sale (with gains) of Brazilian public debt.

Portfolio of financial assets and participating interests in 2007

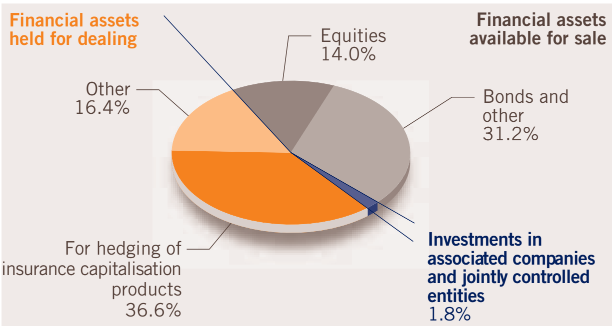


Chart 92

At the end of 2007, the portfolio of available-for-sale assets registered unrealised gains (net of losses) of 81.0 M.€, which were included under the fair-value reserve. The equities portfolio registered net unrealised gains of 156.7 M.€, whilst the bond portfolio recorded net unrealised losses of 76.2 M.€.

For the purposes of calculating own funds, the unrealised gains recorded in the fair-value reserve are included in Tier II funds at 45% of their value, while 100% of the unrealised losses recorded in the fair-value reserve are considered in Tier I funds.

Fair value reserve – shares portfolio available for sale
At 31 December 2007

Amounts in M.€

	% of capital[1]	Closing price at 31 Dec. 2007	Market value	Unrealised gains (losses) (Fair value reserve)
Equities portfolio				
Millennium BCP	5.2%	2.92	552.2	48.6
Galp	3.0%	18.39	461.5	87.0
Other			69.8	21.1
Subtotal Equities portfolio			**1 083.4**	**156.7**
Bonds – public debt			838.6	(0.2)
Corporate bonds			1 518.6	(76.0)
Other			59.4	0.4
Total			**3 500.0**	**81.0**

1) Does not include shares held by unit trust funds under BPI management.

Table 70

PENSION OBLIGATIONS

At 31 December 2007, the pension funds' net assets totalled 2 798.5 M.€, which guaranteed the financing of 114% of the amount of pension liabilities to Employees. The pension funds reported a financial surplus of 353.1 M.€.

At the end of June 2007, the actuarial assumptions used in the calculation of pension obligations were changed with the object of reflecting prevailing financial market conditions, as well as the expectations relating to future growth in salaries and pensions and the pension fund's net income. The rates of increase for salaries and pensions were raised from 2.75% to 4.0% and from 2.0% to 2.5%, respectively, while the discount rate[1] for pension liabilities was raised from 4.75% to 5.0%. These alterations gave rise to an increase in the value of liabilities of 166.3 M.€, which was recognised in the corridor[2].

On the same date, the Bank also altered the financial assumption relating to the pension fund's expected rate of return, raising it from 5.75% in the first half of the year to 7.5% in the second half. It is worth noting that up until the end of 2007, the fund's actual return since its formation in 1992 averaged 11.6% per annum, and that in the last ten, seven, five and three years, the effective annual return averaged 10%, 10%, 13% and 14.2%, respectively.

In 2007, the pension fund earned a return of 17.8%, significantly higher than the financial assumption for the fund's rate of return. The positive deviation of the fund's income permitted compensating for the negative deviations accommodated inside the corridor at the end of 2006 (of 42.6 M.€), and the aforementioned negative impact of the alteration to the actuarial assumptions in June 2007 (166.3 M.€). At the end of 2007, the Group presented a positive deviation of 40.8 M.€ accommodated within the corridor. Taking into consideration that the 10% corridor envisaged in IAS 19 to accommodate the fund's negative deviations (actuarial and income) without impacting on the income statement was 279.9 M.€ at the end of 2007, BPI had an unutilised margin of 320.7 M.€ to accommodate any future actuarial losses.

Employees' pension obligations cover Amounts in M.€

	2006	2007
Total past service pension liabilities	2 230.8	2 445.4
Pension funds	2 470.5	2 798.5
Financing surplus	239.6	353.1
Financing of pension liabilities	**110.7%**	**114.4%**
Corridor	247.0	279.9
Negative deviations recorded in the corridor	42.6	-
Positive deviations recorded in the corridor	-	40.8
Available margin	204.4	320.7
Positive (negative) deviations outside the corridor	-	(1.5)
Pension funds return	13.6%	17.8%

Table 71

Up until December 2006, the liabilities for the complementary retirement and survivor's pensions to which the directors who form part of Banco BPI's Executive Committee are entitled, as well as the other directors of Banco Português de Investimento, were fully covered by provisions. With effect from that date, they began to be covered by a pension fund formed for that purpose, to which the amounts corresponding to the provisions previously set aside were transferred. The fund's initial allocation was 21.9 M.€.

At 31 December 2007, the said liabilities totalled 23.4 M.€ and were 99.9% covered by the pension fund.

Directors' complementary pension plan cover Amounts in M.€

	2006	2007
Total past service pension liabilities	21.9	23.4
Pension fund	21.9	23.4
Financing of pension liabilities	**100.0%**	**99.9%**

Table 72

1) The discount rate is computed based on low-risk corporate bond-market rates with maturities similar to those for the payment of the obligations.
2) In the IAS / IFRS's regulatory framework, the envisaged corridor, besides being used for accommodating the funds' actuarial or income variances (negative or positive), can also be used to accommodate the changes to the actuarial-financial assumptions without giving rise to an impact in the income statement. The amounts which are situated outside the corridor can be amortised over the period to the expected average retirement age.

PENSION OBLIGATIONS – REGULATORY FRAMEWORK AND GROUP POLICIES

BPI GROUP PENSION FUNDS

According to the Bank of Portugal's rules, banks must guarantee the funding of retirement obligations exclusively through pension funds. The other financial companies must ensure full cover of the obligations by means of pension funds or by insurance contract for the same purpose and, with respect to the part not financed, through provisions in the balance sheet.

The Group's staff pension funds fully guarantee old-age and infirmity retirement pensions and survivors' pensions due to Employees and former Employees of the banks (Banco BPI and Banco Português de Investimento), as well as Employees of the subsidiaries which adhered to the Vertical Collective Employment Agreement (BPI Gestão de Activos and Inter-Risco).

At the end of 2007, the net assets of the staff pension funds totalled 2 798 M.€ (figure well above the amount of the Group's shareholders' equity, which on that date stood at 1 635 M.€). On the same date, the funds covered a universe of 7 523 Employees on the current payroll, 7 135 pensioners and 2 366 former workers.

Recapitalisation of the pension funds

When the Group acquired Banco Fonsecas & Burnay (BFB) in 1991, the latter presented a pension-fund shortfall of 128 M.€ (of which 89 M.€ related to pension obligations under payment and 39 M.€ related to pension obligations for the past services of current Employees). Right at the time of acquisition, the deficit in the fund's net assets was covered by provisions in the balance sheet, in order to meet the liabilities of current pension-payment obligations.

As a result of the financial effort made, the pension funds' net assets already fully covered at the end of 1995 current pension payments, and by the end of 1998 100% cover was achieved for Employees on the payroll.

Early retirements

Following the acquisition of the commercial banks (BFB in 1991 and BFE and BBI in 1996), intensive programmes were implemented directed at modernising and enhancing the efficiency and competitiveness of the structures acquired. Workforce rationalisation and rejuvenation were amongst the priorities assumed and which translated into the implementation of an early-retirement programme. This entailed a large financial commitment aimed at covering the increase in pension obligations. In the period 1995 to 2007, a total of 3 868 early retirements have been realised which have led to an increase of 555.9 M.€ in pension obligations.

Within the ambit of the strategic programme directed at raising efficiency and reducing costs in the period 2002-2004, a total of 1 357 early retirement accords were executed.

Only nine early-retirement accords were realised between 2005 and 2007.

Pension funds assets and BPI Group Employees pension liabilities

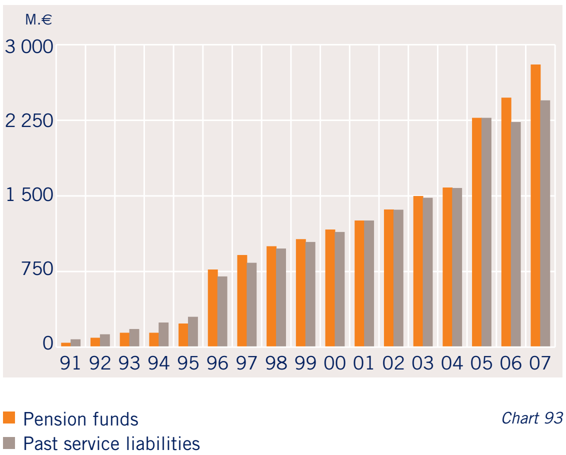


Chart 93

Investment policy

The investment policy of Banco BPI's Pension Fund is set out in the management contract and takes into consideration the core objectives for each asset class, as follows.

	Asset class	Benchmark
Equities	30%	MSCI Europe
Fixed-rate bonds	25%	EFFAS>1
Variable-rate bonds	20%	3-month Euribor
Hedge funds	5%	3-month Euribor
Real estate	15%	EFFAS>1
Liquidity	5%	3-month Euribor
Total	**100%**	

Table 73

The TWR (time weighted rate of return) and the standard deviation are the benchmark measurements used respectively for analysing the management performance of the investments of Banco BPI's Pension Fund and the risk.

BPI Pensões, in its capacity as Banco BPI's Pension Fund management entity, carries out the monitoring of the risk implicit in the said fund's portfolio, in accordance with the limits laid down internally, using for this purpose the VaR (Value at Risk) methodology.

The calculation model adopted for determining the VaR is Delta Normal which may, in the case of options, be extended to the Delta-Gamma Normal. Currently, the primitive risk factors can be grouped into four major groups: equities, interest-rate periods, foreign-exchange rates and participation units. The model's current version supports the following classes of financial instruments: equities, bonds, money market, deposits, commercial paper, options, futures, swaps and currency, with the later inclusion of structured products contemplated.

The risk team uses various tools for controlling risk, namely, the KMV system, the licence for which belongs to Moody's KMV. This system applies to the portfolio's credit component (Corporate bonds) and permits calculating the EDF (Expected Default Frequency) for each security.

It thus permits gauging the probability of a security entering into default. The inputs for this system are quite diverse and include information about the accounts of the companies, as well as the indicators relating to the behaviour of the issuer's shares when these are quoted on the stock market. In the case of unquoted issuers, we resort to getting this information via ratings, obtaining from the KMV the average EDF for each rating class and resorting to the security's rating.

When the security has no official rating, the issuer's rating (if such exists) is taken into consideration. The estimated loss arising from the exposure to credit risk is obtained by multiplying the amount in portfolio by the probability of default within one year and considering a recovery rate of 20%.

Composition of the pension funds

At 31 December 2007, the equities component represented 48% of the portfolio of Banco BPI's staff pension fund, while the bond portfolio accounted for 27%. Investments in European markets represented around 92% of the fund's assets. The equities portfolio is composed chiefly of shares in Portuguese companies, while the bond portfolio refers mainly to non-Iberian European markets.

Banco BPI pension funds' assets
Breakdown by asset class

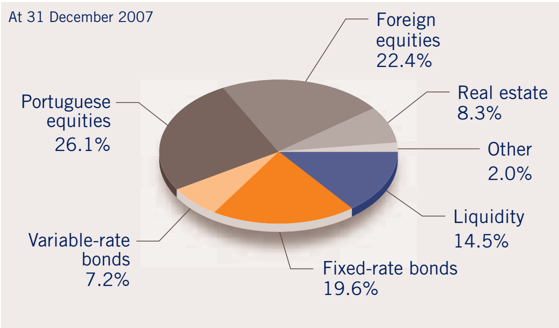


Chart 94

Returns

The structure of Banco BPI pension fund's investments, which has remained stable over the years, has produced very positive historical results above the market average, with a direct impact on the pension fund's solvency and on the annual cost to Banco BPI.

In 2007 the BPI Group's staff pension funds achieved a gross annual average return of 17.8%.

Since 31 December 1991, the Group's pension funds have earned an annual average return of 11.6%, whilst the pay increases under the Banking Sector's ACTV salary scale averaged 3.8%. Meanwhile, the pension-fund market's return median was situated at 7.6% (according to data disclosed by Mercer Investment Consulting).

Financial assumptions

In 2007, a review was carried out of the financial assumptions used in determining the liabilities of the Group's pension funds.

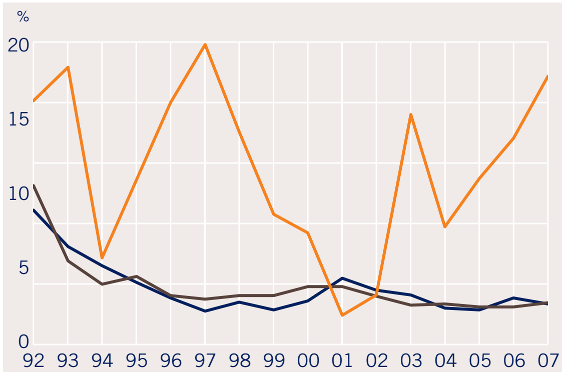
Alterations were made to the actuarial and financial assumptions so as to reflect the prospects for the future behaviour: rate of return, rate of pension and salary increases. The recorded historical figures give support to the new assumptions adopted.

In accordance with the provisions of IAS 19, the discount rate was also revised in 2007.

The changes to the assumptions relating to the rate for updating the liabilities and the growth in salaries and pensions resulted in an increase in the Banco BPI staff pension liabilities of 166.3 M.€.

BPI Group Employees pension funds

Return vs. inflation and ACTV salary scale review

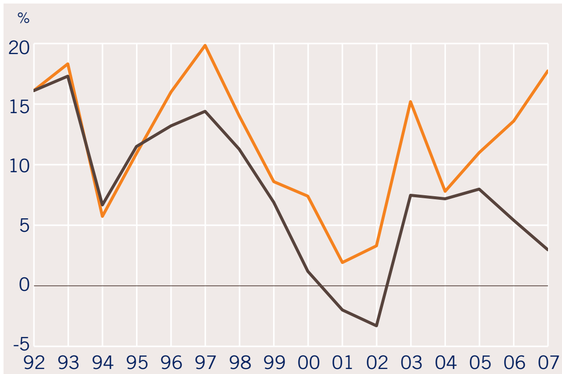


— BPI Group Employees pension funds return
— ACTV salary scale review
— Inflation rate

Chart 95

BPI Group Employees pension funds

Return vs. market performance



— BPI Group Employees pension funds return
— Pension funds market's return median

Chart 96

INTERNATIONAL OPERATIONS

OVERVIEW

The contribution from international operations to the Group's consolidated net profit increased by 14.7% to 77.1 M.€ in 2007. The international operations, to which 15.1% of the Group's average shareholders' equity was allocated, accounted for 21.7% of 2007's consolidated net profit, much in line with the previous year's figure.

Banco de Fomento in Angola generated a contribution of 73.8 M.€ to consolidated net profit, 17.1% higher than in 2006. The contribution from the 30% participating interest in BCI Fomento (equity accounted) was 3.3 M.€ (4.2 M.€ in 2006).

At the end of the year, the shareholders' equity allocated to activity in Angola was 257.9 M.€, and 13.2 M.€ to activity in Mozambique.

The return on average shareholders' equity employed in international operations stood at 32.2% in 2007.

In Angola, BFA continued to record expressive growth in commercial activity, consolidating its leading positions within the banking system. This achievement is founded on the ongoing enlargement of the distribution network, the reinforcement of its human resources capability and the enhancement of their respective skills, the development of a segmented approach and a broader product range offer. In this manner, BFA boosted its strong commercial expertise and capacity, thereby enabling it to fully support the Angolan economy's prodigious growth potential, as borne out by the impressive dynamism that the economy has displayed and the rising number of banking Customers.

Net profit from international operations

From 2003 until 2007

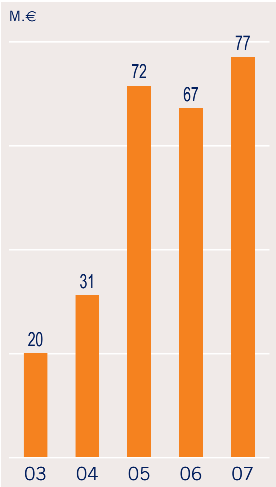


Chart 97

As a % of consolidated net profit

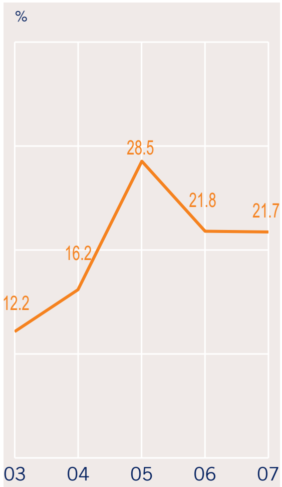


Chart 98

Net profit from international operations in 2007

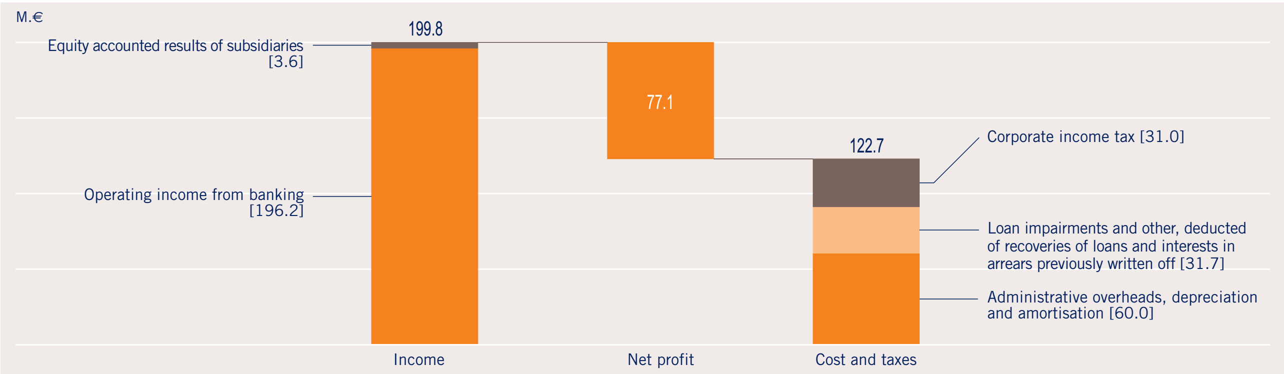


Chart 99

BFA's Customer loans portfolio increased by 54%; the treasury bonds and Central Bank Securities (Portuguese initials TBC) portfolios more than doubled (totalling 902 M.€ at the end of 2007); Customer resources were up 36%, the number of Customers also rose by 36% to 405 thousand at the end of 2007. The expansion in loans and resources expressed in dollars was 72% and 52%, respectively. Operating income from banking was up 37.5% in 2007.

BFA continued to execute the programme for the major expansion of the operational structure, which has been a determining factor behind the increase in costs. Administrative overheads, depreciation and amortisation grew by 29.4% in 2007. 17 new retail branches were opened in the year (+26%), bringing the total number now to 83 units; two investment centres were added to the two already in existence; one corporate added to the six units already functioning. The workforce underwent a 24% increase (+294 Employees) to 1 528 Employees.

At the end of 2007, BFA represented roughly 11% of the Group's physical distribution network and around 16% of its total Employees.

The indicator "administrative overheads, depreciation and amortisation as a percentage of operating income from banking" was situated at 30.6% in 2007 (32.5% in 2006).

BFA continues to present positive indicators for the quality of credit. Loans in arrears for more than 90 days represented 1.0% of the gross loan portfolio, while total loan impairment allowances (specific and general) were six times more than loans in arrears.

BFA's balance sheet shows ample liquidity and capitalisation which, in turn, makes it immune to the present crisis sweeping across the international financial markets. Customer resources – deposits and sale of securities with repurchase agreement[G] – constitute the principal component of liabilities and secure the financing of 83% of the assets. On the other hand, shareholders' equity represented 11% of total assets.

At the end of 2007, Customer loans represented 41% of net total assets, while very liquid investments – cash, bank deposits, amounts owed by credit institutions and the portfolio of dealing securities – represented 37% of the total assets.

In Mozambique, BCI Fomento continued to experience a brisk pace in its business expansion. Net total assets grew by 34%, Customer deposits by 32%, the loan portfolio by 10.7% and the number of Customers was up 6.9% to 90 thousand.

At the end of 2007, BCI Fomento's workforce comprised 715 Employees (+12.2%) and a distribution network made up of 41 branches (three more than in 2006).

International operations balance sheet structure in 2007

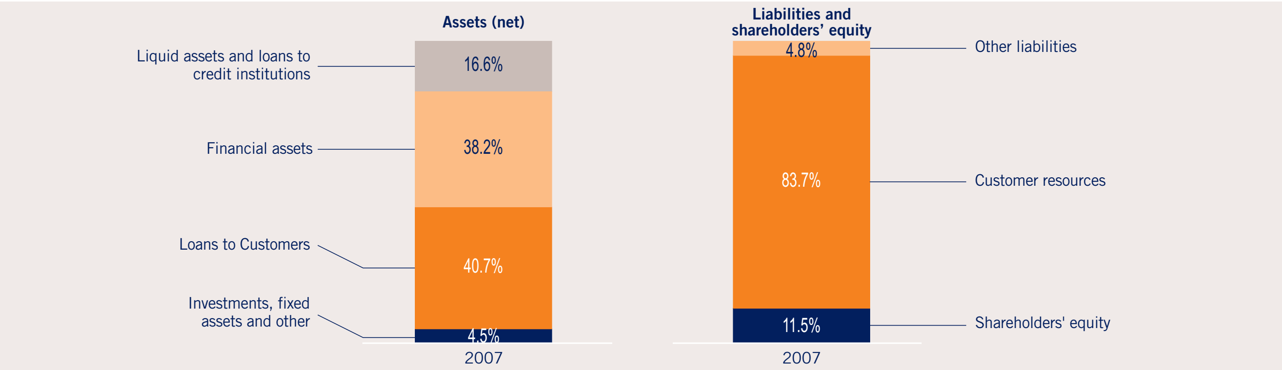


Chart 100

CONSOLIDATION OF INTERNATIONAL OPERATIONS

International operations comprise the activity conducted by Banco de Fomento in Angola, as well as the appropriation of the results attributable to the 30% participating interest in BCI Fomento, in Mozambique, and the activity of the broker BPI Dealer (92.7% held), also in Mozambique. Banco de Fomento Angola's contribution to the net profit from international operations in 2007 was 73.8 M.€, while BCI Fomento contributed with 3.3 M.€ and BPI Dealer Mozambique with 8 thousand euro.

The Costs and Income captions, as well as the captions Assets and Liabilities, presented as being derived from international operations, refer almost exclusively to Banco de Fomento Angola, given that BCI Fomento Mozambique's contribution is recognised in the BPI Group's financial statements using the equity method, while the accounts of BFE Dealer Mozambique (also consolidated in full) are not material.

Consolidation of Banco de Fomento Angola using the full consolidation method

The financial statements of Banco de Fomento Angola are recognised in the consolidated financial statements using the full consolidation method.

Their inclusion is preceded by the conversion of the income statement and balance sheet balances into euro, based on exchange rates disclosed by the Banco Nacional de Angola (central bank) by way of indication.

Effective from the second half of 2006 and for purposes of BFA's consolidation, the Angolan economy ceased to be regarded as a hyperinflationary economy, with the result that the conversion of the income statement and the balance sheet is done in accordance with the principles set out in IAS 21.

The income and costs generated each month are converted to euro at the exchange rate of the month in which they are recognised. In the case of assets and liabilities, the exchange rate ruling at the end of the year is used. The gains or losses resulting from this conversion are recognised directly in Shareholders' equity, in the caption Revaluation reserves.

Up till the end of June (when the Angolan economy was considered to be a hyperinflationary), the gains or losses resulting from the conversion into euro of income, costs and initial shareholders' equity were recognised in the income statement for the period, under the item Profits from financial operations, in accordance with the principles set out in IAS 29 – Financial Reporting in Hyperinflationary Economies.

The local currency is the Kwanza; however, the Angolan economy's high utilisation of the American dollar explains why the major share of business with Banco de Fomento Angola's Customers is expressed in American dollars. At the end of 2007, more than 70% of deposits and more than 96% of the loan portfolio were denominated in dollars. A substantial portion of revenue and costs is expressed in the American currency or is indexed thereto, as is the case with personnel costs.

In December 2007, around 56% of assets and liabilities and shareholders' equity were expressed in strong foreign currencies, while the remainder was expressed in kwanza (AKZ).

Euro exchange rates

	2006	2007	Δ%
At the end of the year			
1 EUR = AKZ	105.71	110.209	4.3%
1 EUR = USD	1.317	1.469	11.5%
Average of the year			
1 EUR = AKZ	102.22	105.396	3.1%
1 EUR = USD	1.260	1.377	9.3%

Table 74

International operations income statement[1]

Amounts in M.€

	2006	2007	Δ%
Net interest income (narrow sense)	86.5	131.2	51.6%
Gross margin on unit link products	-	-	-
Income from securities (variable yield)	-	-	-
Commissions relating to the amortised cost (net)	-	-	-
Net interest income	**86.5**	**131.2**	**51.6%**
Technical result from insurance contracts	-	-	-
Commissions and other similar income (net)	32.8	44.1	34.5%
Profits from financial operations	23.2	21.5	(7.4%)
Operating income and expenses	0.3	(0.5)	(295.0%)
Net operating income from banking	**142.7**	**196.2**	**37.5%**
Personnel costs	20.1	25.4	26.7%
Other administrative expenses	21.0	25.6	22.0%
Depreciation of fixed assets	5.3	9.0	69.2%
Administrative overheads, amortisation and depreciation	**46.4**	**60.0**	**29.4%**
Operating profit	**96.4**	**136.2**	**41.3%**
Recovery of loans written-off	-	0.1	-
Loan provisions and impairments	18.0	28.3	57.3%
Other impairments and provisions	0.6	3.5	467.4%
Profits before income tax	**77.7**	**104.5**	**34.4%**
Corporate income tax	15.1	31.0	104.7%
Equity-accounted results of subsidiaries	4.6	3.6	(21.9%)
Net Profit	**67.2**	**77.1**	**14.7%**
Cash-flow after taxation	**91.1**	**117.9**	**29.3%**

1) The contribution from international operations includes the net profit of Banco de Fomento Angola (63.0 M.€, in 2006, and 73.8 M.€, in 2007) and of BCI Fomento (4.2 M.€, in 2006, and 3.3 M.€, in 2007), which in the case of the latter was equity accounted deducted of taxes on dividends received from BCI Fomento.

Table 75

International operations balance sheet

Amounts in M.€

	2006	2007	Δ%
Assets			
Cash and deposits at central banks	148.5	281.0	89.3%
Amounts owed by credit institutions repayable on demand	18.9	16.4	(13.1%)
Loans and advances to credit institutions	461.7	95.1	(79.4%)
Loans and advances to Customers	623.8	961.1	54.1%
Financial assets held for dealing	297.0	476.8	60.6%
Financial assets available for sale	107.4	425.4	295.9%
Hedging derivatives	-	-	-
Investments in associated companies and jointly controlled entities	11.8	13.1	10.9%
Other tangible assets	56.0	78.8	40.7%
Intangible assets	0.3	0.9	149.3%
Tax assets	0.0	0.0	(8.8%)
Other assets	1.5	12.8	757.8%
Total assets	**1 726.9**	**2 361.4**	**36.7%**
Liabilities and shareholders' equity			
Resources of central banks	-	-	-
Financial liabilities held for dealing	-	-	-
Resources of other credit institutions	12.6	50.2	298.1%
Resources of Customers and other loans	1 455.7	1 977.2	35.8%
Debt securities	-	-	-
Technical provisions	-	-	-
Financial liabilities associated to transferred assets	-	-	-
Hedging derivatives	-	-	-
Provisions	8.3	15.4	84.9%
Tax liabilities	19.3	30.0	54.9%
Participating bonds	-	-	-
Subordinated debt	-	-	-
Other liabilities	26.1	17.6	(32.4%)
Share capital, share premium account, reserves and other capital instruments	137.6	194.0	40.9%
Treasury stock	-	-	-
Net profit	67.2	77.1	14.7%
Minority interests	-	0.0	12.4%
Total shareholders' equity	**204.8**	**271.1**	**32.3%**
Total liabilities and shareholders' equity	**1 726.9**	**2 361.4**	**36.7%**
Note:			
Bank guarantees	122.0	265.7	117.9%

Table 76

REVENUE

Net interest income

Net interest income relating to international operations grew by 52% (+44.6 M.€) when compared with 2006 to 131.2 M.€. This increase was mainly the result of the marked expansion in Customer resources, Customer loans and the portfolio of Central Bank securities which form part of the dealing portfolio, and Angolan Treasury Bonds, which form part of the portfolio of available-for-sale assets.

The average spread[G] between remunerated assets and liabilities was situated at 6.4% in 2007, or slightly higher than the 5.8% average spread registered in 2006.

Net interest income — Amounts in M.€

	2006	2007	Δ%
Income			
Interest on Customer loans	45.1	73.5	63%
Interest on securities	34.7	75.9	119%
Interest on placements with credit institutions	22.2	15.5	(30%)
Interest income from interest-earning assets	**102.0**	**164.9**	**62%**
Costs			
Interest cost on interest-bearing liabilities	15.5	33.8	117%
Net interest income	**86.5**	**131.2**	**52%**

Table 77

The 62% expansion in the Customer loans portfolio, in terms of the average balances (+303.8 M.€) – had a positive impact (volume effect) on net interest income of 28.2 M.€. The increase of 278 M.€ in the average balance on the TBC portfolio had a positive volume effect on net interest income of 28.0 M.€, while the increase of 161 M.€ in the Treasury Bond portfolio's average balance had a positive impact on net interest income of 14.6 M.€.

Operating income from banking

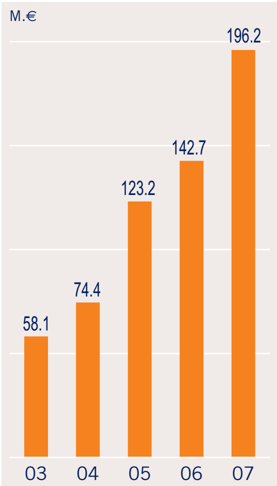


Chart 101

Net interest income

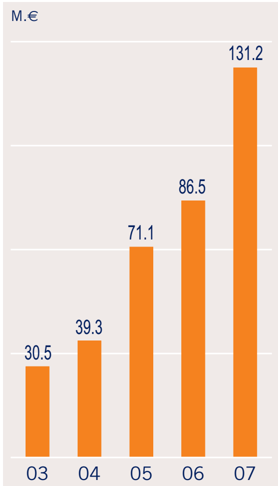


Chart 102

For their part, the increase in liabilities, bearing interest at an average rate of 1.9% in 2007, explains the 18.2 M.€ increase in interest expense.

The expansion in Customer deposits, bearing interest at an average rate of 1.0% in 2007, represented (on the basis of average balances) 54% of the expansion of interest-bearing liabilities and gave rise to an increase in interest expense of only 2.6 M.€.

The remaining increase in interest-bearing liabilities was due to the very expressive increase in security-selling operations with repurchase agreement[G] realised with Customers, which explains virtually all the increase in interest expense. The costs of operations involving the sale of securities with repurchase agreement has as compensation the income from the securities which served as the basis for those operations and which are recorded in the portfolios of dealing and available-for-sale assets.

It is worth noting the relative stability of the annual average remuneration rates on interest-earnings assets and interest-bearing liabilities when compared with 2006.

Also noteworthy as regards the dealing portfolio was the distinctive behaviour of the respective average remuneration rate registered during the course of 2006 and 2007.

In the first nine months of 2006, the interest rates on securities issued by the Angolan treasury and by Banco Nacional de Angola registered a steep drop, following the progressive deceleration in the inflation rate. Also during this period, above all in the second quarter, we witnessed a significant reduction in the amounts issued. This pattern changed from the third quarter of 2006, with the resumption of issues and the rise in the interest-rates on securities. Since May 2007, the monthly average interest-rate on TBC issues was situated around 14% for 63-day maturities, and 15% for 91 to 364-day maturities.

Also worth mentioning is the fact that in September 2007 the regulations governing mandatory reserves were altered. This policy change gave rise to a decrease in interest-earning placements from then onwards, which had negative repercussions on net interest income in the fourth quarter. As a consequence of the amended regulations, the mandatory reserves – corresponding to 15% of the underlying base amount (residents' and non-residents' deposits in local or foreign currency, excluding resources linked to foreign-exchange operations) – began to be constituted solely by non-interest-earning deposits at the Central Bank, whereas previously half of the reserves could be invested in Central Bank or public-debt securities.

Average balance sheet and factors influencing the trend in net interest income from BFA

Amounts in M.€

	2006			2007			Change in net interest income					
							Volume effect and residual effect			Rate effect	Structure effect	Total
	Average balance	Average rate	Interest (income / costs)	Average balance	Average rate	Interest (income / costs)	Volume effect	Residual effect	Total			
Interest-earning assets												
Placements with credit institutions	621.3	3.6%	22.2	427.0	3.4%	14.7	(6.9)	0.2	(6.7)	(0.8)		(7.5)
Loans to Customers	487.6	9.3%	45.1	791.4	9.3%	73.5	28.1	0.1	28.2	0.2		28.4
Financial assets held for dealing	251.7	10.9%	27.4	529.3	10.1%	53.4	30.2	(2.2)	28.0	(2.0)		26.0
Financial assets available for sale	88.5	8.3%	7.4	249.5	9.0%	22.6	13.4	1.2	14.6	0.7		15.2
Other						0.7						0.7
Correction for the structure effect[1]	-	-	-				(26.1)	(0.1)	(26.2)		26.2	
Interest-earning assets	**1 449.1**	**7.0%**	**102.0**	**1 997.1**	**8.3%**	**164.9**	**38.6**	**(0.7)**	**37.9**	**(1.9)**	**26.2**	**62.9**
Interest-bearing liabilities												
Customer deposits[2]	1 223.3	0.9%	11.1	1 492.6	1.0%	14.3	2.4	0.1	2.6	0.6		3.2
Securities sold with repurchase agreements[2]	49.2	8.8%	4.4	282.2	6.9%	19.5	20.6	(4.5)	16.1	(1.0)		15.1
Other	-	-	0.1									(0.1)
Correction for the structure effect[1]	-	-	-				(16.9)	4.3	(12.7)		12.7	
Interest-bearing liabilities	**1 272.5**	**1.2%**	**15.5**	**1 774.7**	**1.9%**	**33.8**	**6.1**	**(0.1)**	**6.0**	**(0.3)**	**12.7**	**18.2**
Average spread between interest-earning assets and interest-bearing liabilities		5.8%			6.4%							
Net interest income			**86.5**			**131.2**	**32.5**	**(0.6)**	**31.9**	**(1.6)**	**13.5**	**44.6**

1) Reconciliation line for the sum of the volume, price and residual effects of the components of remunerated assets and liabilities relative to the value of these effects calculated for the aggregate of remunerated assets and liabilities, by virtue of the fact that the last-mentioned are also influenced by the change in the structure of placements and resources, the effect of which is not evidenced by the sum of the effects of their components.

2) Recorded in the caption Resources of Customers and other loans.

Table 78

Commissions

Commissions and other similar income totalled 43.6 M.€, which corresponds to a 31.9% increase relative to 2006.

Commissions and other similar income (net) Amounts in M.€

	2006	2007	Δ%
Guarantees and documentary credits	3.0	5.0	65.7%
Banking service	25.8	33.4	29.5%
Reimbursement of expenses	5.4	5.9	9.4%
Other	(1.2)	(0.8)	(37.8%)
Commissions and other similar income (net)	**33.0**	**43.6**	**31.9%**

Table 79

Profits from financial operations

Profits from financial operations decreased 7.4%, from 23.2 M.€ in 2006 to 21.5 M.€ in 2007. These net gains are derived chiefly from business dealings with Customers.

It must be noted that effective 30 June 2006, the Angolan economy ceased to be regarded as a hyperinflationary economy with the result that, in the consolidation of BFA, the currency differences resulting from the conversion of BFA's accounts began effective from that date to be recorded directly under shareholders' equity, when previously they were recognised in the income statement for the period, under the caption Net profits from financial operations.

ADMINISTRATIVE OVERHEADS, DEPRECIATION AND AMORTISATION

Administrative overheads, depreciation and amortisation increased 29.4% to 60.0 M.€ in 2007. The large-scale expansion of the distribution network in Angola and the strong growth in business with Customers were the determining factors behind this trend.

However, the higher costs in 2007 were to a certain extent cushioned by the dollar's depreciation against the Euro (consolidated accounts reporting currency) of around 10.3% (dollar depreciation of 8.5% based on average exchange rates).

Personnel costs were 26.7% higher. This increase is chiefly attributable to the 44% increase in the size of the average workforce, and also incorporates the impact of the aforementioned dollar depreciation. Costs associated with outside supplies and services rose by 22.0% while depreciation and amortisation increased 69.2%.

The indicator "administrative overheads, depreciation and amortisation as a percentage of operating income from banking" was situated at 30.6% in 2007.

Administrative overheads, depreciation and amortisation

Amounts in M.€

	2006	2007	Δ%
Personnel costs	20.1	25.4	+26.7%
Outside supplies and services	21.0	25.6	+22.0%
Administrative overheads	**41.1**	**51.0**	**+24.3%**
Depreciation and amortisation	5.3	9.0	+69.2%
Total	**46.4**	**60.0**	**+29.4%**
Efficiency ratio[1]	**32.5%**	**30.6%**	

1) Administrative overheads, depreciation and amortisation as % of operating income from banking.

Table 80

Administrative overheads, depreciation and amortisation

From 2003 until 2007

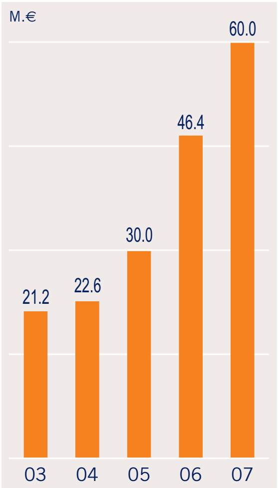


Chart 103

As % of operating income from banking

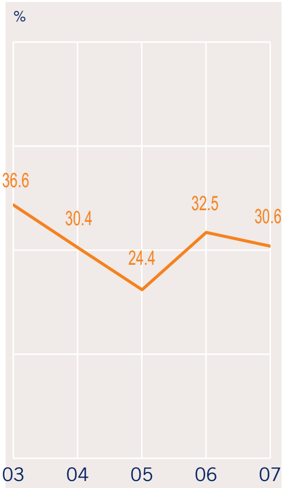


Chart 104

IMPAIRMENTS AND PROVISIONS

Provisions and impairment losses booked in 2007 amounted to 31.8 M.€, of which 28.3 M.€ relate to loans and 3.5 M.€ were amounts set aside for other purposes.

The major portion of loan impairment charges correspond to general impairment allowances (provisions) for loans, which are directly indexed to the expansion of the loan and guarantees portfolio. BFA constitutes general loan impairment allowances (provisions) corresponding to 4%[1] of the loan and guarantees portfolio, the maximum amount allowed for tax purposes in Angola. In 2007, general loan impairment allowances totalled 23.2 M.€, which corresponds to an increase of 10.2 M.€ relative to the previous year.

As a percentage of the loan portfolio's average balance, the general loan impairment allowances in the year increased from 2.62% in 2006 to 2.87% in 2007.

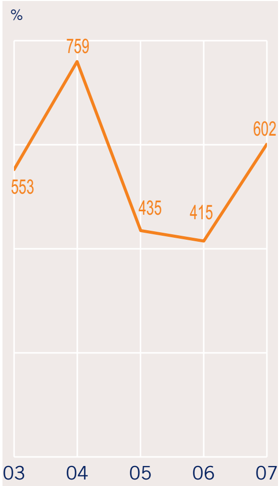
Specific loan impairment allowances earmarked for covering the risk of collection of loans advanced which have fallen in arrears, amounted to 5.1 M.€ in 2007 (5.0 M.€ in 2006). In 2007, these represented 0.64% of the loan portfolio's average balance (1.02% in 2006).

At the end of 2007, the ratio of loans in arrears for more than 90 days stood at 1.0%. The total loan impairment allowances (including general impairments) covered these non-performing to the extent of 602%.

CORPORATE INCOME TAX

The average corporate income tax rate relating to activity in Angola increased from 19.0% in 2006 to 29.4% in 2007. In 2006, corporate income tax included the extraordinary refund of 7.1 M.€ relating to taxes paid on interest on Republic of Angola Bonds and Treasury Bills in 2003 and 2004. The tax paid was refunded on the grounds that the income earned from those securities benefited from a tax exemption.

Coverage of loans in arrears[1] by impairments



— Total loan impairments[2] as a % of loans in arrears[1]

1) Loans in arrears for more than 90 days.
2) Accumulated loan impairments in the balance sheet.

Chart 105

RESULTS OF EQUITY-ACCOUNTED SUBSIDIARIES

Equity-accounted earnings, which correspond to the appropriation of the net profit attributable to the 30% holding in BCI Fomento in Mozambique, amounted to 3.6 M.€ in 2007 (4.6 M.€ in 2006). BCI Fomento's contribution to consolidated net profit, besides the equity-accounted earnings, also includes the deferred taxes relating to the net profit distributed by BCI Fomento (recorded in the caption Corporate income tax) was 3.3 M.€ in 2007 (4.2 M.€ in 2006).

BCI Fomento underwent a significant expansion in business in 2007. Total assets were up 34% to 547 M.€; deposits 32% higher at 454 M.€ and the Customer loans portfolio grew 11% to 248 M.€.

At the end of 2007, BCI Fomento served 90 thousand Customers, 7% more that at the end of 2006. Its workforce comprised 715 Employees, 12% more than a year earlier. It boasted a distribution network comprising 41 branches (three more than at the end of 2006) and 85 ATM's.

1) In Angola, banks must set aside provisions for general credit risks corresponding to a minimum of 2% and a maximum of 4% of the loan and guarantees portfolio.

LOANS AND RESOURCES

Customer loans

The Customer loans portfolio expanded 54.1% to 961.1 M.€ at the end of 2007. The loan portfolio's growth expressed in dollars[1] was 72% in 2007. This growth was fuelled by the expansion in loans to companies.

At the end of 2007, roughly 79% of the portfolio comprised loans to companies, and 21% loans granted to individuals. In the corporate loans portfolio, the most important sectors were commerce (30% of loans to companies), construction (14% of loans to companies) and transportation and communications (12.6% of loans to companies). The extractive industries represented only 5.9% of the corporate loans portfolio, although in the economy the crude-oil and diamond exploration industries accounted for more than 50% of GDP.

Customer loan portfolio — Amounts in M.€

	2006	2007	Δ%
Companies	440.2	781.7	77.6%
Individuals	207.1	210.6	1.7%
Loans in arrears (net of impairments) and other[1]	(23.5)	(31.1)	32.4%
Total	**623.8**	**961.1**	**54.1%**

1) Interests and other.

Table 81

Customer loans

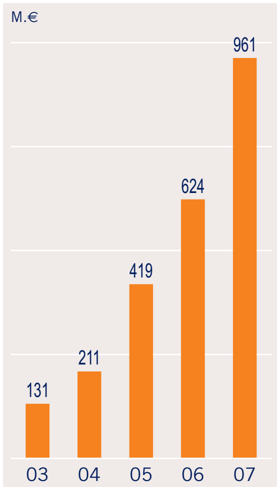


Chart 106

Customer resources

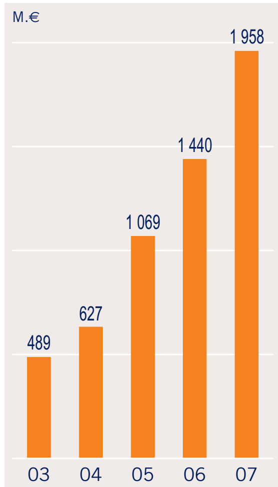


Chart 107

1) A the end of 2007, US dollar-denominated loans represented around 96% of the loan portfolio.

Resources taken

Customer resources, expressed in the reporting currency of the consolidated accounts, grew by 36% to total 1 958.3 M.€ at the end of 2007. Measured in dollars, Customers resources[1] registered growth of 52% in 2007.

Sight deposits increased 31% (+282 M.€) to 1 184 M.€. These represented some 60% of total Customer resources at the end of 2007.

2007 saw an alteration in the composition of interest-bearing resources by virtue of the more attractive conditions afforded to Customers through the sale of securities with repurchase agreement, which originated the diversion to these fund placements previously taken in the form of deposits. The securities sold with repurchase agreement recorded an increase from 71.9 M.€ in December 2006 to 578.5 M.€ in December 2007. The aggregate of time deposits and security sales with repurchase agreement expanded by 44% to 774.8 M.€ at the end of 2007.

Customer resources Amounts in M.€

	2006	2007	Δ%
Sight deposits	901.5	1 183.6	31.3%
Time deposits	467.1	196.3	(58.0%)
Securities sold with repurchase agreements	71.9	578.5	705.1%
Total	**1 440.4**	**1 958.3**	**36.0%**

Table 82

SECURITIES PORTFOLIO

The portfolio of assets held for dealing totalled 476.8 M.€ at the end of 2007, a figure that corresponds to an increase of 61% (+180 M.€) in relation to the year before. It is composed of short-term securities with maturities of up to one year, expressed in kwanza and issued by the Central Bank (TBC – Central Bank Securities). The portfolio's residual maturity in December 2007 was 3.5 months. This portfolio's average remuneration rate in 2007 was 10.1%.

The portfolio of available-for-sale assets is composed of Treasury Bonds expressed in kwanza, indexed to the American dollar and with maturities of up to seven years. The Treasury Bond portfolio increased by 317.9 M.€ to 425.4 M.€ at the end of 2007, which corresponds to a fourfold increase relative to the figure a year earlier. This portfolio had a residual maturity at the end of 2007 of 1.8 years. The portfolio's average remuneration rate in 2007 was 9.0%.

1) At the end of 2007, deposits expressed in US dollar represented around 70% of total deposits.

GROUP CAPITAL

Shareholders' equity

At the end of 2007, the BPI Group's shareholders' equity and minority interests totalled 1 905.5 M.€. Shareholders' equity was 1 635.1 M.€ while minority interests, which correspond almost entirely to the preference shares issued by BPI Capital Finance, stood at 270.3 M.€.

Having a positive impact on the trend in shareholders' equity was the net profit attributable to shareholders of 355.1 M.€ for the year. Taking into consideration the proposed distribution of earnings, (which will involve a dividend distribution of 142.1 M.€), retained earnings will be 213 M.€.

Conversely, it should be noted that the 62.6 M.€ decrease in revaluation reserves (i.e. negative impact) essentially reflects the unrealised losses on the bond portfolio recorded directly in shareholders' equity, under the caption Fair value reserve.

Shareholders' equity and minority interests

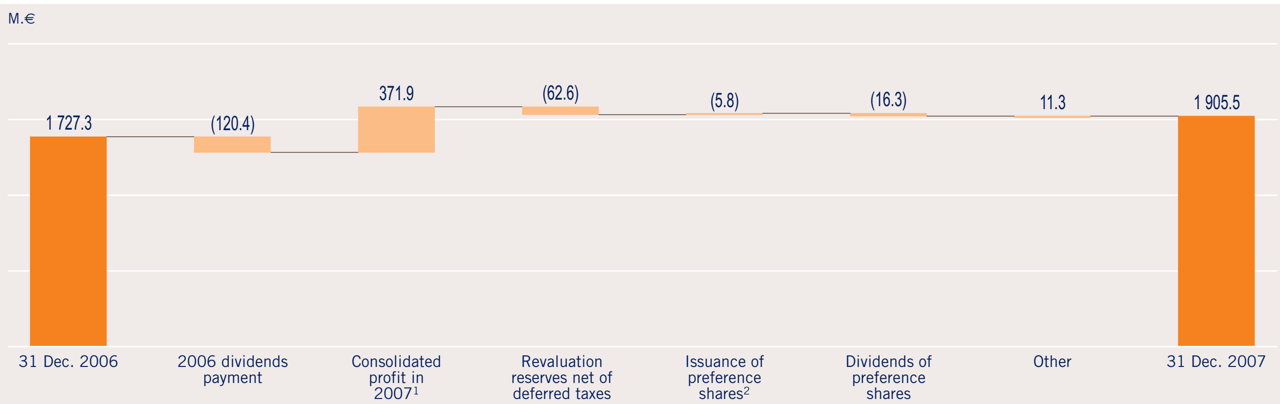
Amounts in M.€

	Shareholders' equity	Minority interests	Total
Shareholders' equity and minority interests at 31 December 2006	**1 450.6**	**276.7**	**1 727.3**
2006 dividend payment[1]	(120.4)	-	(120.4)
2007 profit attributable to shareholders and minority interests	355.1	16.8	371.9
Decrease in treasury stocks (net of capital gains)	21.4	-	21.4
Revaluation reserve (net of deferred taxes)	(62.6)	-	(62.6)
Preference shares (issuance, net of shares reacquired)	-	(5.8)	(5.8)
Preference shares' dividend payments	-	(16.3)	(16.3)
Exchange difference on investments in foreign currencies	(8.8)	-	(8.8)
Other	(0.2)	(1.1)	(1.3)
Shareholders' equity and minority interests at 31 December 2007	**1 635.1**	**270.3**	**1 905.5**

1) A dividend per share of 16 euro cents relating to the year 2006 was paid in 2007.

Table 83

Shareholders' equity and minority interests evolution in 2007



1) Consolidated net profit attributable to shareholders and income attributable to minority interests.
2) Net of shares reacquired.

Chart 108

Own funds

At the end of 2007, total own funds stood at 2 569.9 M.€, which corresponds to a 27.8% increase, that is, 558.7 M.€ relative to December 2006.

Basis own funds increased by 121.5 M.€ (+7.7%) to 1 689.7 M.€. This increase was founded on the generation of net profit in the year (retained earnings of 213.0 M.€, according to the proposed appropriation of net profit). Basis own funds were however negatively affected by unrealised losses on the portfolio of available-for-sale assets, registered in the fair value reserve[1].

For their part, complementary own funds were up 381.3 M.€ (+55%), which mainly reflects the issue of subordinated debt (+355 M.€ in 2007).

Total deductions from own funds amounted to 192.8 M.€ at the end of 2007. Of this amount, 178.8 M.€ refers to deductions relating to the shareholdings in financial institutions and insurance undertakings. According to Bank of Portugal instructions, from June 2007 onwards 50% of the deductions relating to shareholdings in financial institutions and insurance undertakings began to be allocated to core Tier I funds and consequently to basis own funds (Tier I). Previously, these deductions were fully allocated to Tier II funds.

Also of note is the fact that at the end of 2007 a negative figure of 160 M.€ resulting from the impact of the transition to IAS /IFRS (the recognition of which is in conformity with the transitional periods laid down by the Bank of Portugal) had still to be recognised in basis own funds.

DEDUCTION FROM OWN FUNDS OF INVESTMENTS IN INSURANCE UNDERTAKINGS

Bank of Portugal Notice no. 12 / 06 came into effect on 26 December 2006. Through this accord, participating interests of more than 20% in insurance and reinsurance undertakings, as well as in insurance holding companies, must now be deducted from total own funds. Also included are debt instruments issued by those entities if held in the investor company's portfolio.

It will be recalled that prior to this regulatory alteration, participating interests in insurers were included in weighted assets at the respective balance sheet value.

At the BPI Group, the participating interests in BPI Vida (100%), Allianz Portugal (35%), Cosec (50%) and BPI Pensões (100%) are covered by the above change.

At 31 December 2006, the balance sheet value of the aforesaid participating interests was 271.8 M.€, at the same time as Banco BPI held in its portfolio 11.2 M.€ of BPI Vida subordinated debt. For purposes of own funds, the insurers' solvency margin surplus at the same date is also recorded. Hence, the total deduction from the BPI Group's own funds is 165 M.€.

Conversely, weighted assets decreased by 283.1 M.€ in December 2006. In total, this alteration had an impact of 0.6 percentage points on the BPI Group's solvency ratio. The impact on Tier II was a negative 0.7 percentage points, while there was no significant impact on Tier I.

1) The unrealised losses recorded in the fair value reserve are included in full in basis own funds. The unrealised gains recorded in the fair value reserve are included to the extent of 45% of their amount in complementary own funds, while the remaining 55% is not included in own funds.

Own funds
Calculated according to the Bank of Portugal rules

Amounts in M.€

	2006	2007
Basis own funds		
Share capital, share premium account, reserves (excluding fair value reserve) and retained earnings[1]	1 229.9	1 369.4
Contributions to the pension funds still not disclosed as a cost	(0.4)	(1.9)
Preference shares	306.4	300.9
Other minority interests	0.1	0.4
Intangible fixed assets	(8.8)	(15.5)
Treasury stock	(42.9)	(19.4)
Insufficiency of provisions[2]	(82.1)	(104.2)
Deferred adjustments resulting from the transition to IAS / IFRS	166.1	160.0
Basis own funds	**1 568.2**	**1 689.7**
Complementary own funds		
Revaluation reserves	9.8	8.5
Perpetual subordinated debt	47.8	45.5
Fair value revaluation reserves	73.3	73.7
Non-perpetual subordinated debt and participating bonds	485.6	841.0
General loan provisions[2, 3]	82.1	104.2
Deferred adjustments resulting from the transition to IAS / IFRS (fair value revaluation reserves)	(6.9)	-
Complementary own funds	**691.7**	**1 073.0**
Deductions		
Deduction of participating interests in credit institutions and insurance companies	(229.9)	(178.8)
Other deductions	(13.8)	(14.0)
Deferred adjustments resulting from the transition to IAS / IFRS	(5.0)	-
Deductions	**(248.7)**	**(192.8)**
Total own funds	**2 011.2**	**2 569.9**

Table 84

1) Net profit after proposed earnings distribution.
2) For purposes of calculating own funds, the amount of provisions (specific and general) that would result from the application of the provisioning regime prescribed by the Bank of Portugal is taken into consideration when these are more than the impairment allowances recorded in the consolidated accounts. In this situation, basis own funds are deducted from the positive difference between the amount of the provisions (specific and general), calculated in accordance with the Bank of Portugal's rules, and the loan impairment allowances recorded in the consolidated accounts, in conformity with IAS / IFRS. However, that part of the differential which corresponds to general provisions, that is, general provisions in excess of estimated loan losses, is considered to be a positive element of complementary own funds.
3) The value of the general provisions included in Tier II cannot exceed the lower of 1.25% of risk-weighted assets and the difference between 50% of basis own funds and the value obtained by the sum of subordinated debt and participating units.

Own funds requirements

In 2007, total own funds requirements increased by 370.6 M.€ (+21.8%) relative to 2006, reflecting mainly the loan portfolio's expansion and the larger investment in securities and participating interests.

The loan portfolio's expansion led to an increase in risk-weighted assets of 3 995.3 M.€, which entailed an increase of 319.6 M.€ in own funds requirements.

In 2007, BPI carried out the third mortgage-loan securitisation operation in the amount of 1 500 M.€. This operation permitted reducing own funds requirements by 41.1 M.€[1] (equivalent to a decrease of 514.0 M.€ in risk-weighted assets). As regards the amount of own funds at the end of 2007, the above reduction in risk-weighted assets represents a positive impact on the capital ratio of roughly 0.2 percentage points.

For its part, the portfolio of securities and participating interests (as regards the risk-weighted amount) increased by 41% (+818.6 M.€), which corresponded to an increase of 65.5 M.€ in own funds requirements.

It should be mentioned that, solely for purposes of computing capital ratios, the equity holdings in BPI Vida and BPI Pensões are recognised using the equity method, just as was previously stipulated in the Chart of Accounts for the Banking System. In the consolidated accounts, however, in conformity with the IAS / IFRS, these investments are fully consolidated. With the entry into force of Notice 12 / 06, the value of these holdings began to be written off from own funds[2] in December. Accordingly, the trend in the assets of these investments, namely, BPI Vida's portfolio of assets held for dealing (which is associated with the hedging of capitalisation insurance) is not reflected in the risk-weighted assets.

The capital required to hedge the risks associated with the dealing portfolio and the positions in foreign currency represents a mere 1.5% of the total own funds requirements.

Own funds requirements
Calculated according to Bank of Portugal rules

Amounts in M.€

	2006			2007		
	Assets (balance sheet net value)	Weighted average coefficient	Risk-weighted assets	Assets (balance sheet net value)	Weighted average coefficient	Risk-weighted assets
Liquid assets	930.3	7.9%	73.9	1 404.8	4.0%	55.6
Loans to credit institutions	850.1	23.6%	201.0	601.8	30.7%	184.7
Loans to Customers	21 182.1	72.8%	15 414.4	24 223.6	78.3%	18 967.6
Bonds, equities portfolio and investments	2 621.7	76.8%	2 013.3	3 543.7	79.9%	2 831.9
Tangible fixed assets	289.2	100.0%	289.2	316.8	100.0%	316.8
Sundry assets	377.8	57.8%	218.3	338.3	71.2%	240.8
Assets	**26 251.2**	**69.4%**	**18 210.0**	**30 428.9**	**74.3%**	**22 597.5**
Off-balance sheet items			2 277.6			2 540.7
(-) Provisions for general credit risks[3]			(25.0)			(27.7)
Risk weighted assets			**20 462.6**			**25 110.5**
Credit risks (weighted assets x 8%)			1 637.0			2 008.8
Securitisation operations			34.3			28.7
Other credit risks			-			5.8
Market risks			32.1			30.7
Total own funds requirements			**1 703.4**			**2 074.0**
Total requirements x 12.5			**21 292.0**			**25 924.7**

Table 85

1) Taking into consideration the balance of securitised debt at the end of 2007.
2) Provides that the value of equity holdings of more than 20% in insurance undertakings, reinsurance undertakings and holding companies in the insurance sector must be deducted from own funds.
3) Amount not included in own funds.

Ratio of own funds requirements

At 31 December 2007, the ratio of own funds requirements based on the Bank of Portugal's rules was situated at 9.9% and the Tier I ratio at 6.2%. The core capital (basis own funds less preference shares) corresponded to 5.0% of risk-weighted assets.

According to those instructions, from June 2007 onwards, 50% of the deductions relating to shareholdings in financial institutions and insurance undertakings began to be allocated to core Tier I funds and consequently to Tier I funds, whereas previously these deductions were fully allocated to Tier II funds. This alteration was responsible for a decrease of 0.34 percentage points in each one of the Tier I and core Tier I ratios with reference to December 2007.

At 31 December 2007, the negative impact of the transition to IAS / IFRS which had yet to be recognised (160 M.€) corresponded to 0.6% of risk-weighted assets. This impact will be recognised up to and including 2011.

Consolidated own funds requirements ratio
According to Bank of Portugal rules

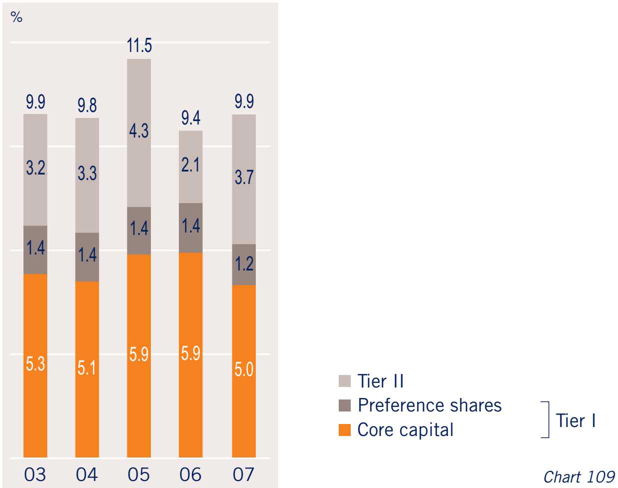


Chart 109

Own funds requirements ratio
Calculated according to Bank of Portugal rules — Amounts in M.€

	2006	2007
Basis own funds	1 568.2	1 689.7
of which: Core capital	1 261.7	1 388.8
of which: Preference shares	306.4	300.9
Complementary own funds	691.7	1 073.0
Deductions	(248.7)	(192.8)
Of which: participating interests in credit institutions and insurance companies	(229.9)	(178.8)
Other deductions	(18.8)	(14.0)
Total own funds	**2 011.2**	**2 569.9**
Total own funds requirements	**1 703.4**	**2 074.0**
Risk-weighted assets[1]	21 292.0	25 924.7
Total ratio[2]	**9.4%**	**9.9%**
Tier I[2]	7.4%	6.2%
Core Tier I (excluding preference shares)	5.9%	5.0%
Preference shares as % of Tier I	19.5%	17.8%

1) Own funds requirements x 12.5.
2) Calculated according to Bank of Portugal Instruction 16 / 2004. In June 2007, 50% of own funds deductions related to participating interests in credit institutions and insurance companies began to impact Tier I and core Tier I, whereas previously they were fully allocated to Tier II.

Table 86

TRANSITION TO IAS / IFRS – IMPACT ON SHAREHOLDERS' EQUITY AND OWN FUNDS

The application of IAS / IFRS had a negative impact on shareholders' equity of 256.2 M.€ at 1 January 2005. The balances of the principal differences in relation to the Chart of Accounts for the Banking System were disclosed in retained earnings.

There was a negative impact of 143.8 M.€ on own funds. This figure is being recognised gradually in own funds for purposes of calculating the own funds requirements ratio over a period of three to seven years, in accordance with the requirements laid down by the Bank of Portugal for accommodating the impacts on own funds from the transition to IAS / IFRS.

Impact of the transition to IAS / IFRS

Amounts in M.€

	Impact on shareholders' equity and minority interests at 31 Dec. 2004	Impact on own funds			Recognition period for the impact on own funds
		Basis own funds (Tier I)	Complementary own funds (Tier II)	Total	
Changes resulting from the adoption of IAS / IFRS					
Impacts currently being recognised					
Pension liabilities	(514.0)	(332.1)	-	(332.1)	-
Recognition of liabilities with medical care benefits on retirement (SAMS) and change in the mortality table	(160.8)	(160.8)	-	(160.8)	Until Dec. 11
Increase in liabilities resulting from the recognition of death subsidy and change in the discount rate	(130.4)	(130.4)	-	(130.4)	Until Dec. 09
Directors pension liabilities	(1.1)	(1.1)	-	(1.1)	Until Dec. 09
Disability decreases	(83.0)	(83.0)	-	(83.0)	Until Dec. 09
Corridor and other	43.2	43.2	-	43.2	Until Dec. 09
Increase in pension liabilities (due to early retirements and other) not yet recognised as a cost[1]	(181.9)	-	-	-	-
Impacts already recognised in own funds					
Impairments in the portfolio of financial assets available for sale	(42.5)	(42.5)	-	(42.5)	Until Dec. 07
Antiquity bonus to Employees	(18.6)	(18.6)	-	(18.6)	Until Dec. 07
Accrual accounting of commissions and fees	(18.7)	(18.7)	-	(18.7)	Until Dec. 07
Tangible assets available for sale	(2.0)	(2.0)	-	(2.0)	Until Dec. 07
Deferred taxes	207.7	207.7	-	207.7	Until Dec. 07
Fair value reserve (net of taxes)	36.2	(0.3)	20.6	20.4	Until Dec. 07
Variable remuneration in shares and options (RVA Programme)[2]	12.1	12.1	-	12.1	Until Dec. 07
Associated companies	8.4	8.4	-	8.4	Until Dec. 07
Hedging accounting	6.5	6.5	-	6.5	Until Dec. 07
Goodwill[G] recorded on SIC and Inter-Risco shareholdings	126.9	-	-	-	-
Intangible fixed assets	(13.7)	-	-	-	-
Preference shares in BPI Vida's portfolios and preference shares dividends	(24.6)	-	-	-	-
Treasury stock[2]	(23.2)	-	-	-	-
Loan impairments	3.2	-	-	-	-
Others	(0.0)	-	-	-	-
Adding back the amount of unrealised capital losses in shareholdings according to Bank of Portugal Notice 4 / 2002	-	-	15.1	15.1	Until Dec. 07
Total	**(256.2)**	**(179.5)**	**35.7**	**(143.8)**	

Table 87

1) According to the previous rules of the Chart of Accounts for the Banking System, at 31 December 2004, 182 M.€ corresponding to the additional pension obligations (for early retirements concluded and other) were being recognised in the income statement (and consequently in the shareholders' equity) over a maximum period of ten years. For purposes of calculating regulatory own funds, this amount was already deducted from basis own funds. With the transition to IAS / IFRS, this amount was fully recognised in retained earnings but had no impact on own funds.

2) The caption Variable remuneration in shares (Portuguese initials – RVA) includes gains in the year and the hedging of the RVA share options programme.

Impact on shareholders' equity

The transition to IAS / IFRS, including the application of IAS 32, IAS 39 and IFRS 4, had a negative impact on shareholders' equity of 256.2 M.€ as at 1 January 2005.

The negative impact relating to pension liabilities was 514.0 M.€: that relating to Employees' pensions was 512.9 M.€, and that relating to Directors' pensions was 1.1 M.€.

The negative impact of 292.3 M.€ corresponded to the increase in liabilities resulting from the recognition of medical-assistance benefits, the recognition of the death subsidy on retirement, the alteration to the female mortality table and the change to the discount rates, as well as to the salary and pension growth rates. However, the utilisation of the corridor's 43.2 M.€ to accommodate the additional liabilities, meant that the combined impact on shareholders' equity was negative in the amount of 249.1 M.€.

Moreover, the pension obligations which still had to be recognised as cost and which are indicated below were recognised in full in the balance sheet by way of a direct charge to shareholders' equity.

- The additional pension liabilities due to the non utilisation of the disabilities decreases[G], in the amount of 83.0 M.€. These liabilities resulted from the coming into effect at the end of 2001 of a new regulatory framework (Bank of Portugal Notice no. 12 / 2001). They were being recognised in the financial statements and funded over a maximum period of 20 years.

- The additional pension liabilities for early retirements, in the amount of 181.9 M.€. This figure was being recognised as a cost in the income statement over a maximum period of ten years.

The recognition of impairment charges of 42.5 M.€ relating to the portfolio of available-for-sale assets also had a negative impact on shareholders' equity.

The main positive impacts on shareholders' equity resulted from:

- the recognition of deferred taxes in the amount of 207.7 M.€, of which 151.6 M.€ refers to adjustments associated with pension liabilities;

- the recognition in the fair value reserve of unrealised gains of 36.2 M.€ (net of taxes) on the available-for-sale portfolio;

- the add-back to shareholders' equity of goodwill of 126.9 M.€ relating to the consolidation of SIC. Under PCSB, this amount had been written off in full against shareholders' equity at the time of consolidating for the first time (in June 2004) this participating interest – as provided for in the PCSB.

Impact on own funds

The transition to IAS / IFRS (including the application of IAS 32, IAS 39 and IFRS 4) generated a negative impact of 143.8 M.€ on own funds.

The impact associated with pension liabilities was negative in the amount of 332.1 M.€. Of the impact on shareholders' equity of 514.0 M.€, 181.9 M.€ had already been written off basis own funds for purposes of calculating regulatory own funds under the Bank of Portugal's previous rules. They corresponded to the increase in pension obligations (for early retirements concluded and others) still not recognised as a cost.

The recognition of unrealised gains (net of deferred taxes) on the portfolio of assets available for sale (recorded in the fair value reserve) for purposes of calculating own funds was only considered to the extent of 45% of their amount. Hence, the positive impact on own funds was 20.4 M.€. This figure is included in complementary own funds (Tier II).

Other impacts on shareholders' equity with no repercussions on own funds were:

- the add-back to shareholders' equity of the goodwill relating to the consolidation of SIC. For purposes of determining own funds, this amount was only added to own funds with the sale of the aforementioned holding, which was concluded in the first quarter of 2005;

- a negative impact on shareholders' equity of 36.9 M.€. This figure corresponds to the value of own shares (treasury stock) which under IAS / IFRS must now be deducted from shareholders' equity, instead of being shown as an asset, as was the treatment under the PCSB, and to the reclassification as a cost for the year of amounts recorded under the PCSB as being intangible assets. Under the Bank of Portugal's previous rules, these amounts were already being written off basis own funds for purposes of calculating regulatory own funds;

- the deduction from shareholders' equity (from the minority shareholders' component) of 24.6 M.€ in preference shares (and dividends) issued by BPI Capital Finance and held by BPI Vida. This adjustment, arising from the elimination of intra-group balances, results from the alteration to the method of BPI Vida's consolidation, from the application of the equity method under the PCSB to full consolidation under IAS / IFRS. However and solely for purposes of calculating own funds and own funds requirements, this investment continues to be restated using the equity method, with the result that this adjustment is not reflected in own funds.

On the other hand, an addition of 15.1 M.€ to own funds was recorded with no impact on shareholders' equity. This figure corresponds to the unrealised losses on participating interests which, according to the previous regime for the treatment of unrealised losses on participating interests prescribed by the Bank of Portugal (Notice 4 / 2002)[1], were written off complementary own funds. Under IAS / IFRS unrealised losses on assets available for sale are reflected in full in shareholders' equity and in basis own funds via the fair value reserve or by way of the recognition of impairments.

Recognition period for impacts on own funds

For purposes of determining own funds, the Bank of Portugal defined a transition period for the recognition of the accounting impacts stemming from the transition to international accounting standards. Impacts relating to retirement pensions are recognised, in the case of the SAMS medical-care benefits and the change to the mortality table, over seven years, and the rest relating to pensions over five years, while the other impacts on own funds will be recognised over three years.

The application of the periods defined for recognition of the various impacts will mean the earlier recognition of positive impacts (in 3 years), given that roughly 80% of the negative impacts are associated with pension obligations, where the recognition period is longer (5 and 7 years). In aggregate terms, this results in the recognition in the first three years of a positive annual impact of 5.5 M.€, while in the following years the impact is negative to the extent of 57.2 M.€ in 2008 and 2009 and 23.0 M.€ in 2010 and 2011.

Recognition of the impact of the transition to IAS / IFRS on own funds[2]

Amounts in M.€

	2005	2006	2007	2008	2009	2010	2011	Total
Impact on Tier I								
Pension liabilities	(57.2)	(57.2)	(57.2)	(57.2)	(57.2)	(23.0)	(23.0)	(332.1)
Recognition of liabilities with medical care benefits on retirement (SAMS) and change in the mortality table	(23.0)	(23.0)	(23.0)	(23.0)	(23.0)	(23.0)	(23.0)	(160.8)
Other	(34.3)	(34.3)	(34.3)	(34.3)	(34.3)	-	-	(171.4)
Impairments in the portfolio of financial assets available for sale	(14.2)	(14.2)	(14.2)	-	-	-	-	(42.5)
Deferred taxes	69.2	69.2	69.2	-	-	-	-	207.7
Other	(4.2)	(4.2)	(4.2)	-	-	-	-	(12.6)
Impact on Tier I	**(6.4)**	**(6.4)**	**(6.4)**	**(57.2)**	**(57.2)**	**(23.0)**	**(23.0)**	**(179.5)**
Impact on Tier II								
Fair value reserve (net of taxes)	6.9	6.9	6.9	-	-	-	-	20.6
Other	5.0	5.0	5.0	-	-	-	-	15.1
Impact on Tier II	**11.9**	**11.9**	**11.9**	**-**	**-**	**-**	**-**	**35.7**
Impact on Tier II	**5.5**	**5.5**	**5.5**	**(57.2)**	**(57.2)**	**(23.0)**	**(23.0)**	**(143.8)**

Table 88

1) According to Bank of Portugal Notice 4 / 2002, of the amount of unrealised losses which exceeded 15% of the acquisition price, a minimum of 40% was covered by provisions and therefore reflected in shareholders' equity, while the balance was subtracted from own funds for purposes of calculating own funds requirements.
2) Annual amortisation with reference to 1 January 2005 of the impact on own funds resulting from the transition to IAS / IFRS.

Risk management

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

ORGANISATION

Risk management is coordinated by the Board of Directors' Executive Committee within the ambit of the work delineated by the Board of Directors. At the higher level there are also two specialist executive committees: the Market Risk Executive Committee, whose attention is focused on the management of overall risks (market, liquidity, country and credit / securitisations), and the Credit Risk Executive Committee, whose work is concentrated on the analysis of the larger loan operations.

The Bank has a centralised and independent structure for dealing with the analysis and control of risk in accordance with the best organisational practices in this domain, and with the requirements of the Basel Accord. The Risk Analysis and Control Division is responsible for the management of the risk datamart for the whole Group (to where all the important information about the Bank's systems converge), for the production of rating[G], scoring[G], default probability calculations, loss given default (LGD), estimation of the exposure to each operation, correlations, statistical provisions and the selection of portfolios for securitisation[G]. The Risk Analysis and Control Division is also responsible for the analysis of overall risks (market, credit, country, liquidity and operational risks).

In the realm of specific credit risks, the attribution of ratings (according to models, in certain cases) is the responsibility of the Corporate and Small Businesses Credit Risk Division, as well as the Rating Committee.

The Corporate and Small Businesses Credit Risk Division and the Individuals Credit Risk Division ensure an independent vision with respect to the risks of the various applicants or sureties and that which results from the characteristics of the operations taking into account the respective segments; as well as the management of recovery processes in the case of default. In specific segments, such as that of international division, institutional Customers, project finance or derivative operations, there are risk analysis areas which perform similar functions.

In the operational risks domain, a specific unit of the Organisation Division keeps abreast of the information of the occurrences data base and of the application of operational risk management. This information is then reported to the Operational Risk Committee.

Selected indicators

	2006	2007		
	Consolidated	Domestic operations	International operations	Consolidated
Loans in arrears for more than 90 days, as percentage of total loan portfolio	1.1%	1.0%	1.0%	1.0%
Loan impairments (accumulated in the balance sheet), as percentage of total loan portfolio	1.4%	1.2%	5.8%	1.4%
Loans in arrears for more than 90 days and doubtful loans[1], as percentage of total loan portfolio[2]	1.1%	-	-	1.0%
Loans in arrears for more than 90 days and doubtful loans, net of specific loan provisions, as percentage of total net loan portfolio[2]	0.4%	-	-	0.2%
Increase in loans in arrears (for more than 90 days), adjusted by write-offs as percentage of the performing loan portfolio	0.07%	0.19%	0.37%	0.19%
Increase in loans in arrears (for more than 90 days), adjusted by write-offs and deducted of recoveries of loans and interests written-off, as percentage of the performing loan portfolio	(0.02%)	0.11%	0.36%	0.12%
Loan impairments in the year as percentage of the performing loan portfolio	0.28%	0.21%	3.51%	0.31%
Loan impairments in the year deducted of recoveries of loans and interests written-off, as percentage of the performing loan portfolio	0.19%	0.12%	3.50%	0.23%
Country-risk exposure, net of provisions (M.€)	2 421			3 252
As percentage of total assets (net)	6.8%	-	-	8.0%
Market risk (VaR)				
Maximum (M.€)	7.7			7.0
Monthly average (M.€)	3.3	-	-	3.5
Loans as percentage of total Customer resources	88.6%	88.5%	51.6%	86.3%
Loans as percentage of stable resources[3]	73.3%	-	-	68.8%

1) Doubtful loans treated as being in arrears for purposes of provisioning.

2) Calculated according to the Bank of Portugal Instruction 16 / 2004.

3) Stable resources in accordance with the definition laid down in Bank of Portugal Instruction 1 / 2000: Customer deposits, participating securities, provisions for loans (specific and general), loans (certificated or not) with a residual maturity term of more than one year, minority shareholders' interests and shareholders' equity, after deducting the profits to be distributed by way of dividends.

Table 89

CREDIT RISK

Management process

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

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

- Simple rejection filters: the existence of incidents and defaults or debts to the Tax Administration, the Social Security Department and others.

- Exposure limits: evaluation of the present capability to service debt and the establishment of corresponding maximum exposure limits.

- Acceptance / rejection boundary according to the probability of the counterparty defaulting: a boundary is set in accordance with the internal rating (potential Customers whose classification places them in a risk class which is deemed to be excessive are turned down, that is, whose probability of defaulting is high); or in accordance with an equivalent analysis by an expert system (there is no internal scoring or rating for the small businesses or the institutional Customers segments, with the result that the subjective appraisal of the risk analysts is fundamental).

  In the case of the corporate segment, the rating is attributed by the Rating Committee (largest exposures) or by the Corporate Credit Risk Division, who rely upon the results of a quantitative model and on other economic-financial data, as well as on indicators about the quality of the management, the commercial relationship and the risk in the sectors in which the company operates.

- Mitigation of risk attaching to operations: in the acceptance or rejection of Customers and operations, regard is had to any personal or tangible guarantees which contribute to reducing risks.

  In the corporate segment, one seeks that long-term operations be backed by tangible guarantees (financial and non-financial), where the security (collateral) represents cover of at least 100%.

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

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

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

- Simple rejection filters: the existence of incidents and defaults or debts to the Tax Administration and to the Social Security Department, minimum and maximum age and others.

- Exposure limits: evaluation of the present capability to service debt through the calculation of the housing-to-income ratio or the estimated value of the savings of the loan applicants, guarantors or sureties. As a general rule, applications where the housing-to-income ratio is considered to be excessive or where savings become negative due to the costs of the new loan, are turned down.

- Acceptance / rejection boundary, according to the probability of the counterparty defaulting: boundaries are set in accordance with the internal scoring (potential Customers whose classification places them at risk which is deemed to be excessive are turned down, that is, whose probability of defaulting is high).

There are reactive scorings for each loan segment (housing, personal loans, credit cards and motor car finance) designed to evaluate the probability of default by the counterparty, guarantors or sureties.

In complex cases, the identification of the risk class (probability of default) requires the involvement of the Individuals Credit Risk Division.

- Mitigation of risk attaching to operations: in the acceptance or rejection of Customers and operations, regard is had to any personal or tangible guarantees which contribute to reducing risks.

  In the home-loans segment, BPI requires that the relationship between the amount financed and the security assumes a maximum value of 90% (or 100% if there is personal protection insurance or insurance to protect the amount repayable). In motor car finance, the relationship between the amount financed and the security can attain a maximum value of 130%.

  In order to access BPI personal loans, an insurance policy must be taken out which protects the loan against the eventuality of unemployment and hospitalisation.

On the commercial front, the overall evaluation of operations or Customers must take into consideration the objectives relating to the profitable employment of shareholders' equity relative to the risks assumed.

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

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

Moreover, problematic credit situations, provisioning cover indices, write-offs[G] and recoveries are analysed every month. The alert signalling non-performing loans is available on-line via the internal network for the information of the Bank's managers.

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

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

Evaluation of exposure to credit risk

Companies, institutional Customers, specialised finance and small businesses

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

Internal rating of companies
Breakdown of exposure by risk classes in 2007

Risk classes	Value (M.€)	%	One-year default probability
E1	3 961	35.68%	0.03%
E2	1 382	12.45%	0.35%
E3	1 457	13.12%	0.50%
E4	579	5.22%	0.84%
E5	364	3.28%	1.18%
E6	587	5.29%	1.40%
E7	1 050	9.46%	2.08%
E8	471	4.24%	3.55%
E9	181	1.63%	4.83%
E10	132	1.19%	7.53%
Without rating	296	2.66%	5.36%
ED1	142	1.28%	21.01%
ED2	79	0.71%	31.32%
ED3 (default)	420	3.79%	-
Total	**11 101**	**100%**	

Note: the portfolio includes bonds and commercial paper of the companies segment.
In the calculation of the default probabilities every operations in default of a single Client were considered as a negative sole case (and not several cases).
The calculation of the portfolio's average default probabilities naturally excludes the ED3 class (in default for more than 90 days or in legal-recovery process) and does not take into account any bank guarantees.

Table 90

The average default probability of the "Companies" portfolio from a one-year perspective weighted by the amount of liabilities stood at 1.6% at 31 December 2007.

The loss on each operation in default in this segment is on average 40.4%.

In the project finance area, an operation rating (five classes) began to be attributed regularly in 2007. The portfolio of 118 projects is composed in the majority of cases of projects with "good" and "strong" ratings.

Internal rating of project finance
Breakdown of exposure by risk classes in 2007

Risk classes	Value (M.€)	%
Strong	522.6	27.0%
Good	1 127.3	58.2%
Satisfactory	0.02	0.1%
Weak	0.0	0%
Default	0.0	0%
Without rating	287.8	14.9%
Total	**1 937.8**	**100%**

Table 91

The small businesses segment is not evaluated by means of scoring. Notwithstanding this fact, it is possible to estimate an average default probability over a one-year period in the case of this portfolio, and a loss in the event of default of 2.1% and 52.7%, respectively (the definition of default used in the calculations of impairment losses is that of loans in arrears for 180 days or more).

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

Indices relating to exposure concentration are also analysed. In global terms, the portfolio reveals a sound degree of diversification by counterparty or group (including conservative compliance with the regulations governing "large exposures"), geographical areas, sectors and maturity periods.

Financial institutions
In financing granted to other financial institutions, BPI bases its risk analysis on available external ratings. Financing relations are restricted to investment grade[G] institutions.

Financial institutions
Breakdown of exposure by risk classes in 2007

Rating	Amount (M.€)	%
AAA	500.0	32.6
AA+	119.6	7.8
AA	64.5	4.2
AA-	264.3	17.2
A+	56.3	3.7
A-	8.9	0.6
A	47.6	3.1
BBB+	40.0	2.6
BBB	18.7	1.2
BB+	71.4	4.6
BB-	35.9	2.3
BB	36.8	2.4
B+	8.5	0.6
B	3.7	0.2
Other and without rating	259.9	16.9
Total	**1 536.1**	**100.0**

Note: Rating from S&P. Financial institutions include central banks. *Table 92*

Individuals

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

Over the life of the operations, the default probabilities are assessed and represented by behavioural scorings[G] (new models for credit cards and home loans in 2007) or by the study of default frequencies in each loan segment.

The estimated loss on each operation in default in these segments is also revised periodically (see table).

Default probabilities of loans to individuals in 2007

Risk classes	Probability of default within a year, weighted by the liabilities in portfolio	Loss given default (LGD)
Mortgage loans	1.27%	17.00%
Personal loans	2.60%	39.42%
Motor car finance	3.88%	21.51%
Credit cards	2.40%	53.18%

Note: the calculation of the average default probability includes loans in arrears for less than 90 days. *Table 93*

Securities portfolio

Turning to the evaluation of risks stemming from its securities portfolio, BPI resorts primarily to information obtained from external rating reports. The investment portfolio is predominantly composed of the securities of low credit-risk issuers.

Bonds and fixed-interest securities' investment portfolio[1]

Amounts in M.€

Rating	2006	%	2007	%
Aaa	18.3	0.5%	20.5	0.5%
Aa	521.3	15.4%	548.9	14.2%
A	224.8	6.7%	365.3	9.4%
Baa	928.7	27.5%	906.1	23.4%
Other / without rating (NR)	606.0	17.9%	723.6	18.7%
Commercial paper with guarantees from credit institutions	57.3	1.7%	14.6	0.4%
Commercial paper without guarantees from credit institutions	1 020.5	30.2%	1 291.4	33.4%
Total	**3 377.0**	**100.0**	**3 870.5**	**100.0%**

1) Includes preference shares which are recorded in the equities portfolio. *Table 94*

Bonds investment portfolio in 2007
Breakdown of exposure by classes of risk (external rating)

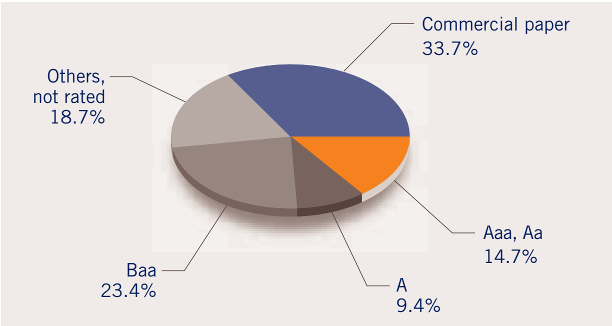


Chart 110

Equities / participating interests portfolio
As regards the structural position of the equities and participating interest portfolio, the corresponding market risk is not easily measured by traditional methodologies such as VaR, given the investment's time horizon, the importance of the positions or the lack of quoted prices in the equity market. According to the Basel Accord, this risk is treated as credit risk (and eventually included in the treatment of large exposures).

The realisation of a stress test on this portfolio reveals a capital at risk of 102 M.€.

Derivative operations
Given the specific manner in which they are valued, credit risk stemming from derivative operations is accorded special treatment. This has as its base the concept of the substitution value, which is estimated daily.

The set-off and collateralisation contracts naturally have an influence on the calculation of this type of exposure. These agreements, which entail the receipt (and payment) of collateral amounts for hedging risks between counterparties, permitted a reduction in the substitution value of the derivatives portfolio from 260.7 M.€ (gross amount) to 76.4 M.€ (net amount) at the end of 2007.

Current credit risk
Substitution value of derivatives
by type of counterparty

Amounts in M.€

	2006	2007
BPI Group	9.6	6.7
Unit trust and pension funds	0.2	0.1
Companies	10.0	22.8
Individuals	0.2	0.3
Banks	74.9	46.5
Total	**94.8**	**76.4**

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

Table 95

This form of evaluating exposure to counterparty risk is complemented by the traditional regulatory approach.

Return and risk
The exceptional circumstances looming over the international financial system in the final quarter of the year, in which marginal funding costs were higher than the interest on lending operations, led to progressive adjustments in the quest for new equilibrium. The returns (after discounting the risks) should return to acceptable and coherent values (search for greater risk premium / greater risk-adjusted return for operations involving larger risks, within each loan segment).

Default, provisioning and recovery levels
At the end of 2007, Customer loans in arrears for more than 90 days amounted to 276.9 M.€, which corresponded to 1.0% of the gross loan portfolio.

In domestic operations, loans in arrears for more than 90 days totalled 267.2 M.€, which corresponded to a loans in arrears ratio of 1.0%, while in international operations, loans in arrears for more than 90 days amounted to 9.7 M.€ and were equivalent to 1.0% of the gross loan portfolio.

At 31 December 2007, impairment allowances (accumulated) recognised in the consolidated balance sheet totalled 385.7 M.€, which corresponded to 1.4% of the gross loan portfolio.

The non-performing loan ratio calculated in accordance with the criteria prescribed in Bank of Portugal letter-circular no. 99 / 2003 was 1.0%. Besides loans in arrears for more than 90 days, the aforesaid ratio includes doubtful debts, which are treated as being in arrears for provisioning purposes. At 31 December 2007, doubtful loans totalled 6.7 M.€.

Loans to Customers in arrears, provisions and impairments

Amounts in M.€

	PCSB		IAS / IFRS		
	2003	2004	2005	2006	2007
Customer loan portfolio at the end of the year (gross)	17 783.0	19 021.1	21 270.4	24 941.4	27 603.2
Loans in arrears					
Loans in arrears for more than 90 days[1]	212.0	202.4	278.0	263.5	276.9
Loans in arrears for more than 30 days[1]	239.2	220.8	295.7	277.6	296.5
Doubtful loans[2]	22.2	8.6	5.4	3.3	6.7
Loan impairments	-	-	335.1	341.0	385.7
Total loan provisions	314.6	325.0	-	-	-
Ratio of loans in arrears and doubtful loans					
Loans in arrears for more than 90 days, as percentage of total loan portfolio	1.2%	1.1%	1.3%	1.1%	1.0%
Loans in arrears for more than 90 days and doubtful loans[2], as percentage of total loan portfolio[3]	1.3%	1.1%	1.3%	1.1%	1.0%
Loans in arrears for more than 30 days, as percentage of total loan portfolio	1.3%	1.2%	1.4%	1.1%	1.1%
Loan impairments (accumulated in the balance sheet)					
Loan impairments, as percentage of total loan portfolio	-	-	1.6%	1.4%	1.4%
Loan impairments, as percentage of loans in arrears for more than 90 days	-	-	120.5%	129.4%	139.3%
Provisioning cover (according to Bank of Portugal Notice 3 / 1995)					
Loans in arrears for more than 90 days	148.4%	160.6%	-	-	-
Loans in arrears for more than 90 days and doubtful loans[2]	134.4%	154.0%	-	-	-
Loans in arrears for more than 30 days	131.5%	147.2%	-	-	-
Note					
Write-offs	75.6	64.0	48.3	30.5	37.4
Recovery of loans and interests in arrears written-off	20.6	15.3	17.6	21.0	20.9

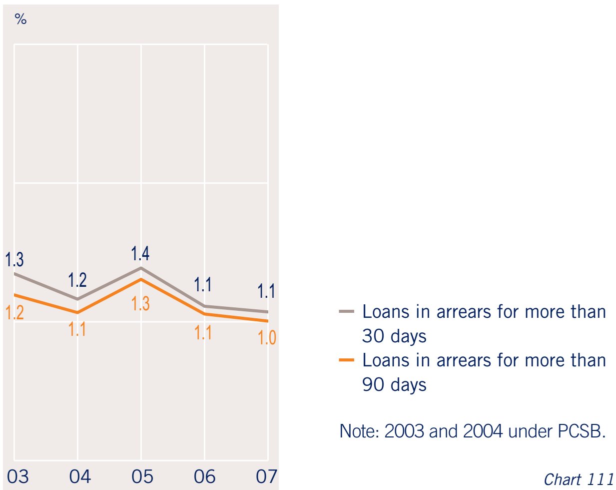
1) Includes interests in arrears.
2) Doubtful loans treated as being in arrears for purposes of provisioning.
3) Calculated according to the Bank of Portugal Instruction 16 / 2004.

Table 96

The increase in Customer loans in arrears for more than 90 days (adjusted for write-offs[G]) was 51.5 M.€, which corresponded to 0.19% of the performing loan portfolio. The year-on-year variation from 2006 was 59.3 M.€, corresponding to 0.27% of the average performing loan portfolio, if we exclude the impact of the restructuring which took place in that year of a 43.3 M.€ loan.

In 2007, 20.9 M.€ in overdue loans and interest was recovered, compared with 21.0 M.€ in 2006.

Ratio of loans in arrears



Note: 2003 and 2004 under PCSB.

Chart 111

Deducting the overdue loans and interest recoveries from the variation in loans in arrears (for more than 90 days) in the year, adjusted for write-offs and excluding the default situation and the loan restructuring referred to above, we arrive at a loan loss of 38.3 M.€ in 2006 (0.17% of the average loan portfolio) and of 30.6 M.€ in 2007 (0.12% of the average loan portfolio).

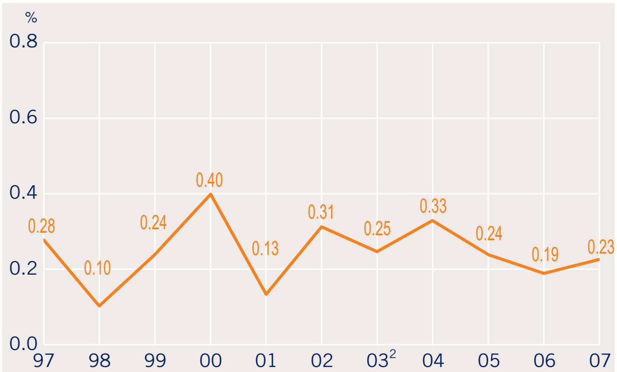
In domestic operations, this indicator declined from 33.6 M.€ in 2006 (0.15% of the loan portfolio) to 27.8 M.€ in 2007 (0.11% of the loan portfolio).

In international operations (Angola), the variation in loans in arrears (for more than 90 days) in the year, adjusted for write-offs was 2.9 M.€ in 2007, which corresponded to 0.36% of the performing loan portfolio. This indicator benefits from the fact that the loan book is relatively recent due to the large expansion recorded in recent years.

The net credit loss in the year (measured by loan impairment losses recognised in the year and after deducting recoveries of arrear loans previously written off from assets) amounted to 60.2 M.€, which corresponds to 0.23% of the performing loan portfolio.

In domestic operations, the net credit loss represented 0.12% of the loan portfolio and totalled 32.0 M.€, while in international operations, it was situated at 3.5%, corresponding to 28.2 M.€. The figure relating to international operations mainly reflects the recognition of general impairment allowances of up to 4% of the loan and guarantees portfolio. In international activity, the specific loan impairment allowances, which are intended to cover the risk of collection of loans advanced that are in arrears, amounted to 5.1 M.€, or 0.64% of the loan portfolio's average balance. These figures are marginally higher than the 5.0 M.€ recorded in 2006 and corresponding to 1.02% of the loan portfolio's average balance.

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



1) Loan provisions (PCSB until 2004) and loan impairments (IAS since 2005) recognised in the year and after deducting recoveries of loans and interests in arrears previously written off.
2) In 2003, 27.2 M.€ of generic provisions were reversed. It corresponded to the excess of provisions resulting from the application of the new Bank of Portugal provisioning rules. This amount represented 0.16% of the average loan portfolio.

Chart 112

Credit loss and cost of risk

Amounts in M.€

	Domestic operations		International operations		BPI Group (consolidated)	
	2006	2007	2006	2007	2006	2007
Performing loan portfolio (average balance)	**21 653.5**	**25 726.0**	**494.7**	**805.9**	**22 148.1**	**26 532.0**
Change in loans in arrears						
Increase in loans in arrears (for more than 90 days) adjusted by write-offs	**11.3**	**48.5**	**4.7**	**3.0**	**16.0**	**51.5**
as percentage of the performing loan portfolio (average balance)	0.05%	0.19%	0.96%	0.37%	0.07%	0.19%
- Recovery of loans and interests in arrears written-off	21.0	20.8	0.0	0.1	21.0	20.9
= Increase in loans in arrears (for more than 90 days), adjusted by write-offs and deducted of recoveries of loans and interests written-off	**(9.7)**	**27.8**	**4.7**	**2.9**	**(5.0)**	**30.6**
as percentage of the performing loan portfolio (average balance)	(0.04%)	0.11%	0.96%	0.36%	(0.02%)	0.12%
Net credit loss						
Loan impairments in the year (in the income statement)	**44.7**	**52.8**	**18.0**	**28.3**	**62.7**	**81.1**
as percentage of the performing loan portfolio (average balance)	0.21%	0.21%	3.64%	3.51%	0.28%	0.31%
- Recovery of loans and interests in arrears written-off	21.0	20.8	0.0	0.1	21.0	20.9
= Net credit loss	**23.7**	**32.0**	**18.0**	**28.2**	**41.7**	**60.2**
as percentage of the performing loan portfolio (average balance)	0.11%	0.12%	3.64%	3.50%	0.19%	0.23%

Table 97

At the end of 2007, accumulated impairment allowances reflected in the balance sheet for domestic operations (defined as the estimated loss on loans already recognised in the financial statements) represented 1.2% of the gross loan portfolio (1.2% in 2006).

It should be noted that in the case of mortgage loans, the expected loss is very low – 0.8% of the loan portfolio – given the existence of the tangible security and the extremely low historical levels of actual losses

In international operations, accumulated specific impairment allowances in the balance sheet for loans in arrears represented 0.9% of the gross loan portfolio at the end of 2007 (1.1% in 2006), which corresponded to 94% cover of loans in arrears for more than 90 days.

In addition there were accumulated general impairment allowances in the balance sheet corresponding to 4.9% of the gross loan portfolio at the close of 2007 (4.6% in 2006). Accordingly, at the end of 2007, total impairment allowances in the balance sheet (specific and general) meant that loans in arrears for more than 90 days were covered to the extent of 602%.

The following table presents the ratios for loans in arrears for more than 90 days and impairment allowances (by market segments) carried in the balance sheet, as well as each segment's contribution to the gross loan portfolio.

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

	2006			2007		
	Loan portfolio (gross), as % of the consolidated loan portfolio	Ratio of loans in arrears for more than 90 days	Loan impairments (accumulated in the balance sheet) as % of the gross loan portfolio	Loan portfolio (gross), as % of the consolidated loan portfolio	Ratio of loans in arrears for more than 90 days	Loan impairments (accumulated in the balance sheet) as % of the gross loan portfolio
Domestic operations						
Corporate banking, institutional banking and project finance	42%	0.6%	1.5%	45%	0.5%	1.3%
Individuals and small businesses banking						
Mortgage loans	40%	1.3%	0.6%	35%	1.4%	0.8%
Loans to individuals – other purposes	4%	2.6%	3.5%	4%	1.7%	2.6%
Loans to small businesses	9%	1.4%	1.7%	9%	1.6%	1.9%
Individuals and small businesses banking	53%	1.4%	1.0%	49%	1.5%	1.2%
Other	3%	1.9%	2.1%	3%	1.1%	1.6%
Domestic operations	**97%**	**1.0%**	**1.2%**	**96%**	**1.0%**	**1.2%**
International operations	**3%**	**1.4%**	**5.7%**	**4%**	**1.0%**	**5.8%**
Total	**100%**	**1.1%**	**1.4%**	**100%**	**1.0%**	**1.4%**

Table 98

It should be noted that at the time of the SME and home-loan debt securitisation operations launched in 2005 and 2006, studies of the history of the portfolio's default frequency were conducted which confirmed a favourable evolution over time in its frequency.

COUNTRY RISK

Country risk[G] is very similar in terms of its respective effects to counterparty risk and is associated with the changes or specific turmoil of a political, economic or financial nature in those places where the counterparties operate (or, more rarely, in a third country where the business transaction takes place), which impede full compliance with the contract, irrespective of the counterparties' will or capacity. The "country-risk" designation is also used to classify the counterparty risk involved in loans to state entities, given the similarity between the analysis methods for country risk and those for a state's counterparty risk (sovereign risk).

Individual evaluation of each country's risk is performed with recourse to external ratings, external studies (IIF, others) and reports prepared by the International Division. The Board of Directors' Executive Committee approves the list of countries in respect of which country-risk exposure is authorised. Eligible countries considered are large-sized emerging markets[G] which embrace market economy principles, are open to international trade and are of strategic importance within the framework of international politics.

In addition, the operations defined as eligible are short-term financing for external trade, the loans of certain multilateral banks, certain medium-term operations with political risk hedging or which, due to their structuring, are not subject to transfer risk.

Country risk exposure
At 31 December 2007

Amounts in M.€

Country	Rating	Gross exposure[1]	Guaran-tees[2]	Exposure net of guarantees
Dutch Antilles		5.1		5.1
Brazil	BB-	424.3		424.3
Canada	AAA	3.2		3.2
Denmark	AAA	66.6		66.6
United States	AAA	110.3	12.3	97.9
Bailiwick Jersey		4.3		4.3
Cayman Islands	AAA	1 227.8		1 227.8
Island	A+	1.0		1.0
Leetonia	BBB+	7.5		7.5
United Kingdom	AAA	543.4	16.9	526.5
Romania	BBB-	3.2		3.2
Sweden	AAA	60.7		60.7
Switzerland	AAA	47.3	5.1	42.2
British Virgin Islands		63.5		63.5
Angola		258.5	3.3	255.3
Mauritius[3]		214.5		214.5
Mozambique	B	25.8		25.8
Kazakhstan	BBB-	72.5		72.5
Turkey	BB-	45.0		45.0
Venezuela	BB-	1.5		1.5
South Africa	BBB+	1.2		1.2
Russia	BBB+	100.9	2.7	98.2
Other countries		4.8	0.6	4.2
Total		**3 293.0**	**40.9**	**3 252.1**

Table 99

1) Gross exposure includes on-balance sheet and off-balance sheet operations (converted to loan-equivalent figures).
2) Guarantees: are recorded in the accounting records and include collateral deposits.
3) Participation in the loan to the "Renascer" vehicle for the financing of the prepayment of the energy contracted from Hidroeléctrica de Cahora Bassa, S.A. as part of the deal involving the reverting of this company's majority capital to the Mozambique State, the respective syndication of which is currently under way on the international market.

The country-risk table also includes exposure through the holding of international participating interests (Banco de Fomento Angola and the 30% interest in BCI Fomento in Mozambique).

Direct exposure to country risk through trading activity is described in the section dealing with market risks.

MARKET RISKS

Market or price risk (interest rates, foreign exchange rates, equity prices, commodity prices and others) is defined as the possibility of incurring losses due to unexpected variations in the price of financial instruments or operations.

The assessment of treasury positions (short term) and structural risk positions relating to interest or foreign exchange rates (long term) is based on gap schedules (currency gaps, repricing gaps[G], duration gaps).

The Bank is structurally exposed to the risk of a fall in interest rates, with an amount of capital at risk of 31.3 M.€ associated with the classical stress test of a 200 b.p. fall in interest rates.

Interest rate risk
Repricing gaps at 31 December 2007[1]

Amounts in M.€

	1 year	1 to 2 years	2 to 5 years	5 to 7 years	7 to 15 years	> 15 years
Accumulated gap	325.6	467.5	792.6	853.4	967.5	1 104.1

1) Non-remunerated sight deposits are graded in the following manner: 50 M.€ in the over-night market; the remainder were considered as non-sensitive to interest rate. Alternative analysis with other assumptions are available.

Table 100

From the perspective of market risk, the management of positions of up to one year has been delegated to the Financial Division within limits fixed by the Executive Committee for Market Risks. Long-term structural positions are managed in accordance with the rules laid down by the Executive Committee for Market Risk.

In the currency arena, the financial holdings are taken into account in the structural position, that is, in the position which excludes trading, including the currency position in kwanza associated with BFA's shareholders' equity. The positions in the remaining currencies are of minor significance. A stress test to the exposure reveals a capital at risk of not more than 11 M.€.

Foreign exchange rate risk
Structural position at 31 December 2007[1]

Amounts in M.€

	Sight	Term	Global
AKZ[1]	258.5	0	258.5
USD	(426.9)	434.2	7.3
GBP	107.6	(110.8)	(3.2)
JPY	(172.0)	172.2	0.2
Other	142.4	(78.7)	63.7
Position 1			326.6
Position 2			333.6
Position 3			330.0

Position 1 – algebraic sum of the positions in each currency;
Position 2 – sum in module;
Position 3 – highest absolute value between the sum of all the long positions *vs.* sum of all the short positions.
1) Correspond to the shareholders' equity of BFA at 31 December 2007. This exposure is partially covered at the Angolan subsidiary via the provision for the maintenance of own funds.

Table 101

In evaluating exposure under trading operations, this function is carried out on a daily basis by the Risk Analysis and Control Division, which calculates the VaR – Value at Risk – according to standardised assumptions, which as a rule are consistent with the BIS's set of recommendations. Exposure arising from options is controlled by recourse to specific models. The information generated by the risk evaluation and control system is available online to authorised users.

Value at Risk (VaR)

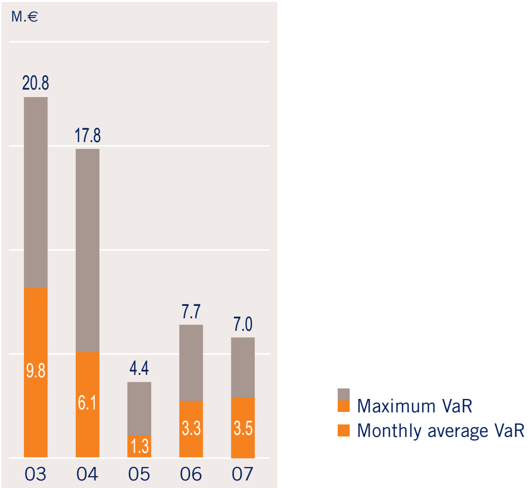


Chart 113

Market risk in trading books[1]

Amounts in M.€

	2006	1st quarter	2nd quarter	3rd quarter	4th quarter	2007
VaR (monthly average)	**3.3**	**2.4**	**3.1**	**4.4**	**4.2**	**3.5**
Interest rate risk	1.6	1.4	1.3	1.9	2.6	1.8
Currency risk	1.4	1.0	1.5	2.5	1.3	1.6
Equities risk	2.2	1.8	2.0	3.4	2.6	2.5
Commodities	0.3	0.5	0.2	0.1	0.1	0.2
Spread	0.3	0.0	0.1	0.2	0.2	0.1
VaR (maximum)	**7.7**	**3.3**	**5.6**	**5.9**	**7.0**	**7.0**

1) Maximum potential loss with a 99% confidence level resulting from an adverse movement in prices, indices and interest rates over a period of two weeks, taking into consideration in the calculation of the overall risk the effect of the correlation of returns. A normal distribution of returns is assumed.

Table 102

Trading positions are managed autonomously by the traders and maintained within the exposure limits which are fixed and periodically revised. There are varying exposure limits, including overall VaR limits laid down by the Executive Committee for Market Risk. These are then distributed autonomously amongst the various books by the divisions involved in trading activity. In addition, stop-loss limits are defined.

LIQUIDITY RISK

Liquidity risk is monitored in terms of its two components:

- in the tradability of the different assets;
- in its overall context, whereby liquidity risk is defined at grassroots level as the (in)ability to monitor the asset's growth and to satisfy treasury requirements without incurring abnormal losses.

In terms of the different assets, the various managers keep a constant watch over the transaction levels of the various instruments in accordance with a variety of indicators (BPI's market share, number of days to unwind positions, size and volatility[G] of spreads, etc.), although always observing the operating limits set for each market.

Responsibility for this risk category's management strategy is vested in the Executive Committee for Market Risk and the Group's Financial Division and is founded on the constant vigilance of the exposure indicators. The consistency of the strategy directed at diversifying funding sources and the reinforced weight of long-term funding, keeping pace with the growth of assets in longer maturities (in particular, home loans) allow BPI to maintain a comfortable position in this domain. This fact was tested in a special manner in the last quarter of the year at a time when the international financial system was experiencing a major liquidity crisis. In the management strategy for this risk, certain last-resort measures are also envisaged in line with the best practices to come out of Basel, and which suggest the need for an emergency plan to deal with liquidity risk (even if it is improbable that there will be actual recourse to it).

A primary indicator of liquidity risk – the percentage transformation of stable resources into loans – was situated at around 68.8%.

Liquidity risk
Sundry indicators

	2006	2007
Degree of transformation of deposits into loans	169.6%	149.6%
Degree of transformation of Customer resources in the balance sheet into loans	150.9%	133.0%
Degree of transformation of total Customer resources into loans	88.6%	86.3%
Degree of transformation of stable resources into loans	73.3%	68.8%

Source: Bank of Portugal's Economic Bulletin (banking system).
Stable resources as defined in Bank of Portugal Instruction 1 / 2000.

Table 103

The evaluation of global exposure to liquidity risk is reflected in the gap schedules by maturities (which permits the timely identification of the larger lags and their dynamic cover), as well as in stress test schedules (monitored by the Bank of Portugal).

Liquidity risk
Gaps at 31 December 2007[1]

Amounts in M.€

	Up to 1 year	1 to 2 years	2 to 5 years	> 5 years
Gap	(500.9)	(1 758.8)	(2 645.2)	(2 855.2)
Accumulated gap	(500.9)	(2 259.7)	(4 904.9)	(7 760.1)

1) Includes all currencies. Does not include BFA operations.

Table 104

The value of the one-year gap (and similarly beyond this period) is comfortable, bearing in mind that:

- the resource to short-term funds on the interbank market at the end of the year was of only 2.2 thousand M.€ (5.8% of the Bank's assets);
- BPI had eligible assets with the System of European Central Banks of 1 024 M.€;
- BPI has a portfolio of assets (equities and bonds) of 2 091 M.€ available for repo operations;
- BPI had a mortgage-loan portfolio of 2.5 thousand M.€ that can be utilised in the issue of mortgage bonds or in securitisation operations.

OPERATIONAL RISKS

Operational risks are defined as those which could result in unexpected losses arising from human failure, shortcomings in internal control procedures, failures in the information systems or from external causes. The definition excludes strategic errors or reputation risks.

In 2007, according to the basic method for analysing operational risks, the capital at operational risk at BPI was situated slightly below 161 M.€.

In the quest to adopt the best practices stemming from the new regulations (Basel II), BPI has a system for gathering information concerning operational risks from the various divisions, identifying the frequency and severity of the losses which are classified into seven risk categories or factors (damages to physical assets, failures in IT systems, failure in the management and execution of processes, external fraud, internal fraud, violation of professional duties and contravention of labour norms). The gathering of this information by the various divisions is attainable by means of the proper training of the designated operational risk pivots. Identification of this data will in future enable the Risk Analysis and Control Division to test the most advanced measures for controlling exposure to this risk, in parallel with the application of the basic method.

This information will also help formulate the management strategy for operational risk. In this domain and under the Executive Committee's supervision, the Organisation Division and, of course, all the divisions where factors critical to operational risk have been identified, assume a crucial role.

The entire operational risk-control system is regularly reviewed by the Audit Committee.

The management of operational risk is primarily founded on the training / quality of the human resources and on their proper organisation: segregation of functions, definition of responsibilities, supervision procedures. All the internal and external audit work and the central management of alerts also contribute to this supervision.

There is also in place a business continuity plan anchored to the contingency programmes for the most crucial central information systems. In the case of necessity caused by equipment breakdown or by a major incident, it is possible to recoup these systems on site or at an alternative location after a period of time that varies with the type of risk. Also guaranteed – even under extreme conditions – is minimum functioning under an exceptional situation. The same method is employed in the case of the telecommunications equipment. The voice and data services at the BPI Group's main buildings are guaranteed through the recourse to alternative equipment and through formal disaster-recovery processes. The BPI Group has also identified alternative procedures for each one of its most critical operations. A data base is on stand-by which identifies all these procedures, thereby enabling these to be activated at any point in time. These disaster-recovery schemes are tested and subjected to periodic reviews.

Finally, the BPI Group annually reviews its insurance cover, adjusting cover to operating requirements and market conditions, with the object of obtaining an appropriate level of outside protection against operational risk.

LEGAL RISKS

In this context, legal risks are those associated with the eventuality of a situation occurring of non-compliance with external regulations to which the Bank is subject. The occurrence of such an infringement may stem, namely, from the lack of or incorrect transposition into the Bank's internal regulations of such provisions. The occurrence of breaches of the rules to which the Bank is subject may, according to the actual circumstances of each one of those situations, have as a consequence (i) an illegality (or more generally an illicit act) and consequent invalidity of the acts performed and/or (ii) the commitment of criminal or administrative-law infraction and the ensuing subjection to penalties or fines and/or (iii) the Bank's subjection to the duty to pay damages arising from its actions.

In order to prevent situations such as those described above, the Bank has mechanisms which are designed to ensure the permanent revision and adaptation of the Bank's structure and activity to applicable statutory alterations, as well as the training of the Bank's areas most affected by such alterations.

The Bank's situation *vis-à-vis* the abovementioned legal risks is regularly reviewed by the Audit Committee.

Banco BPI Shares

Stock market performance

BPI shares depreciated by 9.3%, in 2007, closing the last session of the year at a price of 5.36 euros. In the same period, the European banks (DJ Europe Stoxx Banks) and the comparable Iberian banks dropped 16.9% and 10.0%, respectively. The PSI-20 index posted a positive performance, gaining 16.3%.

Liquidity

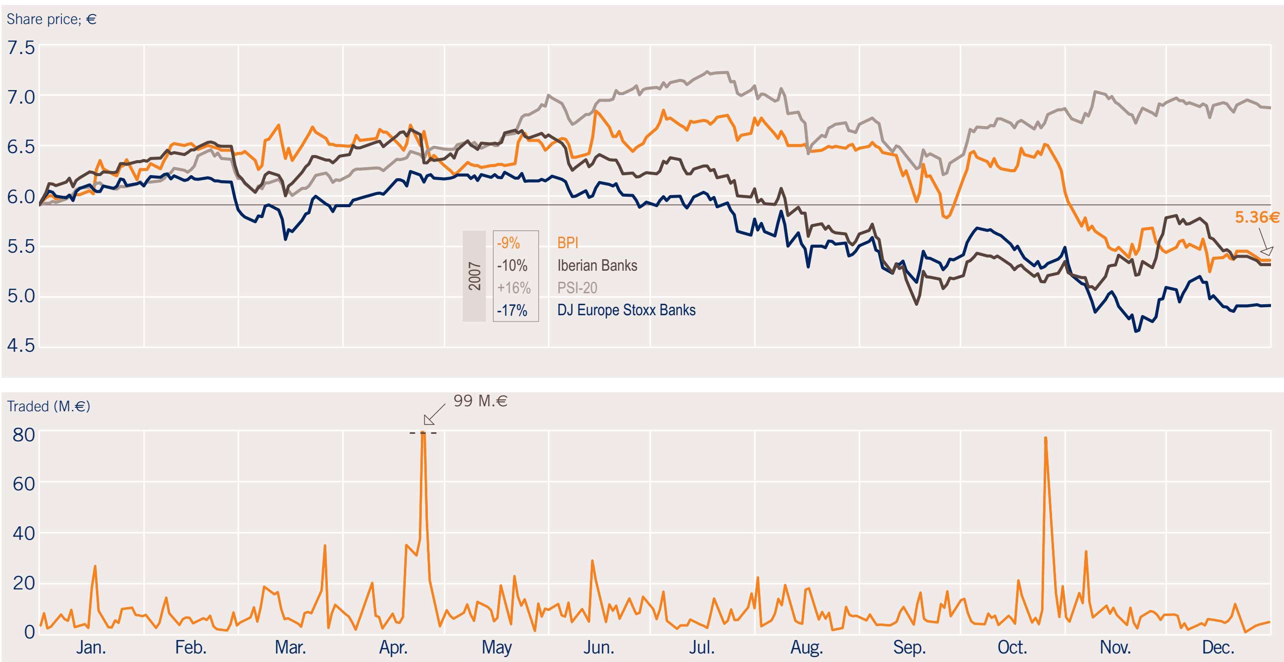
In 2007, Banco BPI shares originated a trading volume of 2 425 M.€. The daily average trading volume amounted to 9.5 M.€, which represents a decrease of 9.5% relative to the volume of deals recorded in the preceding year, in which liquidity was strongly influenced by movements related to the takeover bid targeting the Bank. Capital rotation stood at 50.4%.

Market multiples

The P/E ratio (share price over the expected earnings per BPI share for 2008) at 31 December 2007 was situated at 10.6x, that is, below the figure for the PSI-20 (16.1x)[1] and the average for the Iberian banks (11.3x)[1], although higher than that for the DJ Europe Stoxx Banks (8.9x)[1].

BPI's earnings per share in 2007 were 0.472 euro, which corresponds to an improvement of 14% relative to 2006. The book value per share was situated at 2.17 euro at the end of 2007.

Banco BPI shares' evolution in 2007



— Banco BPI
— Comparable Iberian banks
— PSI-20
— DJ Europe STOXX Banks

Chart 114

1) Source: Bloomberg.

BANCO BPI SHARES

Banco BPI's share capital comprises 760 million nominative and dematerialised (book entry) ordinary shares with a nominal value of one euro each. All the shares are entitled to the full dividend relating to 2007 and following years. All the shares are listed on the Euronext market.

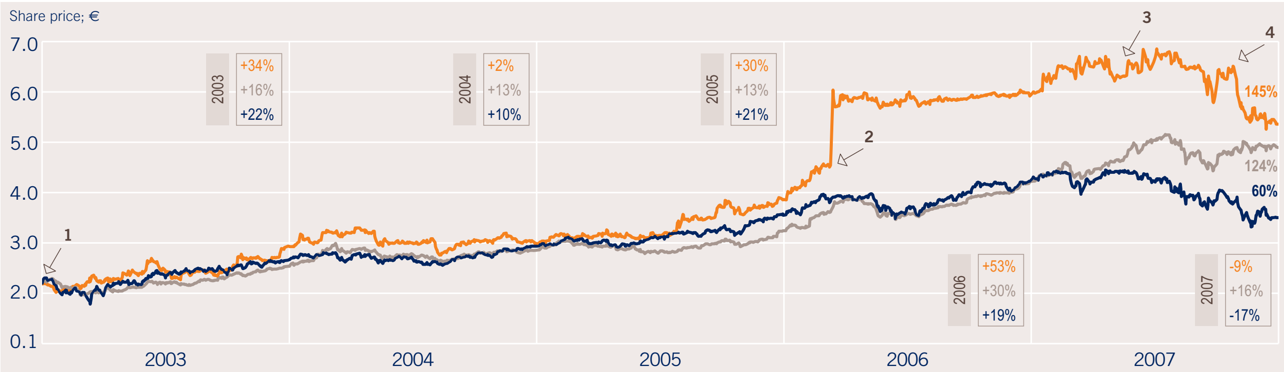
Index weighting (31 Dec. 07)

▪ PSI-20:	4.34%; #9
▪ Euronext 100:	0.184%
▪ Dow Jones Europe STOXX Bank:	0.14%

Codes and tickers

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

Banco BPI shares' evolution over the last five years



— Banco BPI
— PSI-20
— DJ Europe STOXX Banks

Chart 115

1) 2002 closing price: €2.18.
2) Announcement of the takeover bid launched by BCP (13 March 2006).
3) Announcement of the conclusion of the takeover bid (7 May 2007).
4) Launch of the proposed merger (25 October 2007).

Banco BPI shares

Principal indicators

Amounts in € and M.€

	2003	2004	2005	2006	2007
Stock exchange price of Banco BPI shares (€)					
Highest price	2.95	3.32	3.93	6.05	6.85
Average price	2.45	3.07	3.34	5.43	6.28
Lowest price	1.96	2.73	2.98	3.83	5.25
Closing price	2.92	2.98	3.86	5.91	5.36
Data per share (euro)					
Cash flow after taxation[F]	0.388	0.399	0.522	0.550	0.707
Net profit[F]	0.218	0.256	0.335	0.414	0.472
Dividend[F]	0.09	0.10	0.12	0.16	0.187
Book value[F]	1.615	1.620	1.582	1.940	2.172
Weighted average no. of shares[F] (in millions)	753.3	751.8	747.9	746.2	751.6
Market valuation					
Price as multiple of:					
Cash flow after taxation (PCF)[F]	7.5	7.5	7.4	10.7	7.6
Net profit (P/E)[F]	13.4	11.6	11.5	14.3	11.3
Book value (PBV)[F]	1.8	1.8	2.4	3.0	2.5
Earnings yield[F]	10.0%	8.8%	11.3%	10.7%	8.8%
Stock market capitalisation (M.€)	2 219.2	2 264.8	2 933.6	4 491.6	4 073.6
Liquidity					
Annual trading volume (M.€)	602.1	625.3	954.0	2 677.0	2 425.1
Daily average trading volume (M.€)	2.4	2.4	3.7	10.5	9.5
Daily average trading quantity (th.)	961.5	786.1	1 102.0	1 932.7	1 503.2
Share capital rotation[G]	32.3%	26.8%	37.6%	64.8%	50.4%
Dividends					
Net profit[F] (M.€)	163.8	192.7	250.8	308.8	355.1
Distributed earnings (M.€)	68.4	76.0	91.2	121.6	142.1
Pay-out ratio[G]	41.7%	39.4%	36.4%	39.4%	40.0%
Dividend per share (euro)	0.09	0.10	0.12	0.16	0.187
Dividend yield[F, G]	4.1%	3.4%	4.0%	4.1%	3.2%

Table 105

Treasury shares

In 2007, Banco BPI traded both on and off the stock exchange 4 854 483 own shares, which corresponded to 0.64% of the share capital. These transactions were earmarked for the execution of the variable-remuneration scheme for Employees and Directors, through the granting of shares and share options (Portuguese initials – RVA). For its part, Banco Português de Investimento, S.A., – the entity 100% held by Banco BPI – traded 359 193 Banco BPI shares, that is, 0.05% of the latter's share capital.

Treasury shares transactions in 2007

	Purchase			Sell			Total traded	
	Quantity (number)	Amount (€)	Unitary average price (€)	Quantity (number)	Amount (€)	Unitary average price (€)	Quantity (number)	As % of share capital
Banco BPI								
Stock exchange market								
Over-the-counter market	2 751	13 020	4.73	4 851 732	30 681 000	6.32	4 854 483	0.64%
	2 751	**13 020**	**4.73**	**4 851 732**	**30 681 000**	**6.32**	**4 854 483**	**0.64%**
Banco Português de Investimento								
Stock exchange market	284 798	1 647 121	5.78	74 395	468 931	6.30	359 193	0.05%
Over-the-counter market								
	284 798	**1 647 121**	**5.78**	**74 395**	**468 931**	**6.30**	**359 193**	**0.05%**
Total								
Stock exchange market	284 798	1 647 121	5.78	74 395	468 931	6.30	359 193	0.05%
Over-the-counter market	2 751	13 020	4.73	4 851 732	30 681 000	6.32	4 854 483	0.64%
	287 549	**1 660 140**	**5.77**	**4 926 127**	**31 149 931**	**6.32**	**5 213 676**	**0.69%**

Table 106

At 31 December 2007, Banco BPI held 6 030 307 own shares, that is, 0.79% of its capital. These shares were earmarked to cover the options granted to Employees under the variable component of remuneration packages – the share incentive and options scheme – RVA – in force at the Group since 2001. For its part, Banco Português de Investimento held, at 31 December 2007, 284 268 Banco BPI shares, or, 0.04% of share capital, all of which were held for hedging positions in PSI-20 futures[G].

The other subsidiaries over which Banco BPI exercises effective management control did not acquire or sell any shares representing its share capital and, at the end of December 2007, did not hold any Banco BPI shares in their portfolios.

The number of own shares referred to does not include shares granted under RVA scheme that are subject to condition subsequent. Transfer of the ownership of the shares granted under the RVA scheme is effected in full on the grant date, although their free disposability is dependent on the Employee's continued employment at the BPI Group. For accounting purposes, the shares remain in Banco BPI's portfolio of own shares up until the date they become freely disposable.

Number of shares held

	31 Dec. 06	31 Dec. 07	As % of share capital
Banco BPI	10 879 288	6 030 307	0.79%
BPI Investimentos	73 865	284 268	0.04%
Total	**10 953 153**	**6 314 575**	**0.83%**

Table 107

Other information

At 31 December 2007, the Banco BPI Employees' pension fund held 1 820 881 Banco BPI shares, corresponding to 0.24% of the Bank's capital.

AUTHORISATION FOR ACQUISITION AND SALE OF TREASURY SHARES

Since the beginning of 2001, the BPI Group has implemented a variable-remuneration scheme (Portuguese initials RVA) which consists of the granting annually of Banco BPI shares and options to buy Banco BPI shares as part of the variable-remuneration package.

The execution of the RVA scheme does not contemplate the issue of capital, with the result that for purposes of the granting of shares, meeting the options plan and the exercise of options, BPI constitutes portfolios of treasury shares earmarked exclusively for this end.

BPI can also carry out transactions in own shares for reasons other than the execution of the RVA programme.

Accordingly, the Board of Directors submits regularly to the General Meeting a request for authorisation to acquire own shares up to the legal limit of 10% of the capital.

Rating

The BPI Group's strategy, competitive position, solid financial base and capacity to generate earnings continued to merit high credit ratings[G] from independent and reputable entities – Fitch Ratings, Moody's and Standard & Poor's.

Standard & Poor's raised its Banco BPI rating in the 1st half of 2007, underscoring the Bank's good position in Portugal, its skilled management, good asset quality track record, which is better than domestic peers', and sound and improving financial performance.

Moody's changed its methodology used in the granting of ratings, whereby it now separates a bank's intrinsic and fundamental rating from the probability of the bank having to obtain external support should it so require. According to the new methodology, the rating given to Banco BPI by Moody's, which includes the probability of it obtaining external support should this be needed, is now A1 and thus not comparable with the previous rating.

Banco BPI rating classifications

	Fitch Ratings	Moody's	Standard & Poor's
Long term	A+	A1	A
Short term	F1	P-1	A-1
Outlook	Stable	Stable	Stable
Rating attribution:			
Initial date	31 Oct. 96[1]	1 Nov. 96[2]	27 Apr. 99
Last report	07 Nov. 07	14 Nov. 07	29 Oct. 07[3]

Table 108

1) Rating notation attributed to all banks that composed BPI Group at that date.
2) Rating notation attributed to BFB.
3) The last report updating the rating classification was released on 25 May 2007.

Moody's:
A1 Bonds which are rated "A" possess very favourable attributes and are considered as superior-medium grade investments.
(the modifier 1 denotes a top position within category A).
Fitch Ratings:
A+ High credit quality. A ratings denote a low expectation of credit risk.
(the modifier + denotes a higher position within category A).
Standard & Poor's:
A An entity with an A rating possesses a strong capacity to meet its financial commitments.
(lack of signal denotes a middle position within category A).

Fitch Ratings		Moody's		Standard & Poor's	
Banco BPI		**Banco BPI**		**Banco BPI**	
Credit rating (LT / ST)	A+ / F1	Bank deposits (LT / ST)	A1 / P-1	Counterparty credit (LT / ST)	A / A-1
Outlook	Stable	Outlook	Stable	Outlook	Stable
Individual	B	Bank financial strength	C	Certificate of deposit (LT / ST)	A / A-1
Support	2	Issuer rating	A1		
Rating's support floor	BBB-				
Senior unsecured (LT)	A+	Senior unsecured (domestic currency)	A1	Senior unsecured (domestic currency)	A
Senior unsecured (ST)	F1	Other short term (domestic currency)	P-1	Short-term debt (domestic currency)	A-1
Subordinated (LT)	A	Junior subordinated (domestic currency)	A2	Subordinated (domestic currency)	A-
		Subordinated MTN (domestic currency)	A2	Junior subordinated (domestic currency)	BBB+
Preference stock (LT)	A	Preference stock	Baa1	Preference stock	BBB+
Sovereign rating – Portuguese Republic		**Sovereign rating – Portuguese Republic**		**Sovereign rating – Portuguese Republic**	
Long term (foreign currency)	AA	Long term (foreign currency)	Aa2	Long term / Short term	AA- / A-1 +
Long term (domestic currency)	AA	Long term (domestic currency)	Aa2		
Outlook	Stable	Outlook	Stable	Outlook	Stable

Figure 9

RATING REPORTS

Moody's, 14 November 2007
"The rating is supported by the bank's good domestic market shares and success in maintaining its position within the increasingly competitive market, as well as by its overall sound financial profile."

Fitch Ratings, 26 July 2007
"Banco BPI's ratings reflect its track record in delivering consistently good results, its sound asset quality, generally conservative risk profile and strong franchise in certain business areas. The ratings also reflect Banco BPI's strong expansion plan."

"Banco BPI's IDR (Issuer Default Rating) has a Stable Outlook due to its consistent profitability and satisfactory asset quality over the economic cycle."

Standard & Poor's, 29 October 2007
"The ratings on BPI are supported by the bank's good position in Portugal; skilled management; good asset quality track record, which is better than domestic peers'; and sound and improving financial performance. These factors are offset by BPI's tighter capital management than EU peers' (despite improvement in core solvency measures in recent years), structural exposure to changes in the valuation of its pension obligations, high single-name concentration, and the potential volatility of returns from its Angolan subsidiary."

"We expect operating profitability to be preserved at the sound levels already achieved, with higher earnings offsetting the increase in costs related to the ongoing branch enlargement."

Final acknowledgements

The results and indicators achieved by the BPI Group can be considered to be extremely positive given the very adverse international financial markets backdrop, compounded by the challenges posed by the prolonged process involving the hostile takeover bid launched for it. This would not have been possible without the sound relationship and loyalty of our Customers, the dedicated contribution of all the Group's Employees and the confident support of the Bank's Shareholders. To all we express our sincerest acknowledgement.

A special greeting is directed at Dr. José Carlos Agrellos, Dr. Rui Lélis and Dr. Manuel Correia de Pinho. The first two because, having attained the age limit, they ceased to form part of Banco Português de Investimento's Board of Directors; the last-mentioned due to the fact that he will relinquish the post of Secretary to Banco BPI's Board of Directors with the holding of the next General Meeting at the end of the governing bodies' term of office. These gentlemen have served as invaluable members of the top management team, since the constitution of SPI – Sociedade Portuguesa de Investimento, the institution that gave origin to the present BPI Group, to which they have devoted the best of their superior skills and their unswerving dedication over more than a quarter of a century.

The Board also expresses its recognition for the cooperation received from the Monetary, Financial and Supervisory Authorities within the scope of their respective duties and functions.

Oporto, 6 March 2008

Board of Directors

Proposed appropriation of net profit

BPI

Banco BPI, S.A. made a consolidated net profit in 2007 of EUR 355 111 339 and an individual net profit of EUR 231 598 227.32.

The Board of Directors proposes that, in relation to the 2007 financial year, a dividend of EUR 0.187 (18.7 euro cents) be distributed for each one of the 760 000 000 shares representing the issued share capital at 31 December 2007.

The proposed dividend per share represents an 16.9% improvement on the 2006 dividend distribution and corresponds to 40.0% of consolidated net profit for the year.

In the individual accounts, Banco BPI must, in terms of article 97(1) of the General Regime for Credit Institutions and Financial Companies (GRCIFC), transfer 10% of net profit to the legal reserve.

Accordingly, in the exercise of the powers conferred on it by article 16(2)(b) of the Statutes, the Board of Directors proposes the following appropriation of individual net profit for the financial year:

Transfer to Legal Reserve (article 97 (1) of the GRCIFC)	EUR 23 159 822.73
Dividends	EUR 142 120 000.00
Transfer to Free Reserves	EUR 66 318 404.59
Total	EUR 231 598 227.32

Oporto, 6 March 2008

The Board of Directors

Consolidated financial statements

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER, 2007 AND 2006

(Amounts expressed in thousands of euro)

	Notes	31 Dec. 07 Amounts before impairment and depreciation and amortisation	31 Dec. 07 Impairment and depreciation and amortisation	31 Dec. 07 Net	31 Dec. 06 Net
ASSETS					
Cash and deposits at central banks	4.1	1 126 396		1 126 396	559 940
Loans and advances to other credit institutions repayable on demand	4.2	281 516		281 516	369 483
Financial assets held for trading and at fair value through profit or loss	4.3 / 4.4	4 591 411		4 591 411	4 345 057
Financial assets available for sale	4.5	4 003 064	77 664	3 925 400	3 064 911
Loans and advances to credit institutions	4.6	1 540 909	9	1 540 900	906 747
Loans and advances to Customers	4.7	27 603 225	372 712	27 230 513	24 630 086
Hedging derivatives	4.4	412 156		412 156	407 520
Other tangible assets	4.8	762 394	445 469	316 925	289 308
Intangible assets	4.9	80 833	65 380	15 453	8 803
Investments in associated companies and jointly controlled entities	4.10	150 960		150 960	141 768
Tax assets	4.11	141 371		141 371	133 366
Other assets	4.12 / 4.24	830 414	17 466	812 948	708 494
Total assets		**41 524 649**	**978 700**	**40 545 949**	**35 565 483**
LIABILITIES					
Financial liabilities held for trading	4.13 / 4.4			534 669	201 847
Resources of other credit institutions	4.14			3 731 946	3 960 247
Resources of Customers and other debts	4.15			20 621 866	16 235 505
Debt securities	4.16			5 341 855	5 464 566
Financial liabilities relating to transferred assets	4.17			3 008 159	3 368 059
Hedging derivatives	4.4			544 629	480 806
Provisions	4.18			72 853	54 869
Technical provisions	4.19			2 774 587	2 811 111
Tax liabilities	4.20			125 279	85 721
Participating bonds	4.21			27 269	27 222
Subordinated debt	4.22			930 834	588 890
Other liabilities	4.23 / 4.24			926 544	559 337
Total liabilities				**38 640 490**	**33 838 180**
SHAREHOLDERS' EQUITY					
Subscribed share capital	4.25			760 000	760 000
Share premium account	4.26			231 306	231 306
Other equity instruments	4.27			10 822	8 714
Revaluation reserves	4.28			54 975	126 356
Other reserves and retained earnings	4.29			253 132	67 091
(Treasury shares)	4.27			(30 213)	(51 659)
Consolidated net income of the BPI Group	4.44			355 111	308 758
Shareholders' equity attributable to the shareholders of BPI				**1 635 133**	**1 450 566**
Minority interest	4.30			270 326	276 737
Total shareholders' equity				**1 905 459**	**1 727 303**
Total liabilities and shareholders' equity				**40 545 949**	**35 565 483**

	Notes	31 Dec. 07 Net	31 Dec. 06 Net
OFF BALANCE SHEET ITEMS			
Guarantees given and other contingent liabilities	4.7 / 4.31	3 613 745	3 321 665
Of which:			
[Guarantees and sureties]		[3 371 558]	[3 113 883]
[Others]		[242 187]	[207 782]
Commitments	4.31	5 106 926	4 297 180

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

The Accountant

The Board of Directors

CONSOLIDATED STATEMENTS OF INCOME FOR YEARS ENDED 31 DECEMBER, 2007 AND 2006

(Amounts expressed in thousands of euro)

	Notes	31 Dec. 07	31 Dec. 06
Interest and similar income		2 412 572	1 693 353
Interest and similar expenses		(1 804 578)	(1 152 643)
Financial margin (narrow sense)	**4.32**	**607 994**	**540 710**
Gross margin on unit links	4.33	10 691	7 516
Income from equity instruments	4.34	22 291	14 747
Net commission relating to amortised cost	4.35	20 930	18 373
Financial margin		**661 906**	**581 346**
Technical result of insurance contracts	4.36	13 057	3 265
Commissions received		327 268	285 112
Commissions paid		(34 531)	(27 257)
Other income, net		49 866	44 008
Net commission income	**4.37**	**342 603**	**301 863**
Gain and loss on operations at fair value		13 645	65 275
Gain and loss on assets available for sale		123 302	44 332
Interest and financial gain and loss with pensions	4.24	60 593	14 216
Net income on financial operations	**4.38**	**197 540**	**123 823**
Operating income		20 026	24 004
Operating expenses		(15 576)	(12 251)
Other taxes		(4 028)	(3 964)
Net operating income / (expenses)	**4.39**	**422**	**7 789**
Operating income from banking activity		**1 215 528**	**1 018 086**
Personnel costs	4.40	(379 236)	(339 228)
General administrative costs	4.41	(228 641)	(198 094)
Depreciation and amortisation	4.8 / 4.9	(45 372)	(39 042)
Overhead costs		**(653 249)**	**(576 364)**
Recovery of loans, interest and expenses		20 852	21 015
Impairment losses and provisions for loans and guarantees, net	4.18	(112 265)	(56 488)
Impairment losses and other provisions, net	4.18	(18 330)	(5 997)
Net income before income tax		**452 536**	**400 252**
Income tax	4.42	(108 603)	(100 273)
Earnings of associated companies (equity method)	4.43	27 985	22 069
Global consolidated net income		**371 918**	**322 048**
Income attributable to minority interest	4.30	(16 807)	(13 290)
Consolidated net income of the BPI Group	**4.44**	**355 111**	**308 758**

Earnings per share (in euro)		
Basic	0.472	0.414
Diluted	0.467	0.406

The accompanying notes form an integral part of these statements.

The Accountant

The Board of Directors

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER, 2007 AND 2006

	Capital	Share premium account	Other equity instruments	Revaluation reserves
Balances at 31 December, 2005	**760 000**	**231 306**	**12 341**	**66 964**
Dividends distributed in 2006				
Appropriation of net income for 2005 to reserves				
Dividends paid on preference shares				
Variable Remuneration Program (RVA)			(3 627)	
Purchase / sale of treasury shares				
Purchase / sale of preference shares				
Foreign exchange differences				(9 689)
Revaluation of financial assets available for sale				69 081
Revaluation of assets of associated companies				
Net income for 2006				
Others				
Balances at 31 December, 2006	**760 000**	**231 306**	**8 714**	**126 356**
Dividends distributed in 2007				
Appropriation of net income for 2006 to reserves				
Dividends paid on preference shares				
Costs with the issuance of preference shares				
Variable Remuneration Program (RVA)			2 108	
Purchase / sale of treasury shares				
Purchase / sale of preference shares				
Foreign exchange differences				(8 786)
Revaluation of financial assets available for sale				(62 595)
Revaluation of assets of associated companies				
Net income for 2007				
Others				
Balances at 31 December, 2007	**760 000**	**231 306**	**10 822**	**54 975**

The Accountant

(Amounts expressed in thousands of euro)

Other reserves and retained earnings	Treasury shares	Net income	Minority interest	Shareholders' equity
(97 088)	**(42 925)**	**250 816**	**306 252**	**1 487 666**
		(89 609)		(89 609)
161 207		(161 207)		
			(12 782)	(12 782)
(151)	(8 682)			(12 460)
183	(81)			102
			(30 023)	(30 023)
979				(8 710)
				69 081
1 882				1 882
		308 758	13 290	322 048
79	29			108
67 091	**(51 659)**	**308 758**	**276 737**	**1 727 303**
		(120 406)		(120 406)
188 352		(188 352)		
			(16 329)	(16 329)
			(1 291)	(1 291)
337	22 655			25 100
22	(1 209)			(1 187)
			(5 756)	(5 756)
				(8 786)
				(62 595)
(2 664)				(2 664)
		355 111	16 807	371 918
(6)			158	152
253 132	**(30 213)**	**355 111**	**270 326**	**1 905 459**

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, 2007 AND 2006

	31 Dec. 07	31 Dec. 06
Operating activities		
Interest, commissions and similar income received	3 682 856	2 859 423
Interest, commissions and similar expenses paid	(2 429 544)	(1 797 612)
Recovery of loans and interest in arrears	20 852	21 015
Payments to personnel and suppliers	(596 276)	(514 374)
Net cash flow from income and expenses	677 888	568 452
Decrease (increase) in:		
Financial assets held for trading and available for sale	(995 750)	(1 475 268)
Loans and advances to credit institutions	(628 653)	25 837
Loans and advances to Customers	(2 633 714)	(3 687 928)
Other assets	204 903	(183 026)
Net cash flow from operating assets	(4 053 213)	(5 320 385)
Increase (decrease) in:		
Resources of central banks and other credit institutions	(239 439)	1 379 919
Resources of Customers	4 274 796	2 063 269
Financial liabilities held for trading	332 822	(113 512)
Other liabilities	70 601	72 642
Net cash flow from operating liabilities	4 438 780	3 402 318
Contributions to the Pension Funds	(5 005)	(36)
Income tax paid	(54 112)	(12 524)
	1 004 338	**(1 362 175)**
Investing activities		
Sale of investments in subsidiaries and associated companies		
Viacer – Sociedade Gestora de Participações Sociais, Lda.	4 080	
Purchase of other tangible and intangible assets	(96 700)	(74 067)
Sale of other tangible assets	2 351	1 244
Dividends received and other incomes	37 381	28 053
	(52 888)	**(44 770)**

The accompanying notes form an integral part of these statements.

The Accountant

The Board of Directors

(Amounts expressed in thousands of euro)

	31 Dec. 07	31 Dec. 06
Financing activities		
Liability for assets not derecognised	(360 026)	1 357 032
Issuance of debt securities and subordinated debt	1 712 937	1 898 070
Redemption of debt securities	(1 177 037)	(1 298 677)
Purchase and sale of own debt securities and subordinated debt	(240 460)	(220 873)
Purchase and sale of preference shares	(5 756)	(30 023)
Interest on debt securities and subordinated debt	(283 291)	(209 443)
Dividends paid on preference shares	(16 329)	(12 782)
Dividends distributed	(120 406)	(89 609)
Purchase and sale of treasury shares	17 077	(13 914)
	(473 291)	**1 379 781**
Net increase (decrease) in cash and equivalents	478 159	(27 164)
Cash and equivalents at the beginning of the period	928 941	956 105
Cash and equivalents at the end of the period	**1 407 100**	**928 941**

The accompanying notes form an integral part of these statements.

The Accountant

Alberto Pitôrra

The Board of Directors

Chairman Artur Santos Silva

Deputy-Chairmen Carlos da Câmara Pestana
Fernando Ulrich
Ruy Octávio Matos de Carvalho

Members Alfredo Rezende de Almeida
António Domingues
António Farinha Morais
Armando Leite de Pinho
Carlos Moreira da Silva
Edgar Alves Ferreira
Herbert Walter
Isidro Fainé Casas
Jorge de Figueiredo Dias
José Pena do Amaral
Klaus Dührkop
Manuel Ferreira da Silva
Marcelino Armenter Vidal
Maria Celeste Hagatong
Pedro Barreto
Roberto Egydio Setúbal
Tomaz Jervell

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Notes to the consolidated financial statements

Notes to the consolidated financial statements as of 31 December 2007 and 2006

(Unless otherwise indicated, all amounts are expressed in thousands of euro – th. euro)

1. THE FINANCIAL GROUP

Banco BPI is the central entity of a multi-specialised financial group dedicated to the banking activity, which provides a broad range of banking services and products to companies, institutional investors and private individuals. Banco BPI has been listed on the Stock Exchange since 1986.

The BPI Group started operating in 1981 with the foundation of SPI – Sociedade Portuguesa de Investimentos, S.A.R.L. By public deed dated December 1984, SPI – Sociedade Portuguesa de Investimentos, S.A.R.L. changed its corporate name to BPI – Banco Português de Investimento, S.A., which was the first private investment bank created after the re-opening, in 1984, of the Portuguese banking sector to private investment. On 30 November, 1995 BPI – Banco Português de Investimento, S.A. (BPI Investimentos) was transformed into BPI – SGPS, S.A., which operated exclusively as the BPI Group's holding company, and BPI Investimentos was founded to act as the BPI Group's investment banking company. On 20 December, 2002, BPI SGPS, S.A. incorporated, by merger, the net assets and operations of Banco BPI and changed its corporate name to Banco BPI, S.A.

At 31 December, 2007 the Group's banking operations were carried out principally through Banco BPI in the commercial banking area and through BPI Investimentos in the investment banking area. The BPI Group is also the sole shareholder of Banco de Fomento, S.A.R.L. which operates as a commercial bank in Angola.

In 2007 Banco Português de Investimento held a 50% particiation in the supplementary group of companies Ulissipair ACE.

During 2007 Banco BPI sold 1% of the share capital of Viacer, and now holds 25% of that company.

At 31 December, 2007 the BPI Group was made up of the following companies:

	Head Office	Share-holders' equity	Total assets	Net income (loss) for the year	Direct participa-tion	Effective participa-tion	Consolidation / Recognition method
Banks							
Banco BPI, S.A.	Portugal	1 255 758	35 462 420	231 598			
Banco Português de Investimento, S.A.	Portugal	79 547	2 497 788	24 251	100.00%	100.00%	Full consolid.
Banco Comercial e de Investimentos, S.A.R.L.	Mozambique	43 691	547 212	12 101	29.55%	30.00%	Equity method
Banco de Fomento, S.A.R.L. (Angola)[1]	Angola	258 548	2 427 157	70 489	100.00%	100.00%	Full consolid.
Banco BPI Cayman, Ltd.	Cayman Islands	142 304	718 714	(8 016)		100.00%	Full consolid.
Specialised loan companies							
BPI Rent – Comércio e Aluguer de Bens, Lda.	Portugal	11 599	15 086	7 814	100.00%	100.00%	Full consolid.
Eurolocação – Comércio e Aluguer de Veículos e Equipamento, S.A.	Portugal	500	502	135	100.00%	100.00%	Full consolid.
BPI Locação de Equipamentos, Lda.	Portugal	2 381	8 921	888	100.00%	100.00%	Full consolid.
Asset management companies and dealers							
BPI Dealer – Sociedade Financeira de Corretagem (Moçambique), S.A.R.L.	Mozambique	91	91	9	13.00%	92.70%	Full consolid.
BPI Gestão de Activos – Gestão de Fundos de Investimento Mobiliários, S.A.	Portugal	31 999	63 236	19 689	100.00%	100.00%	Full consolid.
BPI – Global Investment Fund Management Company, S.A.	Luxembourg	1 823	2 307	1 558	100.00%	100.00%	Full consolid.
BPI Pensões – Sociedade Gestora de Fundos de Pensões, S.A.	Portugal	7 360	8 186	3 056	100.00%	100.00%	Full consolid.
Sofinac – Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.	Portugal	1 653	1 851	605	100.00%	100.00%	Full consolid.
BPI (Suisse), S.A.[2]	Switzerland	377	2 501	312		99.90%	Full consolid.
Venture capital companies							
F. Turismo – Capital de Risco, S.A.	Portugal	5 453	5 599	177	25.00%	25.00%	Equity method
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	25 423	27 948	641	100.00%	100.00%	Full consolid.
Insurance companies							
BPI Vida – Companhia de Seguros de Vida, S.A.	Portugal	207 764	4 518 189	34 031	100.00%	100.00%	Full consolid.
Cosec – Companhia de Seguros de Crédito, S.A.	Portugal	50 859	98 769	1 755	50.00%	50.00%	Equity method
Companhia de Seguros Allianz Portugal, S.A.	Portugal	194 163	1 123 748	37 636	35.00%	35.00%	Equity method
Other							
BPI Capital Finance Ltd.[3]	Cayman Islands	551 199	551 214	27 217	100.00%	100.00%	Full consolid.
BPI, Inc.[4]	U.S.A.	470	472	18	100.00%	100.00%	Full consolid.
BPI Madeira, SGPS, Unipessoal, S.A.	Portugal	154 414	154 419	1 765	100.00%	100.00%	Full consolid.
Douro – Sociedade Gestora de Participações Sociais, S.A.[5]	Portugal	4 580	4 821	280	100.00%	100.00%	Full consolid.
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	Portugal	68 364	72 106	19 206	32.80%	32.80%	Equity method
Simofer – Sociedade de Empreendimentos Imobiliários e Construção Civil, Lda.	Portugal	(5 900)	1 075	(794)	100.00%	100.00%	Full consolid.
Ulissipair ACE	Portugal	2 190	3 397	2 196		50.00%	Proportional
Viacer – Sociedade Gestora de Participações Sociais, Lda.	Portugal	82 780	82 830	15 341	25.00%	25.00%	Equity method

Note: Unless otherwise indicated, all amounts are as of 31 December, 2007 (accounting balances before consolidation adjustments).

1) Banco BPI holds 1 305 297 shares, the share capital of this company being made up of 1 305 561 shares, fully owned by the BPI Group.
2) The amounts refer to the consolidated financial statements with BPI Fiduciaire,S.A., a wholly owned subsidiary of BPI (Suisse), S.A..
3) The share capital is made up of 5 000 ordinary shares with a nominal value of 1 euro each, and 550 000 000 non-voting preference shares with a nominal value of 1 euro each. The BPI Group's effective participation corresponds to 0.001% considering the preference shares.
4) Amounts for 30 June, 2007 result from the translation of US dollars at the exchange rate as of 31 December, 2007.
5) The amounts refer to the consolidated financial statements with Sucessa – Sociedades de Investimentos e Construções Urbanas, S.A. and Douro Fundiários, S.A., which are fully owned by Douro – Sociedade Gestora de Participações Sociais, S.A.

2. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

A) BASES OF PRESENTATION

The consolidated financial statements were prepared from the accounting records of Banco BPI and its subsidiary and associated companies in conformity with International Accounting Standards / International Financial Reporting Standards (IAS / IFRS), as adopted by the European Union in accordance with Regulation (EC) 1606 / 2002 of 19 July of the European Parliament and Council and incorporated into Portuguese legislation through Bank of Portugal Notice 1 / 2005 of 21 February.

B) PRINCIPAL ACCOUNTING POLICIES

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

2.1 Consolidation of subsidiaries and recognition of associated companies (IAS 27, 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 or power to manage their financial and operating policies. Associated companies are entities over which Banco BPI has direct or indirect significant influence over their management and financial policies but over which it does not have control. As a general rule, it is presumed that significant influence exists when the participation exceeds 20%.

The financial statements of subsidiary companies are consolidated using the full consolidation method. Significant inter-group transactions and account balances were eliminated in the consolidation process. The amount of share capital, reserves and net results corresponding to third party participation in these subsidiaries is reflected in the caption MINORITY INTEREST. When necessary, adjustments are made to the subsidiary companies' financial statements to ensure their consistency with the BPI Group's accounting policies.

Goodwill arising from the difference between the cost of acquisitions (including expenses) and the fair value of the identifiable assets, liabilities and contingent liabilities of subsidiary companies as of the date of the first consolidation are recorded as assets and are subject to impairment tests. When a subsidiary company is sold, net goodwill is included in determining the gain or loss on the sale.

The financial statements of companies under joint control of the BPI Group and other entities are consolidated using the proportional method, under which the assets, liabilities, costs and income of the entities are included in the consolidated financial statements in proportion to the BPI Group's participation in their share capital.

Associated companies are recorded in accordance with the equity method of accounting. In accordance with this method, the amount of the investment, which is initially recognised at cost, is adjusted by post-acquisition changes in the net asset value of the associated companies, in proportion to the Group's participation.

Goodwill relating to associated companies is included in the book value of the investment. The book value of associated companies (including goodwill) is subject to impairment tests in accordance with IAS 36 and IAS 39.

In 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 acquisition (including expenses) and the fair value of the identifiable assets, liabilities and contingent liabilities of subsidiary and associated companies as of the date of the first consolidation or the date the equity method is first applied is immediately recognised in the statement of income.

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

Consolidated net income is the sum of the individual net result of Banco BPI and the percentage of the net results of subsidiary and associated companies, equivalent to Banco BPI's effective participation in them, considering the period the participations are held for, after elimination of income and expenses resulting from inter-group transactions.

Foreign currency subsidiary and associated companies (IAS 21 and IAS 29)

The financial statements of subsidiary and associated companies expressed in foreign currencies were included in the consolidation after being translated to Euro at the exchange rates published by the Bank of Portugal:

- assets and liabilities expressed in foreign currencies are translated to Euro using the exchange rates in force at the balance sheet date;

- income and expenses expressed in foreign currencies are translated to Euro using the exchange rates in force in the months in which they are recognised; and,

- exchange differences resulting from the translation to Euro are recognised directly in shareholders' equity, in the caption REVALUATION RESERVES.

Until 30 June, 2006 (inclusive), the financial statements of Banco de Fomento Angola were translated to Euro in accordance with IAS 29 – Financial Reporting in Hyperinflationary economies:

- the gain or loss in the net monetary position was included in the statement of income caption GAIN AND LOSS ON FOREIGN EXCHANGE OPERATIONS;

- non-monetary assets and liabilities were revalued in accordance with the general price index, determined based on the evolution of the Angolan Kwanza in relation to the Euro.

Following the decrease in the inflation rate in Angola, the Angolan economy stopped being considered as hyperinflationary as from the second half of 2006. Therefore, the financial statements of Banco de Fomento Angola, prepared in kwanzas, started being translated to Euro in accordance with the principles described in the preceding paragraph.

2.2. Financial assets and liabilities (IAS 32 and IAS 39)

Financial assets and liabilities are recognised in the BPI Group's balance sheet on the trade or contracting date, unless there is an express contractual stipulation or applicable legal or regulation regime under which the transactions' inherent rights and obligations are transferred at a different date, in which case the latter date is applicable.

Financial assets and liabilities are initially recorded at fair value plus direct transaction costs, except for assets and liabilities that have been recognised at fair value through profit or loss, in which case the transaction costs are immediately recorded in the statement of income.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between equally knowledgeable, willing parties. On the date of contracting or starting an operation, fair value is generally the amount of the transaction.

Fair value is determined based on:

- the price in an active market, or

- valuation methods and techniques (when there is not an active market) supported by:

  – mathematical calculations based on recognised financial theories; or

  – prices calculated based on similar assets or liabilities traded in active markets or based on statistical estimates or other quantitative methods.

A market is considered to be active, and therefore liquid, if it is traded on a regular basis. Generally, there are market prices for securities and derivatives (futures and options) that are traded on stock exchanges.

In markets which lack liquidity and in the absence of regular transactions, alternative methods of valuing assets are used, namely:

- assets valued based on the most recent Net Asset Value disclosed by their managers;

- assets valued based on third party prices considered to be reliable and which correspond to real intentions to purchase; or,

- assets for which impairment tests are made based on indicators of the performance of the underlying operations (degree of protection by subordination of the parts owned, rates of delinquency of the underlying assets, the evolution of ratings).

2.2.1. 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, including long (purchased securities) or short (short selling of securities) positions, and derivatives purchased by the BPI Group for sale or repurchase in a very short period of time;

- securities related to capitalisation insurance portfolios;
- 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.

Such assets and liabilities are valued daily at fair value. The book value of bonds and other fixed income securities includes accrued interest.

Gains and losses resulting from changes in fair value are recognised in the statement of income.

2.2.2. Financial assets available for sale

This caption includes:

- fixed income securities that have not been classified in the trading or loan portfolios;
- variable yield securities available for sale;
- shareholders' loans and supplementary capital contributions in financial assets available for sale.

Assets classified as available for sale are valued at fair value, except for equity instruments that are not traded in active markets and for which their fair value cannot be reliably measured or estimated. In this case they remain recorded at cost.

Gains and losses resulting from changes in the fair value of financial assets available for sale are recognised directly in the shareholders' equity caption FAIR VALUE REVALUATION RESERVE, except for impairment losses and exchange gains and losses on monetary assets, until the asset is sold. At this time, the gain or loss previously recognised in shareholders' equity is transferred to the statement of income.

Interest accrued on bonds and other fixed income securities and differences between their cost and nominal value (premium or discount) are recorded in the statement of income using the effective interest rate method.

Income from variable-yield securities (dividends in the case of shares) is recorded as income when it is attributed or received. In accordance with this procedure, interim dividends are recorded as income in the period in which they are declared.

In the case of objective evidence of impairment, resulting from a significant and extended decrease in the fair value of a security or financial difficulty of the issuer, the accumulated losses in the fair value revaluation reserve are transferred from shareholders' equity to the statement of income.

Impairment losses recorded on fixed income securities are reversed through the statement of income if there is a positive change in the fair value of the security resulting from an event which has occurred after determination of the impairment. Impairment losses on variable-yield securities cannot be reversed. In the case of securities for which impairment losses have been recognised, subsequent negative changes in fair value are always recognised in the statement of income.

Exchange differences of 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.

Assets available for sale, designated as hedged assets, are valued as explained in note 2.2.6. Hedge Accounting – derivatives and hedged instruments.

2.2.3. Loans and other receivables

Loans and other receivables include loans and advances made by the Bank to Customers and to credit institutions, including finance lease operations, factoring operations, participation in syndicated loans and securitised loans (commercial paper and bonds issued by companies) that are not traded on an active market and which are not intended to be sold.

Loans and securitised loans traded on active markets are included in the caption FINANCIAL ASSETS AVAILABLE FOR SALE.

At the inception date, loans and other receivables are recognised at fair value. In general, fair value at the inception date corresponds to the amount of the transaction and includes commission, taxes and other costs and income relating to credit operations.

Loans and other receivables are subsequently valued at amortised cost, using the effective interest rate method and are subject to impairment tests.

Interest income, commission, fees and other costs and income on credit operations are recognised on an accruals basis over the period of the operations, regardless of when they are received or paid. Commission received relating to credit commitments is deferred and recognised on a straight-line basis over the period of the commitment.

The Bank classifies as overdue credit, instalments of principal and interest overdue for more than 30 days. Credits under legal collection procedures include the full amount of the principal (both overdue and not yet due). Mortgage loans are considered to be under legal collection procedures when the petition to execute is delivered to the court, which is usually 150 days after the first default.

The BPI Group writes off loans on operations considered to be unrecoverable, for which provisions (in accordance with the Adjusted Accounting Standards (Normas de Contabilidade Ajustadas – NCA) established by Bank of Portugal Notice 1 / 2005) and impairment losses have been recorded for the full amount in the month preceding the write-off.

Loans designated as hedged assets are valued as explained in note 2.2.6. 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 a constant 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 processes, considering that:

- it retains control over the operations;
- it continues to receive a substantial part of the remuneration;
- it retains a substantial part of the risk on the credits transferred.

Credits sold that have not been derecognised are recorded in the caption LOANS AND ADVANCES TO CUSTOMERS and are subject to the accounting principles used for other credit operations. Interest, commission and fees relating to the securitised loan portfolio are accrued over the period of the credit operation.

Amounts received relating to securitisation operations are recorded, at the settlement date, 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 risk and / or benefits maintained are represented by the bonds with the highest degree risk, issued by the securitisation vehicle. The amount recorded in assets and liabilities represents the proportion of risk / benefit held by the Bank (continuous involvement), the corresponding bonds being reflected in the available-for-sale financial assets portfolio.

Securities under repurchase and resale agreements

Securities purchased with resale agreements are not recorded in the securities portfolio. Funds paid are recorded as loans at the settlement date, while interest is accrued.

Securities sold with repurchase agreements are maintained in their original securities portfolio. Funds received are recorded in the corresponding liability caption at the settlement date, while interest is accrued.

Guarantees given and irrevocable commitments
Guarantees given and irrevocable commitments are recorded in off-balance sheet accounts by the amount at risk, while interest, commission, fees and other income are recorded in the statement of income over the period of the operations. These operations are subject to impairment tests.

Impairment
Loans, other receivables and guarantees given are subject to monthly impairment tests. Impairment losses identified are recorded by corresponding charge to the statement of income for the year. If, in subsequent periods, there is a decrease in the estimated impairment loss, the impairment loss initially recorded is reversed by credit to the statement of income.

In accordance with IAS 39 a financial asset is considered to be impaired when there is evidence that one or more loss events have occurred after initial recognition of an asset, and such events have an impact on the estimated recoverable value of the future cash flows of the financial asset considered.

IAS 39 defines some events that may be considered as objective evidence of impairment (breach of contract, such as delay in the payment of principal or interest; probability that the borrower will become bankrupt, etc.). However, in certain circumstances determination of impairment loss requires professional judgement.

Objective evidence of impairment situations is assessed as of the date of the financial statements.

Impairment assessment is made based on individual credits where they are significant in amount and on an individual or collective basis where the credits are not significant in amount.

BPI's loan portfolio is segmented as follows for purposes of determining impairment:

- Corporate Banking;
- Private individuals and small businesses;
- specialised credit: housing loans, equipment leasing, real estate leasing, vehicle financing, consumer credit and credit cards;
- commercial portfolio: discounts, credit with a plan, credit without a plan and overdrafts;
- Institutional Banking and the State Business Sector;
- others.

Impairment losses relating to the Corporate Banking and Institutional Banking and the State Business Sector segments are determined on an individual basis whenever the credits show signs of impairment or are in default. Credit operations in these segments that do not show signs of impairment, as well as operations of the other segments are subject to collective assessments to determine the amount of the related impairment.

Individual assessment
In the case of assets for which there is objective evidence of impairment on an individual basis, impairment is calculated operation by operation, based on the information included in the Bank's credit risk analysis models which consider, among others, the following factors:

- overall exposure of the Customer and nature of the liabilities contracted with the Bank: financial or non financial operations (namely, liabilities of a commercial nature or performance guarantees);
- notation of client risk determined based on a calculation system implemented by the BPI Group. The risk notation includes, among others, the following characteristics:
  - financial situation of the Customer;
  - risk of the business sector in which the Customer operates;
  - quality of management of the Customer, measured by the experience in the relationship with the BPI Group and the existence of incidents;
  - quality of the accounting information presented;
  - nature and amount of the guarantees relating to the liabilities contracted with the Bank;
  - non performing loans for a period exceeding 30 days.

In such situations the amount of the loss is calculated based on the estimated recoverable amount of the credit, after recovery costs, discounted at the effective rate of interest during the period from the date the impairment is calculated 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 valued individually, for which there are no objective signs of impairment, are included in a group of assets with similar credit risks, and impairment losses are assessed collectively.

Impairment for these groups of assets is assessed as explained in the following section – Collective assessment.

Assets assessed individually, for which an impairment loss is recognised, are excluded from the collective assessment.

Collective assessment
Future cash flows of groups of credit subject to collective impairment assessment are estimated based on the past experience of losses on assets with similar credit risk characteristics.

Collective assessment involves estimating the following risk factors:

- the possibility of a performing operation or Customer coming to show signs of impairment through delays arising during the emergency period (period between the occurrence of a loss event and identification of that event by the Bank);
  In accordance with IAS 39 these situations correspond to losses incurred but not reported, that is cases in which, for part of the credit portfolio, the loss event has already occurred, but the Bank has not yet identified it;

- the possibility of an operation or Customer that has already had delays, going into default (situations of legal collection) during the remaining period of the operation;

- financial loss on operations in default.

For purposes of determining the percentage of estimated loss on operations or Customers in default, the Bank considers payments by Customers after default, less direct costs of the recovery process. The flows considered are discounted at the rate of interest of the operations and compared to the exposure at the time of default.

The inputs used for calculating collective impairment are determined based on statistical models for credit groups and revised regularly to approximate the estimated amounts to the actual amounts.

For exposures with objective evidence of impairment, the amount of the loss results from a comparison of the book value with the present value of the estimated future cash flows. The rate of interest of the operations at the date of the assessment is used to calculate the present value of the future cash flows.

2.2.4. 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 2.2.6 Hedge Accounting – derivatives and hedged instruments.

2.2.5. Debt securities issued by the Bank
Debt securities issued by the Bank are recorded under the captions SUBORDINATED DEBT and DEBT SECURITIES.

At the date of issue, debt securities are recorded at fair value (issue value), including transaction expenses, commissions 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 2.2.6, Hedge Accounting – derivatives and hedged instruments.

Bonds issued by the Bank can be listed, or not, on the Stock Exchange.

Secondary market transactions
The Bank guarantees the liquidity of bonds issued. Purchases and sales of these debt securities are included proportionately in the respective captions of debt issued (PRINCIPAL, INTEREST, COMMISSIONS, 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.

2.2.6. Hedge accounting – derivatives and hedged instruments

The BPI Group carries out derivative operations in the normal course of its business, managing its own positions based on the expected evolution of the markets (trading), to meet the specific needs of its Customers, or to hedge its exposure (hedging).

All derivative instruments are recorded at fair value, the changes in fair value being recognised in the statement of income.

Financial derivative transactions in the form of foreign exchange contracts, interest rate contracts, contracts on shares or share indices, inflation contracts or a combination of these, are carried out in over-the-counter (OTC) markets and in organised markets (especially stock exchanges). The majority of over-the-counter derivatives, swaps, fras, caps, floors and options are traded on active markets, and are valued based on generally accepted methods (discounting cash flows, Black-Scholes method, etc.) and market prices for similar assets. The amount obtained is adjusted based on liquidity and credit risk.

Derivatives are also recorded in off balance sheet accounts at their theoretical value (notional amount), except for futures which are recorded in off balance sheet accounts at their daily adjusted market value.

Hedge accounting

The BPI Group carries out derivative operations to hedge interest rate and foreign exchange rate risk (fair value hedge operations) on financial assets and liabilities identified individually (bond portfolio, issuance of own debt securities and loans), and on groups of operations (term deposits and fixed rate loans).

The BPI Group has formal documentation of the hedge relationship identifying, at the inception of the transaction, the instrument (or part of the instrument, or part of the risk) that is being hedged, the strategy and type of risk being hedged and the methods used to demonstrate the effectiveness of the hedge.

Monthly, the Bank tests the effectiveness of the hedge by comparing changes in the fair value of the hedged instrument, attributable to the hedged risk, with variations in the fair value of the hedging derivative, the relationship between them being within the range of 80% to 125%.

Gains and losses resulting from the revaluation of hedging derivatives 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 available-for-sale assets (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.

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 as trading instruments and the amount of the revaluation of the hedged instruments 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.

2.2.7 Foreign currency 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.

2.3. Tangible assets (IAS 16)

Tangible assets used by the Bank in its operations are stated at cost (including directly attributable costs) less accumulated depreciation and impairment losses.

Depreciation of tangible assets is recorded on a straight-line basis over their estimated useful lives, which corresponds to the period the assets are expected to be available for use:

	Useful life (years)
Premises	20 to 50
Improvements in premises for own use	10 to 50
Non-recoverable expenditure capitalised on leasehold buildings	3 to 10
Equipment	3 to 12
Other tangible assets	3 to 10

Non-recoverable expenditure on improvements in leasehold buildings is depreciated in accordance with its estimated useful life or the remaining period of the lease contract.

As established in IFRS 1, tangible assets acquired by the BPI Group up to 1 January, 2004 have been recorded at their book value at the date of transition to IAS / IFRS, which corresponds to cost adjusted for revaluations recorded in accordance with the legislation, based on price level indices. In accordance with current tax legislation, 40% of the additional depreciation charge resulting from such revaluations is not deductible for income tax purposes, the resulting deferred tax liability being recognised.

Tangible assets acquired under finance lease

Tangible assets acquired under finance lease operations, in which the Bank has all the risks and rewards of ownership, are depreciated in accordance with the procedures explained in the preceding section.

Lease instalments comprise an interest charge and a principal repayment component. The liability is reduced by the amount corresponding to the principal repayment component of each of the instalments and the interest is reflected in the statement of income over the term of the lease.

2.4. Tangible assets available for sale

Assets (property, equipment and other assets) received as settlement of loan operations are recorded in the caption OTHER ASSETS as they are not always in condition to be sold immediately and may be held for periods in excess of one year. Such assets are recorded at the amount stated in the settlement agreement, which is the lower of the amount of the outstanding debt or the appraised value as of the date of the agreement. Such property is subject to periodic appraisals, with impairment losses being recorded whenever the appraised value (net of costs to sell) is lower than its book value.

The caption OTHER ASSETS also includes the Bank's tangible assets retired from use (unused property and equipment) which are in the process of sale. Such assets are transferred from tangible assets at their book value in accordance with IAS 16 (cost less accumulated depreciation and impairment losses) when they become available for sale, and are subject to periodic appraisals with impairment losses being recorded whenever the appraised value (net of selling costs) is lower than their book value.

Unrealised gains on other assets are not recognised on the balance sheet.

2.5. 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.

2.6. Retirement and survivor pensions (IAS 19)

The majority of Employees of the BPI Group are not covered by the Portuguese Social Security system. The BPI Group companies that have adhered to the Collective Vertical Labour Agreement (Acordo Colectivo de Trabalho Vertical) for the Portuguese Banking Sector have assumed the commitment to pay 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.

Annually, the BPI Group determines the amount of its past service liability by actuarial calculation using the "Projected Unit Credit" method in the case of retirement due to age, and the "Single Successive Premiums" method in the case of retirement due to incapacity and survivor benefits. The actuarial assumptions used (financial and demographic) are based on the expectations, as of the balance sheet date, regarding salary and pension increases, using mortality tables adapted to the Bank's population. The discount rate is determined based on market rates for high quality corporate bonds with similar terms to those of the related pension liability. The assumptions are mutually compatible. In 2006 and 2007 the BPI Group updated the actuarial assumptions as of 30 June and 31 December, this being reflected prospectively in pension costs and in determining and amortising the actuarial deviations that exceed the corridor. The amount of the liability includes, in addition to the retirement pension benefits, post-employment healthcare benefits (SAMS) and death subsidy during retirement.

The BPI Group recognises, under the caption OTHER ASSETS or OTHER LIABILITIES – ACTUARIAL DEVIATIONS, the net accumulated amount (after 1 January, 2004) of actuarial gains and losses resulting from changes in the actuarial and financial assumptions, as well as differences between the actuarial and financial assumptions used and the actual amounts. A corridor has been established to absorb accumulated actuarial gains and losses of up to 10% of the higher of the present value of the past service liability or the amount of the pension fund. Amounts that exceed the corridor are amortised against the statement of income over the average period up to the expected retirement age of the Employees covered by the plan.

The increase in the past service liability resulting from early retirements is fully recognised as cost in the statement of income for the year.

Increases in the past service liability resulting from changes in the conditions of the Pension Plans are recognised in full as costs in the case of vested benefits, or amortised over the period up to the time the benefits become vested. The amount of the liabilities not yet recognised as cost is reflected in the caption OTHER ASSETS.

The past service liability (post employment benefits) is covered by pension funds. The value of the pension funds corresponds to the fair value of their assets at the balance sheet date.

The funding requirements of the pension fund are defined in Bank of Portugal Notice 4 / 2005, which establishes:

- the requirement to fully fund pensions under payment and a minimum of 95% of the past service liability for current personnel;

- the establishment of a transitory period to fund the increase in the liability resulting from application of IAS 19 at 31 December, 2004. The increase in the liability can be funded through a plan to amortise the liability in uniform instalments up to 31 December, 2009, expect for the part relating to the liability for post-employment healthcare benefits and changes in the actuarial assumptions related to the mortality table, in which case the funding plan can be extended to 31 December, 2011.

- at 31 December, 2005 the Bank opted to fund the full amount of the liability for retirement pensions of its Employees and so is not applying the uniform amortisation plan allowed by the Bank of Portugal.

The past service liability for retirement pensions net of the amount of the pension fund is recorded in the BPI Group's financial statements under the caption OTHER LIABILITIES (insufficient coverage) or OTHER ASSETS (excess coverage).

The following costs relating to retirement and survivor pensions are included in the consolidated statement of income of the BPI Group:

- current service cost (cost for the year);

- interest cost on the total liability;

- expected income of the pension funds;

- cost relating to the increase in the past service liability due to early retirements;

- amortisation of the actuarial deviations or changes in assumptions outside the corridor;

- cost (or amortisation) resulting from changes in the conditions of the Pension Plan.

At the transition date, the BPI Group adopted the option, allowed under IFRS 1, of not recalculating actuarial gains and losses deferred since the inception of the pension plans (reset option). Consequently, deferred actuarial gains and losses reflected in the BPI Group's financial statements as of 31 December, 2003 were reversed by corresponding entry to retained earnings at the transition date (1 January, 2004).

2.7. Long service premiums (IAS 19)

The BPI Group companies that have adhered to the Collective Vertical Labour Agreement (*Acordo Colectivo de Trabalho Vertical*) for the Portuguese Banking Sector have assumed the commitment to pay current Employees that have fifteen, twenty five or thirty years of good service to the Group companies, a long service premium corresponding, respectively, to one, two or three months of their effective monthly remuneration (in the year the premium is attributed).

Annually, the BPI Group determines the present value of the liability for long service premiums by actuarial calculation using the "Projected Unit Credit" method. The actuarial assumptions used (financial and demographic) are based on the expectations, as of the balance sheet date, regarding salary increases, using mortality tables adapted to the Bank's population. The discount rate used is determined based on market rates for high quality corporate bonds with similar terms to those of payment of the liability. The assumptions are mutually compatible.

The liability for long service premiums is reflected under the caption OTHER LIABILITIES.

The following costs relating to the liability for long service premiums are included in the consolidated statement of income of the BPI Group:

- current service cost (cost for the year);
- interest cost;
- gain and loss resulting from actuarial deviations, changes in assumptions or changes in the conditions of the benefits.

2.8. 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.

2.9. Share-based payments (Remuneração variável em acções – RVA) (IFRS 2)

The share-based payment program (*Remuneração Variável em Acções – RVA*) is a remuneration plan under which part of the variable remuneration of Executive Directors and Employees of the BPI Group with variable remuneration equal to or greater than 2 500 euro is paid in BPI shares and BPI shares options. Remuneration under the RVA program varies from 10% to 50% of the total variable remuneration, the percentage increasing as the responsibility level of the Director or Employee increases.

The shares granted under the RVA program become available to the beneficiary on a gradual basis: 25% on the date they are granted and 25% in each of the three following years. As from 2002 ownership of the shares granted under the RVA program has been fully transferred on the date the shares are granted. Call options over the shares can be exercised between the first and the fifth year, as from the date they are granted. The shares become available (in the 3 years following the year in which they are granted) and the options become available (up to 2005, in the year following that in which they were granted, and as from 2005 in the 90 days following the grant date) subject to the beneficiaries remaining with the BPI Group.

Costs relating to the share-based payment program (RVA program) are accrued under the caption PERSONNEL COSTS with a corresponding entry to OTHER EQUITY INSTRUMENTS, as established by IFRS 2 for share-based payments. The cost of the shares and option premiums, as of the date they are granted, is accrued on a straight-line basis from the beginning of the year of the program (1 January) to the moment they become available to the Employees.

For the purpose of share-based payments, the Bank has created a portfolio of BPI shares transferring ownership of the shares to Employees on the grant date. However, for accounting purposes, the shares remain in the Bank's treasury share portfolio until the date they are made available. The shares are then derecognised by corresponding entry to the amounts accumulated under the caption OTHER EQUITY INSTRUMENTS.

For purposes of the share-based payment in options, the BPI Group has created a portfolio of BPI shares in order to hedge the liability resulting from issuing call options over the BPI shares, following a delta hedging strategy (determined using a model to evaluate the BPI share options, developed in-house based on Black-Scholes methodology).

This strategy corresponds to the creation of a portfolio with delta shares for each option granted, delta corresponding to the relationship between evolution of the price of an option and evolution of the price of the underlying shares. The treasury shares held to hedge the risk of variation in the value of the options sold are recorded under the caption TREASURY SHARES HEDGING THE SHARE-BASED PAYMENT PROGRAM, where they remain while they are held for that purpose.

When the options are exercised, the treasury shares are derecognised together with transmission of their ownership to the Employees. At that time the Bank recognises a gain or loss resulting from the difference between the exercise price and the average cost of the treasury share portfolio hedging each program, less the cost of the option premiums accumulated in the caption OTHER EQUITY INSTRUMENTS.

Realised gains and losses on treasury shares in the coverage and exercise of the options of the share-based payment program, as well as the related taxes, are recorded directly in shareholders' equity, not affecting net income for the year.

2.10. Technical provisions (IFRS 4)

The BPI Group sells capitalisation life insurance products through its subsidiary BPI Vida. Capitalisation insurance products without discretionary participation features are recorded in accordance with IAS 39 and included in the caption RESOURCES OF CUSTOMERS AND OTHER DEBTS. Capitalisation insurance products with discretionary participation features are recorded in accordance with IFRS 4, in the caption TECHNICAL PROVISIONS.

The technical provisions recorded for life insurance contracts represent, collectively, the liability to the insured Customers and include:

- mathematical provisions determined using prospective actuarial methods in accordance with the technical bases of each product.

  They also include a provision for rate commitments, which is recorded when the effective profitability rate of the assets which represent the mathematical provisions of a certain product is lower than the technical interest rate used to calculate the mathematical provisions.

- provision for participation in profits to be attributed to the contracts in force at the end of each year. The amount is calculated in accordance with the technical bases of each contract, duly approved by the Portuguese Insurance Institute (Instituto de Seguros de Portugal), using the profitability rates for investments covering the respective mathematical provisions;

- provision for claims to cover indemnities payable relating to claims incurred but not yet settled. Since the BPI Group does not commercialise risk insurance, no provision has been recorded for claims incurred but not yet reported (IBNR).

2.11. 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.

2.12. Income taxes (IAS 12)

All the Group companies are taxed individually.

Banco BPI and its subsidiary and associated companies with head offices in Portugal are subject to the tax regimes established in the Corporate Income Tax Code (Portuguese initials – CIRC) and in the Statute of Tax Benefits.

The Madeira and Santa Maria Off-shore Financial Branches of Banco BPI are exempt from corporate income tax up to 31 December, 2011, in accordance with article 31 of the Statute of Tax Benefits. Under the provisions of Ministerial Order 555 / 2002 of 4 June, for the purpose of applying this exemption, at least 80% of the taxable income from Banco BPI's global operations is considered to result from activities outside the institutional scope of the Madeira and Santa Maria Free Trade Zones. This regime came into force on 1 January, 2003.

Current taxes are calculated based on the legal tax rates in force in the countries in which the Bank operates during the reporting period.

Deferred tax assets and liabilities correspond to the tax recoverable and payable in future periods resulting from temporary differences between the carrying value of assets and liabilities and their respective tax bases. Tax losses carried forward and tax credits are also recognised as 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 in force 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).

The BPI Group does not record deferred tax assets and liabilities on temporary taxable differences relating to investments in subsidiary and associated companies, as these differences are not expected to revert in the foreseeable future, except for the following:

- deferred tax liabilities relating to the estimated dividends that Banco de Fomento Angola is expected to pay to the BPI Group companies are recognised;

- deferred tax liabilities relating to the undistributed profits of Banco Comercial e de Investimentos are recognised.

Net income distributed to Banco BPI by subsidiary and associated companies in Portugal are not taxed in Banco BPI as a result of application of the regime established in article 46 of the Corporate Income Tax Code, which provides for the elimination of double taxation of net income distributed.

2.13. Preference shares (IAS 32 and IAS 39)

Preference shares are classified as equity instruments when:

- there is no contractual obligation for the BPI Group to redeem the preference shares acquired by a holder (in cash or in another financial asset);

- remission or early redemption of the preference shares can only be made at the option of the BPI Group;

- dividends distributed by the BPI Group to the preference shareholders are discretionary.

The BPI Group classified the preference shares issued by BPI Capital Finance Ltd. as equity instruments. The payment of dividends and redemption of the shares are guaranteed by Banco BPI.

The preference shares classified as equity instruments, held by third parties, are presented in the consolidated financial statements in the caption MINORITY INTEREST.

2.14. Principal estimates and uncertainties regarding the application of the accounting standards

The BPI Group's financial statements have been prepared using estimates and expected future amounts in the following areas:

Retirement and survivor pensions

Retirement and survivor pensions have been estimated based on actuarial tables and pension and salary growth assumptions. These assumptions are based on the BPI Group's expectations regarding the period during which the liabilities will be settled.

Loan impairment

Loan impairment has been determined based on expected future cash flows and estimated recoverable amounts. The estimates are made using assumptions based on the available historical information and assessment of the situation of the Customers. Possible differences between the assumptions used and the actual future behaviour of the loans and changes in the assumptions used by the BPI Group have an impact on the estimates.

Fair value of derivatives and unlisted financial assets

The fair value of derivatives and unlisted financial assets was estimated based on valuation methods and financial theories, the results of which depend on the assumptions used.

The environment of the financial markets, particularly in terms of liquidity, can influence the realisable value of these financial instruments in some specific situations, including their sale prior to maturity.

Income taxes

The Bank of Portugal has changed the accounting rules for preparing non consolidated financial statements, which are those used for tax purposes. As from 1 January, 2005 the non consolidated financial statements of Banco BPI have been prepared in accordance with the Adjusted Accounting Standards (*Normas de Contabilidade Ajustadas* – NCA) established by Bank of Portugal Notice 1 / 2005. Consequently, current and deferred tax relating to the impact of some transition adjustments to the new accounting rules have been calculated based on assumptions that may or may not be confirmed by the tax authorities in the future.

Additionally, deferred tax assets are recognised based on the assumption of the existence of future taxable income.

Deferred tax assets and liabilities 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.

3. SEGMENT REPORTING

3.1. Geographical segments

Geographical segments are the main basis for segmentation of the consolidated financial statements, and coincide with the first level of management segmentation and of the Group's information.

The BPI Group's segment reporting is based on the location of the units, and is divided into two main segments:

Domestic operations

Domestic operations correspond to the commercial banking operations carried out by the Group entities with head offices in Portugal, the Rest of Europe (Spain, France and Switzerland) and the Rest of the World (Cayman, Macao and North America) relating to banking services provided to domestic Customers, including the emigrant community and subsidiaries of Portuguese companies.

International operations

International operations correspond to commercial banking operations carried out in Angola by Banco de Fomento, S.A.R.L. and in Mozambique by Banco Comercial e de Investimentos, S.A.R.L. and BPI Dealer – Sociedade Financeira de Corretagem, S.A.R.L.

The BPI Group's balance sheet as of 31 December, 2007 and investments made in tangible and intangible assets during the year, by geographical segments, are as follows:

	Domestic operations				
	Portugal	Rest of Europe	Rest of the World	Inter segment operations	Total
ASSETS					
Cash and deposits at central banks	828 663	16 725	8		845 396
Loans and advances to other credit institutions repayable on demand	593 350	21 990	7 215	(346 046)	276 509
Financial assets held for trading and at fair value through profit or loss	4 355 363	9 663	279 211	(529 633)	4 114 604
Financial assets available for sale	3 420 354	816	76 587	2 276	3 500 033
Loans and advances to credit institutions	7 513 544	96 019	9 601 940	(15 686 321)	1 525 182
Loans and advances to Customers	22 987 778	2 736 401	608 936	(63 750)	26 269 365
Hedging derivatives	460 930		94 656	(143 430)	412 156
Other tangible assets	233 995	3 923	180		238 098
Intangible assets	13 275	1 310	12		14 597
Investment in associated companies and jointly controlled entities	137 855				137 855
Tax assets	138 377	2 988			141 365
Other assets	859 898	17 976	293	(77 998)	800 169
Total assets	**41 543 382**	**2 907 811**	**10 669 038**	**(16 844 902)**	**38 275 329**
LIABILITIES					
Financial liabilities held for trading	516 103	8 341	27 131	(16 906)	534 669
Resources of other credit institutions	13 873 010	2 462 744	1 945 115	(14 508 308)	3 772 561
Resources of Customers and other debts	16 543 539	308 249	2 799 864	(1 006 991)	18 644 661
Debt securities	1 549 660		3 932 573	(140 378)	5 341 855
Financial liabilities relating to transferred assets	3 008 159				3 008 159
Hedging derivatives	622 828		99 007	(177 206)	544 629
Provisions	27 729	27 688	2 051		57 468
Technical provisions	2 774 587				2 774 587
Tax liabilities	89 089	6 213	2		95 304
Participating bonds	31 437		(2 843)	(1 325)	27 269
Subordinated debt	382 994	1 926	1 161 921	(616 007)	930 834
Other liabilities	946 942	38 443	301 326	(377 781)	908 930
Total liabilities	**40 366 077**	**2 853 604**	**10 266 147**	**(16 844 902)**	**36 640 926**
SHAREHOLDERS' EQUITY					
Shareholders' equity attributable to the shareholders of BPI	1 177 305	54 207	132 572		1 364 084
Minority interest			270 319		270 319
Total shareholders' equity	**1 177 305**	**54 207**	**402 891**		**1 634 403**
Total liabilities and shareholders' equity	**41 543 382**	**2 907 811**	**10 669 038**	**(16 844 902)**	**38 275 329**
Investments made in:					
Property	601				601
Equipment and other tangible assets	39 899	109	35		40 043
Intangible assets	11 147				11 147

	International operations			Inter segment operations	BPI Group
	Angola	Mozambique	Total		
	281 000		281 000		1 126 396
	16 372	34	16 406	(11 399)	281 516
	476 756	51	476 807		4 591 411
	425 367		425 367		3 925 400
	95 134		95 134	(79 416)	1 540 900
	961 148		961 148		27 230 513
					412 156
	78 827		78 827		316 925
	856		856		15 453
		13 105	13 105		150 960
		6	6		141 371
	12 778	1	12 779		812 948
	2 348 238	**13 197**	**2 361 435**	**(90 815)**	**40 545 949**
					534 669
	50 200		50 200	(90 815)	3 731 946
	1 977 205		1 977 205		20 621 866
					5 341 855
					3 008 159
					544 629
	15 385		15 385		72 853
					2 774 587
	29 975		29 975		125 279
					27 269
					930 834
	17 614		17 614		926 544
	2 090 379		**2 090 379**	**(90 815)**	**38 640 490**
	257 859	13 190	271 049		1 635 133
		7	7		270 326
	257 859	**13 197**	**271 056**		**1 905 459**
	2 348 238	**13 197**	**2 361 435**	**(90 815)**	**40 545 949**
	19 235		19 235		19 836
	24 987		24 987		65 030
	686		686		11 833

The BPI Group's income statement for the year ended 31 December, 2007, by geographical segments, is as follows:

	Domestic operations				
	Portugal	Rest of Europe	Rest of the World	Inter segment operations	Total
Financial margin (narrow sense)	**403 206**	**30 313**	**43 133**	**178**	**476 830**
Gross margin on unit links	10 691				10 691
Income from equity instruments	22 291				22 291
Net commission relating to amortised cost	21 012		88	(170)	20 930
Financial margin	**457 200**	**30 313**	**43 221**	**8**	**530 742**
Technical result of insurance contracts	13 057				13 057
Commissions received	283 743	16 105	7 633	(1 629)	305 852
Commissions paid	(32 624)	(2 021)	(2)	1 300	(33 347)
Other income, net	25 974	33	2		26 009
Net commission income	**277 093**	**14 117**	**7 633**	**(329)**	**298 514**
Gain and loss on operations at fair value	396	37	(8 245)		(7 812)
Gain and loss on assets available for sale	119 069	4 682	(449)		123 302
Interest and financial gain and loss with pensions	60 593				60 593
Net income on financial operations	**180 058**	**4 719**	**(8 694)**		**176 083**
Operating income	18 846	544			19 390
Operating expenses	(14 988)	(123)	(5)		(15 116)
Other taxes	(2 872)	(332)	(140)		(3 344)
Net operating expenses	**986**	**89**	**(145)**		**930**
Operating income from banking activity	**928 394**	**49 238**	**42 015**	**(321)**	**1 019 326**
Personnel costs	(342 717)	(10 883)	(221)		(353 821)
General administrative costs	(197 358)	(5 681)	(304)	321	(203 022)
Depreciation and amortisation	(35 460)	(887)	(38)		(36 385)
Overhead costs	**(575 535)**	**(17 451)**	**(563)**	**321**	**(593 228)**
Recovery of loans, interest and expenses	20 269	492			20 761
Impairment losses and provisions for loans and guarantees, net	(64 369)		(19 596)		(83 965)
Impairment losses and other provisions, net	(8 028)	(186)	(6 628)		(14 842)
Net income before income tax	**300 731**	**32 093**	**15 228**		**348 052**
Income tax	(71 373)	(6 219)			(77 592)
Earnings of associated companies (equity method)	24 372				24 372
Global consolidated net income	**253 730**	**25 874**	**15 228**		**294 832**
Income attributable to minority interest			(16 806)		(16 806)
Consolidated net income of the BPI Group	**253 730**	**25 874**	**(1 578)**		**278 026**
Cash flow after taxes	361 587	26 947	24 684		413 218
Overheads as a % of operating income from banking	62%	35%	1%		58%

International operations			Inter segment operations	BPI Group
Angola	Mozambique	Total		
131 154	**10**	**131 164**		**607 994**
				10 691
				22 291
				20 930
131 154	**10**	**131 164**		**661 906**
				13 057
22 666		22 666	(1 250)	327 268
(2 434)		(2 434)	1 250	(34 531)
23 857		23 857		49 866
44 089		**44 089**		**342 603**
21 457		21 457		13 645
				123 302
				60 593
21 457		**21 457**		**197 540**
636		636		20 026
(459)	(1)	(460)		(15 576)
(684)		(684)		(4 028)
(507)	**(1)**	**(508)**		**422**
196 193	**9**	**196 202**		**1 215 528**
(25 415)		(25 415)		(379 236)
(25 619)		(25 619)		(228 641)
(8 987)		(8 987)		(45 372)
(60 021)		**(60 021)**		**(653 249)**
91		91		20 852
(28 300)		(28 300)		(112 265)
(3 488)		(3 488)		(18 330)
104 475	**9**	**104 484**		**452 536**
(30 703)	(308)	(31 011)		(108 603)
	3 613	3 613		27 985
73 772	**3 314**	**77 086**		**371 918**
	(1)	(1)		(16 807)
73 772	**3 313**	**77 085**		**355 111**
114 547	3 313	117 860		531 078
31%		31%		54%

The BPI Group's balance sheet as of 31 December, 2006 and investments made in tangible and intangible assets during the year, by geographical segments, are as follows:

	Domestic operations				
	Portugal	Rest of Europe	Rest of the World	Inter segment operations	Total
ASSETS					
Cash and deposits at central banks	402 026	9 425	16		411 467
Loans and advances to other credit institutions repayable on demand	492 404	18 458	30 551	(182 314)	359 099
Financial assets held for trading and at fair value through profit or loss	4 157 044	4 368	257 186	(370 507)	4 048 091
Financial assets available for sale	2 813 687	3	695 586	(551 806)	2 957 470
Loans and advances to credit institutions	3 680 139	172 341	8 684 708	(11 624 615)	912 573
Loans and advances to Customers	21 960 716	1 698 046	493 208	(145 728)	24 006 242
Hedging derivatives	480 893		93 989	(167 362)	407 520
Other tangible assets	229 710	3 407	180		233 297
Intangible assets	7 187	1 254	19		8 460
Investment in associated companies and jointly controlled entities	129 948				129 948
Tax assets	131 983	1 374	2		133 359
Other assets	732 829	9 801	(291)	(35 335)	707 004
Total assets	**35 218 566**	**1 918 477**	**10 255 154**	**(13 077 667)**	**34 314 530**
LIABILITIES					
Financial liabilities held for trading	197 908	4 137	3 503	(3 701)	201 847
Resources of other credit institutions	12 756 121	1 549 925	1 463 324	(11 357 700)	4 411 670
Resources of Customers and other debts	12 864 744	292 696	2 086 296	(463 954)	14 779 782
Debt securities	923 801		4 587 422	(46 657)	5 464 566
Financial liabilities relating to transferred assets	3 368 059				3 368 059
Hedging derivatives	526 120		125 490	(170 804)	480 806
Provisions	25 482	18 787	2 281		46 550
Technical provisions	2 811 111				2 811 111
Tax liabilities	65 425	940	6		66 371
Participating bonds	28 486			(1 264)	27 222
Subordinated debt	106 104	1 965	1 193 381	(712 560)	588 890
Other liabilities	558 888	12 552	294 788	(321 027)	545 201
Total liabilities	**34 232 249**	**1 881 002**	**9 756 491**	**(13 077 667)**	**32 792 075**
SHAREHOLDERS' EQUITY					
Shareholders' equity attributable to the shareholders of BPI	986 317	37 475	221 932		1 245 724
Minority interest			276 731		276 731
Total shareholders' equity	**986 317**	**37 475**	**498 663**		**1 522 455**
Total liabilities and shareholders' equity	**35 218 566**	**1 918 477**	**10 255 154**	**(13 077 667)**	**34 314 530**
Investments made in:					
Property	151	48			199
Equipment and other tangible assets	25 475	62	11		25 548
Intangible assets	5 188	7			5 195

	International operations			Inter segment operations	BPI Group
	Angola	Mozambique	Total		
	148 473		148 473		559 940
	18 852	20	18 872	(8 488)	369 483
	296 909	57	296 966		4 345 057
	107 441		107 441		3 064 911
	461 656	1	461 657	(467 483)	906 747
	623 844		623 844		24 630 086
					407 520
	56 011		56 011		289 308
	343		343		8 803
		11 820	11 820		141 768
		7	7		133 366
	1 490		1 490		708 494
	1 715 019	**11 905**	**1 726 924**	**(475 971)**	**35 565 483**
					201 847
	12 611		12 611	(464 034)	3 960 247
	1 455 723		1 455 723		16 235 505
					5 464 566
					3 368 059
					480 806
	8 319		8 319		54 869
					2 811 111
	18 969	381	19 350		85 721
					27 222
					588 890
	26 073		26 073	(11 937)	559 337
	1 521 695	**381**	**1 522 076**	**(475 971)**	**33 838 180**
	193 324	11 518	204 842		1 450 566
		6	6		276 737
	193 324	**11 524**	**204 848**		**1 727 303**
	1 715 019	**11 905**	**1 726 924**	**(475 971)**	**35 565 483**
	3 527		3 527		3 726
	25 460		25 460		51 008
	2 772		2 772		7 967

The BPI Group's income statement for the year ended 31 December, 2006, by geographical segments, is as follows:

	Domestic operations				
	Portugal	**Rest of Europe**	**Rest of the World**	**Inter segment operations**	**Total**
Financial margin (narrow sense)	**402 348**	**15 161**	**36 491**	**178**	**454 178**
Gross margin on unit links	7 516				7 516
Income from equity instruments	14 747				14 747
Net commission relating to amortised cost	18 524		(159)	8	18 373
Financial margin	**443 135**	**15 161**	**36 332**	**186**	**494 814**
Technical result of insurance contracts	3 265				3 265
Commissions received	259 191	11 952	1 740	(1 356)	271 527
Commissions paid	(25 672)	(1 770)		973	(26 469)
Other income, net	24 006	26	3		24 035
Net commission income	**257 525**	**10 208**	**1 743**	**(383)**	**269 093**
Gain and loss on operations at fair value	48 701	1 519	(4 031)		46 189
Gain and loss on assets available for sale	40 244	(1)	(2)		40 241
Interest and financial gain and loss with pensions	14 216				14 216
Net income on financial operations	**103 161**	**1 518**	**(4 033)**		**100 646**
Operating income	19 668	1 936	274		21 878
Operating expenses	(11 203)	(248)	(9)		(11 460)
Other taxes	(2 448)	(294)	(147)		(2 889)
Net operating expenses	**6 017**	**1 394**	**118**		**7 529**
Operating income from banking activity	**813 103**	**28 281**	**34 160**	**(197)**	**875 347**
Personnel costs	(309 716)	(9 151)	(295)		(319 162)
General administrative costs	(171 952)	(5 122)	(215)	197	(177 092)
Depreciation and amortisation	(32 925)	(771)	(33)		(33 729)
Overhead costs	**(514 593)**	**(15 044)**	**(543)**	**197**	**(529 983)**
Recovery of loans, interest and expenses	21 015				21 015
Impairment losses and provisions for loans and guarantees, net	(38 830)		338		(38 492)
Impairment losses and other provisions, net	(5 281)	(281)	180		(5 382)
Net income before income tax	**275 414**	**12 956**	**34 135**		**322 505**
Income tax	(84 171)	(953)			(85 124)
Earnings of associated companies (equity method)	17 444				17 444
Global consolidated net income	**208 687**	**12 003**	**34 135**		**254 825**
Income attributable to minority interest			(13 289)		(13 289)
Consolidated net income of the BPI Group	**208 687**	**12 003**	**20 846**		**241 536**
Cash flow after taxes	285 723	13 055	20 361		319 139
Overheads as a % of operating income from banking	63%	53%	2%		61%

International operations			Inter segment operations	BPI Group
Angola	Moçzmbique	Total		
86 522	**10**	**86 532**		**540 710**
				7 516
				14 747
				18 373
86 522	**10**	**86 532**		**581 346**
				3 265
14 835		14 835	(1 250)	285 112
(2 038)		(2 038)	1 250	(27 257)
19 973		19 973		44 008
32 770		**32 770**		**301 863**
19 086		19 086		65 275
4 091		4 091		44 332
				14 216
23 177		**23 177**		**123 823**
2 125	1	2 126		24 004
(790)	(1)	(791)		(12 251)
(1 075)		(1 075)		(3 964)
260		**260**		**7 789**
142 729	**10**	**142 739**		**1 018 086**
(20 066)		(20 066)		(339 228)
(21 002)		(21 002)		(198 094)
(5 313)		(5 313)		(39 042)
(46 381)		**(46 381)**		**(576 364)**
				21 015
(17 996)		(17 996)		(56 488)
(615)		(615)		(5 997)
77 737	**10**	**77 747**		**400 252**
(14 756)	(393)	(15 149)		(100 273)
	4 625	4 625		22 069
62 981	**4 242**	**67 223**		**322 048**
	(1)	(1)		(13 290)
62 981	**4 241**	**67 222**		**308 758**
86 905	4 241	91 146		410 285
32%		32%		57%

3.2. Business segments

The BPI Group's business segment reporting is made up of three main segments:

Commercial banking

The BPI Group's operations are focused mainly on commercial banking. Commercial banking includes:

- ***Retail banking*** – Retail banking includes commercial operations with private clients, businesses and sole traders with turnover of up to 2.5 million euro through a multi-channel distribution network made up of commercial branches, investment centres, home banking services (BPI Net), telephone banking (BPI Directo), specialised branches and a network of external promoters.

- ***Corporate banking*** – Corporate banking includes commercial operations with private, public and municipal companies and public sector organisations (including the Central and Local Administration), as well as Foundations and Associations. Corporate banking also includes Project Finance and Public-Private Partnership operations in the commercial promotion area, structuring and organising financial operations and consultancy services relating to this area.

Investment banking

Investment banking covers the following business areas:

- ***Brokerage*** – includes brokerage (purchase and sale of securities) on account of Customers;

- ***Private Banking*** – Private Banking is responsible for implementing strategies and investment proposals presented to Customers and managing all or part of their financial assets under management mandates given to the Bank. In addition, Private Banking provides asset management, tax information and business consulting services.

- ***Corporate Finance*** – This includes rendering consultancy services relating to the analysis of investment projects and decisions, market privatisation operations and the structuring of merger and acquisition processes.

Equity investments and others

This segment includes essentially Private Equity operations, which are carried out mainly by Inter-Risco, a fully owned subsidiary of the Group. This company invests 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 includes also the Bank's residual activity, the segments which represent individually less than 10% of turnover, net profit and assets of also the Group.

The BPI Group's balance sheet as of 31 December, 2007 and investments made in tangible and intangible assets during the year, by business segment, are as follows:

	Domestic operations					International operations	Inter segment operations	BPI Group
	Commer-cial banking	Investment banking	Equity investments and others	Inter segment operations	Total			
ASSETS								
Cash and deposits at central banks	845 202	193	1		845 396	281 000		1 126 396
Loans and advances to other credit institutions repayable on demand	467 461	139 730	5 608	(336 290)	276 509	16 406	(11 399)	281 516
Financial assets held for trading and at fair value through profit or loss	3 578 447	1 061 971		(525 814)	4 114 604	476 807		4 591 411
Financial assets available for sale	2 314 750	55 695	1 127 312	2 276	3 500 033	425 367		3 925 400
Loans and advances to credit institutions	3 198 075	2 240 687		(3 913 580)	1 525 182	95 134	(79 416)	1 540 900
Loans and advances to Customers	26 166 224	145 809		(42 668)	26 269 365	961 148		27 230 513
Hedging derivatives	424 107	952		(12 903)	412 156			412 156
Other tangible assets	234 945	3 152	1		238 098	78 827		316 925
Intangible assets	14 579	18			14 597	856		15 453
Investment in associated companies and jointly controlled entities	69 319		68 536		137 855	13 105		150 960
Tax assets	145 403	1 553	(5 591)		141 365	6		141 371
Other assets	808 296	59 420	1 890	(69 437)	800 169	12 779		812 948
Total assets	**38 266 808**	**3 709 180**	**1 197 757**	**(4 898 416)**	**38 275 329**	**2 361 435**	**(90 815)**	**40 545 949**
LIABILITIES								
Financial liabilities held for trading	535 029	12 727		(13 087)	534 669			534 669
Resources of other credit institutions	5 504 841	55 725	937 657	(2 725 662)	3 772 561	50 200	(90 815)	3 731 946
Resources of Customers and other debts	17 030 064	2 620 721	867	(1 006 991)	18 644 661	1 977 205		20 621 866
Debt securities	5 481 931	302		(140 378)	5 341 855			5 341 855
Financial liabilities relating to transferred assets	3 008 159				3 008 159			3 008 159
Hedging derivatives	589 568	1 740		(46 679)	544 629			544 629
Provisions	56 154	1 080	234		57 468	15 385		72 853
Technical provisions	1 956 595	817 992			2 774 587			2 774 587
Tax liabilities	111 848	3 575	(20 119)		95 304	29 975		125 279
Participating bonds	28 595			(1 326)	27 269			27 269
Subordinated debt	1 527 158	19 683		(616 007)	930 834			930 834
Other liabilities	1 197 212	58 549	1 455	(348 286)	908 930	17 614		926 544
Total liabilities	**37 027 154**	**3 592 094**	**920 094**	**(4 898 416)**	**36 640 926**	**2 090 379**	**(90 815)**	**38 640 490**
SHAREHOLDERS' EQUITY								
Shareholders' equity attributable to the shareholders of BPI	969 335	117 086	277 663		1 364 084	271 049		1 635 133
Minority interest	270 319				270 319	7		270 326
Total shareholders' equity	**1 239 654**	**117 086**	**277 663**		**1 634 403**	**271 056**		**1 905 459**
Total liabilities and shareholders' equity	**38 266 808**	**3 709 180**	**1 197 757**	**(4 898 416)**	**38 275 329**	**2 361 435**	**(90 815)**	**40 545 949**
Investments made in:								
Property	599	2			601	19 235		19 836
Equipment and other tangible assets	39 841	201	1		40 043	24 987		65 030
Intangible assets	11 147				11 147	686		11 833

The BPI Group's income statement for the year ended 31 December, 2007, by business segment, is as follows:

	Domestic operations					International operations	Inter segment operations	BPI Group
	Commer-cial banking	Investment banking	Equity investments and others	Inter segment operations	Total			
Financial margin (narrow sense)	**500 701**	**4 387**	**(28 258)**		**476 830**	**131 164**		**607 994**
Gross margin on unit links	7 539	3 152			10 691			10 691
Income from equity instruments	3 444	111	18 736		22 291			22 291
Net commission relating to amortised cost	20 930				20 930			20 930
Financial margin	**532 614**	**7 650**	**(9 522)**		**530 742**	**131 164**		**661 906**
Technical result of insurance contracts	9 207	3 850			13 057			13 057
Commissions received	300 254	54 629	1 331	(50 362)	305 852	22 666	(1 250)	327 268
Commissions paid	(72 120)	(11 584)	(5)	50 362	(33 347)	(2 434)	1 250	(34 531)
Other income, net	25 977	32			26 009	23 857		49 866
Net commission income	**254 111**	**43 077**	**1 326**		**298 514**	**44 089**		**342 603**
Gain and loss on operations at fair value	13 843	11 909	(33 564)		(7 812)	21 457		13 645
Gain and loss on assets available for sale	38 266	(27)	85 063		123 302			123 302
Interest and financial gain and loss with pensions	60 615	(21)	(1)		60 593			60 593
Net income on financial operations	**112 724**	**11 861**	**51 498**		**176 083**	**21 457**		**197 540**
Operating income	15 472	257	3 661		19 390	636		20 026
Operating expenses	(14 715)	(317)	(84)		(15 116)	(460)		(15 576)
Other taxes	(2 967)	(338)	(39)		(3 344)	(684)		(4 028)
Net operating expenses	**(2 210)**	**(398)**	**3 538**		**930**	**(508)**		**422**
Operating income from banking activity	**906 446**	**66 040**	**46 840**		**1 019 326**	**196 202**		**1 215 528**
Personnel costs	(333 154)	(19 575)	(1 092)		(353 821)	(25 415)		(379 236)
General administrative costs	(191 754)	(10 252)	(1 016)		(203 022)	(25 619)		(228 641)
Depreciation and amortisation	(34 342)	(1 930)	(113)		(36 385)	(8 987)		(45 372)
Overhead costs	**(559 250)**	**(31 757)**	**(2 221)**		**(593 228)**	**(60 021)**		**(653 249)**
Recovery of loans, interest and expenses	20 761				20 761	91		20 852
Impairment losses and provisions for loans and guarantees, net	(83 178)	(787)			(83 965)	(28 300)		(112 265)
Impairment losses and other provisions, net	(13 301)	(444)	(1 097)		(14 842)	(3 488)		(18 330)
Net income before income tax	**271 478**	**33 052**	**43 522**		**348 052**	**104 484**		**452 536**
Income tax	(67 482)	(8 115)	(1 995)		(77 592)	(31 011)		(108 603)
Earnings of associated companies (equity method)	13 215		11 157		24 372	3 613		27 985
Global consolidated net income	**217 211**	**24 937**	**52 684**		**294 832**	**77 086**		**371 918**
Income attributable to minority interest	(16 806)				(16 806)	(1)		(16 807)
Consolidated net income of the BPI Group	**200 405**	**24 937**	**52 684**		**278 026**	**77 085**		**355 111**
Cash flow after taxes	331 226	28 098	53 894		413 218	117 860		531 078
Overheads as a % of operating income from banking	62%	48%	5%		58%	31%		54%

The BPI Group's balance sheet as of 31 December, 2006 and investments made in tangible and intangible assets during the year, by business segment, are as follows:

	Domestic operations					International operations	Inter segment operations	BPI Group
	Commercial banking	Investment banking	Equity investments and others	Inter segment operations	Total			
ASSETS								
Cash and deposits at central banks	388 648	22 817	2		411 467	148 473		559 940
Loans and advances to other credit institutions repayable on demand	423 553	99 052	7 286	(170 792)	359 099	18 872	(8 488)	369 483
Financial assets held for trading and at fair value through profit or loss	2 618 022	1 797 286		(367 217)	4 048 091	296 966		4 345 057
Financial assets available for sale	2 787 020	103 867	618 389	(551 806)	2 957 470	107 441		3 064 911
Loans and advances to credit institutions	2 107 162	1 458 339		(2 652 928)	912 573	461 657	(467 483)	906 747
Loans and advances to Customers	24 002 076	149 894		(145 728)	24 006 242	623 844		24 630 086
Hedging derivatives	385 956	18 135		3 429	407 520			407 520
Other tangible assets	228 872	3 847	578		233 297	56 011		289 308
Intangible assets	8 403	57			8 460	343		8 803
Investment in associated companies and jointly controlled entities	66 595		63 353		129 948	11 820		141 768
Tax assets	131 607	1 961	(209)		133 359	7		133 366
Other assets	675 312	59 762	550	(28 620)	707 004	1 490		708 494
Total assets	**33 823 226**	**3 715 017**	**689 949**	**(3 913 662)**	**34 314 530**	**1 726 924**	**(475 971)**	**35 565 483**
LIABILITIES								
Financial liabilities held for trading	192 177	10 080		(410)	201 847			201 847
Resources of other credit institutions	6 012 622	352 566	420 790	(2 374 308)	4 411 670	12 611	(464 034)	3 960 247
Resources of Customers and other debts	13 382 793	1 860 076	867	(463 954)	14 779 782	1 455 723		16 235 505
Debt securities	5 534 698	(23 475)		(46 657)	5 464 566			5 464 566
Financial liabilities relating to transferred assets	3 368 059				3 368 059			3 368 059
Hedging derivatives	476 899	3 922		(15)	480 806			480 806
Provisions	45 847	469	234		46 550	8 319		54 869
Technical provisions	1 536 311	1 274 800			2 811 111			2 811 111
Tax liabilities	30 413	6 780	29 178		66 371	19 350		85 721
Participating bonds	28 485			(1 263)	27 222			27 222
Subordinated debt	1 259 396	42 055		(712 561)	588 890			588 890
Other liabilities	791 954	63 811	3 930	(314 494)	545 201	26 073	(11 937)	559 337
Total liabilities	**32 659 654**	**3 591 084**	**454 999**	**(3 913 662)**	**32 792 075**	**1 522 076**	**(475 971)**	**33 838 180**
SHAREHOLDERS' EQUITY								
Shareholders' equity attributable to the shareholders of BPI	886 841	123 933	234 950		1 245 724	204 842		1 450 566
Minority interest	276 731				276 731	6		276 737
Total shareholders' equity	**1 163 572**	**123 933**	**234 950**		**1 522 455**	**204 848**		**1 727 303**
Total liabilities and shareholders' equity	**33 823 226**	**3 715 017**	**689 949**	**(3 913 662)**	**34 314 530**	**1 726 924**	**(475 971)**	**35 565 483**
Investments made in:								
Property	152	48			199	3 527		3 726
Equipment and other tangible assets	25 440	108			25 548	25 460		51 008
Intangible assets	5 181	14			5 195	2 772		7 967

The BPI Group's income statement for the year ended 31 December, 2006, by business segment, is as follows:

	Domestic operations					International operations	Inter segment operations	BPI Group
	Commer-cial banking	Investment banking	Equity investments and others	Inter segment operations	Total			
Financial margin (narrow sense)	**462 533**	**4 344**	**(12 699)**		**454 178**	**86 532**		**540 710**
Gross margin on unit links	4 107	3 409			7 516			7 516
Income from equity instruments	2 937	123	11 687		14 747			14 747
Net comission relating to amortised cost	18 373				18 373			18 373
Financial margin	**487 950**	**7 876**	**(1 012)**		**494 814**	**86 532**		**581 346**
Technical result of insurance contracts	1 785	1 480			3 265			3 265
Commissions received	254 238	40 383	988	(24 082)	271 527	14 835	(1 250)	285 112
Commissions paid	(41 942)	(8 605)	(4)	24 082	(26 469)	(2 038)	1 250	(27 257)
Other income, net	24 001	34			24 035	19 973		44 008
Net commission income	**236 297**	**31 812**	**984**		**269 093**	**32 770**		**301 863**
Gain and loss on operations at fair value	26 011	20 178			46 189	19 086		65 275
Gain and loss on assets available for sale	7 046	3 405	29 790		40 241	4 091		44 332
Interest and financial gain and loss with pensions	14 281	(66)	1		14 216			14 216
Net income on financial operations	**47 338**	**23 517**	**29 791**		**100 646**	**23 177**		**123 823**
Operating income	21 113	752	13		21 878	2 126		24 004
Operating expenses	(11 014)	(440)	(6)		(11 460)	(791)		(12 251)
Other taxes	(2 535)	(316)	(38)		(2 889)	(1 075)		(3 964)
Net operating expenses	**7 564**	**(4)**	**(31)**		**7 529**	**260**		**7 789**
Operating income from banking activity	**780 934**	**64 681**	**29 732**		**875 347**	**142 739**		**1 018 086**
Personnel costs	(299 641)	(18 458)	(1 063)		(319 162)	(20 066)		(339 228)
General administrative costs	(166 936)	(9 686)	(470)		(177 092)	(21 002)		(198 094)
Depreciation and amortisation	(31 537)	(2 062)	(130)		(33 729)	(5 313)		(39 042)
Overhead costs	**(498 114)**	**(30 206)**	**(1 663)**		**(529 983)**	**(46 381)**		**(576 364)**
Recovery of loans, interest and expenses	21 015				21 015			21 015
Impairment losses and provisions for loans and guarantees, net	(38 035)	(457)			(38 492)	(17 996)		(56 488)
Impairment losses and other provisions, net	1 599	(115)	(6 866)		(5 382)	(615)		(5 997)
Net income before income tax	**267 399**	**33 903**	**21 203**		**322 505**	**77 747**		**400 252**
Income tax	(74 295)	(9 140)	(1 689)		(85 124)	(15 149)		(100 273)
Earnings of associated companies (equity method)	12 810		4 634		17 444	4 625		22 069
Global consolidated net income	**205 914**	**24 763**	**24 148**		**254 825**	**67 223**		**322 048**
Income attributable to minority interest	(13 289)				(13 289)	(1)		(13 290)
Consolidated net income of the BPI Group	**192 625**	**24 763**	**24 148**		**241 536**	**67 222**		**308 758**
Cash flow after taxes	260 598	27 397	31 144		319 139	91 146		410 285
Overheads as a % of operating income from banking	64%	47%	6%		61%	32%		57%

4. NOTES

4.1. Cash and deposits at central banks

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Cash	252 969	231 015
Demand deposits at the Bank of Portugal	648 220	227 654
Demand deposits at foreign central banks	224 420	100 825
Accrued interest	787	446
	1 126 396	**559 940**

The caption DEMAND DEPOSITS AT THE BANK OF PORTUGAL includes deposits made to comply with the minimum cash reserve requirements of the European Central Bank System (ECBS). These deposits bear interest and correspond to 2% of the amount of Customers' deposits and debt securities maturing in up to 2 years, excluding deposits and debt securities of entities subject to the ECBS minimum cash reserves regime.

4.2. Loans and advances to Credit Institutions repayable on demand

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Domestic credit institutions		
Demand deposits	6 151	2 468
Cheques for collection	184 704	275 150
Other	2 493	1 576
Foreign credit institutions		
Demand deposits	81 994	82 168
Cheques for collection	6 149	8 085
Accrued interest	25	36
	281 516	**369 483**

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. 07	31 Dec. 06
FINANCIAL ASSETS HELD FOR TRADING		
Debt instruments		
Listed securities		
Bonds issued by Portuguese government entities	6 190	7 239
Bonds issued by foreign government entities	479 366	428 124
Bonds issued by other Portuguese entities		
Non-subordinated debt	156 797	132 922
Subordinated debt	5 550	26 931
Bonds issued by foreign financial entities	37 278	25 114
Bonds issued by other foreign entities		
Non-subordinated debt	1 539 506	1 960 882
Subordinated debt	237 210	256 744
Unlisted securities		
Bonds issued by foreign government entities	476 757	296 909
Bonds issued by other foreign entities		
Non-subordinated debt	17 897	20 409
	2 956 551	**3 155 274**
Equity instruments		
Listed securities		
Shares issued by Portuguese entities	400 369	100 944
Shares issued by foreign entities	404 318	321 050
	804 687	**421 994**
Other securities		
Listed securities		
Participating units	558 253	545 615
Unlisted securities		
Participating units	1 322	
	559 575	**545 615**
	4 320 813	**4 122 883**
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Equity instruments		
Unlisted securities		
Shares issued by foreign entities	51 098	50 917
	51 098	**50 917**
DERIVATIVE INSTRUMENTS WITH POSITIVE FAIR VALUE (NOTE 4.4)	**219 500**	**171 257**
	4 591 411	**4 345 057**

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

	31 Dec. 07	31 Dec. 06
Debt Instruments		
Of public entities	59 856	341 008
Other entities	1 921 355	2 352 930
Equity Instruments	300 205	204 275
Other securities	557 612	545 384
Derivative instruments with positive fair value	2 105	3 540
	2 841 133	**3 447 137**

4.4. Derivatives

The caption DERIVATIVE INSTRUMENTS HELD FOR TRADING (notes 4.3 and 4.13) is made up as follows:

	31 Dec. 07			31 Dec. 06		
	Notional value[1]	Book value		Notional value[1]	Book value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate contracts						
Futures	331 402	55	696	288 936	23	441
Options	550	4		132		
Exchange forwards and swaps	2 077 559	9 228	8 391	1 378 319	6 672	4 946
Interest rate contracts						
Futures	563 837	174	127	714 146	82	315
Options	775 273	3 915	476	66 918	3 921	578
Swaps	7 439 577	163 375	155 520	7 102 920	145 980	96 529
Contracts over shares						
Futures	203 805	2 557	414	321 897	1 444	2 152
Swaps	513 535	22 208	12 262	26 124	895	895
Options	254 100	1 716	1 710	207 807	12 240	4 273
Contracts over goods						
Futures	2 164	45	24	893		59
Others						
Options[2]	639 798	16 223	18 350			
Others	9 018		124	9 018		121
	12 810 618	**219 500**	**198 094**	**10 117 110**	**171 257**	**110 309**

1) In the case of swaps and forwards only the asset amounts were considered.

2) Parts of operations that are autonomous for accounting purposes, commonly referred as EMBEDDED DERIVATIVES.

The caption DERIVATIVE INSTRUMENTS HELD FOR HEDGING is made up as follows:

	31 Dec. 07			31 Dec. 06		
	Notional value[1]	Book value		Notional value[1]	Book value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate contracts						
Exchange forwards and swaps	46 484	387	430	89 002	1 643	1 108
Interest rate contracts						
Swaps	8 366 692	118 634	135 367	5 966 200	126 636	120 732
Options	14 364	52	52	29 033	53	53
Contracts over shares						
Swaps	736 663	6 350	91 317	420 388	1 982	47 556
Options	325 748	8 448	3 142	192 830	7 087	4 218
Contracts over credit events						
Swaps	108 000	1 023	21 751			
Contracts over other underlying items						
Swaps	742 903	5 305	35 556	669 095	1 138	40 469
Others						
Options[2]	4 805 071	271 957	257 014	4 082 960	268 981	266 670
	15 145 925	**412 156**	**544 629**	**11 449 508**	**407 520**	**480 806**

1) In the case of swaps and forwards only the asset amounts were considered.
2) Parts of operations that are autonomous for accounting purposes, commonly referred as EMBEDDED DERIVATIVES.

The BPI Group's operations include carrying out derivative transactions to manage its own positions based on expectations regarding market evolution (trading), meet the needs of its Customers or hedge positions of a structural nature (hedging).

The BPI Group carries out financial derivative transactions in the form of contracts over exchange rates, interest rates, goods and metals future price, shares or share indices, inflation or a combination of these. These transactions are realised in over-the-counter (OTC) markets and in organised markets (especially stock exchanges).

Derivatives traded on organised markets follow the standards and rules of these markets.

Derivatives traded on the over-the-counter (OTC) markets are normally based on a standard bilateral contract that covers the group of operations over derivatives between the parties. In the case of inter-professional relationships, there is an ISDA – International Swaps and Derivatives Association Master Agreement. In the case of relations with Customers there is a BPI contract.

These types of contract include offsetting responsibilities in the event of non compliance (the scope of the offsetting is established in the contract itself and is regulated by Portuguese legislation and, in the case of contracts with foreign counterparties or subject to foreign legislation, by the appropriate legislation).

Derivative contracts can also include an agreement to collateralise the credit risk generated by the transactions covered by them. Derivative contracts between two parties normally include all the derivative OTC transactions carried out between the two parties, irrespective of whether they are for hedging purposes or not.

In accordance with IAS 39, the parts of operations normally known as EMBEDDED DERIVATIVES are also treated 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.

Notional value is the reference value for purposes of calculating the flow of payments and receipts resulting from the operation and is recognised in off balance sheet accounts.

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.

In contrast to traditional mutual operations, where the market value is related directly to the amount of the principal loaned, in derivative operations the market value can be:

- determined based on market price (ex. futures);

- calculated based on the present value of future flows (cash flows), considering the relevant interest rates at the computing date (mark to market: ex. swaps) or;

- determined using models that have the objective of calculating the price based on statistical models in accordance with generally accepted principles in the market (mark to model: ex. options).

The amount of the exposure corresponds to the present value of the estimated loss, in the case of counterparty's 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 equal to the sum of the market values of each individual transaction, if positive. The scope of the compensation clauses, in the case of default, is considered by the BPI Group on a conservative perspective, considering that, in the case of doubt, compensation does not exist.

The potential loss in a group of derivative operations on a given date corresponds to the amount of the exposure on that date. In futures contracts, the stock markets being the counterparties for the BPI Group's operations, the credit risk is eliminated daily through financial settlement. For medium and long term derivatives, contracts usually provide for the netting of outstanding balances with the same counterparty, which eliminates or reduces the credit risk. Additionally, in order to control the credit risk in OTC derivatives, some agreements have also been signed under which the Bank receives from, or transfers to, the counterparty, assets (in cash or in securities) to guarantee fulfilment of the obligations.

At 31 December, 2007 the notional value, by term remaining to maturity, was as follows:

	<= 3 months	> 3 months <= 6 months	> 6 months <= 1 year	> 1 year <= 5 years	> 5 years	Total
Over-the-counter market						
Exchange rate contracts	**1 688 680**	**421 555**	**12 985**	**823**		**2 124 043**
Forwards	1 284 621	297 767	12 985	823		1 596 196
Swaps	404 059	123 788				527 847
Interest rate contracts	**186 256**	**605 493**	**728 279**	**6 721 518**	**8 353 920**	**16 595 466**
Swaps	185 085	597 162	723 388	6 160 129	8 140 505	15 806 269
Options	1 171	8 331	4 891	561 389	213 415	789 197
Contracts over indexes and shares	**382 557**	**112 466**	**221 122**	**982 527**	**48 429**	**1 747 101**
Swaps	274 291	107 216	157 106	663 156	48 429	1 250 198
Options	108 266	5 250	64 016	319 371		496 903
Contracts over credit events				**108 000**		**108 000**
Swaps				108 000		108 000
Contracts over other underlying items	**917**	**205 529**	**327 691**	**176 966**	**31 800**	**742 903**
Swaps	917	205 529	327 691	176 966	31 800	742 903
Others	**17 364**	**512 412**	**786 991**	**2 904 622**	**1 232 498**	**5 453 887**
Options	17 364	512 412	777 973	2 904 622	1 232 498	5 444 869
Others			9 018			9 018
	2 275 774	**1 857 455**	**2 077 068**	**10 894 456**	**9 666 647**	**26 771 400**
Listed instruments						
Exchange rate contracts	**331 402**				**550**	**331 952**
Futures	331 402					331 402
Options					550	550
Interest rate contracts	**200 326**	**40 359**	**215 076**	**108 076**	**440**	**564 277**
Futures	200 326	40 359	215 076	108 076		563 837
Options					440	440
Contracts over indexes and shares	**241 805**			**1 681**	**43 264**	**286 750**
Futures	203 805					203 805
Options	38 000			1 681	43 264	82 945
Contracts over other underlying items	**2 164**					**2 164**
Futures	2 164					2 164
	775 697	**40 359**	**215 076**	**109 757**	**44 254**	**1 185 143**
	3 051 471	**1 897 814**	**2 292 144**	**11 004 213**	**9 710 901**	**27 956 543**

At 31 December, 2006 the notional value, by term remaining to maturity, is 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	**1 402 815**	**54 084**	**10 422**			**1 467 321**
Forwards	1 190 771	8 166	10 373			1 209 310
Swaps	212 044	45 918	49			258 011
Interest rate contracts	**313 667**	**267 066**	**1 083 529**	**4 578 489**	**6 920 999**	**13 163 750**
Swaps	313 667	267 066	1 083 529	4 535 737	6 869 121	13 069 120
Options				42 752	51 878	94 630
Contracts over indexes and shares	**104 868**	**154 552**	**37 299**	**386 423**	**45 259**	**728 401**
Swaps	58 568	3 228	9 459	329 998	45 259	446 512
Options	46 300	151 324	27 840	56 425		281 889
Contracts over other underlying items				**616 545**	**52 550**	**669 095**
Swaps				616 545	52 550	669 095
Others	**99 089**	**97 509**	**457 717**	**2 496 859**	**940 804**	**4 091 978**
Options	99 089	97 509	457 717	2 487 841	940 804	4 082 960
Others				9 018		9 018
	1 920 439	**573 211**	**1 588 967**	**8 078 316**	**7 959 612**	**20 120 545**
Listed instruments						
Exchange rate contracts	**288 936**				**132**	**289 068**
Futures	288 936					288 936
Options					132	132
Interest rate contracts	**633 336**	**12 902**	**59 556**	**8 352**	**1 321**	**715 467**
Futures	633 336	12 902	59 556	8 352		714 146
Options					1 321	1 321
Contracts over indexes and shares	**328 938**	**20 020**	**46 741**	**22 316**	**22 630**	**440 645**
Futures	321 897					321 897
Options	7 041	20 020	46 741	22 316	22 630	118 748
Contracts over other underlying items	**893**					**893**
Futures	893					893
	1 252 103	**32 922**	**106 297**	**30 668**	**24 083**	**1 446 073**
	3 172 542	**606 133**	**1 695 264**	**8 108 984**	**7 983 695**	**21 566 618**

At 31 December, 2007 the profile of derivative operations, by counterparty, was as follows:

	31 Dec. 07		
	Notional value[1]	Net exposure[2]	% of notional value
Over-the-counter market	**21 326 531**	**69 756**	**94.7%**
OTC with financial institutions	17 859 188	46 435	79.3%
OTC with local and administrative public sector	5 709	16	0.0%
OTC with investment / pension funds	197 288	150	0.9%
OTC with companies	3 190 872	22 816	14.2%
OTC with individuals	73 474	339	0.3%
Regulated markets	**1 185 143**	**2 298**	**5.3%**
Stock exchange	1 185 143	2 298	5.3%
	22 511 674	**72 054**	**100.0%**

1) Does not include embedded derivates in the amount of 5 444 869 th. euro.
2) Exposure amount considering netting agreements and collaterals.

At 31 December, 2006 the profile of derivative operations, by counterparty, is as follows:

	31 Dec. 06		
	Notional value[1]	Net exposure[2]	% of notional value
Over-the-counter market	**16 037 585**	**85 307**	**91.7%**
OTC with financial institutions	13 251 943	74 978	75.8%
OTC with investment / pension funds	1 583 051	10 002	9.1%
OTC with companies	1 168 980	164	6.7%
OTC with individuals	33 611	163	0.2%
Regulated markets	**1 446 073**	**11 456**	**8.3%**
Stock exchange	1 446 073	11 456	8.3%
	17 483 658	**96 763**	**100.0%**

1) Does not include embedded derivates in the amount of 4 082 960 th. euro.
2) Exposure amount considering netting agreements and collaterals.

At 31 December, 2007 the profile of derivative operations, by counterparty external rating, is as follows:

	31 Dec. 07			
	Notional value[1]	**Gross exposure[2]**	**Exposure considering netting[3]**	**Net exposure[4]**
Over-the-counter market (OTC)				
AAA	8 647	73		
AA+	4 582 750	47 260	20 573	9 783
AA	4 744 579	82 815	33 779	11 285
AA-	3 071 161	20 018	12 590	9 466
A+	2 260 907	33 265	11 807	3 632
A	276 603	16 783	15 647	12 664
N.R.	6 381 884	43 773	22 926	22 926
	21 326 531	**243 987**	**117 322**	**69 756**
Traded on the stock exchange				
Futuros[5]	1 101 208			
Options	83 935	2 298	2 298	2 298
	1 185 143	**2 298**	**2 298**	**2 298**
	22 511 674	**246 285**	**119 620**	**72 054**

Note: The amounts were accumulated by rating levels of the counterparties, considering the senior medium and long term debt ratings attributed by the Moody's, Standard & Poor's and Fitch agencies as of the reference date. The selection of a rating for a given counterparty follows the rules recommended by the Basel Committee in force on the reference date (where there are diverging ratings the second best was selected). The operations with entities without ratings (N.R.) correspond essentially to Customers subject to internal ratings.
1) Does not include embedded derivates in the amount of 5 444 869 th. euro.
2) Exposure without considering netting agreements and collaterals.
3) Exposure value without considering collaterals.
4) Exposure considering netting agreements and collaterals
5) The exposure of the futures is nil, because they are traded on organised stock exchanges and there is daily financial settlement.

At 31 December, 2006 the profile of derivative operations, by counterparty external rating, is as follows:

	31 Dec. 06			
	Notional value[1]	**Gross exposure[2]**	**Exposure considering netting[3]**	**Net exposure[4]**
Over-the-counter market (OTC)				
AAA	14 047	93		
AA	11 172 598	245 323	144 261	62 245
A	2 237 162	41 238	27 536	10 979
N.R.	2 613 778	12 745	20 337	12 083
	16 037 585	**299 399**	**192 134**	**85 307**
Traded on the stock exchange				
Futuros[5]	1 325 872			
Options	120 201	11 456	11 456	11 456
	1 446 073	**11 456**	**11 456**	**11 456**
	17 483 658	**310 855**	**203 590**	**96 763**

Note: The amounts were accumulated by rating levels of the counterparties, considering the senior medium and long term debt ratings attributed by the Moody's, Standard & Poor's and Fitch agencies as of the reference date. The selection of a rating for a given counterparty follows the rules recommended by the Basel Committee in force on the reference date (where there are diverging ratings the second best was selected). The operations with entities without ratings (N.R.) correspond essentially to Customers subject to internal ratings.
1) Does not include embedded derivates in the amount of 4 082 960 th. euro.
2) Exposure without considering netting agreements and collaterals.
3) Exposure value without considering collaterals.
4) Exposure considering netting agreements and collaterals
5) The exposure of the futures is nil, because they are traded on organised stock exchanges and there is daily financial settlement.

4.5. Financial assets available for sale

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Debt instruments		
Listed securities		
Bonds issued by Portuguese government entities	530 225	538 748
Bonds issued by foreign government entities	308 388	499 914
Bonds issued by other Portuguese entities		
Non-subordinated debt	45 061	79 023
Subordinated debt		9 564
Bonds issued by international financial organisations	507	
Bonds issued by other foreign entities		
Non-subordinated debt	853 543	1 145 519
Subordinated debt	521 288	24 635
Unlisted securities		
Bonds issued by foreign government entities	424 874	107 214
Bonds issued by other Portuguese entities		
Non-subordinated debt	94 590	63 818
Bonds issued by other foreign entities		
Non-subordinated debt	4 099	4 615
Impairment	(530)	(439)
	2 782 045	**2 472 611**
Equity instruments		
Listed securities		
Shares issued by Portuguese entities	1 054 615	532 911
Impairment	(25 493)	(33 855)
Unlisted securities		
Issued by Portuguese entities		
Shares	46 653	37 509
Impairment	(6 669)	(6 482)
Quotas	1	1
Shares issued by foreign entities	29 302	26 206
Impairment	(14 725)	(14 852)
	1 083 684	**541 438**
Other securities		
Listed securities		
Participating units	13 076	1 458
Unlisted securities		
Participating units	48 381	51 020
Impairment	(4 544)	(4 439)
	56 913	**48 039**
Loans and other receivables	28 461	28 402
Impairment	(25 703)	(25 579)
	2 758	**2 823**
	3 925 400	**3 064 911**

Banco BPI holds a portfolio of fixed rate bonds, issued by national and international entities, which 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.

The changes in impairment losses in 2007 and 2006 are presented in note 4.18.

At 31 December, 2007 this caption was made up as follows:

Nature and type of security	Quantity	Amounts per unit		Cost	Book value / fair value[1]	Gain[2]	Loss[2]	Impairment
		Nominal	Listing / Price					
SECURITIES								
Debt instruments								
Issued by portuguese entities								
Portuguese public debt								
Treasury Bonds								
OT 3.95% July 1999 / 2009	520 632	0.01	0.01	528	529		4	
OT 5% June 2002 / 2012	500 000 000	0.01	0.01	508 802	528 742	7 157		
OT 5.15% June 2001 / 2011	850 500	0.01	0.01	923	899		22	
OT 5.375% June 1998 / 2008	52 945	0.01	0.01	53	55			
				510 306	**530 225**	**7 157**	**26**	
Other residents								
Non-subordinated debt								
Bonds								
Banco Investimento / 2005 Ob. cx. 1.ª em.	5 000 000	1 000.00	1 000.14	5 000	5 008	1		
EDP – 25.ª Em. / 1998 – Tx. Vr.	8 242 875	0.00		8 218	8 285	14		
GDL / 1998	8 166 983	0.01	0.01	8 167	8 148		163	
Jerónimo Martins – 2003	2 500 000	5.00	5.00	2 500	2 537			
Medinfar / 2003 – Tx. Vr. (15-12-2008)	368 825	2.50	2.50	369	370			
Mota Engil – Tx. Vr. (09-12-2010)	10 200 000	600.00	600.00	10 200	10 241			
Portucel Tv. (27-10-2012)	15 000 000	1 000.00	1 002.60	14 993	15 193	44		
Sagres STC S.A.	813 000	100.00	100.00	813	813			
Sagres STC S.A. / Douro – Sr. 1 Cl.C (21.11.39)	24 000 000	10 000.00		24 000	24 150			
Sagres STC S.A. / Douro – Sr. 1 Cl.D (21.11.39)	5 010 000	10 000.00		5 010	5 010			
Sagres STC S.A. / Douro – Sr. 1 Cl.E (21.06.56)	5 850 000	50 000.00		5 850	5 850			
Sagres STC / Douro MT – Sr. 2 Cl.E (21.04.59)	5 850 000	1 000.00		5 850	5 850			
Sagres STC / Douro MT – Sr. 3 C.B (21.11.60)	27 750 000	1 000.00		27 750	27 898			
Sagres STC / Douro MT – Sr. 3 C.C (21.11.60)	16 500 000	1 000.00		16 500	16 589			
Sagres STC S4 – 1 CL. 0 (25.09.12)	500 000	500 000.00		455	458		8	
Sagres STC S4 – 1 CL. M (25.09.12)	500 000	500 000.00		494	500		2	
Semapa / 2006 / 2016 2.ª	2 705 684	0.01	0.01	2 701	2 751	3		
				138 870	**139 651**	**62**	**173**	
Issued by non residents								
By foreign public issuers								
Bonds								
Obrigações do Tesouro (Angola)	217 684	100.00		185 364	177 341			
Obrigações do Tesouro (Angola)	61 270	180.84		244 438	247 533			
Republic of Brasil – 7.375% (03-02-2015)	128 900 000	1 000.00	1 080.00	149 253	147 833		4 350	
Republic of Brasil – 7.375% (03-02-2015)	21 500 000	1 000.00	1 080.00	24 229	24 658		1 214	
Republic of Brasil – 8.5% (24-09-2012)	30 000 000	1 000.00	1 110.00	33 964	33 983		353	
Republic of Brasil – 11% (26-06-2017)	72 500 000	1.00	1.34	105 765	101 428	134	1 306	
Republic of Iraq – 5.8% (15-01-2028)	704 436	679.30	450.92	706	486		237	
				743 719	**733 262**	**134**	**7 460**	
Internacional financial organisations								
Bonds								
BEI / 2004 – Tx.Vr. (08-06-2010)	515 000	1 000.00	982.50	505	507			
				505	**507**			
By other non residents issuers								
Others								
Non-subordinated debt								
Bonds								
Aleutian Inv LLC – Tv. (25-10-2012)	4 075 810	67 930.17	61 137.15	3 708	3 721		49	
Alpha Credit Group – Tv. (17-01-2012)	1 450 000	1 000.00	1 000.00	1 437	1 417		36	

1) Net of impairment.

2) Amount recorded in revaluation reserves after recognising the effect of the hedging operations in the statement of income (note 4.28).

Nature and type of security	Quantity	Amounts per unit: Nominal	Amounts per unit: Listing / Price	Cost	Book value / fair value[1]	Gain[2]	Loss[2]	Impairment
By other non residents issuers								
Others								
Non-subordinated debt								
Bonds (cont.)								
Alrosa Finance S.A. – 8.875% (17-11-2014)	8 830 922	679.30	731.42	10 192	9 602		837	
Altadis Emis. Finance – 4% (11-12-2015)	35 000 000	1 000.00	873.23	33 026	30 640		1 386	
Altadis Emis. Finance – 4% (11-12-2015)	10 000 000	1 000.00	873.23	9 171	8 754		347	
Autostrade SPA – Tx. Vr. (09-06-2011)	5 000 000	100 000.00	99 650.00	5 011	4 998		25	
Avoca Clo BV – Sr. – II. X – CL – A1 (15-01-2020)	800 000	1 000.00	993.70	780	813	8		
Avoca Clo BV – Sr. – IV. X – CL – B – Tv. (18-02-2022)	800 000	100 000.00	94.78	746	773	11		
Euro-Vip 1990	4 075 810	679.30		4 076	3 570			530
Banca Popolare Di Milano – Tv. (31-01-2014)	500 000	1 000.00	973.15	494	491		7	
BAT HOLDINGS BV – 4.375% (15-09-2014)	5 000 000	1 000.00	992.50	5 006	4 993		41	
Bayer AG – Tx. Vr. (25-05-2009)	10 000 000	50 000.00	49 750.00	10 001	9 998		51	
C8 Capital SPV – 6.64% – Perpetua	44 154 609	679.30	642.08	43 969	41 735		3 816	
Caixa Eco Montepio Geral – Tv. (03-05-2012)	300 000	1 000.00	966.95	294	292		4	
Casino Guichard Perrachon – 6% (27-02-2012)	12 500 000	1 000.00	1 012.59	13 354	13 288		160	
Casino Guichard Perrachon – 6% (27-02-2012)	5 000 000	1 000.00	1 012.59	5 253	5 315		38	
Celf Loan Part.BV – Sr. 2005 – 1x CL. A 2021	800 000	1 000.00	975.44	773	797			
CEMG (Cay) – Tv. (30-09-2010)	500 000	1 000.00	987.02	499	494		6	
Cibeles FTYPME – Sr. III – Cl. BSAn	400 000	100 000.00	97 810.00	395	393		4	
CIMPOR FINANCIAL OPERTNS – 4.5% (27-05-2011)	15 500 000	1 000.00	960.13	15 277	15 297		348	
CIMPOR FINANCIAL OPERTNS – 4.5% (27-05-2011)	36 500 000	1 000.00	960.13	36 484	36 023		513	
CLARIS MILLESIME CDO – SR. 1 – CL. 2 (10.06.24)	500 000	500 000.00	373 589.06	450	375		77	
CLOVERIE 2004 – 72 – TX. VR. (17-11-2024)	500 000	500 000.00	210 250.00	475	211		265	
Cosan Finance Ltd. – 7% (01-02-2017)	13 586 034	679.30	636.85	13 275	13 131		1 830	
Cosipa Commercial – 8.25% (14-06-2016)	7 132 668	679.30	744.68	8 000	7 845		345	
COUNTRYWIDE FIN CORP – TV. (23-11-2010)	750 000	1 000.00	880.70	683	527		165	
CREDIT AGRICOLE – TX VAR. (15-11-2010)	750 000	1 000.00	977.50	750	737		17	
CREDITO EMILIANO – TV. (05-08-2010)	800 000	50 000.00	49 575.00	796	799		3	
Csn Islands VIII Corp – 9.75% (16-12-2013)	13 586 034	679.30	763.37	15 378	15 322		1 140	
Csn Islands IX Corp – 10% (15-01-2015)	8 830 922	679.30	789.69	10 461	10 691		318	
Daimlerchrysler Na HLDG – Tv. (28-11-2008)	10 000 000	1 000.00	1 001.69	10 018	10 063	10		
DELPHINUS BV – CL.B – TX. VR. (25-01-2091)	500 000	500 000.00	494 550.52	496	499		2	
DELPHINUS BV – CL.B – TX. VR. (25-09-2091)	500 000	500 000.00	496 000.00	498	496		3	
Deutsche Telekom Int. F – Tv. (08-12-2009)	5 000 000	1 000.00	992.85	5 010	4 979		41	
DIAGEO FINANCE PLC – Tv. (22-05-2012)	250 000	1 000.00	979.80	249	246		4	
DONG A/S – 5.5% (29-06-3005)	20 000 000	1.00	0.94	20 134	19 437		1 340	
DONG A/S – 5.5% (29-06-3005)	45 000 000	1.00	0.94	44 995	43 734		3 031	
Dresdner Bank / 1998-2013 – PTE – C. Zero	5 000 449	498.80	905.73	8 271	9 080	408		
DUCHESS – SR. V – X CL. B – TV. (25-05-2021)	800 000	1 000.00	911.20	742	733		15	
Edison SPA – Tx. Vr. (19-07-2011)	5 000 000	1 000.00	1 000.00	5 079	5 053		55	
EDP Finance BV (14-06-2010)	5 000 000	1 000.00	986.50	4 995	4 945		64	
EIRLES THREE LTD – Tv. (31-01-2008)	275 000	2 500.00	2 499.38	275	281			
EIRLES TWO LIMITED – TV. PERP.	800 000	100 000.00	97 150.00	794	789		23	
Eletrobras – C. E. Brasil – 7.75% (30-11-2015)	22 077 305	679.30	717.09	23 936	23 448		1 491	
Etab Econ Casino – 4.875% (10-04-2014)	2 500 000	50 000.00	47 480.36	2 482	2 462		59	
Evraz Securities – 10.875% (03-08-2009)	4 415 461	67 930.17	71 413.63	4 796	4 838		156	
France Telekom – Tx. Vr. (09-06-2010)	5 000 000	50 000.00	49 250.00	5 006	4 940		79	
Gaz Capital (Gazprom) – 6.212% (22-11-2016)	22 077 305	679.30	655.41	22 001	21 446		1 804	

1) Net of impairment.

2) Amount recorded in revaluation reserves after recognising the effect of the hedging operations in the statement of income (note 4.28).

Nature and type of security	Quantity	Amounts per unit		Cost	Book value / fair value[1]	Gain[2]	Loss[2]	Impairment
		Nominal	Listing / Price					
By other non residents issuers								
Others								
Non-subordinated debt								
Bonds (cont.)								
GLITNIR BANKI HF – TV. (24-05-2011)	500 000	1 000.00	930.68	487	468		23	
GRANITE MORTG. – TV. (20-01-2043) – SR. 02 – 2/2C	173 585	7 547.17	7 538.19	174	175			
GRANITE MORTG.-TV. (20-03-2044) – SR. 04 – 1/2C	500 000	100 000.00	96 621.00	499	484		16	
GRANITE MORTG. – TV. (20-03-2044) – SR. 04 – 1/2M	500 000	100 000.00	97 182.00	499	487		13	
GRANITE MORTG. – TV. (20-09-2044) – SR. 04 – 3/2C	259 390	648.47	619.27	257	248		9	
HARBOURMASTER CLO – S. 4X – CL. A3 (11-10-2019)	500 000	1.00	0.96	491	485		13	
HARVEST CLO SA – SR. IX – CL. B2 (29-03-2017)	750 000	250 000.00	248 450.00	745	757			
HARVEST CLO – SR. II – X CL. A (21-05-2020)	530 000	10 000.00	9 760.00	513	520	3		
HOLLAND EURO – DENOM. MTG BACKED – 2037 – CL. B7	500 000	500 000.00	489 950.00	493	493		4	
HSBC FINANCE CORP – TV. (05-04-2013)	500 000	1 000.00	932.50	494	472		28	
ING BANK NV – TX. VR. (16-05-2012)	800 000	10 000.00	9 858.50	788	794			
INTL LEASE FINANCE CORP – TX. VR. (15-08-2011)	900 000	50 000.00	48 675.00	891	882		16	
INTL LEASE FINANCE CORP – TX. VR. (06-07-2010)	200 000	50 000.00	48 747.50	200	197		5	
Intergas finance BV – 6.875% (04-11-2011)	8 830 922	679.30	658.98	9 107	8 661		766	
Intergas finance BV – 6.875% (04-11-2011)	4 415 461	679.30	658.98	4 514	4 331		527	
KAUPTHING BANK HF – TX. VAR. (25-05-2010)	600 000	1 000.00	929.35	590	560		33	
Kazakhstan Temir Zholy – 6.5% (11-05-2011)	8 830 922	679.30	652.65	8 974	8 560		813	
Kazakhstan Temir Zholy – 6.5% (11-05-2011)	8 491 271	679.30	652.65	8 587	8 230		834	
KION MORTGAGE FIN SR.06-1 CL.A (15.07.51)	415 208	6 487.63	6 417.68	411	415		1	
KOMMUNALKREDIT – TX. VR. (13-02-2009)	500 000	10 000.00	9 919.00	495	503			
Koninklijke KPN NV – Tx. Vr. (21-07-2009)	5 000 000	1 000.00	997.64	5 002	5 037		14	
Koninklijke KPN NV – Tx. Vr. (22-06-2015)	19 000 000	1 000.00	889.89	17 793	17 307		378	
LA DEFENSE PLC-SR.III-CL.C1(9.4.2014)	247 396	9 515.21	9 297.22	245	245		3	
LAFARGE – 4.25% (23-03-2016)	30 000 000	1 000.00	876.25	28 721	27 273		2 072	
LAFARGE – 6.5% (15-07-2016)	6 113 715	679.30	671.47	6 286	6 225		540	
LOTHIAN MORTGAGES – TX. VR. (24-07-2038)	400 000	100 000.00	98 920.00	398	400		2	
LUSITANO MTGE – SR. 1 – CL. D – Tv. (15-12-2035)	200 000	100 000.00	97 840.00	198	196		3	
MADRID RMBS FTA – SR. 06 – 1 CL. A2 (22-06-2049)	400 000	100 000.00	96 963.52	393	390		5	
MARLIN BV – SR. 1 – CL. B (23-12-2012)	37 497	37 496.68	37 230.46	37	37			
Megafon (OJSC) – 8% (10-12-2009)	8 830 922	679.30	687.19	9 184	8 973		318	
Metro AG – Tv. (07-10-2009)	5 000 000	1 000.00	1 001.70	5 029	5 069		7	
MIDGAARD FINANCE – SR. 1 – CL. A2 (23-04-2029)	500 000	500 000.00	490 650.00	493	496		3	
MMK Finance – 8% (21-10-2008)	4 415 461	679.30	682.12	4 521	4 502		79	
Mobile Telesystems – 8.375% (14-10-2010)	8 830 922	679.30	700.44	9 371	9 262		372	
Norilsk Nickel Fin Lux – 7.125 (30-09-2009)	17 661 844	679.30	690.61	18 145	18 271		395	
OPERA FINANCE (DE) – SR. GER3 CL. B (25-01-2022)	1 000 000	50 000.00	45 442.21	937	918		29	
OTE PLC – 4.625% (20-05-2016)	25 000 000	50 000.00	45 906.91	24 888	23 664		695	
PELICAN MORTGAGES – 2/B (15-09-2036)	290 000	10 000.00	9 700.00	286	282		5	
PEMEX PROJ.FDG MAST.TR – 6.375% – 2016	23 000 000	1 000.00	1 031.00	25 398	24 306		775	
PEMEX PROJ.FDG MAST.TR – 6.375% – 2016	5 000 000	1 000.00	1 031.00	5 443	5 284	79		
PORT.TELECOM INT.FIN. – 3.75% (26-03-2012)	23 000 000	1 000.00	930.93	21 875	22 071		359	
PORT.TELECOM INT.FIN. – 4.375% (24-03-2017)	24 000 000	1 000.00	886.96	22 013	22 096		737	
PROMISE PLC – TV. (05-10-2019) – SR. CARA – CL. B	600 000	100 000.00	99 050.00	597	602		2	
PROVIDE PLC – SR. A04 – 1/B (27-11-2045)	650 000	50 000.00	49 877.17	644	652	1		
PROVIDE PLC – SR. A05 – 1 CL. B TV. (25-08-2048)	500 000	100 000.00	97 555.53	490	490		8	
RCI BANQUE S.A. – Tv. (24-01-2012)	100 000	50 000.00	48 500.00	98	98		1	
RESIDENTIAL MORTG. SEC – 17X – M1C (13.05.37)	92 964	15 494.00	14 539.57	92	88		5	

1) Net of impairment.

2) Amount recorded in revaluation reserves after recognising the effect of the hedging operations in the statement of income (note 4.28).

Nature and type of security	Quantity	Amounts per unit		Cost	Book value / fair value[1]	Gain[2]	Loss[2]	Impairment
		Nominal	Listing / Price					
By other non residents issuers								
Others								
Non-subordinated debt								
Bonds (cont.)								
RHODIUM BV – SR. 1X – CL. C (27-05-2084)	800 000	100 000.00	98 400.00	785	791	1		
SIENA MORTGAGES – TX. VR. (16-12-2038) CL. B	360 000	10 000.00	9 765.00	353	352		2	
SNS BANK NEDERLAND – Tv. (7-05-2009)	870 000	10 000.00	9 924.70	857	869	4		
TELECOM ITALIA SPA. (09-06-2008)	10 000 000	50 000.00	49 875.00	10 010	10 005		27	
TELECOM ITALIA SPA. (06-12-2012)	5 000 000	50 000.00	48 952.00	4 999	4 914		104	
TELECOM ITALIA SPA. – 4.75% (19-05-2014)	62 500 000	50 000.00	47 306.89	62 005	60 967		1 184	
Tengizchevroil Fin – 6.124 (15-11-2014)	12 227 430	679.30	635.15	12 187	11 526		1 183	
Tengizchevroil Fin – 6.124 (15-11-2014)	11 548 129	679.30	635.15	11 379	10 886		1 123	
TNK – BP Finance – 6.875% (18-07-2011)	22 077 305	679.30	671.04	22 715	22 492		1 607	
UBS Luxem (Vimpelcom) – 8% (11-02-2010)	8 830 922	679.30	685.84	9 247	9 189		412	
Vale Overseas Lim (CAY) – 6.25% (11-01-2016)	13 586 034	679.30	675.72	13 510	13 913		740	
Vale Overseas Lim (CAY) – 6.25% (11-01-2016)	3 396 508	679.30	675.72	3 316	3 478		213	
VATTENFALL TREASURY AB – TV. PERP.	10 000 000	1 000.00	927.76	9 921	9 543		698	
VATTENFALL TREASURY AB – TV. PERP.	55 000 000	1 000.00	927.76	54 273	52 486		3 928	
Yapid Kredi DPR Fin – Sr. 2006 – 1Cl. B – 2014	3 396 508	679.30	642.96	3 223	3 234		11	
				876 557	**857 112**	**525**	**41 135**	**530**
Subordinated debt								
Bonds								
AGF – Assurances Gen Fr – 4.625% – Perp	20 000 000	1 000.00	898.61	19 371	18 488		1 068	
Allianz Finance BV – 4.375% Perp	135 000 000	1 000.00	861.41	128 393	121 420		8 211	
Axa S.A. – 5.777% Perp / Sub	100 000 000	1 000.00	931.26	104 579	95 936		7 824	
Bayer AG – 5% (29.07.2105)	75 000 000	1 000.00	884.78	71 100	67 947		2 959	
ELM BV (Swiss Rein Co) – Tv. – Perpétua	23 000 000	50 000.00	45 070.50	23 205	20 851		1 918	
ELM BV (Swiss Rein Co) – Tv. – Perpétua	25 000 000	50 000.00	45 070.50	25 160	22 664		1 978	
Generali Finance BV – 5.479% – Perpétuas	75 000 000	50 000.00	46 396.38	76 049	73 265		4 049	
Granite Master – Sr. 2006 – 1A – ClA5 (20.12.54)	3 731 774	678.50	664.93	3 685	3 678		28	
Henkel KGAA – T. V. (25-11-2104)	5 000 000	1 000.00	904.18	4 913	4 547		254	
Old Mutual PLC – Ob. Perpétua	25 000 000	1 000.00	874.55	24 324	22 058		1 869	
Siemens Financieringsmat – 5.25% (14.09.2066)	50 000 000	1 000.00	909.52	50 966	46 251		3 810	
Vinci – 6.25% Perpétuas	25 000 000	50 000.00	46 239.62	25 096	23 325		1 259	
Xenon Capital PLC 55 Tx. Vr. (04-01-2009)	850 000	10 000.00	9 947.00	854	858		8	
				557 695	**521 288**		**35 235**	
Equity instruments								
Issued by residents								
Shares								
Agrogarante, S.A.	22 500	1.00		23	23			
Alberto Gaspar, S.A.	60 000	5.00		141				141
Alar – Emp. Ibérica de Material Aeronautico, S.A.	2 200	4.99		20	20			
Ambelis – Agência p/ Modernização Economica de Lisboa, S.A.	400	6.85		20	13			7
Apis – Soc. Ind. Parquetes Azarujense	65 000	4.99						
Apor – Agência p/ Modernização do Porto – Cl. B	2 877	5.00		12	12			
Banco Comercial Português	189 112 113	1.00	2.92	503 586	552 207	48 622		
Boavista Futebol Clube	21 900	5.00		110	110			
Buciqueira – SGPS – Cap. Red. – Em. 2001	8	5.00		1	1			
Caderno Verde – Comunicação (C)	134 230	1.00		967				967
Caravela Gest, SGPS, S.A.	2 000	5.00		542	242	203		503
Carmo & Braz	65 000	4.99						
Casa Hipólito, S.A.	17 789	4.99		89	89			

1) Net of impairment.

2) Amount recorded in revaluation reserves after recognising the effect of the hedging operations in the statement of income (note 4.28).

Nature and type of security	Quantity	Amounts per unit		Cost	Book value / fair value[1]	Gain[2]	Loss[2]	Impairment
		Nominal	Listing / Price					
Equity instruments								
Issued by residents								
Shares (cont.)								
Cimpor – Cimentos de Portugal, S.A.	3 565	1.00	6.00	7	21	15		
Coimbravita – Agência Desenvolvimento Regional	15 000	4.99		75	75			
Companhia Águas da Fonte Santa de Monfortinho, S.A.	10	5.00						
Companhia Aurifícia, S.A.	578	14.00		24	1 284	1 260		
Companhia Aurifícia, S.A. (Valor Nominal 7 EUR)	30	7.00		1	33	33		
Companhia de Diamantes de Angola	167 716	2.49						
Companhia de Fiação e Tecidos de Fafe, S.A.	240	4.99						
Companhia Portuguesa do Cobre – Imobiliária, S.A.	57 200	4.99		4	4			
Companhia Prestamista Portugueza	10	1.00						
Comundo – Consórcio Mundial de Import.e Export., S.A.	3 269	0.50		6	2			4
Conduril – Construtora Duriense, S.A.	184 262	5.00		806	10 036	9 231		
Corticeira Amorim – SGPS	127 419	1.00	1.96	315	250	115		180
Digitmarket – Sistemas de Informação, S.A.	4 950	1.00		743				743
Douro Azul – Soc. Marítimo Turística, S.A.	1 000 000	1.00		1 000	758			241
EIA – Ensino, Investigação e Administração, S.A.	10 000	4.99		50	34			16
Empresa Cinematográfica S. Pedro – Águeda	100	4.99						
Empresa O Comércio do Porto, S.A.	50	2.49		1	1			
Esence – Soc. Nac. Corticeira – Nom.	54 545	4.99						
Estamparia Império – Emp. Industriais e Imobiliários, S.A.	170	4.99		1	1			
Eurodel – Ind. Metalurgicas e Participações	23	5.00						
Eurofil – Ind. de Petróleos, Plástico e Filamentos, S.A.	11 280	4.99		25	25			
Fábricas Vasco da Gama – Ind. Transformadoras, S.A.	33	4.99		1	1			
Fernando & Irmão, Lda.	20 692	100.00		2 069	5 252	3 183		
Fit – Fomento e Industria do Tomate, S.A.	148	4.99		3	3			
Futebol Clube do Porto	105 000	5.00	2.01	539	211			328
Galp – Energia, SGPS	25 092 809	1.00	18.39	374 475	461 457	86 981		
Gap – Gestão Agro-Pecuária, SGPS, S.A.	548	4.99		3	3			
Garval – Sociedade de Garantia Mutua	1 055 110	1.00		1 055	1 055			
GEIE – Gestão de Espaços de Incub. Empres.S.A.	12 500	1.00		13				13
Gestinsua – Aq. Al. Património	430	5.00		2				2
Gregório & Ca.	1 510	4.99		4	4			
Impresa – SGPS	6 200 000	0.50	2.06	22 791	12 772			10 019
Incal – Indústria e Comércio de Alimentação, S.A.	2 514	1.13		2	2			
Inovcapital – Soc. de Capital de Risco S.A.	241 527	5.00		1 205	1 302	98		
Intersis, S.A.	42 147	4.99		1 307				1 307
J. Soares Correia – Armazéns de Ferro, S.A.	84	5.00		2	2			
Jotocar – João Tomás Cardoso, S.A.	3 020	4.99		8	8			
Lisgarante – Soc. de Garantia Mútua	1 004 450	1.00		1 004	1 004			
Lisnave – Est. Navais	180	5.00		1	1			
Margueira – Sociedade Gestora de Fundos Investimento Imobiliário, S.A.	3 511	5.00		18	18			
Matur – Sociedade de Empreend. Tur. da Madeira, S.A.	13 435	5.00		146				146
Matur – Sociedade de Empreend. Tur. da Madeira, S.A.	4	5.00						
Maxstor	8 190	4.99		41				41
Metalurgia Casal, S.A.	128	4.99		1	1			
Mimalha, S.A.	40 557	4.99		336				336
NET – Novas Empresas e Tecnologias, S.A.	10 539	5.00		25	44	19		
Norgarante – Soc. de Garantia Mútua	616 790	1.00		617	617			
Nutroton – Industrias da Avicultura	11 395	5.00		50	50			

1) Net of impairment.

2) Amount recorded in revaluation reserves after recognising the effect of the hedging operations in the statement of income (note 4.28).

Nature and type of security	Quantity	Amounts per unit		Cost	Book value / fair value[1]	Gain[2]	Loss[2]	Impairment
		Nominal	Listing / Price					
Equity instruments								
Issued by residents								
Shares (cont.)								
Oficina da Inovação	10 000	5.00		50	51	11		10
Plastrade – Comércio Intern. Plásticos – N	19 200	5.00		96	96			
Porto de Cavaleiros, SGPS	2	4.99						
Primus – Prom. e Desenvolvimento Regional, S.A.	8 000	4.99		40	16			24
Salvor – Soc. Investimentos Hoteleiros, S.A.	10	5.00						
Sanjimo – Sociedade Imobiliária	1 620	4.99		8				8
SDEM – Soc. de Desenv. Empr. Madeira, SGPS – N	937 500	1.00		938	699			238
Secca – Construções Metálicas – Ac. Ord. Em. 92	3 627	4.99		18				18
Secca – Pref. S/ Voto – Em. 92	3 627	4.99		18				18
Senal – Soc. Nacional de Promoção de Empresas, S.A.	450	0.50						
SIBS – Sociedade Interbancária de Serviços, S.A.	738 455	5.00		3 115	3 115			
Soc. Port. Inovação, Consul. Empres. Fom. Inovação, S.A.	1 500	5.00		7	7			
Sociedade de Construções ERG	50	4.99						
Sociedade de Construções ERG (Em. 93) – IR C	6	4.99						
Sociedade Industrial Aliança, S.A.	1	2.49						
Sodimul – Soc. de Comércio e Turismo	25	14.96		2	2			
Sofid – Soc. P/ Fin. Des. – Inst. Fin. Credito S.A.	1 000 000	1.00		1 250	1 250			
Somotel – Soc. Portuguesa de Moteis, S.A.	1 420	2.50						
Sonae SGPS	51 868	1.00	1.98	109	103	70		77
Sonae Industria SGPS	3 516	5.00	6.65	23	23			
Sopeal – Soc. Promoção Educacional Alcacerense, S.A.	100	4.99						
Sorefame – Socs. Reunidas Fabricações Metálicas, S.A.	31	5.00						
SPGM – Sociedade de Investimento – N	665 150	1.00		664	665	1		
Spidouro – Sociedade Promoção e Investimento Douro e Trás-os-Montes	15 000	4.99		75	21			54
Sport Lisboa e Benfica (Pub. Geral)	16 010	5.00	2.40	80	39		41	
Star – Turismo, S.A.	533	4.99		3	3			
SVB, SGPS, S.A.	1 250	5.00		6				6
Tagusparque – Sociedade de Promoção e Desenvolvimento do Parque, S.A.	480 000	5.00		2 394	2 394			
TECMIC	11 324	5.00		1 372	930			442
Telecine Moro, S.A.	170	4.99		1				1
Terologos – Tecnologias de Manutenção – P	7 960	4.99		40	40			
Textil Lopes da Costa, S.A.	4 900	4.99		8				8
Turopa – Operadores Turisticos, S.A.	5	4.99						
TVTEL – G.P.	191 250	4.98		1 374	2 999	2 999		1 374
Unicer – Bebidas de Portugal	1 002	1.00		8	8			
Unicre – Cartão Internacional de Crédito	352 076	5.00		1 057	1 057			
VAA – Vista Alegre Atlantis SGPS (Fusão)	13 745 907	0.20	0.13	12 210	1 787	1 787		12 210
VAA – Vista Alegre Atlantis SGPS	1 574 626	0.20	0.16	2 680	252	252		2 680
VAA – Vista Alegre Atlantis SGPS – Emissão 2006	9 700 000	0.20		1 940	1 261		679	
ViaLitoral – Conc. Rodoviária da Madeira	4 750	161.25		792	3 240	2 448		
Xelb Cork – Co. e Ind. Cortiça	87	4.99						
				944 665	**1 069 106**	**157 328**	**720**	**32 162**
Quotas								
Propaço – Soc. Imob. de Paço D' Arcos		1.00		1	1			
				1	**1**			
Rights over equity operations								
Fabricas Triunfo – Dir. reduçao Em. 2001	8	1.00						
Oliva – Ind. Metalúrgicas – Direitos de redução	100	1.00						

1) Net of impairment.

2) Amount recorded in revaluation reserves after recognising the effect of the hedging operations in the statement of income (note 4.28).

Nature and type of security	Quantity	Amounts per unit		Cost	Book value / fair value[1]	Gain[2]	Loss[2]	Impairment
		Nominal	Listing / Price					
Others								
Participating units								
Associação para Escola Gestão do Porto / 2000	2	4.99		50	33			17
BPI Selecção	200 000	5.00	4.98	1 000	996		4	
BPI Taxa Variável	1 297 332	4.99	8.27	10 892	10 729		163	
Citeve – Cent. Tec. Ind. Tex. Vest. Portugal	20	498.80		10	10			
Frie – PME Capital	115	24 939.89		2 868	1 560	14		1 322
Frie – PME Capital – Retex	40	24 939.89		998	851	6		153
Frie Inter-Risco	120	24 939.89		2 993	668	208		2 532
Fun. Cap. Risco P/ Invest. Qual. FCR – F. FIQ – F. Turismo	164	24 939.89		3 568	3 065	11		513
Fun. Cap. Risco P/ Inv. Qual – API CAPITAL II	40	4 987.98		200	228	36		7
Fun. Cap. Risco AICEP Capital Global – FIEP	8 814	1 000.00		8 814	9 275	461		
Fundo BPI – América	200 000	0.01	5.14	998	1 028	30		
Fundo Caravela	3 000	5 000.00		12 716	12 328		389	
Fundo Inv. Imobiliário Margueira Cap.	3 080 491	4.99		15 365	15 365			
Grupo BFE Imobiliário	72 986	4.99		371	429	57		
Inegi Instituto de Engenharia Mecanica	5 000	1.00		25	25			
				60 868	**56 590**	**823**	**556**	**4 544**
Equity instruments								
Issued by non residents								
Shares								
Altitude Software	5 984 560	0.04		13 810				13 810
Amsco – African Management Services Com	1 807	679.30		679				680
Arco Bodegas Unidas	63 382			4 399	3 586		812	
Club Financiero Vigo	1	15 626.31		18	12			6
European Investment Fund	9	1 000 000.00		9 410	10 324	915		
Growela Cabo Verde	19 000	9.07		172				172
International Factors Group, S.C.	12	50.00		1				
Nasdaq Europe S.A. / VN	100	49.96		25	4			21
Parque Industrial da Matola – MZM	1 920 000	0.03		55	55			
Swift – Society for Worldwide Inf. Dev	63	125.00		79	79			
Tharwa Finance (dirhams)	20 895	8.79		184	184			
Unirisco Galicia	80	1 202.02		96	84	14		27
CLD – Credit Logement Developpment	100	15.25		2	2			
Emis – Empresa Interbancária de Serviços				252	242			9
IMC – Instituto de Mercado de Capitais				3	3			
Sofaris	13	107.89		2	2			
				29 187	**14 577**	**929**	**812**	**14 725**
Others								
Participating units								
Fundo BPI – Europa (Luxemburgo)	23 405	0.01	13.80	171	323	152		
				171	**323**	**152**		
Loans and other receivables								
Loans and shareholders' loans								
Caravela Gest				1 354	235			1 119
Emis – Empresa Interbancária de Serviços				247	247			
GEIE				23				23
Intersis				50				50
Maxstor				973				973
Propaço – Imob. Paços d' Arcos				5 112	1 324			3 788
SVB				2 301	598			1 703
Digitmarket				879				879
Petrocer				200	200			
Plastrade				154	154			
Vista Alegre Atlantis SGPS				17 168				17 168
				28 461	**2 758**			**25 703**
				3 891 005	**3 925 400**	**167 110**	**86 117**	**77 664**

1) Net of impairment.

2) Amount recorded in revaluation reserves after recognising the effect of the hedging operations in the statement of income (note 4.28).

4.6. Loans and advances to credit institutions

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Loans and advances to the Bank of Portugal	500 000	
Loans and advances to other Portuguese credit institutions		
Inter-bank money market		10 000
Very short term loans and advances	78 119	31 164
Deposits	12 038	47 082
Loans	101 762	121 219
Other loans and advances	3 364	15
Accrued interest	1 116	946
	196 399	**210 426**
Loans and advances to other foreign credit institutions		
Very short term loans and advances	98 861	234 526
Deposits	351 532	348 555
Loans	790	979
Securities purchased with resale agreements	338 459	56 098
Other loans and advances	51 106	57 742
Accrued interest	4 095	4 277
	844 843	**702 177**
Correction of the amount of hedged assets	22	20
Commission relating to amortised cost (net)	(742)	(5 863)
	(720)	**(5 843)**
	1 540 522	**906 760**
Overdue loans and interest	387	
Impairment	(9)	(13)
	1 540 900	**906 747**

The changes in impairment losses and provisions during 2007 and 2006 are presented in note 4.18.

4.7. Loans and advances to Customers

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Loans		
Domestic loans		
Companies		
Discount	426 519	482 647
Loans	4 721 871	4 330 077
Commercial lines of credit	1 819 674	1 764 376
Demand deposits – overdrafts	396 567	504 676
Invoices received – factoring	701 323	691 868
Finance leasing	778 774	654 561
Real estate leasing	720 688	617 744
Other loans	51 374	54 431
Loans to individuals		
Housing	9 466 356	9 678 036
Consumer	972 711	881 694
Other loans	847 943	780 790
Foreign loans		
Companies		
Discount	8 649	3 969
Loans	3 717 626	2 410 536
Commercial lines of credit	259 250	143 989
Demand deposits – overdrafts	13 553	23 108
Invoices received – factoring	204	182
Other loans	191 844	120 948
Loans to individuals		
Housing	229 439	108 756
Consumer	15 886	18 478
Other loans	52 430	32 447
Accrued interest	135 583	103 952
	25 528 264	**23 407 265**
Securities		
Issued by Portuguese entities		
Non subordinated debt securities		
Bonds	348 820	105 243
Commercial paper	1 299 239	1 077 866
Subordinated debt securities	9 476	
Issued by foreign entities		
Foreign government entities		787
Non subordinated debt securities		
Bonds	128 906	92 547
Commercial paper	6 793	7 593
Subordinated debt securities	3 397	3 797
Accrued interest	12 647	5 740
	1 809 278	**1 293 573**
Correction of the amount of hedged assets	(5 087)	1 191
Commission relating to amortised cost (net)	(25 682)	(38 278)
	27 306 773	**24 663 751**
Overdue loans and interest	296 452	277 629
Loan impairment	(372 712)	(311 294)
	27 230 513	**24 630 086**

The caption of LOANS TO CUSTOMERS includes the following non-derecognised securitised assets:

	31 Dec. 07	31 Dec. 06
Non-derecognised securitised assets		
Loans		
Loans to SME's	476 965	477 992
Housing	3 607 742	2 816 098
Ceded risk / benefit	(1 262 710)	
Accrued interest	8 016	9 482
	2 830 013	**3 303 572**

These loans were not derecognised in the BPI Group's balance sheet and are recorded in the caption LOANS. The amounts received by Banco BPI under these operations are recorded in the caption LIABILITIES RELATING TO ASSETS NOT DERECOGNISED IN SECURITISATION OPERATIONS (notes 2.2.3 and 4.17). In 2007, Banco BPI carried out a securitisation operation over housing loans totalling 1 500 million euro. In December 2007 the Bank sold to the Banco BPI Pension Fund a portion of the risk / benefit relating to the housing loan securitisation operations with an impact on the LOANS TO CUSTOMERS caption of 1 266 428 th. euro (of which: 1 262 710 th. euro of performing loans). The assets and liabilities relating to these operations were derecognised in the percentage sold, and the difference to the product of the sale was recognised in the income statement (note 4.38).

The changes in impairment losses in 2007 and 2006 are presented in note 4.18.

The BPI Group's portfolio of loans and advances to Customers and guarantees given at 31 December, 2007, by business sector, is made up as follows:

	Loans[1]		Guarantees given[2]	
	Amount	**%**	**Amount**	**%**
Residents:				
Agriculture, animal production and hunting	148 304	0.5	8 517	0.2
Forestry and forest operations	9 979	0.0	1 544	0.0
Fishing	8 561	0.0	8 293	0.2
Mining	41 211	0.2	5 170	0.1
Manufacturing industries				
Beverage, tobacco and food	431 317	1.6	35 296	1.0
Textiles and clothing	176 610	0.6	25 098	0.7
Leather and related products	31 428	0.1	1 557	0.0
Wood and cork	147 472	0.5	14 737	0.4
Pulp, paper and cardboard and graphic arts	242 794	0.9	12 365	0.3
Coke, oil products and nuclear fuel	1 321	0.0	5 104	0.1
Chemical and synthetic or artificial fibres	98 457	0.4	12 772	0.4
Rubber and plastic materials	61 056	0.2	9 946	0.3
Other mineral non-metallic products	360 978	1.3	47 698	1.3
Metalworking industries	210 818	0.8	53 621	1.5
Manufacturing of machinery and equipment	75 312	0.3	35 585	1.0
Manufacturing of electrical and optical equipment	52 546	0.2	44 127	1.2
Manufacturing of transport material	48 656	0.2	70 419	1.9
Other manufacturing industries	96 179	0.4	15 623	0.4
Electricity, gas and water	505 285	1.9	286 417	7.9
Construction	898 719	3.3	979 019	27.1
Wholesale and retail trading	1 993 261	7.3	316 289	8.8
Restaurants and hotels	322 088	1.2	44 658	1.2
Transport, warehousing and communications	1 128 438	4.2	367 930	10.2
Banks	3 861	0.0	12 426	0.3
Other credit institutions			23 685	0.7
Other financial institutions and insurance companies	89 881	0.3	6 137	0.2
Investment holding companies	733 887	2.7	154 333	4.3
Real estate, rental and services provided to companies	1 355 763	5.0	226 263	6.3
Public administration, defence and mandatory social security	1 205 605	4.4	37 043	1.0
Education	41 189	0.2	819	0.0
Healthcare and welfare	293 753	1.1	57 292	1.6
Leisure, cultural and sports activities	277 739	1.0	54 601	1.5
Other service companies	79 330	0.3	8 433	0.2
Individuals				
Housing loans	9 466 356	34.8		
Others	1 820 654	6.7	70 852	2.0
Multinational financial institutions	30 175	0.1	4 099	0.1
Other sectors	72 352	0.3	216	0.0
Non-residents:				
Financial and credit institutions	5 472	0.0	58 378	1.6
Multinational Financial Institutions	121 630	0.4	388	0.0
Administrative public sector	15	0.0		
Non-financial companies	4 203 105	15.5	496 184	13.7
Individuals	297 755	1.1	811	0.0
	27 189 312	**100.0**	**3 613 745**	**100.0**

1) Excluding overdue loans, securities and interest, accrued interest, correction of the amount of hedged assets and commission relating to amortised cost.

2) Includes guarantees and sureties, stand-by letters of credit, open documentary credits and surety bonds and indemnities.

The BPI Group's portfolio of loans and advances to Customers and guarantees given at 31 December, 2006, by business sector, is made up as follows:

	Loans[1]		Guarantees given[2]	
	Amount	**%**	**Amount**	**%**
Residents:				
Agriculture, animal production and hunting	111 092	0.5	2 940	0.1
Forestry and forest operations	8 221	0.0	2 122	0.1
Fishing	9 665	0.0	1 118	0.0
Mining	47 651	0.2	5 653	0.2
Manufacturing industries				
Beverage, tobacco and food	440 723	1.8	37 648	1.1
Textiles and clothing	193 673	0.8	30 537	0.9
Leather and related products	30 478	0.1	1 854	0.1
Wood and cork	134 853	0.5	20 929	0.6
Pulp, paper and cardboard and graphic arts	125 432	0.5	24 998	0.8
Coke, oil products and nuclear fuel	1 142	0.0	2 914	0.1
Chemical and synthetic or artificial fibres	68 655	0.3	12 511	0.4
Rubber and plastic materials	53 249	0.2	13 156	0.4
Other mineral non-metallic products	353 587	1.4	62 918	1.9
Metalworking industries	185 927	0.8	59 104	1.8
Manufacturing of machinery and equipment	80 035	0.3	38 330	1.2
Manufacturing of electrical and optical equipment	52 630	0.2	37 711	1.1
Manufacturing of transport material	48 657	0.2	49 074	1.5
Other manufacturing industries	90 086	0.4	14 660	0.4
Electricity, gas and water	343 504	1.4	266 315	8.0
Construction	957 675	3.9	862 875	26.0
Wholesale and retail trading	1 803 023	7.3	251 105	7.6
Restaurants and hotels	266 443	1.1	41 358	1.2
Transport, warehousing and communications	1 023 537	4.2	355 298	10.7
Banks	2 793	0.0	26 272	0.8
Other credit institutions			19 758	0.6
Other financial institutions and insurance companies	66 278	0.3	3 869	0.1
Investment holding companies	483 092	2.0	145 894	4.4
Real estate, rental and services provided to companies	1 309 144	5.3	217 273	6.5
Public administration, defence and mandatory social security	1 081 222	4.4	43 523	1.3
Education	35 010	0.1	1 102	0.0
Healthcare and welfare	259 959	1.1	50 753	1.5
Leisure, cultural and sports activities	275 434	1.1	40 019	1.2
Other service companies	114 528	0.5	19 632	0.6
Individuals				
Housing loans	9 679 677	39.4		
Others	1 668 334	6.8	67 107	2.0
Multinational financial institutions	18 698	0.1	14	0.0
Other sectors	198 924	0.8	208	0.0
Non-residents:				
Central banks	7 312	0.0		
Financial and credit institutions	1 437	0.0	25 936	0.8
Multinational Financial Institutions	141 977	0.6	31 242	0.9
Administrative public sector	41	0.0		
Non-financial companies	2 524 390	10.3	433 094	13.0
Individuals	292 958	1.2	841	0.0
	24 591 146	**100.0**	**3 321 665**	**100.0**

1) Excluding overdue loans, securities and interest, accrued interest, correction of the amount of hedged assets and commission relating to amortised cost.
2) Includes guarantees and sureties, stand-by letters of credit, open documentary credits and surety bonds and indemnities.

The caption LOANS-SECURITIES at 31 December, 2007 is made up as follows:

Nature and type of security	Quantity	Cost	Book value / fair value	Impairment[1]
Issued by portuguese entities				
Non-subordinated debt				
Bonds				
ADP – Águas de Portugal, SGPS – Tv. (20-06-20)	50 000 000	50 000	50 000	
Celbi Celulose Beira Ind – Tv. (08-02-2015)	75 000 000	75 000	75 000	
Edia S.A. – Tv. (30-01-2027)	16 180 000	16 180	16 180	
GDL / 1998	499 399	499	499	
Grupo Visabeira SGPS – Tv. (13-07-2014)	5 000 000	5 000	5 000	

1) Additionally, the Bank recognised collective impairment of 322 th. euro on bonds issued by residents.

Nature and type of security	Quantity	Cost	Book value / fair value	Impairment[1]
Issued by portuguese entities (cont.)				
Non-subordinated debt (cont.)				
Bonds (cont.)				
Jerónimo Martins 2003	840 000	840	840	
Jerónimo Martins – JM 2011 – tv – (28-03-2011)	17 500 000	17 500	17 500	
Jerónimo Martins – JM 2012 – tv – (28-03-2012)	17 500 000	17 500	17 500	
JMR – Gestão Empresas Retalho – 2007 / 2012	50 000 000	50 000	50 000	
Mota Engil – Tx. Vr. (09-12-2010)	300 000	300	300	
Mota Engil – Tx. Vr. 2004-2011	15 000 000	15 000	15 000	
Polimaia / 89 – Série C (Ac. Cred.)	1 203	1	1	
Portucel – Emp. Celu. Papel – Tv. (27-10-2012)	1 000 000	1 000	1 000	
Semapa – 2006 / 2016 2.ª	50 000 000	50 000	50 000	
Sonae Capital SGPS-2007 / 2012 – 1.ª Emissão	10 000 000	10 000	10 000	
Sonae Distribuição Setembro – 2007 / 2015	40 000 000	40 000	40 000	
		348 820	**348 820**	
Commercial paper		**1 299 239**	**1 299 239**	**7 063**
Subordinated debt				
Banco Nacional Ultramarino / 1998 – OC	9 477 160	9 476	9 476	
		9 476	**9 476**	
Issued by non residents				
Non-subordinated debt				
Structured Investment Vehicles (SIV's)				
CENTAURI CORPORATION(CAY) – Tv. – (09-09-2016)	10 000 000	10 000	10 000	4 840
DORADA CORPORATION – Tv. – (15-05-2017)	10 000 000	10 000	10 000	4 560
FIVE FINANCE CORP – TV. (10-02-2014)	3 396 508	3 396	3 396	1 824
FIVE FINANCE CORP – G4 – SR 4 – TR1 (2015-11-10)	2 500 000	2 500	2 500	1 343
K2 CORPORATION – TX. VR. (28-02-2013)	3 396 508	3 397	3 397	1 481
Links Finance Corp – Tv. – (15-06-2017)	6 793 017	6 793	6 793	2 471
NIGHTINGALE FIN LTD – Tv. (06-06-2017)	3 396 508	3 397	3 397	1 019
SEDNA FINANCE CORP – TV. (05-01-2011)	3 396 508	3 397	3 397	1 606
SEDNA FINANCE CORP – TX. VAR. (16-04-2012)	5 000 000	5 000	5 000	2 363
Zela Finance Corporation TV. (15-08-2016)	5 000 000	5 000	5 000	2 555
		52 880	**52 880**	**24 062**
Asset Backed Securities (ABS's)				
ALFA BANK SR. 1X CL. A – TV. (15-03-2011)	2 323 857	2 323	2 323	
ALFA DIV PYMT RT FIN – Tv. (15-12-2011)	3 800 000	3 800	3 800	
ALLIANCE DPR CO – Tv. (15-11-2013)	1 455 646	1 456	1 456	
BOSPHORUS FINANCIAL SERV – TV. (15-02-2012)	3 396 508	3 396	3 396	
Dali Capital – Sr. 2006 – 1Cl. A (25-12-2046)	5 727 400	5 727	5 727	
Dutch Mor. Port. Loans (15.9.34) – O. HIP – CL. B	4 000 000	4 000	4 000	
GAZPROMBANK MORT – SR 07 – 1 CLA1 (25-06-2047)	2 808 203	2 808	2 808	
KAZAKH MORTGAGE – S. 07 – 1 – C. A (15-02-2029)	1 867 027	1 867	1 867	
MDM DPR FIN CO – SR. 07 – 1X – CL. A (15-06-2012)	3 657 503	3 658	3 658	
MDM DPR FIN COMPANY – Tv. (15-12-2011)	4 000 000	4 000	4 000	
Red & Black Prime Rus – S07 – 1 CA (01.19.35)	3 341 734	3 342	3 342	
ROOF RUSSIA – Tv. (25-07-2017)	3 396 508	3 396	3 396	
RUSSIAN CAR LOANS SR. 1 CL. A – Tv. (16.10.17)	5 500 000	5 500	5 500	
RUSSIAN CAR LOANS SR. 1 CL. B – Tv. (16.10.17)	1 500 000	1 500	1 500	
RUSSIAN CONSUMER FIN – SR1 CL. A1 (14-01-2012)	1 500 000	1 500	1 500	
Saratoga CLO I Ltd. – Sr. 2006 – 1X – Cl – A2-2019	6 793 017	6 793	6 793	
Saratoga CLO I Ltd. – Sr. 2006 – 1X – Cl – B-2019	2 037 905	2 038	2 038	
Stichting Eurostar CDO (10-03-2013) O. H – Cl – A1	1 483 835	1 481	1 482	
TAGANKA CAR L. F – SR. 06 – 1X – CL. B (14-11-2013)	1 679 108	1 679	1 679	
TIB DIVERSIFIED – SR. 05 – DX CL. D (15-08-2012)	6 793 017	6 796	6 796	
UBB DIV PAY RIG – SR. 2002 – 1X CL1 (12-01-2016)	3 396 508	3 396	3 396	
UKRAINE MORT – SR. 2007-1 CL. A (15-12-2031)	2 172 880	2 173	2 173	
VB DPR FIN. COMP. – SR. 2006 – 1X – CL. E – 2013	3 396 508	3 396	3 396	
		76 025	**76 026**	
		128 905	**128 906**	**24 062**
Commercial paper		**6 793**	**6 793**	
Subordinated debt				
Structured Investment Vehicles (SIV's)				
K2 Corporation – Ob. Perp. Sub.	3 396 508	3 397	3 397	893
		3 397	**3 397**	**893**
Accrued interest			**12 647**	
		1 796 630	**1 809 278**	**32 018**

1) Additionally, the Bank recognised collective impairment of 322 th. euro on bonds issued by residents.

Impairment of the Structured Investment Vehicles (SIVs) portfolio mentioned above, was calculated based on the most recent Net Asset Value disclosed by their managers.

Signs of impairment of the Asset Backed Securities (ABSs) portfolio are determined through regular monitoring of the performance indicators of the underlying transactions, which do not show impairment in any securities at 31 December, 2007.

4.8. Other tangible assets

The changes in other tangible assets in 2007 were as follows:

	Gross					
	Balance at 31 Dec. 06	**Purchases**	**Sales and write offs**	**Transfers and others**	**Foreign exchange differences**	**Balance at 31 Dec. 07**
Premises						
Premises for own use	223 430	9 618	(3 605)	8 553	(2 870)	235 126
Other premises	3 457		(481)			2 976
Leasehold improvements	101 341	6 220	(4 093)	3 531	(821)	106 178
	328 228	**15 838**	**(8 179)**	**12 084**	**(3 691)**	**344 280**
Equipment						
Furniture and fixtures	42 418	2 458	(233)	685	(121)	45 207
Machinery and tools	13 148	743	(601)	72	3	13 365
Computer hardware	144 779	8 952	(2 238)	3 562	(118)	154 937
Interior installations	115 282	856	(1 887)	14 631	(65)	128 817
Vehicles	7 202	1 065	(1 983)	333	(54)	6 563
Security equipment	20 720	2 194	(278)	520	(281)	22 875
Other equipment	301	1	(54)			248
	343 850	**16 269**	**(7 274)**	**19 803**	**(636)**	**372 012**
Equipment under finance lease	44		(44)			
Tangible assets in progress	20 904	48 522		(35 969)	(922)	32 535
Other tangible assets	13 274	7	(230)	516		13 567
	34 222	**48 529**	**(274)**	**(35 453)**	**(922)**	**46 102**
	706 300	**80 636**	**(15 727)**	**(3 566)**	**(5 249)**	**762 394**

The changes in other tangible assets in 2006 were as follows:

	Gross					
	Balance at 31 Dec. 05	**Purchases**	**Sales and write offs**	**Transfers and others**	**Foreign exchange differences**	**Balance at 31 Dec. 06**
Premises						
Premises for own use	216 624	188	(1 839)	8 375	82	223 430
Other premises	3 146		(92)	403		3 457
Leasehold improvements	96 694	3 538	(2 802)	3 881	30	101 341
	316 464	**3 726**	**(4 733)**	**12 659**	**112**	**328 228**
Equipment						
Furniture and fixtures	40 779	1 838	(389)	201	(11)	42 418
Machinery and tools	12 610	680	(217)	45	30	13 148
Computer hardware	137 281	8 096	(5 015)	4 666	(249)	144 779
Interior installations	102 656	649	(441)	12 571	(153)	115 282
Vehicles	10 656	620	(4 330)	270	(14)	7 202
Security equipment	18 960	1 384	(305)	679	2	20 720
Other equipment	295	11	(5)			301
	323 237	**13 278**	**(10 702)**	**18 432**	**(395)**	**343 850**
Equipment under finance lease	1 039			(995)		44
Tangible assets in progress	16 966	37 690		(33 062)	(690)	20 904
Other tangible assets	12 907	40	(79)	406		13 274
	30 912	**37 730**	**(79)**	**(33 651)**	**(690)**	**34 222**
	670 613	**54 734**	**(15 514)**	**(2 560)**	**(973)**	**706 300**

The gross amount of transfers and others includes 1 126 th. euro relating to a transfer to intangible assets.

	Depreciation						Net	
	Balance at 31 Dec. 06	**Depreciation for the year**	**Sales and write offs**	**Transfers and others**	**Foreign exchange differences**	**Balance at 31 Dec. 07**	**Balance at 31 Dec. 07**	**Balance at 31 Dec. 06**
	73 910	4 259	(1 223)		2	76 948	158 178	149 520
	924	45	(121)			848	2 128	2 533
	75 847	8 330	(3 529)	(86)	29	80 591	25 587	25 494
	150 681	**12 634**	**(4 873)**	**(86)**	**31**	**158 387**	**185 893**	**177 547**
	33 508	2 685	(230)	(93)	(1)	35 869	9 338	8 910
	10 904	755	(570)	1	1	11 091	2 274	2 244
	124 027	12 424	(2 229)	(39)	5	134 188	20 749	20 752
	66 320	8 313	(1 263)	114	(2)	73 482	55 335	48 962
	5 648	1 083	(1 977)	71	(21)	4 804	1 759	1 554
	16 561	1 477	(265)		(37)	17 736	5 139	4 159
	274	5	(54)			225	23	27
	257 242	**26 742**	**(6 588)**	**54**	**(55)**	**277 395**	**94 617**	**86 608**
	41	3	(44)					3
							32 535	20 904
	9 028	877	(218)			9 687	3 880	4 246
	9 069	**880**	**(262)**			**9 687**	**36 415**	**25 153**
	416 992	**40 256**	**(11 723)**	**(32)**	**(24)**	**445 469**	**316 925**	**289 308**

	Depreciation						Net	
	Balance at 31 Dec. 05	**Depreciation for the year**	**Sales and write offs**	**Transfers and others**	**Foreign exchange differences**	**Balance at 31 Dec. 06**	**Balance at 31 Dec. 06**	**Balance at 31 Dec. 05**
	70 864	3 791	(653)	(96)	4	73 910	149 520	145 760
	836	53	(61)	96		924	2 533	2 310
	70 748	7 457	(2 354)	(10)	6	75 847	25 494	25 946
	142 448	**11 301**	**(3 068)**	**(10)**	**10**	**150 681**	**177 547**	**174 016**
	31 379	2 502	(372)	3	(4)	33 508	8 910	9 400
	10 395	723	(216)		2	10 904	2 244	2 215
	118 537	9 780	(5 015)	995	(270)	124 027	20 752	18 744
	59 271	7 420	(373)		2	66 320	48 962	43 385
	8 838	1 152	(4 330)		(12)	5 648	1 554	1 818
	15 414	1 428	(282)		1	16 561	4 159	3 546
	274	5	(5)			274	27	21
	244 108	**23 010**	**(10 593)**	**998**	**(281)**	**257 242**	**86 608**	**79 129**
	1 018	18		(995)		41	3	21
							20 904	16 966
	7 803	1 288	(63)			9 028	4 246	5 104
	8 821	**1 306**	**(63)**	**(995)**		**9 069**	**25 153**	**22 091**
	395 377	**35 617**	**(13 724)**	**(7)**	**(271)**	**416 992**	**289 308**	**275 236**

4.9. Intangible assets

The changes in intangible assets in 2007 were as follows:

	Gross					
	Balance at 31 Dec. 06	Purchases	Sales and write offs	Transfers and others	Foreign exchange differences	Balance at 31 Dec. 07
Software	50 861	1 230	(1 066)	1 263	(37)	52 251
Other intangible assets	18 622	7 486	(818)	1 381	(67)	26 604
	69 483	**8 716**	**(1 884)**	**2 644**	**(104)**	**78 855**
Intangible assets in progress	1 540	3 117		(2 679)		1 978
	71 023	**11 833**	**(1 884)**	**(35)**	**(104)**	**80 833**

The caption OTHER INTANGIBLE ASSETS at 31 December, 2007 includes 8 795 th. euro relating to the net amount of rights to lease property for the installation of branches.

The changes in intangible assets in 2006 were as follows:

	Gross					
	Balance at 31 Dec. 05	Purchases	Sales and write offs	Transfers and others	Foreign exchange differences	Balance at 31 Dec. 06
Software	53 538	904	(5 509)	1 997	(69)	50 861
Other intangible assets	16 491	5 538	(755)	(2 494)	(158)	18 622
	70 029	**6 442**	**(6 264)**	**(497)**	**(227)**	**69 483**
Intangible assets in progress	885	1 525		(870)		1 540
	70 914	**7 967**	**(6 264)**	**(1 367)**	**(227)**	**71 023**

The caption OTHER INTANGIBLE ASSETS at 31 December, 2006 includes 3 284 th. euro relating to the net amount of rights to lease property for the installation of branches.

The gross amount of transfers and others includes 1 126 th. euro relating to a transfer from other tangible assets in progress.

4.10. 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. 07	31 Dec. 06	31 Dec. 07	31 Dec. 06
Banco Comercial e de Investimentos, S.A.R.L.	30.0	30.0	13 106	11 820
Companhia de Seguros Allianz Portugal, S.A.	35.0	35.0	67 957	65 253
Cosec – Companhia de Seguros de Crédito, S.A.	50.0	50.0	25 430	26 134
F. Turismo – Capital de Risco, S.A.	25.0	25.0	1 361	1 341
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	32.8	32.8	22 411	16 067
Viacer – Sociedade Gestora de Participações Sociais, Lda.	25.0	26.0	20 695	21 153
			150 960	**141 768**

In 2007 Banco BPI sold 1% of the share capital of Viacer and now has a participation of 25% in that company (note 4.39.)

	Amortisation						Net	
	Balance at 31 Dec. 06	Amortisation for the year	Sales and write offs	Transfers and others	Foreign exchange differences	Balance at 31 Dec. 07	Balance at 31 Dec. 07	Balance at 31 Dec. 06
	47 818	2 126	(1 066)		(26)	48 852	3 399	3 043
	14 402	2 990	(818)	2	(48)	16 528	10 076	4 220
	62 220	**5 116**	**(1 884)**	**2**	**(74)**	**65 380**	**13 475**	**7 263**
							1 978	1 540
	62 220	**5 116**	**(1 884)**	**2**	**(74)**	**65 380**	**15 453**	**8 803**

	Amortisation					Net	
	Balance at 31 Dec. 05	Amortisation for the year	Sales and write offs	Foreign exchange differences	Balance at 31 Dec. 06	Balance at 31 Dec. 06	Balance at 31 Dec. 05
	51 488	1 886	(5 509)	(47)	47 818	3 043	2 050
	13 571	1 539	(617)	(91)	14 402	4 220	2 920
	65 059	**3 425**	**(6 126)**	**(138)**	**62 220**	**7 263**	**4 970**
						1 540	885
	65 059	**3 425**	**(6 126)**	**(138)**	**62 220**	**8 803**	**5 855**

4.11. Tax assets

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Current tax assets		
Corporate income tax recoverable	5 089	3 572
Others	455	328
	5 544	**3 900**
Deferred tax assets		
Due to temporary differences	135 827	118 428
Due to tax losses carried forward		11 038
	135 827	**129 466**
	141 371	**133 366**

Details of deferred tax assets are presented in note 4.42.

4.12. Other assets

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Debtors, other applications and other assets		
Debtors for future operations	36 785	47 967
Collateral accounts	5 315	1 585
Other aplications	1 267	1 052
VAT recoverable	14 693	3 818
Debtors for loan interest subsidy receivable	14 623	16 231
Other debtors	28 774	24 810
Overdue debtors and other applications	1 128	1 749
Impairment	(1 553)	(1 620)
Other assets		
Gold	345	459
Other available funds and other assets	1 032	927
	102 409	**96 978**
Tangible assets available for sale	58 775	59 216
Impairment	(15 913)	(13 235)
	42 862	**45 981**
Accrued income		
For irrevocable commitments assumed in relation to third parties	125	122
For banking services rendered to third parties	8 883	9 410
Other accrued income	20 016	18 637
	29 024	**28 169**
Deferred expenses		
Insurance	93	312
Rent	3 088	3 289
Other deferred expenses	3 608	3 162
	6 789	**6 763**
Liability for pensions and other benefits (note 4.24)		
Net assets of the pension fund		
Pensioners and Employees	2 798 494	2 470 458
Directors	23 372	21 941
Past service liabilities		
Pensioners and Employees	(2 445 429)	(2 230 837)
Directors	(23 388)	(21 931)
Others	(224)	
Actuarial deviations		
Employees		42 561
Directors		(1 126)
Changes in the pension plan conditions to be amortised		
Employees	277	340
Directors	524	109
	353 626	**281 515**
Other accounts		
Stock exchange transactions pending settlement		90 706
Non Stock exchange transactions pending settlement	945	5 476
Operations on assets pending settlement	277 293	152 906
	278 238	**249 088**
	812 948	**708 494**

The caption VAT RECOVERABLE is made up essentially of taxes recoverable in finance lease contracts.

The changes in tangible assets available for sale in 2007 were as follows:

	Balance at 31 Dec. 06			Aquisitions	Sales		Increase / Reversals of impairment	Transfers	Balance at 31 Dec. 07		
	Gross	Impairment	Net		Gross	Impairment			Gross	Impairment	Net
Assets received in settlement of defaulting loans											
Real estate	49 461	(8 360)	41 101	15 066	(13 009)	2 097	(5 110)		51 518	(11 373)	40 145
Equipment	5 332	(4 002)	1 330	1 919	(2 242)		536	(140)	5 009	(3 606)	1 403
Others	61	(60)	1						61	(60)	1
Other tangible assets											
Real estate	2 575	(813)	1 762		(2 179)	665	5		396	(143)	253
Others	1 787		1 787	4			(731)		1 791	(731)	1 060
	59 216	**(13 235)**	**45 981**	**16 989**	**(17 430)**	**2 762**	**(5 300)**	**(140)**	**58 775**	**(15 913)**	**42 862**

The changes in tangible assets available for sale in 2006 were as follows:

	Balance at 31 Dec. 05			Aquisitions	Sales		Increase / Reversals of impairment	Balance at 31 Dec. 06		
	Gross	Impairment	Net		Gross	Impairment		Gross	Impairment	Net
Assets received in settlement of defaulting loans										
Real estate	47 729	(12 991)	34 738	10 934	(9 202)	1 113	3 518	49 461	(8 360)	41 101
Equipment	4 756	(3 282)	1 474	1 886	(1 310)		(720)	5 332	(4 002)	1 330
Others	60	(60)		1				61	(60)	1
Other tangible assets										
Real estate	7 573	(2 090)	5 483		(4 998)	358	919	2 575	(813)	1 762
Others	1 787		1 787					1 787		1 787
	61 905	**(18 423)**	**43 482**	**12 821**	**(15 510)**	**1 471**	**3 717**	**59 216**	**(13 235)**	**45 981**

The caption OTHER ACCRUED INCOME at 31 December, 2007 and 2006 includes 13 369 th. euro and 11 385 th. euro, respectively, relating to accrued commission for participating in the profits of Allianz' insurance contracts.

The caption PAST SERVICE LIABILITIES – OTHERS corresponds to the responsibilities of Banco de Fomento Angola according to Law 18 / 90 of Angola, regarding Angola Social Security system, which defines the attribution of retirement pensions to all the Angolan Employees enrolled in Social Security.

The balance of the caption OPERATIONS ON ASSETS PENDING SETTLEMENT at 31 December, 2007 and 2006 includes 17 761 th. euro and 17 148 th. euro, respectively, relating to taxes to be settled, of which 12 529 th. euro and 12 916 th. euro, respectively, relate to taxes in litigation which were paid under the provisions of Decree-Law 248-A / 02 of 14 November.

This caption at 31 December, 2007 and 2006 also includes 214 165 th. euro and 92 117 th. euro, respectively, relating to securitisation operations carried out by the BPI Group (notes 4.7 and 4.17), resulting from timing differences between settlement of the loans (securitised assets not derecognised) and settlement of the liability for assets not derecognised.

The caption OPERATIONS ON ASSETS PENDING SETTLEMENT at 31 December, 2007 also includes 10 612 th. euro relating to housing loans pending settlement (11 622 th. euro at 31 December, 2006).

The changes in impairment losses and provisions in 2007 and 2006 are presented in note 4.18.

4.13. Financial liabilities held for trading

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Short selling of securities		
Debt instruments		
Bonds issued by foreign government entities	336 539	91 051
Equity Instruments	36	487
Derivative instruments with negative fair value (note 4.4)	198 094	110 309
	534 669	**201 847**

4.14. Resources of other credit institutions

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Resources of Portuguese credit institutions		
Inter-bank money market		100 000
Very short term resources	78 120	
Deposits	500 071	97 564
Other resources	390	262
Accrued interest	4 225	490
	582 806	**198 316**
Resources of foreign credit institutions		
Deposits of international financial organisations	353 000	349 517
Very short term resources	49 331	768 000
Deposits	2 315 504	1 167 132
Deposit securities sold with repurchase agreements	329 997	1 328 392
Other resources	80 158	132 220
Accrued interest	24 182	15 728
	3 152 172	**3 760 989**
Correction of the amount of hedged liabilities	(1 980)	942
Commission relating to amortised cost	(1 052)	
	3 731 946	**3 960 247**

The caption RESOURCES OF FOREIGN CREDIT INSTITUTIONS at 31 December, 2007 and 2006 includes 335 372 th. euro and 631 427 th. euro, respectively, relating to operations carried out by the Madrid branch on the inter-bank market.

The caption DEPOSIT SECURITIES SOLD WITH REPURCHASE AGREEMENTS at 31 December, 2007 and 2006 is made up essentially of repurchase operations to hedge the bond portfolio.

4.15. Resources of Customers and other debts

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Demand deposits	6 505 137	6 073 039
Term deposits	11 220 117	7 923 245
Savings deposits	622 689	665 439
Compulsory deposits	11 732	4 709
Cheques and orders payable	56 951	59 959
Deposit securities sold with repurchase agreements	578 531	71 861
Other resources of Customers	64 205	27 319
Capitalisation insurance products – unit links	1 277 389	1 108 105
Capitalisation insurance products – guaranteed rate	147 319	240 693
Accrued interest	144 077	68 677
	20 628 147	**16 243 046**
Correction of the amount of hedged liabilities	(5 922)	(7 541)
Commission relating to amortised cost (net)	(359)	
	20 621 866	**16 235 505**

This caption at 31 December, 2007 includes 639 864 th. euro and 238 026 th. euro, respectively, relating to deposits of investment funds and pension funds managed by BPI Group (348 174 th. euro and 213 961 th. euro, respectively, at 31 December, 2006).

4.16. Debt securities

This caption is made up as follows:

	31 Dec. 07				31 Dec. 06			
	Issued	Repurchased	Balance	Average interest rate	Issued	Repurchased	Balance	Average interest rate
Deposit Certificates								
EUR	257		257	3.8%	309		309	3.7%
	257		**257**		**309**		**309**	
Fixed rate cash bonds								
EMTN	**270 782**	**(1 740)**	**269 042**		**283 084**	**(1 737)**	**281 347**	
EUR	151 580	(660)	150 920	3.7%	155 660	(660)	155 000	3.8%
CZK	18 777		18 777	3.7%	18 192		18 192	3.7%
USD	21 628	(1 080)	20 548	4.2%	24 175	(1 077)	23 098	4.2%
GBP	54 544		54 544	5.5%	59 568		59 568	5.5%
JPY	24 253		24 253	2.5%	25 489		25 489	2.5%
Cash bonds	**267 163**	**(28 506)**	**238 657**		**284 101**	**(22 347)**	**261 754**	
EUR	251 562	(28 190)	223 372	3.4%	276 999	(22 246)	254 753	3.1%
USD	15 601	(316)	15 285	5.1%	7 102	(101)	7 001	4.8%
	537 945	**(30 246)**	**507 699**		**567 185**	**(24 084)**	**543 101**	
Variable rate cash bonds								
EMTN	**3 275 627**	**(125 170)**	**3 150 457**		**3 603 893**	**(178 830)**	**3 425 063**	
EUR	3 227 000	(125 170)	3 101 830	4.9%	3 515 413	(178 830)	3 336 583	3.7%
JPY					31 861		31 861	0.5%
CZK	37 554		37 554	3.8%	36 383		36 383	2.8%
CAD	11 073		11 073	5.1%	10 471		10 471	4.6%
HKD					9 765		9 765	4.3%
Cash bonds	**60 493**	**(4 961)**	**55 532**		**57 551**	**(3 139)**	**54 412**	
EUR	60 493	(4 961)	55 532	4.5%	57 551	(3 139)	54 412	3.6%
	3 336 120	**(130 131)**	**3 205 989**		**3 661 444**	**(181 969)**	**3 479 475**	
Variable income cash bonds								
EMTN	**1 371 116**	**(380 960)**	**990 156**		**1 029 268**	**(187 899)**	**841 369**	
EUR	1 192 028	(335 798)	856 230		822 028	(160 342)	661 686	
USD	179 088	(45 162)	133 926		207 240	(27 557)	179 683	
Cash bonds	**958 316**	**(248 508)**	**709 808**		**818 933**	**(164 400)**	**654 533**	
EUR	913 197	(234 224)	678 973		771 804	(160 714)	611 090	
USD	45 119	(14 284)	30 835		47 129	(3 686)	43 443	
	2 329 432	**(629 468)**	**1 699 964**		**1 848 201**	**(352 299)**	**1 495 902**	
	6 203 754	**(789 845)**	**5 413 909**		**6 077 139**	**(558 352)**	**5 518 787**	
Accrued interest			44 810				46 557	
Correction of the amount of hedged liabilities			(25 939)				(41 063)	
Premiums and commissions (net)			(90 925)				(59 715)	
			(72 054)				**(54 221)**	
			5 341 855				**5 464 566**	

As part of its medium and long term funding plan, the BPI Group issues cash bonds under the Euro Medium Term Notes (EMTN) program, as well as other cash bonds.

In 2006 the maximum amount for issuances made under the EMTN program was increased from EUR 7 000 000 000 to EUR 10 000 000 000.

Cash bonds can only be issued by institutions under the Bank of Portugal's supervision. They are an instrument currently used by the BPI Group to provide investment solutions for its Customers, as an alternative to term deposits.

Cash bonds and bonds issued under the EMTN program can be issued in different currencies.

The BPI Group issues bonds on a regular basis, with different remuneration conditions:

- fixed rate – bonds issued on which the BPI Group commits itself 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 commits itself to pay income calculated based on a specified interest rate index published by an outside source (market);

- variable income – bonds issued for which the remuneration is not known, or certain, at the issue date, and can be subjected to changes depending on the evolution of certain underlying assets (indixes or indexing rates) announced at the date of issue. Such bonds have embedded derivatives which are recorded in specific accounts as required by IAS 39 (note 4.4.). In addition, the BPI Group has options to hedge the risks of change in the cost incurred with these bonds.

The average interest rates mentioned in the previous 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 changes in the bonds issued by the BPI Group in 2007 were as follows:

	Deposit certificates	Fixed rate cash bonds	Variable rate cash bonds	Variable income cash bonds	Total
Balance at 31 December, 2006	309	543 101	3 479 475	1 495 902	5 518 787
Bonds issued during the year		50 679	261 737	940 521	1 252 937
Bonds redeemed	(52)	(71 869)	(588 834)	(441 462)	(1 102 217)
Repurchases (net of resales)		(6 286)	51 839	(279 726)	(234 173)
Exchange difference		(7 926)	1 772	(15 271)	(21 425)
Balance at 31 December, 2007	**257**	**507 699**	**3 205 989**	**1 699 964**	**5 413 909**

The changes in the bonds issued by the BPI Group in 2006 were as follows:

	Deposit certificates	Fixed rate cash bonds	Variable rate cash bonds	Variable income cash bonds	Total
Balance at 31 December, 2006	364	476 450	3 083 355	1 560 805	5 120 974
Bonds issued during the year		148 679	1 239 611	398 266	1 786 556
Bonds redeemed	(55)	(77 042)	(756 985)	(289 775)	(1 123 857)
Repurchases (net of resales)		(3 409)	(81 917)	(147 465)	(232 791)
Exchange difference		(1 577)	(4 589)	(25 929)	(32 095)
Balance at 31 December, 2007	**309**	**543 101**	**3 479 475**	**1 495 902**	**5 518 787**

Bonds issued by the BPI Group as of 31 December, 2007, by maturity date, are as follows:

	Maturity							
	2008	**2009**	**2010**	**2011**	**2012**	**2013-2016**	**> 2016**	**Total**
Deposit certificates								
EUR	51	49	48	45	43	21		257
	51	**49**	**48**	**45**	**43**	**21**		**257**
Fixed rate cash bonds								
EUR	144 862	124 710	45 180	8 065	9 555	1 000	40 920	374 292
CZK				18 777				18 777
USD	17 320	6 197	12 316					35 833
GBP		54 544						54 544
JPY							24 253	24 253
	162 182	**185 451**	**57 496**	**26 842**	**9 555**	**1 000**	**65 173**	**507 699**
Variable rate cash bonds								
EUR	481 339	1 053 883	1 220 640	286 500		115 000		3 157 362
CZK	37 554							37 554
CAD		11 073						11 073
	518 893	**1 064 956**	**1 220 640**	**286 500**		**115 000**		**3 205 989**
Variable income cash bonds								
EUR	550 408	240 982	407 975	165 987	100 472	53 649	15 730	1 535 203
USD	59 952	50 274	29 398		25 137			164 761
	610 360	**291 256**	**437 373**	**165 987**	**125 609**	**53 649**	**15 730**	**1 699 964**
Total	**1 291 486**	**1 541 712**	**1 715 557**	**479 374**	**135 207**	**169 670**	**80 903**	**5 413 909**

Bonds issued by the BPI Group as of 31 December, 2006, by maturity date, are as follows:

	Maturity							
	2007	**2008**	**2009**	**2010**	**2011**	**2012-2015**	**> 2015**	**Total**
Deposit certificates								
EUR	53	51	49	47	45	64		309
	53	**51**	**49**	**47**	**45**	**64**		**309**
Fixed rate cash bonds								
EUR	63 961	147 004	134 317	15 211	8 260	1 000	40 000	409 753
CZK					18 192			18 192
USD		19 478	7 001	3 620				30 099
GBP			59 568					59 568
JPY							25 489	25 489
	63 961	**166 482**	**200 886**	**18 831**	**26 452**	**1 000**	**65 489**	**543 101**
Variable rate cash bonds								
EUR	529 122	460 432	1 048 981	959 460	278 000	115 000		3 390 995
JPY	31 861							31 861
CZK		36 383						36 383
CAD			10 471					10 471
HKD	9 765							9 765
	570 748	**496 815**	**1 059 452**	**959 460**	**278 000**	**115 000**		**3 479 475**
Variable income cash bonds								
EUR	225 963	543 865	284 997	42 264	75 402	73 285	27 000	1 272 776
USD	57 232	67 357	62 441	33 060	1 518		1 518	223 126
	283 195	**611 222**	**347 438**	**75 324**	**76 920**	**73 285**	**28 518**	**1 495 902**
Total	**917 957**	**1 274 570**	**1 607 825**	**1 053 662**	**381 417**	**189 349**	**94 007**	**5 518 787**

4.17. Financial liabilities relating to transferred assets

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Liabilities relating to assets not derecognised in securitisation operations (note 4.7)		
Loans		
Housing loans	3 841 797	2 857 131
Loans to SME's	497 044	497 106
Risk / benefit on housing loans ceded	(1 344 629)	
Accrued costs	16 483	16 540
Commission relating to amortised cost (net)	(2 536)	(2 718)
	3 008 159	**3 368 059**

Banco BPI launched securitisation operations, the main features of which are summarised in the tables below. These issuances were made through Sagres – Sociedade de Titularização de Créditos S.A.

In December 2007 the Bank sold part of the highest risk bonds issued under the housing loan securitisation operations, usually referred to as equity pieces, having thus ceded part of the benefits and risks of these transactions. The impact of this operation on liabilities is shown in the table above. The assets and liabilities relating to these operations were derecognised by the percentage ceded, and the difference to the product of the sale was recognised in the statement of income (note 4.38).

On 6 April, 2005 Banco BPI launched its first securitisation operation, under the name Douro SME Series 1. The operation was issued in 4 lots, the main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (Moody's, S&P, Fitch)	Guarantee	Spread
▪ Class A Notes	445 000	1.31	AAA	Without guarantee	0.10%
▪ Class B Notes	26 000	3.65	AAA	European Investment Fund	0.08%
▪ Class C Notes	24 000	3.76		Credit Securitisation Guarantee Fund	1.00%
▪ Class D Notes	5 010	3.76		Without guarantee	2.00%
Total of the issues	**500 010**				
Reserve fund	(2 500)				
Other funds	(466)				
Total	**497 044**				

On 24 November, 2005 Banco BPI launched its first housing loan securitisation operation, under the name Douro Mortgages n.º 1. The operation was issued in 5 lots, the main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (Moody's, S&P, Fitch)	Spread[1]
▪ Class A Notes	984 025	3.85	Aaa / AAA / AAA	0.14%
▪ Class B Notes	20 822	5.36	Aa2 / AA / AA	0.17%
▪ Class C Notes	18 929	5.36	A1 / BBB / A+	0.27%
▪ Class D Notes	15 774	5.36	Baa1 / BBB / A-	0.47%
▪ Class E Notes	9 000	5.36		N.A.
Total of the issues	**1 048 550**			
Reserve fund	(12 000)			
Other funds	3			
Risk / benefit ceded	(362 794)			
Total	**673 759**			

1) Until the date of the call option (September 2014); after this date, if the option is not exercised, the spread doubles.

On 28 September, 2006 Banco BPI launched its second housing loan securitisation operation in the amount of 1 500 000 euros under the name DOURO Mortgages no. 2. The operation was issued in 6 lots, their main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (Moody's, S&P, Fitch)	Spread[1]
▪ Class A1 Notes	165 871	0.21	Aaa / AAA / AAA	0.05%
▪ Class A2 Notes	1 125 000	6.21	Aaa / AAA / AAA	0.14%
▪ Class B Notes	27 750	6.28	Aa3 / AA / AA	0.17%
▪ Class C Notes	18 000	6.28	A2 / A- / A+	0.23%
▪ Class D Notes	14 250	6.28	Baa2 / BBB / BBB+	0.48%
▪ Class E Notes	9 000	6.28		N.A.
Total of the issues	**1 359 871**			
Reserve fund	(12 000)			
Risk / benefit ceded	(471 755)			
Total	**876 116**			

1) Until the date of the call option (April 2015); after this date, if the option is not exercised, the spread doubles.

On 31 July, 2007 Banco BPI launched its third housing loan securitisation operation in the amount of 1 500 000 th. euro under the name DOURO Mortgages no. 3. The operation was issued in 6 lots, their main characteristics being as follows:

Description	Amount	Estimated residual average life (years)	Rating (Moody's, S&P, Fitch)	Spread[1]
▪ Class A Notes	1 396 258	5.28	Aaa / AAA / AAA	0.16%
▪ Class B Notes	27 750	6.78	nr / AA / AA	0.17%
▪ Class C Notes	16 500	6.78	nr / A / A	0.23%
▪ Class D Notes	14 250	6.78	nr / BBB/ BBB	0.48%
▪ Class E Notes	13 418	0.68	nr / BBB- / BBB-	0.50%
▪ Class F Notes	1 251	6.78		N.A.
Total of the issues	**1 469 427**			
Reserve Fund	(12 000)			
Other funds	(54)			
Risk / benefit ceded	(510 080)			
Total	**947 293**			

1) Until the date of the call option (August 2016); after this date, if the option is not exercised, the spread is multiplied by 1.5.

4.18. Provisions and impairment losses

The changes in provisions and impairment losses in 2007 were as follows:

	Balance at 31 Dec. 06	Increases	Decreases and reversals	Utilisation	Exchange differences and others	Balance at 31 Dec. 07
Impairment losses on loans and advances to credit institutions (note 4.6)	13		(4)			9
Impairment losses on loans and advances to Customers (note 4.7)	311 294	113 451	(10 207)	(37 369)	(4 457)	372 712
Impairment losses on financial assets available for sale (note 4.5)						
Debt instruments	439	162	(71)			530
Equity instruments	55 189	588		(8 814)	(76)	46 887
Other securitites	4 439	105				4 544
Loans and other receivables	25 579	209	(76)	(3)	(6)	25 703
Impairment losses on other assets (note 4.12)						
Tangible assets held for sale	13 235	7 117	(1 817)	(2 762)	140	15 913
Debtors, other applications and other assets	1 620	162	(187)	(42)		1 553
Impairment losses and provisions for guarantees and commitments	29 662	12 611	(3 590)		(744)	37 939
Other provisions	25 207	13 498	(1 356)	(1 757)	(678)	34 914
	466 677	**147 903**	**(17 308)**	**(50 747)**	**(5 821)**	**540 704**

The increases in impairment losses on loans and advances to Customers in 2007 include 24 955 th. euro relating to impairment in the portfolio of bonds issued by Structured Investment Vehicles – SIV's.

Utilisation of impairment losses on loans and advances to Customers corresponds to write offs recorded in 2007.

The changes in provisions and impairment losses in 2006 were as follows:

	Balance at 31 Dec. 05	Increases	Decreases and reversals	Utilisation	Exchange differences and others	Balance at 31 Dec. 06
Impairment losses on loans and advances to credit institutions (note 4.6)	14		(1)			13
Impairment losses on loans and advances to Customers (note 4.7)	307 143	68 480	(14 046)	(29 460)	(20 823)	311 294
Impairment losses on financial assets available for sale (note 4.5)						
Debt instruments	619		(180)			439
Equity instruments	56 870	5 512		(7 085)	(108)	55 189
Other securitites	4 229	210				4 439
Loans and other receivables	7 236	1 184			17 159	25 579
Impairment losses on other assets (note 4.12)						
Tangible assets held for sale	18 423	3 965	(7 682)	(1 471)		13 235
Debtors, other applications and other assets	1 582	214	(82)	(94)		1 620
Impairment losses and provisions for guarantees and commitments	27 993	3 167	(1 113)		(385)	29 662
Other provisions	22 661	6 372	(3 515)	(1 953)	1 642	25 207
	446 770	**89 104**	**(26 619)**	**(40 063)**	**(2 515)**	**466 677**

Utilisation of impairment losses on loans and advances to Customers corresponds to write offs recorded in 2006.

The amounts in the column exchange differences and others relating to impairment losses on loans and advances to Customers and impairment losses on financial assets available for sale – loans and other receivables include, respectively, (17 168) th. euro and 17 168 th. euro relating to reclassification of an impairment loss on an operation relating to the conversion of credits into supplementary capital contributions.

The caption OTHER PROVISIONS at 31 December, 2007 and 2006 includes provisions for tax contingencies and litigation in process.

4.19. Technical provisions

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Immediate Life Annuity / Individual	6	7
Immediate Life Annuity / Group	52	54
Family Savings	469	486
BPI New Family Savings	2 063 944	2 115 939
BPI Retirement Guaranteed	69 145	59 965
BPI Retirement Savings	447 378	373 836
BPI Non Resident Savings	193 593	260 824
	2 774 587	**2 811 111**

The mathematical provisions were computed on a prospective actuarial basis, contract by contract, in accordance with the technical bases of the products:

Immediate income		
Individual	Interest rate	6%
	Mortality table	PF 60 / 64
Group	Interest rate	6%
	Mortality table	PF 60 / 64
Deferred capital with counterinsurance with participation in results		
Group	Interest rate	4% and 0%
	Mortality table	PF 60 / 64, TV 73-77 and GRF 80

The mathematical 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.

4.20. Tax liabilities

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Current tax liability		
Corporate income tax payable	71 026	32 529
Other	2	6
	71 028	**32 535**
Deferred tax liability		
On temporary differences	54 251	53 186
	54 251	**53 186**
	125 279	**85 721**

Details of the deferred tax liability are presented in note 4.42.

4.21. Participating bonds

This caption is made up as follows:

	31 Dec. 07				31 Dec. 06			
	Issued	Repurchased	Balance	Average interest rate	Issued	Repurchased	Balance	Average interest rate
Participating bonds								
EUR	28 081	(1 294)	26 787	4.9%	28 081	(1 240)	26 841	3.9%
	28 081	**(1 294)**	**26 787**		**28 081**	**(1 240)**	**26 841**	
Accrued interest			482				381	
			27 269				**27 222**	

The changes in debt issued by the BPI Group in 2007 were as follows:

	Participating bonds
Balance at 31 December, 2006	26 841
Repurchases (net of resales)	(54)
Balance at 31 December, 2007	26 787

The changes in debt issued by the BPI Group in 2006 were as follows:

	Participating bonds
Balance at 31 December, 2005	26 222
Repurchases (net of resales)	619
Balance at 31 December, 2006	26 841

The participating bonds can be redeemed at par at the request of the participants with the approval of the Bank or at the initiative of the Bank with six months notice.

4.22. Subordinated debt

This caption is made up as follows:

	31 Dec. 07				31 Dec. 06			
	Issued	Repurchased	Balance	Average interest rate	Issued	Repurchased	Balance	Average interest rate
Cash bonds								
EMTN	**776 105**	**(64 504)**	**711 601**		**511 515**	**(44 376)**	**467 139**	
EUR	670 000	(64 504)	605 496	5.8%	400 000	(44 376)	355 624	3.8%
JPY	106 105		106 105	2.8%	111 515		111 515	2.8%
Others	**100 000**	**(1 000)**	**99 000**		**74 820**	**(14 895)**	**59 925**	
EUR	100 000	(1 000)	99 000	5.0%	74 820	(14 895)	59 925	3.8%
	876 105	**(65 504)**	**810 601**		**586 335**	**(59 271)**	**527 064**	
Perpetual bonds								
Others	**765 474**	**(660 000)**	**105 474**		**707 792**	**(660 000)**	**47 792**	
EUR	720 000	(660 000)	60 000	5.5%	660 000	(660 000)		3.5%
JPY	45 474		45 474	4.0%	47 792		47 792	4.0%
	765 474	**(660 000)**	**105 474**		**707 792**	**(660 000)**	**47 792**	
	1 641 579	**(725 504)**	**916 075**		**1 294 127**	**(719 271)**	**574 856**	
Accrued costs			8 415				6 606	
Correction of the amount of hedged liabilities			8 143				9 725	
Premiums (net)			(1 799)				(2 297)	
			14 759				**14 034**	
			930 834				**588 890**	

The changes in debt issued by the BPI Group in 2007 were as follows:

	Cash bonds	Perpetual bonds	Total
Balance at 31 December, 2006	527 064	47 792	574 856
Bonds issued during the year	400 000	60 000	460 000
Bonds redeemed	(74 820)		(74 820)
Repurchases (net of resales)	(6 233)		(6 233)
Exchange difference	(35 410)	(2 318)	(37 728)
Balance at 31 December, 2007	810 601	105 474	916 075

The changes in debt issued by the BPI Group in 2006 were as follows:

	Cash bonds	Perpetual bonds	Total
Balance at 31 December, 2005	579 069	53 996	633 065
Bonds issued during the year	111 515		111 515
Bonds redeemed	(174 819)		(174 819)
Repurchases (net of resales)	11 299		11 299
Exchange difference		(6 204)	(6 204)
Balance at 31 December, 2006	527 064	47 792	574 856

Debt issued by the BPI Group at 31 December, 2007 is made up as follows, by residual term to maturity:

	Maturity				
	2011	2012	2013-2016	> 2016	Total
Cash bonds					
EUR	119 080		196 073	389 343	704 496
JPY				106 105	106 105
	119 080		**196 073**	**495 448**	**810 601**
Perpetual bonds					
EUR[1]		60 000			60 000
JPY[2]	45 474				45 474
	45 474	**60 000**			**105 474**
Total	**164 554**	**60 000**	**196 073**	**495 448**	**916 075**

1) Date of the call option (September 2012); after that date, if the option is not exercised, the remuneration increases.
2) Date of the call option (November 2011); after that date, if the option is not exercised, the remuneration increases.

Debt issued by the BPI Group at 31 December, 2006 is made up as follows, by residual term to maturity:

	Maturity				
	2007	2011	2012-2015	> 2015	Total
Cash bonds					
EUR	59 925	148 850	206 774		415 549
JPY				111 515	111 515
	59 925	**148 850**	**206 774**	**111 515**	**527 064**
Perpetual bonds					
JPY[1]		47 792			47 792
		47 792			**47 792**
Total	**59 925**	**196 642**	**206 774**	**111 515**	**574 856**

1) Date of the call option (November 2011); after that date, if the option is not exercised, the remuneration increases.

4.23. Other liabilities

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Creditors and other resources		
Creditors for futures operations	26 859	27 245
Consigned resources	18 773	18 394
Captive account resources	8 036	11 901
Subscription account resources	494	542
Guarantee account resources	20 300	27 032
State administrative sector		
Value Added Tax (VAT) payable	801	822
Tax withheld at source	24 770	14 601
Social Security contributions	2 314	1 956
Other	207	218
Contributions to other health systems	1 276	1 156
Creditors under factoring contracts	6 900	6 219
Creditors for the supply of assets	31 050	29 820
Other creditors	75 432	73 718
Deferred costs	(93)	(3 688)
	217 119	**209 936**
Liability for pensions and other benefits (note 4.24)		
Actuarial deviations		
Employees	39 361	
Directors	2 631	
	41 992	
Accrued costs		
Creditors and other resources	197	340
Personnel costs	113 865	107 546
General administrative costs	23 649	25 203
Others	1 111	1 049
	138 822	**134 138**
Deferred income		
On guarantees given and other contingent liabilities	5 714	6 464
Others	3 814	3 842
	9 528	**10 306**
Other accounts		
Foreign exchange transactions pending settlement	24 728	36 897
Securities operations pending settlement – stock exchange operations	201 628	
Liabilities pending settlement	292 282	151 282
Other operations pending settlement	445	16 778
	519 083	**204 957**
	926 544	**559 337**

The caption SECURITIES OPERATIONS PENDING SETTLEMENT at 31 December, 2007 includes the purchase of Galp Energia shares, which was only settled in January 2008.

The caption LIABILITIES PENDING SETTLEMENT at 31 December, 2007 and 2006 includes:

- 52 544 th. euro and 53 364 th. euro, respectively, relating to interbank electronic transfer transactions;
- 149 763 th. euro and 31 445 th. euro, respectively, relating to securitisation loan fund transactions;
- 9 312 th. euro and 19 157 th. euro, respectively, relating to ATM / POS transactions to be settled with SIBS;
- 3 496 th. euro and 1 088 th. euro, respectively, relating to transfers made trough the "SPGT".

4.24. Liability for pensions and other benefits

The past service liability relating to pensioners and personnel that are, or have been, Employees of BPI Group companies[1], and are covered by pension Funds, is calculated in accordance with IAS 19.

BPI Pensões is the entity responsible for the actuarial calculations used to determine the amounts of the retirement and survivor pension liabilities, as well as for managing the respective pension funds.

The "Projected Unit Credit" method was used to calculate the normal cost and past service liability due to age, and the "Single Successive Premiums" method was used to calculate the cost of the incapacity and survivor benefits.

1) Companies consolidated by the full consolidation method (Banco BPI, BPI Investimentos, BPI Gestão de Activos, Inter-Risco and BPI Vida).

The main actuarial and financial assumptions used to calculate the pension liability are as follows:

		Assumptions		Actual	
		31 Dec. 07	31 Dec. 06	31 Dec. 07	31 Dec. 06
Demographic assumptions:					
Mortality table		TV 73 / 77-H	TV 73 / 77-H	-	-
		TV 88 / 90-M	TV 88 / 90-M		
Incapacity table		EKV 80	EKV 80	-	-
Personnel turnover		0%	0%	-	-
Decreases		By mortality	By mortality	-	-
Financial assumptions:					
Discount rate		5.00%	4.75%	-	-
Pensionable salary increase rate[1]		4.00%	2.75%	5.91%	5.17%
Pension increase rate[2]		2.50%	2.00%	2.75%	2.50%
Pension fund income rate					
Banco BPI		5.75% / annual / 1st half 7.50% / annual / 2nd half	5.25%	17.87%	13.69%
Other companies		5.75% / annual / 1st half 5.00% / annual / 2nd half	5.25%	3.51%	6.54%

1) Calculated based on the changes in the pensionable wages of the Employees serving in the Group companies in the beginning and end of the year (includes changes in remuneration levels and does not reflect personnel changes).
2) Corresponds to the ACTV table update rate.

At 31 December, 2007 and 2006 the number of pensioners and Employees covered by the pension funds was as follows:

	31 Dec. 07	31 Dec. 06
Retirement pensioners	6 137	6 141
Survivor pensioners	998	979
Current Employees	7 523	6 835
Former Employees (clauses 137 A and 140 of the ACTV)	2 366	2 177
	17 024	**16 132**

The past service liability for pensioners and Employees of the BPI Group and respective coverage by the pension fund at 31 December, 2007 and 2006 are as follows:

	31 Dec. 07	31 Dec. 06
Total past service liability		
Liability for pensions under payment	1 781 096	1 730 539
Of which: [increase in the liability resulting from early retirements during the year]	[504]	[271]
Past service liability of current and former Employees	664 333	500 298
	2 445 429	**2 230 837**
Net assets of the pension funds	2 798 494	2 470 458
Excess / (Insufficient) cover	353 065	239 621
Degree of coverage	114%	111%

The changes in the present value of the past service liability in 2007 and 2006 were as follows:

	31 Dec. 07	31 Dec. 06
Liability at the beginning of the year	2 230 837	2 269 510
Current cost:		
Of the BPI Group	31 918	27 471
Of the Employees	2 871	2 391
Interest cost	112 003	101 835
Actuarial (gain) and loss in the liability	183 146	(55 388)
Early retirements	504	271
Changes in the conditions of the pension plan	643	(698)
Pensions payable (estimate)	(116 493)	(114 555)
Liability at the end of the year	**2 445 429**	**2 230 837**

The changes in the pension funds in 2007 and 2006 were as follows:

	31 Dec. 07	31 Dec. 06
Net assets of the pension fund at the beginning of the year	2 470 458	2 273 334
Contributions made:		
By the BPI Group	3 980	36
By the Employees	2 871	2 391
Pension fund income (net)	438 669	309 914
Pensions paid by the pension funds	(117 484)	(115 217)
Net assets of the pension fund at the end of the year	**2 798 494**	**2 470 458**

Contributions to the pension funds in 2007 and 2006 were made in cash.

The changes in 2007 in the fair value of the pension fund assets used by entities of the BPI Group or representing securities issued by these entities were as follows:

	31 Dec. 06	Purchases	Changes in fair value	Sales	31 Dec. 07
Fair value of the plan assets:					
Financial instruments issued by the BPI Group					
Shares	22 575	29 650	229	42 694	9 760
Bonds	6 373	63 073	(538)		68 908
	28 948	**92 723**	**(309)**	**42 694**	**78 668**
Premises used by the BPI Group	99 976	17 923	(2 680)	286	114 933
	128 924	**110 646**	**(2 989)**	**42 980**	**193 601**

The changes in 2006 in the fair value of the pension fund assets used by entities of the BPI Group or representing securities issued by these entities were as follows:

	31 Dec. 05	Purchases	Changes in fair value	Sales	31 Dec. 06
Fair value of the plan assets:					
Financial instruments issued by the BPI Group					
Shares	41 228	16 396	3 936	38 985	22 575
Bonds	6 352		21		6 373
	47 580	**16 396**	**3 957**	**38 985**	**28 948**
Premises used by the BPI Group	102 196	7 923	1 051	11 194	99 976
	149 776	**24 319**	**5 008**	**50 179**	**128 924**

The pension liability not yet recognised as income and (cost) at 31 December, 2007 and 2006 was as follows:

	31 Dec. 07	31 Dec. 06
Actuarial deviations		
Within the corridor	40 830	(42 610)
Outside the corridor	(1 469)	49
	39 361	**(42 561)**
Changes in the conditions of the pension plan	(277)	(340)
	39 084	**(42 901)**

The changes in actuarial deviations[1] in 2006 and 2007 were as follows:

Amount at 31 December, 2005	**(291 441)**
Amortisation of deviations outside the corridor	1 398
Adjustment in excess of that established in the ACTV Table	(11 391)
Change in the actuarial and financial assumptions	79 012
Deviation in pension fund income	192 758
Deviation in pensions paid	(664)
Others	(12 233)
Amount at 31 December, 2006	**(42 561)**
Amortisation of deviations outside the corridor	43
Adjustment in excess of that established in the ACTV Table	(16 805)
Change in the actuarial and financial assumptions	(166 341)
Deviation in pension fund income	266 018
Deviation in pensions paid	(993)
Amount at 31 December, 2007	**39 361**

1) Actuarial gains and losses due to differences between the actuarial and financial assumptions and the amounts effectively realised and changes in the actuarial and financial assumptions.

The consolidated financial statements as of 31 December, 2007 and 2006 include, in the captions INTEREST AND FINANCIAL GAIN and LOSS WITH PENSIONS (note 4.38) and PERSONNEL COSTS (note 4.40), the following amounts relating to coverage of the pension liability:

	31 Dec. 07	31 Dec. 06
Interest and financial gain and loss with pensions		
Interest cost	112 003	101 835
Expected fund income	(172 651)	(117 156)
	(60 648)	**(15 321)**
Personnel costs		
Current service cost	31 918	27 471
Amortisation of deviations outside the corridor	44	1 398
Increase in the liability for early retirements	504	271
Compensation due to early retirement	533	(419)
Change in the conditions of the pension plan	706	64
	33 705	**28 785**

The Members of the Executive Board of Banco BPI, S.A. and the remaining Board Members of BPI Investmentos benefit from a supplementary retirement and survivor pension plan. At 31 December, 2006 a pension fund was constituted to cover these liabilities.

The main actuarial and financial assumptions used to calculate the pension liability are as follows:

	Assumptions		Actual	
	31 Dec. 07	31 Dec. 06	31 Dec. 07	31 Dec. 06
Demographic assumptions:				
Mortality table	TV 73 / 77-H	TV 73 / 77-H		
	TV 88 / 90-M	TV 88 / 90-M		
Incapacity table	EKV 80	EKV 80		
Personnel turnover	0%	0%		
Decreases	By mortality	By mortality		
Financial assumptions:				
Discount rate	5.00%	4.75%		
Pension fund income rate Banco BPI	5.75% / annual / 1st half 5.00% / annual / 2nd half	-	3.61%	-
Pension increase rate[1]	2.50%	2.75%	2.75%	4.60%
Pension fund income rate	2.50%	2.00%	3.50%	0.50%

1) Calculated based on the changes in the pensionable wages of the Directors serving in the Group companies in the beginning and end of the year (includes changes in remuneration levels and does not reflect Directors changes).

At 31 December, 2007 and 2006 the past service liability of this plan and respective coverage by the pension fund were as follows:

	31 Dec. 07	31 Dec. 06
Present value of the past service liability		
Liability for pensions under payment	4 345	4 507
Past service liabilty relating to the current and former directors	19 043	17 424
	23 388	**21 931**
Net assets of the pension fund	23 372	21 941
Excess / (Insufficient) cover	(16)	10
Degree of coverage	100%	100%

The changes in the present value of the past service liability of the plan in 2007 and 2006 were as follows:

	31 Dec. 07	31 Dec. 06
Liability at the beginning of the year	21 931	23 853
Current service cost	1 974	2 208
Interest cost	1 238	1 105
Actuarial (gain) / loss in the liability	(1 902)	(4 851)
Changes in the pension plan conditions	536	
Pensions payable (estimate)	(389)	(384)
Liability at the end of the year	**23 388**	**21 931**

The changes in the pension fund in 2007 and 2006 were as follows:

	31 Dec. 07	31 Dec. 06
Net assets of the pension fund at the beginning of the year	21 941	
Contributions made	1 025	21 931
Pension fund income (net)	793	10
Pensions paid by the pension fund	(387)	
Net assets of the pension fund at the end of the year	**23 372**	**21 941**

The pension liability for the Executive Directors at 31 December, 2007 and 2006 not recognised as income and (cost) were as follows:

	31 Dec. 07	31 Dec. 06
Actuarial deviations – Executive Directors		
Within the corridor	2 339	936
Outside the corridor	292	190
	2 631	**1 126**
Changes in the conditions of the Executive Directors' pension plan	(524)	(109)
	2 107	**1 017**

The changes in actuarial deviations in 2006 and 2007 were as follows:

Amount at 31 December, 2005	**(3 794)**
Amortisation of deviations outside the corridor	62
Deviation in pension fund income	10
Change in actuarial and financial assumptions	872
Deviation in pensions paid Deviation in pensions paid	(3)
Change in the retirement age of Banco Português de Investimento Executive Directors	3 922
Others	57
Amount at 31 December, 2006	**1 126**
Amortisation of deviations outside the corridor	(9)
Deviation in pension fund income	(390)
Change in actuarial and financial assumptions	1 373
Deviation in pensions paid	2
Others	529
Amount at 31 December, 2007	**2 631**

The consolidated financial statements as of 31 December, 2007 and 2006 include, in the captions INTEREST AND FINANCIAL GAIN AND LOSS WITH PENSIONS (note 4.38) and PERSONNEL COSTS (note 4.40), the following amounts relating to coverage of the pension liability for Executive Directors:

	31 Dec. 07	31 Dec. 06
Interest and financial gain and loss with pensions		
Interest cost	1 238	1 105
Expected fund income	(1 183)	
	55	**1 105**
Personnel costs		
Current service cost	1 974	2 208
Amortisation of deviations outside the corridor	(9)	62
Change in the pension plan conditions	120	27
	2 085	**2 297**

4.25. Capital

Banco BPI's share capital at 31 December, 2007 and 2006 was made up of 760 000 000 fully paid shares with a nominal value of 1 euro each.

The Shareholders' General Meeting held on 19 April, 2007 empowered Banco BPI's Board of Directors to do the following during a period of eighteen months:

a) to purchase treasury shares of up of to 10% of Banco BPI's share capital, provided that:

i) the treasury shares are purchased on a market registered by the Securities Market Commission (*Comissão do Mercado de Valores Mobiliários* – CMVM), at a price not exceeding 110% of the weighted average of the weighted daily average prices of Banco BPI shares on the 10 official price market sessions managed by Euronext Lisboa – Sociedade Gestora de Mercados Regulamentados, S.A. preceding the date of purchase, and a minimum of 1 euro; or

ii) the purchases result from repurchase operations or the loan of Banco BPI shares, provided that such operations are registered at Euronext Lisboa – Sociedade Gestora de Mercados Regulamentados, S.A.; or

iii) the purchases result from agreements to settle obligations arising from loan agreements entered into by Banco BPI, provided that the value attributed, for that purpose, to the shares does not exceed the value determined by application of the criteria defined in (i) above, with reference to the settlement agreement date;

b) to sell Banco BPI shares provided that:

i) the shares and options to purchase shares of Banco BPI are sold to Employees and Directors of Banco BPI and subsidiaries, as share-based payments under the terms and conditions established in the Variable Remuneration Program (RVA) regulations; or

ii) the shares are sold to third parties under the following conditions:

– the shares are sold in a market registered at the Securities Market Commission (CMVM); and
– the shares are sold at a price not less than 90% of the weighted average of the daily weighted average prices of Banco BPI shares on the 20 official price market sessions managed by Euronext Lisboa – Sociedade Gestora de Mercados Regulamentados, S.A. preceding the date of sale; or,

iii) the shares are sold to third parties as a result of resale agreements or loan operations of Banco BPI shares, and the operations are registered at Euronext Lisboa – Sociedade Gestora de Mercados Regulamentados, S.A.

This authorization was subject to the condition that the public share purchase offering over Banco BPI, launched by Banco Comercial Português, S.A. with a preliminary announcement published on 13 March, 2006, did not succeed. At 7 May, 2007, this offer ended with no success due to the non-compliance of the effectiveness conditions that it was subject to.

4.26. Share premium account

The balance of the caption SHARE PREMIUM ACCOUNT at 31 December, 2007 and 2006 amounted to 231 306 th. euro.

In accordance with Ministerial Order 408 / 99 of 4 June, published in Diário da República – 1st B Series, no. 129, the share premium account may not be used to pay dividends or to acquire treasury shares.

4.27. Other equity instruments and treasury shares

These captions are made up as follows:

	31 Dec. 07	31 Dec. 06
Other equity instruments		
Cost of shares to be made available to Group Employees		
RVA 2003		800
RVA 2004	926	1 591
RVA 2005	1 636	1 995
RVA 2007	2 783	
Costs of options not exercised (premiums)		
RVA 2001		167
RVA 2002	112	217
RVA 2003	371	595
RVA 2004	538	848
RVA 2005	1 270	2 501
RVA 2007	3 186	
	10 822	**8 714**
Treasury shares		
Shares to to be made available to Group Employees		
RVA 2003		756
RVA 2004	934	1 883
RVA 2005	1 958	2 963
Shares hedging RVA options		
RVA 2001		938
RVA 2002	1 367	2 044
RVA 2003	1 336	3 122
RVA 2004	4 849	8 222
RVA 2005	18 143	31 314
Other treasury shares	1 626	417
	30 213	**51 659**

The caption OTHER EQUITY INSTRUMENTS includes accrued share-based payment program (RVA) costs relating to shares to be made available and options not yet exercised.

Details of the share-based Variable Remuneration Program (RVA) are included in note 4.47.

The financial statements of the BPI Group as of 31 December, 2007 and 2006 reflect, respectively, 7 056 809 and 12 469 348 treasury shares, including 742 234 and 1 516 195 treasury shares to be made available under the RVA program for which the respective ownership was transferred to the Employees on the grant date.

In 2007 the Bank recognised directly in shareholders' equity, a gain of 458 th. euro on the sale of treasury shares hedging the variable remuneration (RVA) program and a gain of 30 th. euro on the sale of other treasury shares. In 2006 the Bank recognised a loss of 208 th. euro relating to the hedge of the variable remuneration (RVA) program and a gain of 253 th. euro on the sale of other treasury shares.

4.28. Revaluation reserves

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Revaluation reserves		
Reserves resulting from valuation to fair value of financial assets available for sale (note 4.5):		
Debt instruments	(76 151)	26 224
Equity instruments	156 725	140 358
Other	419	(58)
Reserve for foreign exchange difference on investments in foreign entities		
Subsidiary or associated companies	(18 475)	(9 690)
Equity instruments available for sale	(104)	(100)
Legal revaluation reserve	703	703
	63 117	**157 437**
Deferred tax reserve		
Resulting from valuation to fair value of financial assets available for sale:		
Tax assets	21 700	467
Tax liabilities	(29 842)	(31 548)
	(8 142)	**(31 081)**
	54 975	**126 356**

Deferred taxes have been calculated according with the present legislation and corresponds to the best estimate of the impact of recognizing the unrealized gains and losses included in the caption REVALUATION RESERVES.

4.29. Other reserves and retained earnings

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Legal reserve	79 662	63 961
Merger reserve	(2 463)	(2 463)
Other reserves	156 568	135 661
	233 767	**197 159**
Consolidation reserves and retained earnings	17 351	(131 723)
Gain on treasury shares	2 767	2 279
Taxes relating to gain on treasury shares	(753)	(624)
	253 132	**67 091**

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.

At 31 December, 2007 and 2006 the share premium account and legal reserve of the companies included in the consolidation of the BPI Group which, under the applicable regulations may not be distributed, amounted to 135 052 th. euro and 144 617 th. euro, respectively, which, adjusted by Banco BPI's effective percentage participation in these companies, amounted to 80 043 th. euro and 72 593 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, 2007 and 2006 includes 5 325 th. euro and 11 344 th. euro, respectively, relating to the amount of the revaluation reserves of the companies recorded in accordance with the equity method, weighted by Banco BPI's (effective) participation in them.

4.30. Minority interest

This caption is made up as follows:

	Balance sheet		Statement of income	
	31 Dec. 07	31 Dec. 06	31 Dec. 07	31 Dec. 06
Minority shareholders in:				
BPI Capital Finance Ltd.	270 319	276 731	16 806	13 289
BPI Dealer – Sociedade financeira de Corretagem (Moçambique), S.A.R.L.	7	6	1	1
	270 326	**276 737**	**16 807**	**13 290**

Minority interest in BPI Capital Finance at 31 December, 2007 and 2006 includes 269 414 th. euro and 275 172 th. euro, respectively, relating to preference shares:

	31 Dec. 07			31 Dec. 06		
	Issued	Repurchased	Balance	Issued	Repurchased	Balance
"C" Series Shares	250 000	(34 643)	215 357	250 000	(35 222)	214 778
"D" Series Shares	200 000	(162 103)	37 897	200 000	(158 369)	41 631
"E" Series Shares	100 000	(83 840)	16 160	100 000	(81 237)	18 763
	550 000	**(280 586)**	**269 414**	**550 000**	**(274 828)**	**275 172**

The C, D and E series correspond to preference shares with a nominal value of 1 000 euros each, issued in August 2003, June 2005 and June 2005, respectively.

The payment of dividends and redemption of the preference shares are guaranteed by Banco BPI.

The C Series preference shares entitle the holders to a non-cumulative preference dividend, if and when declared by the Directors of BPI Capital Finance, Ltd., at an annual rate equal to the three month Euribor rate plus a spread of 1.55 percentage points up to 12 August, 2013 and thereafter to a non-cumulative preference dividend at a rate equal to the three month Euribor rate plus a spread of 2.55 percentage points. The dividends are payable quarterly on 12 February, 12 May, 12 August and 12 November of each year.

The D Series preference shares entitle the holders to a non-cumulative preference dividend, if and when declared by the Directors of BPI Capital Finance, Ltd., at an annual rate equal to the three month Euribor rate plus a spread of 0.075 percentage points over their nominal value. The dividends are payable quarterly on 30 March, 30 June, 30 September and 30 December of each year.

The E Series preference shares entitle the holders to a non-cumulative preference dividend, if and when declared by the Directors of BPI Capital Finance, Ltd., at an annual rate equal to the three month Euribor rate over their nominal value. The dividends are payable quarterly on 30 March, 30 June, 30 September and 30 December of each year.

BPI Capital Finance, Ltd. will not pay any dividend on the preference shares if, during the fiscal year or the quarter in progress, such dividend plus amounts already paid exceed Banco BPI's distributable funds.

The C Series preference shares are redeemable in whole or in part at their nominal value, at the option of BPI Capital Finance, Ltd. on any dividend payment date as from August 2013, subject to prior consent of the Bank of Portugal and Banco BPI. The C series preference shares are also redeemable in whole, but not in part, at the option of BPI Capital Finance, Ltd., with prior approval of the Bank of Portugal and Banco BPI, if a disqualifying capital event or tax event occurs.

The D and E Series preference shares are redeemable in whole, but not in part, at their nominal value, at the option of BPI Capital Finance, Ltd., on any dividend payment date as from 30 June, 2010, subject to prior consent of the Bank of Portugal and Banco BPI. The D and E series preference shares are redeemable in whole, but not in part, at their nominal value, at any time prior to 30 June, 2010 at the option of BPI Capital Finance, Ltd., subject to prior consent of the Bank of Portugal and Banco BPI, if a disqualifying capital event or tax event occurs.

These shares are subordinated to all liabilities of Banco BPI and *pari passu* with any other preference shares that might be issued by the Group in the future.

4.31. Off balance sheet items

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Guarantees given and other contingent liabilities		
Guarantees and sureties	3 371 558	3 113 883
Stand-by letters of credit	19 455	12 475
Documentary credits	222 675	195 254
Sureties and indemnities	57	53
	3 613 745	**3 321 665**
Assets given as collateral	**538 509**	**367 378**
Commitments to third parties		
Irrevocable commitments		
Options on assets	21 212	39 399
Forward operations – sale of securities	9 018	9 018
Irrevocable credit lines	93 875	24 504
Securities subscription	344 415	
Term commitment to make annual contributions to the Deposit Guarantee Fund	37 047	36 541
Commitment to the Investor Indemnity System	13 549	16 536
Other irrevocable commitments	572	164
Revocable commitments	4 587 238	4 171 018
	5 106 926	**4 297 180**
Responsability for services provided		
Custody and safekeeping	30 590 797	33 440 343
Amounts for collection	260 993	311 464
Assets managed by the institution	11 129 549	9 950 968
	41 981 339	**43 702 775**

The caption ASSETS GIVEN AS COLLATERAL at 31 December, 2007 includes:

- 472 531 th. euro relating to securities given in guarantee to the Bank of Portugal to operate on the System for Settlement of Large Transactions (Sistema de Pagamento de Grandes Transacções);
- 7 168 th. euro relating to securities given in guarantee to the Securities Market Commission (*Comissão do Mercado de Valores Mobiliários* – CMVM) under the Investor Indemnity System (*Sistema de Indemnização aos Investidores*);
- 42 348 th. euro relating to securities given in guarantee to the Deposit Guarantee Fund;
- 16 355 th. euro relating to securities given in guarantee to Foreign Stock Exchanges to set up the margin to carry out futures operations for its own portfolio.

The OPTIONS ON ASSETS caption at 31 December, 2007 and 31 December, 2006 corresponds to share options issued by the BPI Group under the share-based payments program (RVA).

The COMMITMENTS TO THIRD PARTIES – SECURITIES SUBSCRIPTION caption at 31 December, 2007 and 31 December, 2006 corresponds to Banco BPI's commitment to subscribe commercial paper if the securities issued are not total or partially subscribed by the market.

The TERM COMMITMENT TO MAKE ANNUAL CONTRIBUTION TO THE DEPOSIT GUARANTEE FUND caption at 31 December, 2007 and 31 December, 2006 corresponds to BPI's legally required irrevocable commitment, to pay to the Fund, upon request by it, the amount of the annual contributions not yet paid.

The COMMITMENT TO THE INVESTOR INDEMNITY SYSTEM caption at 31 December, 2007 and 31 December, 2006 corresponds to BPI's irrevocable commitment, legally required under the applicable legislation, to pay the System, if required to do so, its share of the amounts necessary to indemnify investors.

At 31 December, 2007 the BPI Group managed the following third party assets:

Investment funds and PPRs	4 460 800
Pension funds[1]	3 524 832

1) Includes the Group companies's pension funds.

4.32. Financial margin (narrow sense)

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Interest and similar income		
Interest on deposits with banks	5 846	3 612
Interest on placements with credit institutions	50 472	56 614
Interest on loans to Customers	1 221 020	887 253
Interest on credit in arrears	8 843	7 405
Interest on securities held for trading and available for sale	216 018	132 379
Interest on securitised assets not derecognised	189 724	95 755
Interest on derivatives	716 109	504 090
Interest on debtors and others aplications	689	643
Other interest and similar income	3 851	5 602
	2 412 572	**1 693 353**
Interest and similar expense		
Interest on resources		
Of central banks	1 841	34
Of other credit institutions	175 627	128 005
Deposits and other resources from Customers	477 539	242 441
Debt securities	219 001	178 027
Interest from short selling	7 369	8 509
Interest on derivatives	730 195	499 034
Interest on liabilities relating to assets not derecognised on securitised operations	156 325	68 194
Interest on subordinated debt	33 540	27 113
Other interest and similar expenses	3 141	1 286
	1 804 578	**1 152 643**

4.33. Gross margin on unit links

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Income from financial instruments	(16 937)	46 762
Interest on capitalisation insurance – unit links	27 628	(39 246)
	10 691	**7 516**

4.34. Income from equity instruments

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Banco Comercial Português	16 069	11 314
Galp	2 052	
SIBS	813	687
Unicre	1 796	1 796
Others	1 561	950
	22 291	**14 747**

4.35. Net commission relating to amortised cost

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Commission received relating to amortised cost		
Loans to Customers	24 117	19 725
Others	1 976	1 981
Commission paid relating to amortised cost		
Loans to Customers	(4 394)	(2 699)
Others	(769)	(634)
	20 930	**18 373**

4.36. Technical result of insurance contracts

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Premiums	472 683	479 502
Income from financial instruments	73 286	77 674
Cost of claims, net of reinsurance	(569 403)	(668 827)
Changes in technical provisions, net of reinsurance	92 122	178 701
Participation in results	(55 631)	(63 785)
	13 057	**3 265**

This caption includes the result of capitalisation insurance with discretionary participation feature (IFRS 4). Participation in the results of capitalisation insurance is attributed at the end of each year and is calculated in accordance with the technical bases of each product, duly approved by the Portuguese Insurance Institute.

In 2006 the interest rate markets, on which the low risk capitalisation insurance investments are based, were in recession and therefore the BPI Group decided to reduce its margin on the results of the insurance products in order to have no effect on the income distributed to Customers.

4.37. Net commission income

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Commissions received		
On guarantees provided	39 468	27 512
On commitments to third parties	1 336	2 929
On banking services rendered	245 234	221 903
On operations realised on behalf of third parties	30 861	26 215
Other	10 369	6 553
	327 268	**285 112**
Commissions paid		
On guarantees received	118	28
On commitments to third parties		19
On financial instrument operations	653	612
On banking services rendered by third parties	29 840	23 570
On operations realised by third parties	3 567	2 470
Other	353	558
	34 531	**27 257**
Other income, net		
Refund of expenses	28 319	28 303
Income from banking services	28 613	21 553
Charges similar to fees	(7 066)	(5 848)
	49 866	**44 008**

The caption OTHER COMMISSIONS RECEIVED at 31 December, 2007 includes project finance setting up and structuring operations.

4.38. Net income on financial operations

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Gain and loss on operations at fair value		
Foreign exchange gain, net	39 772	28 504
Gain and loss on financial assets held for trading and derivatives		
Debt instruments	(10 755)	(15 069)
Equity instruments	10 757	61 570
Other securities	2	22
Derivative instruments	58 898	24 533
Gain and loss on other financial assets valued at fair value through profit or loss	5 093	3 897
Gain and loss on financial liabilities held for trading	7 155	10 509
Gain and loss on revaluation of assets and liabilities hedged by derivatives	(97 368)	(48 885)
Other gain and loss on financial operations	91	194
	13 645	**65 275**
Gain and loss on assets available for sale		
Gain and loss on the sale of loans and advances to Customers	9 536	244
Gain and loss on financial assets available for sale:		
Debt instruments	27 240	10 283
Equity instruments	86 526	33 805
	123 302	**44 332**
Interest and financial gain and loss with pensions (note 4.24)		
Interest cost	(113 241)	(102 940)
Expected fund income	173 834	117 156
	60 593	**14 216**

The GAIN AND LOSS ON THE SALE OF LOANS AND ADVANCES TO CUSTOMERS caption at 31 December, 2007 includes 10 318 th. euro corresponding to gain on the sale of part of the risk / benefit relating to housing loan securitisation operations. The sale price of the transaction was determined considering relevant market conditions at the transaction date, particularly in terms of the evolution of loan spreads.

4.39. Net operating expenses

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Operating income		
Gain on the sale of investments in subsidiaries and associated companies	3 252	89
Gain on tangible assets held for sale	1 256	8 011
Gain on other tangible assets	2 520	3 737
Other operating income	12 998	12 167
	20 026	**24 004**
Operating expenses		
Subscriptions and donations	3 335	3 013
Contributions to the Deposit Guarantee Fund	2 867	2 361
Loss on tangible assets held for sale	375	719
Loss on other tangible and intangible assets	2 221	2 140
Other operating expenses	6 778	4 018
	15 576	**12 251**
Other taxes		
Indirect taxes	2 736	2 821
Direct taxes	1 292	1 143
	4 028	**3 964**

The caption GAIN ON THE SALE OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES at 31 December, 2007 corresponds to gain on the sale of 1% of the participation in the share capital of Viacer.

4.40. Personnel costs

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Remuneration	284 331	258 176
Long service premium (note 2.7)	5 747	2 503
Pension fund (note 4.24)	36 177	32 487
Early retirements (note 4.24)	1 037	(148)
Other mandatory social charges	43 082	38 013
Other personnel costs	8 863	8 197
	379 237	**339 228**

The caption REMUNERATION at 31 December, 2007 and 2006 includes the following costs relating to remuneration attributed to the members of Banco BPI's Board of Directors:

- 6 253 th. euro and 7 157 th. euro, respectively, relating to remuneration paid in cash;
- 1 392 th. euro and 586 th. euro, respectively, relating to the accrued cost of the share-based remuneration program (RVA) in accordance with IFRS 2. Following the public share purchase offering, the variable remuneration for 2006 were attributed fully in cash. Therefore, no shares or options over shares were attributed for 2006.

The caption PENSION FUND at 31 December, 2007 and 2006 includes 1 424 th. euro and 1 259 th. euro relating to costs of the Defined Contribution Pension Plan for Employees of Banco de Fomento Angola.

4.41. Administrative costs

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Administrative costs		
Supplies		
Water, energy and fuel	8 623	7 459
Consumable material	7 167	5 778
Other	2 338	2 257
Services		
Rentals and leasing	36 501	31 342
Communications and computer costs	38 360	34 289
Travel, lodging and representation	10 612	8 553
Publicity	26 257	29 773
Maintenance and repairs	13 151	13 542
Insurance	3 833	4 586
Fees	6 519	5 743
Legal expenses	2 021	2 027
Security and cleaning	7 353	7 973
Information services	3 427	3 105
Temporary labour	3 812	3 292
Studies, consultancy and auditing	24 924	8 321
SIBS	15 716	11 038
Other services	18 027	19 016
	228 641	**198 094**

The caption STUDIES, CONSULTANCY AND AUDITING at 31 December, 2007 and 2006 includes 9 875 th. euro and 1 139 th. euro relating to costs with the public share purchase offering over Banco BPI. This offer was launched by Banco Comercial Português on 13 March, 2006 and ended on 7 May, 2007 with no success.

4.42. Income tax

Income tax recognised in the statements of income for the years ended 31 December, 2007 and 2006, as well as the tax burden, measured by the relationship between the tax charge and profit before tax, are as follows:

	31 Dec. 07	31 Dec. 06
Current income tax		
For the year	91 110	45 080
Correction of prior years	(21)	(7 060)
	91 089	**38 020**
Deferred tax		
Recognition and reversal of temporary differences	6 520	42 508
Change in tax rate	(44)	4 859
On tax losses carried forward	11 038	14 886
	17 514	**62 253**
Total tax charged to the statement of income	**108 603**	**100 273**
Net income before income tax[1]	452 536	400 252
Tax burden	24.0%	25.1%

1) Considering net income of the BPI Group plus income tax and minority interest less the results of subsidiaries excluded from the consolidation.

The caption CURRENT INCOME TAX / CORRECTION OF PRIOR YEARS at 31 December, 2006 includes 7 125 th. euro relating to corrections of taxes paid in excess in the years 2003 and 2004, due to not considering the tax benefits on Angolan public debt income.

Following the coming into force of Law 2 / 2007, wich approved the new Local Finances Law, Municipa Surcharge became based on taxable income subject and not exempt from income tax, at a maximum rate of 1.5%. Consequently, the BPI Group's deferred taxes at 31 December, 2006 were adjusted, resulting in the effect reflected in the deferred tax caption CHANGE IN TAX RATE.

In addition, in 2007 and 2006 Banco BPI recorded, directly in shareholders' equity, income tax of 129 th. euro and 13 th. euro, respectively, on net gain and loss on treasury shares (note 4.27).

Following are reconciliations between the nominal rate of income tax and the tax burden for the years 2007 and 2006, as well as between the tax cost and the product of the accounting profit times the nominal tax rate:

	31 Dec. 07		31 Dec. 06	
	Tax rate	Amount	Tax rate	Amount
Net income before income tax		452 536		400 252
Income tax computed based on the nominal tax rate	28.4%	128 563	28.9%	115 491
Effect of tax rates applicable to foreign branches	0.3%	1 234	0.2%	953
Income exempt from income tax (SFE's)	(1.8%)	(8 086)	(0.3%)	(1 329)
Capital gains and impairment of investments (net)	0.3%	1 434	0.5%	2 079
Capital gain of tangible assets (net)	0.0%	(3)	(0.5%)	(2 014)
Interest on Angolan public debt[1]	(1.3%)	(5 864)	(3.6%)	(14 303)
Exchange differences of BFA			0.5%	1 851
Non taxable dividends	(1.5%)	(6 746)	(1.0%)	(3 897)
Tax on dividends of subsidiary and associated companies	0.2%	1 093	0.1%	540
Banco BPI Cayman net income	0.2%	893		
Difference in BPI Locação shareholder's equity	0.2%	1 113		
Tax benefits	(0.3%)	(1 536)	(0.3%)	(1 298)
Non tax deductible pension costs	0.0%	96	0.2%	975
Interest recognised in minority interest	(1.0%)	(4 465)	(0.9%)	(3 668)
Tax contingencies provision	0.3%	1 191		
Correction on tax losses from prior years	(0.3%)	(1 459)		
Tax losses used	(0.2%)	(777)	(0.2%)	(683)
Effect of change in the rate of deferred taxes	0.0%	(44)	1.2%	4 859
Autonomous taxation	0.1%	608	0.1%	496
Other non taxable income and expenses[2]	0.3%	1 357	0.1%	221
	24.0%	**108 603**	**25.1%**	**100 273**

1) Income from Angolan public debt securities, obtained on Treasury Bonds and Treasury Bills issued by the Angolan State, covered by Regulamentary Decrees 51 / 03 and 52 / 03 of 8 July, benefits from tax exemption in Angola. In 2006, this caption includes 7 125 th. euro relating to corrections for prior years.

2) Includes costs relating to liquidation of Fundo Renda Trimestral.

Current taxes are calculated based on the nominal tax rates legally in force in the countries in which the Bank operates.

	31 Dec. 07		31 Dec. 06	
	Net income before income tax	Tax rate	Net income before income tax	Tax rate
Companies with tax rate of 25% and Municipal Surcharge of 1.5% (2.5% at 31 Dec. 06)	137 495	26.5%	111 393	27.5%
Companies with tax rate of 25% and Municipal Surcharge of 1.4% (2.3% at 31 Dec. 06)	210 566	26.4%	211 121	27.3%
Companies with tax rate of 35% (Angola)	104 475	35.0%	77 737	35.0%
	452 536	**28.4%**	**400 252**	**28.9%**

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 in the balance sheet and their tax base. Deferred tax assets are also recognised on tax losses carried forward and tax credits.

Profits distributed to Banco BPI by subsidiary and associated companies in Portugal are not taxed in Banco BPI as a result of applying the regime established in article 46 of the Corporate Income Tax Code, which eliminates double taxation of profits distributed.

Deferred tax assets and liabilities are calculated using the tax rates decreed for the periods in which they are expected to reverse.

Deferred tax assets and liabilities at 31 December, 2007 and 2006 are as follows:

	31 Dec. 07	31 Dec. 06
Deferred tax		
Assets (note 4.11)	135 827	129 466
Liabilities (note 4.20)	(54 251)	(53 186)
	81 576	**76 280**
Recorded by corresponding entry to:		
Retained earnings	107 232	169 614
Fair value reserve (note 4.28)		
Financial instruments available for sale	(8 142)	(31 081)
Net income	(17 514)	(62 253)
	81 576	**76 280**

Deferred tax assets are recognised up to the amount expected to be realised through future taxable profits.

The changes in deferred taxes in 2007 are as follows:

	Balance at 31 Dec. 06	Corresponding entry to net income		Corresponding entry to reserves and ret. earnings		Balance at 31 Dec. 07
		Costs	Income	Increases	Decreases	
Deferred tax assets						
Pension liability	62 589	(14 317)	88			48 360
Early retirements	40 035	(7 607)				32 428
Advertising campaigns	4 088	(554)				3 534
Intangible assets	4	(4)				
"Taxa garantida" operations	652	(403)	173			422
Banco BPI Cayman net income			206			206
Taxed provisions and impairments	4 418		16 952			21 370
Long service premium	5 512		1 043			6 555
Tax losses	11 038	(11 038)				
Financial instruments available for sale	439	(327)		21 424	(11)	21 525
Tax deferral of the impact of transition to NCA	689		714			1 403
Others	2		28		(6)	24
	129 466	**(34 250)**	**19 204**	**21 424**	**(17)**	**135 827**
Deferred tax liabilities						
Revaluation of tangible fixed assets	(4 306)		198			(4 108)
"Taxa garantida" operations	(652)	(574)	805			(421)
Derivatives	(853)		853			
Revaluation of assets and liabilities hedged by derivatives	(1 109)	(1 296)	82			(2 323)
Difference in BPI Locação shareholder's equity		(1 113)				(1 113)
Dividends to be distributed by subsidiary and associated companies	(381)	(309)	208			(482)
RVA's	(5)	(6)	124		(121)	(8)
Loan impairment	(8 673)	(1 607)				(10 280)
Financial instruments available for sale	(36 745)	161		4 622	(3 096)	(35 058)
Tax deferral of the impact of transition to NCA	(419)		80			(339)
Others	(43)	(45)	(29)		(2)	(119)
	(53 186)	**(4 789)**	**2 321**	**4 622**	**(3 219)**	**(54 251)**
	76 280	**(39 039)**	**21 525**	**26 046**	**(3 236)**	**81 576**

The changes in deferred taxes in 2006 are as follows:

	Balance at 31 Dec. 05	Corresponding entry to net income		Corresponding entry to reserves and ret. earnings		Balance at 31 Dec. 06
		Costs	Income	Increases	Decreases	
Deferred tax assets						
Pension liability	80 396	(17 833)	26			62 589
Early retirements	50 220	(10 185)				40 035
Advertising campaigns	3 190		898			4 088
Intangible assets	95	(91)				4
"Taxa garantida" operations	3 233	(2 581)				652
Revaluation of assets and liabilities hedged by derivatives	20 181	(20 180)				1
Prepaid fees	4 240	(4 240)				
Taxed provisions and impairments	5 466	(1 096)	48			4 418
Long service premium	5 683	(141)	(30)			5 512
Tax losses	25 924	(14 886)				11 038
Financial instruments available for sale	296	(319)		462		439
Exchange differences	11				(11)	
Tax deferral of the impact of transition to NCA		689				689
Others	5		66		(70)	1
	198 940	**(70 863)**	**1 008**	**462**	**(81)**	**129 466**
Deferred tax liabilities						
Revaluation of tangible fixed assets	(5 121)		815			(4 306)
"Taxa garantida" operations	(3 202)	(31)	2 581			(652)
Derivatives	(7 662)		6 809			(853)
Revaluation of assets and liabilities hedged by derivatives	(234)	(1 026)	151			(1 109)
Provisions for equity investments	(5 088)	5 088				
Dividends to be distributed by subsidiary and associated companies	(905)	(393)	905	12		(381)
RVA's	(365)	(53)	356	57		(5)
Loan impairment	(6 738)	(1 935)				(8 673)
Financial instruments available for sale	(21 830)	(7 599)	2 100	458	(9 874)	(36 745)
Tax deferral of the impact of transition to NCA		(423)	4			(419)
Others	(294)	(35)	288		(2)	(43)
	(51 439)	**(6 407)**	**14 009**	**527**	**(9 876)**	**(53 186)**
	147 501	**(77 270)**	**15 017**	**989**	**(9 957)**	**76 280**

The BPI Group does not recognise deferred tax assets and liabilities on temporary taxable differences relating to investments in subsidiary and associated companies as it is improbable that such differences will revert in the foreseeable future, except as follows:

- deferred tax liabilities are recognised on the amount of estimated dividends to be distributed by Banco de Fomento Angola to the BPI Group;
- deferred tax liabilities are recognised on the undistributed profits of Banco Comercial e de Investimentos.

4.43. Earnings of associated companies (equity method)

This caption is made up as follows:

	31 Dec. 07	31 Dec. 06
Banco Comercial e de Investimentos, S.A.R.L.	3 613	4 625
Companhia de Seguros Allianz Portugal, S.A.	13 173	12 784
Cosec – Companhia de Seguros de Crédito, S.A.	877	1 340
F. Turismo – Capital de Risco, S.A.	42	26
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	6 291	1 509
Viacer – Sociedade Gestora de Participações Sociais, Lda.	3 989	1 785
	27 985	**22 069**

4.44. Consolidated net income of the BPI Group

The contribution of Banco BPI and subsidiary and associated companies to consolidated net income for 2007 and 2006 is as follows:

	31 Dec. 07		31 Dec. 06	
	Amount	%	Amount	%
Banks				
Banco BPI, S.A.[1]	175 841	49.5	145 287	47.0
Banco Português de Investimento, S.A.[1]	24 118	6.8	19 056	6.2
Banco de Fomento S.A.R.L. (Angola)[1]	73 772	20.8	62 981	20.4
Banco Comercial e de Investimentos, S.A.R.L.[1]	3 305	0.9	4 231	1.4
Banco BPI Cayman, Ltd.	(8 016)	(2.3)	9 197	3.0
Specialised credit				
BPI Locação de Equipamentos, Lda.	(723)	(0.2)	260	0.1
BPI Rent – Comércio e Aluguer de Bens, Lda.[1]	1 656	0.5	2 010	0.6
Eurolocação – Comércio e Aluguer de Veículos e Equipamentos, S.A.	135	0.0	(12)	0.0
Asset management and brokerage				
BPI Dealer – Sociedade Financeira de Corretagem (Moçambique), S.A.R.L.	8	0.0	10	0.0
BPI Gestão de Activos – Sociedade Gestora de Fundos de Investimento Mobiliários, S.A.	19 689	5.6	20 068	6.5
BPI – Global Investment Fund Management Company, S.A.	1 534	0.4	1 118	0.4
BPI Pensões – Sociedade Gestora de Fundos de Pensões, S.A.	3 056	0.9	2 990	1.0
Sofinac – Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.	603	0.2	364	0.1
BPI (Suisse), S.A.[1]	360	0.1	118	0.0
Venture capital / development				
F. Turismo – Capital de Risco, S.A.	42	0.0	26	0.0
Inter-Risco – Sociedade de Capital de Risco, S.A.[1]	641	0.2	(264)	(0.1)
Insurance				
BPI Vida – Companhia de Seguros de Vida, S.A.	34 031	9.6	23 638	7.7
Cosec – Companhia de Seguros de Crédito, S.A.	877	0.2	1 340	0.4
Companhia de Seguros Allianz Portugal, S.A.	13 173	3.7	12 784	4.1
Others				
BPI, Inc.[1]	19	0.0	12	0.0
BPI Madeira, SGPS, Unipessoal, S.A.[1]	125	0.0	40	0.0
BPI Capital Finance	0	0.0	0	0.0
Douro SGPS, S.A.[1]	280	0.1	249	0.1
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.[1]	6 291	1.8	1 509	0.5
Simofer – Sociedade de Empreendimentos Imobiliários e Construção Civil, Lda.	(789)	(0.2)	(39)	0.0
Ulissipair ACE	1 095	0.3		
Viacer – Sociedade Gestora de Participações Sociais, Lda.	3 988	1.1	1 785	0.6
	355 111	**100.0**	**308 758**	**100.0**

1) Adjusted net income.

4.45. Personnel

The number of Employees[1] at 31 December, 2007 and 2006 and average for the years then ended were as follows:

	31 Dec. 07		31 Dec. 06	
	Average for the year	End of period	End of period	Final do exercício
Executive directors[2]	14	12	14	14
Management staff	565	572	534	546
Other staff	3 907	4 251	3 137	3 664
Other Employees	4 327	4 510	4 234	4 094
	8 813	**9 345**	**7 919**	**8 318**

1) Personnel of the fully consolidated Group companies. Includes personnel serving in the foreign branches of Banco BPI.
2) Includes Executive directors of Banco BPI and Banco Português de Investimento.

4.46. Financial risks

Fair value

The fair value of financial instruments at 31 December, 2007 is made up as follows:

Type of financial instrument	Assets and liabilities recorded at fair value						Assets valued at historical cost[1]	Total book value
	Book value	Method used to determine fair value						
		Active market listings[2]	Valuation techniques		Total fair value	Difference	Book value	
			Market data[3]	Models				
Assets								
Cash and deposits at central banks[4]	1 126 396			1 126 396	1 126 396			1 126 396
Deposits in other credit institutions[4]	281 516			281 516	281 516			281 516
Financial assets held for trading and at fair value through profit or loss[5]	4 591 411	3 827 672	102 699	661 040	4 591 411			4 591 411
Financial assets available for sale[5]	3 387 590	3 289 484		98 106	3 387 590		537 810	3 925 400
Loans and advances to credit institutions	1 540 900			1 546 514	1 546 514	5 614		1 540 900
Loans and advances to Customers	27 230 513			27 121 186	27 121 186	(109 327)		27 230 513
Hedging derivatives	412 156		115 321	296 835	412 156			412 156
	37 162 570	**7 117 156**	**218 020**	**29 723 681**	**37 058 857**	**(103 713)**	**537 810**	**37 700 380**
Liabilities								
Financial liabilities held for trading	534 669	337 836	98 056	98 777	534 669			534 669
Resources of other credit institutions	3 731 946			3 750 139	3 750 139	(18 193)		3 731 946
Resources of Customers and other debts	20 621 866			20 607 948	20 607 948	13 918		20 621 866
Debt securities	5 341 855			5 279 099	5 279 099	62 756		5 341 855
Financial liabilities relating to transferred assets	3 008 159			3 006 188	3 006 188	1 971		3 008 159
Hedging derivatives	544 629		150 037	394 592	544 629			544 629
Technical provisions	2 774 587			2 774 587	2 774 587			2 774 587
Subordinated debt	930 834			925 536	925 536	5 298		930 834
Participating bonds	27 269			26 950	26 950	319		27 269
	37 515 814	337 836	248 093	36 863 817	37 449 745	66 069		37 515 814
	(353 244)				**(390 888)**	**(37 644)**	**537 810**	**184 566**
Valuation differences in financial assets recognised in revaluation reserves						80 889		
Total						**43 245**		

1) Unlisted securities for which it was not possible to determine fair value on a reliable basis.

2) This category includes, in addition to financial instruments listed on stock exchanges, securities valued based on prices in active markets disclosed through negotiation platforms.

3) Valued based on market rates (swap curves).

4) Fair value corresponds to the book value.

5) The securities included in the category VALUATION TECHNIQUES – MODELS correspond to securities valued based on indicative Bids and models developed in-house.

Fair value of the financial instruments at 31 December, 2006 is made up as follows:

Type of financial instrument	Assets and liabilities recorded at fair value						Assets valued at historical cost[1]	Total book value
	Book value	Method used to determine fair value						
		Active market listings[2]	Valuation techniques		Total fair value	Difference	Book value	
			Market data[3]	Models				
Assets								
Cash and deposits at central banks[4]	559 940			559 940	559 940			559 940
Deposits in other credit institutions[4]	369 483			369 483	369 483			369 483
Financial assets held for trading and at fair value through profit or loss[5]	4 345 057	3 807 114	133 575	404 368	4 345 057			4 345 057
Financial assets available for sale[5]	2 901 644	2 804 762		96 882	2 901 644		163 267	3 064 911
Loans and advances to credit institutions	906 747			913 989	913 989	(7 242)		906 747
Loans and advances to Customers	24 630 086			24 679 774	24 679 774	(49 688)		24 630 086
Hedging derivatives	407 520		90 121	317 399	407 520			407 520
	33 191 054	**6 611 876**	**223 696**	**27 341 835**	**33 247 984**	**56 930**	**163 267**	**33 354 321**
Liabilities								
Financial liabilities held for trading	201 847	2 967	84 837	114 043	117 010			201 847
Resources of other credit institutions	3 960 247			3 970 399	3 970 399	(10 152)		3 960 247
Resources of Customers and other debts	16 235 505			16 225 131	16 225 131	10 374		16 235 505
Debt securities	5 464 566			5 447 626	5 447 626	16 940		5 464 566
Financial liabilities relating to transferred assets	3 368 059			3 396 422	3 396 422	(28 363)		3 368 059
Hedging derivatives	480 806		118 836	361 970	480 806			480 806
Technical provisions	2 811 111			2 811 111	2 811 111			2 811 111
Subordinated debt	588 890			595 402	595 402	(6 512)		588 890
Participating bonds	27 222			27 462	27 462	(240)		27 222
	33 138 253	2 967	203 673	32 949 566	33 156 206	(17 953)		33 138 253
	52 801				**91 778**	**38 977**	**163 267**	**216 068**
Valuation differences in financial assets recognised in revaluation reserves						166 424		
Total						**205 401**		

1) Unlisted securities for which it was not possible to determine fair value on a reliable basis.
2) This category includes, in addition to financial instruments listed on stock exchanges, securities valued based on prices in active markets disclosed through negotiation platforms.
3) Valued based on market rates (swap curves).
4) Fair value corresponds to the book value.
5) The securities included in the category VALUATION TECHNIQUES – MODELS correspond to securities valued based on indicative Bids and models developed in-house.

Whenever possible, the BPI Group has estimated fair value using prices on active markets or valuation techniques based on market data for instruments with similar characteristics to the financial instruments held by the Group. However, in certain situations, including Customer credit, resources of Customers and debt securities, there is no active market in Portugal, with transactions between equally knowledgeable and willing parties. For these cases, the Bank has developed internal valuation techniques to estimate the possible fair value of the financial instruments. The valuation techniques used involve certain assumptions that may not necessarily be the same for different institutions.

Additionally, the fair value of some of the financial instruments may not be the same as their realisable value in a sale or liquidation scenario.

For captions which are not recorded at fair value, value was determined based on market conditions applicable to similar operations, at the reference date of the financial statements namely:

- in interbank operations, market interest and swap rates were used;

- in operations with Customers, interest rates at financial statements reference date for operations of the same term were used. Book value was used when this was considered to be the most reasonable estimate of fair value.

The unrealised gain on financial instruments recognised based on valuation techniques in 2007, was as follows:

Type of financial instrument	Net income on financial operations	Shareholder's equity[1]
Assets		
Financial assets held for trading and at fair value through profit or loss[2]	11 888	
Financial assets available for sale	(34 396)	6 727
Loans and advances to credit institutions	64	
Loans and advances to Customers	(6 287)	
Hedging derivatives	102 229	
	73 498	**6 727**
Liabilities		
Resources of other credit institutions	4 277	
Resources of Customers and other debts	(1 619)	
Debt securities	(58 328)	
Participating bonds	2	
Subordinated debt	30	
	(55 638)	
	17 860	**6 727**

1) Change in relation to 31 December, 2006.
2) Includes net value of assets and liabilities concerning derivatives.

The unrealised gain on financial instruments recognised based on valuation techniques in 2006, was as follows:

Type of financial instrument	Net income on financial operations	Shareholder's equity[1]
Assets		
Financial assets held for trading and at fair value through profit or loss[2]	(10 775)	
Financial assets available for sale	(46 336)	12 456
Loans and advances to credit institutions	5	
Loans and advances to Customers	(4 129)	
Hedging derivatives	62 656	
	1 421	**12 456**
Liabilities		
Resources of other credit institutions	(2 779)	
Resources of Customers and other debts	5 420	
Debt securities	(1 074)	
Participating bonds	(11)	
Subordinated debt	22	
	1 578	
	2 999	**12 456**

1) Change in relation to 31 December, 2005.
2) Includes net value of assets and liabilities concerning derivatives. Information concerning the potencial gain in securities is not available.

In the case of financial instruments recorded at amortised cost, only the changes in fair value attributable to the risk hedged under hedge accounting are recognised, namely in the case of loans to Customers, Customers' deposits, debt securities and subordinated debt.

Derecognition of financial instruments

As explained earlier, in December 2007 the Bank sold to Banco BPI Employee Pension Fund, a portion of the risk / benefit relating to housing loan securitisation operations having recongised a profit of 10 318 th. euros and derecognised the corresponding assets and liabilities (notes 4.7, 4.17 and 4.38).

In 2006 no financial instruments for wich it was not possible to reliably determine fair value were derecognised, and so the impact on net income is nil.

Financial instrument risks

The BPI Group assesses and controls risk in accordance with the best practices and in compliance with the prudential rules and regulations, following the precepts, definitions and valuation methods recomended by the Basel Banking Supervision Committee in its three pillars.

The Directors' Report, presented together with the notes to Banco BPI's financial statements, includes also a section related to RISK MANAGEMENT, which contains additional information about the nature and extent of the BPI Group's financial risks.

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, 2007, by type of financial instrument, is as follows:

Type of financial instrument	Gross book value	Impairment	Net book value
Balance sheet items			
Loans and advances to credit institutions	281 516		281 516
Financial assets held for trading and at fair value through profit or loss	4 371 911		4 371 911
Financial assets available for sale	4 003 064	(77 664)	3 925 400
Loans and advances to credit institutions	1 540 909	(9)	1 540 900
Loans and advances to Customers	27 603 225	(372 712)	27 230 513
Derivatives			
Hedging derivatives	412 156		412 156
Trading derivatives	219 500		219 500
	38 432 281	**(450 385)**	**37 981 896**
Off balance sheet items			
Guarantees given	3 371 558	(37 645)	3 333 913
Irrevocable credit lines	93 875	(294)	93 581
	3 465 433	**(37 939)**	**3 427 494**
	41 897 714	**(488 324)**	**41 409 390**

Maximum exposure to credit risk at 31 December, 2006, by type of financial instrument, is as follows:

Type of financial instrument	Gross book value	Impairment	Net book value
Balance sheet items			
Loans and advances to credit institutions	369 483		369 483
Financial assets held for trading and at fair value through profit or loss	4 173 800		4 173 800
Financial assets available for sale	3 150 557	(85 646)	3 064 911
Loans and advances to credit institutions	906 760	(13)	906 747
Loans and advances to Customers	24 941 380	(311 294)	24 630 086
Derivatives			
Hedging derivatives	407 520		407 520
Trading derivatives	171 257		171 257
	34 120 757	**(396 953)**	**33 723 804**
Off balance sheet items			
Guarantees given	3 113 883	(29 562)	3 292 103
Irrevocable credit lines	24 504	(100)	24 404
	3 346 169	**(29 662)**	**3 316 507**
	37 466 926	**(426 615)**	**37 040 311**

Breakdown of overdue loans

Overdue loans and interest at 31 December, 2007, 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	59	5 100	25 833	36 107	10 595	77 694
Impairment	(4)	(2 106)	(16 658)	(25 637)	(7 043)	(51 448)
	55	**2 994**	**9 175**	**10 470**	**3 552**	**26 246**
Subject to collective assessment						
Overdue loans and interest	278	13 482	46 301	140 593	18 104	218 758
Impairment	(27)	(2 571)	(13 767)	(56 665)	(6 586)	(79 616)
	251	**10 911**	**32 534**	**83 928**	**11 518**	**139 142**

In addition, at 31 December, 2007 collective impairment of 241 648 th. euro was recognised on performing loans.

Overdue loans and interest at 31 December, 2006, 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	60	4 765	34 358	30 096	5 340	74 619
Impairment	(7)	(6 448)	(21 269)	(24 027)	(2 529)	(54 280)
	53	**(1 683)**	**13 089**	**6 069**	**2 811**	**20 339**
Subject to collective assessment						
Overdue loans and interest	367	8 932	46 370	138 725	8 616	203 010
Impairment	(53)	(1 767)	(13 490)	(52 345)	(2 659)	(70 314)
	314	**7 165**	**32 880**	**86 380**	**5 957**	**132 696**

In addition, at 31 December, 2006 collective impairment of 186 700 th. euro was recognised on performing loans.

Collateral

Banco BPI receives, among others, the following collateral in its loan granting business:

- housing mortgages;
- mortgage of buildings and land;
- deposit of assets;
- pledge of securities;
- guarantees provided by other credit institutions.

The fair value of collateral received is determined based on market value considering its nature. For example, property received in guarantee is valued by external appraisers or by Banco BPI's units using methods considered appropriate.

The coverage of overdue loans by collateral received at 31 December, 2007 is as follows:

Coverage	Loans with default			Collateral[1]		Impairment[3]
	Performing loans associated with defaulting loans	Overdue	Total	Mortgages	Other collateral[2]	
>=100%	202 911	137 438	340 349	324 424	15 925	60 760
>=75% and <100%	51 346	24 431	75 777	66 696	6 258	16 566
>=50% and <75%	1 191	2 755	3 946	1 934	642	1 396
>=25% and <50%	128	1 392	1 520	306	268	810
>=0 and <25%	206	781	987	6	131	509
Without collateral	29 850	129 655	159 505			92 596
Total	**285 632**	**296 452**	**582 084**	**393 366**	**23 224**	**172 637**

1) The value of collateral presented is the lower of the fair value of the collateral received and the amount owed at 31 December, 2007.
2) Other collateral includes pledged deposits and securities.
3) For purposes of determining impairment, pledged property is valued at the amount in the event of execution, which is less than market value. The amount of impaiment shown includes 1 573 th. euros 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, 2007 is as follows:

Loans with impairment		Collateral[1]		Impairment[3]
Coverage	Performing loans	Mortgages	Other collateral[2]	
Loans not represented by securities				
>=100%	42 522	37 642	4 881	22 469
>=75% and <100%	2 948	1 796	831	1 493
>=50% and <75%	793	188	273	495
>=25% and <50%	15 476	5 622	38	14 693
>=0 and <25%	2 737	494		638
Without collateral	77 956			28 765
	142 432	**45 742**	**6 023**	**68 553**
Loans represented by securities				
Without collateral	60 476			29 154
Guarantees provided				
>=100%	2 645	387	2 257	929
>=50% and <75%	547	150	145	213
>=25% and <50%	2 874	1 084		3 519
Without collateral	122 877			15 142
	128 943	**1 621**	**2 402**	**19 803**
	331 851	**47 363**	**8 425**	**117 510**

1) The value of collateral shown is the lower of the fair value of the collateral received and the amount owed at 31 December, 2007.
2) Other collateral includes pledge of deposits and securities.
3) For purposes of determining impairment, pledged property is valued at the amount in the event of execution, which is less than market value.

The coverage of overdue loans by collateral received at 31 December, 2006 is as follows:

Coverage	Loans with default			Collateral[1]		Impairment[3]
	Performing loans associated with defaulting loans	Overdue	Total	Mortgages	Other collateral[2]	
>=100%	157 302	128 589	285 891	271 682	14 209	40 222
>=75% and <100%	35 713	10 221	45 934	37 829	6 582	6 677
>=50% and <75%	1 185	2 727	3 912	1 182	1 275	1 963
>=25% and <50%	398	1 525	1 923	250	469	1 061
>=0 and <25%	156	890	1 046	10	147	701
Without collateral	21 600	133 677	155 277			99 920
Total	**216 354**	**277 629**	**493 983**	**310 953**	**22 682**	**150 544**

1) The value of collateral shown is the lower of the fair value of the collateral received and the amount owed at 31 December, 2006.
2) Other collateral include pledge of deposits and securities.
3) For purposes of determining impairment, pledged property is valued at the amount in the event of execution, which is less than market value. Impaiment presented includes 25 950 th. euros 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, 2006 is as follows:

Loans with impairment		Collateral[1]		Impairment[3]
Coverage	Performing loans	Mortgages	Other collateral[2]	
Loans not represented by securities				
>=100%	83 596	54 861	28 735	31 000
>=75% and <100%	3 040	2 435	131	1 605
>=50% and <75%	4 463	2 857	100	2 376
>=25% and <50%	14 409	5 275	82	14 195
>=0 and <25%	4 041	283	110	1 452
Without collateral	67 216			25 792
	176 765	**65 711**	**29 158**	**76 420**
Guarantees provided				
>=100%	2 091	327	1 765	819
>=50% and <75%	626	213	137	241
>=25% and <50%	3 096	1 154		3 805
Without collateral	98 296			13 215
	104 109	**1 694**	**1 902**	**18 080**
	280 874	**67 405**	**31 060**	**94 500**

1) The value of collateral shown is the lower of the fair value of the collateral received and the amount owed at 31 December, 2006.
2) Other collateral include pledge of deposits and securities.
3) For purposes of determining impairment, pledged property is valued at the amount in the event of execution, which is less than market value.

Credit risk quality (rating)

This section presents information concerning the quality of the credit risk of the BPI Group's main financial assets, excluding derivatives which are analysed in detail in note 4.4. In the case of financial assets with ratings assigned by the international rating agencies (Moody's, Standard & Poor's and Fitch) the rules set in the prudential regulations issued by the Bank of Portugal were followed, selecting up the second best in the case of different external ratings for the same instrument. When no specific external ratings were found, Banco BPI used external ratings assigned by the issuer of instruments with the same degree of subordination. In the case of local authorities, banks and some other similar institutions, the ratings used are based on the external ratings assigned to the State where the entity has its headquarters. In the specific case of the central banks in the Euro zone the rating is AAA. External rating is an important element to consider in the management of positions, especially in security portfolios, and is also used for calculating weights used to determine prudential capital by the standard method, in accordance with the regulations issued by the Bank of Portugal.

Loan exposures, without external ratings, were distributed by rating classes (for company exposure), by quality levels (for project finance) or by scorings (for private Customer exposure). External and internal ratings, where they exist, are an indicator of increasing importance to the BPI Group's internal management of loans, being used by the teams responsible for monitoring Customers in order to inform the decisions regarding new loans or the situation of existing exposure. This internal classification does not include all the Group's exposure. It excludes sovereign exposures or exposure to other banks, in which case external ratings are used, loans granted locally by Banco de Fomento de Angola which uses its own methodologies, as well as loans granted to entrepreneurs and the business segment.

Actual internal ratings and scorings include ten classes for regular operations, from 1 (less probability of default) to 10 (more probability of default); two classes (D01 and D02) for "incidents" (delays in payment of less than 60 and 90 days, respectively) and finally one class for default (D03), when delay in payment of a given amount by a counterparty exceeds 90 days. This system is still under development.

As from 2007 project finance operations have had 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.

Deposits at and loans and advances to credit institutions, by ratings, at 31 December, 2007 are as follows:

Type of financial instrument	Origin	Rating grade class	Gross exposure	Impairment	Net exposure
Deposits, loans and advances to credit institutions	External rating	AAA a AA-	1 187 254		1 187 254
		A+ a A-	62 192		62 192
		BBB+ a BBB-	135 500		135 500
		BB+ a BB-	150 121		150 121
		B+ a B-	17		17
	N/D	N/D	91 995	9	91 986
			1 627 079	**9**	**1 627 069**

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value and does not include cheques for collection.

Loans to Customers, by ratings, at 31 December, 2007 are as follows:

Type of financial instrument	Origin	Rating grade class	Gross exposure	Impairment	Net exposure
Loans to Customers	External rating	AAA a AA-	178 255		178 255
		A+ a A-	11 965		11 964
		BBB+ a BBB-	70 550	45	70 506
		BB+ a BB-	3 409		3 409
		B+ a B-	8 397	3 574	4 823
		< B-	47 879	21 380	26 499
	Project Finance rating	Strong	368 998	4	368 995
		Good	978 643		978 643
		Satisfactory	284		284
	Internal rating	E01 to E03	4 333 602	7 579	4 326 023
		E04 to E06	1 106 121	2 944	1 103 178
		E07 to E10	1 524 016	40 406	1 483 610
		ED1 to ED3	490 433	64 694	425 740
	Scoring	01 to 03	5 851 195	8 225	5 842 970
		04 to 06	2 241 621	4 708	2 236 913
		07 to 10	1 728 720	6 706	1 722 014
		D01 to D03	691 334	81 166	610 168
	N/D	N/D	7 845 253	131 282	7 713 972
			27 480 676	**372 712**	**27 107 964**

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value.

Securities portfolio, by ratings, at 31 December, 2007 are as follows:

Type of financial instrument	Origin	Rating grade class	Gross exposure	Impairment	Net exposure
Securities	External rating	AAA to AA-	989 252		989 252
		A+ to A-	2 325 806		2 325 806
		BBB+ to BBB-	1 470 777		1 470 777
		BB+ to BB-	549 191		549 191
		B+ to B-	5 308		5 308
		< B-	1		1
	Internal rating	E01 to E03	761 796		761 796
		E04 to E06	50		50
	N/D	N/D	2 272 794	77 664	2 195 131
			8 374 974	**77 664**	**8 297 311**

Deposits at and loans and advances to credit institutions, by ratings, at 31 December, 2006 are as follows:

Type of financial instrument	Origin	Rating grade class	Gross exposure	Impairment	Net exposure
Deposits, loans and advances to credit institutions	External rating	AAA to AA-	654 273		654 273
		A+ to A-	47		47
		BBB+ to BBB-	84 789		84 789
		BB+ to BB-	114 904		114 904
		B+ to B-	16		16
	N/D	N/D	139 582	13	139 569
			993 611	**13**	**993 598**

Note: Gross exposure corresponds to the nominal value adjusted for corrections of value and does not include cheques for collection.

Securities portfolio, by ratings, at 31 December, 2006 are as follows:

Type of financial instrument	Origin	Rating grade class	Gross exposure	Impairment	Net exposure
Securities	External rating	AAA to AA-	944 548		944 548
		A+ to A-	1 526 147		1 526 147
		BBB+ to BBB-	1 371 641		1 371 641
		BB+ to BB-	617 698		617 698
		B+ to B-	3 485		3 485
		< B-	1		1
	Internal rating	E01 to E03	18 276		18 276
		E04 to E06	9 720		9 720
		E07 to E10	50		50
	N/D	N/D	2 832 791	85 646	2 747 145
			7 324 357	**85 646**	**7 238 711**

The internal rating information system has been improved throughout 2006 and 2007 and so the table with a breakdown of loans to Customers by ratings for 2006 is not published. If comparative information was presented, the credit quality would not be significantly different from that presented in 2007.

Restructured loans

In the continuous development of the BPI Group's information systems, the restructured loan operations are in the process of being identified, and so it is not possible at this time identify all these operations.

To date, the following restructured loan operations at 31 December, 2007 have been identified:

	31 Dec. 07
Companies	
Performing	18 650
Overdue	2 497
	21 147
Individual	
Performing	35 504
Overdue	17 277
	52 781
	73 928

Liquidity risk

The scedules presented below were prepared based on the requirements of IFRS7 relating to Liquidity Risk, considering the total contractual undiscounted cash-flows expected to be paid or received in the periods relating to outstanding transactions on the reference dates.

The main assumptions used in preparing the tables below were:

- in the case of interest depending on market indices or other references which are only identifiable in a future date (eg 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, 2007 were as follows:

	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and deposits at central banks	1 126 396						1 126 396
Loans and advances to other credit institutions	90 663	190 853					281 516
Financial assets held for trading and at fair value through profit or loss		2 619 425	2 090 561	5 974 791	4 602 384	1 415 360	16 702 522
Financial assets available for sale		56 248	234 085	1 485 518	2 079 092	1 140 597	4 995 540
Loans and advances to credit institutions		1 215 091	195 897	174 989	4 178	388	1 590 543
Loans and advances to Customers		5 430 959	3 318 514	11 069 040	23 972 465	296 452	44 087 430
Hedging derivatives		424 198	1 754 526	4 566 016	7 626 601		14 371 341
	1 217 059	**9 936 775**	**7 593 583**	**23 270 354**	**38 284 721**	**2 852 797**	**83 155 288**
Liabilities							
Financial liabilities held for trading		1 982 849	1 438 786	3 674 386	3 054 346	36	10 150 403
Resources of other credit institutions		1 772 704	958 452	991 906	392 868		4 115 931
Resources of Customers and other debts	6 505 137	7 690 329	4 671 126	705 519	1 394 154		20 966 265
Debt securities		218 246	1 294 023	3 919 442	548 274		5 979 984
Financial liabilities relating to transferred assets		35 706	107 119	1 067 258	3 769 776		4 979 859
Hedging derivatives		453 682	1 742 933	4 394 444	8 066 882		14 657 941
Technical provisions		9 044	12 720	1 680 614	1 072 208		2 774 587
Participating bonds			1 369	5 475	29 525		36 369
Subordinated debt		11 348	69 205	334 488	1 116 112		1 531 154
	6 505 137	**12 173 909**	**10 295 732**	**16 773 533**	**19 444 145**	**36**	**65 192 492**
Liquidity gap	(5 288 078)	(2 237 134)	(2 702 149)	6 496 821	18 840 576	2 852 760	17 962 796

The contractual undiscounted cash flows of financial assets and liabilities at 31 December, 2006 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	559 940						559 940
Loans and advances to other credit institutions	86 248	283 236					369 483
Financial assets held for trading and at fair value through profit or loss		678 857	1 560 549	5 371 236	5 476 026	1 018 526	14 105 195
Financial assets available for sale		96 229	114 375	808 403	2 563 607	589 477	4 172 090
Loans and advances to credit institutions		548 759	175 832	130 322	102 064		956 977
Loans and advances to Customers		5 302 093	3 018 478	7 779 642	17 717 499	277 629	34 095 341
Hedging derivatives		302 594	1 162 740	4 466 374	4 348 834		10 280 542
	646 187	**7 211 767**	**6 031 973**	**18 555 977**	**30 208 031**	**1 885 632**	**64 539 568**
Liabilities							
Financial liabilities held for trading		260 188	987 063	3 760 959	3 995 239	487	9 003 937
Resources of other credit institutions		2 815 785	224 010	492 216	777 744		4 309 755
Resources of Customers and other debts	6 292 670	5 592 710	3 879 538	1 600 248	79		17 365 246
Debt securities		605 677	601 588	4 799 142	266 959		6 273 367
Financial liabilities relating to transferred assets		37 735	113 206	1 342 779	3 285 857		4 779 577
Hedging derivatives		305 186	1 158 623	4 409 719	4 556 779		10 430 307
Technical provisions		22 073	19 915	1 023 554	1 745 569		2 811 111
Participating bonds		268	805	4 295	27 938		33 307
Subordinated debt		17 372	84 048	294 405	392 090		787 914
	6 292 670	**9 656 996**	**7 068 795**	**17 727 317**	**15 048 254**	**487**	**55 794 520**
Liquidity gap	(5 646 483)	(2 445 228)	(1 036 822)	828 660	15 159 776	1 885 145	8 745 048

The amounts considered in the static liquidity tables presented reflect the typical situation of a banking institution. In dynamic terms, deposits, which are presented as demand or short term liabilities, are a stable source of funds, capable of financing loans to companies and individuals for extended periods, supplemented by the use of money and capital markets to which the Bank has access.

From the matters referred to above, liquidity risk is considered to be negligible. The LIQUIDITY RISK section in the Directors' Report contains information about complementary elements used by the Group in managing liquidity risk.

Market risk

Market risk (interest rate, exchange rate, share price, commodity price and spread) is defined as the potential to incur in losses due to unexpected changes in the price of instruments or operations ("price" includes index value, interest rate or exchange rate). Spread risk is the risk resulting from the variability of interest rates of some counterparties in relation to the interest rate used as a reference.

The Executive Board for Market Risk (EBMR) is responsible for managing the BPI Group's market risk and differentiates between the trading portfolio (trading) and the remaining businesses. In the specific case of exchange risk, the assessment is made for the activity as a whole (trading and non-trading).

More information about market risks in BPI Group is contained in RISK MANAGEMENT section of the Directors' Report.

Trading portfolio (trading)

Trading positions are managed autonomously by the traders, within the limits established by the Trading Department Manual for the entire BPI Group, approved by the Executive Committee of the Board of Directors. The trading portfolio is defined for financial and risk management purposes, independently of the accounting classification (although the concepts largely match) and includes all types of financial instruments traded by the Trading Rooms (derivatives, reports, shares and bonds) that cause various types of market risk, namely interest rate, shares, exchange, commodities and spread risks.

Market risk in trading operations is assessed and controlled daily through the calculation of VaR – Value-at-Risk – using a standard model ("variance co-variance"), based on the activity of the Banks of 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 growth rates of prices, 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 votility, 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 mean zero and standard deviation leading to the above mentioned confidence level.

In 2007 and 2006 the average VaR value in the Bank's trading books was as follows:

	31 Dec. 2007	Average 2007	31 Dec. 2006	Average 2006
VaR	3 582	3 523	2 422	3 293
Interest rate risk	2 933	1 772	813	1 633
Currency risk	1 170	1 569	1 078	1 391
Share risk	1 089	2 452	2 574	2 249
Commodities	92	240	66	264
Spread	244	123	3	250
VaR (maximum)		6 963		7 662

In compliance with its legal obligations, the Group also produces prudencial information for purposes of control by the supervisor and calculates regulatory capital relating to market risks in accordance with the standard methodology established by the Bank of Portugal.

Banking portfolio (non-trading)

The Financial Committee, chaired by the Executive Board's member responsible for the financial portfolio, monitors and manages the positions that are part of the banking portfolio, from reports produced for the purpose and within the guidelines of EBRM. When necessary an extraordinary meeting of EBRM is requested to make the more important decisions.

Interest rate risk

Following is a sensitivity analysis of the BPI Group's financial margin and shareholders' equity to a 2% reduction in the reference interest rate, considering all the instruments of the banking portfolio sensitive to interest rate variations (including the international securities portfolio classified in the accounting records as of trading):

Time band	Financial margin					
	31 Dec. 07			31 Dec. 06		
	Position	Weighting factor	Weighted position	Position	Weighting factor	Weighted position
on demand	(749 530)	2.00%	(14 991)	303 097	2.00%	6 062
on demand – 1 month	(2 355 513)	1.92%	(45 226)	(4 152 088)	1.92%	(79 720)
1-2 months	214 838	1.75%	3 760	1 371 436	1.75%	24 000
2-3 months	1 312 394	1.58%	20 736	1 238 119	1.58%	19 562
3-4 months	448 294	1.42%	6 366	908 359	1.42%	12 899
4-5 months	909 446	1.25%	11 368	1 133 477	1.25%	14 168
5-6 months	1 065 165	1.08%	11 504	623 945	1.08%	6 739
6-7 months	(216 331)	0.92%	(1 990)	(102 611)	0.92%	(944)
7-8 months	(452 016)	0.75%	(3 390)	(304 204)	0.75%	(2 282)
8-9 months	(312 607)	0.58%	(1 813)	(230 712)	0.58%	(1 338)
9-10 months	(284 558)	0.42%	(1 195)	(188 251)	0.42%	(791)
10-11 months	(168 841)	0.25%	(422)	(92 876)	0.25%	(232)
11-12 months	12 092	0.08%	10	27 072	0.08%	22
Total			**(15 284)**			**(1 855)**

Note: The positions were distributed by the assets, liabilities and respective maturity class columns.

Time band	Shareholder's equity					
	31 Dec. 07			31 Dec. 06		
	Position	Weighting factor	Weighted position	Position	Weighting factor	Weighted position
on demand – 1 month	(2 729 537)	0.08%	2 184	(3 267 535)	0.08%	2 614
1-3 months	1 405 848	0.32%	(4 499)	2 606 689	0.32%	(8 341)
3-6 months	1 381 413	0.72%	(9 946)	1 512 586	0.72%	(10 891)
6-12 months	(679 212)	1.43%	9 713	(316 977)	1.43%	4 533
1-2 months	230 416	2.77%	(6 383)	192 556	2.77%	(5 334)
2-3 months	317 111	4.49%	(14 238)	204 685	4.49%	(9 190)
3-4 months	179 000	6.14%	(10 991)	93 573	6.14%	(5 745)
4-5 months	153 791	7.71%	(11 857)	99 664	7.71%	(7 684)
5-7 months	126 859	10.15%	(12 876)	183 931	10.15%	(18 669)
7-10 months	193 425	13.26%	(25 648)	44 906	13.26%	(5 954)
10-15 months	114 255	17.84%	(20 383)	36 103	17.84%	(6 441)
15-20 months	44 525	22.43%	(9 987)	11 856	22.43%	(2 659)
> 20 months	90 984	26.03%	(23 683)	47 130	26.03%	(12 268)
Total			**(138 595)**			**(86 030)**

Note: The positions were distributed by the assets, liabilities and respective maturity class columns.

The weighting factor reflects the residual term, expressed in months in relation to a one year time horizon, of investment and financing of all items in the banking portfolio. This indicator reflects an estimate of the modified duration of the items in the banking portfolio with maturity equal to the average term of each time band, assuming that all assets, liabilities and off balance sheet items are remunerated at the rate of 5% and the discount rate for the whole maturity spectrum is also of 5%.

Share risk

In accordance with the prudencial requirements, the BPI Group calculates the impact of a 10% decrease in share prices and participating units classified as available-for-sale financial assets and financial assets at fair value through profit or loss. A 10% decrease in the price of the above securities at 31 December, 2007 would result in a a decrease of 124 287 th. euros in their fair value, implying the recognition of a loss of 5 110 th. euros, the remaining devaluation being reflected in reserves.

Currency risk

Financial assets and liabilities at 31 December, 2007, by currency, were as follows:

Type of financial instrument	Assets and liabilities by currency				
	EUR	USD	AKZ	Other currencies	Total
Assets					
Cash and deposits at central banks	841 721	39 165	241 685	3 825	1 126 396
Loans and advances to other credit institutions	228 803	25 976	1 105	25 632	281 516
Financial assets held for trading and at fair value through profit or loss	3 609 215	330 111	476 757	175 328	4 591 411
Financial assets available for sale	3 187 902	559 809	177 332	357	3 925 400
Loans and advances to credit institutions	1 109 693	403 094	13 616	14 497	1 540 900
Loans and advances to Customers	25 534 690	1 124 685	39 270	531 868	27 230 513
Hedging derivatives	333 451	32 124		46 581	412 156
	34 845 475	**2 514 964**	**949 765**	**798 088**	**39 108 292**
Liabilities					
Financial liabilities held for trading	511 614	17 406		5 649	534 669
Resources of other credit institutions	3 182 994	424 490		124 462	3 731 946
Resources of Customers and other debts	17 654 899	2 183 161	662 602	121 204	20 621 866
Debt securities	4 993 643	198 796		149 416	5 341 855
Financial liabilities relating to transferred assets	3 008 159				3 008 159
Hedging derivatives	454 826	59 334		30 469	544 629
Technical provisions	2 774 587				2 774 587
Subordinated debt	766 447			164 387	930 834
Participating bonds	27 269				27 269
	33 374 438	**2 883 187**	**662 602**	**595 587**	**37 515 814**
Forward currency operations	488 014	(513 125)		36 794	11 683
		144 902	**287 163**	**165 707**	**1 580 795**
Stress test		28 980	57 433	33 141	119 554

Financial assets and liabilities at 31 December, 2006, by currency, were as follows:

Type of financial instrument	Assets and liabilities by currency				
	EUR	USD	AKZ	Other currencies	Total
Assets					
Cash and deposits at central banks	404 782	30 083	121 418	3 657	559 940
Loans and advances to other credit institutions	329 564	17 911	2 772	19 236	369 483
Financial assets held for trading and at fair value through profit or loss	3 625 472	317 983	296 909	104 693	4 345 057
Financial assets available for sale	2 901 292	91 993	71 188	438	3 064 911
Loans and advances to credit institutions	374 961	401 942		129 844	906 747
Loans and advances to Customers	23 544 503	812 903	35 285	237 395	24 630 086
Hedging derivatives	334 348	31 359		41 813	407 520
	31 514 920	**1 704 174**	**527 572**	**537 077**	**34 283 744**
Liabilities					
Financial liabilities held for trading	198 735	2 897		215	201 847
Resources of other credit institutions	2 406 554	1 199 274		354 419	3 960 247
Resources of Customers and other debts	14 047 503	1 738 763	350 286	98 953	16 235 505
Debt securities	5 021 591	248 337		194 638	5 464 566
Financial liabilities relating to transferred assets	3 368 059				3 368 059
Hedging derivatives	414 082	42 867		23 858	480 806
Technical provisions	2 811 111				2 811 111
Hedging derivatives	27 222				27 222
Subordinated debt	424 164			164 726	588 890
	28 719 021	**3 232 138**	**350 286**	**836 809**	**33 138 253**
Forward currency operations	1 704 403	(1 218 065)		(453 369)	32 969
		(309 899)	**177 287**	**153 637**	**1 112 522**
Stress test		61 980	35 457	30 727	128 165

The stress test consists of assessing the impact of a 20% variation in the exchange rate of each currency against the euro.

Hedge accounting

The BPI Group applies fair value hedge accounting for several business lines, including hedging for:

- fixed rate deposits;
- fixed rate debt issues;
- structured debt issues;
- fixed rate securities.

The BPI Group uses "back-to-back" hedging relationships and macro-hedging.

The BPI Group hedges interest rate risk and exchange risk relating to the above items.

Interest rate swaps and forward currency operations are the main hedging instruments used. The optional component of structured debt issues is hedged by options and swaps.

Application of Hedge Accounting eliminates the "accounting mismatch" that would result from recognition of the hedged items at amortised cost, while the hedging instruments (derivative financial instruments) would have to be recorded at fair value through profit or loss.

The fair value of hedging instruments at 31 December, 2007 is made up as follows:

Fair value types of hedge	Hedged items					Hedge instruments			
	Nominal amount	Interest, premiums and potencial gains	Impair-ment	Value corrections	Total	Nominal amount	Interest and premiums	Revalua-tion	Fair value
Loans to Customers	756 708	5 421	(680)	(5 088)	756 361	601 197	(476)	5 356	4 880
Fixed rate securities portfolio	2 062 179	35 006		(15 684)	2 081 501	2 093 501	(36 679)	16 351	(20 328)
Resources of credit institutions	(3 106 047)	(17 203)		1 980	(3 121 270)	3 002 880	(313)	(1 961)	(2 274)
Customer deposits	(869 388)	(37 078)		5 922	(900 544)	920 000	27 726	(6 443)	21 283
Debt issues	(2 439 910)	90 847		17 797	(2 331 266)	3 129 497	(120 171)	(17 546)	(137 717)
Others	9 018				9 018	593 778	(944)	2 628	1 685
	(3 587 440)	**76 993**	**(680)**	**4 927**	**(3 506 200)**	**10 340 853**	**(130 857)**	**(1 615)**	**(132 471)**

Note: Embedded options were not included.

The fair value of hedging instruments at 31 December, 2006 is made up as follows:

Fair value types of hedge	Hedged items					Hedge instruments			
	Nominal amount	Interest, premiums and potencial gains	Impair-ment	Value corrections	Total	Nominal amount	Interest and premiums	Revalua-tion	Fair value
Loans to Customers	432 351	1 435	462	1 191	435 439	506 379	(233)	(2 128)	(2 361)
Fixed rate securities portfolio	1 949 595	147 832		(10 747)	2 086 681	2 002 745	(31 696)	10 957	(20 739)
Resources of credit institutions	(3 508 859)	(10 291)		(942)	(3 520 092)	160 375	1 728	3 128	4 856
Customer deposits	(753 693)	(20 721)		7 541	(766 873)	1 189 400	22 901	(6 069)	16 833
Debt issues	(2 681 303)	(92 782)		31 338	(2 742 747)	2 886 654	(48 520)	(25 296)	(73 816)
Others	9 018				9 018	620 995	852	1 090	1 941
	(4 552 891)	**25 475**	**462**	**28 381**	**(4 498 573)**	**7 366 549**	**(54 968)**	**(18 318)**	**(73 287)**

Note: Embedded options were not included.

In 2007 and 2006, the net income on financial operations recognized in hedge derivative financial instruments and in hedged items was as following:

	31 Dec. 07	31 Dec. 06
FAIR VALUE HEDGE		
Loans to Customers		
Hedged item	(6 278)	(4 130)
Hedge instrument		
Hedge swaps	8 163	4 607
Credit embedded options	(1 169)	287
	716	**764**
Fixed rate securities portfolio		
Hedged item	(39 990)	(49 767)
Hedge instrument		
Hedge swaps	34 315	56 895
	(5 675)	**7 128**
Resources of credit institutions		
Hedged item	2 916	(2 763)
Hedge instrument		
Hedge swaps	(3 244)	2 490
	(328)	**(273)**
Fixed rate client deposits		
Hedged item	(1 612)	5 422
Hedge instrument		
Hedge swaps	(374)	(9 777)
	(1 986)	**(4 355)**
Debt issues		
Hedged item	(19 797)	(21 374)
Hedge instrument		
Hedge swaps	21 880	(7 991)
Options	5 236	33 721
	7 319	**4 356**

Note: DEBT ISSUES – HEDGED ITEM includes the results relating to the embedded options in those issues.

4.47. Share-based variable remuneration program (RVA)

The Share-based Variable Remuneration Program (*Programa de Remuneração Variável em Acções* – RVA) is a remuneration scheme under which part of the variable remuneration of Executive Directors and Employees of the BPI Group, whose annual variable remuneration is equal to or greater than 2 500 euro, is paid in Banco BPI shares (BPI shares) and options to purchase BPI shares. The portion of the individual variable remuneration that corresponds to the RVA program varies between 10% and 50%, the percentage increasing with the level of responsibility of the Director or Employee.

Considering that at 31 December, 2006 Banco BPI was under a public share purchase offering launched on 13 March, 2006 and taking into account, on one hand, the interest in maintaining the share-based remuneration program (RVA), as the principles underlying its creation and objectives remain valid and, on the other hand, possible questions that, under those circumstances, could rise to by the granting of share-based remuneration, BPI's Board of Directors decided not to carry out the program for 2006. Therefore variable remuneration for that year was fully paid in cash. In 2007, this program was resumed in the regular conditions mentioned in the preceding paragraph.

Except as explained above, the share based remuneration program remains in force as regards all its past and future effects, including those resulting from the remuneration granted relating to 2001, 2002, 2003, 2004 and 2005.

The shares attributed under the RVA program are made available to the beneficiary on a gradual basis: 25% when they are attributed and 25% in each of the three following years.

The price of the shares attributed 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 attributed. The price of the shares attributed also corresponds to the strike price of the options.

The shares are made available (in the three years following the date they are attributed) subject to the beneficiaries remaining with the BPI Group. The price of the shares attributed, as well as the period in which they are made available, are summarised in the following table:

Programa	Shares				
	Date of assignment	Strike price	Date of availability of tranches		
			2nd	3rd	4th
RVA 2003	04-02-23	3.13	05-02-23	06-02-23	07-02-23
RVA 2004	05-02-28	3.10	06-02-28	07-02-28	08-02-28
RVA 2005	06-02-23	4.44	07-02-23	08-02-23	09-02-23

The share options of the RVA 2002 to RVA 2004 programs are exercisable between the first and the end of the fifth year following the date they are attributed. The share options of the RVA 2005 program can be exercised between the 90th day and the end of the 5th year following the date they are attributed. The share options are made available subject to the beneficiaries remaining with the BPI Group.

The strike price of the options, as well as the period the options can be exercised, are summarised in the following table:

Program	Options			
	Date of assignment	Strike price	Strike period	
			From	To
RVA 2001	02-03-21	2.54	03-03-21	07-03-21
RVA 2002	03-02-22	2.14	04-02-22	08-02-22
RVA 2003	04-02-23	3.13	05-02-23	09-02-23
RVA 2004	05-02-28	3.10	06-02-28	10-02-28
RVA 2005	06-02-23	4.44	06-05-23	10-05-23

The number of Employees and directors covered by the program RVA 2007 (estimated number) and RVA 2005 was as follows:

	RVA 2007 (estimated)	RVA 2005
Directors	12	14
Employees	3 436	2 650
	3 448	**2 664**

The total cost of the RVA programs is as follows:

Program	Total cost		
	Shares	Options	Total
RVA 2001	2 478	2 478	4 956
RVA 2002	2 507	2 507	5 014
RVA 2003	3 202	2 272	5 474
RVA 2004	3 834	2 169	6 003
RVA 2005	4 006	3 075	7 081
RVA 2007[1]	5 935	4 512	10 447
	21 962	**17 013**	**38 975**

1) The amounts for RVA 2007 program are estimated.

MODEL FOR VALUING THE EQUITY INSTRUMENTS GRANTED TO THE EMPLOYEES AND DIRECTORS OF THE BPI GROUP

Shares

The Bank, for purposes of the share-based payment program, acquires a portfolio of BPI shares and transfers ownership of the shares to the Employees and directors on the date the RVA remuneration is granted.

The changes in the number of shares not yet made available to the Employees and directors of the BPI Group in 2006 and 2007, as well as the fair value of the respective instruments are as follows:

	RVA 2002			RVA 2003			RVA 2004			RVA 2005		
	Number of shares	Fair value		Number of shares	Fair value		Number of shares	Fair value		Number of shares	Fair value	
		On the date attributed	On the reference date		On the date attributed	On the reference date		On the date attributed	On the reference date		On the date attributed	On the reference date
Shares attributed up to 2005	1 172 529	2 509	4 526	1 023 547	3 204	3 951	1 237 831	3 837	4 778			
Shares made available up to 2005	857 654	1 835	3 311	504 242	1 578	1 946	311 899	967	1 204			
Shares made available early up to 2005	32 487	70	125	20 537	64	79	2 064	6	8			
Shares refused up to 2005	9 132	20	35	9 674	30	37	3 018	9	12			
Shares not made available at 31 December, 2005	273 256	585	1 055	489 094	1 531	1 888	920 850	2 855	3 554			
Shares attributed in 2006										904 340	4 015	5 345
Shares made available in 2006	271 742	582	1 606	243 662	763	1 440	306 423	950	1 811	229 229	1 018	1 355
Shares made available early in 2006				729	2	4	1 044	3	6	1 455	6	9
Shares refused in 2006	1 442	3	9	3 319	10	20	6 015	19	36	6 285	28	37
Shares not made available at 31 December, 2006	72			241 384	756	1 427	607 368	1 883	3 590	667 371	2 963	3 944
Shares attributed in 2007												
Shares made available in 2007	72			241 207	755	1 293	303 233	940	1 625	222 119	986	1 191
Shares made available early in 2007							1 828	6	10	2 628	12	14
Shares refused in 2007				136		1	1 084	3	6	1 654	7	9
Shares not made available at 31 December, 2007				41			301 223	934	1 615	440 970	1 958	2 364

In the case of death, incapacity or retirement of the Employee or director, the shares not yet made available are made available early, becoming freely available to the person or to the respective heirs.

The shares refused include shares granted but not made available, to which the Employee or director has lost his / her right because he / she has left the BPI Group.

Options

The changes in the number of share options in circulation, held by Employees and directors of the BPI Group (options that can be exercised) in 2006 and 2007, as well as their respective fair values are as follows:

	RVA 2001			RVA 2002		
	Number of options	Fair value		Number of options	Fair value	
		On the date attributed	On the reference date		On the date attributed	On the reference date
Options attributed up to 2005	4 010 664	2 479	5 134	7 597 776	2 507	12 232
Options made available up to 2005	3 972 960	2 455	5 085	7 597 776	2 507	12 232
Options cancelled up to 2005	110 188	68	141	40 584	13	65
Options exercised up to 2005	3 285 029	2 030	4 205	5 880 593	1 941	9 468
Options in circulation and exercisable at 31 December, 2005	615 447	380	788	1 676 599	553	2 699
Options in circulation at 31 December, 2005	615 447	380	2 115	1 676 599	553	6 290
Options attributed in 2006						
Options made available in 2006						
Options cancelled in 2006	8 885	5	31	13 121	4	49
Options exercised in 2006	336 715	208	1 157	1 007 317	332	3 779
Options in circulation and exercisable at 31 December, 2006	269 847	167	927	656 161	217	2 462
Options in circulation at 31 December, 2006	269 847	167	927	656 161	217	2 119
Options attributed in 2007						
Options made available in 2007						
Options cancelled in 2007	5 334	3	18			
Options exercised in 2007	264 513	163	909	315 846	104	1 020
Options in circulation and exercisable at 31 December, 2007				340 315	112	1 099

When an Employee or director of the BPI Group leaves the Group he / she loses the right to the options attributed and not yet made available. In the case of options made available but not yet exercised, the director or Employee has a maximum period of 30 days from the date the labour relationship terminates to exercise the option, after which the option expires (options cancelled).

In the case of death, incapacity or retirement of directors or Employees, the options attributed become immediately exercisable, having to be exercised within a period of 2 years from the date of the event, otherwise they expire. Cancelled options include options not exercised within this period.

In 2007 and 2006 the weighted average price of the shares on the date the options were exercised was as follows:

Program	Options exercised in 2007		Options exercised in 2006	
	Number of options	Average price of the shares	Number of options	Average price of the shares
RVA 2001	264 513	6.50	336 715	5.00
RVA 2002	315 846	6.32	1 007 317	5.12
RVA 2003	495 312	6.52	2 276 815	4.91
RVA 2004	1 002 214	6.51	4 218 137	5.12
RVA 2005	2 738 733	6.35	1 270 079	5.81

In determining the number of options to be granted to the 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 the following models:

- Black-Scholes model for the RVA 2002 program; and

- An internally developed model, based on the Black-Scholes model for the RVA 2003 to RVA 2005 programs.

The critical factors of the model used to manage the RVA programs are as follows:

- Volatility of Banco BPI shares, 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.

	RVA 2003			RVA 2004			RVA 2005		
	Number of options	Fair value		Number of options	Fair value		Number of options	Fair value	
		On the date attributed	On the reference date		On the date attributed	On the reference date		On the date attributed	On the reference date
	5 050 419	2 273	3 889	6 998 811	2 170	5 459			
	5 012 429	2 256	3 860						
	44 741	20	34	25 816	8	20			
	1 404 957	632	1 082	484					
	3 600 721	1 620	2 773						
	3 600 721	1 620	10 342						
							6 836 764	3 077	12 383
				6 972 511	2 161	19 843	6 836 764	3 077	12 383
	1 582	1	5	18 005	6	51	6 336	3	11
	2 276 815	1 025	6 539	4 218 137	1 308	12 004	1 270 079	572	2 300
	1 322 324	595	3 798	2 736 369	848	7 787	5 560 349	2 502	10 071
	1 322 324	595	2 843	2 736 369	848	5 828	5 560 349	2 502	6 672
	2 118	1	5				323		
	495 312	223	1 065	1 002 214	311	2 135	2 738 733	1 232	3 286
	824 894	371	1 774	1 734 155	538	3 694	2 821 293	1 270	3 386

- Average expected life of the option, which depends, among others, on the following factors:
  - Responsibility level of the beneficiaries: Directors and other Employees;
  - Ratio between the market price and the strike price;
  - Volatility of the share price.

The model also enables the number of shares of Banco BPI necessary to ensure adequate coverage of the inherent risk of issuing options under the RVA program to be determined.

The parameters used to determine the financial value of the options under each RVA program, as of the date the options are attributed, are as follows:

	RVA 2001	RVA 2002	RVA 2003	RVA 2004	RVA 2005
BPI listing	2.55	2.16	3.20	3.13	4.47
Stike price	2.54	2.14	3.13	3.10	4.44
Implicit volatility	29.70%	22.30%	21.50%	17.70%	17.10%
Interest rate	5.00%	3.15%	3.00%	2.72%	3.08%
Expected dividens	0.09	0.08	0.09	0.10	0.12
Value of the option	0.62	0.33	0.45	0.31	0.45

The number of outstanding options under each RVA Program, as well as their respective fair values at 31 December, 2007 are as follows:

	RVA 2002	RVA 2003	RVA 2004	RVA 2005
Number of outstanding options	340 315	824 894	1 734 155	2 821 293
Strike price	2.14	3.13	3.10	4.44
Value of option	3.23	2.15	2.13	1.20

The number of outstanding options under each RVA Program, as well as their respective fair values at 31 December, 2006, are as follows:

	RVA 2001	RVA 2002	RVA 2003	RVA 2004	RVA 2005
Number of outstanding options	269 847	656 161	1 322 324	2 736 369	5 560 349
Strike price	2.54	2.14	3.13	3.10	4.44
Value of option	3.44	3.75	2.87	2.85	1.81

ACCOUNTING IMPACT OF THE RVA PROGRAM

Shares

In order to cover the share-based payments, the Bank acquires a portfolio of treasury shares at the time the RVA remuneration is attributed. The shares remain in Banco BPI's portfolio until they are made available to the beneficiaries. At that time they are derecognised by corresponding charge to accumulated costs in the caption OTHER EQUITY INSTRUMENTS.

The book value and fair value of the share component of the RVA program not yet made available to the Employees / Directors at 31 December, 2007 and 2006 are as follows:

Shares	Program	31 Dec. 07			31 Dec. 06		
		Book value	Number of shares	Fair value	Book value	Number of shares	Fair value
Cost of the shares to be made available to the Group's Employees / directors, recognized in Shareholder's equity	RVA 2003				800		
	RVA 2004	926			1 591		
	RVA 2005	1 636			1 995		
	RVA 2007	2 783					
		5 345			**4 386**		
Cost of the shares to be made available to the Group's Employees / directors, not recognized in Shareholder's equity	RVA 2003				23		
	RVA 2004	23			302		
	RVA 2005	340			974		
	RVA 2007	3 152					
		3 515			**1 299**		
	Total	**8 860**	**742 234**	**3 979**	**5 685**	**1 516 195**	**8 961**
Treasury shares made avaliable early to the Group's Employees / directors	RVA 2003				67		
	RVA 2004	15			10		
	RVA 2005	18			6		
	Total	**33**			**83**		
Treasury shares to be made avaliable to the Group's Employees / directors	RVA 2002					72	
	RVA 2003		41		756	241 384	1 427
	RVA 2004	934	301 223	1 615	1 883	607 368	3 590
	RVA 2005	1 958	440 970	2 364	2 963	667 371	3 944
	Total	**2 892**	**742 234**	**3 979**	**5 602**	**1 516 195**	**8 961**

Options

The BPI Group has created a portfolio of BPI shares to cover its share-based payment program responsibilities resulting from the issuance of options to purchase BPI shares in accordance with a delta strategy (determined in accordance with BPI's options evaluation model developed in-house based on the Black-Scholes model). The strategy corresponds to the creation of a portfolio with delta shares for each option issued, the delta number corresponding to the relationship between the variation in the price of an option and variation in the price of the underlying share. The treasury shares held to hedge the risk of variation in the amount of the options sold are recorded in the caption TREASURY SHARES HEDGING THE RVA, where they remain while they are held for that purpose.

When the options are exercised, the treasury shares are derecognised together with transfer of share ownership to the Employees / Directors. At that time a gain or loss is recognised, in the amount corresponding to the difference between the strike price and the average cost of acquiring the treasury share portfolio covering each of the programs, less the cost of the option premiums accumulated in the caption OTHER EQUITY INSTRUMENTS.

The book value and fair value of the outstanding option component of the RVA program attributed to the Employees / Directors at 31 December, 2007 and 2006 are as follows:

Options	Program	31 Dec. 07			31 Dec. 06		
		Book value	Fair value	Unrealised gain / (loss)	Book value	Fair value	Unrealised gain / (loss)
Cost of outstanding options (premiums) recognised in shareholder's equity	RVA 2001				167		
	RVA 2002	112			217		
	RVA 2003	371			595		
	RVA 2004	538			848		
	RVA 2005	1 270			2 502		
	RVA 2007	3 186					
		5 477			**4 329**		
Cost of outstanding options (premiums) not recognised in shareholder's equity	RVA 2007	1 326					
		1 326					
	Total	**6 803**	**9 952**	**(3 149)**	**4 329**	**25 046**	**(20 717)**
Treasury shares hedging the RVA options	RVA 2001				938	2 063	1 125
	RVA 2002	1 367	2 254	887	2 044	4 676	2 632
	RVA 2003	1 336	2 105	769	3 122	6 167	3 045
	RVA 2004	4 849	7 731	2 882	8 222	16 126	7 904
	RVA 2005	18 143	20 233	2 090	31 314	42 317	11 003
	Total	**25 695**	**32 323**	**6 628**	**45 640**	**71 349**	**25 709**
Unrealised gain / (loss)				**3 479**			**4 992**

The gain and loss realised on treasury shares hedging the exercise of RVA options, as well as the respective taxes, are recorded directly in shareholders' equity, not affecting net income for the year.

The gross gain and loss realised in making the shares available and in exercising the options, as well as the corresponding hedge, reflected in shareholders' equity at 31 December, 2007 and 2006, are as follows:

Gain-loss		Program	31 Dec. 2007	31 Dec. 2006
Shares	In making the shares available	RVA 2001		
		RVA 2002		
		RVA 2003		
		RVA 2004		
		RVA 2005		(330)
				(330)
Options	In the exercise of options	RVA 2001	228	66
		RVA 2002	(225)	(509)
		RVA 2003	164	326
		RVA 2004	53	197
		RVA 2005	234	103
			454	**183**
	On the sale of hedging shares	RVA 2001		
		RVA 2002		
		RVA 2003		
		RVA 2004		1
		RVA 2005		
				1
Transaction costs and others			**4**	**(62)**
			458	**(208)**

The cost of the share-based remuneration program is accrued in personnel costs, by corresponding entry to the OTHER EQUITY INSTRUMENTS caption, as required by IFRS 2 for share-based payment programs. The cost of the shares and option premiums when they are granted, is accrued on a straight-line basis from the beginning of the program (1 January) to the date they are made available to the Employees / Directors.

The total cost of the share-based payment program recognised in 2007 and 2006 was as follows:

Program	31 Dec. 07			31 Dec. 06		
	Shares	Options	Total	Shares	Options	Total
RVA 2002				(24)		(24)
RVA 2003	(45)		(45)	221		221
RVA 2004	281		281	589	149	738
RVA 2005	634		634	907	1 289	2 196
RVA 2007	2 783	3 186	5 969			
Total	**3 653**	**3 186**	**6 839**	**1 693**	**1 438**	**3 131**

4.48. Capital management

Banco BPI's policy regarding the distribution of results is to distribute an annual dividend, by proposal of the Board of Directors to the Shareholders' General Meeting, usually of not less than 40% of net profit reflected in the consolidated accounts for the year to which they relate, unless exceptional circumstances justify the distribution of a smaller dividend.

Banco BPI's dividend policy also includes the maintenance of a sound financial position through maintaining:

- a ratio of basic own funds to assets weighted by risk – Tier I – tending to exceed 7%;
- the level of preference shares not above 20% of basic own funds, meaning a Core Tier I indicator tending to exceed 5.5%.

The potential components of Tier I (including Core Tier I) and Tier II (including a higher and a lower level) Own Funds are in accordance the regulations established in Bank of Portugal Notice 5 / 2007. The regulatory proportions to be observed indicate that the amount of Tier II can not exceed Tier I and the amount of the lower Tier II level (long-term subordinated debt and redeemable preference shares) can not exceed 50% of Tier I.

In accordance with the new regulations, since June 2007 50% of the deductions from Own Funds relating to participations in financial institutions and insurance companies is allocated to Tier I and Core Tier II, while previously they were allocated in full to Tier II, which resulted in a decrease of 0.35 percentage points in each of the Tier I and Core Tier I ratios in December 2007.

Banco BPI is proposing to distribute a dividend of 142 120 th. euro for 2007, which corresponds to a dividend of 0.187 euro per share.

According to the Bank of Portugal rules the BPI Group's own funds is made up is as follows:

	31 Dec. 07	31 Dec. 06
Base own funds		
Subscribed share capital, share premium, reserves (excluding fair value reserves) and retained earnings	1 369 406	1 229 867
Contributions to the pension fund not yet recognised as cost	(1 934)	(449)
Preference shares	300 899	306 448
Other minority interests	371	54
Intangible assets	(15 453)	(8 801)
Treasury shares	(19 391)	(42 945)
Provision corrections	(104 204)	(82 117)
Deferred transition adjustments to IAS / IFRS	159 965	166 097
Base own funds	**1 689 659**	**1 568 155**
Complementary own funds		
Revaluation reserves of fixed assets	8 548	9 831
Perpetual subordinated debt	45 474	47 792
Fair value revaluation reserves	73 738	73 270
Subordinated debt and participating securities	841 026	485 595
General credit risk provision	104 204	82 117
Deferred transition adjustments to IAS / IFRS (fair value revaluation reserves)		(6 879)
Complementary own funds	**1 072 990**	**691 725**
Deductions		
Deduction of interests in participations in insurance companies and other financial institutions	(178 756)	(229 931)
Others deductions	(14 003)	(13 752)
Deferred transition adjustments to IAS / IFRS		(5 024)
Deductions	**(192 759)**	**(248 707)**
Total own funds	**2 569 890**	**2 011 174**
Total requirements	2 073 975	1 703 361
Assets weighted by risk[1]	**25 924 682**	**21 292 010**
Own funds requirements ratio	9.9%	9.4%
Tier I[2]	6.2%	7.4%
Core Tier I (preference shares excluded)[2]	5.0%	5.9%
Percentage of preference shares to Tier I	17.8%	19.5%

1) Total requirements x 12.5.
2) Calculated in accordance with Bank of Portugal Instruction 16 / 2004. In June 2007, 50% of the deductions from Own Funds relating to paticipations in financial institutions and insurance companies was allocated to Tier I and Core Tier I, while previously they were allocated in full to Tier II.

4.49. Related parties

The BPI Group's related parties at 31 December, 2007 were as follows:

Name of related entity	Head Office	Effective participation	Direct participation
Associated and jointly controlled entity			
Banco Comercial e de Investimentos, S.A.R.L.	Mozambique	30.0%	29.4%
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%
F. Turismo – Capital de Risco, S.A.	Portugal	25.0%	25.0%
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	Portugal	32.8%	32.8%
Unicer – Bebidas de Portugal, SGPS, S.A.	Portugal	14.0%	
Viacer – Sociedade Gestora de Participações Sociais, Lda.	Portugal	25.0%	25.0%
Ulissipair ACE	Portugal	50.0%	
Pension fund of Employees and Directors of the BPI Group			
Fundo de Pensões Banco BPI	Portugal	100.0%	
Fundo de Pensões Aberto BPI Acções	Portugal	50.7%	
Fundo de Pensões Aberto BPI Valorização	Portugal	50.1%	
Fundo de Pensões Aberto BPI Segurança	Portugal	48.3%	
Fundo de Pensões Aberto BPI Garantia	Portugal	83.5%	
Shareholders of Banco BPI			
Grupo Itaú	Brazil	18.3%	
Grupo La Caixa	Spain	25.0%	
Members of the Board of Directors of Banco BPI			
Artur Santos Silva			
Carlos da Câmara Pestana			
Fernando Ulrich			
Ruy Octávio Matos de Carvalho			
Alfredo Rezende de Almeida			
António Domingues			
António Farinha Morais			
Armando Leite de Pinho			
Caixa Holding S.A., Sociedade Unipessoal – Represented by Marcelino Armenter Vidal			
Carlos Moreira da Silva			
Edgar Alves Ferreira			
Isidro Fainé Casas			
Jorge de Figueiredo Dias			
José Pena do Amaral			
Klaus Dührkop			
Manuel Ferreira da Silva			
Maria Celeste Hagatong			
Pedro Barreto			
RAS International, N.V. – Represented by Herbert Walter			
Roberto Egydio Setúbal			
Tomaz Jervell			

Accordingly to IAS 24, related parties are those in which the Bank has significant influence (direct or indirect) in decisions relating to their financial and operating policies – associated and jointly controlled companies and pension funds – and entities which have significant influence in management policy of the Bank – shareholders and members of Banco BPI Board of Directors.

The total assets, liabilities, income, costs and off balance sheet responsibilities relating to operations with associated and jointly controlled companies and pension funds of Employees and directors of the BPI Group at 31 December, 2007 are as follows:

	Associated and jointly controlled companies	Pensions funds of Employees and Directors of the BPI Group	Total
Assets			
Financial assets held for trading	5		5
Financial assets available for sale	8		8
Loans	33 781		33 781
	33 794		**33 794**
Liabilities			
Financial liabilities held for trading and derivatives	42		42
Deposits and technical provisions	62 010	205 905	267 915
Other financial resources	18 010	60 229	78 239
Other amounts payable	267		267
	80 329	**266 134**	**346 463**
Income			
Interest and similar income	3 086	10	3 096
Commissions received	766		766
Gain on financial operations		10 318	10 318
	3 852	**10 328**	**14 180**
Expenses			
Interest and similar expenses	1 712	7 111	8 823
	1 712	**7 111**	**8 823**
Off balance sheet items			
Guarantees given and other contingent liabilities			
Guarantees and sureties	21 675	2 962	24 637
Open documentary credits	57		57
Responsabilities for services rendered			
Deposit and safeguard of assets	907 096	2 276 873	3 183 969
Foreign exchange operations and derivatives instruments			
Purchases	10 374		10 374
Sales	(20 390)		(20 390)
	918 812	**2 279 835**	**3 198 647**

The total assets, liabilities, income, costs and off balance sheet responsibilities relating to operations with shareholders, members of the Board of Directors and companies where members of the Board of Directors have significant influence at 31 December, 2007 are as follows:

	Shareholders of Banco BPI[1]	Members of the Board of Directors of Banco BPI[2]	Companies where Members of the Board of Directors of Banco BPI have significant influence	Total
Assets				
Financial applications	76 505			76 505
Financial assets held for trading	60 299	15		60 314
Loans	317	20 197	77 298	97 812
Derivatives	2 606			2 606
Other amounts receivable	1			1
	139 728	**20 212**	**77 298**	**237 238**
Liabilities				
Financial liabilities held for trading and derivatives	2 630	862		3 492
Deposits and technical provisions	154 832	6 974	9 701	171 507
Other amounts payable	955			955
	158 417	**7 836**	**9 701**	**175 954**
Income				
Interest and similar income	266		666	932
Commissions received	101	7	25	133
	367	**7**	**691**	**1 065**
Expenses				
Interest and similar expenses	184	26	57	267
	184	**26**	**57**	**267**
Off balance sheet items				
Guarantees given and other contingent liabilities				
Guarantees and sureties	29 900	116	6 062	36 078
Responsabilities for services rendered				
Deposit and safeguard of assets	1 023 565	82 150	288 134	1 393 849
Foreign exchange operations and derivatives instruments				
Purchases	500 002	8 681	43 285	551 968
Sales	(500 002)	(8 100)		(508 102)
	1 053 465	**82 847**	**337 481**	**1 473 793**

1) With significant influence in BPI Group management policy. Usually significant influence exists when the percentage participation exceeds 20%.
2) With an individual role.

The total assets, liabilities, income, costs and off balance sheet responsibilities relating to operations with associated and jointly controlled companies and pension funds of Employees and directors of the BPI Group at 31 December, 2006 are as follows:

	Associated and jointly controlled companies	Pensions funds of Employees and Directors of the BPI Group	Total
Assets			
Financial assets available for sale	8		8
Loans	59 839		59 839
	59 847		**59 847**
Liabilities			
Financial liabilities held for trading and derivatives	32		32
Deposits and technical provisions	60 588	176 034	236 622
Other financial resources	10 820		10 820
Other amounts payable	58		58
	71 498	**176 034**	**247 532**
Income			
Interest and similar income	1 743		1 743
Commissions received	691		691
	2 434		**2 434**
Expenses			
Interest and similar expenses	1 259	343	1 602
	1 259	**343**	**1 602**
Off balance sheet items			
Guarantees given and other contingent liabilities			
Guarantees and sureties	22 406		22 406
Open documentary credits	442		442
Commitments to third parties			
Revocable commitments	279		279
Responsabilities for services rendered			
Deposit and safeguard of assets	915 472	2 195 617	3 111 089
Foreign exchange operations and derivatives instruments			
Purchases	10 013		10 013
Sales	(20 013)		(20 013)
	928 599	**2 195 617**	**3 124 216**

The total assets, liabilities, income, costs and off balance sheet responsibilities relating to operations with shareholders, members of the Board of Directors and companies where members of the Board of Directors have significant influence at 31 December, 2006 are as follows:

	Shareholders of Banco BPI[1]	Members of the Board of Directors of Banco BPI[2]	Companies where Members of the Board of Directors of Banco BPI have significant influence	Total
Assets				
Financial applications	50 151			50 151
Financial assets held for trading	69 600			69 600
Loans	368	14 623	82 772	97 763
Other amounts receivable	15			15
	120 134	**14 623**	**82 772**	**217 529**
Liabilities				
Financial liabilities held for trading and derivatives	2 052			2 052
Deposits and technical provisions	50 841	10 280	6 440	67 561
Other financial resources		1 059		1 059
Other amounts payable	86			86
	52 979	**11 339**	**6 440**	**70 758**
Income				
Interest and similar income	206	2		208
Commissions received	59			59
	265	**2**		**267**
Expenses				
Interest and similar expenses	339	11	43	393
	339	**11**	**43**	**393**
Off balance sheet items				
Guarantees given and other contingent liabilities				
Guarantees and sureties	24 213	105		24 318
Responsabilities for services rendered				
Deposit and safeguard of assets	1 546 823	80 134	87	1 627 044
Foreign exchange operations and derivatives instruments				
Purchases	500 003			500 003
Sales	(500 003)			(500 003)
	1 571 036	**80 239**	**87**	**1 651 362**

1) With significant influence in BPI Group management policy. Usually significant influence exists when the percentage participation exceeds 20%.
2) With an individual role.

Remuneration attributed to the members of the Board of Directors of the BPI Group in 2007 and 2006 was as follows:

	31 Dec. 07	31 Dec. 06
Remuneration in cash[1]	6 253	7 229
Equity-based remuneration[1]	2 034	
Pensions paid	432	430
	8 719	**7 659**

1) Includes the accrual of variable remuneration to be attributed at year end.

In accordance with the Bank's policy, the members of the Executive Committee of Banco BPI are entitled to participate in the Subsidised Housing Loan Scheme available to all the Banks' Employees. At 31 December, 2007 the outstanding mortgage own housing loans granted to the members of the Executive Committee, by the Group's banks, amounted to 2 519 th. euro.

Under the share-based payment program (RVA), the President of the Board of Directors, relating to variable remunerations received while he was President of the Executive Committee, and the members of the Executive Committee of Banco BPI are entitled to participate in the loan scheme to purchase BPI shares through exercise of the options granted under the share-based payment program (RVA), available to all the Banks' Employees. Consequently, at 31 December, 2007 the total loans to the President of the Board of Directors and members of the Executive Committee, made by the Group's banks, amounted to 15 860 th. euro.

In accordance with the terms of article 477 of the Commercial Company Code (Código das Sociedades Comerciais), the shareholdings of the members of the Board of Directors at 31 December, 2007 were as follows:

	Shares										Options		
	Held at 31 Dec. 06	**Purcha-sed**	**Sold**	**Held at 31 Dec. 07**	**Value at 31 Dec. 07[1]**	**Unavai-lable shares A**	**Pledged shares B**	**Pledged shares C**	**Pledged shares D**	**RVA loans E**	**Held at 31 Dec. 06**	**Exer-cised**	**Held at 31 Dec. 07**
Artur Santos Silva	1 670 552			1 670 552	8 954	12 097	737 223	185 200	45 045	1 939 626			
Carlos da Camara Pestana	300 000			300 000	1 608								
Fernando Ulrich[2]	1 839 433	486 112	160 000	2 165 545	11 607	39 755	2 015 219		50 000	6 424 033	486 112	486 112	
Ruy Octávio Matos de Carvalho	120 092			120 092	644				51 200				
Alfredo Rezende de Almeida	1 700 000			1 700 000	9 112								
Antonio Domingues[2, 3]	402 550	968 191		1 370 741	7 347	28 276	1 278 191			4 217 168	968 191	968 191	
António Farinha Morais[2]	571 823	100 000	260 000	411 823	2 207	14 895	345 818			1 014 700	177 778	100 000	77 778
Armando Leite de Pinho													
Carlos Moreira da Silva	1 700			1 700	9								
Edgar Alves Ferreira													
Herbert Walter													
Isidro Fainé Casas													
Jorge de Figueiredo Dias													
José Pena do Amaral[2]	74 935		40 000	34 935	187	19 330					177 778		177 778
Klaus Dührkop													
Manuel Ferreira da Silva[2]	193 019	142 778	5 797	330 000	1 769	14 169	80 000		60 000	171 200	642 778	142 778	500 000
Marcelino Armenter Vidal													
Maria Celeste Hagatong[2]	587 306			587 306	3 148	25 695	407 906			942 924	233 334		233 334
Pedro Barreto[2]	307 309	177 778	125 087	360 000	1 930	14 169	305 831		40 000	1 150 000	177 778	177 778	
Roberto Egydio Setúbal													
Tomaz Jervell	8 541			8 541	46								

1) Fair value of the shares.
2) Member of the Executive Committee.
3) A “collar” was contracted (i.e., the purchase of a “put” and simultaneous sale of a “call”) relating to 1 350 000 shares held at 31 December, 2007.
A – Shares attributed under the RVA program, the availability of which at 31 December, 2007 is subject to a resolutive condition.
B – Shares which at 31 December, 2007 were pledged in guarantee of loans to finance their acquisition resulting from the exercise of options granted under the RVA program.
C – Shares which at 31 December, 2007 were pledged in guarantee of loans obtained from a credit institution outside BPI Group.
D – Shares which at 31 December, 2007 were pledged in guarantee for the purposes of article 396 of the Commercial Company Code (*Código das Sociedades Comerciais*).
E – Amount owed (in euro) at 31 December, 2007, on the loan referred to in B.

ARTUR SANTOS SILVA – Did not purchase or sell any securities.

CARLOS DA CÂMARA PESTANA – Did not purchase or sell any securities.

At 31 December, 2007, IPI – Itaúsa Portugal Investimentos, SGPS, Lda., of which he is a member of the Board of Directors, held 139 080 000 shares.

FERNANDO ULRICH – On 30 January, 2007 acquired 486 112 shares, through the exercise of share purchase options attributed under the RVA 2005 program.

Sold on the stock exchange: on 29 November, 2007, 13 004 and 6 996 shares at the price of 5.46 euros and 5.45 euros, respectively; on 30 November, 2007, 20 000 shares at the price of 5.46 euros; on 3 December, 2007, 20 000 shares at the price of 5.42 euros; on 4 December, 2007, 8 995 and 11 005 shares at the prices of 5.53 euros and 5.54 euros, respectively; on 5 December, 2007, 20 000 shares at the price of 5.58 euros; on 6 December, 2007, 20 000 shares at the price of 5.55 euros; on 7 December, 2007, 9 138 and 10 862 shares at the price of 5.50 euros and 5.51 euros, respectively; and, on 10 December, 2007, 20 000 shares at the price of 5.49 euros.

On 31 December 2007, his spouse held 45 000 shares.

RUY OCTÁVIO MATOS DE CARVALHO – Did not purchase or sell any securities.

ALFREDO REZENDE DE ALMEIDA – Did not purchase or sell any securities.

At 31 December, 2007, ARCOtêxteis, S.A. and ARCOfio – Fiação, S.A., of which he is President of the Board of Directors, held 1 350 000 and 650 000 shares, respectively.

ANTÓNIO DOMINGUES – On 8 March, 2007 acquired 222 223, 370 968 and 375 000 shares, through the exercise of share purchase options attributed under the RVA 2003, RVA 2004 and RVA 2005 program, respectively.

ANTÓNIO FARINHA MORAIS – On 22 May, 2007 acquired 100 000 shares, through the exercise of options attributed under the RVA 2005 program.

Sold on the stock exchange: on 15 May, 2007, 20 000 shares at the price of 6.30 euros; on 16 May, 2007, 30 000 and 10 000 shares at the prices of 6.30 euros and 6.31 euros, respectively; on 18 May, 2007, 20 000 shares at the price of 6.31 euros; on 23 May, 2007, 4 168 shares at the price of 6.61 euros; on 25 May, 2007, 5 832 and 10 000 shares at the prices of 6.60 euros and 6.61 euros, respectively; on 12 June, 2007, 10 000 and 20 000 shares at the prices of 6.43 euros and 6.44 euros, respectively; on 13 June, 2007, 5 000, 10 000 and 5 000 shares at the prices of 6.50 euros, 6.51 euros and 6.52 euros, respectively; on 14 June, 2007, 5 000, 5 000, 5 000 and 5 000 shares at the prices of 6.70 euros, 6.71 euros, 6.73 euros and 6.74 euros, respectively; on 13 September, 2007, 10 000, 10 000 and 10 000 shares at the price of 6.19 euros, 6.20 euros and 6.21 euros, respectively; on 14 September, 2007, 10 000, 10 000, 10 000 and 10 000 shares at the price of 6.18 euros, 6.19 euros, 6.20 euros and 6.21 euros, respectively; and, on 26 October, 2007, 10 000 and 10 000 shares at the price of 6.72 and 6.73 euros, respectively.

ARMANDO LEITE DE PINHO – Did not purchase or sell any securities.

At 31 December, 2007 the companies Arsopi – Holding, SGPS, S.A., ROE, SGPS, S.A. and Security, SGPS, S.A., of which he is the President of the Board of Directors, held 2 250 000, 3 397 091 and 2 484 871 shares, respectively.

CARLOS MOREIRA DA SILVA – Did not purchase or sell any securities.

EDGAR ALVES FERREIRA – Did not purchase or sell any securities.

At 31 December, 2007 the company HVF – SGPS, S.A., of which he is a member of the Board of Directors, held 21 681 062 shares.

HERBERT WALTER – Did not purchase or sell any securities.

Is President of the Executive Commission of Dresdner Bank AG and Member of the Board of Directors of Allianz SE, which controls RAS Internacional N.V. Allianz SE also has control over Companhia de Seguros Allianz Portugal S.A.

At 31 December, 2007 the company RAS International N.V. held 65 659 233 shares.

ISIDRO FAINÉ CASAS – Did not purchase or sell any securities.

Is President of Caja de Ahorros y Pensiones de Barcelona "la Caixa" which has full control over Criteria CaixaCorp which, in turn, has full control over Catalunya de Valores – SGPS, Unipessoal, Lda.

JORGE DE FIGUEIREDO DIAS – Did not purchase or sell any securities.

JOSÉ PENA DO AMARAL – Sold on the stock exchange: on 13 September, 2007, 10 000, 10 000 and 10 000 shares at the price of 6.19 euros, 6.21 euros and 6.20 euros, respectively; and, on 14 September, 2007, 10 000 shares at the price of 6.16 euros.

KLAUS DÜHRKOP – Did not purchase or sell any securities.

Is President of the Executive Commission of the Mondial Assistance Group, which is fully controlled by Grupo Allianz.

MANUEL FERREIRA DA SILVA – On 27 February, 2007 and on 8 March, 2007, acquired 3 147 and 80 000 shares through the exercise of options attributed under the RVA 2001 program. On 8 March, 2007, on 15 May, 2007, on 8 June, 2007 and on 14 June, 2007, acquired 22 834, 11 000, 5 797 and 17 992 shares, respectively, through the exercise of share purchase options attributed under the RVA 2002 program. On 14 June, 2007, acquired 2 008 shares through the exercise of share purchase options attributed under the RVA 2003 program.

Sold on the stock exchange: on 15 May, 2007, 797 shares at the price of 6.30 euros; and, on 14 June, 2007, 5 000 shares at the price of 6.68 euros.

On 31 December, 2007 his spouse held 100 000 shares and 350 000 share purchase options.

MARCELINO ARMENTER VIDAL – Did not purchase or sell any securities.

Is Executive Director of Caja de Ahorros y Pensiones de Barcelona "la Caixa", which has full control over Criteria CaixaCorp – of which he is General Director – which, in turn, has full control over Catalunya de Valores – SGPS, Unipessoal, Lda.

At 31 December, 2007 Criteria CaixaCorp and Catalunya de Valores, SGPS, Unipessoal, Lda. held 114 000 000 and 76 185 268 shares, respectively.

MARIA CELESTE HAGATONG – Did not purchase or sell any securities.

On 31 December, 2007 her spouse held 320 546 shares.

PEDRO BARRETO – On 27 April, 2007 acquired 177 778 shares through the exercise of share purchase options attributed under the RVA 2005 program.

Sold on the stock exchange: on 22 May, 2007, 35 087 shares at the price of 6.50 euros; on 13 September, 2007, 70 000 shares at the price of 6.20 euros; and 14 September, 2007, 20 000 shares at the price of 6.25 euros.

ROBERTO EGYDIO SETÚBAL – Did not purchase or sell any securities.

Is Vice President of the Board of Directors, President-Director and member of the International Consultative Committee of Banco Itaú Holding Financeira, S.A.

TOMAZ JERVELL – Did not purchase or sell any securities.

At 31 December, 2007 the companies Norsócia, SGPS, S.A. and Auto Maquinaria Tea Aloya, SL, of which he is a member of the Boards of Directors, held 6 018 395 and 6 037 256 shares, respectively.

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 adopted 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.

Legal certification of accounts and audit report

Deloitte.

Deloitte & Associados, SROC S.A.
Inscrição na OROC n.º 43
Registo na CMVM n.º 231

Edifício Atrium Saldanha
Praça Duque de Saldanha, 1 - 6.º
1050-094 Lisboa
Portugal

LEGAL CERTIFICATION OF ACCOUNTS AND AUDIT REPORT
CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of euros – th. euro)

Introduction

1. In compliance with the applicable legislation we hereby present our Legal Certification of Accounts and Audit Report on the consolidated financial information contained in the Directors' Report and on the accompanying consolidated financial statements of Banco BPI, S.A. and subsidiaries ("the Bank") for the year ended 31 December, 2007, which comprise the consolidated balance sheet as of 31 December, 2007 that reflects a total of 40 545 949 th. euro and total shareholders' equity of 1 905 459 th. euro, including consolidated net income of 355 111 th. euro, the consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended and the corresponding notes.

Responsibilities

2. The Board of Directors of the Bank is responsible for: (i) the preparation of consolidated financial statements that present a true and fair view of the financial position of the companies included in the consolidation, the consolidated results of their operations and their consolidated cash flows; (ii) the preparation of historical financial information in accordance with the applicable accounting principles and that is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code (Código dos Valores Mobiliários); (iii) the adoption of adequate accounting policies and criteria and maintenance of appropriate systems of internal control; and (iv) the disclosure of any significant facts that have influenced the operations of the companies included in the consolidation, their financial position or results of operations.

3. Our responsibility is to examine the financial information contained in the documents of account referred to above, including verifying that, in all material respects, the information is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code, and to issue a professional and independent report based on our work.

Capital Social: 500.000,00 euros - Matriculada na CRC de Lisboa e NIPC 501 776 311
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Member of
Deloitte Touche Tohmatsu

Deloitte.

Deloitte & Associados, SROC S.A.
Inscrição na OROC n.º 43
Registo na CMVM n.º 231

Scope

4. Our examination was performed in accordance with the auditing standards ("Normas Técnicas e Directrizes de Revisão / Auditoria") issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that the examination be planned and performed with the objective of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our examination included verifying, on a sample basis, evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the estimates, based on judgements and criteria defined by the Board of Directors, used in their preparation. Our examination also included verifying the consolidation procedures used, application of the equity method and verifying that the financial statements of the companies included in the consolidation have been adequately examined, assessing the adequacy of the accounting principles used, their uniform application and their disclosure, taking into consideration the circumstances, verifying the applicability of the going concern concept, assessing the adequacy of the overall presentation of the consolidated financial statements, and assessing if, in all material respects, the consolidated financial information is complete, true, timely, clear, objective and licit. Our examination also included verifying that the consolidated financial information included in the Directors' Report is consistent with the consolidated financial statements. We believe that our examination provides a reasonable basis for expressing our opinion.

Opinion

5. In our opinion, the consolidated financial statements referred to in paragraph 1 above present fairly, in all material respects, the consolidated financial position of Banco BPI, S.A. and subsidiaries as of 31 December, 2007 and the consolidated results of their operations and their consolidated cash flows for the year then ended in conformity with the International Financial Reporting Standards as adopted by the European Union and the financial information included therein is, in terms of the definitions included in the standards referred to in paragraph 4 above, complete, true, timely, clear, objective and licit.

Porto, 14 March 2008

Augusta Francisco

DELOITTE & ASSOCIADOS, SROC S.A.
Represented by Maria Augusta Cardador Francisco

Audit Committee's report and opinion

AUDIT COMMITTEE'S REPORT AND OPINION
CONSOLIDATED FINANCIAL STATEMENTS

Within the scope of its terms of reference, the Audit Committee monitored the evolution of the Banks' and its affiliated companies' activities, verifying compliance with the law, regulations and the company's statutes, supervising compliance with accounting policies and practices and overseeing the process involving the preparation and disclosure of financial information, the statutory audit, the effectiveness of the internal control systems, risk management and internal audit, as well as the independence and activity of the Portuguese Statutory Auditor.

The details of the work carried out by the Committee during the 2007 financial year appear in the report on its activity and which is annexed to the present opinion.

The Committee also examined the consolidated balance sheet at 31 December 2007, the consolidated financial statements, the consolidated cash flow statement and the statement of changes in consolidated shareholders' equity and the respective Notes thereto, as well as the Directors' (Management) Report prepared by the Board of Directors for the year then ended.

In addition, it analysed the Statutory Audit Certification and the Audit Report issued by the Portuguese Statutory Auditor, with which it is in agreement.

In view of the foregoing, the Committee is of the opinion that the consolidated Financial Statements and Directors' Report, as well as the proposal expressed therein, are in accordance with applicable accounting, legal and statutory requirements, with the result that it recommends their approval at the Shareholders' General Meeting.

Oporto, 17 March 2008

Artur Santos Silva
Chairman

Ruy Octávio Matos de Carvalho
Deputy-Chairman

Alfredo Resende de Almeida
Member

Jorge Figueiredo Dias
Member

Marcelino Armenter Vidal
Member

BPI Group
Corporate Governance Report

BPI Group Corporate Governance Report

Declaration of compliance

BPI complies with the CMVM's recommendations relating:

- to the governance of quoted companies;
- to the exercise of postal voting in open (publicly held) companies;
- to the disclosure of information via the Internet;
- to transactions involving treasury and similar shares.

Banco BPI has not adopted any defensive clause impeding the free transferability of the shares and the unrestricted review by shareholders of the performance of Board members. In particular, there are no financial or shareholder mechanisms which have as their object frustrating hostile takeover bids.

Banco BPI's statutes stipulate that the votes cast by a single shareholder, in his own name or as the representative of another or others, which exceed 17.5% of the company's total votes, representing the share capital, shall not be counted. Any change to this statutory provision requires the approval of 75% of the votes cast in General Meeting (GM).

The said statutory clause was proposed by the Board of Directors with the object of promoting a framework conducive to achieving a balanced participation on the part of the key Shareholders in the Company's affairs from the perspective of the Shareholders' long-term interests. In its original formulation, it laid down a limit of 12.5% and was approved by the Shareholders at the GM held on 21 April 1999 by a majority of 90.01% of the votes. It was altered at the GM of 20 April 2006 where that limit was raised to the present 17.5%, with a majority of 77.4% of the votes cast.

The remuneration system for Banco BPI's Board of Directors and its public disclosure adhere to the principles and objectives laid down in the CMVM's Recommendations on Corporate Governance, namely, Recommendation no. 8, without detailing the individual remuneration of each one of its members.

The current remuneration system in force since 2001 is described in a separate chapter of this Report and includes, for the members of the Board of Directors Executive Committee, a variable component denominated in BPI shares and share incentive scheme with its own rules defined by the Board of Directors and made public in each financial year. This component was created with the express object of strengthening the alignment of the Bank's principal executives with the interests of the Institution and its Shareholders.

For its part, the information contained in the report dealing with the Board of Directors remuneration includes, since 2001, the following details:

- total aggregate amount of all the remuneration earned by the members of the Board of Directors, distinguishing between executive and non-executive members, and between fixed and variable remuneration;
- individualised indication of the percentage of the variable remuneration which the share incentive and options (RVA) scheme represents for each member of the Board of Directors Executive Committee in respect of the period covered by the Report;
- individualised indication of the number of shares and options granted to each member of the Board of Directors Executive Committee under the share incentive and options scheme (*Programa de Remuneração Variável em Acções* – RVA).

Considering the interests of BPI and its present and potential Shareholders, market needs and the objectives invoked in the CMVM's recommendations, the Board of Directors Executive Committee is of the opinion that the detailing of the individual remuneration of its members does not enhance relevant information for those interests, needs and objectives *vis-à-vis* the practices followed by the Bank. It has, however, implemented in essence the CMVM's Recommendation no. 8, according to which the remuneration of the members of the management body must be structured in such a manner as to permit the alignment of their interests with those of the company and must be the object of annual disclosure in individual terms.

Article 28(3) of Banco BPI's Statutes (approved at the GM of 20 April 2006) attributes to the General Meeting the responsibility for defining: a) the limit of the fixed annual remuneration of the members of the Board of Directors; b) the maximum percentage of annual consolidated net profit which, not exceeding 5%, can be allocated in each year to the variable remuneration of the Executive Committee's members. This must be done at the time of election (every three years) of the Executive Committee's members (article 28(2) of the Statutes). Since the present term of office of BPI's governing bodies began prior to the entry into force of the said provision and terminates with the approval of the accounts relating to 2007 (scheduled for the second quarter of 2008), only when the Governing Bodies are elected for the term 2008-2010 will a proposal regarding the remuneration policy for BPI's governing bodies be submitted to the General Meeting.

1. Introduction

Banco BPI's Board of Directors hereby submits for the consideration of its Shareholders and the market the BPI Group's Report on Corporate Governance for 2007[1] in compliance with its duty of information and transparency, and in conformity with the rules in force.

Refinements to BPI's corporate governance practices and reporting

Banco BPI's Board of Directors has been permanently concerned with the governance and oversight model implemented by the Group, as well as with presenting an increasingly more comprehensive corporate governance report. In this manner, it responds to the initiatives of the Securities Market Commission (CMVM), takes advantage of the recent legislative changes (notably the revision of the Commercial Companies Code in 2006), and keeps in step with the latest developments and documents published by various national and European bodies, namely, the Portuguese Corporate Governance Institute[2], the European Commission and the Organisation for Economic Cooperation and Development (OECD).

At its meeting of 17 March 2008, Banco BPI's Board of Directors decided to submit to the General Meeting of 23 April a proposal to amend its Statutes so as to make provision for a management and oversight model composed of a Board of Directors, a Supervisory Board and a Portuguese Statutory Auditor. The content of the proposed amendment and the respective justification are presented in chapter 3 of this report.

1) The present document, structured as an annex, forms an integral part of the 2007 Directors' Report and must be read in conjunction with it, namely, with the chapter in the Directors' Report devoted to the BPI Group's governance (page 25).

2) Given expression above all in the publication in February 2006 of the *White Paper on Corporate Governance in Portugal.*

2. Guiding principles of the BPI Group's corporate governance policy

GUIDING PRINCIPLES OF THE BPI GROUP'S GOVERNANCE POLICY

1 Creation of value

as the primary goal of BPI's Directors and Employees.

2 Transparency in management

Internal information – in such a manner that the non-executive members of the Board of Directors, the members of the Audit Committee can carry out their oversight and supervisory functions with facility and efficacy.

External information – in such a manner that the Shareholders, Authorities, Auditors, Investors and the community can broadly assess the quality and conformity of the information provided and the results attained.

3 Independence

of the executive management vis-à-vis any individual Shareholder or specific interests.

4 Equity

in the relationship with Shareholders, Customers and Employees.

5 Loyalty

through the implementation of mechanisms which impede the occurrence of conflict of interest situations.

6 Efficiency

in the functioning and interaction of the company's governing and supervisory bodies.

7 Rigour

in the management of the various risks underlying the Group's operations.

8 Sharing decision

through the adoption of committee-type models in decision-making processes and in the fostering of team spirit.

9 Performance and merit

as fundamental criteria governing the remuneration policy as concerns Employees and Directors.

10 Harmony

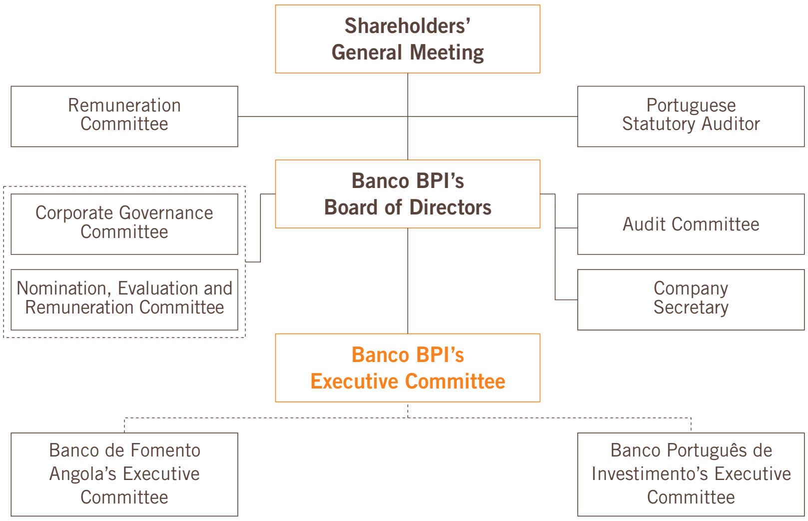
in the alignment between the interests of the Shareholders and those of Directors and Employees.

3. Structure, division of duties and functioning of the BPI Group's management and control bodies

3.1. STRUCTURE OF THE GROUP'S GOVERNANCE AND SUPERVISION

According to the company's Statutes, the governing bodies comprise the General Meeting, the Board of Directors, the Audit Committee, the Portuguese Statutory Auditor and the Company Secretary.

The company shall also have as advisory committees reporting to the Board of Directors a Nominations, Evaluation and Remuneration Committee and a Corporate Governance Committee.



The Group BPI's governing bodies – elected every three years – as well as their composition and principal responsibilities are the following.

Shareholders' General Meeting

The Shareholders' General Meeting (SGM) is the governing body composed of the Shareholders entitled to vote – that is, all shareholders owning at least five hundred Banco BPI shares. The General Meeting Committee is composed of a Chairman, a Deputy-Chairman and two Secretaries, all of whom are not required to be shareholders.

The Shareholders deliberate on matters that are specifically attributed to them by the law or by the Statutes and which do not fall under the jurisdiction of the company's other governing bodies, as well as on matters relating to the company's management (although in the last-mentioned case, only if so requested by the Board of Directors).

Board of Directors

Banco BPI's Board of Directors is composed of 21 members, the majority of whom are non-executive (14), of which 8 are in the Board of Directors' opinion independent.

The Board of Directors is the governing body that has been vested with the widest powers to manage and represent the Company. It is responsible for formulating the BPI Group's major strategic policies.

The Board of Directors delegates the company's day-to-day management to an Executive Committee.

Executive Committee of the Board of Directors

The Executive Committee is composed of seven professional executive Directors who are independent of any shareholders or specific groups.

The Executive Committee has the widest management powers to conduct the Group's day-to-day activity, the exercise of which is the object of permanent monitoring by the Board of Directors.

Audit Committee

The Audit Committee is composed exclusively of three to five non-executive members of the Board of Directors (currently five).

The Audit Committee performs the functions attributed to it by law, the statutes and BPI's internal regulations. This brief includes overseeing the preparation and disclosure of financial information, the effectiveness of the internal control, internal audit and the risk management systems. It evaluates the activity and oversees the independence of the Portuguese Statutory Auditor.

Portuguese Statutory Auditor

The Portuguese Statutory Auditor is appointed by the General Meeting, following a proposal by the Audit Committee. The Portuguese Statutory Auditor is responsible for the attest work needed to audit and certify the accounts.

Corporate Governance Committee

The Corporate Governance Committee is a consultative body of the Board of Directors composed of three to seven non-executive members (currently has six members).

Its function is to make pronouncements on matters within the scope of corporate social responsibility, ethics, professional conduct and environmental protection. The Committee prepares an annual report on the functioning of the company's corporate governance structure.

Nominations, Evaluation and Remuneration Committee

The Nominations, Evaluation and Remuneration Committee is a consultative body of the Board of Directors composed of three to seven non-executive members (currently six).

Its function is to give opinions on the filling of vacancies which may occur on the governing bodies, on the choice of Directors to be appointed to the Executive Committee and on the appraisal and fixing of this Executive Committee's compensation.

Remuneration Committee

The Remuneration Committee is composed of three shareholders elected by the General Meeting. The Remuneration Committee's function is to fix the remuneration of the members of Banco BPI's governing bodies. Effective from 2008 and insofar as the fixed remuneration of the members of the Board of the Directors and the variable remuneration of the Executive Committee are concerned, it must observe the limits laid down by the General Meeting.

Company Secretary

The Company Secretary is appointed by the Board of Directors, and besides performing the functions contemplated in the law, is responsible for relations with the supervisory and oversight authorities, namely, the Bank of Portugal, the Securities Market Commission (CMVM)[1], the Insurance Institute of Portugal, the Directorate-General of Taxes and the Inspectorate of Finance.

The full version of the regulations relating to the following bodies can be consulted at www.ir.bpi.pt or upon request addressed to the Investor Relations Division at investor_relations@bancobpi.pt:

- Board of Directors
- Executive Committee
- Audit Committee
- Corporate Governance Committee
- Nominations, Evaluation and Remuneration Committee

1) In liaison with the representative for Securities Market relations.

ELEGIBITY FOR THE MANAGEMENT AND SUPERVISORY BODIES – REQUISITES EMBODIED IN PORTUGUESE LAW

Requirements of integrity, professional experience and availability

The General Regime for Credit Institutions and Financial Companies (RGICSF) establishes a set of requirements and disqualifications, compliance with which is indispensable so that a specified person can be eligible for assuming a management or supervisory office at a credit institution or financial company. The evaluation process is the responsibility of the Bank of Portugal, which for this purpose exchanges information with the Insurance Institute of Portugal (Instituto de Seguros de Portugal), the Securities Market Commission (Comissão do Mercado de Valores Mobiliários – CMVM) as well as with foreign supervision authorities, taking into consideration three aspects: the integrity of the persons concerned, their professional experience and their availability to exercise the office.

Integrity of the members of the management and supervisory bodies[1]

The RGICSF lays down that only "persons whose integrity and availability provide guarantees of sound and prudent management, taking into account in particular the security of the funds entrusted to the institution" can form part the management and supervisory bodies of a credit institution or financial company. In appraising integrity, account will be taken of "the manner in which the person concerned generally manages business enterprises or exercises the profession, especially in aspects where he displays an inability to decide in a pondered and scrupulous manner, or a tendency to not comply promptly with their obligations, or to behave in a way that is incompatible with the preservation of the market's confidence". Amongst other pertinent circumstances, an indicator of the lack of integrity is the fact that the person has been judged "responsible for the bankruptcy or insolvency of a company controlled by him, or in respect of which he was an administrator, director or manager", or has been found guilty of crimes such as favouring creditors, forgery, theft, extortion, breach of trust, corruption, issuing cheques without funds, prejudicial management, false declarations, money laundering, misuse of information, etc.

Professional experience[2]

The RGICSF considers that there is a presumption of "adequate experience when the person concerned has previously performed functions involving responsibility in the financial field in a competent manner".

Accumulation of positions[3]

The Bank of Portugal can oppose situations in which the members of the Board of Directors of a bank perform management functions at other companies "where it is of the opinion that the accumulation is capable of prejudicing the exercise of the functions which he is already carrying out, namely, because there exist grave conflicts of interest or, in the case of persons who are responsible for the institution's day-to-day management, there are significant impediments as concerns their availability for the office".

Audit Committee

The Commercial Companies Code stipulates that in the case of companies whose shares are listed on a regulated market, the audit committee must include at least one member who has a university degree that is commensurate with the exercise of his/her functions and is well versed in auditing and accountancy. In such companies, the majority of the audit committee's members must be independent.

For this purpose, persons are deemed to be independent if they are not associated to any specific interest group in the Company, nor find themselves in a situation capable of affecting their impartiality of analysis or decision making, in particular, by virtue of:

- being the holders of or acting on behalf of or for the account of holders of a qualified holding of 2% or more of the Company's share capital;
- having been re-elected for more than two terms of office, consecutive or interspersed[4].

1) Extracts from Article 30 of Chapter III of the RGICSF.
2) Extracts from Article 31 of Chapter III of the RGICSF.
3) Extracts from Article 33 of Chapter III of the RGICSF.
4) It should be noted in relation to this last requirement that the CMVM, in a notification addressed to Banco BPI on 19 July 2007, stated that in its opinion the terms of office served on the Board of the Directors or on the Supervisory Board must be taken into consideration in the application of this requirement to the members of the Audit Committee.

3.2. SHAREHOLDERS' GENERAL MEETING

The Shareholders' General Meeting (SGM) is the governing body composed of the Shareholders entitled to vote – that is, all shareholders owning at least 500 Banco BPI shares. Shareholders holding less than the aforesaid minimum number of 500 shares, may pool their shares with other shareholders in order to reach that number.

Banco BPI's statutes stipulate that the votes cast by a single shareholder, in his own name or as the representative of another or others, which exceed 17.5% of the company's total votes, representing the share capital, shall not be counted.

The Shareholders have a number of options available to them to participate in Meetings: in person, through a representative (by other Shareholders or by third parties), via postal or electronic voting.

3.2.1. Composition

COMPOSITION OF THE GENERAL MEETING COMMITTEE

Chairman	João Vieira de Castro
Deputy-Chairman	Manuel Cavaleiro Brandão
Secretaries	Galucho – Indústrias Metalomecânicas, S.A. Produtos Sarcol, S.A. (represented by M.ª Alexandra Magalhães)
Company Secretary[1]	Manuel Correia de Pinho (in office) Alexandre Lucena e Vale (alternate)

3.2.2. Terms of reference

PRINCIPAL TERMS OF REFERENCE OF THE GENERAL MEETING

- Election of members of the Board of Directors, the Audit Committee, the Remuneration Committee and Chairman, Deputy-Chairman and Secretaries of the General Meeting Committee, as well as the election of the Portuguese Statutory Auditor.
- Consideration of the Board of Directors' annual report, discussion and voting on the consolidated and individual accounts, as well as on the Portuguese Statutory Auditor's opinion.
- Evaluation of the Board of Directors' and the Portuguese Statutory Auditor's performance.
- Deliberation on the appropriation of the annual results.
- Definition of a maximum limit for the annual fixed remuneration of the members of the Board of Directors and for the percentage of consolidated profit which, not exceeding 5%, may be allocated each year to the variable remuneration of the members of the Executive Committee.
- Review of the strategic orientation and policies adopted.
- Deliberation on a long-term dividend policy proposed by the Board of Directors.
- Deliberate on the acquisition and sale of treasury stock.
- Deliberation on the capital increases and the issue of bonds convertible into shares or with the right to subscribe for shares.
- Deliberation on changes to the statutes.

1) In terms of article 446 B, (a) and b) of the Commercial Companies Code, the company secretary is responsible for serving as secretary at the meetings of the governing bodies and for writing up the minutes and signing these together with the members of the respective governing bodies and the Chairman of the General Meeting Committee, where this is the case.

3.2.3. Promotion of shareholder participation at SGM

BPI has been permanently concerned with stimulating Shareholders' participation in the Company's affairs, namely at General Meetings. To that end, it actively promotes the exercise of voting rights, – in person, by proxy or via postal or electronic voting. It makes available to Shareholders – well beyond what is required by law – all the information and means needed for their participation at those meetings. All the information is placed at Shareholders' disposal simultaneously in Portuguese and English. In chapter 9 of this report, the policy adopted by BPI for promoting Shareholder participation at GM's is described in greater detail.

The External Auditor, in the person of the partner responsible for the audit of Banco BPI's consolidated financial statements is present at the Annual General Meetings, and is available to elucidate Shareholders about any matter relating to the opinions issued on Banco BPI's individual or consolidated accounts.

3.2.4. Functioning rules

In terms of the law, Banco BPI's Annual General Meeting must be held before the end of May[1].

Notice of meeting

The Committee Chairman must convene an extraordinary General Meeting whenever this is requested by the Board of Directors, by the Audit Committee, by Shareholders owning shares corresponding to at least 5% of the share capital or in other cases contemplated in the law.

Constituent Quorum and required majority

The General Meeting can deliberate at its first convocation irrespective of the number of Shareholders present or represented, with the exception of motions relating to alterations to the Bank's statutes or merger, demerger and winding-up operations, amongst other special situations envisaged in the law.

For these cases it is necessary that Shareholders owning shares corresponding to at least one third of the company's capital must be present or represented, and that the motions under consideration are approved by two thirds of the votes cast, with the exception of resolutions to amend the Statutes regarding the limitation of voting rights issued by a single shareholder (article 12(5)(4) and article 30(2)), and to wind up the Company, both of which require the approval of 75% of the votes cast. At the second convocation, the Meeting can deliberate irrespective of the number of Shareholders present or represented and the capital represented by them.

Inclusion of matters in the order of business

The Shareholder or Shareholders owning shares corresponding to at least 5% of the share capital can request that certain matters be included in the order of business of a General Meeting already convened or to be convened. For this purpose, a written request must be sent to the Chairman of the General Meeting Committee within five days of the last publication of the respective notice of meeting.

Notwithstanding the possibility referred to in the previous paragraph, the motions presented to the Shareholders' meeting have as a rule been at the initiative of the Board of Directors.

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.

3.2.5. Information about GM results

Ever since 2002 (long before it became compulsory in 2007) BPI has adopted the policy of publicly announcing at the conclusion of the General Meeting, the results of the Shareholders' deliberations via the announcement publicised on the CMVM's website (www.cmvm.pt) and at BPI's Investor Relations website (www.ir.bpi.pt), as well as through the dissemination to the general and specialist mass media.

3.2.6. Results of the Shareholders' Meetings held in the last 5 years

At the GM's held in the last five years (between 2003 and 2007) Shareholders owning a number of shares corresponding to the following percentages of the capital were present or represented:

General Meeting	% share capital present or represented
10 April 2003	59.3%
20 April 2004	60.9%
20 April 2005	56.5%
20 April 2006	67.5%
19 January 2007 – 10:00	77.57%
19 January 2007 – 11:30	79.31%
19 April 2007	64.83%

The motions presented in General Meeting have consistently been approved by all or almost all of the shareholders present or represented thereat as can be seen from the following table.

1) This is because Banco BPI presents consolidated accounts, otherwise it must meet by the end of March (article 376(1) of the Companies Code).

Results of the motions presented at the Shareholders' Meetings held in the last five years (until 31 Dec. 2007)

	10 Apr. 03	20 Apr. 04	20 Apr. 05	20 Apr. 06	19 Jan. 07 (10:00)	19 Jan. 07 (11:30)	19 Apr. 07
Report and accounts	99.986%	99.31%	99.91%	100.00%	–	–	100.00%
Appropriation of results	100.000%	99.99%	100.00%	100.00%	–	–	100.00%
General appraisal of management and supervision[1]	99.546%	99.99%	100.00%	100.00%	–	–	100.00%
Acquisition and disposal of treasury stock	99.998%	99.99%	99.99%	–	–	–	99.30%
Three-yearly election of governing bodies	–	–	99.99%[2]	–	–	–	–
Election of the Deputy-Chairman of the GM	–	–	–	–	99.99%	–	–
Alteration of the statutes	100.000%	99.99%	–	77.4% to 96.7%	–	–	–
Alteration to the composition of the Board of Directors	99.998%	99.99%[3]	–	88.1% to 97.8%	–	–	–
Appointment of the members of the Audit Committee	–	–	–	97.4%	–	–	–
Approval of the long-term dividend policy	–	–	–	–	–	–	99.90%
Authorisation for the BD to deliberate on the sale of the Bank's and BPI Vida's holdings in BCP's share capital	–	–	–	–	–	81.81%	–
Approval of the expansion programme for the branch network	–	–	–	–	–	81.80%	–

1) Proposed vote of confidence and praise to the members of the Board of Directors and the Audit Board presented by a Shareholder.
2) Proposed by a Shareholder.
3) At this Meeting, a motion was also unanimously approved proposing a vote of congratulations for the way in which the change in the Chairmanship of Banco BPI's Executive Committee took place, and a vote of praise for Artur Santos Silva for the manner in which he performed his functions as the Bank's chief executive since the BPI Group's founding in 1981.

3.2.7. General meetings held in 2007

3.2.7.1. First General Meeting held on 19 January 2007

The only point on the order of business of BPI's General Meeting held on 19 January 2007, at 10:00, was the election of the GM Committee's Deputy-Chairman.

641 Shareholders owning shares corresponding to 77.57% of the voting rights were present or represented at that meeting. 76 Shareholders also voted by post (0.43%), with the result that the capital entitled to vote totalled 78%.

Attendance at the first General Meeting of 19 January 2007

	No. shareholders	No. shares (thousand)	Votes	% share capital
Total	717	592.8	1 185 882	78.0%
Present or represented	641	589.5	1 178 827	77.57%
Vote by correspondence	76	3.3	6 555	0.43%

The General Meeting Committee Chairman clarified to the Meeting regarding the fact that, by virtue of the rules embodied in article 12(4) and (5) of BPI's Statutes, the Shareholders Caixa Holding, S.A., Sociedad Unipersonal and Catalunya de Valores, SGPS, Unipessoal, Lda., holders respectively of 64 806 544 and 125 218 724 shares which corresponded to, since they are separate entities, 129 613 and 250 437 votes, saw this number of votes reduced to 90 717 votes, in the first case, and to 175 283 votes, in the second.

Results of the vote of the first General Meeting of 19 January 2007

	Percentage of votes cast[1]	
	In favour	Against
Election of the Deputy-Chairman of the General Meeting Committee – Manuel Eugénio Pimentel Cavaleiro Brandão	99.99%	0.02%

1) Abstentions are not counted as votes cast.

3.2.7.2. Second General Meeting of 19 January 2007

At BPI's General Meeting held on 19 January 2007, at 11:30, 671 Shareholders owning shares corresponding to 79.31% of the voting rights were present or represented. 74 Shareholders also voted by post (0.43%), with the result that the capital entitled to vote totalled 79.74%.

Attendance at the second General Meeting of 19 January 2007

	No. shareholders	No. shares (thousand)	Votes	% share capital
Total	745	606.1	1 211 804	79.74%
Present or represented	671	602.8	1 205 276	79.31%
Vote by correspondence	74	3.3	6 528	0.43%

The acts on which the second General Meeting of 19 January was called on to pronounce upon refer to acts that fall under the Board of Directors' terms of reference. However, Banco BPI found itself at that date subject to a takeover bid for its entire share capital, and doubts could arise with respect to Point 2 on the Order of Business as to whether, considering the provisions of article 182 of the Securities Code, those acts could be performed by the Bank's Board of Directors without the General Meeting's prior authorisation (although it is clear that as regards the disposal contemplated in point 1, such operation was subject to this legal regime).

Accordingly, the Bank's Board of Directors deemed it advisable to subject the execution of the aforesaid acts to the General Meeting's prior authorisation, in the terms of the provisions of article 182(3)(b) of the Securities Code.

In legal terms, the General Meeting resolutions which have as their purpose granting authorisation to the Board of Directors to perform acts covered by the provisions of article 182 of the Securities Code can only be passed by the majority required for altering the statutes, that is, they must be approved by two thirds of the votes cast in General Meeting.

Results of the votes of the second Shareholders General Meeting of 19 January 2007

	Percentage of votes cast[1]	
	In favour	Against
To consider and, if deemed fit, to pass a resolution, pursuant to and the purposes of article 182(3)(b) of the Securities Code, on a motion of the Board of Directors that the Board be authorised to decide on the disposal of the Bank's and BPI Vida – Companhia de Seguros de Vida, S.A.'s shareholdings in the capital of Banco Comercial Português, S.A.[2]	81.81%[3]	18.19%
To consider and, if deemed fit, to pass a resolution, pursuant to and the purposes of article 182(3)(b) of the Securities Code, on a motion of the Board of Directors relating to the expansion programme for the Bank's branch network	81.80%	18.20%

1) Abstentions do not count as votes cast.
2) The Board of Directors decided to present a new motion to the General Meeting, eliminating the reference to the Bank's pension fund, taking into consideration doubts raised by the CMVM concerning the motion relating to point one on the order of business as to whether it could contain a reference to BPI Pensões which appeared in the original version of the said document. The Board of Directors took into account the fact that the inclusion of the aforementioned reference was not aimed at obtaining any type of authorisation for a possible sale by the Banco BPI Pension Fund of the shareholding owned by it in BCP, but merely to provide clarification to the Shareholders about that matter bearing in mind that the decision by Banco BPI's Pension Fund to sell the shareholding owned by it in BCP is vested in the Board of Directors of this fund's management company (BPI Pensões) and not in Banco BPI and that, according to the regulations applicable to the Banco BPI Pension Fund any decision to be taken by BPI Pensões regarding the said sale is not subject to any type of Banco BPI authorisation, or even to its opinion.
3) Majority required for approval: two thirds of votes cast.

The Chairman of Banco BPI's Board of Directors addressed the meeting at the invitation of the Chairman of the General Meeting Committee for greater clarification of the rationale behind and reach of the motions submitted to the Shareholders' deliberation.

3.2.7.3. General Meeting of 19 April 2007

The third General Meeting of the year was held on 19 April 2007. 385 Shareholders owning shares corresponding to 64.761% of the voting rights were present or represented. 37 Shareholders also voted by post (0.07%), with the result that the capital entitled to vote totalled 64.83%.

Attendance at the General Meeting of 19 April 2007

	No. shareholders	No. shares (thousand)	Votes	% share capital
Total	422	492.7	985 305	64.83%
Present or represented	385	492.2	984 251	64.76%
Vote by correspondence	37	0.5	1 054	0.07%

The General Meeting Committee Chairman clarified to the Meeting regarding the fact that, by virtue of the rules embodied in article 12(4) and (5) of BPI's Statutes, the Shareholders Caixa Holding, S.A., Sociedad Unipersonal and Catalunya de Valores, SGPS, Unipessoal, Lda., holders respectively of 64 944 544 and 125 218 724 shares which corresponded to, since they are separate entities, 129 933 and 250 437 votes, saw this number of votes reduced to 90 865 votes, in the first case, and to 175 283 votes, in the second. Similarly, the Shareholder IPI-Itaúsa Portugal Investimentos, SGPS, S.A., by virtue of the aforesaid rules, being the holder of 133 760 000 shares, which corresponded to 267 520 votes, saw these votes reduced to 266 000.

Results of the voting at the General Meeting of 19 April 2007

	Percentage of the votes cast[1]	
	In favour	Against
Banco BPI's individual and consolidated Directors' report and accounts relating to 2006	100.00%	
Appropriation of net profit for 2006 (dividend of 0.16 euro for each one of the 760 000 000 shares representing the share capital at 31 December 2006)	100.00%	
General review of the management and supervision (vote of confidence and praise for the Board of Directors and Audit Board)	100.00%	
Long-term dividend policy	99.90%	0.10%
"Acquisition and sale of own shares subject to the suspensive condition of the takeover bid for Banco BPI, S.A.'s launched by Banco Comercial Português, S.A. not being successful."	99.30%	0.70%

1) Abstentions do not count as votes cast.

3.2.8. Annual General Meeting scheduled for 23 April 2008

The Annual General Meeting relating to the 2007 financial year is scheduled for 23 April 2008, at 10 a.m. at the Fundação de Serralves, in the city of Oporto.

Preparatory information for the Shareholders' general Meeting of 23 April 2008 and available information media

	Communication channels								
	Made available by BPI						Other channels		
					Postal mail				
	In person[1]	Internet (www.ir.bpi.pt)	E-mail (ag23Abril2008@bancobpi.pt)	Information phone line about the SGM (226 073 333)	At BPI's initiative	At shareholders request[2]	CMVM Web site (www.cmvm.pt)	Media	Date available on BPI Channels
Items required by law or regulation[3]									
Notice of meeting	✓	✓	✓	–	✓[4]	✓	✓	✓	24 March 08
Board of Directors' motions:									
2007 annual report and accounts[5]	✓	✓	✓	–	–	✓	✓	–	8 April 08
Appropriation of 2007 net profit	✓	✓	✓	–	✓[4]	✓	✓	–	8 April 08
General review of the Company's management and supervision	✓	✓	✓	–	–	✓	–	–	8 April 08
Authorisation for the Board of Directors to deliberate on a capital increase in 2008 involving a maximum cash injection of 350 M.€	✓	✓	✓	–	✓[4]	✓	✓	–	24 March 08
Amendment to the company's statutes with a view to adopting a new governance model comprising a Board of Directors, Supervisory Board and Portuguese Statutory Auditor	✓	✓	✓	–	✓[4]	✓	✓	–	24 March 08
Election of the Governing Bodies for the period 2008 / 2010	✓	✓	✓	–	✓[4]	✓	✓	–	8 April 08
Election of the Remuneration Committee for the term 2008 / 2010 and definition of the remuneration of the members of the Board of Directors and the Executive Committee	✓	✓	✓	–	✓[4]	✓	✓	–	8 April 08
Acquisition of own shares	✓	✓	✓	–	✓[4]	✓	✓	–	8 April 08
Additional items made available by BPI									
Specimen proxy voting forms	✓	✓	✓	–	✓[4]	✓	–	–	8 April 08
Request for the issue of a registration and mobilisation declaration	✓	✓	✓	–	✓[4]	✓	–	–	8 April 08
Ballot papers for the exercise of postal voting	✓	✓	✓	–	✓[4]	✓	–	–	8 April 08
Draft forms for the exercise of voting by electronic means	✓	✓	✓	–	✓[4]	✓	–	–	8 April 08
Clarification of matters	✓[6]	✓	✓	✓	–	✓	–	–	Permanent
Banco BPI's Statutes and Regulations	✓	✓	✓	–	–	✓	–	–	Permanent
Results of voting on the proposals	✓	✓	✓	✓	–	✓	✓	–	23 April 08

1) At Banco BPI's head office (Investors Relations Division, Rua Tenente Valadim, n.º 284, 3.º andar, Porto).
2) Postal address: Shareholders' General Meeting – April 2008, Departamento de Títulos – Área de Fundos e Serviços, Rua Tenente Valadim, 284, 4100-476 Porto.
3) Companies Code (article 289) and CMVM Regulation (no. 7 / 2001 – Corporate Governance, with the alterations introduced and re-published by CMVM Regulation no. 11 / 2003, by CMVM Regulation no. 10 / 2005 and by CMVM Regulation no. 3 / 2006).
4) Sent to shareholders entitled to ten or more voting rights.
5) Directors' Report, individual and consolidated accounts, legal certification of accounts and opinion of the Audit Board.
6) By Investor Relations Division.

SHAREHOLDERS GENERAL MEETING

NOTICE OF MEETING

At the request of the Board of Directors, notice is hereby given to the Shareholders of Banco BPI, S.A., (the "Bank") that the Annual General Meeting will be held at Fundação de Serralves Auditorium, Rua D. João de Castro, no. 210, in Oporto, at 11.00 a.m. on 23 April 2008, with the following agenda:

- to receive, and if deemed fit, adopt the Bank's individual and consolidated annual report and accounts for the 2007 financial year;
- to consider and, if deemed it, to pass a resolution approving the proposed appropriation of net profit for 2007;
- to generally consider the company's management and supervision;
- to consider and, if deemed it, to pass a resolution on a motion to amend article 4 of the Statutes with a view to introducing an authorisation for the Board of Directors to deliberate on an increase in share capital from the present € 760 000 000 up to a maximum limit of € 1 110 000 000;
- to consider and, if deemed it, to pass a resolution on a motion to amend the present articles 10, 14, 15, 16, 17, 20, 21, 22, 23, 24 and 29 of the company's Statutes;
- to elect the members of the governing bodies for the period 2008 / 2010;
- to elect the Remuneration Committee for the period 2008 / 2010 and to set the limit referred to in article 28(3) of the Statutes;
- to deliberate on the acquisition and sale of own shares.

Shareholders holding at least five hundred (500) shares of the Bank on 16 April 2008 registered in their name shall be entitled to vote. Proof of such registration and corresponding immobilisation must be furnished to the Bank by 6.00 p.m. on 18 April 2008.

Each five hundred (500) shares correspond to one vote.

According to the Bank's Memorandum and Articles of Association, the following votes shall not be counted:

- votes cast by a single Shareholder, in his own name and also as representative of one or more Shareholders, exceeding seventeen and a half percent (17.5%) of all votes corresponding to the share capital;
- votes cast by a single Shareholder, in his own name and also as the representative of one or more Shareholders, as well as votes cast by persons with whom the Shareholder has any of the relationships envisaged in Article 20(1) of the Securities Code, and which, in aggregate, exceed seventeen and a half per cent (17.5%) of all votes corresponding to the share capital.

Where the situation described in sub-paragraph b) above applies, the reduction in the number of votes shall be proportional to the number of votes that each Shareholder would have been entitled to had such reduction not taken place.

Shareholders not holding the minimum number of shares required to exercise their right to vote may join other Shareholders in order to attain this minimum number, in which case they must appoint one member from amongst their number to represent them at the General Meeting.

Shareholders entitled to vote may be represented by another Shareholder or by any other person the law declares is qualified for this purpose; companies shall be represented by whomsoever they appoint for this purpose. The Company shall make available at its head Office and at www.ir.bpi.pt a specimen proxy form which can be used for this purpose

All proxies envisaged in the preceding paragraphs must be notified to the Chairman of the General Meeting in writing: signatures must be legally authenticated, or certified by the Bank where the Shareholder is a Customer of the Bank or of Banco Português de Investimento, S.A., and must be received at the Bank's head office by 6.00 p.m. on 16 April 2008.

Postal and electronic voting is also permitted. In this regard, 15 days prior to the Meeting date, ballot papers addressed to the Chairman of the General Meeting will be available at the Bank's head office and at www.ir.bpi.pt: for Shareholders to cast their votes. Each ballot paper must be signed and the respective signature be duly legally certified or certified by the Bank whenever the Shareholder is a Customer of the Bank or of Banco Português de Investimento, S.A. Ballot papers must be lodged with the Bank's head office, at Rua Tenente Valadim, no. 284, 4100-476 Porto, or be registered at the following Internet website www.ir.bpi.pt by 6.00 p.m. on 18 April 2008.

The Bank will also make available via the Internet site www.ir.bpi.pt, a procedure for electronic voting. Votes by electronic correspondence must be registered on the said site by 0.00 p.m. – on 18 April 2008. The votes cast by post are treated as negative votes as regards proposed deliberations presented after the date on which the said votes were issued.

Postal votes count towards the quorum for the General Meeting, and the Chairman of the General Meeting shall verify the authenticity and proper state thereof. Postal votes in paper form shall be opened by the Chairman of the General Meeting who shall keep them in his possession, thereby ensuring confidentiality until the time of voting. Votes cast by electronic mail are certainly known to Bank's Employees, who are bound to comply with the duty of confidentiality.

Pursuant to Article 12(7) of the Bank's Articles of Association, a postal vote cast by a Shareholder or by his representative who is present at the General Meeting shall be deemed to be revoked.

In terms of article 377 of the Commercial Companies Code, the full text of the articles of Banco BPI's Memorandum and Articles of Association, the alteration of which is proposed in the terms of points 4 and 5, will be available at Banco BPI's registered office and at www.ir.bpi.pt as from the date of the publication of the present notice of meeting.

Under the terms of Article 289 of the Companies Act also available shall be, in the 15 days prior to the date of the General Meeting, the remaining proposals to be submitted for appraisal and resolution by the General Meeting, as well as any other information set out in said legal provision. The documents concerning the annual reports and accounts will also be available as from the referred date at the *Sistema de Difusão de Informação (SDI)* of the *Comissão do Mercado de Valores Mobiliários*.

This information (including ballot papers) can also be requested in writing addressed to the postal address "Shareholders' General Meeting – 23 April 2008, 11:00, Rua Tenente Valadim, 284, 4100-476 Porto" or to e-mail address "ag23abril2008@bancobpi.pt".

Porto, 17 March 2008

Chairman of the General Meeting Committee

(João Augusto Esmeriz Vieira de Castro)

3.3. BOARD OF DIRECTORS

The Board of Directors is the governing body that has been vested with the widest powers to manage and represent the Company, without prejudice to the specific powers which the law has conferred on the Audit Committee. It is responsible for formulating the BPI Group's major strategic policies.

3.3.1. Composition

Banco BPI's Board of Directors is presently composed of 21 members, seven of whom make up the Executive Committee.

The Board of Directors is composed of a minimum number of eleven and a maximum number of twenty three members, elected by the General Meeting. They shall appoint a Chairman from amongst their number and if they deem it appropriate, one or more Deputy-Chairmen.

Where a legal person is elected, it shall nominate a natural person to exercise the office in his own name, and it shall replace such person in the case of definitive impediment, renouncement or removal by the legal person which nominated such person.

Structure of Banco BPI's Board of Directors

At 31 December 2007

	Board of Directors					Audit Committee	Remuneration Committee[3]	Nationality
	Executive Committee	Non-executive directors		Date of the first appointment[1]	End of the current term of office[2]			
		Non-independent	Independent					
Chairman								
Artur Santos Silva			○	06 Oct. 81	SGM in 2008	Chairman		Portuguese
Deputy-Chairmen								
Carlos da Câmara Pestana		○		25 Mar. 93	SGM in 2008		Chairman[4]	Portuguese
Fernando Ulrich	Chairman			22 Mar. 85	SGM in 2008			Portuguese
Ruy Octávio Matos de Carvalho			○	22 Mar. 85	SGM in 2008	Deputy-Chairman		Portuguese
Members								
Alfredo Rezende de Almeida			○	06 Oct. 81	SGM in 2008	○		Portuguese
António Domingues	Deputy-Chairman			27 Mar. 96	SGM in 2008			Portuguese
António Farinha Morais	●			11 Dec. 02	SGM in 2008			Portuguese
Armando Leite de Pinho			○	26 Mar. 87	SGM in 2008		○[5]	Portuguese
Carlos Moreira da Silva			○	20 Apr. 06	SGM in 2008			Portuguese
Edgar Alves Ferreira			○	20 Oct. 05	SGM in 2008		○[6]	Portuguese
Herbert Walter[7]		○		21 Apr. 04	SGM in 2008			Germanic
Isidro Fainé Casas		○		27 Mar. 96	SGM in 2008			Spanish
Jorge de Figueiredo Dias[8]			○	27 Mar. 96	SGM in 2008	○		Portuguese
José Pena do Amaral	●			21 Apr. 99	SGM in 2008			Portuguese
Klaus Dührkop		○[9]		21 Apr. 99	SGM in 2008			Germanic
Manuel Ferreira da Silva	●			26 Apr. 01	SGM in 2008			Portuguese
Marcelino Armenter Vidal[10]		○		03 Feb. 05	SGM in 2008	○		Spanish
Maria Celeste Hagatong	●			27 Sep. 00	SGM in 2008			Portuguese
Pedro Barreto	●			03 Mar. 04	SGM in 2008			Portuguese
Roberto Egydio Setúbal		○		24 Mar. 94	SGM in 2008			Brazilian
Tomaz Jervell			○	26 Mar. 87	SGM in 2008			Norwegian

1) Appointment – direct or in representation of, in office or as alternate – as Member of the Board of Directors, Member of the General Board or Member of the Management Board, of the institution which headed the BPI Group.
2) General Meeting to be held in 2008, at which the 2007 accounts are to be approved.
3) The Remuneration Committee is composed of the shareholders IPI – Itaúsa Portugal Investimentos, SGPS, S.A., Arsopi – Holding, SGPS, S.A., e HVF, SGPS, S.A.
4) Representing IPI – Itaúsa Portugal Investimentos, SGPS, S.A.
5) Representing Arsopi – Holding, SGPS, S.A.
6) Representing HVF, SGPS, S.A.
7) Representing RAS International, N.V. (with date reported at 18 September 2007, the company RAS International N.V. transferred the 65 659 233 Banco BPI, S.A.shares held by it to the Dutch-law company Allianz Europe, Ltd.).
8) 21 April 1999, was appointed Chairman of the Audit Board, office which he occupied until 30 June 2006.
9) Classified as non-independent in the opinion of the Board of Directors by virtue of having been indicated by the shareholder Allianz, whose shareholding (although below the 10% threshold considered to be relevant by the CMVM) is nevertheless significant: 8.8%.
10) Representing Criteria Caixa Corp. S.A., Sociedad Unipersonal (previously: Caixa Holding, S.A. Sociedad Unipersonal).

3.3.2. Terms of reference

PRINCIPAL TERMS OF REFERENCE OF THE BOARD OF DIRECTORS

- To appoint the Executive Committee from amongst their members.
- To define the BPI Group's general policies: for this purpose, the BPI Group shall mean the group of credit institutions and financial companies controlled directly or indirectly by Banco BPI, S.A., including the entities with management contract to be assumed by BPI.
- To approve the strategic plan and operating plans and budgets, both annual and pluri-annual, and the alterations thereto, and to periodically monitor their execution.
- To prepare the documents forming part of 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 Committee, the Nominations, Evaluation and Remuneration Committee and the Corporate Governance Committee; these last two committees must prepare reports (at least annually) for the Board of Directors' review and approval.

3.3.3. Chairman of the Board of Directors

The Chairman of Banco BPI's Board of Directors is Artur Santos Silva.

Artur Santos Silva was simultaneously Chairman of the Board of Directors and Chairman of the Executive Committee up until the Shareholders' General Meeting of 20 April 2004. On that date, he ceased executive functions in terms of article 26(3) of the Bank's Statutes, which stipulate that directors who are members of the Executive Committee cease functions on this Committee once the accounts for the year in which they reach the age of 62 are approved. The introduction of this age limit into the Bank's statutes resulted from a proposal made to the Board of Directors by Artur Santos Silva himself in 1998.

The Chairman of the Board of Directors is responsible for coordinating the Board's activity, chairing the respective meetings and overseeing the execution of its resolutions. It is also the Chairman's duty to act as the institution's front-line representative before the public and other authorities.

Artur Santos Silva (Chairman)

Birth date	22 May 1941
Academic qualifications	**1985:** Stanford Executive Program, Stanford University **1963:** Law graduate, Coimbra University
Management and oversight positions held at BPI Group	Chairman of the Board of Directors of Banco BPI
Professional experience	**1977-78:** Deputy-Governor of the Bank of Portugal **1975-76:** Secretary of State of the Treasury **1968-75:** Manager at Banco Português do Atlântico **1963-67:** Assistant lecturer at the Coimbra University Law Faculty in the chairs Public Finance and Political Economics

3.3.4. Independence classification of the members of the Board of Directors

In the light of CMVM regulation no. 7 / 2001[1]

In terms of the criteria laid down in CMVM Regulation 7 / 2001 six non-executive Directors of Banco BPI are classified as "non independents" given that they act in representation of – by indication or in the interests of – shareholders owning significant holdings in the Bank's share capital.

- Two situations – those of Itaú, whose shareholding at 31 December 2007 was 18%, and of La Caixa, with a shareholding of 25% on the same date – fall under the provisions of CMVM regulation 11 / 2003, paragraph 2(b) on the grounds that these constitute qualified holdings in excess of 10% of Banco BPI's share capital;

- In the case of Allianz, although its shareholding of 8.8% in BPI's capital is below the 10% limit referred to, BPI's Board of Directors considers that the relative importance of the holding justifies the classification of the Directors associated with this shareholder as non independent.

On the other hand, the following exercise management functions at companies which can be considered to be BPI competitors (criteria laid down in paragraph 2c) of CMVM Regulation CMVM 11 / 2003):

- the Directors Carlos da Câmara Pestana and Roberto Egydio Setúbal are directors of banks belonging to the Itaú Group, while the latter is Managing Chairman and Managing Director of Banco Itaú, S.A.;

- the Directors Isidro Fainé Casas and Marcelino Armenter Vidal are, respectively, Chairman of Caixa de Ahorros y Pensiones de Barcelona "La Caixa" and Deputy Managing Director of Caja de Ahorros y Pensiones de Barcelona "La Caixa";

- the Director Herbert Walter is Chairman of the Executive Committee of Dresdner Bank AG and non-executive Director of Banco Popular Español S.A.

In summary, taking into account the two criteria outlined above, the following directors are classified as non independent, indicating respective association with the Bank's shareholders:

- Roberto Setúbal (Itaú)
- Carlos Câmara Pestana (Itaú)
- Isidro Fainé Casas (La Caixa)
- Marcelino Armenter Vidal (La Caixa)
- Herbert Walter (Allianz)
- Klaus Dürhkop (Allianz)

It should also be noted that:

- the non-executive Director Armando Leite de Pinho, as well as persons and entities related to him, hold 2.9% of BPI's capital;

- the non-executive Director Edgar Alves Ferreira is a director of the company HVF – SGPS, S.A., which has a shareholding of 2.9% in BPI;

- the non-executive Director Tomaz Jervell is Chairman of the Management Board of Auto Sueco, Lda., a company which controls 1.6% of BPI's share capital.

In the light of CMVM regulation no. 1 / 2007 to come into force on 1 January 2009

Regulation no. 1 / 2007, which will come into force on 1 January 2009, and contrary to the situation prevailing previously, does not lay down any concept of independence, referring as concerns the non-executive Directors to article 414 – A and article 414(5) of the Commercial Companies Code (CCC) which are now the independence benchmark for the Directors directly covered by those CCC provisions.

At 31 December 2007, of Banco BPI's 14 non-executive Directors, three were covered by the provisions of article 414(a), five by sub-paragraph b) and five by both.

1) With the alterations introduced by CMVM Regulations no. 11 / 2003, no. 10 / 2005 and no. 3 / 2006.

In this context, the Board of Directors deliberated to present a motion at the next General Meeting to amend the Bank's statutes, which provides for the adoption of a management and supervision model for the Company composed of a Board of Directors, a Supervisory Board and a Portuguese Statutory Auditors (*Revisor Oficial de Contas* – ROC), thereby embracing one of the three models envisaged in the Commercial Companies Code.

The proposed amendment is intended to avoid a situation whereby the timing and mode of the Board of Directors' composition are influenced by the independence criteria required for the formation of an Audit Committee – which corresponds to the supervisory body in the model currently in force.

Indeed:

- in the existing model, the law provides that the Audit Committee's members are simultaneously directors;
- on the other hand, the law requires that the majority of the Audit Committee members be independent;
- the law also provides that the re-election for more than two terms of office, consecutive or interspersed, is at variance with the independence criteria;
- the interpretation of the law argued by the CMVM considers that these terms of office apply not only to the supervisory body, but also to the management body.

From the conjugation of the above facts, the result is that the Board of Directors would have to be subjected to a recomposition, by replacement or enlargement, whenever by accumulation of mandates of its members, it is not possible to guarantee the independence requisites prescribed for the Audit Committee. This situation can be overcome through the model now being proposed to the General Meeting, because in this new model, the members of the supervisory body – the Supervisory Board – do not form part of the Board of Directors.

The alterations under consideration do not prejudice the maintenance of the characteristics of Banco BPI's governance model which has permitted reconciling the existence of an executive and professional team with significant autonomy in the Bank's day-to-day management with proper supervisory and oversight mechanisms. Amongst the other aspects designed to pursue this objective, it enshrines the existence of an organisational structure which permits the Board of Directors' non-executive members to monitor at close quarters the Executive Committee. To this end, the proposal envisages that, within the ambit of the Board of Directors, an Audit and Internal Control Committee be formed composed of three to five members of the Board of Directors who do not form part of the Executive Committee, bearing in mind the positive experience of the body with these characteristics which was created at the Bank in 1999.

3.3.5. Board of Directors' meetings

The Board of Directors meets at least every quarter and always when convened by its Chairman, by two Directors or by the Audit Committee.

The meetings are held each year on the dates set, at the very latest, at the last meeting of the previous year. Such dates shall be notified immediately in writing to the members who did not attend the meeting at which they were set.

The meetings shall be convened in writing, with telefaxed messages being acceptable for this purpose, with a minimum notice period of 10 days, while the notice of the meeting must contain the order of business.

Each one of the directors must notify the Company Secretary up to five days before the appointed date if he/she will be present.

3.3.6. Order of business for meetings

The Chairman shall draw up the order of business for each meeting of the Board of Directors which shall be sent to its members, together with the respective notice of meeting in the case of meetings not set in the previous year; in the case of meetings to be held on a date which was set in the previous year, the order of business shall be sent at least seven days beforehand.

The documents relating to the meetings, except those relating to financial information, shall be sent up to seven days prior thereto in their original version in Portuguese, accompanied by the respective summaries in English.

The approval of the minutes of the previous meeting must mandatorily form part of the order of business of each meeting, as well as the review of the information concerning the BPI Group's situation and of the performance of its business.

The order of business for the last meeting of each year must mandatorily include approval of the Annual Operating Plan and Budget of the BPI Group and the banks controlled by it, as well as the calendar of the meetings for the same period if such has not yet been set.

The following must mandatorily form part of the order of business of the preparatory meeting of the General Meeting:

- a resolution on the report and accounts relating to the previous financial year;
- the drafting of a proposal for the appropriation of net profit to be tabled at the General Meeting.

3.3.7. Functioning of the meetings

The meetings of the Board of Directors shall be presided over by its Chairman and in his absence or impediments by one of the Deputy-Chairmen, in the order in which the Board was appointed. In their absence, the Board of Directors must choose who must perform the respective functions at such meeting.

It is the Chairman of the Board of Directors function to conduct the meeting and to formulate in the appropriate manner the proposals to be submitted for the Board's decision.

Whenever he deems it appropriate, the Chairman or whoever substitutes him/her can delegate to one of the members the task of preparing a report on any of the matters submitted for the Board's consideration.

The meetings of the Board of Directors shall be held in Portuguese, without prejudice to the organisation of a simultaneous translation.

3.3.8. Participation at meetings

The Directors and senior Employees of the Banks or other companies of the BPI Group and/or their consultants may be summoned to attend meetings of the Board of Directors whenever this is beneficial to the good progress of proceedings.

The meetings of the Board of Directors shall also be attended by the Company Secretary or his alternate, whose function it is to assist the Chairman in formulating the resolutions, organising the matters to be dealt with at the meetings, in particular, ensuring that the pertinent documents are sent to all the members of the Board of Directors, and to draw up the respective minutes.

3.3.9. Resolutions

The Board of Directors shall be deemed to be validly constituted and in a position to deliberate provided that the majority of its members are present or represented, but none of them can represent at each meeting more than one member. The proxy shall take the form of a letter addressed to the Chairman and cannot be used more than once.

The resolutions of the Board of Directors shall be passed by an absolute majority of the votes cast by the members present or represented, with the Chairman having the casting vote in the event of a tie.

In exceptional circumstances or for reasons of acknowledged urgency, the Chairman of the Board of Directors may resort to resolutions being passed through the circulation of documents amongst all the Board members, provided that all these give their prior agreement to this form of resolution.

The circulation of documents shall be done by mail, fax or electronic mail, while the response of each member must be given via one of these channels in a reasonable period set by the Chairman in each case, in accordance with the urgency and complexity of the matter for consideration.

3.3.10. Minutes

With respect to each meeting of the Board of Directors, the Company Secretary or the respective Alternate, shall draw up a draft minute which shall contain the proposals presented, the resolutions passed in relation thereto and the votes cast by any member during the meeting. The draft minutes shall be written in Portuguese, with an English translation.

The minutes shall be written up in conformity with applicable legal requirements and recorded in a proper minute book.

Whenever it becomes necessary to ensure the immediate production of all its effects, the resolutions of the Board shall be reduced immediately to writing.

3.3.11. Information provided to the non-executive members

With the object of keeping the non-executive directors permanently acquainted with the Group's affairs, they are sent monthly information concerning the Group's consolidated economic and financial situation, as well as the performance of the principal business units, including the situation regarding Banco BPI's pension fund. This information gives an account of the most important changes that took place and compares, whenever possible, monthly and accumulated trends with budgeted and previous-year figures. In parallel, the non-executive directors are regularly informed of the main decisions taken by the Executive Committee by way of a document prepared by the Company Secretary, who attends and prepares the minutes of all the meetings of the Executive Committee.

3.3.12. Rules relating to election and dismissal

Members of the Board of Directors are elected in their personal capacity for terms of three years at the Shareholders General Meeting, while re-election is always possible.

As referred to in chapter 3, the members of the Board of Directors are subject to the scrutiny of and registration with the Bank of Portugal. If the central bank is of the opinion that the candidate member does not meet the integrity, professional experience and availability requirements that ensure "a sound and prudent management taking into consideration in particular the security of the funds entrusted", the Bank of Portugal may turn down his/her registration.

When a Director for whatever reason becomes incapacitated to carry out his functions, or the circumstances that led to the appointment have changed substantially, that director must resign from his office. When this occurs, the Board of Directors has to appoint another person to replace him / her by co-option, such co-option to be ratified at the first Meeting thereafter.

A director may be dismissed by a resolution of the Shareholders General Meeting passed by a simple majority.

Portuguese law does not provide for structures of the "classified" or "staggered boards" type, or any other election rules which have as their prime object making the replacement of the members of the Board of Directors[1] a more difficult task. Similarly, the "Cumulative Voting"[2] system or something similar is not permitted.

3.3.13. Induction of new Directors

It is also important to point out that when new directors are admitted, they are given a summary of the principal legal, regulatory and administrative procedures required of them within the scope of their new functions.

3.3.14. Liability and adherence to the codes of conduct

Portuguese law[3] provides that the directors are jointly liable to the company and to the company's creditors[4] for culpable non-compliance with legal requirements and statutory duties.

All the members of the Board of Directors are bound by a strict duty of confidentiality concerning matters discussed at Board of Directors' meetings.

The members of the Board of Directors are similarly bound by rigorous duties of information and action with the object of ensuring that, in the performance of their functions, they are not put in a situation which could indicate the existence or possible existence of conflicts of interest.

CONFLICTS OF INTEREST

(Article 11 of the Board of Directors' Regulations)

- Members of the Board of Directors must disclose any interest, direct or indirect, which they, any member of their families or entities with which they have professional ties, may have in a company in respect of which the possibility is being considered of acquiring a participating interest, or in respect of which the BPI Group's Banks or companies are considering granting a loan or provide any service.
- In the circumstances referred in the preceding paragraph, they must declare the nature and extent of any such interest and, in the case where this is substantial, they must refrain from taking part in the discussion and/or voting on any proposal that the said operation refers to.

In the appendix to this report (pages 398 to 405), information is provided concerning the academic background, professional experience and a list of the positions held by the members of Banco BPI's Board of Directors at the BPI Group or other companies.

3.3.15. Exercise of the Board of Directors' functions in 2007 and up until 6 March 2008

The Board of Directors met 12 times in 2007, and four times between 1 January 2008 and 6 March 2008, having recorded an average attendance rate of 76% (excluding attendances by representation mandate).

During the 2007 financial year and at the four meetings of 2008, Banco BPI's Board of Directors deliberated on and approved amongst others the following issues:

1) The law only provides (article 391(2) of the Companies Code) that "the company's statutes may stipulate that the election of directors must be approved by votes corresponding to a specified percentage of the capital or that the election of some of them, which cannot be more than a third of the total, must also be approved by a majority of the votes attaching to certain shares, but does not permit the attribution to certain categories of shares the right to appoint directors".
2) Election system which basically allows "subdividing" the voting rights, enabling a Shareholder to concentrate his votes on the election of a specific director. It is therefore a system which facilitates the election of a director representing minority shareholders who may not be aligned with the dominant shareholders.
3) Companies Code – Chapter VII: "Civil responsibility for the constitution, management and supervision of the company".
4) When the company's net assets are inadequate to meet the aforementioned debts.

Main deliberations of the Board of Directors

Dates	Deliberations / Matters
	Approval of plans and budgets
2007: 24 Apr.	Approval of the 2007-2011 Business Plan, was well as deliberation on its public disclosure.
2007: 13 Dec.	Review of the estimated results for 2007; analysis and approval of the 2008 Plan and Budget.
2008: 6 Mar.	Review of the estimated results for 2008.
	Reports and accounts and the proposed appropriation of net profit
2007: 25 Jan.	Analysis and approval of the 2006 consolidated accounts, as well as deliberation on their public disclosure.
2007: 25 Jan.	Review and approval of the motion to be tabled at the Shareholders General Meeting of 19 April 2006, that a dividend of 16 cents per share in respect of the 2005 financial year be distributed.
2007: 12 Mar.	Confirmation of the motion to be tabled at the Shareholders General Meeting of 19 April 2007 that a dividend of 16 cents per share in respect of the 2006 financial year be distributed in 2007.
2007: 12 Mar.	Approval of the draft Annual Report relating to 2006, to be presented at the Shareholders General Meeting of 19 April 2007.
2007: 12 Mar.	Delegation to the Company's Corporate Governance Committee of the review of the draft "BPI Group's Corporate Governance Report".
2007: 27 Mar.	Approval of the long term dividend policy proposal to be submitted to the Shareholders General Meeting at 19 April 2007.
2007: 24 Apr.	Review of the consolidated accounts at 31 March 2007 as well as deliberation on their public disclosure.
2007: 27 Jul.	Review of the consolidated accounts at 30 June 2007 as well as deliberation on their public disclosure.
2007: 25 Oct.	Review of the consolidated accounts at 30 September 2007 as well as deliberation on their public disclosure.
2008: 24 Jan.	Review of the 2007 consolidated accounts, as well as deliberation on their public disclosure.
2008: 24 Jan.	Review and approval of the motion to be tabled at the Shareholders General Meeting of 22 April 2008, that a dividend of 18.7 cents per share in respect to 2007 financial year be distributed in 2008.
2008: 6 Mar.	Approval of the draft Annual Report relating to 2007, to be presented at the Shareholders General Meeting of 23 April 2008.
	Proposals to be presented to the Shareholders' General Meeting
2007: 12 Mar.	Approval of the draft Notice of the Shareholders' General Meeting to be held on 19 April 2007.
2007: 12 Mar.	Approval of the methodology for the formulation of the proposed long-term dividend policy.
2008: 6 Mar.	Approval of the draft Notice of the Shareholders' General Meeting to be held on 23 April 2008.
2008: 17 Mar.	Approval of the proposal of amendment to Banco BPI's Statutes to be submitted for approval at the Shareholders' General Meeting to be held on 23 April 2008.
2008: 17 Mar.	Approval of Banco BPI's capital increase proposal to be submitted for approval at the Shareholders' General Meeting to be held on 23 April 2008.
2008: 17 Mar.	Approval of the proposal for the definition of the limits referred to in article 28 (3) of Banco BPI's Statutes to be submitted for approval at the Shareholders' General Meeting to be held on 23 April 2008.
	Analysis of the performance of the principal shareholdings and strategic partnerships
2007: 25 Jan., 12 Mar., 24 Apr., 27 Jul., 25 Oct., 13 Dec. **2008:** 24 Jan.	Review of the performance of the Bank's portfolio of financial investments and, in particular, the shareholdings in BCP.
2007: 13 Dec.	Approval of the sale of part of the stake in Viacer's capital.
2008: 11 Jan.	Approval of Banco BPI's position to be taken at BCP's Shareholders' General Meeting to be held on 15 January 2008.
2008: 6 Mar.	Review of the performance of the Bank's portfolio of financial investments and, in particular, the shareholdings in (Millennium) BCP.
	Monitoring the trend in pension obligations and the BPI Group's pension funds' assets
2007: 25 Jan., 12 Mar., 24 Apr., 27 Jul., 25 Oct., 13 Dec. **2008:** 24 Jan., 6 Mar.	Review of retirement and survivors' pension obligations and the respective cover by the pension fund, as well as the return achieved by the fund.
	Monitoring the Bank's exposure to larger risks
2007: 25 Jan., 12 Mar., 24 Apr., 27 Jul., 25 Oct., 13 Dec. **2008:** 24 Jan.	Analysis of individual exposures to credit risks in excess of 300 M.€.
2007: 25 Jan. and 27 Jul.	Review of the "companies under observation", that is, corporate Customers which, in view of their performance, are the object of permanent observation by the Bank.
2007: 27 Jul.	Approval of Banco BPI's intervention in Sonae Distribuição, SGPS, S.A.'s acquisition of Carrefour (Portugal)'s share capital.
2007: 25 Oct.	Assessment of the annual report with the results of the application of the internal rating system to corporate Customers.
	Bond issuance
2007: 25 Jan.	Approval of the renewal / revision of the "Euro Medium Term Note Programme" (EMTN Programme).
2007: 13 Dec.	Approval of the creation of a Mortgage Bonds Issue Programme.
2008: 24 Jan.	Approval of the renewal / revision of the "Euro Medium Term Note Programme" (EMTN Programme).

Main deliberations of the Board of Directors (continued)

Dates	Deliberations / Matters
	BCP's takeover bid for BPI
2007: 19 Jan. and 25 Jan.	Monitoring the takeover bid.
2007: 19 Jan.	Approval of the alteration to the motion submitted to the SGM at its meeting of 19 January 2007.
2007: 19 Jan.	Review of the resolutions adopted by the SGM at its meeting of 19 January 2007.
2007: 12 Mar.	Analysis of the Competition Authority's preliminary decision and the approval of BPI's response.
2007: 12 Mar.	Consideration of the CMVM's deliberations on the applications of BPI and BCP and the approval of the subsequent measures.
2007: 12 Mar.	Analysis of the agreement between BCP and the Santander Group for the sale to this group of a position in BPI's share capital and the approval of the notification to BCP regarding BPI's understanding concerning the nature of that deal.
2007: 27 Mar.	Review of the draft announcement of the Bid's launch and draft prospectus.
2007: 26 Apr.	Approval of the report on the revised bid price presented by BCP on 24 April 2007.
2007: 9 Jul.	Approval of the position to be taken on the notice of an SGM of BCP.
	Proposed merger with BCP
2007: 25 Oct.	Approval of the presentation of a merger proposal by BCP's incorporation into BPI.
2007: 19 Nov. and 13 Dec.	Review of the progress of the negotiations on the merger proposal with BCP and approval of the document to be presented to BCP.
	Internal functioning
2007: 25 Jan., 24 Apr., 27 Jul., 25 Oct. and 13 Dec. **2008:** 24 Jan.	Information of the Chairman of the Board of Directors and Chairman of the Audit Committee regarding this body's activity.
2007: 12 Mar.	Approval of the alterations to the Regulations of the Audit Committee, the Nominations, Evaluation and Remuneration Committee and the Corporate Governance Committee.
2007: 12 Mar.	Approval of the alteration to the dates for the Board of Directors meetings in 2007.
2007: 27 Jul. and 25 Oct.	Approval of BPI's position to be presented to the CMVM as part of the public consultation relating to the proposed alterations to the rules and recommendations relating to corporate governance, as well as becoming acquainted with the subsequent "CMVM Recommendations on the Corporate Governance Code" and the "CMVM Regulations on Corporate Governance".
2007: 27 Jul.	Approval of the change in the Audit Committee Regulations.
2007: 25 Oct.	Review of Banco BPI's most relevant ongoing organisation and reorganisation projects.
2007: 13 Dec.	Nomination of the "Head of Compliance".
2007: 13 Dec.	Review of BPI Group's Code of Conduct.
2007: 13 Dec.	Approval of the timetable for meetings of the Shareholders' General Meeting, the Board of Directors and the Remunerations Committee in 2008.
2008: 6 Mar.	Information from the Chairman of the Board of Directors and the Chairman of the Audit Committee regarding this body's activity, including the opinion issued with respect to the public consultation of the CMVM, Bank of Portugal and Insurance Institute of Portugal on Internal Control.
	Other matters of general interest to the Company
2007: 25 Jan., 12 Mar., 24 Apr., 27 Jul., 25 Oct. and 13 Dec. **2008:** 24 Jan., 06 Mar.	Analysis of the behaviour of Banco BPI shares on the stock exchange.
2007: 25 Jan.	Approval of the proposal directed to the Remunerations Committee regarding the fixing of the Executive Committee's Members' variable remunerations.
2007: 12 Mar.	Review of the consolidated accounts at 31 January 2007.
2007: 27 Jul.	Approval of a proposal for the election of Banco Português do Investimento, S.A.'s Governing Bodies for the 2007-2009 triennium.
2007: 27 Jul., 25 Oct., 19 Nov. and 13 Dec. **2008:** 11 Jan., 24 Jan. and 6 Mar.	Assessment of the developments regarding an eventual stake sale in BFA's share capital.
2007: 27 Jul. and 13 Dec. **2008:** 24 Jan. and 6 Mar.	Assessment of developments regarding the proposal for the acquisition of Companhia de Seguros Allianz Portugal, S.A. stake put forward by the Allianz Group.
2007: 27 Jul.	Keeping abreast of the contacts established with the CMVM related with the composition of the Audit Committee.
2007: 25 Oct.	Assessment of the evolution of the financial markets throughout the 3rd quarter of 2007, and its impact on Banco BPI.
2007: 25 Oct.	Keeping up with the diligences subsequent to Allianz Group's initiative envisaging the renegotiation of the commercial cooperation agreement celebrated in 1995 between Companhia de Seguros Allianz and Banco BPI.
2007: 13 Dec.	Approval of the enlargement of the Board of Directors' composition.
2008: 6 Mar.	Review of the consolidated accounts at 31 January 2008.
2008: 6 Mar.	Approval of the recommendation of the Nomination, Evaluation and Remuneration Committee to be presented to the Remuneration Committee on the fixing of the variable remuneration of the Members of the Executive Committee, as well as of the proposals to be presented to the General Meeting regarding the remuneration policy and the interpretation to be given to the pension regime for Executive Directors who previously exercised those functions at BPI Group Banks.
2008: 6 Mar.	Approval of a proposal for an amendment to Banco Português do Investimento's Statutes.

DECLARATION REFERRED TO ARTICLE 245(1) C) OF THE SECURITIES CODE

Article 245(1) c) of the Securities Code prescribes that each one of the persons responsible for the company issues a declaration, the content of which is defined therein.

The members of Banco BPI's Board of Directors, identified here by name, individually subscribe to the declaration transcribed as follows[1,2]:

"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 2007 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."

Artur Santos Silva	(Chairman)
Carlos da Câmara Pestana	(Deputy-Chairman)
Fernando Ulrich	(Deputy-Chairman)
Ruy Octávio Matos de Carvalho	(Deputy-Chairman)
Alfredo Rezende de Almeida	(Member)
Antonio Domingues	(Member)
António Farinha Morais	(Member)
Armando Leite de Pinho	(Member)
Carlos Moreira da Silva	(Member)
Edgar Alves Ferreira	(Member)
Herbert Walter	(Member)
Isidro Fainé Casas	(Member)
Jorge de Figueiredo Dias	(Member)
José Pena do Amaral	(Member)
Klaus Dührkop	(Member)
Manuel Ferreira da Silva	(Member)
Marcelino Armenter Vidal	(Member)
Maria Celeste Hagatong	(Member)
Pedro Barreto	(Member)
Roberto Egydio Setúbal	(Member)
Tomaz Jervell	(Member)

Oporto, 6 March 2008

1) The originals of the above individual declarations are at the public's disposal at the company's registered office.
2) The External Auditor subscribes within the ambit of the documents for which they are responsible, to the equivalent declaration.

3.4. EXECUTIVE COMMITTEE OF THE BOARD OF DIRECTORS

The Executive Committee has the widest management powers to conduct the Group's day-to-day activity, the exercise of which is the object of permanent monitoring by the Board of Directors. Those powers are delegated by the Board of Directors and are specifically set out at any moment in the regulations governing the body's functioning. Hence, the Executive Committee is barred from performing all the management acts that are not contemplated in the list of responsibilities forming part of the respective regulation.

3.4.1. Composition

The Executive Committee of Banco BPI's Board of Directors (Executive Committee, CECA) is presently composed of seven professional executive Directors who are independent from any shareholders or specific groups.

COMPOSITION OF THE EXECUTIVE COMMITTEE

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

Experience and professional qualifications of the members of Banco BPI's Board of Directors Executive Committee

Executive Committee

			Deputy-Chairman
			
	António Farinha Morais	**Maria Celeste Hagatong**	**António Domingues**
Principal areas of responsibility at the BPI Group	Real Estate Financing, Personal Loans, Cards, Motor Car Finance, Insurance, Payment systems, Loans, Leasing and Factoring, Operations, Securities, Procurement, Premises and Fixed Assets, Training.	Corporate Banking network, Institutional Banking and State Business Sector, Project Finance, Credit risk, Corporate Marketing, Office for Angola, Madrid Branch and Building Finance.	Financial, Information Systems, International, Banco de Fomento Angola.

All the members of the Executive Committee play an active role in the day-to-day management of the Group's business, and are responsible for one or more specific business areas in accordance with their profile and their individual specialist areas. Without prejudice to the greater or lesser focus of one or other member in a particular area, the decision-making process in matters relating to the Group's strategic direction is undertaken on a collective basis.

The Chairman of the Board of Directors is informed beforehand of the meetings and the matters to be dealt with thereat.

In total, the members of the Executive Committee owned 0.7% of the company's capital at 31 December 2007.

3.4.2. Chairman of the Executive Committee

The Chairman of the Board of Directors' Executive Committee is Fernando Ulrich. He was appointed unanimously for the first time to assume the executive leadership of the Bank by the Board of Directors on 3 December 2003, such appointment taking effect from the General Meeting held on 20 April 2004. He was re-elected at the General Meeting of 20 April 2005 for a term of three years which ends at the 2008 Annual General Meeting.

The terms of reference of the Chairmen of the Board of Directors and of the Executive Committee are clearly demarcated through the existence of two autonomous regulations which encapsulate the functions and responsibilities of each one.

Chairman

Fernando Ulrich

Planning and Accounting, Asset Management, Human Resources, Legal Matters, Audit.

José Pena do Amaral

Strategic Marketing, Operational Marketing, Remote Channels, Communication, Brand, Quality, Protocols.

Manuel Ferreira da Silva

Investment Banking, Private equity, Investor Relations, Risk Analysis and Control Division, Financial and Economic Studies.

Pedro Barreto

Individuals and Small Businesses, Loans to Individuals and Small Businesses, Emigration and External Promoters.

3.4.3. Terms of reference

PRINCIPAL TERMS OF REFERENCE OF THE EXECUTIVE COMMITTEE

Pursuant to the resolution of the Board of Directors, the day-to-day management of the Company shall be vested in the respective Executive Committee of the Board of Directors, encompassing all management powers necessary or convenient to conduct banking business under the terms and to the extent permitted by law, and namely, such powers to decide and represent the Company in the following:

- credit granting;
- provision of remunerated personal guarantees;
- provision of real guarantees for securities, deemed necessary or convenient to pursue all activities comprised in the Company's object;
- to carry out foreign exchange transactions;
- to carry out deposit-taking transactions;
- to issue of cash bonds and financial instruments of a similar nature;
- to subscribe, acquire, dispose of or encumber shareholdings in any companies, other than shareholdings in banks and insurance companies;
- to acquire, dispose of or encumber any other securities;
- to acquire, dispose of and encumber movable and immovable assets;
- to acquire services;
- to recruit staff, definition of levels, categories, remuneration conditions and other Employee benefits, as well as promotion to executive positions;
- to exercise disciplinary power and impose sanctions;
- to set up or close branches or agencies;
- to appoint a person to represent the Bank at general meetings of associated companies, establishing how votes shall be cast;
- to appoint persons to perform any duty assigned to the bank, as well as the persons who the Bank may elect to perform any duty, except for members of the Board of Directors of the banks controlled by the Company;
- to issue instructions binding the companies forming part of the group fully controlled by the Company;
- to represent the Bank in court or elsewhere, actively or passively, including to institute and prosecute any suits, confess, admit or waive any proceeding and abide by the arbitrator's decision;
- to appoint proxies, with or without powers of attorney, to do specific acts or classes of acts, defining the extent of their terms of office.

With regard to lending or financing operations and to the remunerated provision of personal guarantees, these cannot result in the involvement in relation to a single entity (or if it forms part of a group, in relation to the group) of more than EUR 300 million. Above this amount, any involvement must be decided at the plenary meeting of the Board of Directors.

3.4.4. 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.

During 2007 the Executive Committee met on 50 occasions.

3.4.5. 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.

The Chairman is responsible for coordinating the activities Board of Directors' Executive Committee, chairing the respective meetings and overseeing the execution of its resolutions.

In the Chairman's absence or impediment, the functions referred to in the preceding paragraph will be undertaken by the Deputy-Chairman, or in his absence, by the longest-serving member and, in the case of equal service periods, by the eldest.

The directors who are members of the Executive Committee relinquish their positions on the Committee once the accounts relating to the financial year in which they celebrate their sixty-second birthday are approved.

3.4.6. Specialist Executive Committees

Bearing in mind the importance that credit and market risks assume in banking activity, two specialist committees were created – the Executive Committee for Credit Risk and the Executive Committee for Market Risk, which comprise, besides the members of the Executive Committee, the members of the Group's senior management responsible for the respective areas.

3.4.6.1. Executive Committee for Credit Risks

The Executive Committee for Credit Risks is the body which monitors and decides on the concession and recovery of loans, analysing mandatorily all the exposures to any one entity involving more than a defined limit. Besides members of the Executive Committee, also participating are the principal staff members of Corporate Banking.

Composition of the Executive Committee for Credit Risks

Fernando Ulrich	Chairman of the Executive Committee
António Domingues	Deputy-Chairman of the Executive Committee
José Pena do Amaral	Executive Committee member
Maria Celeste Hagatong	Executive Committee member
Manuel Ferreira da Silva	Executive Committee member
António Farinha Morais	Executive Committee member
Pedro Barreto	Executive Committee member
Filipe Cartaxo	Central Manager of the Institutional Banking / State Business Sector Division
Francisco Costa	General Manager and responsible for the Large Companies Southern Division
Joaquim Pinheiro	Central Manager of the Companies Southern and Islands Division
Luís Câmara Pestana	Central Manager of the Credit Risks Division
Maria do Carmo Oliveira	General Manager and responsible for the Large Companies Northern Division
Miguel Alves	Director of Banco Português de Investimento
Pedro Fernandes	Central Manager of the Companies Centre Division

3.4.6.2. Executive Committee for Market Risks

The Executive Committee for Market Risks is the body charged with analysing the conformity of the positions and mechanisms associated with the evaluation of interest rate, currency and equities risks. Besides members of the Executive Committee, this body comprises the heads of the relevant Divisions.

Composition of the Executive Committee for Market Risks

Fernando Ulrich	Chairman of the Executive Committee
António Domingues	Deputy-Chairman of the Executive Committee
José Pena do Amaral	Executive Committee member
Maria Celeste Hagatong	Executive Committee member
Manuel Ferreira da Silva	Executive Committee member
António Farinha Morais	Executive Committee member
Pedro Barreto	Executive Committee member
Isabel Castelo Branco	Central Manager responsible for Banco BPI's and Banco Português do Investimento's financial divisions.
Henrique Cabral Menezes	Banco Português de Investimento's Director responsible for the Equities Department.
José Manuel Toscano	Central Manager of Banco BPI's Internacional Division.
Rui Martins dos Santos	General Manager for Banco BPI, responsible for Risk Analysis and Control Division and the Economics Research Department

The policy, procedures and allocation of powers amongst the Group's various bodies and departments on matters relating to the control and management of the Group's risks – credit risk, market risk, liquidity risk and operational risk – are described in detail in chapter 4 of the present Corporate Governance Report and in a separate chapter of the Directors' Report, which must be read together.

3.5. AUDIT COMMITTEE

The Audit Committee performs the functions attributed to it by law, the statutes and BPI's internal regulations. This brief includes overseeing the preparation and disclosure of financial information, the effectiveness of the internal control, internal audit and the risk management systems, as well as overseeing the statutory audit. It evaluates and oversees the activity and independence of the Portuguese Statutory Auditor.

3.5.1. Composition

The Audit Committee is composed exclusively of non-executive members of the Board of Directors (minimum of three and maximum of five, the present configuration).

COMPOSITION OF THE AUDIT COMMITTEE

Chairman	Artur Santos Silva
Deputy-Chairman	Ruy Octávio Matos de Carvalho
Members	Alfredo Rezende de Almeida
	Jorge de Figueiredo Dias
	Marcelino Armenter Vidal

The Audit Committee's composition is deliberated in General Meeting, and it exercises functions for terms of three years. The members of the Audit Committee can only be re-elected for two more consecutive terms of office.

The Audit Committee's members, including the respective Chairman, are appointed simultaneously with the appointment of the other members of the Board of Directors. The lists of candidates proposed for this last-mentioned body must indicate the members who are going to form part of the Audit Committee. The Audit Committee must designate a Deputy-Chairman from amongst its number.

At least one of the members of the Audit Committee must have higher education commensurate with the exercise of his/her functions, with competence in the financial, accounting and audit areas, while another must have operational knowledge of the banking trade.

The Chairman, Deputy-Chairman and the majority of the Audit Committee's members must meet the following requirements:

- not be associated with any specific interest group in the Company;
- not find themselves in a situation capable of affecting their impartiality of analysis or decision making, namely by
  - reason of being the holders or acting in the name of or on behalf of the holders of qualified shareholdings of 2% or more in the Company;
  - having been re-elected for more than two terms of office, consecutive or interspersed[1].

1) The law provides, on the one hand, that the members of the Audit Committee are simultaneously directors and, on the other, requires that the majority of these members be independent. The law also prescribes that the re-election for more than two mandates, consecutive or interspersed, raises doubts regarding the independence criterion. The interpretation of the law defended by the CMVM, which is at variance with BPI's understanding, considers that these mandates should encompass not only the supervisory body, but also the management body. Consequently, the Board of Directors deliberated to present to the next General Meeting a proposal to amend the Bank's statutes, which envisages the adoption of a management and supervision model for the Company composed of a Board of Directors, a Supervisory Board and a Portuguese Statutory Auditor. The proposed alteration seeks to avoid that the time and mode of composition of the Board of Directors be influenced by the independence criteria required for the formation of the Audit Committee. which constitutes the supervision body in the model currently in force. The proposal also makes provision, within the ambit of the Board of Directors, for the formation of an Audit and Internal Control Committee composed of three to five members of the Board of Directors not forming part of the Executive Committee, bearing in mind the positive experience with the body created with those characteristics at the Bank in 1999.

3.5.2. Terms of reference

PRINCIPAL TERMS OF REFERENCE OF THE AUDIT COMMITTEE

With a view to complying with the mission entrusted to it, the Audit Committee was given the following powers and duties:

- to oversee the administration of the company;
- to ensure observance of the legal and regulatory provisions, the statutes and other regulations issued by the supervisory authorities, as well as of the general policies, standards and practices instituted internally;
- to verify the appropriateness of and to supervise compliance with the accounting policies, criteria and practices adopted and the proper state of the supporting documents;
- to oversee the statutory audit;
- to express an opinion on the report, accounts and proposals presented by the management;
- to oversee the process involving the preparation and disclosure of financial information;
- to oversee the efficacy of the internal control, internal audit and risk management systems;
- to review and oversee the statutory auditor's independence, namely, when he/she/they provide additional services to the company;
- to receive communications from shareholders, Employees or others of irregularities within the company;
- to comply with any other functions attributed to it by law.

In the performance of the functions "to ensure observance of the legal and regulatory provisions, the statutes and other regulations issued by the supervisory authorities, as well as of the general policies, standards and practices instituted internally" the Audit Committee must, in particular:

- promote at Banco BPI and other Group companies subject to supervision on a consolidated basis, the pursuance of the fundamental objective fixed in the area of internal control and risk management by the Bank of Portugal and by the Securities Market Commission in the supervision directives directed at credit institutions and financial companies;
- evaluate the reliability of the prudential reports relating to the Group and the Group companies subject to this obligation;
- monitor all the inspections carried out by the Bank of Portugal, the CMVM, and Insurance Institute of Portugal the Directorate-General of Taxes and the General Inspectorate of Finance at Banco BPI and other Group companies subject to supervision on a consolidated basis.

In discharging the function "to verify the adequacy and to supervise compliance with the accounting policies, criteria and practices adopted and the proper state of the supporting documents", "to oversee the statutory audit", "to issue an opinion on the report, the accounts and the proposals presented by the Directors" and "to oversee the process for the preparation and dissemination of financial information", the Audit Committee is responsible for:

- the financial statements relating to Banco BPI and the opinions of the external auditors thereon;
- the reliability of the accounting information;
- the computation of corporate income tax;
- the performance of Banco BPI' and other Group companies' pension funds.

In discharging the function "to oversee the effectiveness of the internal control, risk management and internal audit systems", the Audit Committee is in relation to Banco BPI responsible for:

As regards the internal control system:

- evaluating operational procedures, with a view to promoting to the efficient management of the respective activities through proper risk management and full, reliable and timely accounting and financial information;
- approving and monitoring the internal and external activity plans, assessing the conclusions of the respective audit work and transmitting to the Executive Committee the recommendations which its deems opportune concerning the aspects audited;

- reviewing the Board of Directors' annual internal control report and the statutory auditor's opinion on the internal control system underlying the preparation and dissemination of financial information;
- issuing an annual opinion in the terms laid down by the Bank of Portugal, with a detailed opinion on the effectiveness and adequacy of the internal control, risk management and internal audit systems and on whether the internal control report prepared by the Board of Directors reflects the internal control system implemented.

As regards risk management:

Operational risk

- evaluating the effectiveness and adequacy of the operational procedures and monitoring the measures taken for their improvement;
- appraising the operational risk management model;
- evaluating the effectiveness and adequacy of the IT systems, namely as regards the applications' documentation and data, applications and equipment security;
- verifying the existence and security of assets;
- appraising the control of risks stemming from outsourcing activities;
- being informed about the aggregate amount of operational losses, the most important claims and, on an immediate basis, of individual losses of more than 2 M.€;
- monitoring the development and updating of the business continuity plan;
- evaluating the reliability of the management information system, both in the business and budgetary control area, and in the risk control area;
- being informed about the main statistical data relating to Customers' complaints;
- being kept informed about the Bank's activity in the prevention of involvement in money-laundering operations, the principal processes related to this crime and, on an immediate basis, of situations involving more than 1 million euro.

Compliance risk

- evaluating the effectiveness of compliance-risk management, reviewing the procedures instituted and the breaches detected;
- evaluating the effectiveness of the supervision and control system for Banco BPI's stock brokerage business.

Reputational risk

- evaluating the quality of service provided to Customers and respective control, namely through the analysis of the procedures relating to the handling of complaints and to the IQS (service quality survey);
- appraising the communication processes involving shareholders and investors, Customers and the Directorate-General for Taxes;
- evaluating the communication plan in crisis situations;
- evaluating the control of compliance with the BPI Group's Code of Conduct and being informed about shortcomings detected in this control, as well as breaches of the Code;
- being kept informed rating agencies' reports on the rating attributed to Banco BPI.

Legal risk

- being kept informed about situations identified as entailing major legal risk.

Credit risk

- monitoring the application of the Basel II Accord, the Community Directives and the Bank of Portugal's guidelines concerning this topic, as well as of the risk-measurement models and the calculation of own funds adopted internally;
- appraising the consistency and efficacy of the credit-risk management models, notably the rating and scoring systems;
- appraising the impairment-analysis, models and the behaviour of impairment losses by credit and Customer segments;
- reviewing the quantification of economic provisions adjusted to the risk implicit in Banco BPI's loan portfolio;
- reviewing the most significant changes in credit-risk exposures of more than 75 million euro and less than 300 million euro, as well as defaults in excess of 100 thousand euro by Customers with exposure of more than 500 thousand euro.

The Group's financial risks

- evaluating the management model, situation and trend in market, interest rate, liquidity, settlement of foreign exchange operations and credit derivatives risks, including in relation to liquidity risk, the assessment of the respective contingency plan.

As regards the internal audit situation:

- approving the Internal Audit activity plans;
- obtaining information, periodically updated, if the areas or matters covered by the audits carried out by the Internal Audit department in the last 3 years;
- reviewing the activities undertaken in each half year by Internal Audit;
- monitoring the evolution of the principal matters falling with Internal Audit's terms of reference.

In discharging the function "to verify the effectiveness of the internal control, risk management and internal audit systems", the Audit Committee is responsible, in its role as the supervisory body of the BPI Group's parent company, to comply with the abovementioned functions relating to the internal control system, the internal audit system, and the risk-management system relating to the Group companies subject to supervision on a consolidated basis, with the adaptations resulting from the nature, characteristics and own activity of each one.

In discharging the function "to review and oversee the statutory auditor's independence, namely, when he/she/they provide additional services to the company", the Audit Committee is responsible for:

- proposing to the General Meeting the nomination of the Statutory Auditor;
- supervising and evaluating the activity of the Statutory Auditor;
- approving the fees payable to the Statutory Auditor for the provision of the audit service to the Bank and to the other Group companies;
- carrying out the prior approval of the contracting of additional services to be provided by the Statutory Auditor, as well as the respective remuneration terms.

With respect "to receive communications from shareholders, Employees or others of irregularities within the company", the Audit Committee shall define the policy for communicating irregularities which have occurred within Banco BPI, indicating the means to be used in this communication, the persons with legitimacy to receive them and the treatment that they will be the object of.

The Audit Committee prepares an annual report on its oversight activity.

3.5.3. Functioning of the Audit Committee

The Audit Committee shall meet at least every two months or whenever convened by its Chairman.

The meetings shall be held in each year on the dates set, at the very latest, at the last meeting of the previous year.

The notice of each meeting to be sent by the Chairman to the members of the Audit Committee at least seven days in advance must contain the respective order of business.

The documents relating to the meeting shall be sent at least seven days prior to the date set for its realisation.

The meetings of the Audit Committee shall be chaired by its Chairman, or by the Deputy-Chairman in his absence, who shall conduct the respective proceedings.

The meetings of the Audit Committee shall be attended, without the right to vote, by the Chairman of the Executive Committee of the Board of Directors, the manager responsible for the audit area of the BPI Group's Banks, the Portuguese Statutory Auditor, as well as other staff whenever this is considered appropriate.

The directors and managers responsible for the areas which are being reviewed may also be summoned to participate at the meetings of the Audit Committee, whenever this is considered appropriate for the satisfactory progress of the proceedings.

The presence at the meetings of the Audit Committee of any other BPI Group staff member shall be agreed beforehand with the Chairman of the Audit Committee.

3.5.4. Support structures

The Audit Committee can when it deems necessary appoint one or more support staff members with experience gained in the areas of his/her expertise, to provide information and carry out work aimed at substantiating the respective analyses and conclusions. The provision of information shall include in particular:

- the progress of the projects and studies relating to the internal control system under way at the Banco BPI and other Group companies subject to supervision on a consolidated basis;

- the progress of the initiatives and regulation-setting activity of the national and international banking-supervision institutions in the area of internal control.

The Audit Committee has at its disposal a secretariat managed by an Employee who is functionally and hierarchically subordinate to the Audit Committee Chairman.

The Audit Committee may also request the collaboration of a staff member to lend support to the secretariat in the preparation and holding of meetings, including the proposal of topics to be included in the orders of business and the drawing up of the respective minutes.

3.5.5. Responsibility and adherence to the codes of conduct

Portuguese law[1] provides that the Audit Committee is jointly liable to the Company and its creditors[2] for the culpable breach of legal provisions and statutory duties.

The members forming part of the Audit Committee are bound by a strict duty of confidentiality regarding the matters discussed at the Committee's meetings.

3.5.6. Activity in 2007

During 2007 the Audit Committee met nine times. The average attendance at these meetings was 91%.

The Audit Committee issues an annual activity report, as well as a report and annual opinion on the consolidated accounts and another on the individual accounts. The first of these reports is reproduced in the following section (3.5.7), and the second is included in the section of the Annual Report relating to the financial statements, respective notes and audit certifications (page 304).

3.5.7. Activity in 2008

In 2008 and up until the date of this report, the Audit Committee met twice.

At its meeting on 5 March 2008, the Audit Committee analysed the proposed Bank of Portugal notice which lays down the applicable requisites for the implementation of internal control systems, as well as the proposed alteration to CMVM Regulation no. 2 / 2007, submitted for public consultation by the National Council of Financial Supervisors (Public Consultation no. 1 / 2008 – Better Regulation of the Financial Sector in Internal Control Matters). Consequently, the comments on the documents sent for public consultation were approved.

1) Commercial Companies Code – Chapter VII: "Civil responsibility for the constitution, management and supervision of the company".
2) Whenever the company assets become insufficient to cover the referred liabilities.

3.5.8. Audit Committee's Report relating to 2007

REPORT RELATING TO THE AUDIT COMMITTEE'S ACTIVITY IN 2007

I – INTRODUCTION

The present report on the Audit Committee's activity in 2007 was prepared in conformity with the provisions of article 2(8) of the relevant regulations, which provides that the Committee must submit an annual report on its oversight work, as stipulated in article 423-F(g) of the Commercial Companies Code.

Accordingly, the principal functions of the Audit Committee – described in the respective regulations – are summarised as follows:

- to oversee the company's management;
- to ensure compliance with the law, the standards issued by the supervisory authorities, the provisions of the statutes and internal rules and practices;
- to verify compliance with the accounting policies and practices adopted;
- to oversee the process involving the preparation and disclosure of financial information;
- to oversee the statutory audit;
- to express an opinion on the report, accounts and proposals presented by the Board of Directors;
- to review the effectiveness of the internal control and risk management systems (in particular, credit, operational, financial, compliance, legal and reputational risks);
- to oversee the effectiveness of and to monitor the Internal Audit activity;
- to propose to the General Meeting the appointment of the Portuguese Statutory Auditor and to evaluate and oversee the respective independence and activity, approving the fees to be paid for the provision of audit and additional services;
- to receive reports from shareholders, Employees or others of irregularities;
- to prepare the annual report on its activity.

It should be pointed out that through Notice 13 / 2007 of 6 June, which altered Notice 3 / 2006 (Internal Control), the Bank of Portugal now permits that, in the case of financial groups, the opinions of the supervisory bodies of companies subject to supervision on a consolidated basis – which must accompany the annual report of the respective management bodies concerning the internal control system – can be produced by the parent company's supervisory body, not only in the case of overseas subsidiaries (which was already permitted), but also for domestic subsidiaries whenever it can be shown that that supervisory body also carries out work covering internal control issues at those subsidiaries.

In applying the aforesaid Notice, the Board of Directors approved on 27 July 2007 a number of alterations to the Audit Committee Regulations with the main object of including in its terms of reference relating to internal control, the other Group companies subject to supervision on a consolidated basis.

Thus, in its capacity as the supervisory body of the BPI Group's parent company, the Audit Committee began to exercise, in relation to those companies and with the adaptations resulting from the nature, characteristics and own activities of each one, the functions referred to in sub-paragraphs b), g), h) and j).

In terms of the respective regulations, the Audit Committee is presently composed of five non-executive directors, the majority of whom must meet the independence requirements laid down in article 423-B(5) of the Commercial Companies Code.

However, according to the CMVM's interpretation which was transmitted to the Bank in July, none of the members of the Audit Committee is independent on the grounds that there is no compliance with the legal requirement barring re-election for more than two terms of office, considering for this purpose, contrary to BPI's understanding, also the terms of office exercised as members of the Board of Directors. The rectification of this situation will be proposed at the next General Meeting.

The Committee met at least twice a month or whenever convened by the Chairman, with the annual calendar of bi-monthly meetings having been set at the last meeting of the preceding year.

Minutes of the meetings are kept recording the principal matters addressed and the conclusions approved and communicated to the Board of Directors at the meeting which follows the Committee's meeting to which they refer.

II – ACTIVITY IN 2007

During 2007, the Audit Committee held nine meetings.

The analyses conducted and the decisions taken were primarily founded on the work carried out by the External Auditors, by the Audit and Inspection Division and by the Bank's various Divisions within the ambit of their respective functions. They were also supported where applicable by the conclusions of the inspections carried out and relevant notifications sent by the competent supervisory and oversight entities.

Invited to participate regularly at its meetings, although without the right to vote, were the Chairman of the Board of Directors' Executive Committee, the representative of Statutory Auditors (Deloitte e Associados, S.R.O.C. and the managers responsible for the Audit and Inspection Division and for the Organisation Division.

Also summoned to attend the meetings were the directors and managers responsible for the areas whose matters were subjected to review.

The activities of the Committee in 2007 within the context of their respective terms of reference are summarised next:

1. Overseeing observance of the law, the supervision authorities' standards, the company's statutes and the internal rules and practices

The Committee supervised compliance with legal, regulatory and internal provisions in the various areas encompassed by the audit and review work covering Internal and External Audit procedures. To this end, not only were the conclusions of these procedural reviews and work analysed (which were submitted regularly during the year), but it also monitored compliance with the resulting recommendations.

Furthermore, the Committee was informed of the results of a tax inspection carried out by the Tax Inspection Department targeted at subsidised home loans (special regime for the disabled) with the object of checking compliance with applicable legislation. The comments formulated by the Bank in response to that entity's investigations were considered to be adequate.

Still in this domain, the Committee analysed the report issued by the Audit and Inspection Division concerning the reliability of the prudential reports addressed to the supervision authorities and relating to Banco BPI and Banco Português de Investimento.

Finally, the Committee keep abreast of the progress relating to the implementation of the Basel II Project, with the aim of ensuring it had the technical requirements and the IT resources needed for the application at Banco BPI of the rules defined in that accord.

2. Supervision of compliance with the accounting policies and practices and the supervision of the statutory audit and the process involving the preparation and dissemination of financial information

Supervision of compliance with accounting policies, criteria and practices and verifying the reliability of the financial information was also undertaken primarily through appraisal of the findings of the audits and reviews of procedures conducted during the year by the external and internal audit teams.

Moreover, the Committee analysed in detail the Group's results relating to 2006 and the first three quarters of 2007 and, already in January 2008, the results relating to December 2007.

The Committee also reviewed the principal conclusions of the overall audit procedures covering Banco BPI's and Banco Português de Investimento's financial statements performed by Deloitte in respect of 30 September 2006, 31 March 2007 and 30 September 2007, having considered the comments issued on them to be relevant. It also carried out an identical examination of Banco de Fomento Angola's financial statements to 30 June 2007.

It also examined the report and accounts relating to 2006, as well as the statutory audit certification and audit report issued by Deloitte covering that year. As regards the first six months of 2007, it also examined the relevant report and accounts, as well as those Auditors' audit report on the consolidated interim information.

Furthermore, the Committee studied certain issues relating to the supervision of accounting policies and practices.

Amongst these, mention is made of the review at the January meeting of the External Auditors' opinion on the computation of the IRC corporate income tax payable on Banco BPI's 2006 profits, and at the meeting in June, of these Auditors' opinion on the preparation of the annual income tax returns for Banco BPI and Banco Português de Investimento relating to the same financial year.

At the March meeting, it also analysed the review procedures performed by Deloitte on the control and measurement of hedge accounting. On the other hand, its May meeting focused on the method of calculating deferred taxes and the identification of its principal components.

In addition, the Committee monitored regularly during the year the performance of the Banco BPI Pension Fund, enquiring about the investment policy pursued and being kept informed about the actuarial assumptions used in calculating the respective liabilities and alterations introduced thereto, which are considered to be duly justified.

3. Preparation of the opinion on the report, accounts and Board of Directors' proposals

In terms of article 423-F(g) of the Commercial Companies Code, the Committee approved at the March meeting, the opinions to be issued on the individual and consolidated report and accounts, and the proposal presented by the Board of Directors relating to 2006.

4. Monitoring and overseeing the efficacy of the internal control system

The evaluation of the efficacy of the internal control systems within the BPI Group was a permanent concern of the Committee.

Based of the guidelines embodied in the rules issued by the Bank of Portugal in this domain (in particular, Notice no. 3 / 2006 as amended by Notice no. 13 / 2007 of 4 June), the Committee regularly evaluated the Group companies' operational procedures, including those of the branches and subsidiaries, and those instituted with respect to Banco BPI's and Banco Português de Investimento's areas or specific issues.

The analysis carried out was essentially based on the conclusions of the procedural reviews conducted by the External Auditors, as well as on the findings of Internal Audit's audit and inspection work and on the presentations and clarifications which are the responsibility of the relevant Boards and Divisions.

Within the same orientation, it fell within the Committee's terms of reference to approve and monitor Internal Audit's four-monthly activity plans and the External Auditors' annual review of procedures, evaluating the respective conclusions and transmitting to the Executive Committee the recommendations deemed to be relevant.

The information periodically supplied by Internal Audit concerning the degree of compliance and the projection of the timetables for the implementation of the recommendations formulated by that Audit and by the External Auditors also constitutes an important indicator.

In this manner steps were taken to promote the proper control of risk management, while on the other hand guaranteeing the effectiveness and desirable scope of the Internal and External Audits.

More details regarding the work undertaken in these areas will be described in the chapters devoted to overseeing the effectiveness of risk management and to the monitoring of Internal Audit activity.

The Committee also issued the annual opinion on the internal control, risk management and internal audit systems at Banco BPI and the BPI Group, and which was aimed at accompanying the annual report dealing with the same matter, prepared by the Executive Committee of the Board of Directors. This opinion encompassed the Group's subsidiaries overseas, as permitted by Notice no. 3 / 2006.

Still in this area, the Committee reviewed the annual internal control reports of all the Group companies subject to supervision on a consolidated basis and made suggestions for improvements to the relevant texts. It also read the opinions of the respective Portuguese statutory auditors on the internal control system underlying the process involving the preparation and disclosure of financial information.

At its October meeting, the Committee analysed the internal control and risk management systems at Banco de Fomento Angola, having transmitted to the relevant Executive Committee recommendations aimed at the refinement of those systems.

5. Monitoring and supervision of the effectiveness of the risk management system

a) Operational risk

One of the principal means used by the Committee in overseeing the control of operational risk involved the review of the findings and recommendations resulting from the audits and procedural reviews conducted by the Internal and External Audits, in conjunction with those responsible for the Divisions which are the object of such reviews, with the aim of analysing and improving the internal control instituted.

The analysis carried out and those findings and recommendations enabled the Committee to identify the most important shortcomings and, when this was the case, to issue guidelines regarding the matters in question.

During 2007, the audits and procedural reviews analysed according to that method covered the following areas:

Reviews of the External Auditors' procedures

- Information Systems Division – General computer controls
- BPI Gestão de Activos
- Financial Division – Capital / debt Markets
- Sofinac, Sociedade Gestora de Fundos de Investimento Imobiliário
- Credit Products and Services Division – Customer Services – "factoring" management
- Inter-Risco, Sociedade Gestora de Capital de Risco – Venture / Development Capital Area
- BPI Vida – Securities portfolio

Audits of the Audit and Inspection Division

- Operations Division – Operational Control Area
- BFA – Branches
- BPI Gold Particulares, Visa Universo and BPI Corporate Classic cards– Granting of credit
- BFA – Financial and International Division
- Correspondents' balances
- Macau branch – Financial and tax valuation
- Recovery of motor car finance
- BFA – Operations Division
- Procurement, Outsourcing and Assets Division – Existence and security of assets
- Management Information System – Information about Business and Budgetary Control
- Individuals' Loans Recovery and Litigation Division
- Madeira and Azores Offshore branches – Operating procedures
- Legal Proceedings Division – Operating procedures for loan recovery

The Committee was also informed at the January meeting, about the findings of the computer-systems audit carried out by the Inspectorate-General for Finance focusing on subsidised home loans, as well as of the study covering the same topic conducted by the Bank's Divisions responsible for this matter.

It also monitored the development of the operational-risk management project – coordinated centrally and based on the self-evaluation of internal control by the Divisions – having analysed at the March meeting the annual report of the area responsible for this project, containing the description of the work undertaken in this field in 2006, of the operating losses incurred, the improvements introduced, as well as the work schedule for 2007, which merited the Committee's approval.

At the same meeting, the Committee was presented with the project in progress relating to Banco BPI's "Business Continuity Plan", as well as the main aspects of the "Disaster Recovery Plan" (computer system), in parallel with the first, indicating its chief characteristics and overriding factors.

The Committee also analysed the main findings of the internal audits conducted by the Audit and Inspection Division in the second half of 2006 and first half of 2007, as well as the steps taken to remedy the shortcomings detected.

It was also given information regarding all the situations which caused losses in those periods, stemming both from internal weaknesses and internal and external fraud, as well as the initiatives taken to minimise those losses.

It was also informed about the work carried out by that Division specifically relating to the prevention and repression of money laundering.

b) Credit risk

A normal item on the Committee's work agenda is the analysis of the trend in the situation and obligations of Customers who are the object of monitoring by the Credit Risk Division, and which correspond to the largest individual impairment losses, as well as defaults in excess of 100 thousand euro on the part of Customers with exposures of more than 500 thousand euro.

In addition, it analysed at its July meeting the situation of Customers with credit risk exposure of more than 75 million euro but less than 300 million euro, while exposures above the latter figure are analysed by the Board of Directors.

The examination was always backed by clarifications given by the Director and the Central Manager responsible for the Credit Risk Division, focusing in particular on those cases displaying greater risk or involving larger amounts.

The Committee also reviewed the reports presented by the external auditors on the quantification of the economic provisions in relation to the implicit risk in Banco BPI's and Banco Português de Investimento' loan portfolios with reference to 31 December 2006 and 30 June 2007.

On the other hand, the Committee became acquainted at the May meeting with the updates introduced into the models adopted internally for the calculation of impairments in Banco BPI's loan book.

It was also informed about the quarterly trend in individual and collective impairment losses on that portfolio, by credit segments, with reference to March and October 2007, having carried out an individual analysis of those Corporate Banking Customers with relatively large impairment losses.

Similarly the corporate rating and project finance models were analysed by the Committee, with the respective technical characteristics having been presented to it at the May meeting, as well as the initiatives taken for their application to the entire Corporate Banking portfolio.

c) Financial risks

In evaluating the management and trend in the Group's financial risks, the Committee paid special attention in the second half of the year to analysing the impact of the turmoil observed in the monetary and financial markets, and the attendant risks.

Accordingly, at all the Committee's meetings from September onwards, the unfolding of the crisis on the financial markets was analysed with the objective of not only obtaining information about the principal developments, but also to exchange opinions with those in charge of the Group's principal areas involved in activities linked to the affected markets.

The Committee therefore regularly studied the strategy and concrete action taken in the Group's International Division's operations, in particular, as regards the exposure to the products, operations and market with the most significant risks; the Financial Division, in relation to the treasury plan, funding programme and management of the bond portfolio; the Equities Department, with respect to trading activity, and asset management business undertaken by BPI Gestão de Activos, BPI Pensões and BPI Vida.

d) Reputational risk

As part of the oversight of reputational risk management, special attention was paid to the trend in the quantity, tendencies and principal causes of complaints lodged by Customers and official entities, as well as the quality of the treatment accorded to these.

In this regard, the Committee analysed in detail, with reference respectively to the 2nd half of 2006 and the 1st half of 2007, summary reports prepared by the New Channels Division. These contained information (global and broken down by themes) about the main characteristics of the complaints received, as well as about the operational alterations introduced or to be introduced in order to eliminate the underlying motives, improve the retrieval and management of complaints system and reduce the response time.

The Committee also reviewed at the March meeting, the objectives, methodology and results of the service quality indices (IQS) from the standpoint of the branches (quarterly survey of the Bank aimed at evaluating from a predefined universe of Customers the quality of service at each branch) and in terms of the Bank (annual survey of the Bank, with a view to assessing the levels of the Bank's service as an organisation, from the perspective of a number of satisfaction factors).

Given its importance for the Bank's image, the activities carried on by the Investor Relations Division were also analysed at the October meeting, in terms of the relationship with shareholders, investors and analysts, and from the standpoint of the submission of information to the supervision authorities.

At the same meeting it was also informed about the most significant aspects relating to communication between the Bank and the Tax Administration, with special emphasis on compliance with tax-related obligations, which is entrusted to the Legal Division.

Also in October, the Committee examined the findings of the internal audit executed with regard to breaches of the Group's Code of Conduct, having analysed the improvements to be introduced thereto, in particular, with the object of ensuring that all Employees adhere to the respective provisions.

In this respect, the Committee monitored the revision of the Code and which incorporated the recommendations of the Audit and Inspection Division resulting from the aforementioned audit, as well as other amendments stemming from the implementation of the Markets in Financial Instruments Directive (MiFID).

The Committee also reviewed the conclusions of the monitoring reports of the rating firms Moody's (January 2007) and Standard & Poor's (January and May 2007).

e) Compliance risk

At its October meeting, the Committee analysed the organisational model in force at the time at BPI as regards the exercise of the compliance function, having been kept informed about the implementation of a separate structure for this purpose which included the appointment by the Board of Directors in December, of a person in charge of that function.

It also became acquainted with the principal legislative changes which took place in 2007 relating to the Bank's activity and which were the object of transposition to internal regulations.

f) Legal risk

The Committee was also kept informed during the year (with the Legal Division's support) of certain important situations of legal risk, namely of a tax nature, having taken decisions on these or formulated recommendations regarding the orientation to follow.

On the other hand, at its June meeting it reviewed the procedures instituted at the Bank to prevent or reduce losses related to legal risk, from the perspective of risk arising from breaking the law, the risk of contractual non-compliance and tax risk. It also acquainted itself with the losses incurred in 2006 stemming from that risk.

6. Overseeing the efficacy and monitoring the activity of Internal Audit

The monitoring of the Audit and Inspection Division's work and the control over its efficacy were undertaken during the year by the Committee through:

- the approval of the four-monthly audit plans;
- the review of the activity undertaken by the Division in each half year;
- the four-monthly analysis of the audits performed in the last three years and the underlying criteria;
- the analysis of the principal findings of the half-yearly audits.

In endorsing the audit plans the Committee was concerned to guarantee as regards the central services and the Group companies, adequate distribution of the audit work amongst the major risk areas and, as regards the commercial network, the greatest coverage possible of the branches and corporate centres, namely, by means of distance audits.

Another important contribution to the measurement of audit activity (internal and external) entailed the already-mentioned periodic checking of the implementation of the recommendations issued by the Audit and Inspection Division and by the External Auditors.

Moreover, with the object of evaluating that Division's organisational and functional models, the Committee examined at the March meeting the procedures implemented for complying with the money-laundering control and prevention duties.

With the identical purpose, the Committee also reviewed at the meeting in December, the rules and procedures in force in the planning and execution of various audit and inspection methods and other functions attributed to the Audit and Inspection Division.

7. Evaluation and oversight of the Portuguese Statutory Auditor's independence and activity and the approval of the fees for audit and additional services

Pursuant to article 423-F(o) of the Commercial Companies Code, the Audit Committee is charged with the task of overseeing and evaluating the activity and independence of Banco BPI's Portuguese Statutory Auditor (Deloitte & Associados, S.R.O.C.), and to approve the respective fees for the provision of audit services and the contracting of additional services.

In the fulfilment of this legal requirement, the Audit Committee approved during 2007 the respective work plans and fees, analysed the findings of the procedural reviews carried out and followed up the implementation of the resulting recommendations.

It also approved the various collaboration proposals of those Auditors in non-audit related work and the corresponding fees, notably in the tax area, in the preparation and disclosure of financial information and in the verification of the internal controls (within the scope of the provisions of Bank of Portugal Notice no. 13 / 2007) and, already in January 2008, in the review of the capital requirements for credit risk in the calculation of the solvency ratio.

8. Reception of the communication of the irregularities occurring at Banco BPI and other Group companies

Giving expression to the functions attributed to it under article 2(7) of the respective regulation – which transposed the identical provisions contained in article 423-F(j) of the Commercial Companies Code –, at the December meeting the Committee approved for proper disclosure the communication policy for irregularities occurring at Banco BPI and other Group companies, with indication of the means to be used in this communication, the persons with legitimacy to receive them and the treatment to be accorded to them.

In defining the aforesaid policy, the Committee adhered to the recommendations formulated as regards this matter by the CMVM's current Corporate Governance Code.

Oporto, 17 March 2008

Artur Santos Silva
Chairman

Ruy Octávio Matos de Carvalho
Deputy-Chairman

Alfredo Rezende de Almeida
Member

Jorge Figueiredo Dias
Member

Marcelino Armenter Vidal
Member

3.6. PORTUGUESE STATUTORY AUDITOR

The Portuguese Statutory Auditor is responsible for performing all the examinations and all the attest work needed to audit and certify the accounts.

The Portuguese Statutory Auditor is appointed by the General Meeting, following a proposal by the Audit Committee. This can be a natural person or a firm with the status of Portuguese Statutory Auditor. In addition to the member in office, an alternate member must be appointed.

3.6.1. Portuguese Statutory Auditor[1]

In office	Deloitte & Associados, SROC, S.A., represented by Augusta Francisco
Alternate	Carlos Luís Oliveira de Melo Loureiro

3.6.2. Terms of reference

PRINCIPAL FUNCTIONS OF THE PORTUGUESE STATUTORY AUDITOR

- Verifying that the books, accounting records and supporting documents are in a fit and proper state.
- Examining when deemed necessary and in the manner it considers appropriate the cash balance and the inventory of any type of assets or amounts belonging to the company or received by it as security, deposit or for whatever other reason.
- Attesting to the accuracy and reliability of the annual report and accounts.
- Checking that the accounting policies and valuation criteria adopted by the Company result in a true and fair view of the assets and liabilities and its profit or loss for the period.

3.6.3. Liability and adherence to the codes of conduct (ROC)

Portuguese law provides that the Portuguese Statutory Auditor (*Revisor Oficial de Contas* – ROC) is liable to the company, the shareholders and the creditors, as well as enshrining the Portuguese Statutory Auditor's duty of vigilance.

3.7. CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee is a consultative body of the Board of Directors. Its function is to make pronouncements on matters within the scope of corporate social responsibility, ethics, professional conduct and environmental protection. The Committee prepares an annual report on the functioning of the company's corporate governance structure.

3.7.1. Composition

The Corporate Governance Committee is composed of three to seven members (currently six) of the Board of Directors who do not form part of the Executive Committee (provided for in article 16(3)(a) of the Company's Statutes).

If not a member of the Executive Committee, the Chairman of the Board of Directors will form part of and chair the Corporate Governance Committee, which shall appoint a Deputy-Chairman from amongst its members, as well as the Chairman where, in relation to the Chairman of the Board of Directors, that situation does not apply.

COMPOSITION OF THE CORPORATE GOVERNANCE COMMITTEE

Chairman	Artur Santos Silva
Deputy-Chairman	Armando Leite de Pinho
Members	Carlos Moreira da Silva
	Edgar Alves Ferreira
	Klaus Dührkop
	Tomaz Jervell

1) Members elected at the Shareholders' General Meeting of 20 April 2006 up till the end of the 2005 / 2007 term of office.

3.7.2. Terms of reference

PRINCIPAL TERMS OF REFERENCE OF THE CORPORATE GOVERNANCE COMMITTEE

It is the function of the Corporate Governance Committee to support and advise the Board of Directors:

- on refining the BPI Group's governance and oversight model, with the object of promoting compliance with the principles and practices which ensure a diligent, effective and balanced management of the shareholders' and other stakeholders' interests;
- on the definition of policies aimed at the exercise of corporate responsibility and protection of the environment;
- on the preparation and implementation of rules of conduct, designed to impose the observance of stringent principles of ethics and conduct in the performance of the functions attributed to the members of the BPI Group's governing bodies and to Employees.

In the performance of its duties as regards the refining of BPI Group's governance and oversight model, it is the function of the Corporate Governance Committee, namely:

- to ensure compliance with the guiding principles of the BPI Group's governance policy;
- to prepare annually for the Board of Directors a report on the functioning of the governance structure implanted, which includes an opinion on this structure's efficiency and the performance of the bodies comprising it, as well as the proposals which it considers appropriate for its improvement;
- without prejudice to the annual report referred to in the preceding paragraph, to propose to the Board of Directors, whenever it deems this appropriate or when solicited, measures directed at refining the corporate governance model implanted and to facilitate the pursuance of the respective objectives, in particular as concerns:
  - the structure, division of duties and functioning of the governing bodies,
  - the exercise of corporate rights by BPI Group entities,
  - the promotion of the right to vote and shareholder representation,
  - the promotion of relations with investors and transparency of information to the market,
- to inform the Board of Directors of any situations or occurrences of which it has knowledge and which, in its opinion, amount to non-compliance with the established governance rules and practices or which may prejudice the application of the respective guiding principles;
- to monitor and analyse latest practices and guidelines on corporate governance produced by national and international bodies with a view to their possible incorporation into the BPI Group's model.

With regard to corporate responsibility and environmental protection, the Corporate Governance Committee shall give support to the Board of Directors in the definition of the policy guidelines to be followed in these domains by the BPI Group, taking into account their approval by the Shareholders' General Meeting.

It is also responsible for pronouncing, at its initiative or when requested by the Board of Directors, on issues related to these matters, and specifically with the execution of the social solidarity, education, research and cultural patronage policies pursued by the BPI Group.

Within the ambit of its function of drafting and implementing standards of ethical and deontological conduct, the Corporate Governance Committee is responsible for, in particular:

- proposing to the Board of Directors the measures it considers adequate for fostering a culture of ethics and professional conduct at the heart of the BPI Group, and its dissemination to the various hierarchical levels at the companies belonging to its universe;
- refining and updating the BPI Group's Code of Conduct, presenting to the Board of Directors proposals in this regard;
- promoting, guiding and overseeing the effective compliance with the BPI Group's Code of Conduct, as well as with the Codes of Conduct of the Professional associations applicable to the BPI Group's companies or their Employees.

3.7.3. Functioning

The Corporate Governance Committee shall meet whenever it is convened by the respective Chairman or by two of its members and, in particular, whenever it has to give an opinion on matters within its jurisdiction, indicated in Article 2(1) of its Regulation.

The meetings of the Corporate Governance Committee must be convened with ten days prior notice, indicating the matters to be dealt with. ▷

At the meetings of the Corporate Governance Committee, the Company Secretary shall prepare succinct minutes containing the principal matters addressed and the conclusions drawn.

3.7.4. Activity in the year

ACTIVITY OF THE CORPORATE GOVERNANCE COMMITTEE

19 March 2007

Banco BPI, S.A.'s Corporate Governance Committee met for the first time on 19 March 2007.

The main purpose of the meeting was to comply with the Committee's obligation to prepare an annual report on the company's corporate governance to be approved by the Board of Directors.

Within this ambit, the Committee, in accordance with the Board of Directors' delegation, approved the "BPI Group's Corporate Governance Report" presented by the Chairman following the submission of the various refinement recommendations by its members and which were incorporated into the proposal that the Board of Directors tabled at the Shareholders' General Meeting of 19 April 2007.

18 June 2007

The Corporate Governance Committee met on 18 June 2007 to consider the "Ante-project of the CMVM's new Regulation on Corporate Governance" and the "Ante-project of the Corporate Governance Code" which the CMVM submitted for public consultation. The Committee submitted to the Board of Directors the result of its opinion on this matter, as well as its recommendations to be presented within the ambit of the CMVM's public consultation.

4 March 2008

At its meeting of 4 March, the Corporate Governance Committee approved the present report and a proposal to amend the Statutes to be submitted to the Board of Directors with respect to the Group's oversight model.

3.8. NOMINATIONS, EVALUATION AND REMUNERATION COMMITTEE

The Nominations, Evaluation and Remuneration Committee is a consultative body of the Board of Directors and was created in 2006. Its function is to give opinions on the filling of vacancies that may occur on the governing bodies, on the choice of Directors to be appointed to the Executive Committee and on the appraisal and fixing of this Executive Committee's compensation.

3.8.1. Composition

The Nominations, Evaluation and Remuneration Committee is composed of three to seven members (currently six) of the Board of Directors who do not form part of the Executive Committee envisaged in article 16(3)(a) of the Company's Statutes.

If not a member of the Executive Committee, the Chairman of the Board of Directors will form part of and chair the Nominations, Evaluation and Remuneration Committee, which shall appoint a Deputy-Chairman from amongst its members, as well as the Chairman where, in relation to the Chairman of the Board of Directors, that situation does not apply.

At least one of the members of the Nominations, Evaluation and Remuneration Committee must meet the following requirements:

- not be associated with any specific interest group in the Company;
- not be in a situation capable of affecting his/her impartiality of analysis or decision making, namely by reason of being the holder or acting in the name of or on behalf of the holders of qualified shareholdings of 2% or more in the Company.

COMPOSITION OF THE NOMINATION, EVALUATION AND REMUNERATION COMMITTEE

Chairman	Artur Santos Silva
Deputy-Chairman	Ruy Octávio Matos de Carvalho
Members	Carlos da Câmara Pestana
	Herbert Walter
	Marcelino Armenter Vidal
	Roberto Egydio Setúbal

3.8.2. Terms of reference

PRINCIPAL TERMS OF REFERENCE OF THE NOMINATIONS, EVALUATION AND REMUNERATION COMMITTEE

It is the function of the Nomination, Evaluation and Remuneration Committee to support and advise the Board of Directors:

- on the filling of vacancies occurring on the governing bodies;
- on the choice of Directors to be appointed to the Executive Committee; ▷
- on the conduct of the process involving the annual evaluation of the members of the Executive Committee;
- on the preparation of the report to be submitted to the Remuneration Committee envisaged in Article 28(2) of the Company's statutes, relating to the fixing of the variable remuneration of the members of the Executive Committee.

In its support functions for the filling of vacancies on the governing bodies and for the appointment of Executive Directors, the Nomination, Evaluation and Remuneration Committee shall:

- prepare and update all the qualifications, knowledge and professional experience required for the performance of the functions attributed to the members of the various governing bodies and of the Executive Committee;
- monitor the selection and appointment of the senior personnel of the BPI Group companies in order to ensure that there is an available recruitment base of future members of governing bodies and Executive Directors;
- prepare a substantiated report for the Board of Directors, identifying the persons who in its opinion possess the most suitable profile to fill a vacancy whenever this occurs on the governing bodies or on the Executive Committee.

Within the scope of the annual evaluation and fixing of the variable remuneration of the members of the Executive Committee, the Nomination, Evaluation and Remuneration Committee is responsible for proposing to the Board of Directors the criteria to be used in this process, which should include proper appraisal of merit, individual performance and contribution to the Executive Committee's efficiency.

The Nomination, Evaluation and Remuneration Committee is also responsible for reporting to the Board of Directors on the recommendations which the latter makes to the Remuneration Committee envisaged in Article 28(2) of the Companies Statutes relating to the definition and alterations to the general remuneration policy of the Executive Committee, as well as to the variable remuneration programmes based on Banco BPI shares or options (i.e. the share incentive scheme).

The remuneration policy in force at the BPI Group is more fully described in chapter 7 of the present report (pages 362 to 367).

3.8.3. Functioning

The Nominations, Evaluation and Remuneration Committee meets whenever convened by the respective Chairman or by two of its members and, in particular, whenever it has to give an opinion on matters falling under its terms of reference, as indicated in article 2(1) of its regulation.

The meetings of the Nominations, Evaluation and Remuneration Committee must be convened with ten days prior notice, which notice must indicate the matters to be dealt with. ▷

At the meetings of the Nominations, Evaluation and Remuneration Committee, the Company Secretary shall prepare succinct minutes of the matters dealt with and the respective conclusions arrived at.

3.8.4. Activity in the year

ACTIVITY OF THE NOMINATIONS, EVALUATION AND REMUNERATION COMMITTEE

24 January 2007

The Committee deliberated to have an annual meeting for evaluating each one of the Executive Directors, which will also be accompanied by a self-assessment of the corresponding Director.

The Committee recommended that in fixing the Executive Directors' variable remuneration, the compensation policies adopted by Iberian banks comparable to BPI should be taken as market references.

The Committee recommended that in relation to the variable remuneration to be fixed for the Executive Directors for their performance in 2006, the amount proposed by BCP in paragraph 11(d) of the "Preliminary announcement of the launching of a takeover bid for the shares representing Banco BPI, S.A.'s share capital" not be exceeded, which implied not "exceeding the overall remuneration of the members of each one of the target company's governing bodies or of the companies in respect of which there is a controlling or group relationship, for 2006 and following years, the overall remuneration of the members of the same bodies in the 2004 financial year, excepting for an annual increase of not more than 10%".

The Committee recommended the amounts of the variable remuneration to be fixed for the Members of the Executive Committee relating to the performance in 2006, on the assumption that this did not exceed the overall amount referred to in the preceding recommendation.

6 March 2008

In compliance with the resolution adopted at the meeting on 24 January 2007, the Committee met individually with all the Executive Directors for the purpose of carrying out an individual evaluation of each one's performance for which they also prepared and presented the respective self-assessment. At its meeting of 6 March, it approved the recommendation of the amounts of the variable remuneration to be awarded for performance in 2007.

The Committee also deliberated on a recommendation for a remuneration policy to be presented to the Remuneration Committee, which should be presented at the next General Meeting in the terms of article 28(3) of the Bank's Statutes as regards the maximum amount of the annual fixed remuneration of the members of the Board of Directors and the maximum percentage of annual consolidated net profit for the year which, in each year, can be allocated to the Executive Committee's variable remuneration.

- As concerns the first indicator, it recommended that the fixed remuneration of the non-executive directors be adjusted for the period 2008-2010, taking into account accumulated inflation observed in the 2005-2007 term of roughly 8%;
- It recommended that the maximum percentage of consolidated net profit to be allocated to the variable remuneration of the Executive Committee members be fixed at 1.5%.

The Committee also analysed a report prepared by a consultant on market practices relating to the remuneration policies adopted by Iberian banks comparable to BPI, and decided to draft a proposed remuneration policy which incorporated some of the recommendations formulated in that report. The Committee intends to complete that proposal in time for its application to the governing bodies' terms of office commencing in 2008.

The Committee also deliberated to recommend to the Remuneration Committee the interpretation to be given on the application of the pension regime for the executive directors who previously performed executive director functions at the BPI Group's banks.

Finally, the Committee decided to recommend to the Remuneration Committee that, within the scope of the RVA 2007 programme (to be executed in 2008), the Executive Directors could choose the composition of their variable remuneration between shares and options, according to the modes in force for all the Employees covered by the RVA scheme.

3.9. REMUNERATION COMMITTEE

The Remuneration Committee is composed of three shareholders elected by the General Meeting. The Remuneration Committee's function is to fix the remuneration of the members of Banco BPI's governing bodies. Insofar as the fixed remuneration of the members of the Board of the Directors and the variable remuneration of the Executive Committee are concerned, it must observe the limits laid down by the General Meeting.

3.9.1. Composition

The Remuneration Committee is composed of three shareholders elected for three-year terms by the General Meeting, and who in turn elect a Chairman (who has the casting vote).

The following Shareholders presently comprise the Committee:

COMPOSITION OF THE REMUNERATION COMMITTEE

Chairman	IPI – Itaúsa Portugal Investimentos, SGPS, Lda.
Members	Arsopi – Holding, SGPS, S.A.
	HVF, SGPS, S.A.

3.9.2. Terms of reference

The Remuneration Committee's function is to fix the remuneration of the members of Banco BPI's governing bodies, to formulate the remuneration policy and to apply the retirement regime for members of Banco BPI's Executive Committee and members of Banco Português de Investimento's Board of Directors. The Committee also carries out the evaluation of the members of Banco BPI’s Executive Committee and of Banco Português de Investimento’s Board of Directors with a view to determining their respective annual variable remuneration.

At the Shareholders General Meeting of 20 April 2006, a resolution was adopted whereby, at the time of the appointment of the Remuneration Committee by the General Meeting, the latter shall prescribe for each term the limits of the fixed remuneration for all the members of the Board of Directors and the percentage of net profit (not exceeding 5%) that can be allocated to the variable remuneration of the Executive Committee.

No Director has the power to fix his/her own remuneration. The principles, criteria and amounts involved in fixing the remuneration of the members of Banco BPI’s governing bodies are covered in greater detail in chapter seven (“Remuneration”) of the present report.

3.9.3. Activity in the year

The three members of the Remuneration Committee were present at the following meetings. The attendance level was 100%.

REMUNERATION COMMITTEE'S ACTIVITY

24 January 2007

Deliberated, following a recommendation of the Nominations, Evaluation and Remuneration Committee, to fix the amounts of the variable remuneration of the members of the Executive Committee relating to performance in 2006.

Deliberated, considering the provisions of article 374(3) – A of the Commercial Companies Code to fix the remuneration of the members of the Shareholders' General Meeting Committee.

12 March 2007

Taking into account the opinion expressed by the Chairman of Banco BPI's Executive Committee, it deliberated to fix the amount of the variable remuneration of the Directors of Banco Português de Investimento, S.A. who are not members of Banco BPI, S.A.'s Board of Directors for their performance in 2006.

6 March 2008

Taking into consideration the recommendation put forward by the Nominations, Evaluation and Remuneration Committee, the Committee deliberated to fix the variable remuneration of the members of the Executive Committee relating to their performance in 2007.

As concerns the remuneration policy to be submitted to the General Meeting, the Committee decided, based on the Nominations, Evaluation and Remuneration Committee's opinion, on the terms of the aforesaid proposal.

The Committee also approved the proposed interpretation to be given to the application of the pension regime for the executive directors which previously exercised executive director functions at BPI Group banks.

Finally the Committee approved the recommendation of the Nominations, Evaluation and Remuneration Committee relating to the application of the RVA 2007 programme.

3.9.4. Responsibility and adherence to codes of conduct

The members of the Remuneration Committee are bound by a strict duty of confidentiality with respect to the matters discussed at the Committee's meetings.

3.10. COMPANY SECRETARY

The Company Secretary is appointed by the Board of Directors.

3.10.1. Company secretary

In office	Manuel Correia de Pinho
Alternate	Alexandre Lucena e Vale

3.10.2. Terms of reference

Besides performing the functions contemplated in the law, the Company Secretary is responsible for relations with the supervisory and oversight authorities, namely, the Bank of Portugal, the Securities Market Commission (CMVM), the Insurance Institute of Portugal, the Directorate-General for Taxes and the Inspectorate-General of Finance.

Banco BPI's Secretary is also responsible for preparing the minutes of the Board of Directors' and of the Executive Committee's meetings, promoting their circulation to all the members and ensuring that supporting documents are dispatched for the meetings of the Board of Directors.

3.11. BANCO PORTUGUÊS DE INVESTIMENTO'S MANAGEMENT

Banco Português de Investimento is the Group unit specialising in investment banking, namely Corporate Finance, Equities and Private Banking.

Banco Português de Investimento's Board of Directors is made up of eight members, of whom two, the Chairman and the Deputy-Chairman, are non-executive directors, and six are executive directors who constitute the Executive Committee responsible for the day-to-day business management. This body is presided over by Manuel Ferreira da Silva, executive Board member of the entity heading the Group, Banco BPI.

The Board of Directors can only pass resolutions when the majority of its members are present or represented. Resolutions can only be passed by an absolute majority of votes, with the Chairman having the casting vote. Any Director can be represented at a meeting by another Board member, by means of a letter addressed to the Chairman, although each proxy instrument may not be used more than once.

As is the case at Banco BPI, all the members of the Board of Directors are bound by strict confidentiality rules concerning the matters discussed at the Board's meetings, as well as by a set of internal rules. These are embodied in a Code of Conduct aimed at safeguarding against conflicts of interest or situations involving the abuse of privileged information. This issue is dealt with in greater detail under point 12 – Code of Ethics and Professional Conduct, of this report (pages 385 to 390).

Banco Português de Investimento, S.A.'s governing bodies were elected for the term 2007-2009.

Banco Português de Investimento's Board of Directors composition

Directors	Executive	Non-executive
Fernando Ulrich		Chairman
António Domingues		Deputy-Chairman
Manuel Ferreira da Silva	Chairman	
Alexandre Lucena e Vale	•	
Carlos Jaime Casqueiro	•	
Henrique Cabral Menezes	•	
João Pedro Oliveira e Costa	•	
José Miguel Morais Alves	•	

Banco Português de Investimento's Executive Committee composition

Directors	Areas of responsibility
Manuel Ferreira da Silva	Chairman
Alexandre Lucena e Vale	Legal Affairs and Human Resources
Carlos Jaime Casqueiro	Corporate Finance
Henrique Cabral Menezes	Equities
João Pedro Oliveira e Costa	Private Banking
José Miguel Morais Alves	Project Finance

3.12. BANCO DE FOMENTO ANGOLA'S MANAGEMENT

Structure and functioning rules

Banco de Fomento SARL – 100% held by Banco BPI – is an Angolan-law bank which operates in the Republic of Angola.

In terms of the relevant Statutes, Banco de Fomento SARL (Banco de Fomento Angola or BFA) is managed by a Board of Directors composed of an uneven number of members, with a minimum of three and a maximum of eleven (currently nine), which can delegate the day-to-day running of the company to an Executive Committee, composed of three or five directors (currently five).

The Board of Directors, which is attributed the widest powers to manage and represent the company, meets every quarter and whenever convened by its Chairman or at the request of more than half of the Directors. The Executive Committee meets at least once a month. The resolutions of the Board of Directors and the Executive Committee are recorded in the minutes.

The Board of Directors and the Executive Committee can only deliberate in the presence of the majority of their members, with their resolutions being adopted by a majority of votes. The Chairman has the casting vote.

PRINCIPAL TERMS OF REFERENCE OF THE EXECUTIVE COMMITTEE

- Granting of loans, provision of personal guarantees and acquisition, disposal or encumbering of negotiable securities, provided that this does not result in an involvement in one only entity or group of more than USD 7.5 million.
- Realisation of foreign-exchange operations.
- Realisation of deposit-taking operations.
- Acquisition, disposal and encumbering of movable and immovable assets or the acquisition of services up to an individual amount of USD 1 million.
- Admissions, definition of Employees' levels and categories, in the terms envisaged in the budget and in the decisions approved by the Board of Directors.
- Exercise of disciplinary power and application of any sanctions.
- Opening or closure of branches or agencies.
- Representation of BFA in and out of court.
- Constitution of authorised signatories for performing certain acts or categories of acts, defining the extension of the respective mandates.

All the members of Banco de Fomento Angola's governing bodies are bound by strict rules of confidentiality and are subject to a set of rules designed to prevent the existence of conflicts of interest or the abuse of privileged information, at the same adhering to the best practices and principles of good and prudent management.

BFA's governing bodies were elected for the period 2005-2007.

BFA's Chair of the General Meeting composition

Rui de Faria Lélis	Chairman
Alexandre Lucena e Vale	Secretary

BFA's Board of Directors composition

	Board of Directors	Executive Committee
Fernando Ulrich	Chairman	
António Domingues	Deputy-Chairman	
José Pena do Amaral	●	
José Manuel Toscano	●	
Emídio Costa Pinheiro	●	Chairman
Benjamim Costa Pinho	●	●
Carlos Alberto Ferreira	●	●
Mariana Assis	●	●
António Matias	●	●

The current members of the Executive Committee reside permanently in Angola and are responsible for the following areas.

BFA's Executive Committee composition

Directors	Areas of responsibility
Emídio Pinheiro	Chairman of the Executive Committee, Finance and Marketing
Benjamim Pinho	Companies, Human Resources and Legal Affairs
Carlos Alberto Ferreira	Operations, Information Systems, Organisation, Audit and Inspection, Material Resources
Mariana Assis	Accounting, Planning and Control
António Matias	Commercial, Loans to Individuals and Small Businesses

In order to facilitate contact between the various members of BFA's senior management and Banco BPI, BFA's head office possesses a video-conferencing system which allows Luanda to connect to Banco BPI's main premises in Lisbon and Oporto.

LEGAL AND REGULATORY FRAMEWORK GOVERNING BFA'S ACTIVITY

1. Financial Institutions Act

The basic enactment for Financial Institutions (Law 1 / 99, revised by Law 13 / 05) regulates the process for the establishment, exercise of activity, supervision and funding of financial institutions, banking and non-banking (namely, financial-lending, micro-credit, leasing companies subject to the jurisdiction of the Angolan Central bank (Banco Nacional de Angola) or financial holding, asset management, investment fund, real-estate management and investment companies, subject to the jurisdiction of the Securities Market Supervisory Body).

The regulations require, amongst other aspects, that:

- the credit institutions with head office in Angola adopt the form of public limited companies;
- they have a share capital that is not less than the legal minimum and which is represented by nominative shares;
- the transactions between residents of blocks of shares representing more than 10% of the capital or any transaction involving non residents, are subject to the central bank's authorisation (Banco Nacional de Angola, BNA);
- the public deed of incorporation, the members of the management and supervisory bodies, as well as agreements entered into between shareholders, are subject to registration at the Banco Nacional de Angola;
- the activity and the annual report and accounts are subject to external audit by a company recognised and established in Angola.

Law no. 13 / 05 prescribes that the supervisory entities for financial institutions are Banco Nacional de Angola, the Insurance Supervision Institute (*Instituto de Supervisão de Seguros*) and the Securities Market Supervisory Body (*Organismo de Supervisão do Mercado de Valores Mobiliários*).

The Act also prescribes in a separate chapter rules of conduct on matters such as: professional confidentiality, cooperation with the supervisory entities of other States, conflicts of interest of members of governing bodies and the defence of competition.

Similarly, the prudential and supervisory rules are described in greater detail in a separate chapter, embracing in particular, prudential relations and limits, supervisory procedures and the affirmation of sound and prudent management rules, as well as the duty to supply information to the supervisory body.

2. Supervision

As a bank subject to Angolan law, BFA is subject to the supervision of Banco Nacional de Angola which, according to its Organic Law, has as its principal objectives the preservation of the national currency's value and the stability of the financial system. To this end, the BNA is vested with powers to regulate and supervise the banking system.

Subsidiary, BFA as a fully-fledged subsidiary of Banco BPI, is subject in terms of Portuguese banking legislation and complementary regulations, to supervision on a consolidated basis by the Bank of Portugal.

3. Principal prudential rules published in 2007

Share capital and minimum own funds

Notice 04 / 07 fixes the new minimum amounts for share capital and regulatory own funds for financial institutions (for banks it is 600 M.AKZ i.e. roughly 8 M.US$).

This Notice revoked Notice 04 / 98 which fixed as the minimum amount of share capital for commercial and investment banks the local currency equivalent of 4 M.US$.

Adequacy of own funds

Notice 05 / 2007 defines the general formula for the calculation of the Regulatory Solvency Ratio (RSR) and prescribes a minimum RSR of 10%. It provides that complementary own funds can correspond to a maximum of 100% of the amount of basis own funds after making the deductions envisaged for their calculation.

Instruction 05 / 07 classifies assets according to their degree of risk and fixes the respective weightings for calculating RSR.
RSR = ROF / [RWA + (CCR / minimum ratio)]*100
In which,
ROF = regulatory own funds
RWA = risk weighted assets
CCR = capital for currency risk and gold, that is, amounts exposed to market risk arising from variations in the exchange rate and in the gold price, multiplied by the respective factors determining the own funds requirement.

Currency position limit

Notice 06 / 07 defines the basis for calculating the exposure to currency risk and lays down limits for currency position, namely: 100% of regulatory own funds for long positions and 40% for short positions.

Instruction 06 / 07 defines the formula for calculating the amount of capital required to cover currency risk. Revokes Notice 06 / 03 which defined as the currency position limit an open position (asset or liability) up to 20% of regulatory own funds.

Fixed asset limits

Notice 07 / 07 fixes the limit for resources invested in fixed assets. The amount of fixed assets less depreciation and amortisation deducted from financial investments cannot exceed 50% of regulatory own funds.

Limits on risk concentration involving one single Customer or group

Notice 08 / 07 defines the concept of Customer and provides that:

- the maximum exposure limit per Customer cannot exceed 25% of regulatory own funds (the revoked Notice 05 / 96 fixed that limit at 30% of own funds)
- the maximum exposure limit for the 20 largest debtors cannot exceed 300% of regulatory own funds.

Classification of risk levels on lending operations

Notice 09 / 07 provides that financial institutions must classify loans advanced and guarantees given based on 7 levels, both on the basis of estimated probable losses with the debtor being the operation and the guarantees, and on the basis of the delays noted in servicing the debt.

The classification of loans according to risk levels must be reviewed every 12 months and on a monthly basis in accordance with the delays in the payment of capital or charges. The minimum and maximum levels of provisions by risk levels are defined which are based on the capital overdue and the loans not yet due.

Monetary adjustment

Notice 10 / 07 sets out new rules for monetary adjustment based on the Consumer Price Index (CPI). The variation in the Fixed Assets and Own Funds accounts is now added to the respective balance, with the exception of the share capital account which is recorded in the "Share Capital Monetary Adjustment Reserve". The existing balances on the accounts Own Funds Maintenance Reserve and Provision for Maintenance of Own Funds shall be transferred to the Share Capital Monetary Adjustment Reserve account.

In the previous legislation, the monetary adjustment (share capital + reserves + retained earnings) was done monthly based on the currency variation occurring in the period, through the creation of a provision for maintenance of own funds. At the end of the year, the Provision for maintenance of own funds account was written off against the Reserve for the maintenance of own funds account.

Revaluation of fixed properties for own use

Notice 11 / 07 define the rules for properties for own use. Previously, the revaluation of tangible fixed assets was carried out monthly based on the currency variation occurring in the period. The variation in the tangible fixed asset accounts was added to the respective balances (fixed asset account and respective depreciation) and in the Fixed Asset Revaluation account.

According to the new legislation. The revaluation is done based on the change in the property's market value as per a valuation certificate.

Establishment of overseas branches and acquisitions of participating interests

Notice 12 / 07 regulates the conditions and procedures governing the setting up of branches abroad and the acquisitions of participating interests.

Relative to previous legislation, this Notice introduces the requirement for prior Banco Nacional de Angola authorisation. The previous legislation limited the direct or indirect interest to 15% of the investor financial institution's own funds. On the other hand, the overall amount of the qualified shareholdings (direct or indirect shareholding of more than 10% of the share capital or voting rights) in companies could not exceed 60% of the investor financial institution's own funds.

Formation of financial institutions

Notice 13 / 07 regulates the procedures for the formation of financial institutions in Angola.

Publication of results

Notice 15 / 07 lays down the rules / procedures and frequency for the preparation of consolidated financial statements by financial institutions authorised to carry on business by BNA.

In relation to previous legislation, this regulation introduces the obligation to publish quarterly financial statements.

Mandatory reserves

Instruction 04 / 07 set a coefficient of 15% on the calculation-base figure (deposits of residents and non residents, in local or foreign currency, including resources tied to currency operations). With the coming into effect of this new Instruction it is no longer possible to maintain up to 50% in TBC's or Direct Public Debt Securities issued in national currency and with a maturity of more than 91 days.

The reserve requirement is calculated weekly on the arithmetical average of the balances of the business days of the penultimate week.

4. The Group's functional organisation chart

Executive management, supervision and control

The composition and functions of the BPI Group's management, supervisory and control bodies are detailed in points 3.1. to 3.12 of this report.

BPI Group functions

The BPI Group units grouped according to their functions are under the direct command of Banco BPI's Executive Committee.

Central structures

These structures embrace the entire universe of shared services (of the back-office[G] kind) which act as direct support to the Group's other units by undertaking the development and maintenance of its operational, physical and technological infrastructure.

Credit risks

The Executive Committee for Credit Risk is the body that takes the principal decisions concerning matters relating to the concession, monitoring and recovery of lending operations. At a more operational level, credit risk management is centralised at the Credit Risk Division which manages in an integrated fashion the Customer segments – small businesses, companies, institutional banking and project finance[G] –, and at the Individuals Credit Risk Division which manages the Individual Customers segment. The manner in which the various risks are managed at the BPI Group is comprehensively dealt with in a separate chapter in the Directors' Report.

Market risk

The Executive Committee for Market Risks is the body that makes the main decisions concerning the activities which entail market risks for BPI. It is primarily responsible for formulating overall strategy and operating regulations, fixing the limits for treasury exposures to be adhered by the Financial Division, and defining the parameters for the management of long-term structural positions (interest rate or currency risks) and fixing the global limits for value-at-risk (VaR).

Marketing

The marketing function is carried out in a segregated manner according to the segmentation between Individuals and Small Businesses, on the one hand, and Companies on the other. In the case of Individuals and Small Businesses Marketing, this function is undertaken by two Divisions which report to the same executive head: Strategic Marketing – concentrated above on the management of the systems CRM (Customer Relationship Management) – and Operational Marketing – focusing on the coordination of the sales function, including responsibility for developing new products and services. The Marketing Division – Companies handles all aspects relating to communication, information and the management of databases associated with commercial activity directed at corporate Customers.

Product units

Loan decisions, the processing of operations and the relationship with the specialised channels are entrusted to the various specialised Divisions (product units), part of which – building finance, property financing, motor vehicle finance, personal credit, cards, resources, asset management, leasing[G] and factoring[G] – simultaneously serve the individuals, small businesses and corporate segments.

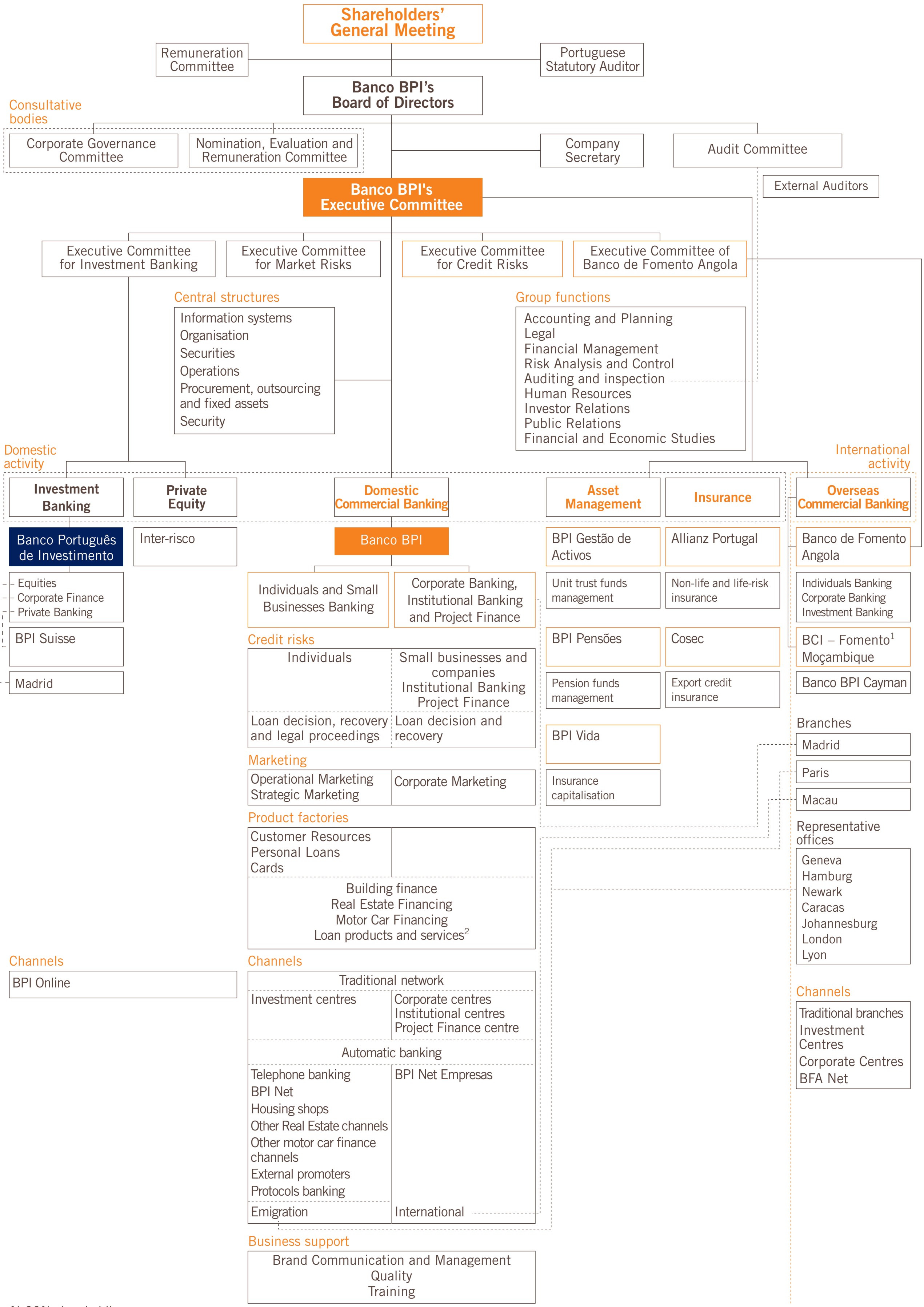
Channels

BPI possesses a fully-integrated, multi-channel distribution network, fully integrated, composed of 662 retail branches, homebanking services (BPI Net), telephone banking (BPI Directo), Automated Banking (ATMs), agents network, online brokerage (BPI online – service provided by the Investment Bank), specialised branches and structures dedicated to the corporate and institutional segment (44 corporate centres, one project finance centre and six institutional Client centres). Outside Portugal, BPI is engaged in commercial banking business in Angola and Mozambique, through two local-law banks – Banco de Fomento Angola (100% held by the BPI Group) and BCI-Fomento (30% held by the BPI Group). It also has a number of branches and representative offices which essentially provide support to Portuguese emigrant communities.

Brand, quality and training

Quality, communication and brand management are managed under the direction of the same member of Banco BPI's Executive Committee. This arrangement has as its goal prioritising service quality, thereby entailing close coordination between the quality, technical and behavioural programmes, as well as those covering brand communication and development. This coordination also encompasses the training area, a crucial element for ensuring superior standards of service.

THE BPI GROUP'S FUNCTIONAL ORGANISATION CHART



1) 30% shareholding.
2) Namely leasing, factoring and documentary credits.

5. Risk management

5.1. RISK MANAGEMENT PRINCIPLES

Risk management at the BPI Group is based on the permanent identification and analysis of exposure to different risks – credit risk, country risk, market risks, liquidity risk, operating and legal risks – and on the adoption of strategies aimed at maximising profitability within predefined (and duly supervised) limits. Management is complemented *a posteriori* by analysis of performance indicators.

5.2. DIVISION OF RESPONSIBILITIES IN RISK CONTROL AND MANAGEMENT

The policy, procedures and allocation of powers amongst the Group's various bodies and departments on matters relating to the control and management of the Group's risks are described in detail in a separate chapter of the Directors' Report and are incorporated into this document by way of reference. Special mention is made of the integration of individuals' credit-risk analysis within a single Division (Individuals Credit Risk Division) and the setting up of the Compliance Division.

Matrix of responsibilities for risk management and control

	Identification and analysis of exposure	Strategy	Limits and control	Recovery	Evaluation of performance
Credit / counterparty risk	**DACR**: ratings and scorings (Probabilities of Default), and loss given default for all loan segments **DACR** and **DIG**: external rating identification to debt securities and to credit to financial institutions **DRC**: rating for companies; Expert System for small businesses **DRCP**: individuals **DACR**: exposure to derivatives **DACR**: overall analysis of exposure to credit risk	**CECA** and **CERC**: overall strategy and approval of substantial operations Credit Board, **DRC** and **DRCP**: approval of operations	**CECA**, **CERC**, Credit Board, **DRC**, **DRCP**, **DACR**, **DIG**, **DTA**: limits **CECA**, **CAUD**, **CERC**, Credit Board, **DACR**, **DC**, **Internal and external Auditors, Bank of Portugal**: control	**DJ** **DRC**: companies and small businesses **DRCP**: individuals	**CECA, CERM, CERC** **DP, DACR,** **All the Divisions**
Country risk	**DIG**: analysis of individual country risk; recourse to external ratings and analyses **DACR**: analysis of overall exposure	**CECA** and **CERM**: overall strategy **DIG**, **DF**, **DA**, **DTA**: operations	**CECA**, **CERM**		
Market risk	**DACR**: analysis of risk by books / instruments and global risks – interest rates, currencies, shares, commodities and other	**CECA** and **CERM**: overall strategy **DF**, **DA** and **DTA:** operations	**CECA**, **CERM**, **DACR**, **DF**, **DA** and **DTA**: limits **CECA**, **CAUD**, **CERM**, **DACR**, **DC**, **Internal and external Auditors**[1], **Bank of Portugal**: control		
Liquidity risk	**DF**, **DA** and **DTA:** individual risk analysis of liquidity, by instrument **DACR**: analysis of overall liquidity risk	**CECA** and **CERM**: overall strategy			
Operating risks	**DACR**: analysis of overall exposure **DORG** and **all the Divisions**: identification of critical points	**CECA**: overall organisation **Operating Risk Committee** **DORG**: regulations	**CECA**, **CERM**, **DORG**, **DACR**: regulation and limits **CECA**, **CAUD**, **DORG**, **DACR**, **DC**, **Internal and external Auditors**[1], **Bank of Portugal**: control	**DJ**, **DAI**, **DO**, **Commercial Divisions**	**CECA, DORG**
Legal risks	**DJ**		**CECA**, **CAUD**, **DJ**, **DC**, **Internal and external Auditors**[1], **Bank of Portugal**: control	**DJ**	

CAUD – Comissão de Auditoria (Audit Committee)
CECA – Comissão Executiva do Conselho de Administração (Board of Directors Executive Committee)
CERC – Comissão Executiva de Riscos de Crédito (Credit Risk Executive Committee)
CERM – Comissão Executiva de Riscos de Mercado (Market Risk Executive Committee)
DA – Departamento de Acções (Equity Department)
DACR – Direcção de Análise e Controlo de Riscos (Risk Analysis and Control Division)
DAI – Direcção de Auditoria interna (Internal Audit Division)
DC – Direcção de Compliance (Compliance Division)
DF – Direcção Financeira (Financial Division)
DIG – Direcção Internacional do Grupo (the Group's International Division)
DJ – Direcção Jurídica (Legal Division)
DO – Direcção de Operações (Operations Division)
DORG – Direcção da Organização (Organisation Division)
DP – Direcção de Planeamento (Planning Division)
DRC – Direcção de Riscos de Crédito (Credit Risk Division)
DRCP – Direcção de Riscos de Crédito Particulares (Individuals Credit Risk Division)
DTA – Direcção de Trading e Arbitragem (Trading and Arbitrage Division)

1) Within the scope of the execution of audit services and the statutory audit of the BPI Group's accounts, the External Auditors also contribute to the control process relating to the various risks to which the Group is exposed.

6. External auditors

The External Auditor is elected by the General Meeting following a proposal by the Audit Committee.

Deloitte & Associados, SROC, S.A. (Deloitte), a member firm of the international network Deloitte Touche Tohmatsu, is the BPI Group's external auditors / Portuguese Statutory Auditor and was elected in the General of Meeting of 20 April 2006. The partner in charge of the audit of Banco BPI's consolidated financial statements is Maria Augusta Cardador Francisco.

6.1. INDEPENDENCE

BPI recognises and subscribes to the concerns manifested, amongst others, by the CMVM (Securities Market Commission), by the European Commission and by IOSCO – International Organization of Securities Commissions, amongst other entities, regarding the safeguarding of auditors' independence *vis-à-vis* the audit Client. BPI believes that this independence is essential for ensuring the public's trust in the reliability of their reports and in the credibility of the financial information published.

BPI is of the opinion that its auditors are independent within the context of the regulatory and professional requirements applicable and that their objectivity is not compromised. BPI has incorporated into its governance practices and policies several mechanisms which safeguard the independence of the auditors.

Namely, the company which audits the BPI Group's accounts, as well as the persons in charge of the relevant audit work, has to the best of BPI's knowledge, no interest, effective or imminent, financial, commercial, employment, family or of any other nature – other than those which result from the normal course of their professional activity – in BPI Group companies, capable of leading a reasonable and informed third party to conclude that such interests could compromise the auditor's independence.

On the other hand, the Portuguese Statutory Auditors Act provides that anyone who has served in the last three years as a member of a company's administrative or management bodies, cannot exercise the function of auditor of the same company. In the same manner, the auditor who in the last three years has acted as the statutory auditor of companies or entities, is barred from exercising functions as a member of such companies' or entities' administrative or management bodies.

BPI has adopted the principle of not entering into employment contracts with any partner of the audit firm which has provided audit services to any BPI Group companies before at least three years have elapsed since the cessation of the provision of such services.

It should also be underlined that the Companies Code provides that the Audit Committee is responsible for proposing the appointment of the External Auditor / Portuguese Statutory Auditor. As referred to in a separate chapter, the Audit Committee must obligatorily be composed solely of members of Banco BPI's Board without executive functions.

Finally, the Companies Code prescribes that the External Auditor / Portuguese Statutory Auditor must be elected by the General Meeting, which reinforces his/her independence *vis-à-vis* Banco BPI's management team.

DELOITTE'S POLICIES AND PROCEDURES

Deloitte & Associados, SROC S.A. (Deloitte), an audit firm registered with the CMVM and appointed by BPI, has, according to information supplied by it to BPI, implemented policies and procedures designed to ensure that its national and world-wide network provides quality services and complies with all the applicable independence and ethical rules.

QUALITY CONTROL SYSTEM

The functioning of the quality control system, independence and ethics is assured, in the first place, by the appointment at global and national levels of partners with vast experience in auditing (Reputation and Risk Leaders), without responsibilities for day-to-day management. Their role in the respective jurisdiction entails being at the forefront of all the matters relating to quality, reputation and independence at the Deloitte organisation. Their main duties include:

- the definition of policies and procedures relating to the acceptance and retention of Clients and engagements, as well as the evaluation of the risks attaching to those Clients and engagements, and the monitoring thereof;
- the definition of policies, and the issue and disclosure of rules governing standards and quality procedures, independence rules, ethics and professional conduct;
- following up changes in the regulation of the various services offered by Deloitte;
- the implementation and maintenance of mechanisms and processes aimed at quality, independence and ethics, with particular focus on the controls over the mechanisms for identifying conflicts, approval and consultation (between the different service lines and between the different countries or jurisdictions);
- the management and updating of the global list of Deloitte's Public Interest Clients ("International Restricted Entities List");
- the analysis of the information produced by the software GIMS – Global Independence Monitoring System (which encompasses Clients, persons from Deloitte, as well as services provided);
- the control of the annual Deloitte staff independence confirmation process and the conduct of test programmes and periodic inspections;
- the application of disciplinary procedures in the case of any breach of the rules laid down for independence and ethics.

Quality

Deloitte's quality-control policies embrace, amongst others, the following aspects:

- standards relating to the recruitment of professional staff;
- programming of Employees' professional careers;
- definition and development of the specific competencies of the teams allocated to each Client or department.

In addition:

- all the services or Clients prior to their acceptance by Deloitte are assessed for the risks involved.
- According to the grading given to those risks, actions are identified and control mechanisms implemented aimed at their monitoring. In order to document and record this process, Deloitte uses a centralised system called DRMS (Deloitte Risk Management System), which also includes the evaluation of conflicts of independence and interest and the assessment of the Client's reputation;
- all the services provided to Clients are subject to the quality review by other Deloitte partners who are independent in relation to the team which provided in the first place services to those Clients;
- the quality levels are further reinforced by centres of excellence for technical matters and for specialisation located in various parts of the world, which the responsible partners can have access to in order to guarantee that in each country the technical quality of the services provided is safeguarded;
- as a global organisation, Deloitte is the object of internal quality control undertaken by partners from other Deloitte member firms at least once every three years. The implementation plan for the recommendations arising from their reviews is controlled and monitored regularly;
- in Portugal, Deloitte is subject to the external quality control undertaken by the Ordem dos Revisores Oficiais de Contas (Portuguese Institute of Statutory Auditors). Deloitte & Associados, SROC S.A. is registered with the PCAOB (Public Company Accounting Oversight Board) and, consequently, is equally subject to its supervision.

Independence and ethics

Independence and ethics policies and practices are based on those issued by IFAC (International Federation of Accountants) and are complemented by national or other more stringent rules, namely, those issued by the SEC (U.S. Securities and Exchange Commission), those envisaged in the Sarbanes-Oxley Act, and the European Commission's recommendation of 16 May 2002 on auditors' independence. The disclosure of the independence and ethics control system is assured by means of strict standards which are periodically updated and made available to all persons working for the Deloitte firm via Intranet.

In the process of accepting Clients and engagements, any threats to independence are identified and evaluated, at the same time as possible preventative measures are taken and implemented in order to mitigate or reduce any such threats.

Internal training courses are held regularly dealing with independence and ethics, attendance of which is compulsory.

6.2. LIABILITY

In terms of the law[1], auditors[2] are jointly and severally liable for the "damages caused to the issuers or to third parties for any shortcomings in their reports or opinions".

6.3. REMUNERATION

The remuneration paid to Deloitte and its network[3] for services rendered to BPI Group companies in 2007 amounted to 2.0 M.€. This figure is broken down in the table below according to the nature of the work performed and the company to whom the services were provided:

Figures in thousands of euro

Type of service	Banco BPI	Banco de Fomento Angola	Banco Português de Investimento	BPI Gestão de Activos	Companies of BPI Group[1]	Total
Statutory audit	585	66	115	86	316	1 167
Other attest services	187	-	36	31	26	281
Tax consulting	389	-	33	-	8	431
Other services	122	3	-	-	-	125
Total	**1 283**	**68**	**185**	**117**	**350**	**2 004**

1) By order of importance (decreasing) according to the amount paid: BPI Vida, Banco BPI – Macau Offshore, Sofinac, BPI Pensões, BPI Capital Finance, Banco BPI Cayman, BPI Suisse, Inter Risco, BPI Fiduciaire, BPI – Locação de Equipamentos, BPI Rent, Douro-SGPS, Eurolocação and BPI Madeira.

Deloitte and its network did not provide any service to the BPI Group in areas such as financial information technology, internal audit, valuations, legal defence, recruitment, amongst others, which are capable of generating situations of conflict of interest and impairment to the quality of the audit and statutory audit work.

All the services provided by Deloitte, including the respective remuneration terms are, irrespective of their nature, the object of prior review and approval by the Audit Committee, thus constituting an additional mechanism safeguarding the independence of the External Auditor.

1) Article 10 of the Securities Code.
2) In terms of article 10 of the Securities Code, the term "auditors" includes "the Portuguese statutory auditors and other persons who have signed the report or the opinion" (paragraph 1a) and "the firms of Portuguese statutory auditors and other audit companies, provided that the documents audited have been signed by one of their members / partners" (paragraph 1b).
3) BPI's "Network" of auditors include Deloitte and Deloitte & Associados, SROC, S.A., and is in accordance with the definition of "Network" laid down by the European Commission in its Recommendation C (2002) 1873, of 16 May 2002.

7. Remuneration

7.1. REMUNERATION POLICY

7.1.1. Principles

BPI's remuneration policy is founded on five pillars.

Performance

The remuneration packages of BPI's Executive Directors and Employees are directly associated with the performance levels attained:

- by the Bank;
- by the business or business-support unit to which the person concerned is associated;
- by their individual merit.

The criteria used in ascertaining the performance level and relative weight of each one of the aforementioned areas vary according to the functions and degree of responsibility of the person concerned.

Competitiveness

BPI seeks to offer its Directors and Employees remuneration packages which are competitive taking into account market practice for a given area of specialisation, degree of responsibility and geographical area.

With this policy, BPI aims to attract and retain the most efficient and lucrative people who display the most potential for the organisation.

Strategy

The remuneration which is awarded to a specific Employee is also influenced by BPI's specific needs and priorities at any given moment, as well as by the importance and singularity of the person's contribution to the organisation.

Equity

BPI remuneration practices are founded on uniform, consistent, fair and balanced criteria.

Alignment with the Shareholders

All the Directors, Managers and Employees above a certain category have remuneration packages which include a portion which is anchored to the performance of Banco BPI shares on the stock exchange.

7.1.2. Principal components

The remuneration attributed to BPI Group Directors and Employees includes a fixed and a variable component.

The variable remuneration component increases with each one's level of responsibility and is set according to each one's merit.

The annual attribution of variable remuneration to the Group's senior staff with the highest responsibility results from the individual assessment undertaken by Banco BPI's Executive Committee.

In 2001 the BPI Group instituted the Variable Remuneration in Shares Programme (Portuguese initials RVA) which consists of the granting of part of the variable remuneration in the form of shares and options to buy BPI shares. The RVA Scheme encompasses the members of Banco BPI's Executive Committee, the Board of Directors of Banco Português de Investimento and those Employees whose variable remuneration is 2 500 euro or more. The weight of the RVA Scheme on variable remuneration rises with the level of responsibility, oscillating between a minimum of 10% and a maximum of 50%.

In point 8 – Share Incentive Scheme (RVA) – detailed information is provided about this important instrument for strengthening the alignment of Employees' and Directors' interests with those of the Shareholders.

Employees of the individuals and small businesses commercial network also benefit from the Incentive and Motivation System (SIM – *Sistema de Incentivo e Motivação*), which constitutes a component of variable remuneration which is awarded according to the commercial performance. This component's specific conditions are revised quarterly.

7.1.3. Profit sharing

Banco BPI has a policy of not remunerating its directors[1] in the form of a share in the net profit. Nonetheless, article 28 of Banco BPI's Statutes provides that the members of the Executive Committee can earn variable remuneration corresponding to a ceiling and in global terms of 5% of annual consolidated net profit. The overall amount of directors' compensation is recorded in the caption Personnel costs.

1) As well as the Employees.

7.2. REMUNERATION OF MEMBERS OF BANCO BPI'S GOVERNING BODIES

7.2.1. Rules for awarding and competent bodies

The Remuneration Committee is the governing body responsible for setting the amount of the annual remuneration to be paid to the members of Banco BPI's governing bodies.

The following table details the manner of remunerating the governing bodies, attribution rules and competent deciding bodies.

Remuneration structure of Banco BPI's governing bodies

			Remuneration – Fixed – Normal	Remuneration – Fixed – Attendance allowances	Remuneration – Variable – Cash	Remuneration – Variable – RVA Scheme	Rules – Fixed	Rules – Variable	Deciding body
Board of Directors	Members of the Executive Committee (CECA)	Chairman and Deputy-Chairman	✓	–	✓	✓	The amount of annual fixed remuneration is defined every three years by the General Meeting, Art. 28(2) and (3), in the deliberation which precedes the election of the Remuneration Committee. In subsequent years, the fixed remuneration is adjusted according to the increase stipulated by the ACTV – Vertical Collective Employment Agreement, for level 18.	GM defines every three years the maximum percentage of annual consolidated net profit which, not exceeding 5% each year, can be allocated to variable remuneration. The Remuneration Committee decides each year within the limits set by the GM, and based on the recommendations of the Nominations, Evaluation and Remuneration Committee, the variable remuneration to be granted to each member of the Executive Committee. Variable remuneration is determined each year on the basis of individual and collective performance. Weight of the RVA scheme on variable remuneration is 50% for the Chairman and Deputy-Chairman and 40% for the other members of the Executive Committee.	General Meeting, Remuneration Committee, based on the opinion of the Nominations, Evaluation and Remuneration Committee.
Board of Directors	Members of the Executive Committee (CECA)	Other members	✓	–	✓	✓			
Board of Directors	Chairman of the Board of Directors		✓	–	–		Amount of remuneration (fixed) is fixed at the start of the 3-year mandate. In subsequent years, the fixed remuneration is adjusted according to the increase stipulated by the ACTV – Vertical Collective Employment Agreement, for level 18.	–	General Meeting
Board of Directors	Non-executive Directors		✓	–	–		Amount of remuneration (fixed) is fixed at the start of the 3-year mandate.	–	
Board of Directors' Committees	Audit Committee		–	✓	–		–	–	
Board of Directors' Committees	Nomination, Evaluation and Remuneration Committee		–	✓	–		–	–	–
Board of Directors' Committees	Corporate Governance Committee		–	✓	–		–	–	–
Remuneration Committee			–	–	–		Is not remunerated.	–	–
Portuguese Statutory Auditor			✓	–	–		The fees are fixed annually.	–	Audit Committee

7.2.2. Exclusivity

It is the BPI Group's policy that the persons forming part of Banco BPI's Executive Committee can only exercise corporate functions at other companies as BPI representatives. The remuneration awarded to them for occupying those positions is included in the overall remuneration set by the Remuneration Committee. These Directors are barred from exercising any other remunerated functions.

1) Evaluation criterias take into consideration an adequate balance between merit, individual performance and contribution to the Executive Committee's effectiveness.

7.2.3. Remuneration earned in 2007

In 2007, the total remuneration paid to Banco BPI's Executive Committee was 6.4 M.€, which corresponds to an increase of 4.5% relative to 2006.

The variable component amounted to 4.5 M.€, corresponding to 71% of the total remuneration (identical to that recorded in 2006). In 2007, the variable remuneration as a percentage of net profit was situated at 1.3% (1.4% in 2006).

Remuneration of members of Banco BPI's Board of Directors[1]

Amounts expressed in thousands of euro

	2006					2007				
	Fixed[2, 3]	Variable[4]			Total	Fixed[2, 3]	Variable			Total
		Cash	RVA	Total			Cash	RVA	Total	
Executives[6]	1 786	4 300	-	4 300	6 086	1 830	2 548[5]	1 982[5]	4 530	6 360
Non-executive	1 142	-	-	-	1 142	1 135	-	-	-	1 135
Total	**2 929**	**4 300**	**-**	**4 300**	**7 229**	**2 965**	**2 548**	**1 982**	**4 530**	**7 495**

1) Remuneration earned for executive functions exercised, not only at Banco BPI, but at all the companies with which Banco BPI maintains a controlling or group relationship, in conformity with the amendments made to the Annex to the CMVM's Regulation no. 7 / 2001 by CMVM Regulation no. 11 / 2003.
2) Fixed remuneration includes length of service increases and bonuses.
3) The fixed remuneration of the Board of Directors' members who are members of the Audit and Internal Control Committee up until 20 April 2006 and of the Audit Committee effective from that date, include the attendance allowances for those governing bodies in the overall amounts of 148 thousand euro and 142 thousand euro, respectively in 2006 and 2007.
4) In 2006, the variable remuneration was fully paid in cash.
5) Estimated attribution value.
6) The Executive Directors' combined share in profits cannot exceed annually 5% of net profit (article 28 of the Statutes).

A portion of the variable remuneration relating to 2007 will be paid in cash, while the balance will take the form of BPI shares and options granted under the Group's existing RVA scheme.

On the date of signing off the present report, no information was available which permitted quantifying the amounts to be granted under either of the above two forms. However, it is estimated that roughly 56% of the variable remuneration will be paid in cash and 44% in RVA incentives.

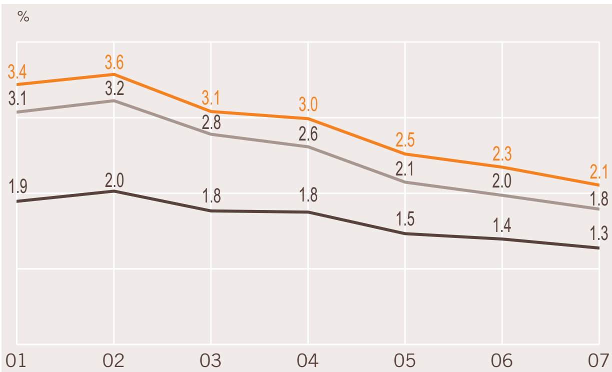
The variable remuneration relating to 2006 was wholly paid in cash.

The remuneration of the non-executive members of the Board of Directors totalled 1.1 M.€, in 2007, and includes the payment attendance allowances for meetings of the Audit Committee (nine meetings).

7.2.4. Weight of remuneration on net profit

The total amount of remuneration (fixed and variable) of the members of the Board of Directors represented in 2007 2.1% of Banco BPI's consolidated net profit for that year (2.3% in 2006).

Weight of the remuneration of members of Banco BPI's Board of Directors in net profit



— Total remuneration, as a % of consolidated net profit, of all Board of Directors including fixed and variable remunerations of Executive Committee members.
— Total remuneration, as a % of consolidated net profit, of the Board of Directors' Executive Committee.
— Variable remuneration, as a % of consolidated net profit, of the Board of Directors' Executive Committee.

7.3. REMUNERATION OF MEMBERS OF BANCO PORTUGUÊS DE INVESTIMENTO'S BOARD OF DIRECTORS

The remuneration of members of Banco Português de Investimento's Board of Directors is fixed by the Remuneration Committee, based on a proposal by the Chairman Banco BPI's Executive Committee and on the opinion of the Chairman of Banco BPI's Board of Directors. The variable remuneration amount takes into account the Bank's and each director's individual performances.

It is the BPI Group's policy that the persons forming part of Banco Português de Investimento's Board of Directors, with executive functions at BPI Group, can only exercise corporate functions at other companies as BPI representatives or in the interest of BPI. The remuneration awarded to them for occupying these positions is included in the overall remuneration set by the Remuneration Committee. These Directors are barred from exercising any other remunerated functions.

Remuneration of Banco Português de Investimento's Board of Directors members[1]

Amounts expressed in thousands of euro

	2006					2007[2]				
	Fixed	Variable			Total	Fixed	Variable			Total
		Cash	RVA	Total			Cash	RVA	Total	
Remuneration	1 123	1 880	-	1 880	**3 003**	1 107	1 514[3]	486[3]	2 000	**3 107**

1) Remuneration earned by members of Banco Português de Investimento's Board of Directors, who are not members simultaneously of Banco BPI's Board of Directors Executive Committee, for functions exercised not only at Banco Português de Investimento, but at all the companies with which Banco BPI has a controlling of group relationship.
2) In 2007, the figures include the annual remuneration of the members of the Board of Directors whose terms of office terminated in that year.
3) Estimated amount to be granted.

7.4. PENSION PLANS FOR DIRECTORS OF THE BANKS

The pension plans for Directors of the BPI Group's banks are embodied in two regulations: one which applies to the Directors of Banco BPI's Executive Committee, to the former Directors of the Executive Committee of the ex-BPI SGPS and to the former members of the elected Management Board of Banco Português de Investimento who, after nine years of service, still remain in management functions at any bank controlled by it; and the other which applies to the Directors of Banco Português de Investimento.

As regards benefits, the regulations prescribe the payment of retirement (old age or infirmity) and survivors' pensions, calculated in accordance with the fixed monthly salary earned in the month before the retirement date and the number of years of service. As a rule, the maximum benefit (100%) is attained with 16 years of service[1] as Director and with more than 60 years of age.

The pensions paid by the Social Security or by other BPI Group pension plans are deducted from the pensions payable under the Directors' plan.

For purposes of calculating the obligations allocated to the Directors' pension plan, account is also taken of the application of the regulations for the Directors of the Banco Fonsecas & Burney (incorporated in Banco BPI) and for the Directors of Banco Português de Investimento. The universe of Directors covered, which includes the Chairman of Banco BPI Board of Directors, at 31 December 2007, was as follows:

	Current	Retired	Total
Number of persons	18	4	22
Obligations (thousand of euro)	19 043	4 345	23 388

As regards the Executive Committee in office, at 31 December 2007 the situation was as follows:

Number of persons	7
Average period of service	9.4
Obligations (thousand of euro)	8 072

In December 2006, the liabilities for retirement and survivors' pensions to the Directors of the BPI Group's Banks were transferred to an open-end pension fund (Fundo de Pensões BPI Valorização).

The fund assets allocated to the Directors of the BPI Group's Banks amounted to 23 372 th.€ at 31 December 2007, covering 99.9% of the respective obligations for past services.

1) Or, in the case of Banco Português de Investimento Directors, with the exercise of management functions at the BPI Group for at least 20 years, at least 10 of which as Directors.

7.5. LOANS TO MEMBERS OF BANCO BPI'S BOARD OF DIRECTORS

In general terms, the granting of loans to the members of the Executive Committee of Banco BPI's Board of Directors is regulated in article 85 of the General Regime of Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras). This enactment provides that "credit institutions cannot grant loans in whatever form or mode, including the provision of guarantees, and whether directly or indirectly, to the members of the management or supervisory bodies, neither to companies or other collective entities controlled by them directly or indirectly", unless such loans can be classified as "operations of a social nature or with a social objective or arising from personnel policy".

In this regard and in terms of established policy, the members of the Executive Committee of Banco BPI's Board of Directors benefit from the subsidised home loan regime in force at the Banks for all their Employees. Hence, at 31 December 2007, the overall balance on mortgage loans granted to members of the Executive Committee of the Board of Directors for the purpose of acquiring their own homes amounted to 2.5 M.€ (2.8 M.€ in 2006).

The terms and conditions – risk evaluation, interest rates, guarantees furnished, term, etc. – under which loans are granted to the members of the Executive Committee of Banco BPI's Board of Directors are identical to those applied to the Group's other Employees.

The executive directors, as well as Employees, also benefit from a credit line for the exercise of options and the retention of the shares obtained in portfolio, as described in greater detail under point relating to this scheme (point 8.2.5, on page 378).

7.6. INSURANCE OF BANCO BPI'S DIRECTORS

The Chairman of the Board of Directors and Executive Directors of Banco BPI in current service benefit from a range of insurance policies which cover life, illness and accident risks.

Amounts expressed in thousands of euro

Policy	Risk covered	Capital insured
Group life assurance	Illness	424
	Accident (involuntary cause)	848
	Traffic accident	1 272
Personal accident insurance	Accident	140
Work accident insurance	Dead or professional disability	Pension[1]
Health insurance[2]	Illness or accident	25[3]

1) To himself / herself (or surviving spouse) and to children (if dependents).
2) Covers the respective family.
3) Annual.

The costs borne by the BPI Group in connection with the abovementioned policies amounted to 46.9 thousand euro in 2007.

In addition, the BPI Group bears costs of 7.7 thousand euro associated with SAMS contributions relating to the three members of Banco BPI's Executive Committee who benefit from this scheme's protection.

7.7. INDEMNITIES AND EARLY TERMINATION OF CONTRACTS

7.7.1. Early termination of contracts

BPI has a policy in cases where this is a dismissal or an early termination of a contract with an executive director, to grant to such person the amount of fixed remuneration to which he/she is entitled had he/she remained in office till the date of any contract renewal. The compensation for the variable remuneration component is attributed on the same terms, based on the last amount awarded.

No severance compensation was paid nor is any due in 2007 to any former executive directors relating to the cessation of their functions during the year.

7.7.2. Change in control of the company

The BPI Group's Directors and Senior Employees do not benefit from any indemnity clause of an extraordinary nature, in terms of which they are entitled to be compensated in the event of a change occurring in the control of the company.

7.8. OTHER BENEFITS / COMPENSATION

The BPI Group's Directors and Employees do not benefit from other forms of remuneration other than those referred to in this chapter or which are derived from the normal application of the ACTV (Collective Employment Agreement for the Banking Sector) or from labour law.

8. Share Incentive Scheme

8.1. CONCEPT, BENEFICIARIES AND OBJECTIVES

8.1.1. Concept

The BPI Group has a variable remuneration programme in shares (Portuguese initials – RVA) which entails, each year, the awarding of a portion of the variable remuneration in the form of Banco BPI shares and share options. This programme has been in force at the Group since the beginning of the 2001 financial year.

8.1.2. Beneficiaries

The programme encompasses Banco BPI's Executive Committee and Banco Português de Investimento's Board of Directors, and all Employees whose annual variable remuneration is equal to or exceeds 2 500 euro[1].

8.1.3. Objectives

The RVA scheme constitutes an important management instrument for the Group's human resources and strengthens the alignment of Directors' and Employees' interests with the ultimate goal of the Group and its Shareholders – the creation of value.

- Encourages individual merit, given that since it is a variable component of remuneration, the amount thereof grows in step with the individual's performance and merit.
- Aligns the interests of the Directors and Employees with those of the Shareholders, given that the income is intrinsically tied to the performance of the BPI share on the stock exchange, while the importance of this incentive relative to the total remuneration rises commensurately with the level of responsibility. This stimulus is intensified by the existence of the option to buy BPI shares, thereby permitting the leveraging of the gains from the future appreciation of the shares, while a negative trend in the share price results in a nil value of the options.
- Boosts fidelity and retains talents – given that the RVA incentive is made available to the beneficiary in phases, from the award date to the end of the third year thereafter, and under the condition that the beneficiary maintains a connection with the Group. This effect is all the more important the higher the individual's responsibility and merit and constitutes an important means for the positive selection of human resources.

TOTAL REMUNERATION

Fixed remuneration | **Variable remuneration**

Composition of variable remuneration	% of variable remuneration in cash	% of variable remuneration in shares and options
Chairman and Deputy-Chairman of the Executive Committee	50%	50%
Other Directors of the Executive Committee	60%	40%
Other members of the Investment Bank Board of Directors	65%	35%
Managerial staff	85% to 70%	15% to 30%
Other Employees	90%	10%

Variable remuneration in cash (€) | **RVA (€)**

Composition of RVA (subject to RVA beneficiaries choice)	% of RVA in shares	% of RVA in options
	100%	0%
	75%	25%
	50%	50%
	25%	75%
	0%	100%

Variable remuneration in shares (€) | **Variable remuneration in options (€)**

1) In the 2007 RVA programme, those Employees whose variable remuneration is situated between 2 500 and 10 000 euro are granted the option to receive the variable remuneration wholly in cash or to be covered by the RVA under the terms applicable to each one of them.

Main characteristics of the RVA Scheme

Type	Granting of Banco BPI shares and share options
Dilution	The execution of the share incentive scheme does not contemplate the issue of capital.
Settlement (attribution of shares and exercise of options)	The attribution of shares and the exercise of options is effected by recourse to the treasury stock portfolio constituted for this purpose.
Frequency	Regular annual attribution programme.
Period to which it refers	The RVA remuneration is a component of variable remuneration, which is calculated based on the assessment of the performance for the year to which the award refers and therefore represents remuneration for services rendered.
Accounting treatment of the attribution cost	The value of the RVA incentive granted is recorded as personnel costs, considering for this purpose the market value of the shares (average quoted price in the last ten stock exchange sessions prior to the grant) and the fair value[G] of the options. The attribution cost is deferred on a straight-line basis from the beginning of the year to which the attribution refers and the date it becomes available to Employees (in the case of the Share Scheme: 25% on the grant date and the balance at the end of each one of the three ensuing years; in the case of the Options Scheme, at the beginning of the exercise period[G]).
Accounting treatment of the cover cost (in-house)	BPI provides its own cover for the options using for this purpose portfolios of own shares. The gains and losses realised on the treasury stock portfolio to cover the options plan are recorded directly in shareholders' equity, thereby not affecting net profit for the year. On the options exercise date, the gains or losses corresponding to the difference between the exercise price[G] and the average acquisition cost of own shares is recognised in shareholders' equity.
Annual limit of the RVA scheme	Number of shares attributed and shares underlying the options attributed: 2% share capital.
Cumulative limit of the RVA scheme	Number of shares underlying the options in existence at any given moment, exercisable or not: 5% share capital.
Value of the shares attributed	Average of the market share price for the last 10 sessions before the attribution date.
Value of the options attributed	At-the-money, with the exercise price corresponding to the average of the market share price for the last 10 sessions before the attribution date.
Availability of the shares	25% immediately and the remainder at the end of each of the following 3 years.
Exercise of the options	In the period falling between the 90th[1] day and the end of the 5th year after the award date
Possibility of repricing the options	No.
Transferability of the options	Not tradable.
No. of existing options as a % of capital[2]	0.8%

1) For the options granted under the 2005 and following RVA. For the options granted under the RVA 2001 to RVA 2004 programmes, the exercise period began a year after the award date and ended at the end of the fifth year from the award date.

2) Position at the end of 2007.

SHARE INCENTIVE SCHEME

Attribution conditions

Share scheme

As a general rule, shares are transmitted immediately to the beneficiary. However, their free disposal takes place in a phased manner – 25% are released immediately on attribution, while the remaining 75% are placed at the beneficiary's disposal at the end of the first, second and third year after the attribution date, and providing that the beneficiary continues to be employed by the Group on those dates under pain of the transfer of the other shares still not released being cancelled.

Share scheme – attribution, transfer and free disposal

	Attribution	Transfer	Free disposal[1]
Attribution date	100%	100%	25%
1 year later	-	-	25%
2 years later	-	-	25%
3 years later	-	-	25%

1) The consolidation of the transfer of the shares which are released occurs on the dates they become freely disposable.

Option scheme

The options to purchase Banco BPI shares are transmitted to the beneficiary's title on the attribution date. The options are not tradable. The exercise period[G] as relates to the options attributed under the 2005 RVA and following RVA begins between the 90th day from the date they are awarded – providing that until such date the employment relationship has not been terminated, in which case the transfer is cancelled – and the end of the fifth year from the award date.

Option scheme – attribution, transfer and free disposal

	Attribution	Transfer	Free disposal
Attribution date	100%	100%	-
90.º days late[1]	-	-	Start of exercise period
2 years later	-	-	
3 years later			
4 years later			
5 years later	-	-	End of exercise period

1) For the options granted under the 2005 and following RVA. For the options granted under the 2001 to 2004 RVA programmes, the exercise period began a year after the award date and ended at the end of the fifth year after the award date.

Determination of value

Shares scheme

The value of the shares for attribution purposes corresponds to the average of the weighted daily average of the share price at the last 10 stock exchange sessions before the attribution date.

Options scheme

In the case of options their fair value is used, with the attribution value of the shares being the exercise price[G].

Determination of the quantity of shares and purchase options to attribute

The number of shares and options to be attributed results from the quotient between the variable remuneration portion to be attributed in the form of the RVA incentive scheme and the value laid down for the attribution of the shares and purchase options.

In the RVA 2001 and RVA 2002 programmes, the weight of the share and options components on the amount of the RVA incentives was mandatorily identical (50% / 50%), whereas in the RVA 2003 programme the Directors and Employees were given the option to select the relative weight of each one of the components from amongst the following combinations:

- 50% shares / 50% options (2001 and 2002 regime);
- 75% shares / 25% options;
- 00% shares / 0% options.

It was decided to increase the number of combinations for purposes of the 2007 RVA programme, adding the following to the existing mix:

- 0% shares / 100% options;
- 25% shares / 75% options;
- 100% cash (where the variable remuneration is 2 500 euro or more but less than 10 000 euro).

Limits to the scale of the programme

The total number of shares and the shares underlying the options awarded in each year cannot exceed 2% of share capital, and the number of shares underlying the various series of existing options (whether they are exercisable or not) cannot exceed 5% of share capital, in accordance with the rules of the RVA incentive programme in force.

Right to dividends, right of preference in capital increases and voting rights at General Meetings

Banco BPI shares transferred to the ownership of a Director or Employee, either by the direct attribution of shares under the RVA scheme or through the exercise of the options attributed, are identical in nature to other Banco BPI shares and confer, in these terms, the same rights, namely, as to dividends, preference in capital increases and voting at General Meetings.

In the case of options, the number held and the exercise price are adjusted in the case of capital increases through the incorporation of reserves[G] or by subscription reserved for shareholders, in such a way that the position of the option holder remains substantially the same as that existing before the occurrence of the fact.

The execution of the RVA programme does not provide for the repricing of options.

Prohibition periods for the exercise of options and trading shares

Share trading

Trading in shares attributed under the RVA scheme and those resulting from the exercise of options are subject to the provisions embodied in the codes of conduct in force at the Group relating to the trading of Banco BPI shares by Directors and Employees.

Exercise of options

Options can be exercised at any moment during the exercise period. However, the sale of shares resulting from the exercise of options and, therefore, the realisation of the gain afforded under the option scheme, is subject to the prohibition periods laid down in the codes of conduct relating to the trading of Banco BPI shares by Directors and Employees.

Credit line for the exercise of options and maintenance of shares on hand

At the start of 2004, an RVA Credit Line was created which is now available to the Bank's Employees and Executive Directors who wish to exercise the RVA options and retain in portfolio the shares thus acquired.

As regards the use of the credit line by members of the Executive Committee, the Audit Board[1] and the Bank of Portugal have given their approval, at the same time as the Remuneration Committee was informed.

An amount – with a minimum limit of 2 500 euro and up to 75% of the market value of shares to be acquired as a consequence of the exercise of the respective options – is made available under this credit line, up to a maximum of 100% of the amount required for the exercise of the options.

The maximum loan term is 4 years, although an Employee can make partial repayments of principal or repay the debt in full before maturity date without incurring any penalties. The outstanding principal bears interest at the 12-month Euribor rate plus 0.75 percentage points.

Trading in treasury stock

For purposes of share attribution, covering the option plan and the exercise of options, BPI has constituted treasury stock (own shares) portfolios earmarked exclusively for this purpose. The execution of the RVA scheme does not contemplate the recourse to share capital issues, although the RVA Regulations do not expressly exclude this alternative.

Approval, regulation, directives and responsibilities for the execution and modification of the RVA scheme

The general lines of the RVA scheme were approved by the General Board[1] on 10 December 1998. At the Shareholders' General Meeting of 21 April 1999, the Chairman of the Board of Directors presented to the Shareholders a proposal authorising the acquisition and sale of treasury stock by the company for the purpose of making the execution of the incentive scheme viable. This motion was carried with 99.99% of the votes in favour, and has been endorsed in following years.

The general provisions of the RVA Programme, as well as the duties of the bodies to execute and modify it, are laid down in a specific regulation. The RVA regulations were approved by the General Board on 25 February 1999, while the following alterations were introduced on 3 March 2004 and 20 October 2005:

- adjustments to the RVA methodology with the object of including ahead of time the rules stemming from the introduction of the IAS;
- change to the options exercise period which, in relation to the 2005 and following RVA programmes, is now between the ninetieth day and the end of the fifth year from the award date.

RVA scheme's executive bodies

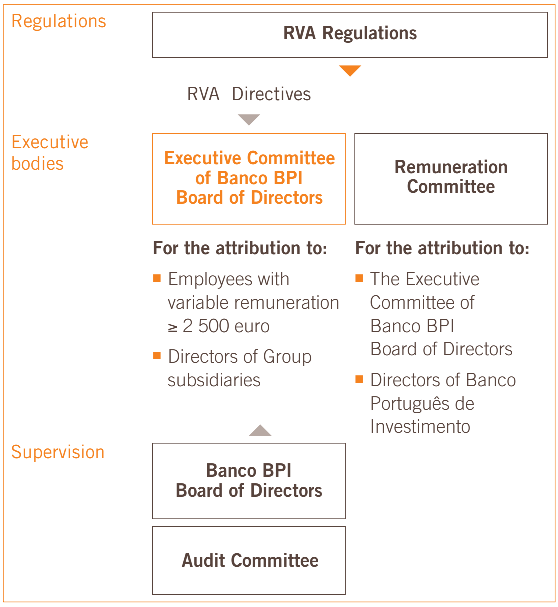
The Board of Directors delegated the annual execution of the RVA scheme to the Executive Committee. The concrete aspects of the RVA scheme's execution are regulated in a number of directives approved by the Board of Directors, which are binding on the Executive Committee's actions. Under the share incentive and options scheme (RVA) regulations, the Board of Directors' Executive Committee is responsible for the awarding of shares and share options to all the Group's Employees and to the Directors of BPI Group subsidiaries, excluding Banco Português de Investimento. In this domain, the following are the Executive Committee's principal duties:

1) Management body in the BPI Groups' governance model prior to the alterations approved by the General Meeting of 20 April 2006.

- fixing the maximum number of shares and options to be awarded each year, as well as the criteria (of which the merit assessment of each Employee always forms part) and the conditions underlying the distribution of these benefits amongst the Group's Employees;
- the adoption, at each attribution, of a model for valuing options which permits a more reasonable and realistic calculation of their fair value;
- interpreting the RVA regulations and covering any loopholes;
- making occasional changes to the RVA's contractual provisions, such as for example, bringing forward the option maturity dates or dispensing with the verification of the suspensive conditions or renouncing the attribution under condition subsequent.

The exercise of the above functions by the Executive Committee is monitored by the Audit Committee, as well as by the Board of Directors.

Management of the Variable Remuneration in Shares programme



The Remuneration Committee is responsible for the awarding of shares and share options to the members of the Executive Committee of Banco BPI's Board of Directors and to the Directors of Banco Português de Investimento, undertaking the same functions as those attributed to the Executive Committee for purposes of attributing the RVA scheme to Employees, based on the opinion of the Nominations, Evaluation and Remuneration Committee. In terms of the RVA scheme's regulations, the Remuneration Committee cannot adopt more favourable award conditions than those applied by the Executive Committee in the attribution of the RVA scheme to Employees.

In the same way, any technical adjustments to the exercise price of quantity of options held by members of the Executive Committee and by the Directors of Banco Português de Investimento cannot be effected under more favourable conditions than those applied to the Employees.

Accounting treatment

Attribution

BPI records the remuneration attributed under the RVA scheme in the caption Personnel costs. The cost is deferred from the start of the year to which the award refers to the moment the benefits are made available to Employees.

Even before the transition to IAS / IFRS, BPI used the fair value[G] of the shares and options on the attribution date for recording the cost of the RVA scheme award. In valuing the shares their market value is used (average of the 10 stock exchange session prior to attribution), whilst in the case of options, given the non existence of a market value for RVA options and for similar traded options, BPI resorts to a valuation model which conforms to the generally-accepted valuation principles for financial instruments and which incorporates all the relevant information available.

It should be pointed out, moreover, that for purposes of the granting of shares and the exercise of the options awarded, BPI resorts to the acquisition of own shares, while no provision is made for the issue of new shares.

In the notes to the consolidated financial statements, – "2.9. Share-based payment (Remuneração Variável em Acções – RVA) (IFRS 2)" and "4.47. Share-based variable remuneration programme" – the accounting treatment of the RVA programme, the valuation of the incentives awarded and the accounting impact are described.

RVA scheme cover

The BPI Group executes its own cover operations for the RVA share and option scheme.

As regards cover for the options plan, BPI has treasury stock portfolios allocated to each one of the live options series in order to guarantee a number of shares corresponding to the product of the options delta by the number of existing options. The gains and losses on the portfolio of own shares held to cover the options plan are recorded directly in shareholders' equity, and therefore do not affect net profit for the year. The gains or losses corresponding to the difference between the exercise price and the average acquisition cost of the own shares are recorded in shareholders' equity on the date the options are exercised.

8.2. EXECUTION OF SHARE INCENTIVE SCHEME

8.2.1. Extension of the RVA Scheme

Since the entry into force of the RVA Scheme in 2001, the number of Executive Directors of the Banks, Managers and other Employees of the BPI Group covered by the RVA Scheme represented on average 39% of the Group's workforce in Portugal.

The number of Executive Directors of the Banks, Managers and other Employees of the BPI Group covered by the 2007 RVA programme stood at 3 447, which corresponds to 53% of the Group's workforce in Portugal.

	% of RVA in the variable remuneration	No. of persons covered					
		RVA 2001	RVA 2002	RVA 2003	RVA 2004	RVA 2005	RVA 2007
Executive Committee of Banco BPI[1]							
Chairman and Deputy-Chairman of the Executive Committee of Banco BPI[1]	50%	2	2	2	2	2	2
Other Directors of the Executive Committee of Banco BPI[1]	40%	5	5	5	6	5	5
Other Directors of Banco Português de Investimento[2]	35%	8	7	7	7	7	5
Managerial staff and other Employees							
Managerial staff							
Central Managers	30%	45	38	39	42	42	32
Coordinating Managers	25%	61	59	58	51	58	58
Managers	20%	73	77	81	84	86	105
Assistant Managers and Sub-managers	15%	319	307	303	287	314	335
Subtotal: Managerial staff	-	498	481	481	464	500	530
Other Employees	10%	1 565	1 660	1 673	1 806	2 150	2 905
Total	**-**	**2 078**	**2 155**	**2 168**	**2 285**	**2 664**	**3 447**

Note: In relation to 2006, the RVA Scheme was not applied, with the result that the variable remuneration, including the amount corresponding to the RVA incentive, was paid wholly in cash.
1) The Executive Directors of BPI SGPS in 2001, and up to 20 December 2002.
2) Other Directors of Banco BPI and Banco Português de Investimento in 2001, and up to 20 December 2002.

8.2.2. Total value

Until 2007, the accumulated value of variable remuneration in the form of RVA incentives since they began to be awarded amounts to 38.0 M.€.

In relation to 2006, the RVA Scheme was not applied, with the result that the variable remuneration, including the amount corresponding to the RVA incentive, was paid wholly in cash.

At the date of the approval of the present Report, no information was yet available regarding the number of shares and options relating to the 2007 financial year to be granted to the Directors and Employees.

In the accumulated total since its introduction and up until the 2005 RVA programme, the RVA Scheme entailed the granting of 5.3 million options, which correspond to 0.7% of Banco BPI's share capital, and the granting of 30.5 million options, of which the underlying number of shares represents 4.0% of Banco BPI's capital.

Share attribution

Share attribution scheme	RVA 2001		RVA 2002	RVA 2003	RVA 2004	RVA 2005
	Original	Adjusted[1]				
Manner of attribution	Under condition subsequent and under condition precedent		Under condition subsequent	Under condition subsequent	Under condition subsequent	Under condition subsequent
Attribution date	21 March 02		22 February 03	23 February 04	28 February 05	23 February 06
Attribution price	2.67 euro	2.54 euro[2]	2.14 euro	3.13 euro	3.10 euro	4.44 euro
No. of shares attributed[3]						
Banco BPI Executive Committee[4]	215 875	218 996	265 307	220 930	307 585	183 001
Banco Português de Investimento's Board of Directors[5]	86 888	89 452	96 501	72 409	106 414	63 067
Managerial staff and other Group Employees	635 217	679 497	810 721	730 208	823 832	658 272
Total	**937 980**	**987 945**	**1 172 529**	**1 023 547**	**1 237 831**	**904 340**

1) Figures adjusted for dividends and the 2002 capital increase.

2) Attribution price of the RVA-2001 adjusted for the capital increase realised in May 2002.

3) The number of shares initially attributed under the RVA 2001 was adjusted by the payment of dividends and by the share capital increase realised by BPI SGPS (now Banco BPI) in May 2002. The adjustments entailed the attribution of an additional 37 211 shares (against the payment of 1.75€ per share) to Directors, managerial staff and Employees as an adjustment for the capital increase realised and 12 754 shares as adjustment for the distribution of dividends in respect of the 2001 financial year. In this last point, it is important to note that only the Director or Employees who opted for the attribution under precedent condition – in terms of which the shares in a captive situation remain in legal terms the Bank's property – were the object of the aforementioned adjustment. Those members who opted for the attribution under subsequent condition received a dividend relating to all the shares – captive and available – in cash.

4) BPI SGPS's Executive Directors in 2001 and up until 20 December 2002.

5) Other Directors of Banco BPI and Banco Português de Investimento in 2001 and up until 20 December 2002.

Attribution of share purchase options

Share purchase options attribution scheme	RVA 2001		RVA 2002	RVA 2003	RVA 2004	RVA 2005
	Original	Adjusted[1]				
Attribution date	21 Mar. 02		22 Feb. 03	23 Feb. 04	28 Feb. 05	23 February 06
Exercise period	21 Mar. 03 to 21 Mar. 07		22 Feb. 04 to 22 Feb. 08	23 Feb. 05 to 23 Feb. 09	28 Feb. 06 to 28 Feb. 10	23 May 06 to 23 Feb. 11
No. of shares that may be acquired for each option held	1	1	1	1	1	1
Exercise price	2.67 euro	2.54 euro	2.14 euro	3.13 euro	3.10 euro	4.44 euro
Value of each option	0.65 euro	0.62 euro	0.33 euro	0.45 euro	0.31 euro	0.45 euro
No. of options granted						
Banco BPI Executive Committee[2]	859 725	904 216	1 720 457	1 310 003	1 624 195	1 805 558
Banco Português de Investimento's Board of Directors[3]	346 818	364 767	625 761	503 614	584 278	622 225
Managerial staff and other Group Employees	2 607 040	2 741 681	5 251 558	3 236 802	4 790 338	4 408 981
Total	**3 813 583**	**4 010 664**	**7 597 776**	**5 050 419**	**6 998 811**	**6 836 764**

1) As a consequence of BPI SGPS's share capital increase (now Banco BPI) realised in May 2002, the exercise price of the options resulting from the RVA-2001 was adjusted from 2.67€ to 2.54€ and the number of options attributed under the RVA-2001 programme increased by 5%.

2) BPI SGPS' Executive Directors in 2001 and up until 20 December 2002.

3) Other Directors of Banco BPI and Banco Português de Investimento in 2001 and up until 20 December 2002.

8.2.3. Record of the share purchase options scheme

In 2007, 4.8 million options were exercised, which corresponded in terms of the number of underlying shares, to 0.6% of Banco BPI's capital. At 31 December, there were 5.7 million RVA options, all exercisable. The exercise period for the RVA 2002 options terminates on 22 February 2008.

Record of the programme for the attribution of share purchase options – 2001, 2002, 2003, 2004 and 2005

	Executive Committee of Banco BPI[1]	Banco Português de Investimento's Board of Directors[2]	Managers and other Employees	Total
RVA 2001 (number of options)				
Granted in March 2002[3, 4]	**904 216**	**364 767**	**2 741 681**	**4 010 664**
exercised in 2002	0	0	0	0
extinguished in 2002	0	0	25 124	25 124
RVA 2001 options existing at 31 Dec. 02	904 216	364 767	2 716 557	3 985 540
exercised in 2003	0	0	78 634	78 634
extinguished in 2003	0	0	12 580	12 580
RVA 2001 options existing at 31 Dec. 03	904 216	364 767	2 625 343	3 894 326
exercised in 2004	590 038	163 072	1 605 627	2 358 737
extinguished in 2004	0	0	59 066	59 066
RVA 2001 options existing at 31 Dec. 04	314 178	201 695	960 650	1 476 523
exercised in 2005	231 031	84 280	532 347	847 658
extinguished in 2005	0	0	13 418	13 418
RVA 2001 options existing at 31 Dec. 05	83 147	117 415	414 885	615 447
exercised in 2006	0	72 274	264 441	336 715
extinguished in 2006	0	0	8 885	8 885
RVA 2001 options existing at 31 Dec. 06	83 147	45 141	141 559	269 847
exercised in 2007	83 147	45 141	136 225	264 513
extinguished in 2007	0	0	5 334	5 334
RVA 2001 options existing at 31 Dec. 07[5]	**0**	**0**	**0**	**0**
RVA 2002 (number of options)				
Granted in February 2003[4]	**1 720 457**	**625 761**	**5 251 558**	**7 597 776**
exercised in 2003	0	0	11 210	11 210
extinguished in 2003	0	0	25 008	25 008
RVA 2002 options existing at 31 Dec. 03	1 720 457	625 761	5 215 340	7 561 558
exercised in 2004	1 491 365	106 061	2 808 544	4 405 970
extinguished in 2004	0	0	6 255	6 255
RVA 2002 options existing at 31 Dec. 04	229 092	519 700	2 400 541	3 149 333
exercised in 2005	171 469	180 304	1 111 640	1 463 413
extinguished in 2005	0	0	9 321	9 321
RVA 2002 options existing at 31 Dec. 05	57 623	339 396	1 279 580	1 676 599
exercised in 2006	0	169 698	837 619	1 007 317
extinguished in 2006	0	0	13 121	13 121
RVA 2002 options existing at 31 Dec. 06	57 623	169 698	428 840	656 161
exercised in 2007	0	14 788	301 058	315 846
extinguished in 2007	0	0	0	0
RVA 2002 options existing at 31 Dec. 07	**57 623**	**154 910**	**127 782**	**340 315**
RVA 2002 exercisable options at 31 Dec. 07	57 623	154 910	127 782	340 315

1) BPI SGPS Executive Directors in 2001 and up until 20 December 2002 (date on which BPI SGPS was transformed into Banco BPI).
2) Other Directors of Banco BPI and Banco Português de Investimento in 2001 and up until 20 December 2002.
3) Number of options granted adjusted for BPI SGPS's (now Banco BPI) share capital increase realised in May 2002.
4) In terms of the RVA regulations, the number of shares which are object of the options granted in the year cannot exceed 2% of Banco BPI's share capital at the date of the attribution of the aforementioned incentives. Simultaneously, the total number of shares which are object of the options in force (matured or not) cannot exceed at any point in time 5% of Banco BPI's share capital.
5) The period for the exercise of the RVA 2001 options terminated on 21 March 2007.

Record of the programme for the attribution of share purchase options – 2001, 2002, 2003, 2004 and 2005 (continued)

	Executive Committee of Banco BPI[1]	Banco Português de Investimento's Board of Directors[2]	Managers and other Employees	Total
RVA 2003 (number of options)				
Granted in February 2004[4]	**1 310 003**	**503 614**	**3 236 802**	**5 050 419**
exercised in 2004	0	0	0	0
extinguished in 2004	0	0	37 990	37 990
RVA 2003 options existing at 31 Dec. 04	1 310 003	503 614	3 198 812	5 012 429
exercised in 2005	288 890	81 667	1 034 400	1 404 957
extinguished in 2005	0	0	6 751	6 751
RVA 2003 options existing at 31 Dec. 05	1 021 113	421 947	2 157 661	3 600 721
exercised in 2006	681 112	204 168	1 391 535	2 276 815
extinguished in 2006	0	0	1 582	1 582
RVA 2003 options existing at 31 Dec. 06	340 001	217 779	764 544	1 322 324
exercised in 2007	224 231	0	271 081	495 312
extinguished in 2007	0	0	2 118	2 118
RVA 2003 options existing at 31 Dec. 07	**115 770**	**217 779**	**491 345**	**824 894**
RVA 2003 exercisable options at 31 Dec. 07	115 770	217 779	491 345	824 894
RVA 2004 (number of options)				
Granted in February 2005[4]	**1 624 195**	**584 278**	**4 790 338**	**6 998 811**
exercised in 2005	0	0	484	484
extinguished in 2005	0	0	25 816	25 816
RVA 2004 options existing at 31 Dec. 05	1 624 195	584 278	4 764 038	6 972 511
exercised in 2006	1 046 775	107 259	3 064 103	4 218 137
extinguished in 2006	0	0	18 005	18 005
RVA 2004 options existing at 31 Dec. 06	577 420	477 019	1 681 930	2 736 369
exercised in 2007	370 968	0	631 246	1 002 214
extinguished in 2007	0	0	0	0
RVA 2004 options existing at 31 Dec. 07	**206 452**	**477 019**	**1 050 684**	**1 734 155**
RVA 2004 exercisable options at 31 Dec. 07	206 452	477 019	1 050 684	1 734 155
RVA 2005 (number of options)				
Granted in February 2006[4]	**1 805 558**	**622 225**	**4 408 981**	**6 836 764**
exercised in 2006	0	0	1 270 079	1 270 079
extinguished in 2006	0	0	6 336	6 336
RVA 2005 options existing at 31 Dec. 06	1 805 558	622 225	3 132 566	5 560 349
exercised in 2007	1 138 890	73 889	1 525 954	2 738 733
extinguished in 2007	0	0	323	323
RVA 2005 options existing at 31 Dec. 07	**666 668**	**548 336**	**1 606 289**	**2 821 293**
RVA 2005 exercisable options at 31 Dec. 07	666 668	548 336	1 606 289	2 821 293

1) BPI SGPS Executive Directors in 2001 and up until 20 December 2002 (date on which BPI SGPS was transformed into Banco BPI).
2) Other Directors of Banco BPI and Banco Português de Investimento in 2001 and up until 20 December 2002.
3) Number of options granted adjusted for BPI SGPS's (now Banco BPI) share capital increase realised in May 2002.
4) In terms of the RVA regulations, the number of shares which are object of the options granted in the year cannot exceed 2% of Banco BPI's share capital at the date of the attribution of the aforementioned incentives. Simultaneously, the total number of shares which are object of the options in force (matured or not) cannot exceed at any point in time 5% of Banco BPI's share capital.

Current situation of the programme for the attribution of options to purchase shares – 2001, 2002, 2003, 2004 and 2005

Programme for the attribution of share purchase options	Executive Committee of Banco BPI[1]	Banco Português de Investimento's Board of Directors[2]	Managers and other Employees	Total
TOTAL RVA SCHEME				
Number of options:				
Options existing at 31 Dec. 07	1 046 513	1 398 044	3 276 100	5 720 657
options not exercisable until 31 Dec. 08	0	0	0	0
options exercisable until 31 Dec. 08[4]	1 046 513	1 398 044	3 276 100	5 720 657
Number of shares needed for the exercise of:				
Options granted but not yet exercisable				
at the beginning of 2008	0	0	0	0
at the end of 2008[3]	0	0	0	0
Exercisable options				
at the beginning of 2008	1 046 513	1 398 044	3 276 100	5 720 657
at the end of 2008[3, 4]	1 046 513	1 398 044	3 276 100	5 720 657

1) BPI SGPS Executive Directors in 2001 and up until 20 December 2002 (date on which BPI SGPS was transformed into Banco BPI).
2) Other directors of Banco BPI and Banco Português de Investimento in 2001 and up until 20 December 2002.
3) Assuming that, with the exception of the RVA 2002 options, the exercise period of which ends on 22 February 2008, no other options are exercised or extinguished during 2008.
4) Does not include the RVA 2007 attribution, for which there was still no available information by the time this Report was approved.

8.2.4. Shares awarded under condition subsequent and not yet freely disposable

At the end of 2007, there were 742 234 shares under condition subsequent and not yet freely disposable. Of these, 521 844 shares became freely disposable in February 2008 and the remaining 220 390 will become freely disposable in 2009.

Shares awarded under condition subsequent and not yet freely disposable

	31 Dec. 2007
RVA 2002	0
RVA 2003	41
RVA 2004	301 223
RVA 2005	440 970
Total	**742 234**

8.2.5. Credit line for exercise of options and retention of shares in portfolio

In 2007, 41% of the options were exercised with recourse to the credit line with the object of keeping the shares thus acquired in portfolio. At the end of 2007, the balance of credit was 19 M.€.

Credit line for the exercise of options and retention of shares in portfolio

Amounts expressed in thousands of euro

	Executive Committee of Banco BPI[1]	Board of Directors of Banco Português de Investimento[2]	Managers and other Employees	Total
Balance at 31 December 2004	3 954	227	762	4 943
Balance at 31 December 2005	4 712	407	555	5 674
Balance at 31 December 2006	9 948	1 225	1 282	12 455
Balance at 31 December 2007	15 860	0	3 117	18 977

1) Including the outstanding balance of the Board of Directors' Chairman relating to the loan for the exercise of the options granted when he was an Executive Director.
2) Directors who are not simultaneously members of Banco BPI's Executive Committee.

Credit advanced to the Executive Committee of Banco BPI[1] for the exercise of options and retention of shares in portfolio

	At 31 December 2007				
	No. of shares held	Of which: shares pledged as security[2]	Market value[3] of the shares held (thousand €)	Balance of credit for acquisition of shares[4] (thousand €)	No. of options held
Artur Santos Silva[1]	1 670 552	737 223	8 954	1 940	0
Fernando Ulrich	2 165 545	2 015 219	11 607	6 424	0
António Domingues	1 370 741	1 278 191	7 347	4 217	0
José Pena do Amaral	34 935	0	187	0	177 778
Maria Celeste Hagatong	587 306	407 906	3 148	943	233 334
Manuel Ferreira da Silva	330 000	80 000	1 769	171	500 000
António Farinha Morais	411 823	345 818	2 207	1 015	77 778
Pedro Barreto	360 000	305 831	1 930	1 150	0
	6 930 902	**5 170 188**	**37 150**	**15 860**	**988 890**

1) Includes the outstanding balance of the Board of Directors' Chairman relating to the credit advanced for the exercise of the options granted when he was an Executive Director.
2) Shares which constitute security for the finance obtained for the purpose of keeping those shares in portfolio, which resulted from the exercise of the options granted under the RVA scheme.
3) Using the closing price of BPI shares at the session of 31 December 2007: 5.36 €.
4) Outstanding balance on the finance obtained to keep the shares resulting from the exercise of the RVA options in portfolio.

8.3. EXECUTION IN 2007

The amount of the RVA incentive to be granted in respect of 2007 is 9.4 M.€, which corresponds to 20% of the total value of the variable remuneration granted to the universe of Directors and Employees covered by the RVA Scheme.

Considering that the agenda of the Board of Directors meeting which approved the present Report included matters, the deliberation of which was deemed relevant for the market's valuation of BPI shares, it was decided that the granting of the RVA incentives would only be carried out after the communication to the market of the important issues deliberated at the aforesaid Board of Directors meeting. Accordingly, on this date no information was available concerning the unit values of the shares and options to be granted and the composition of the RVA 2007 programme.

Variable remuneration breakdown

Amounts expressed in thousands of euro

	Variable remuneration in 2006			Variable remuneration in 2007		
	Cash	RVA 2006[1]	Total	Cash	RVA 2007	Total
Banco BPI's Executive Committee	4 300	-	4 300	2 548[4]	1 982[4]	4 530
Banco Português de Investimento's Board of Directors[2,3]	1 880	-	1 880	1 514[4]	486[4]	2 000
Managerial staff and other Group Employees	41 669	-	41 669	41 792[5]	6 921[5]	48 713
Of which: Managerial staff and other Group Employees covered by the RVA 2007	-	-	-	34 209[5]	6 921[5]	41 130
Total	**47 849**	**-**	**47 849**	**45 854**	**9 389**	**55 243**

1) In relation to 2006, the RVA programme was not executed, with the result that the variable remuneration, including the corresponding RVA incentive, was paid wholly in cash.
2) Does not include the members of the Executive Committee of Banco BPI's Board of Directors.
3) In 2007, includes the annual remuneration of the members of the Board of Directors whose mandate terminated in that year.
4) Estimated amount to be granted.
5) Estimate of the amount to be granted taking into account that all the Employees entitled to choose between receiving the RVA incentive in the form of shares and options or receiving the corresponding amount in cash (Employees with variable remuneration of 10 000 € or less), opt for the former.

8.4. RETURN

RVA 2001, RVA 2002, RVA 2003, RVA 2004 and RVA 2005

The effective value of the incentives attributed under the RVA Scheme is dependent upon the behaviour of the Banco BPI share price on the stock exchange.

On the basis of the market value of the shares, plus the dividends received and the intrinsic value of the options attributed to the Directors and Employees covered by the RVA Scheme, the value of the RVA 2001 incentive produced, up till the end of the option exercise period (21 March 2007) in relation to the grant amount, an annual average capital growth of 36.3%. For the other programmes, the value of the incentive at 31 December 2007 was 47.0% for the RVA 2002, 38.2% for the RVA 2003, 72.0% for the RVA 2004 and 31.9% for the RVA 2005.

Annual average return

Exit on 31 of December 2007[1]

	Share scheme	Option scheme	Total RVA	ROI for Banco BPI Shareholder	ROI for market (PSI Geral)[4]
RVA of 2001 (until 31 March 2007[2]) attribution date: 21 Mar. 02	23.8%	45.7%	36.3%	23.8%	12.7%
RVA of 2002 attribution date: 22 Feb. 03	25.0%	59.8%	47.0%	25.0%	22.6%
RVA of 2003[3] attribution date: 23 Feb. 04	18.5%	51.5%	38.2%	18.5%	19.0%
RVA of 2004[3] attribution date: 28 Feb. 05	25.5%	101.4%	72.0%	25.5%	22.4%
RVA of 2005[3] attribution date: 23 Feb. 06	14.3%	47.1%	31.9%	14.3%	21.8%
Average of RVA 2001, 2002, 2003, 2004 and 2005[5]	**20.4%**	**56.2%**	**42.3%**	**20.4%**	**18.7%**

Note: it is assumed that during the period the RVA beneficiary subscribed for the maximum quantity of shares to which he was entitled in the 2002 capital increase, and did not sell shares or exercise options. On 31 December 2007, the share portfolio was valued using the closing price, while in relation to the options portfolio, their intrinsic value was taken into account, that is, the difference between the closing price on 31 December and the exercise price of the options.
1) Banco BPI share's closing price of 5.36 euro.
2) End of the exercise period for the RVA 2001 options.
3) Considering a composition of the 2003 RVA, RVA 2004 and 2005 RVA of 50% shares and 50% purchase options.
4) Average return based on partial investments of equal amounts on each one of the award dates and disinvestment on 31 December 2007.
5) For purposes of calculating the average return on all the RVA programmes, the intrinsic value of the RVA 2001 options at the end of the respective exercise period was considered (21 March 2007).

The BPI share price[1]

Market share price and stock exchange appreciation which equates the value of RVA incentive to the attribution value

	BPI share price on attribution date[1] (in euro)	Break-even[2] (in euro)	Share price appreciation to reach break-even
RVA of 2001			
Shares scheme	2.54	2.54[3]	0.0%
Options scheme	2.54	3.16[4]	+24.4%
RVA 2001 Programme	**2.54**	**3.04**	**+19.7%**
RVA of 2002			
Shares scheme	2.14	2.14[3]	0.0%
Options scheme	2.14	2.47[4]	+15.4%
RVA 2002 Programme	**2.14**	**2.43**	**+13.6%**
RVA of 2003			
Shares scheme	3.13	3.13[3]	0.0%
Options scheme	3.13	3.58[4]	+14.4%
RVA 2003 Programme[5]	**3.13**	**3.52**	**+12.5%**
RVA of 2004			
Shares scheme	3.10	3.10[3]	0.0%
Options scheme	3.10	3.41[4]	+10.0%
RVA 2004 Programme[5]	**3.10**	**3.38**	**+9.0%**
RVA of 2005			
Shares scheme	4.44	4.44	0.0%
Options scheme	4.44	4.89[4]	10.1%
RVA 2005 Programme[5]	**4.44**	**4.85**	**9.2%**

Note: overall value of the 2001 and 2002 RVA incentives was attributed in equal parts in the form of BPI shares and BPI share purchase options.

1) Attribution price of BPI shares under the RVA Programme (average market price in the last 10 stock exchange sessions).

2) Market price of the BPI shares which equates the value of the RVA incentive to the attribution value.

3) Attribution value of the shares. In the case of the share scheme, the dividends relating to the 2001-2006 period already received by the beneficiaries of RVA programmes were not taken into account. Had this been done, the break-even would have been reached at a price of 1.90 euro for the RVA 2001 share scheme, at a price of 1.59 euro for the RVA 2002 share scheme, at a price of 2.66 euro for the RVA 2003 share scheme, at a price of 2.72 euro for the RVA 2004 share scheme and at a price of 4.16 euro for the RVA 2005 share scheme.

4) Exercise price plus attribution value of the options.

5) A grant of 50% in shares and a 50% in options was assumed for the RVA 2003, RVA 2004 and RVA 2005 attribution.

9. Shareholder control and transferability of shares

9.1. SHAREHOLDER CONTROL

Banco BPI has not adopted any defensive clause impeding the free transferability of the shares and the unrestricted review by shareholders of the performance of Board members. In particular, there are no financial or shareholder mechanisms which have as their object frustrating hostile takeover bids, commonly known in English terminology as "poison pills[G]" or "anti-takeover provisions[G]".

The BPI Group has no convertible bond issues or shares with warrants[G] or other special rights in circulation.

At 31 December 2007, the share capital held by the members of the Board of Directors, their representatives, key shareholders who have nominated members to the Board of Directors stood at circa 61%.

Banco BPI's statutes stipulate that the votes cast by a single shareholder, in his own name or as the representative of another or others, which exceed 17.5% of the company's total votes, representing the share capital, shall not be counted. Any change to this statutory provision requires the approval of 75% of the votes cast in General Meeting.

9.2. SHAREHOLDER AGREEMENTS RELATING TO THE EXERCISE OF COMPANY RIGHTS OR TO THE TRANSFERABILITY OF SHARES

As far as BPI is aware, there are no shareholder agreements of the type referred to in article 19 of the Securities Code relating to the exercise of company rights, or to the transferability of Banco BPI shares; in particular, there is no voting or defence agreement for warding off takeover bids.

Banco BPI's share capital comprises 760 million nominative and dematerialised (book entry) ordinary shares with a nominal value of one euro each. All the shares are entitled to the full divided relating to 2007 and following years. All the shares are listed on the Euronext market.

10. Exercise of voting rights and shareholder representation

10.1. ENCOURAGEMENT OF THE EXERCISE OF VOTING RIGHTS

Banco BPI actively encourages the exercise of the right to vote, either directly – in person or by correspondence (postal or electronic) – or by proxy.

Under this policy, BPI has implemented a series of measures designed to reduce shareholder absenteeism at General Meetings, amongst which the following:

- acceptance of vote by correspondence, both postal and electronic, and the placing at Shareholders' disposal of ballot papers;
- ample disclosure of the convening of General Meetings (by postal or electronic mail and by the Internet), the topics to be discussed thereat and the different ways of exercising the right to vote;
- clear and detailed description in the meeting notice and preparatory documents[1] for the General Meeting which are sent to Shareholders[2], the procedures to be adopted for those opting for postal or proxy voting (regime enshrined in the statutes).

It should also be pointed out that Banco BPI's Board of Directors, in a positive response to the CMVM's most recent recommendations, approved at the 20 April 2004 General Meeting an amendment to article 12 of the company's Statutes whereby the prior period for the deposit and immobilisation of shares for purposes of taking part in the General Meeting was shortened from 15 to 5 business days.

The proposals to be submitted for consideration and deliberation at the General Meeting, as well as any other preparatory information, are placed up to 15 days prior to the date set for the meeting, at the disposal of shareholders at Banco BPI's head office (Rua Tenente Valadim, 284, Oporto) and on the site www.ir.bpi.pt. The sending of any of the above-mentioned material, including copies of ballot (voting) papers for the exercise of postal voting, may also be requested via a publicly-disclosed e-mail address.

10.2. ATTRIBUTION OF VOTING RIGHT

A shareholder can vote provided he owns at least 500[3] Banco BPI shares on the 5th day prior to the date set for the General Meeting. The registration of ownership must be proved to Banco BPI by 6 p.m. of the third working day prior to the date set for the meeting. Every 500 shares correspond to one vote.

10.3. PROCEDURES RELATING TO PROXY REPRESENTATION

At its own initiative BPI pursues a policy of sending to Shareholders[4] the full content of proposed matters to be included in the order of business, as well as proxy forms, accompanied by a self-addressed postage-paid envelope.

Proxy representations must be communicated by letter addressed to the Chairman of the General Meeting Board, with the signature duly certified by a notary, lawyer or legal clerk or certified by the company. This letter must be received at Banco BPI's head office by 6 p.m. on the fifth day prior to the date set for the General Meeting.

10.4. PROCEDURES RELATING TO POSTAL VOTING

BPI sends annexed to the notice convening the General Meeting, ballot papers addressed to the Chairman of the General Meeting Board, by means of which the shareholder can express in a clear form his vote. Each ballot paper, available in Portuguese and English, must be signed and this signature duly certified (by a notary, lawyer or legal clerk). Ballot papers must be received at Banco BPI's head office by 6 p.m. on the third working day prior to the date set for the General Meeting.

Postal votes count towards the constitution of the General Meeting quorum and are interpreted in the light of the matters appearing in the meeting notice, and do not express any voting intention as concerns new matters.

1) Also available at the internet at the website www.ir.bpi.pt.
2) To the Shareholders with the right to at least 10 votes.
3) After the General Meeting of 20 April 2006, where a reduction from 1 000 to 500 in the number of shares giving right to participate in the GM was approved.
4) Shareholders owning more than a specified number of shares (5 000, at the last GM's held).

The postal votes are opened by the Chairman of the General Meeting Committee, who is responsible for checking their authenticity, conformity with the rules and the non-existence of duplicate votes taking into account the presence of the respective Shareholders at the General Meeting.

Votes by correspondence are only considered after the votes cast in person on each one of the motions have been counted. The Chairman of the General Meeting informs those present of the number and results of the votes received by correspondence.

The manner in which the scrutiny of votes cast by correspondence at the General Meeting is conducted is set out in documents made available by BPI for the exercise of voting by correspondence, as well as being described in a separate section of the Investor Relations website devoted to this event.

The Company Secretary is charged with ensuring the confidentiality of the votes received by correspondence until the day of the General Meeting. On that date, this responsibility is transferred to the Chairman of the General Meeting Committee up to the moment of voting.

The postal vote cast by a shareholder who is present or represented at the General Meeting shall be ignored.

Although voting by correspondence by its very nature constitutes an alternative to shareholder representation, nothing prohibits that both forms be cumulative.

10.5. PROCEDURES RELATING TO ELECTRONIC MEANS

BPI offers its Shareholders the possibility of casting votes by means of electronic mail with respect to the motions included in the notice convening the General Meeting.

The procedures required for voting by electronic mail are in part similar to those required for postal voting: BPI sends beforehand to its Shareholders, as an annex to the General Meeting preparatory documents, a draft – available in Portuguese and English – that allows them to opt for the system of electronic voting. This draft can also be obtained from the website www.ir.bpi.pt or upon request to the Investor Relations Division. The draft must be signed and the signature must be authenticated by a notary, lawyer or legal clerk.

In the draft the Shareholder is asked, amongst other details, to provide a password and indicate his email address. This document must be received at the Bank’s head office together with the respective declaration of share deposit and blockage. BPI sends an email to the Shareholder 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.

The principal rights and obligations of shareholders are enshrined in the Commercial Companies Code (CCC) (Decree-Law no. 76-A / 2006 of 29 March):

Rights:
- to information (CCC, Headin IV, Chapter II, Section III – art. 288);
- to profits (CCC. Heading IV, Chapter II, Section IV – art. 294);
- to take part in the company's deliberations (CCC, Heading I, Chapter III, Section II – art. 21).

Obligations:
- to make capital calls in cash and ancillary loan capital calls (CSC, Heading IV, Chapter II, Section I – art. 285 and 287).

11. Exercise of corporate rights by BPI Group entities

The BPI Group's entities operating on the market as institutional investors – the Fund-Management Companies, the Pension-Fund Management Company, the Investment Bank and the Development Capital Companies – are bound to the rules designed to ensure the diligent, efficient and critical use of the rights attaching to the negotiable securities of which they are the holders or whose management has been entrusted to them, namely as concerns information and voting rights.

The asset-management entities belonging to the BPI Group, besides the traditional investment criteria associated with the risk / return relationship, also take into consideration in the investment decision-making process, the following factors:

- quality of the system of governance and supervision;
- transparency in the provision of information;
- good environmental practices.

On the other hand, BPI, on its own initiative, does not invest in companies operating in the pornography or arms industry.

BPI GESTÃO DE ACTIVOS

BPI Gestão de Activos exercised its voting rights during 2007 at one Shareholders General Meeting, contemplating the respective orders of business, essentially, the approval of the accounts for the year and corresponding appropriation of results, as well as the election of the governing bodies.

The Shareholders General Meeting attended by BPI Gestão de Activos refers to a national-issuer company (in the funds' prospectuses the possibility of participation at the AGMs of foreign entities is contemplated), with BPI Gestão de Activos communicating its voting intention, as well as the respective justification, to the CMVM in terms of applicable legislation. BPI Gestão de Activos voted as a rule in favour of the motions presented by the governing bodies of the company at whose General Meeting it participated.

In the prospectuses of the various funds managed by BPI Gestão de Activos a text which establishes the company's "voting policy" is included. Namely:

- "BPI Gestão de Activos only takes part in the General Meetings of the companies (whether based in Portugal or overseas) in which it has equity holdings and where it considers that there is interest in such participation;

- BPI Gestão de Activos does not have a predefined global policy with respect to the exercise of voting rights in the companies in which it has equity holdings. At any moment, BPI Gestão de Activos will evaluate the voting intention that best safeguards the interests of unit holders, taking into account the goals of seeking value and the financial soundness of the company in which it participates;

- in cases in which it opts to participate in General Meetings, the voting rights will exercised directly by BPI Gestão de Activos or alternatively by a representative who is bound by the written instructions issued by BPI Gestão de Activos."

BPI PENSÕES

BPI Pensões exercised its voting rights at twelve Shareholders General Meetings of local companies, having voted as a rule in favour of the motions presented. On eleven of these Shareholders General Meetings, only the voting rights relating to the equity holdings owned by Banco BPI's pension funds were exercised.

Insurance Institute of Portugal Standard 21 / 2002-R of 28 November sets out that the strategy for the exercise of voting rights in the issuing companies for the assets held by the pension funds, must be contemplated in the Pension Fund Management Contracts or in the Management Regulations in the case of Open-end Pension Funds.

With a view to ensuring compliance with this requirement, BPI Pensões agreed in writing for each managed pension fund the rules to be followed concerning the exercise of voting rights, the usual guidelines of which are as follows:

- BPI Pensões will exercise its voting rights at the General Meetings of the companies in which the pension fund has equity holdings, when it considers the exercise of such right is advantageous;

- BPI Pensões does not have a predefined global policy with respect to the exercise of voting rights in the companies in which the pension fund has equity holdings. At any moment, it will evaluate the voting intention that best safeguards the interests of the associates, taking into account the goals of seeking value and the financial soundness of the company in which the pension funds participates;

- in cases in which BPI Pensões opts to participate in General Meetings, the voting rights will be exercised directly by BPI Pensões or alternatively by a representative who is bound by the written instructions issued by BPI Pensões.

PRIVATE BANKING

Banco Português de Investimento, within the scope of the mandate awarded for the management of Private Banking Clients portfolios, acts in conformity with the specific rules in a diligent manager and taking into account the principles and rules relating to the exercise of financial intermediation activity as envisaged in the Securities Market Code (CVM) and respective regulations, namely, the principle of safeguarding the legitimate interest of Clients, and is subject to the supervision of the Securities Market Commission.

12. Code of ethics and professional conduct

12.1. COMMITMENT TO STRICT STANDARDS OF ETHICS AND PROFESSIONAL CONDUCT

The professional activity of the members of governing bodies and of Employees of the companies belonging to the BPI Group universe, is governed by the following principles:

- respect for absolute independence as regards the interests between the Company and its Customers, between personal interests and those of the Company, and those of the Customers amongst themselves;
- professional competence;
- personal integrity.

With the aim of safeguarding absolute respect for all the standards of an ethical and professional conduct nature at each of the BPI Group's companies, members of governing bodies, Employees, service providers and external consultants are obliged to declare in writing that they have full knowledge of the norms appearing in the following documents.

- Codes of conduct of the respective associations, namely, the Associação Portuguesa de Bancos (APB) and the Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios (APFIPP).
- BPI's own code of conduct. It contains, in certain instances, even more restrictive rules than those embodied in directives issued by the associations to which the BPI Group companies belong and/or by the supervisory authorities. BPI's code of conduct was approved for the first time in March 1994, since when it has been revised occasionally. The last revision was carried out on 23 January 2008.

Breach of the duties envisaged in the aforesaid codes is punishable according to the gravity of the infringement, the degree of the perpetrator's culpability and the consequences of the act, through the application of a sanction which is graduated on a case-by-case basis, ranging from a verbal admonishment to dismissal with just cause. Disciplinary responsibility is independent of responsibility of a civil, administrative offence and criminal nature.

> BPI Group's codes of conduct in force are available for consultation or download at the website www.ir.bpi.pt or upon request to the Investor Relations Division (see contacts under point 13.2 of this report).

The ethical and professional conduct regulations imposed upon those who work for the BPI Group are intended to guarantee professional confidentiality, the defence of Customers' interests and the prohibited use of privileged information for personal gain.

12.1.1. Head of Oversight and Control

Decree-Law no. 357-A / 2007 of 31 October came into force on 1 November 2007, transposing into the national statute books the Markets in Financial Instruments Directive (MiFID) – Directive 2004 / 39 / EC of the European Parliament and Council of 21 April 2004 – which enshrines as regards the organisation and control of financial intermediaries' activity the existence of a System of Internal Control, imposing the appointment of a person in charge of compliance.

This new regime gives continuity to that which was embodied in CMVM Regulation no. 7 / 2005 and which already imposed the appointment of a "Person Responsible for Supervision and Control".

Accordingly, pursuant to the regime previously in force, BPI had designated a person in charge of supervision and control for the entire BPI Group and who, with the involvement of all the areas engaged in financial intermediation activity, as well as of other bodies[1] contributed to the retrieval and analysis of the information required for the preparation of the annual compliance control report.

The functions of the Head of Oversight and Control at the BPI Group, which are exercised by the person in charge of the Securities Division's Control and Compliance Area, are the following:

- to ensure compliance with standards applicable to the exercise of each one of the financial intermediation activities;
- in cases of breaches, to adopt or propose the adoption of measures appropriate to the cessation of the non-compliance and the prevention of the occurrence of similar situations;
- to communicate the occurrence of breaches to the Board of Directors;
- to control the realisation of securities operations for Employees' and governing bodies members' own account, and to communicate to the Board of Directors any contravention of the provisions of the BPI Group's Code of Conduct, and in the case of the Banks of the "Conduct Standards in Securities Broking ("Normas de Conduta na Intermediação em Valores Mobiliários") and, in the case of BPI Gestão de Activos and Sofinac[2], of the respective Internal Regulations on standards of conduct;
- to immediately provide information to the Board of Directors about any signs of breach of duties that could lead to BPI or its Employees committing a serious or very serious infringement;

1) Namely the Audit and Inspection Division, the Legal Affairs Division, the Organisation Division, the Information Systems Division, the New Channels Division, the Equities Department, the Risk Analysis and Control Division and the Securities Division.
2) Sofinac – Sociedade Gestora de Fundos de Investimento Imobiliário, S.A., was incorporated by merger into BPI Gestão de Activos – Sociedade Gestora de Fundos de Investimento, S.A. – the registration was done on 31 December 2007.

- to keep a record of breaches and the measures proposed and adopted;

- to prepare a report on the annual control.

To this end, the BPI Group's Head of Oversight and Control exercises his functions in an independent manner, and may request and obtain information without requiring the consent of third parties, as well as report directly to the Board of Directors any information relating to his functions in this domain.

As a consequence of the provisions stemming from the transposition of the MiFID relating to the organisation of financial intermediaries, BPI deliberated to create a Compliance Division.

12.2. EQUITY AND SAFEGUARDING AGAINST CONFLICT OF INTERESTS

12.2.1. Conflicts of interest between Directors or Employees and BPI

The members of Banco BPI's Board of Directors are bound to communicate any interest, direct or indirect, that they, any member of their families or any entities to which they are professionally connected, may have in the Company in respect of which the possibility of the assumption of an equity interest, or a loan or any service by BPI Group Companies or Banks, is being considered. In such circumstances, the Directors must inform the nature and extent of such interest and, where this is substantial, they must refrain from taking part in the discussion and/or voting of any proposal that such operation may entail.

Similarly, any conflicts of interest resulting from family relationships, personal assets or any other cause, of any Employee on the one side, and those of BPI on the other, must be promptly communicated to the person in charge of the respective Division.

BPI Employees must also not accept any power of attorney or other form of mandate which involves the representation of third parties, Customers or not, in negotiations and contacts with BPI. Exceptions to the rule set out in the preceding paragraph, namely when they involve the representation of family members or if justified by strong commercial grounds, must be requested in writing by the Employee, indicating the type of representation and the extent of the powers conferred on him.

Employees who have access to operate bank accounts through the internal IT systems of the Group's Banks are prohibited from processing movements on the accounts in which they appear as accountholders, authorised signatories or representatives.

12.2.2. Conflicts of interest with Customers

As concerns the Customers of the BPI Group's Banks and Companies, every Customer is accorded equal treatment in all situations where there is no motive of a legal and/or contractual nature to proceed otherwise. This does not contradict the practice of differentiated conditions on the realisation of operations after having weighed the attendant risks, their profitability and/or the Customer's return.

12.3. VIOLATION OF PROFESSIONAL SECRECY AND CONFIDENTIALITY

In contacts with Customers and the markets, members of the governing bodies and Employees of BPI Group companies must exercise the utmost discretion and practise professional secrecy regarding the services provided to their Customers and, furthermore, about facts or information relating to such Customers or third parties, knowledge of which stems from the exercise of the respective activities. This duty only ceases by way of a written authorisation of the person concerned or in the cases expressly envisaged in the law. The duty of professional secrecy continues even after the cessation of functions as member of the governing bodies or as Employee.

In parallel, all the members of the governing bodies or Employees who, for purposes of their functions, become aware of information which has not yet been made public and which could influence prices on any market, must keep such information under the strictest confidentiality and abstain from carrying out transactions involving the securities concerned until the public disclosure of such information.

12.4. STOCK BROKERAGE ACTIVITY

12.4.1. Dealing for own account

There are strict rules governing everything that refers to the execution of operations involving securities dealing for one's own account[1].

An example of these rules is the policy that securities acquired by members of the BPI Group's Governing Bodies and Employees can only be sold at least 10 days after their purchase, thereby limiting the risk of improper involvement in operations of a speculative nature.

Compliance with the rules envisaged in the preceding paragraph can only be waived by the decision of a Director or, when it involves a member of a governing body, by deliberation of the Board of Directors taken after submission of a written petition by the interested party[2]. To the present date, no member of a governing body has ever requested the Board of Directors to waive compliance with this rule.

It is important to underline in more general terms the obligation imposed on all Directors of the Group and Employees to communicate to the Head of Supervision and Control within 24 hours all the operations realised involving securities[3], except in the case where the Group's brokerage channels have been used (which in this case is regarded as communication of the operation). Recourse to these channels is compulsory for Employees involved in stock brokerage activity.

12.4.2. Acting for the account of Customers

Employees of the BPI Group's Banks which are involved in stock broking activity are bound to the duties laid down in the code of conduct of the Associação Portuguesa de Bancos (Portuguese Association of Banks) which provides that they must, in the execution of any operations entrusted to them, serve their Customers with diligence, loyalty and discretion, namely:

- carrying out the transactions with speed and upon the best conditions afforded by the market;

- abstaining from carrying out and inciting their Customers to effect repeated operations of securities' purchases and sales, when these operations are not justified and have as the only or main aim the charging of corresponding commissions or any other objective that is contrary to the Customer's interest;

- abstaining from attributing to themselves the same securities when they have Customers who have requested them at the same or a higher price or, on the other hand, abstaining from selling securities which they hold instead of identical stocks in respect of which they have received orders to sell by the Customers at the same or lower price.

In parallel, the Banks must inform their Customers of all the material aspects that they require in order to form an informed decision about the transaction they intend to enter into, alerting them, above all, to the nature of the inherent risks and the financial consequences that their eventual realisation will imply.

With regard to the provision of portfolio management services, the banks and the investment fund management companies must ensure that their Customers are informed about the risk level to which they will be subjected, the degree of discretion granted to the broker and all the commissions and other expenses they will be charged.

12.4.3. Equity research activity

BPI adheres in essence to the recommendations of the CMVM relating to financial analysis reports. To this end, it has implemented a series of measures to ensure that:

- the information published is complete, accurate, current, clear, objective and legitimate;

- the relationship with the public investor is founded on principles of equity and transparency, with high standards of diligence and loyalty and oriented towards reducing to a minimum the risk of conflicts of interest.

Amongst the measures implemented with a view to effective compliance with the foregoing recommendations and principles, are the following:

- the existence of Chinese walls[4] between the research, equity sales and Corporate Finance areas;

- the decoupling of the financial analyst's remuneration[5] from the revenue generated by the transactions effected by BPI;

- the maintenance of an up-to-date register of the transactions executed by the financial analysts[6];

1) Operations are deemed to be carried out for one's own account when such operations are effected (i) by the member of the Governing Bodies or the Employee, or on his behalf by an intermediate person; (ii) in the name of the minor children of the member of the Governing Bodies or of the Employee, (iii) by companies which are majority held and/or controlled by the member of the Governing Bodies or by the Employee.

2) The waiver shall only be granted when it does not jeopardise the values underlying the duties to defend the market and to prevent conflicts of interest which are envisaged in applicable legal, regulatory and deontological provisions, and where compliance with the rule whose waiver is being requested would seem, in view of the specific circumstances of the case, to be excessively onerous for the interested party.

3) Excluding bonds issued by entities with sovereign or similar risk, unit trust (mutual) funds and to the transfers of securities to another account of the Employee.

4) The Anglo-Saxon term "Chinese walls" is used in the Investment Banking business to describe a set of procedures which are designed to guarantee the independence and autonomy between Employees who work in distinct areas with potential conflicts of interest.

5) The remuneration of analysts conforms to the same principles as those applied to other Employees and which are described in 7.1.

6) Financial analysts are obliged to use a BPI Group Bank in the realisation of securities operations.

- the imposition on the financial analyst to refrain from trading, on a date close to the conclusion and disclosure of the research report, the securities issued by the company analysed;
- the identification in the reports of the valuation assumptions and methods used;
- the identification in general terms of the existence of economic relations or benefits which exist between the analyst, BPI and the company analysed, namely, the existence of shareholdings and, in operations on the primary market, the existence of corporate finance relations;
- the publication in the reports of a grid of recommendations *vs.* risk, and a history of the recommendations issued by BPI relating to the company concerned;
- the publication in the reports of an alert to investors to the fact that the recommendation, projections, assumptions and methods used by the analyst are capable of being changed where new circumstances warrant this;
- the identification of the posts occupied by directors of the BPI Group in the companies analysed.

12.5. COMMUNICATION OF IRREGULARITIES

BPI Employees must communicate to any of the Management or Oversight Bodies and, in particular, to the Audit Committee any irregular practices which they detect or which they become aware or have founded suspicions of, so as to prevent or impede irregularities that may provoke damages (financial or to image) for BPI.

The communication referred to in the preceding paragraph must be effected in writing and must contain all the details and information that the Employee has and which he deems necessary for evaluating the irregularity. The Employee can also request confidential treatment as concerns the origin of the communication.

The recipient of the above mentioned communication must consider the situation described and decide upon the actions that are the most appropriate in each particular case.

12.6. PREVENTION AND SUPRESSION OF ILICITLY ORIGINATED BENEFITS FROM MONEY LAUNDERING

According to prevailing legislation designed to impede the utilisation of financial entities in money laundering operations and in activities associated with economic-financial and organised crime, or terrorism financing, the financial institutions and other financial companies which constitute the BPI Group are endowed with internal control and communication systems, as well as human and material resources, to provide their directors and Employees proper training for recognising operations which may be related to the aforesaid crimes and the persons perpetrating criminal activities.

This legislation (national and community) is transposed in its essence into the internal regulations of the BPI Group's financial institutions.

At the BPI Group the abovementioned obligations are the responsibility of Banco BPI, S.A.'s Audit and Inspection Division., where the Anti-Money Laundering Unit was created on 31 March 2004 solely for this purpose, and which changed its name on 3 January 2005 to the present "Money Laundering Prevention Unit".

Thus and without prejudice to the investigations and control initiatives which that Division considers it should carry out at its own instigation, Employees of the Banks and other financial companies which constitute the BPI Group have instructions to inform the Audit and Inspection Division – Money Laundering Prevention Unit, about the operations realised and/or to be realised which, due to their nature, amount or characteristics, may indicate the movement of funds derived from illicit activities.

Banco BPI's Audit and Inspection Division is charged with the task of analysing any occurrences, following these up and taking the necessary measures to prevent the BPI Group's involvement in operations associated with money laundering, advocating whatever is necessary to ensure compliance with the other obligations arising from the legislation in force dealing with the fight against organised and economic-financial crime.

The Audit and Internal Control Committee is systematically informed of the evolution of occurrences and their consequences.

In 2007, the Audit and Inspection Division carried out systematic control actions, which involved more in-depth analyses of the records of 455 Customer accounts, 263 of which led to communication being made to the Republic's Attorney General.

The BPI Group provides training in the prevention of money laundering to all Employees, both immediately after their admission and later during the course of the audits which it performs at the various Bodies of the organisational structure, in this case of all those who form part of the respective workforce. In addition, it periodically organises classroom-type sessions dealing with this topic for all management and technical staff forming part of the commercial networks.

Exclusively as concerns this issue, 2007 saw the realisation of the following initiatives:

- 32 training sessions for 719 Employees, 367 of whom with professional categories and functions of Director, Manager, other section heads and technical staff.

- Effective from 16 July 2007 all of the Bank's Employees, as well as those of the other BPI Group financial companies took part in a training course ministered via the IT system (e-learning) with an average duration of 2h30m, subject to final evaluation (pass rate of 70%), in which 6.881 trainees / Employees passed.

12.7. PREVENTION OF INSIDER TRADING[G]

Employees and Directors who, during the exercise of their functions, obtain information which has not been made public and which could influence prices on any market, are bound by a strict duty of secrecy, and must abstain from carrying out any transactions in the securities involved, until the public disclosure of such information.

Operations involving securities issued by Banco BPI

In terms of the Group BPI's code of conduct, the members of Management or others with a professional category on a par with or above a Manager, as well as those Employees involved in the preparation of financial information or the issue of shares or securities convertible into shares, are prohibited from dealing in Banco BPI shares, as well as in securities convertible into shares or those which confer such rights:

- in the period falling between the 15th day before the end of each quarter or each financial year, and the moment the corresponding results are disclosed, which considering BPI's normal practice, means the barring of trading in Banco BPI shares in approximately half the stock exchange sessions in the year;

- in the period falling between the decision of BPI's management to propose the issue of shares representing its share capital or of securities convertible into shares or those which confer such rights, and the respective public announcement.

Non-executive Directors are also subject to a period when they are barred from trading in Banco BPI shares or other convertible securities or which confer rights thereto; however, in the case of the first prohibition (due to the proximity to the release of earnings), the restriction applies in the period falling between the 15th day before and the date of the public disclosure of the results.

Banco BPI and its Directors are also bound by strict communication duties imposed by law and by the CMVM's Regulations, such as the obligation to within a period of seven business days, the latter have to inform the former which must then inform the CMVM, of any operations realised in Banco BPI shares.

In order to strengthen the measures aimed at averting situations of abuse arising from the possession of privileged information, BPI also pursues a policy of:

- disclosing results on the same day the Board of Directors approves them;

- waiting till the close of the stock exchange session before disclosing important facts;

- informing the CMVM and placing on the Investor Relations site the presentations made at conference with Analysts and Investors.

12.8. BUSINESS DEALINGS BETWEEN BPI AND MEMBERS OF THE BOARD OF DIRECTORS, THE AUDIT BOARD, THE HOLDERS OF QUALIFIED SHAREHOLDINGS OR COMPANIES BELONGING TO THE GROUP

There were no business dealings or operations in 2007 between Banco BPI on the one hand, and the members of its Board of Directors, its Audit Board, the holders of qualified shareholdings or Group companies, on the other, which were materially relevant and cumulatively, which were carried out other than under market conditions (applicable to similar operations) or beyond the scope of the bank's normal day-to-day business operations[1].

However, it is important to disclose the following business relations existing between BPI and some of the holders of qualified shareholdings. Namely:

Grupo Allianz

BPI is in partnership[2] with the Allianz Group in the life assurance and life risk business, materialised in a 35% interest in Allianz Portugal[3] and in an agreement for the distribution of insurance through its commercial network.

The Allianz Group owns a 8.8% shareholding in Banco BPI at 31 December 2007.

Arsopi

BPI has a partnership with the Arsopi, evidenced by:

- a 25%[4] shareholding in a holding company called Viacer;

- a direct and indirect shareholding (via Viacer) of 13.5%[5] and 17.7%, respectively in the holding company called Petrocer (at the moment is deactivated).

Viacer's most significant assets are a 56% shareholding in Unicer – one of the country's biggest drinks manufacturers and distributors.

Arsopi, its shareholders and their families owned a shareholding of 2.9% in Banco BPI at 31 December 2007.

12.9. ACCOUNTING TRANSPARENCY

BPI adopts a policy of recording all the costs in the proper ledger accounts in accordance with their nature. BPI does not incur or record "confidential expenses".

12.10. SOCIAL INVESTMENT

The Bank has since its foundation supported projects of undisputed merit in the area of culture, education, research and social solidarity, which involves partnerships with other private or public institutions. BPI's social investment policy, as well as a description of some of the most noteworthy projects BPI supports or supported in the recent past, are outlined in a separate chapter of the Directors' Report (pages 26 to 30).

1) Information disclosed in accordance with chapter I (7) of the "Scheme for Report on Corporate Governance" (CMVM Regulation 7 / 2001).
2) From which revenue is derived in the form of a share in the profits (from the shareholding) and commissions (for the selling of insurance at the bank's network).
3) Consolidated participation in Banco BPI's accounts using the equity method.
4) The Arsopi Group have a shareholding of 28%.
5) The Arsopi Group own a direct holding of 5.0% and an indirect holding – via Viacer – of 19.0%.

13. Communication with the market

13.1. PRINCIPLES GOVERNING THE DISCLOSURE OF FINANCIAL INFORMATION AND OTHER IMPORTANT FACTS

Principles underlying the disclosure of financial information and other important facts

Transparency	By supplying the market all relevant information that allows the formation of substantiated judgement about the evolution of activity and the results achieved, as well as the prospects for growth, earnings and existing risks.
Consistency	In the maintenance of the criteria used in the provision of information and clarification of the motives underlying changes thereto, when they occur, so as to ensure the comparability of the information between the reporting periods.
Simplicity	Through the use of plain language, in the use of explanatory notes for complex issues and in the inclusion of a glossary and formulary in the Annual Report.
Availability	In the adoption of a proactive, open and innovative stance in communication with the market.
Materiality	In the disclosure of all the information which is relevant and in the attribution to each piece of information a degree of visibility and detail commensurate with its importance.
Initiative	In the adoption of communication of practices and the provision of information which, although not binding, are appreciated by the market.

13.2. INVESTOR RELATIONS DIVISION

13.2.1. Concept and responsibilities

Banco BPI attaches special importance to the maintenance of a frank and transparent relationship with financial analysts, investors, Shareholders, authorities, mass media and other market participants.

Stemming from this permanent concern, BPI set up in 1993 a structure exclusively dedicated to relations with investors and with the market. The Investor Relations Division (DRI), which reports directly to the Chairman of the Board of Directors and to the Executive Committee of Banco BPI's Board of Directors, has as its mission providing the market with accurate, regular, timely and unbiased information concerning the BPI Group, with particular emphasis on information that could have a material impact on the Banco BPI's share price.

The Investor Relations Division has as its principal functions guaranteeing, to the Authorities and to the market, compliance with legal and regulatory reporting obligations to which Banco BPI is bound, responding to the information needs of investors, financial analysts and other interested parties, and lending support to the Executive Committee in aspects relating to Banco BPI's presence on the market as a listed entity.

Within the scope of the abovementioned responsibilities, of particular importance is the disclosure of information classified as "relevant fact", the furnishing of quarterly information concerning the Group's activity and results, and the preparation of the annual and interim reports and accounts.

BPI has been disclosing information every quarter covering its activity and the consolidated results since the last quarter of 1991. Since it was listed on the stock exchange in 1986, BPI adopts a policy of commissioning a full-scope external audit on the interim report and accounts, when the law merely requires a limited review.

In the sphere of advisory support given to the Executive Committee, we highlight the monitoring of Banco BPI's share price in its multiple facets, as well as the backing given in the direct contact which the Executive Committee regularly has with financial analysts and institutional investors (national and foreign), covering both conferences and road shows and individual (one-on-one) meetings.

As regards this aspect, an important event is the Annual Conference for Investors and Analysts which the Executive Committee has organised every year since 2001[1].

BPI's policy is to disclose to the market the information presented at these gatherings, issuing a press release summarising the most relevant aspects and making available the presentations delivered during this event on the IR website.

1) Exceptionally, this event was not held in 2004 and in 2007.

The Investor Relations Division contact details are frequent and widely broadcast. All the information of a public nature regarding the BPI Group can be requested from the Investor Relations Office via the contact page at the website, by telephone, e-mail, fax or by letter.

INVESTOR RELATIONS CONTACTS

Address:	Rua Tenente Valadim, n.º 284 – 3.º 4100-476 Porto
Phone:	+351 22 607 33 37
Fax:	+351 22 600 47 38
E-mail:	investor_relations@bancobpi.pt
Web site:	www.ir.bpi.pt

13.2.2. Activity in 2007

In its capacity as a listed company, BPI undertook intensive communication activity with the market throughout 2007.

BPI participated in conferences and in a number of road shows which involved the principal European financial markets – Lisbon, London, Frankfurt, Stockholm and Copenhagen – and the USA – New York. The Bank held more than 140 one-on-one meetings with institutional investors.

Within the ambit of earnings releases, BPI continued to stage quarterly meetings in 2007 with analysts and investors to discuss quarterly results. These meetings – which count with the presence of all the members of the Executive Committee of Banco BPI's Board of Directors – can be attended personally or by conference call, as well as being disseminated simultaneously and with free access by webcast via the Bank's Investor Relations website.

During the year BPI maintained permanent contact with the financial analysts who cover Banco BPI shares, through virtually daily research calls.

13.3. INTERNET SITE

13.3.1. Investor Relations Website – www.ir.bpi.pt

BPI has a website dedicated exclusively to the disclosure of information of an institutional nature about the Group. This website is available at the address www.ir.bpi.pt, or for those persons who do not have access to the Internet, at the Internet Kiosks located at the majority of Banco BPI branches.

Of the more than 500 pages of information (including files for downloading) available on the website, the following merit special mention:

- extensive financial information that is thoroughly updated four times a year on the actual day results are released. This includes more than 30 tables for downloading in Excel and the web cast (in real time) of the quarterly result presentations;

- complete annual report and accounts available in HTML format and a section on «Corporate Governance» containing more than 30 pages of information;

- interactive simulator for calculating the total return (i.e. assuming the reinvestment in dividends) on the investment in Banco BPI shares;

- section about «debt» containing summary files and supporting documentation relating to the main public issues of subordinated and senior debt, credit securitisation[G] and preference shares[G];

- information concerning the equity research analysts who regularly cover Banco BPI's share, indicating the respective contacts and investment recommendations;

- individual pages for each member of the Executive Committee and for the Chairman of the Board of Directors, containing their respective profiles (CVs, photographs, functions, etc.);

- section on «Charts and Prices» relating to the Banco BPI share, which includes a comparison with benchmarks[G], the identification of events (payment of dividends, capital increases, etc.) and the possibility of downloading a history of the share price (adjusted and not adjusted).

The website (available in Portuguese and English) is split into eight principal sections which cover – inter alia – the following subjects:

Investor Relations web site – contents and organisation

BPI Group	Corporate Governance	Financial information	Shareholders	Banco BPI Share	Debt	News and Events	Sectorial information
History	Management and control bodies	Indicators	Value creation	Indicators	Issued debt	Announcements	Market structure
Chairman	Risk management	Results	Shareholder structure	Charts and quotations	Rating	News	Key economic indicators
Executive Management	Shareholder control	Reports and accounts	Return calculator	Analysts' coverage		Calendar	Loans and deposits
Strategy	Voting and representation		Dividends	Investment recommendations		Conferences	International comparison
Identity	Remuneration		Capital	Volatility		Presentations	
Social investment	Ethics and rules		General Meetings	Transaction channels			
Recognition	Communication with the market			Weight in indexes			
	Legal framework						
	Corporate governance rating						

All the information of an institutional nature which is public and material is as a general rule published on the website. For the most significant events, such as the Shareholders' General Meeting, the Annual Conference for Analysts and Investors the payment of dividends and the quarterly disclosure of results, specific pages are also created for disclosing information and giving support for such events.

Users of the website also have the opportunity to register for and receive a daily email summarising the behaviour of Banco BPI shares on the stock exchange and an alert service whenever the share attains a predetermined percentage. Subscribers to these e-mail alerts can cancel their subscription at any moment by simply following the links appearing at the bottom of each email for this purpose.

The Investor Relations website fully complies with the CMVM's recommendations on the use of the Internet as a means of disseminating information of an institutional nature.

In 2007 the IR website recorded a monthly average of 402 thousand pages views and 18 thousand visits.

13.3.2. Electronic mail

The announcements of important facts and other announcements, besides being published on the Investor Relations site and on the CMVM's information channel, are also sent by electronic mail to the supervision authorities, the media, analysts, as well as to all the institutional investors or to those individuals who expressly request these.

In 2007, in each process involving the disclosure of quarterly results, the Investor Relations Division sent approximately 400 email messages. The Investor Relations Division has a policy of not sending unsolicited email messages and carries out a periodic review of its contacts database with a view to eliminating inactive addresses or recipients.

Generally speaking, all the documents issued in paper form (including preparatory documents for the General Meetings) are available for dispatch in electronic format upon request.

13.4. REPRESENTATIVE FOR RELATIONS WITH THE MARKET

Mr. Rui Lélis is Banco BPI's representative for Market Relations.

14. Banco BPI shares

14.1. SHAREHOLDER RETURN

Banco BPI shares registered a decline of 9.3% in 2007. However, if in addition to the share's stock market depreciation we include the income from the dividend paid, then the Banco BPI shares yielded a negative annualised return on investment (ROI) of 7.0% in the period. Nonetheless, in the last 5 years, Banco BPI shares have outperformed the market average. In this period, Banco BPI shares have posted an accumulated appreciation of 145%, whilst the Portuguese stock market[1] and the banking sector[2] in Europe posted gains of 124% and 60%, respectively.

In the chapter entitled "Banco BPI Shares" (which is deemed to be incorporated in this text for reference) a detailed account is presented of the stock market behaviour of Banco BPI shares, which includes figures relating to earnings per share, dividends paid, stock prices, shareholders' returns, liquidity data and stock market capitalisation and market appreciation indicators for the last five years.

14.2. STOCK EXCHANGE PERFORMANCE AND COMMUNICATIONS TO THE MARKET

The chart below presents the behaviour of Banco BPI shares and the communication to the market of important facts and other announcements.

Banco BPI's share performance

Important facts

- ■ Banco BPI communications to the market
- ● Third party's communications

1) Considering PSI-20 index performance.
2) Considering Dow Jones Europe Stoxx Bank index performance.

Communication of important facts to the market and trend in Banco BPI's share in the 10 sessions which preceded and that which followed the disclosure of information

No.	Date	Type	Details	over the 10 stock exchange sessions before communication		over the 10 stock exchange sessions after communication	
				Banco BPI	PSI-20	Banco BPI	PSI-20
	2007						
1	19 Jan.	IF	Shareholders' General Meeting approves the plan for branch openings and grants power to the BD to decide on the sale of the interest held in BCP by Banco BPI and by BPI Vida.	4.67%	2.17%	0.80%	(0.62%)
2	25 Jan.	IF	Release of Banco BPI's consolidated results for 2006[1].	4.83%	0.18%	3.17%	(2.27%)
3	29 Jan.	QS	BCP informs about the conclusion of contracts with Santander and the BCP Pension Fund for the purchase of 10.5% of BPI's share capital, and about the undertaking relating to the possible sale of assets.	2.33%	0.30%	5.52%	(2.19%)
4	1 Feb.	IF	BPI's announcement concerning the submission made to the CMVM regarding the announced agreement between BCP and Banco Santander.	(0.16%)	0.62%	3.67%	(2.54%)
5	1 Mar.	IF	Competition Authority's preliminary decision of non opposition to the operations, which includes a number of commitments assumed by BCP to the Competition Authority.	(0.62%)	(3.50%)	0.78%	2.03%
6	12 Mar.	IF	Banco BPI's Board of Directors advises that it unanimously deliberated not to make any declaration on the content of the Competition Authority's preliminary decision.	4.52%	(1.14%)	(1.94%)	(0.97%)
7	14 Mar.	IF	Banco BPI's presentation of the present situation one year after the announcement of the takeover bid launched by BCP: "A year later: Bigger, Better and Stronger"	(0.78%)	(2.77%)	2.20%	(2.11%)
8	5 Apr.	BID	BCP informs about the takeover bid's definitive registration.	(1.21%)	1.00%	(0.76%)	(2.26%)
9	19 Apr.	IF	Results of the Shareholders' General Meeting of 19 April 2007.	(1.21%)	1.82%	(4.45%)	(1.94%)
10	19 Apr.	IF	Announcement of the dividend payment relating to 2006.	(1.21%)	1.82%	(4.45%)	(1.94%)
11	24 Apr.	IF	Banco BPI informs about the Business Plan for the period 2007 to 2011.	(0.30%)	1.41%	(5.12%)	(2.56%)
12	24 Apr.	IF	Release of Banco BPI's consolidated results for the 1st quarter of 2007[1].	(0.30%)	1.41%	(5.12%)	(2.56%)
13	24 Apr.	BID	Banco BPI informs about BCP's announcement relating to the revised bid price.	(0.30%)	1.41%	(5.12%)	(2.56%)
14	26 Apr.	IF	Banco BPI advises that the Board of Directors unanimously deliberated to reject BCP's bid.	(4.22%)	2.95%	(1.10%)	(0.12%)
15	2 May	QS	Banco BPI, S.A., advises that the Credit Suisse Group holds 2.182% of the capital and 2.213% of its voting rights.	(3.10%)	1.47%	0.96%	(0.60%)
16	2 May	QS	Banco BPI advises that Castlerigg Master Investments Ltd. sold its qualified shareholding.	(3.10%)	1.47%	0.96%	(0.60%)
17	4 May	QS	BCP informs about the formalisation of the contract for the acquisition of shares from Santander and the BCP Pension Fund, with BCP now holding 12.26% of the voting rights in no BPI.	(7.01%)	1.03%	1.12%	(1.48%)
18	7 May	BID	BCP's takeover bid for Banco BPI ends unsuccessfully.	(2.62%)	1.89%	(0.16%)	(1.33%)
19	29 Jun.	QS	BCP reduces stake in Banco BPI to 9.98% of its voting rights.	(1.50%)	1.68%	2.28%	(1.25%)
20	25 Jul.	IF	Banco BPI, S.A. advises about the increase in the stake in BCP to 8.518%.	(0.89%)	0.05%	(0.60%)	0.99%
21	27 Jul.	IF	Announcement of Banco BPI's consolidated results for the 1st half of 2007[1].	(2.22%)	(2.96%)	(1.52%)	2.63%
22	3 Sep.	QS	Galp Energia, SGPS, S.A., advises about Banco BPI, S.A.'s qualified shareholding.	0.31%	2.61%	(8.47%)	7.75%
23	4 Oct.	QS	Banco BPI, S.A., advises that JP Morgan Chase & Co. holds 2.039% of its voting rights.	3.87%	3.39%	0.47%	(1.66%)
24	25 Oct.	IF	Announcement of Banco BPI's consolidated results for the first 9 months of 2007[1].	3.83%	(0.65%)	(12.44%)	(2.40%)
25	25 Oct.	IF	Banco BPI's Board of Directors sends to BCP's Executive Board of Directors a proposal for the merging of Banco Comercial Português with Banco BPI.	3.83%	(0.65%)	(12.44%)	(2.40%)
26	5 Nov.	IF	Banco BPI begins discussions with BCP with a view to an eventual merger.	(11.49%)	(0.09%)	(5.44%)	(1.24%)
27	8 Nov.	IF	Banco BPI informs about news in the press relating to BFA.	(12.31%)	1.16%	(4.04%)	1.28%
28	25 Nov.	IF	Banco BPI informs about the conclusion without success of the negotiations with BCP.	1.61%	(1.93%)	(2.65%)	(0.78%)
	2008						
29	10 Jan.	QS	Galp Energia, SGPS, S.A., advises about Banco BPI, S.A.'s qualified shareholding.	(12.99%)	(5.86%)	(16.63%)	12.03%
30	15 Jan.	QS	Galp Energia, SGPS, S.A., advises about Banco BPI, S.A.'s qualified shareholding.	(15.50%)	(7.75%)	(20.92%)	4.70%
31	24 Jan.	IF	Disclosure of Banco BPI's consolidated results for 2007[1].	(12.13%)	(9.02%)	(14.07%)	(1.54%)
32	24 Jan.	IF	Banco BPI informs about the statements of the Executive Committee's Chairman regarding a possible capital increase.	(12.13%)	(9.02%)	(14.07%)	(1.54%)
33	28 Jan.	QS	Banco BPI advises that UBS, AG holds 2.021% of its voting rights.	(20.58%)	(6.77%)	(10.99%)	0.03%
34	31 Jan.	QS	Galp Energia, SGPS, S.A., advises about Banco BPI's qualified shareholding.	(19.42%)	(2.87%)	0.45%	(1.80%)
35	31 Jan.	QS	Banco BPI advises that UBS, AG holds 1.21% of its voting rights.	(19.42%)	(2.87%)	0.45%	(1.80%)
36	20 Feb.	QS	Banco BPI advises that Credit Suisse holds 1.58% of its voting rights.	(4.55%)	0.39%	9.37%	3.71%
37	6 Mar.	IF	Banco BPI informs about the deliberation of the Board of Directors regarding the proposed share capital increase.	14.84%	(2.20%)	-	-

1) In compliance with CMVM Regulation 7 / 2001.

Legend: IF: Important fact; OC: Other communications; QS: Qualified shareholdings; OE: Other events.; TPC: Third-Party Communications; BID: Takeover bid.

Notes: A) Banco BPI adheres to a policy of disclosing sensitive information after the stock market has closed.

B) The facts listed in the above table do not constitute an exhaustive summary of all the information published on the CMVM's extranet. However, in Banco BPI's opinion, it includes the communications to the market that are capable of influencing the price of its shares.

15. Dividend policy

In the revision of the Statutes, which was deliberated at the Shareholders' General Meeting of 20 April 2006, a principle was included that obliges the Board of Directors to submit for deliberation by the General Meeting a proposed long-term dividend policy and the justification of any variances that may eventually occur in relation thereto.

THE BPI GROUP'S LONG-TERM DIVIDEND POLICY

(deliberated at the General Meeting of 19 April 2007)

Whereas:

1. Banco BPI's Statutes (article 26(3)) stipulate that the General Meeting deliberates on the long-term dividend policy proposed by the Board of Directors, and that this body justifies any deviations that may arise in relation to the said policy;

2. the present General Meeting is the first ordinary meeting to take place after that statutory principle was embodied in the revision deliberated at the General Meeting of 20 April 2006;

3. Banco BPI pursues sound financial-base goals that translate into the maintenance of:

a) a ratio between its basis own funds and risk-weighted assets – indicator normally designated as Tier I – which tendentiously is situated higher than 7%;

b) a percentage of preference shares that does not exceed 20% of basis own funds, that is, a Core Tier I indicator which tendentiously is situated higher than 5.5%;

4. Historically, Banco BPI's dividend policy has translated into:

a) the distribution of an annual dividend which, when measured with reference to the net profit reported in the consolidated accounts of the financial year to which such dividend refers, corresponded to a payout of not less than 31% for the last ten years taken as a whole, and of not less than 36% in the last five years;

b) the retention of an adequate share of net profit for financing the Group's growth needs;

c) an adequate dividend remuneration – measured by the relationship between the dividend and the share price (i.e. the dividend yield) – *vis-à-vis* the remuneration levels (via dividend) prevailing at other listed banks.

5. Taking into account, in particular, that the above points 3, 4.b) and 4.c) remain perfectly current and valid for the future.

6. The Board of Directors proposes the adoption of the following long-term dividend policy:

Distribution of an annual dividend, by way of a proposal to be submitted by the Board of Directors to the General Meeting, which is tendentiously not less than 40% of the net profit reported in the consolidated accounts of the financial year to which it refers, save where exceptional circumstances warrant, in the Board of Directors' considered judgement, the distribution of a lesser dividend to be submitted for the Shareholders' deliberation.

Annex: Additional data

Trend in key indicators over the last 5 years

	2002	2003	2004	2005	2006
Net profit (M.€)	140.1	163.8	192.7	250.8	308.8
Dividend	60.8	68.4	76.0	91.2	121.6
Pay-out ratio	43.4%	41.7%	39.4%	36.4%	39.4%
Basic earnings per share (EPS)	0.19	0.22	0.26	0.34	0.41
Δ%	-2%	13%	18%	31%	23%
Dividend per share	0.083	0.09	0.10	0.12	0.16[1]
Δ% yoy	-2%	8%	11%	20%	33%
Closing price	2.18	2.92	2.98	3.86	5.91
Δ%	1%	34%	2%	30%	53%
Dividend Yield (share price at beginning of the year)	3.9%	4.1%	3.4%	4.0%	4.1%
Dividend Yield (share price at end of the year)	3.8%	3.1%	3.4%	3.1%	2.7%
Capital ratio	10.2%	9.9%	9.8%	11.5%	9.4%
Tier[1]	7.3%	6.7%	6.5%	7.3%	7.4%
Core Tier I	5.9%	5.3%	5.1%	5.9%	5.9%

1) Dividend per share proposed by the Board of Directors in respect of the 2006 financial year.

Notes:
The Group's consolidated net profit constitutes the relevant basis which has been used by Banco BPI for the calculation of the dividend to be distributed. Meanwhile, the dividend constitutes the application of Banco BPI's individual net profit, with the result that if that net profit, after the required allocation to the Legal Reserve Fund and to the payment of the priority dividend on any preference shares that the company may have issued, is inadequate for the payment of the proposed dividend, this will entail the distribution of free reserves to complement the distribution of the individual net profit.

The dividend per share is fixed in terms adjusted, namely, for capital increases (in cash or through the incorporation of reserves) and for stock splits.

PRINCIPAL MANAGEMENT AND OVERSIGHT POSITIONS PERFORMED AT OTHER COMPANIES AND OTHER ENTITIES BY BANCO BPI, S.A.'S MEMBERS OF THE SHAREHOLDERS' GENERAL MEETING

João Vieira de Castro (Chairman)

Age	70 years old
Positions held in other companies or other entities	**Chairman of the Shareholders' General Meeting:** Sogrape Investimentos, SGPS, S.A. UNICER – Bebidas de Portugal, SGPS, S.A. Prosica – Sociedade de Estudos, Planificação e Realização de Instalações Industriais S.A. Sonaecom, SGPS, S.A. Sonae Indústria, SGPS, S.A., Hemisfério, SGPS, S.A. Jerónimo Martins, SGPS, S.A. **Manager:** ACR – Organização e Gestão de Escritórios, Lda. ACR – Administração de Bens, Lda.

Manuel Cavaleiro Brandão (Deputy-Chairman)

Age	61 years old
Positions held in other companies or other entities	**Chairman of the Shareholders' General Meeting:** Sonae SGPS, S.A. FASE – Estudos e Projectos, S.A. LEICA – Aparelhos Ópticos de Precisão, S.A. **Partner:** Cavaleiro Brandão, Pinheiro Torres, Cabral, Sousa e Silva e Associados – Sociedade de Advogados, R.L. **Managing-Partner:** OFFIG – Administração e Gestão de Escritórios, Lda.

Maria Alexandra Magalhães

Age	40 years old
Positions held in other companies or other entities	**Member of the Board:** Sarcol – Sociedade de Gestão e Investimento Imobiliário, S.A. **Deputy-Chairman:** SAR – Sociedade de Participações Financeiras, S.A. **Manager:** Amicer – Indústria de Amidos e Derivados, Lda.

EXPERIENCE, PROFESSIONAL QUALIFICATION AND OTHER MANAGEMENT AND OVERSIGHT POSITIONS PERFORMED AT COMPANIES BY THE MEMBERS OF BANCO BPI, S.A.'S BOARD OF DIRECTORS

Artur Santos Silva (Chairman)

Birth date	22 May 1941
Academic qualifications	**1985:** Stanford Executive Program, Stanford University **1963:** Law graduate, Coimbra University
Management and oversight positions held at other companies or other entities	**In Portugal:** Non-executive Director of Jerónimo Martins SGPS, S.A. Non-executive Director of SINDCOM – Sociedade de Investimento na Indústria e Comércio, SGPS, S.A. *And still:* Non-executive Director of the Fundação Calouste Gulbenkian. Member of the National Council of the Securities Market **In Brazil:** Member of the International Consultative Board of Banco Itaú Holding Financeira, S.A.
Previous professional experience	**1981-04:** Executive Chairman of SPI / BPI **1997-04:** Member of the Board of Directors of Associação Portuguesa de Bancos **1977-78:** Deputy-Governor of the Bank of Portugal **1975-76:** Secretary of State of the Treasury **1968-75:** Manager at Banco Português do Atlântico **1963-67:** Assistant lecturer at the Coimbra University Law Faculty in the chairs Public Finance and Political Economics

Carlos da Câmara Pestana (Deputy-Chairman)

Birth date	27 July 1931
Academic qualifications	**1955:** Law graduate, Universidade Clássica de Lisboa
Management and oversight positions held at other companies or other entities	**In Brazil:** Director, Chairman of Audit Committee, Member of Nominations and Remuneration Committee and Member of International Consultive Board of Banco Itaú Holding Financeira, S.A. **In Portugal:** Deputy-Chairman of the Board of Directors of Banco Itaú Europa, S.A. Director of Itaúsa Portugal, SGPS, S.A. Member of the Management Board of IPI – Itaúsa Portugal Investimentos, SGPS, Lda. Member of the Management Board of Itaú Europa, SGPS, Lda. Member of Management Board of Itaúsa Europa – Investimentos, SGPS, Lda.
Previous professional experience	**1990-94:** Chairman of the Management Board and Member of the Board of Directors of Banco Itaú, S.A. **1975-90:** Member of Banco Itaú, S.A.'s Senior Management Board **1970-75:** Member of the Board of Directors of Banco Português do Atlântico **1957-70:** Member of the Senior Management Board of Banco Português do Atlântico **1989-92:** Member of the Council for the Financial System (at the invitation of the Government of Portugal) **1972-75:** Chairman of the National Guild of Banks and Banking Houses **1970-72:** Deputy-Chairman of the National Guild of Banks and Banking Houses

Fernando Ulrich (Deputy-Chairman)

Birth date	26 April 1952
Academic qualifications	**1969-74:** Attended Business Management Course of the Instituto Superior de Economia de Lisboa
Management and oversight positions held at other companies or other entities	Chairman of the Board of Directors of Banco Português de Investimento, S.A. Chairman of the Board of Directors of Banco de Fomento Angola Chairman of the Board of Directors of BPI Gestão de Activos – Sociedade Gestora de Fundos de Investimento Mobiliário, S.A. Chairman of the Board of Directors of BPI Pensões – Sociedade Gestora de Fundos de Pensões, S.A. Chairman of the Board of Directors of BPI Vida – Companhia de Seguros de Vida, S.A. Chairman of the Board of Directors of BPI Madeira, SGPS, Unipessoal, S.A. Chairman of the Board of Directors of BPI Global Investment Fund Management Company, S.A. Administrador da BPI Capital Finance Limited Director of BPI Capital Finance Limited Director of Banco BPI Cayman, Ltd. Manager of Viacer – Sociedade Gestora de Participações Sociais, Lda. Manager of Petrocer, SGPS, Lda. Non-executive Director of Semapa – Sociedade de Investimento e Gestão, SGPS, S.A. Member of the Board of Directors of Associação Portuguesa de Bancos
Previous professional experience	**1981-83:** Chief of the Office of the Minister of Finance and Planning **1979-80:** Officer at the Secretariat for External Economic Cooperation of the Ministry of Foreign Affairs (Relations with the EFTA, OECD and GATT) **1975-79:** Member of the Portuguese Delegation at the OECD (Paris), responsible for economic and financial matters **1973-74:** In charge of the financial markets section of the weekly “Expresso”

Ruy Octávio Matos de Carvalho (Deputy-Chairman)

Birth date	26 March 1932
Academic qualifications	**1973:** Executive Program, Insead – Fontainebleau **1956:** Finance graduate of the ISCEF – Lisbon
Management and oversight positions held at other companies or other entities	Deputy-Chairman of Yura International Holding, B.V.
Previous professional experience	**1990-1993:** Member of the General Board of BCI – Banco de Comércio e Indústria, S.A., in representation of BPI **1982-97:** Chairman of the Portuguese Association of Insurers (Associação Portuguesa de Seguradores – APS) **1979-82:** Chairman of the Insurance Institute of Portugal **1976-79:** Deputy-Chairman of the Insurance Institute of Portugal **1976:** Member of the National Institute of Insurance Steering Committee **1977-04:** Chairman of the Audit Committee of EFACEC **1958-77:** Director of EFACEC – Empresa Fabril de Máquinas Eléctricas **1958-75:** Director of Companhia de Seguros Garantia **1988-90:** Deputy-Chairman of the Comité Européen des Assurances **1987-96:** Chairman of the Insurance Commission of the Chambre de Commerce Internationale (CCI).

Alfredo Rezende de Almeida

Birth date	22 May 1934
Academic qualifications	**1959:** Economics graduate, Economics Faculty of the Universidade do Porto
Management and oversight positions held at other companies or other entities	Chairman of the Board of Directors of ARCOtêxteis, S.A. and ARCOfio – Fiação, S.A. Partner-Director of Casa de Ardias – Sociedade Agrícola e Comercial, Lda.
Other positions	Director of ATP – Associação Têxtil e do Vestuário de Portugal Director of Associação Portuguesa de Exportadores Têxteis
Previous professional experience	**1998-...:** Chairman of the Board of Directors of ARCOfio – Fiação, S.A. **1998-06:** Deputy-Chairman of ARCOtinto – Tinturaria, S.A. **1995-06:** Director of FÁBRICA DO ARCO – Recursos Energéticos, S.A. **1998-...:** Chairman of the Board of Directors of ARCOtêxteis, S.A. **1989-90:** Chairman of the General Board of BCI – Banco de Comércio e Indústria, S.A. **1985-88:** Member of the General Board of BCI – Banco de Comércio e Indústria, S.A. **1986-91:** Member of the General Board of Sociedade Portuguesa de Capital de Risco, S.A. **1959-63:** Director of Sociedade Luso Americana de Confecções, SARL

António Domingues

Birth date	30 December 1956
Academic qualifications	**1979:** Economics graduate of the Instituto Superior de Economia de Lisboa
Management and oversight positions held at other companies or other entities	Deputy-Chairman of the Board of Directors of Banco Português do Investimento, S.A. Deputy-Chairman of the Board of Directors of Banco de Fomento Angola Member of the Board of Directors of BCI Fomento (Mozambique) Member of the Board of Directors of Companhia de Seguros Allianz Portugal, S.A. Director of BPI Madeira, SGPS, Unipessoal, S.A. Director at Zon Multimédia, S.A. Director of SIBS – Sociedade Interbancária de Serviços, S.A.
Previous professional experience	**1988-89:** Assistant Director-General of the branch in France of Banco Português do Atlântico **1986-88:** Technical advisor at the Foreign Department of the Bank of Portugal **1982-85:** Director of the Foreign Department of the Instituto Emissor de Macau **1981:** Economist at IAPMEI **Until 1981:** Economist at the Office of Studies and Planning of the Ministry of Industry and Energy

António Farinha Morais

Birth date	2 August 1951
Academic qualifications	**1974:** Finance graduate of the Instituto Superior de Economia da Universidade Técnica de Lisboa
Management and oversight positions held at other companies or other entities	Director of Companhia de Seguros Allianz Portugal, S.A. Chairman of the Board of Directors of Eurolocação – Comércio e Aluguer de Veículos e Equipamentos, S.A. Director of BPI Rent – Comércio e Aluguer de Bens, Lda. Director of BPI Madeira, SGPS, Unipessoal, S.A.
Previous professional experience	**1992-96:** Director of Banco de Fomento e Exterior and Banco Borges & Irmão **1992:** Director of Companhia de Seguros Aliança UAP **1989-91:** Director of Banco Pinto & Sotto Mayor **1984-89:** Director of SEFIS and Eurofinanceira, BFE Group investment companies **1981-89:** Director of Financial and Capital Markets services of Banco de Fomento e Exterior **1978-81:** Technical analyst of investment projects at Banco de Fomento e Exterior **1975-82:** Lecturer at the Instituto Superior de Ciências do Trabalho e da Empresa and at the Instituto Superior de Contabilidade e Administração de Lisboa **1967-78:** Head of finance and administration at the group of four companies

Armando Leite de Pinho

Birth date	29 April 1934
Academic qualifications	**1956:** Diploma In Engineering, Instituto Superior de Engenharia do Porto
Management and oversight positions held at other companies or other entities	Chairman of the Board of Directors of Arsopi – Indústrias Metalúrgicas Arlindo S. Pinho, S.A. Chairman of the Board of Directors of Arsopi – Holding, SGPS, S.A. Chairman of the Board of Directors of Arsopi – Thermal, S.A. Chairman of the Board of Directors of A.P. Invest, SGPS, S.A. Chairman of the Board of Directors of ROE, SGPS, S.A. Chairman of the Board of Directors of Security, SGPS, S.A. Deputy-Chairman of the Board of Directors of Unicer – Bebidas de Portugal, SGPS, S.A. Director of Plurimodos – Sociedade Imobiliária, S.A. Director of Pluricasas – Sociedade Imobiliária, S.A. Director of Plurimodus Turismo, S.A. Director of Tecnocon – Tecnologia e Sistemas de Controle, Lda. Director of Equitrade – Equipamentos e Tecnologia Industrial, Lda. Director of Viacer – Sociedade Gestora de Participações Sociais, Lda. Director of Petrocer – SGPS, Lda. Director of IPA – Imobiliária Pinhos & Antunes, Lda.
Previous professional experience	**2000-...:** Chairman of the Board of Directors of Arsopi, S.A. **1990-...:** Chairman of the Board of Directors of Arsopi-Holding, S.A. **1990-...:** Director of Unicer, S.A. **1989-...:** Chairman of the Management Board of Arsopi – Thermal e da Tecnocon **1988-00:** Managing Director of Arsopi, S.A. **1985-90:** Member of the General Board of BCI – Banco de Comércio e Indústria, S.A. **1969-88:** Manager of Arsopi, S.A. **1957-69:** Manager and Technical and Production Director of Metalúrgica de Cambra

Carlos Moreira da Silva

Birth date	12 September 1952
Academic qualifications	**2006:** Stanford Executive Programme, University of Stanford, USA **1982:** PhD in Management Sciences, University of Warwick, UK **1978:** MSc in Man. Sci. and OR, University of Warwick, UK **1975:** Graduate in Mechanical Engineering from the University of Porto
Management and oversight positions held at other companies or other entities	Chairman of the Board of Directors of the companies within the BA Glass Group Chairman of the Board of Directors of Bar.Bar.Idade, SGPS, S.A. Chairman of the Board of Directors of Bar.Bar.Idade – Imobiliário e Serviços, S.A. Chairman of the Board of Directors of Bar.Bar.Idade II – Consultores de Gestão, S.A. Chairman of the Board of Directors of Cor.on.line – Comércio de Arte, S.A. Chairman of the Board of Directors of Fim do Dia, SGPS, S.A. Chairman of the Board of Directors of Sampletest II – Consultoria e Gestão de Laboratórios de Análises Clínicas, S.A. Chairman of the Board of Directors of sociedades do Grupo GES-SIEMSA. Manager Artividro – Arte em Vidro, Lda. Member of the Board of Directors of Change SGPS, S.A. Sole Director of MIDFIELD – Imobiliário e Serviços, S.A. Sole Director of BAHOUSE – Imobiliária e Serviços, S.A.
Previous professional experience	**1998-...:** Chairman of the Board of Directors of BA Vidro, S.A. **2005-...:** Member of the Advisory Board of 3i Spain **2003-05:** Chairman of Executive Committee of Sonae Indústria, SGPS **1988-98:** Director of several companies from Grupo Sonae **1987-88:** Director of EDP, Electricidade de Portugal **1982-87:** Assistant Professor of the Engineering Faculty at the Universidade do Porto

Edgar Alves Ferreira

Birth date	21 March 1945
Academic qualifications	**1967:** Forestry graduate of the Instituto Superior de Agronomia Post-graduate degree in Management from the Universidade Nova de Lisboa
Management and oversight positions held at other companies or other entities	Director of HVF – SGPS, S.A. Director of III – Investimentos Industriais e Imobiliários, S.A. Director of Corfi, S.A.
Previous professional experience	**1978-...:** Production Manager at Cotesi **...-2005:** Director of Companies of the Violas Group **1989-05:** Member of the Board of Directors of Unicer – Bebidas de Portugal, SGPS, S.A.

Herbert Walter (representing RAS Internacional, N.V.)

Birth date	10 August 1953
Academic qualifications	**1982:** PhD in Political Sciences **1974-79:** Kaufmann graduate in Business Administration, Ludwig-Maximilians University (Munich)
Management and oversight positions held at other companies or other entities	Chairman of the Executive Committee of Dresdner Bank AG Member of the Executive Committee of Allianz SE Member of Board of Directors of Banco Popular Español Member of the Board of Directors of Deutsche Börse AG Member of the Board of Directors of E.ON Ruhrgas AG Member of the Board of Directors of Allianz Beratungs – und Vertriebs – AG (company from the Allianz Group)
Previous professional experience	**2003-...:** Chairman of the Executive Committee of Dresdner Bank AG **2003-...:** Member of the Executive Committee of Allianz SE **2002-03:** Responsible for Customers (Companies and Individuals) and Member of the Executive Committee of the Deutsche Bank Group **1999-03:** "Spokesman" of the Executive Committee of Deutsche 24 AG

Isidro Fainé Casas

Birth date	10 July 1942
Academic qualifications	Graduate in "Senior Management", IESE PhD in Economics Member of the "Real Academia de Ciências Económicas y Financieras" and the "Real Academia de Doctors" Holder of an ISMP in "Business Administration", Harvard University
Management and oversight positions held at other companies or other entities	Chairman of Caixa de Ahorros y Pensiones de Barcelona "La Caixa" Chairman of Abertis Infraestructuras, S.A. Deputy-Chairman of Telefónica, S.A. Second Deputy-Chairman of Repsol-YPF, S.A. Director of Caixa Criteria Corp, S.A. Director of CaiFor, S.A. Director of Port Aventura, S.A. Director of Brisa Auto-Estradas de Portugal, S.A.
Previous professional experience	**1999-2007:** Director-General of Caixa de Ahorros y Pensiones de Barcelona "La Caixa" **1982-99:** Subdirector-General of Caixa de Ahorros y Pensiones de Barcelona "La Caixa" **1978:** General Manager of Banco Unión, S.A. **1974:** Advisor and General Manager of Banca Jover **1973:** Staff Manager of Banca Riva Y Garcia **1969:** Director of Banco Asunción, Paraguay **1964:** Investment Manager of Banco Atlântico

Jorge de Figueiredo Dias

Birth date	30 September 1937
Academic qualifications	**1959:** Law graduate of the University of Coimbra **1970:** PhD in Law (Legal Sciences) from the Law Faculty of the Universidade de Coimbra **1977:** Chair Professor
Management and oversight positions held at other companies or other entities	None.
Other positions	Member of the Management Council of the Fundação Luso-Americana para o Desenvolvimento.
Previous professional experience	**1991-05:** Deputy-Chairman of SIC (Société Internationale de Criminologie) **1990-01:** Chairman of FIPP (Fondation Internationale Pénale et Pénitentiaire) **1996-02:** Vice-Chairman of SIDS (Société Internationale de Défense Sociale) **1996-00:** Chairman of the General Meeting of the Caixa Geral de Depósitos **1991-96:** Member of SIDS (Société Internationale de Défense Sociale) **1986-91:** Member of SIC (Société Internationale de Criminologie) **1984-04:** Member of the Management Council of the AIDP (Association Internationale de Droit Pénal) **1982-86:** Member of the Council of State **1979-83:** Member of the Constitutional Commission **1978-90:** Member of FIPP (Fondation Internationale Pénale et Pénitentiaire)

José Pena do Amaral

Birth date	29 November 1955
Academic qualifications	**1978:** Economics graduate from Instituto Superior de Ciências do Trabalho e da Empresa
Management and oversight positions held at other companies or other entities	Member of the Board of Directors Banco de Fomento Angola Member of the Executive Committee of Banco de Fomento Angola Director of BPI Madeira, SGPS, Unipessoal, S.A.
Previous professional experience	**1986-96:** Consultant at Casa Civil of the President of the Republic for European Affairs **1983-85:** Head of the Office of the Minister of Finance and Planning; permanent member of the Portuguese Ministerial Delegation in the negotiations for Portugal's accession to the European Community **1982-83:** Member of the Office of the consultants Jalles & Vasconcelos Porto; correspondent of the Expresso, RTP and of Deutsche Welle in Brussels **1980-82:** Head of the ANOP delegation in Brussels **1979-80:** Editor of the Economic Supplement of the Diário de Notícias **1975-80:** Professional journalist at the Diário de Notícias

Klaus Dührkop

Birth date	9 February 1953
Academic qualifications	Law graduate of the University of Hamburg
Management and oversight positions held at other companies or other entities	Deputy-Chairman of Koc Allianz (Turkey).
Previous professional experience	**2006:** Chairman of the Executive Committee of Mondial Assistance Group **1998-05:** Executive Deputy-Chairman of the European Department of Allianz AG **1995-97:** Head of the Department of Governmental Matters of Allianz AG, Brussels **1994:** Head of the CEO Office of Allianz Versicherungs – AG **1991-93:** Managing Director of Allianz Industrial, S.A. (Spain) **1987-91:** Member of the Executive Committee of Allianz Ultramar (Brazil) **1985-86:** Director of the Industrial Department of Allianz Versicherungs – AG, Hamburgo **1982-84:** Insurance brokerage assistant

Manuel Ferreira da Silva

Birth date	25 February 1957
Academic qualifications	**1982:** MBA, post-graduate course in Business Management from the Universidade Nova de Lisboa in collaboration with the Wharton School (University of Pennsylvania) **1980:** Economics graduate from the Economics Faculty of the Universidade do Porto
Management and oversight positions held at other companies or other entities	Member of the Board of Directors of Banco Português de Investimento, S.A. Chairman of the Executive Committee of the Board of Directors of Banco Português de Investimento, S.A. Chairman of the Board of Directors of Inter-Risco – Sociedade de Capital de Risco, S.A. Director of BPI Madeira, SGPS, Unipessoal, S.A.
Previous professional experience	**1980-89:** Lecturer at the Economic Faculty of the Universidade do Porto **1981-83:** Assistant Director of the Navy's Centre of Operational Investigation

Marcelino Armenter Vidal (representing Criteria Caixa Corp S.A.)

Birth date	2 June 1957
Academic qualifications	**1974-1979:** Business Sciences Course and Master of Company Administration and Management, ESADE
Management and oversight positions held at other companies or other entities	Executive Deputy General Director of Caja de Ahorros y Pensiones de Barcelona "La Caixa" Director of Abertis Infraestruturas S.A. (in representation for Criteria Caixa Corp S.A. until September 2007 and on a personnal basis from September 2007 onwards) Joint Director of Catalunya de Valores, S.G.P.S., Unipessoal, Lda. (until February 2008) Director of E-la Caixa, S.A. Director of Caprabo, S.A representing Caixa Capital Desarrollo, S.C.R., S.A. (until September 2007).
Previous professional experience	**2005-2007:** Executive Director of Caja de Ahorros y Pensiones de Barcelona "la Caixa" **2001-2007:** Director-General of Caixa Holding, S.A. **1995-2001:** Managing Director of Banco Herrero **1996-2000:** Director of Hidroeléctrica del Cantábrico. **1985-1995:** Manager of La Caixa's Participating Interest's Control Area

Maria Celeste Hagatong

Birth date	2 July 1952
Academic qualifications	**1974:** Finance graduate of the Instituto Superior de Economia da Universidade Técnica de Lisboa
Management and oversight positions held at other companies or other entities	Director of BPI Madeira, SGPS, Unipessoal, S.A. Non-executive Director of CVP – Sociedade de Gestão Hospitalar, S.A.
Previous professional experience	**1984-85:** Member of the Board of Directors of Fonds de Rétablissement du Conseil de L'Europe **1978-85:** Manager of Financial Services at the Directorate-General of the Treasury of the Ministry of Finance **1977:** Administrative and Finance Director of the Republic's Parliament **1976-77:** Ministry of Finance – Directorate-General of the Treasury **1974-76:** Lecturer at the Instituto Superior de Ciências do Trabalho e da Empresa **1974-76:** Responsible for the Department of Local Finance of the Ministry for Internal Administration

Pedro Barreto

Birth date	3 March 1966
Academic qualifications	**2001:** Stanford Executive Program **1989:** Business Management graduate of the Universidade Católica Portuguesa
Management and oversight positions held at other companies or other entities	Director of BPI Madeira, SGPS, Unipessoal, S.A.
Previous professional experience	**1984-1988:** IT Division of Soporcel – Sociedade Portuguesa de Celulose

Roberto Egydio Setubal

Birth date	13 October 1954
Academic qualifications	**1979:** Master of Science – Enginneering Management, Stanford University **1977:** Graduate in Production Engineering of the Polytechnical School of the Universidade de São Paulo (Brazil)
Management and oversight positions held at other companies or other entities	**In Brazil:** Deputy-Chairman of the Board of Directors, Director Chairman, Member of the International Consultative Board and Remuneration Committee of Banco Itaú Holding Financeira, S.A. Director Chairman and Director General of Banco Itaú, S.A. Director Chairman and Director General of Itauinv Brasil Participações, Lda. Director Chairman and Director General of ITB Holding Brasil Participações, Lda. Director Executive and Vice-Chairman of Itaúsa – Investimentos Itaú, S.A. Chairman of the Board of Directors and Director Chairman of Banco Fiat S.A. Chairman of the Board of Directors and Director Chairman of Companhia Itauleasing de Arrendamento Mercantil Chairman of the Board of Directors and Director Chairman of Itauseg Participações, S.A. Chairman of the Board of Directors of Banco Itaú BBA, S.A. Chairman of the Board of Directors of BFB Leasing S.A. – Arrendamento Mercantil Chairman of the Board of Directors of Investimentos Bemge, S.A. Chairman of the Board of Directors of Itaú Gestão de Activos, S.A. Chairman of the Board of Directors of Itaú XL Seguros Corporativos, S.A. Chairman of the Board of Directors of ItauBank Leasing, S.A. – Arrendamento Mercantil Member of the Board of the Instituto Itaú Cultural Director Chairman of Banco Banerj, S.A. Director Chairman of Banco Banestado, S.A. Director Chairman of Banco Beg, S.A. Director Chairman of Banco Itaucred Financiamentos S.A. Director Chairman of Companhia Itaú de Capitalização, Itaú Vida e Previdência, S.A. Director Chairman of Banco Itaucard, S.A. Director Chairman of Banco Itaú Cartões, S.A. Director Chairman of Itaú Seguros, S.A. Director Chairman of Banco ItaúBank, S.A. Director of Itaú BBA Participações, S.A. Director of Itaucorp S.A. Director of Fundação Itaú Social "Managing Director" of Três "B" Empreendimentos e Participações, S.A. **In Portugal:** Chairman of the Board of Directors of Banco Itaú Europa, S.A. Member of the Management Board of Itaúsa Europa – Investimentos, SGPS, Lda. Member of the Management Board of Itaúsa Portugal, SGPS, S.A. Member of the Management Board of Itaú Europa, SGPS, Lda. Member of the Management Board of IPI – Itaúsa Portugal Investimentos, SGPS, Lda. **In Argentina:** Chairman of the Board of Directors of Banco Itaú Buen Ayre, S.A. **In the Cayman Islands:** Director of Itaú Bank, Ltd. Director of BIE – Bank & Trust, Ltd. Director of Amethyst Holding, Ltd. Director of ITB Holding, Ltd. Director of Topaz Holding, Ltd. **In Luxembourg:** Director of Banco Itaú Europa Luxembourg, S.A. **In the United States of America:** Deputy-Chairman of the Institute of International Finance Member of the International Advisory Committee of The Federal Reserve Bank of New York Member of the Board of the International Monetary Conference Member of the International Advisory Committee of the New York Stock Exchange, – NYSE
Previous professional experience	**2005-…:** Member of the International Advisory Committee of the New York Stock Exchange, – NYSE **2003-…:** Deputy-Chairman of the Institute of International Finance – IIF **2002-…:** Chairman of Banco Itaú Holding Financeira, S.A. **2002-…:** Deputy-Chairman of the Board of Banco Itaú Holding Financeira S.A. **2002-…:** Member of the International Advisory Committee of the Federal Reserve Bank, NY **2000-…:** Chairman of Fundação Itaú Social **1995-…:** Member of International Monetary Conference – IMC **1994-…:** Chairman of Banco Itaú, S.A. **1997-00:** Chairman of the National Federation of Banks – FEBRABAN **1990-94:** Executive Director-General of Banco Itaú, S.A. **1986-90:** Executive Director of the Área Grande São Paulo do Banco Itaú, S.A. **1984-86:** General Manager of Banco Itaú, S.A. **1986-86:** Technical Manager of Banco Itaú, S.A. **1983-84:** Advisor to Citibank (N.Y. – USA)

Tomaz Jervell

Birth date	4 March 1944
Academic qualifications	**1969:** Higher School of Commerce, Oslo
Management and oversight positions held at other companies or other entities	Chairman of the Management Board of Auto-Sueco, Lda. Chairman of the Board of Directors of Norbase, SGPS, S.A. Chairman of the Board of Directors of Auto-Sueco (Angola), SARL Chairman of the Board of Directors of Auto-Sueco (Minho), S.A. Chairman of the Board of Directors of Soma, S.A. Chairman of the Board of Directors of Biosafe, S.A. Chairman of the Board of Directors of Vellar, SGPS, S.A.

EQUIVALENCE BETWEEN THE CMVM'S REGULATIONS AND RECOMMENDATIONS DEALING WITH CORPORATE GOVERNANCE AND THE BPI'S REPORT ON CORPORATE GOVERNANCE

Details	Nature		Chapter
	Regulation	Recomendation	
0. DECLARATION OF COMPLIANCE			
Detailed description of the CMVM's recommendations on corporate governance adopted and not adopted (explaining in the latter case the reasons for non adoption)	✓		0.
I. DISCLOSURE OF INFORMATION			
Organisation charts relating to the division of responsibilities between the various bodies and company departments in the business decision-making process.	✓		4.
List of specific commissions created at the company with indication of their composition and functions	✓		3.5., 3.7., 3.8. and 3.9.
Description of the system of risk control implemented at the company	✓	✓	3.5. and 5.
Description of the issuer's share price behaviour	✓		14.2.
Description of the dividend distribution policy	✓		15.
Business dealings between the company on the one hand, and the members of its governing bodies, holders of qualified shareholdings or Group companies, on the other	✓		12.8.
Investor Support Office		✓	13.2.
Company site on the Internet	✓	✓	13.3.
Identification of the market relations representative	✓		13.4.
Indication of the composition of the remuneration or equivalent committee	✓	✓	3.9.
Indication of the annual remuneration paid to the auditors and their network	✓		6.3.
Description of the means for safeguarding the auditor's independence	✓		6.1. and 6.2.
II. EXERCISE OF VOTING RIGHTS AND SHAREHOLDER REPRESENTATION			
Statutory rules on the exercise of voting rights, namely, voting by post and by proxy	✓	✓	10.3. and 10.4.
Possibility of exercising voting rights be electronic means	✓		10.5.
Prior period required for the deposit or blockage of shares for participation at general meetings	✓	✓	10.2.
Requirement of a period of time elapsing between the receipt of the voting paper by correspondence and the holding of the general meeting	✓	✓	10.4.
Number of shares which correspond to one vote	✓		10.2.
III. CORPORATE RULES			
Existence of codes of conduct for the company's bodies or other internal regulations	✓		3., 12.
Description of the internal procedures for the control of risk in the company's activity	✓		3.5. and 5.
Measures capable of interfering in the success of takeover bids (limiting the exercise of voting rights, restrictions on the transferability of shares, shareholder agreements, etc.)	✓	✓	9.
IV. MANAGEMENT BODY			
Management body: distinction between executive and non-executive members and independent and non-independent members	✓	✓	3.3.
Functions exercised by the members of the management body at other companies	✓		Appendix
Experience and professional qualifications of the members of the management body, number of shares owned by them, date of the first appointment and date on which the term of office ends	✓		3.3 and Appendix and Annex to the Directors' Report
Existence of an executive commission or other commissions with management responsibility, identifying the the powers and responsibilities attributed to these committees and their composition	✓		3.4.
Delimitation of responsibilities between the Chairman of the management body and the Chairman of the executive committee	✓		3.3. and 3.4.
List of issues the executive committee is barred from dealing with	✓		3.4.
Information to the members of the management body relating to matters dealt with and decisions taken by the executive committee	✓		3.3.
Existence of internal control committees with responsibilities in the assessment of the company's structure and governance.		✓	3.5. and 3.7.
List of disqualifications defined internally by the management body	✓		3.3.
Number of meetings of the management body during the year in question	✓		3.3.
Motion submitted to the General Meeting relating to the approval of the share incentive and options scheme must contain all the details needed for a proper appraisal of the scheme		✓	8.1.3.
Description of the policy of reporting irregularities allegedly occurring within the company and the description of their principal elements	✓	✓	12.5

Details	Nature		Chapter
	Regulation	Recomendation	
V. REMUNERATION			
Description of the remuneration policy, including in particular the means of aligning the interests of the Directors with those of the company	✓		0., 7.1. and 8.1.
Submission for consideration by the annual general meeting of shareholders of a statement on the remuneration policy for governing bodies		✓	0.
Disclosure of the annual remuneration of directors in individual terms		✓	0.
Company's policy relating to the compensation negotiated contractually or by way of mutual accord in the case of dismissals or other early cessation of contracts	✓		3.3. and 7.7.
Indication of the remuneration earned, distinguishing executive directors from non-executive directives, and the fixed part from the variable part	✓		7.2.
Identification of the principal parameters and grounds for any system of annual bonuses and or other non-monetary benefits	✓		7. and 8.
Granting of shares and or rights to acquire share options and or any share incentive scheme	✓		8.
Remuneration paid in the form of a share in profit and/or the payment of bonuses and the motives why such bonuses and/or share in the profits were granted	✓		8.
Indemnities paid or due to former executive directors relating to the cessation of their functions during the year	✓		7.7.
Amounts paid for whatever reason by other companies with which there are controlling or group relationships	✓		7.2.
Estimate of the value of the non-monetary benefits considered to be remuneration not covered in the previous situations	✓		7.8.
Description of the principal characteristics of the complementary pension or early retirement regimes for directors	✓		7.4.
VI. INSTITUTIONAL INVESTORS			
Institutional investors: diligent, efficient and critical use of the rights attaching to the securities of which they are the holders or whose management has been entrusted to them	✓	✓	11.

PRINCIPAL REGULATORY SOURCES DEALING WITH CORPORATE GOVERNANCE IN PORTUGAL

Banco BPI, as a commercial company (of the PLC type), credit institution and company quoted on the Euronext – Lisbon, is subject to stringent regulation, supervision and inspection in the terms of a number of sources of law and conducted by various regulatory entities.

The table below identifies in summarised form and only from the viewpoint of corporate governance and institutional communication, the principal legal enactments of an external nature which regulate the Bank's activity.

Source	Principal enactments	Scope of application	Main topics relating to corporate governance	Most important provisions	Links available on the Internet
LEGISLATIVE	Portuguese Companies Code	Public limited companies (Plc)	▪ Management and oversight structure ▪ Functioning and powers of the governing bodies ▪ Public liability of members of the management and oversight bodies ▪ Shareholders' rights and duties ▪ Non-voting preference shares ▪ Shareholders' resolutions	Heading I: Chap. IV – Art. 53 to 63; Chap. V – Art. 64; Chap. VI – Art. 65 to 70-A; Chap. VII – Art. 71 to 84 Heading IV: Chap. I – Art. 278; Chap. V – Art. 373 and 389; Chap. VI – Art. 390 to 446-F Heading VII: Art. 518 and 519	www.dgrn.mj.pt/legislacao/soc.pdf
	Portuguese Securities Code	Companies with capital open to investment by the public ("Sociedades abertas"); Other entities or persons connected to the securities market.	▪ Information duties of public-listed companies and disclosure means ▪ Communication duties of the holders of qualified holdings in publicly-listed companies ▪ Quality of financial information ▪ Scope of the work and responsibility of the auditors registered with the CMVM ▪ Concept of institutional investors ▪ Protection of non-institutional investors' interests	Heading I: Chap. II – Art. 5.º; Chap. III – Art. 7.º to 10; Chap. IV – Art. 13 to 29; Cap. V – Art. 30 to 36 Heading III: Cap. I to III – Art. 108 to 197 Heading IV: Chap. II – Art. 244 to 251 Heading VII: Chap. II – Art. 358 to 368	http://www.cmvm.pt/NR/exeres/2FE66EA8-DFB8-4CA1-85E4-87B8454BA2E8.htm
	Legal Regime of Collective Investment Under-takings[1]	Collective securities investment undertakings	▪ General duties of entities managing collective investment bodies ▪ Duty to inform the CMVM and the market of the justification of the exercise of the voting right attaching to the shares managed for the account of others.	Heading II: Chap. I – Art. 33 Heading III: Chap. III – Art. 73 and Art. 74	http://www.cmvm.pt/NR/exeres/157B4E76-1B2C-47AA-87C9-C2959B0BA072.htm
	Legal regime of European public companies[2]	European public companies	▪ Concept, functioning structure of the "European public company (societas europaea)".	All	http://www.pgdlisboa.pt/pgdl/leis/lei_mostra_articulado.php?nid=475&tabela=leis&ficha=1&pagina=1
REGULATORY	CMVM Regula-tions no. 7 / 2001	Companies with shares quoted on a regulated market	▪ Imposition of the annual corporate governance report and the respective model ▪ Definition of the non-independent director ▪ Other information duties to the CMVM ▪ Obligation to have a site on the Internet with essential information about the company	All	http://www.cmvm.pt/NR/exeres/A97620FB-8DB4-47C3-BAAC-2BE59C7A105B.htm
	CMVM Regula-tion no. 6 / 2000	Auditors registered with the CMVM	▪ Information subject to report or opinion prepared by the auditor registered with the CMVM ▪ General duties of auditors ▪ Content and requirements of auditors' reports or opinions ▪ Register of auditors ▪ Conflicts of interest	Art. 1.º to 6.º Art. 11	http://www.cmvm.pt/NR/exeres/0CEE9490-EA96-4F28-9063-FD667876ABD1.htm
	CMVM Regula-tion no. 4 / 2004	Companies with capital open to investment by the public	▪ Facts subject to information duties ▪ General disclosure means ▪ Disclosure deadlines	All	www.cmvm.pt/NR/exeres/9A4EDDB6-BAFF-41E9-8584-DEAE96EC3000.htm

1) Decree-Law 252 / 2003, of 17 October.
2) Decree-Law 2 / 2005 of 4 January.

Source	Principal enactments	Scope of application	Main topics relating to corporate governance	Most important provisions	Links available on the Internet
RECOMENDATIONS	Recommendations of the CMVM on the governance of listed companies	Companies with shares quoted on a regulated market	▪ Disclosure of information ▪ Exercise of voting rights ▪ Internal control system ▪ Structure of the management body and remuneration of its members ▪ Duties of institutional investors	All	http://www.cmvm.pt/NR/exeres/D6E8EF3B-7D3E-4C08-A0DC-FE8BD01B05A9.htm
	Recommendations of the CMVM relating to the exercise of postal voting at publicy--held companies	Companies with capital open to investment by the public	▪ Rules for the exercise of voting rights by post, including electronic voting ▪ Validation of the postal vote	All	http://www.cmvm.pt/NR/exeres/650F0A22-1E5B-45E0-BD8E-47A1A0EFE06B.htm
	White Paper on Corporate Governance in Portugal	Companies with capital open to investment by the public	▪ Mission, structure and independence of the Board of Directors ▪ Role of non-executive directors ▪ Specialised committees of the Board of Directors ▪ Audit Board and Remuneration Committee ▪ External and internal audit ▪ General Meetings ▪ Measures detrimental to the market functioning of company supervision	All	www.ecgi.org/codes/documents/libro_bianco_cgov_pt.pdf
OTHERS	Statute of the Institute of Portuguese Statutory Auditors[3]	Portuguese Statutory Auditors registered with the respective Institute	▪ Scope of the work of the statutory auditors: duties and form of exercising their functions ▪ Scope of the work of the statutory auditors: duties and form of exercising their functions	Heading I: Chap. III – Art. 40 to 51 Heading II: Chap. I – Art. 52 and 62 to 73; Chap. II – Art. 75 to 78; Chap. III – Art. 82 and 92; Heading III: Chap. III – Art. 113 and 114 Heading IV: Chap. I – Art. 124	www.oroc.pt/fotos/editor2/estatutos_profissao.pdf
	Code of Ethics and Professional Conduct of Portuguese Statutory Auditors[4]	Portuguese Statutory Auditors registered with the respective Institute	▪ Fundamental principles ▪ Duties and responsibilities ▪ Independence ▪ Professional confidentiality	Chap. I – Art. 1.º to 8.º Chap. IV – Art. 11 Chap. V – Art. 13	www.oroc.pt/fotos/editor2/codigo_etica.pdf

3) Decree-Law 487 / 99.
4) D.R.,III Series, 26.12.2001.

PUBLICATIONS, COMMUNICATIONS AND INSTITUTIONAL EVENTS IN 2008

			Important dates	
			Legal / regulatory timetable	**BPI 2008 calendar (expected dates)**
Report and accounts: 2007	Brochure		Publication up to 4 months after the close of the financial year (CVM[5] – art. 245; CMVM – Reg. no. 04/04)	30 Apr. 08
	PDF			30 Apr. 08
	RAO[1]		–	30 Apr. 08
BPI Group Corporate Governance: 2007	Brochure		Publication up to 4 months after the close of the financial year (CMVM – Reg. no. 11/03)	30 Apr. 08
	PDF			30 Apr. 08
	RGO[2]		–	30 Apr. 08
Report and accounts: 1st half 2008	Brochure		Publication up to 2 months after the close of the 1st semester (CVM[5] – art. 246; CMVM – Reg. no. 04/04)	31 Aug. 08
	PDF			
Disclosure of quarterly results	Announcement		1st and 3rd quarter: up to 60 days after the quarter end; (CMVM – Reg. no. 04/04) 2nd quarter: until 31/Aug. (CVM[5] – art. 246; CMVM – Reg. n.º 04/04)	22 Apr., 23 Jul., 30 Oct. 08
	Presentation	Conference Call[3]	–	24 Apr. 08, 23/25 Jul. 08, 30/31 Oct. 08
		Webcast[3]		
Events	General Meetings	Notice	Publication up to 30 days before the SGM[4] (CSC[6] – art. 377)	23 Mar. 08
		Motions	Publication 15 or 30 days (depending on the motion) before the SGM[4] (CSC[6] – art. 289 and 377)	Between 24 Mar. and 8 Apr. 08
		SGM results	–	23 Apr. 08
	Dividends	Motion	15 days before the SGM[4] (CSC[6] – art. 289)	8 Apr. 08
		Announcement	15 days before payment (CMVM – Reg. no. 04/04)	Until 8 May 08
		Payment	Until 30 days after the AGM[4] (CSC[6] – art. 294)	Until 23 May 08 (Ex-dividend: until 20 May 08)
	Annual conference for analysts and investors		–	To be defined
	Other institutional presentations		–	Calendar of events available on the IR site
	Announcements	Material information	Transmitted to the market on the day they become available (CVM[5] – art. 248; CMVM – Reg. no. 04/04)	
		Other communications		
	Calendar of institutional events		At start of each half-year (CMVM – Reg. no. 11/03)	Permanent updating of the calendar of events for the current financial year
Other reporting obligations	Qualified shareholdings	Of other companies in BPI's capital	As soon as BPI is informed of the occurrence of the change in the shareholder structure (CVM[5] – art. 17)	
		Of BPI in the capital of other companies	Up to 3 days after transaction date (CVM[5] – art. 16)	
	Transactions in treasury stock	1% of capital since the last announcement	Up to 3 days after the transaction date which originated the duty to communicate (CMVM – Reg. no. 04/04)	
		0.05% of capital in a single session	Immediately (CMVM – Reg. no. 04/04)	
	Transactions in Banco BPI shares realised by members of the Board of Directors		Up to 7 business days after the transaction (or appointment) (CMVM – Reg. no. 11/03)	
Banco BPI share			–	Permanent update
Debt / Rating			–	
Institutional news [non-mandatory disclosure]			–	–

1) RAO – Annual Report Online. 2) RGO – Governance Report Online. 3) On the results presentations delivered by the Executive Committee of Banco BPI Board of Directors.
4) SGM – Shareholders General Meeting. 5) CVM – Código dos Valores Mobiliários (Securities Market Code). 6) CSC – Código das Sociedades Comerciais (Companies' Code).

Investor Relations Division channels				Website da CMVM
Web site (www.ir.bpi.pt)	**E-mail** investor_relations@bancobpi.pt	**Telephone** 22 607 33 37	**In person or postal mail** Rua Tenente Valadim, 284, 4100-476 Porto	www.cmvm.pt
Available for sending (contacts page)	Available on request	Available on request		–
Available	Available on request or by registration on the mailing list			✓
	–	–		–
Available for sending (contacts page)	Available on request	Available on request		–
Available	Available on request or by registration on the mailing list			✓
	–	–		–
Available for sending (contacts page)	Available on request	Available on request		✓
Available	Available on request or by registration on the mailing list			–
Available	Available on request or by registration on the mailing list	Available on request	Available on request	✓
Available (deferred)	Available on request		–	–
	–	Available by registration		
Page devoted to the event with: motions, ballot papers, draft proxy letters, etc; available in Portuguese and English	Specific address for support for the event: ag23abril2008@bancobpi.pt	Information phone line about the SGM: 22 607 33 33	SGM preparatory details:	✓
			– available at the company's head office in Rua Tenente Valadim, no. 284, 4100-476 Porto;	–
			– sent by post to all shareholders with more than 5 000 shares	✓
Page devoted to distribution of dividends containing: amounts, key dates, tax information, indicators, etc; available in Portuguese and English	– news about dividends sent to subscribers to the mailing list of the IR site; – address available for clarifications	Contacts available for clarification		–
				✓
				–
Available (presentation and announcement)	Contacts available for clarification or remittance of information			✓ (announcement)
Available				–
Available (including history)	News sent to subscribers to the mailing list of the IR site	Contacts available for clarification or remittance of information		✓
				✓
Available (past and future events)	Contacts available for clarification or remittance of information			–
Available for the half-year and financial year end dates	Contacts available for clarification or remittance of information			✓
Available				✓
–				✓
				✓
–	–			–
Historical prices, charts, return calculator, etc.	Alert for price changes and dispatch of a daily session summary	–	–	–
Information about the EMTN programme, preference shares and ratings reports	News about Debt sent to subscribers to the mailing list of the IR site	Telephone contact for matters regarding Debt: 21 310 11 80	Address for matters regarding Debt: "Finance Division - Capital market, Debt; Largo Jean Monnet, 1 - 1269-067 Lisbon"	✓ [interest on debt securities]
Available (including history)	News sent to subscribers to the mailing list of the IR site	Contacts available for clarification		–

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Annexes

Definitions, acronyms and abbreviations

DEFINITIONS

BPI Group entities – some definitions used

"BPI Group" / "BPI", if the framework so permits:

The financial group with format defined on page 24, 194 and 195.

"Banco BPI" / "Banco BPI, S.A." / "the Bank", "the Commercial Bank", if the framework so permits:

Head of the BPI Group and responsible for conducting the Commercial Banking business; listed on the stock exchange.

"Banco Português de Investimento" / "Banco Português de Investimento, S.A." / / "BPI" / "BPI-BI" or the **"Investment Bank"**, if the framework so permits:

The group's investment bank.

"Banco de Fomento, SARL" / "Banco de Fomento Angola" / "BFA"
Angolan law bank, develops BPI Group banking business in Angola.

"BCI Fomento":
Mozambican law bank, in which BPI has an equity interest of 30%. The remaining 70% of the share capital are held by Caixa Geral de Depósitos and by a group of Mozambican investors.

"BPI SGPS" / "BPI – SGPS, S.A.":
The entity heading the BPI Group until 20 December 2002, responsible for the holding and strategic command functions. At 21 December 2002, incorporated Banco BPI by merger, changed its object to "bank" and its name to Banco BPI.

ACRONYMS

Entities

BNA	Banco Nacional de Angola (Angolan central bank)
BoP	Banco de Portugal (Portuguese Central bank)
CMVM	Comissão do Mercado de Valores Mobiliários (Securities Market Commission)
EC	European Commission
ECB	European Central Bank
Fed	Federal Reserve System
OECD	Organisation for Economic Co-operation and Development
SIBS	Sociedade Interbancária de Serviços (Interbank Service Society)

Financial

EPS	Earnings per share
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
VaR	Value at Risk

Shares indexes

Dow Jones	Shares index (USA)
IBEX 35	Shares index (Spain)
Nasdaq	Shares index (USA)
PSI Geral	Shares index (Portugal)
PSI-20	Shares index (Portugal)
S&P 500	Shares index (USA)

Miscellaneous

ACTV	Acordo Colectivo de Trabalho Vertical (Collective Employment Agreement for the Banking Sector)
BT	Bilhetes do Tesouro (Treasury Bills)
CAUD	Comissão de Auditoria (Audit Committee)
CECA	Comissão Executiva do Conselho de Administração (Board of Directors' Executive Committee)
CERC	Comissão Executiva de Riscos de Crédito (Credit Risk Executive Committee)
CERM	Comissão Executiva de Riscos de Mercado (Market Risk Executive Committee)
CRM	Customer Relationship Management
DA	Departamento de Acções (Equities Department)
DACR	Direcção de Análise e Controlo de Riscos (Risk Analysis and Control Division)
DF	Direcção Financeira (Financial Division)
DIG	Direcção Internacional do Grupo (The Group's International Division)
DJ	Direcção Jurídica (Legal Division)
DORG	Direcção de Organização (Organisation Division)
DP	Direcção de Planeamento (Planning Division)
DRC	Direcção de Riscos de Crédito (Credit Risk Division)
DRI	Direcção de Relações com Investidores (Investor Relations Division)
DTA	Direcção de Trading e Arbitragem (Trading and Arbitrage Division)
EMTN	Euro Medium Term Note
GDP	Gross Domestic Product
GM	General Meeting
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
IRC	Corporate income tax
ISDA	International Swaps and Derivatives Association
M&A	Mergers & Aquisitions
NCA	Normas de Contabilidade Ajustadas (Adjusted Accounting Standards)
NR	Not rated
OT	Obrigações do Tesouro (Treasury Bonds)
OTC	Over-the-counter
PCSB	Plano de Contas para o Sistema Bancário (Chart of Accounts for the Banking System)
PPA	Plano Poupança Acções (equities savings plan)
PPR	Plano Poupança Reforma (retirement savings plan)
PPR/E	Plano Poupança Reforma/Educação (retirement/education savings plan)
RVA	Remuneração Variável em Acções (variable remuneration programme through the granting of shares and purchase options)
SARL	Limited liability privately held company
SGM	Shareholders General Meeting
SGPS	Sociedade Gestora de Participações Sociais (investment holding company)
SME	Small and Medium-sized Companies
SMS	Short Message Service
SROC	Sociedade de Revisores Oficiais de Contas (Portuguese Statutory Auditing Firm)
S&P	Standard & Poor's
TBC	Títulos do Banco Central de Angola (Angolan Central Bank Securities)
TWR	Time weighted rate of return
USA	United States of America

ABBREVIATIONS

Units

€	euro
10^3	thousand
10^6	million
b.p.	basis points
Bi.€	billions of euro
th.€, th. euro	thousands of euro
th.M.€	thousand million of euro
M.€, M. euro	millions of euro
p.p.	percentage points
US$	American dollar

Conventional signs

.	decimal point
%	percentage
n.a.	not available
nr	irrelevant
-, nr	irrelevant
<	minor than
>	greater than
Δ	variation
≤	minor or equal than
≥	greater or equal than
0	nil or negligible
½	one half
¼	one quarter

Currencies

AKZ	Angolan Kwanza
CAD	Canadian dollar
CZK	Czech Koruna
EUR	Euro
HKD	Hong Kong Dollar
JPY	Japanese yen
GBP	Pound sterling (UK)
USD	United States dollar

Months

Jan.	January
Feb.	February
Mar.	March
Apr.	April
Jun.	June
Jul.	July
Aug.	August
Sep.	September
Oct.	October
Nov.	November
Dec.	December

Other

E.	Estimated
e.g.	exempli gratia (for example)
etc.	et cetera
Lda.	limited
m^2	square metre
no.	number
neg.	negative
Net	Internet
P.	Previsional
S.A.	Public held company
v.	vide
vs.	versus
y-o-y	year-on-year

Glossary

Anti-takeover provisions – statutory clauses designed to impede / obstruct the mounting of takeovers considered to be hostile.

Back-office – shared central services providing business support.

Benchmark – a widely-accepted market reference value used in the valuation of securities (assets) and the assessment of an investment's performance.

BIS ratio – an internationally-accepted capital adequacy ratio, corresponding to the relationship between total own funds and the total of assets and off-balance sheet items, weighted according to their respective risk (credit risk attached to the investment portfolio, market risks attached to the dealing portfolio). The minimum figure prescribed is 8%.

Bond with cap or floor – variable-interest rate bonds with a coupon called a cap (floor) which can be traded separately. The cap is an agreement in terms of which the issuer sets, in exchange for a premium (corresponding to the implicit interest rate in the cap added to the bond issue's interest rate), a maximum rate of interest for the issue. The floor is an agreement in terms of which the issuer sets, in exchange for a premium (corresponding to the implicit interest rate in the floor deducted from the bond issue's interest rate), a minimum interest rate.

Callable bond – a bond which is redeemable at the issuer's option under predetermined conditions (time period for exercising the option, price, etc.). The option attached to the bond cannot be traded separately from the bond. The callable bond is commonly associated with a step-up which provides for an increase in the interest rate if the agreed-to early redemption option is not exercised before a future date.

Capital rotation – the relationship between the number of shares traded and the average number of shares listed on the stock exchange.

Cash flow – financial flow generated in a period. One of the most simple indicators to calculate: it involves adding together net profit, depreciation and amortisation and provisions for the year (i.e. costs which do not entail the flow of funds).

Cost-to-income – ratio used frequently to measure the level of efficiency in normal operating activity. Corresponds to operating costs as a percentage of income from operating activity.

Country-risk – the probability of loss arising from exposure of assets and off-balance sheet items as a result of a default in the contracted financial obligations by a counterparty who is resident in a country which, owing to its political and economic situation, is considered to bear an element of risk.

Credit rating – classification attributed to an institution by a specialised and independent entity (rating agency) with the object of assessing the institution's capacity to meet its short or long-term obligations.

Disability decreases – reduction in the calculated amount of pension obligations for current Employees' past services resulting from the recourse to, in calculating these amounts, the probability of current Employees ceasing to remain on the payroll due to disability, that is, before the normal retirement period. Pension obligations arising from disability are lower than those relating to normal retirement due to old age, given that old-age and disability pensions are defined as a progressive percentage of salary depending on the number of years service.

Dividend yield – indicator which measures the return on a share based on the distribution of earnings by a company (payment of dividends). Corresponds to the dividend received as a percentage of the share price. It should be noted that the shareholder's total return includes, in addition to the dividends received, the appreciation in the share price.

Emerging markets – financial markets with strong growth potential and evolving rapidly to higher levels of maturity and development. These markets are essentially located in Asia and South America.

Equity method – methodology for recognising an equity holding in the consolidated accounts. It entails recording a percentage of the shareholders' equity and net income corresponding to the percentage of the capital held, directly or indirectly, in that company's capital.

Euribor – the average of the interest rates supplied by a panel comprising the European Union's 57 largest banks. This benchmark rate is calculated and published daily.

Exercise period – is the period during which the option can be exercised. After this period the option expires. The options that can be exercised at any time during a specified period are called "American options". The options that can only be exercised at the expiration date are called "European options".

The buyer of an option only benefits from the option exercise if the market price of the underlying security is higher than the option exercise price, in the case of a call option, or lower than the option exercise price, in the case of a put option. In a tradable option, there is only advantage in the option exercise, rather than trading it in the market, in expiration date (or near that date), because with its exercise there is no appropriation of the options time value but only of its intrinsic value. In non-tradable options, the reduction of the exposure can only be made through its exercise.

Exercise price (strike) of an option – is the agreed price for the underlying security at which the option's buyer can buy it, in the case of a call option, or sell, in the case of a put option, through the option exercise at a future date.

Factoring – debt-collection service provided by a financial institution to companies supplying goods and/or services which cede their short-term trade receivables from corporate Customers. This service may also be associated with services involving cash advances and risk cover, depending on the type of contract.

Fair value – price at which an asset or service is transacted, assuming that the buyer and the seller act rationally, they are at arm's length, and that they have reasonable knowledge of the relevant facts.

Forward contract (currency) – an agreement between two parties in terms of which a rate of exchange is fixed for a specified future date and amount of the currency concerned.

Forward rate agreements (FRA) – an agreement between two parties in terms of which the rate of interest is fixed for a specified future date, amount and maturity period.

Futures contract – a standard contract traded on a stock exchange in terms of which the two parties fix the price of an underlying asset for a specified future date.

Goodwill – for purposes of consolidating an equity holding, goodwill corresponds to the difference between the cost of acquisition of such equity holding and the book value of the percentage interest in the consolidated company's net assets (or shareholders' equity). Theoretically, it could be interpreted as being the company's surplus (additional) value, corresponding to the present value of expected future profits, that is, from a going concern perspective, relative to the book value of the company's assets less its liabilities (i.e. its net assets).

Insider trading – is the terminology used to describe transactions in a company's shares with the object of benefiting from access to privileged information about this company which has not yet been made public and which has a material impact on the formation of the share's market price. Insider trading is an illegal activity.

Investment grade – classification attributed to all those bond issuers whose credit rating is equal to or higher than BBB or Baa.

Mismatch – Disparity between the maturity and interest-payment periods for interest-earning assets on the one hand, and deposits and other interest-bearing liabilities, on the other. One of the major concerns of a credit institution's treasury management (usually interest-earning assets have longer maturity periods than interest-bearing liabilities) is reducing the risk exposure associated with adverse changes in interest rates and ensuring that there are adequate funds to meet the payment of liabilities as and when they fall due.

Non-voting preference share – a security representing a share in the equity of the issuing company. It entitles the holder (i.e. the preference shareholder) to receive a dividend (at a predetermined rate) and to share proportionately in the company's residual assets in the event of liquidation, in both cases in precedence to the holders of ordinary shares.

Notional value (of a derivative) – the current price on the spot market of the asset underlying the derivative financial instrument.

Ordinary share with voting rights – a security representing a share in the equity (i.e. net assets) of the issuing company. The principal rights conferred on the holder (i.e. the shareholder) are the entitlement to receive a dividend, to participate in and vote at Shareholders' General Meetings, and to share proportionately in the company's residual assets in the event of liquidation.

Own funds requirements ratio (solvency ratio) – (Bank of Portugal rules) – relationship between total own funds and the total of assets and off-balance sheet items, weighted according to their respective risk (credit risk attached to the investment portfolio, market risks attaching to the dealing portfolio). The minimum figure prescribed is 8%. It aims at ensuring that the institution has a minimum of own funds to cover the total potential losses stemming from assets and off-balance sheet resources, thereby guaranteeing the institution's ability to satisfy all of its liabilities. It is very similar to the BIS ratio in that it adopts the same principles and methodology, differing only in the treatment given to certain components of own funds and in the calculation of certain assets and off-balance sheet risks.

Payout – percentage of the annual profit which is distributed by a company to its shareholders in the form of dividends.

Perpetual bonds – a debt security having no maturity date and which does not confer upon the holder the right to repayment of the nominal value of the debt.

Poison pills – encompasses a number of strategies aimed at impeding (potential) hostile takeovers (acquisitions). These strategies generally give rise to a higher acquisition cost and a dilution effect.

Premium of an option – its the fee through which the buyer acquires the option, and which tend to translate its economic value. The option value is made up of two components:

- the intrinsic value, which corresponds to the difference between the market price of the underlying and the option exercise price. It's the value obtained with the option exercise

- the time value which corresponds to the present value of future gains, taking into consideration that future losses are limited to the options premium. The option time value decreases with time elapsing, having a nil value at the expiration date.

For a tradable option, its premium results from the supply and demand forces in the market. In the calculation of premiums for non-tradable options it is used similar options traded in the market and/or mathematical models that have in consideration variables like volatility of returns, current market price, exercise price and period, the level of interest rates, etc.

Private Equity – form of financing companies during the start-up of their business, in a strong growth phase or undergoing restructuring, by means of a participating interest in their capital, as a general rule with a view to the subsequent dispersion of equity on the capital market.

Project Finance – investment in which the debt service is financed by the project own cash flows; also used to define this type of financing.

Put option – an agreement between two parties in terms of which the buyer of the contract acquires, against payment of a monetary consideration (premium), the right to sell to the seller of the put-option contract at a specified future date (or up to a specified future date) the underlying security at the price specified in the contract. See also "Exercise price (strike)", "Option value (premium)" and "Exercise period".

Real time – non-existence of a time lag (which is perceptible by the user) between the execution of a command by the user and the effective reaction by the application or access device used during the utilisation of a certain service.

Repricing gap – difference between the amount of interest-earning assets and the amount of interest-bearing liabilities, for which the revision of the corresponding interest rates occur in the same predefined time horizon. The breakdown of assets and liabilities per time horizon is based on the residual time to the interest rate revision date or to maturity date. The purpose of this analysis is to assess the balance sheet sensibility to changes in market interest rates and the time lag of these changes in the actual interest-earning assets and bearing liabilities rates and the corresponding impact in the income.

Repurchase agreement – an agreement between the two parties to a securities transaction, whereby the seller undertakes to repurchase the securities at a specified price and date. The operation involves the advancing of funds (usually for a short term) whereby the security serves as collateral, yielding an implicit rate of interest. It is an instrument commonly used by central banks in interbank money market operations.

Reserves incorporation – share capital increase (i.e. bonus or capitalisation issue) effected by way of the transfer of undistributed profits from reserves to subscribed capital. Since the issue of the new shares to shareholders does not entail any payment on the part of shareholders, this operation has no effect on the company's share capital or net worth.

Scoring (credit scoring) – methodology for assessing a Customer's capacity to service debt. Based on information gathered from the Customer and the history of the business / Customer experience, the scoring system attributes a credit score to that debt, by means of the statistical treatment of information, in accordance with the calculated probability that the Customer will repay the loan on the due date.

Securitisation of debts – operation in terms of which a company issues debt securities, the income and repayment of which are guaranteed exclusively by a specified group of the company's assets. In this way, a group of assets is used which serves solely as guarantee for the issue. This differs from what generally happens in a bond issue where good debt servicing is globally dependent upon the company's capacity to meet its financial commitments. The underlying assets can be loan portfolios, securities portfolios, real estate portfolios, amongst others.

For purposes of carrying out the operation, a company is formed, known as an SPV – Special Purpose Vehicle. The underlying assets are sold to the SPV company which, in order to finance the acquisition of these assets, floats a securities issue using the assets acquired as security.

Separate warrant (shares) – negotiable contract issued by financial institutions that confers upon the holder thereof the right to purchase (call warrant) or the sell (put warrant) a financial assets, known as the underlying assets, under predetermined conditions (conversion period, conversion prices etc.). The most common underlying assets are equities and equity indices.

Spread (banking) – the difference, in basis points, between the interest rate charged on bank loans (or other assets) and the lender cost of funds. Spread may also be calculated over a market interest rate (e.g. Euribor).

Spread (fixed income securities) – (1) difference between yields on securities of the same quality but different maturities; (2) difference between yields on securities with the same maturity but different quality.

Start-up – new or very recent company which is normally involved in modern / emerging business ventures, and which are almost always financed by venture / development capital companies and by recourse to the capital market.

Stock split – increase in the number of shares by means of splitting the existing shares into smaller denominations with lower nominal value, without giving rise to any alteration to the amount of the share capital. (In principle) It has a neutral impact on the share's market value.

Stop-loss – definition of the price at which a financial asset must be sold (by reference to market prices) with the object of either limiting losses in the event of an asset depreciating or protecting gains already made.

Structured product (guaranteed capital / limited-risk) – variable-income debt securities, the yield on which is indexed wholly or partially to the price of equities or to equity indices. Where the prices of assets which serve as the index benchmark become negative, the investor is guaranteed at maturity date the repayment of the total capital invested (guaranteed capital) or the limiting of any losses to a predetermined amount (limited risk).

Subordinated bond (long-term debt) – a debt security, the redemption of which in the event of the issuer's bankruptcy or liquidation, is dependent upon the prior repayment of all non-subordinated (i.e. senior) creditors (or at least certain types of creditors).

Subscription reserved for shareholders – share capital increase, either by incorporation of reserves or against a cash payment, reserved for shareholders. In a subscription reserved for shareholders, the issue price is normally set below the ruling market price.

Swap (currency / interest rate) – an agreement between two parties in terms of which they exchange (swap) between them, for a specified amount and period of time, periodic payments of fixed rate for floating rate payments, in the case of interest rate swaps, or one currency for another currency, in the case of currency swaps. Usually one of the counterparties is a financial institution acting as an intermediary.

Traditional warrant (shares) – negotiable contract that confers upon the holder thereof the right to convert into shares of the issuing company under predetermined conditions (conversion period, conversion prices etc.). Conversion normally implies an increase in the company's share capital. The most common situation is the concurrent issue of bonds, thereby making the issue more attractive.

Treasury bills – short-term public-debt bonds issued by the Treasury, with a maturity period of less than one year. This instrument is issued at a discount and redeemed at its nominal value on maturity date.

Underwriting – an agreement between the issuer and the financial institutions responsible for selling (placing) the negotiable securities object of the issue, in terms of which the underwriting financial institutions are committed to purchase, against payment, any unsold securities not subscribed for in the placement, thereby eliminating the risk of the operation being unsuccessful.

Unitary margin (net interest margin) – difference, in percentage points, between the assets interest rate remuneration (loans and investments) and the resources interest rate remuneration (deposits).

Value at Risk (value at market risk) – corresponds to the maximum potential loss in the value of assets held resulting from an unfavourable direction in markets and prices over a predetermined time span. The value-at-risk is calculated by way of models which are based on specific assumptions, namely, with regard to the distribution of probabilities of the price variations, correlations between price variations and statistical confidence level.

Volatility – a measure of the degree to which the market price of assets fluctuates, namely, from the viewpoint of extent and frequency.

Workflow – automation of processes, in total or in part, in which the circulation of information, documents and tasks between the various parties involved is managed by a set of rules and procedures.

Write-offs – accounting write-off of non-performing loans recorded as assets, which have been provided for in full and in respect of which there is no prospect of recovery. The loan is written off directly against the respective provision account, with the result that this entry has no impact in the income statement.

Formulary

Total assets plus disintermediation:

Total assets (net)[1] + Off-balance sheet Customer resources

Business volume:

Loans to Customers (gross) + Guarantees + Total Customer resources

Total Customer resources:

Resources on the balance sheet + Off-balance sheet resources

On-balance sheet Customer resources:

Deposits + Securities sold with repurchase agreements + Insurance capitalisation + Structured products (guaranteed-capital and limited-risk bonds) + Other bonds and preference shares placed with Customers

Off-balance sheet Customer resources:

Unit trust funds + Retirements savings and equity savings plans + Hedge Funds + Pension funds

Assets under management[2]:

Off-balance sheet Customer resources + Financial assets under discretionary management and advisory services of Private Banking and Institutional Clients + Insurance capitalisation + Structured products

Net operating income from banking:

Net interest income + Technical results of insurance contracts + Commissions and other similar income (net) + Profits from financial operations + Operating income and charges

Administrative overheads:

Personnel costs + Outside supplies and services

Cost-to-income:

$$\frac{\text{Administrative overheads - costs with early retirements}}{\text{Net operating income from banking}}$$

Administrative overheads plus depreciation and amortisation:

Personnel costs + Outside supplies and services + Depreciation and amortisation

Efficiency ratio:

$$\frac{\text{Administrative overheads + depreciation and amortisation - costs with early retirements}}{\text{Net operating income from banking}}$$

Net profit attributable to BPI Group Shareholders:

Profits before taxation – Corporate income tax + Equity accounted results of subsidiaries - Minority Shareholders share of profit

Cash flow after taxation:

Net profit attributable to BPI Group Shareholders + Depreciation and amortisation + Loan provisions and impairments + Other impairments and provisions

Return on average total assets (ROA):

$$\frac{\text{Net profit attributable to BPI Group shareholders}}{\text{Monthly average of total assets (net)}} \times 100$$

Return on Shareholders' equity (ROE):

$$\frac{\text{Net profit attributable to BPI Group Shareholders}}{\text{Monthly average of shareholders' equity, excluding minority interests}} \times 100$$

Loans in arrears, for more than 30/90 days, as % of Customer loans:

$$\frac{\text{Loans to Customers and interest in arrears for longer than 30/90 days}}{\text{Customer loans (gross)}} \times 100$$

Accumulated loan impairments in the balance sheet as % of Customer loans:

$$\frac{\text{Accumulated loan impairments in the balance sheet}}{\text{Customer loans (gross)}} \times 100$$

Cost of risk (Loan impairments in the year as % of the loan portfolio):

$$\frac{\text{Loan impairments}_{\text{year n}}}{\text{Average balance of Customer loan portfolio (gross)}_{\text{year n}} - \text{Average balance of loans in arrears}_{\text{year n}}}$$

Net credit loss (Loan impairments in the year, deducted of recoveries of loans in arrears written-off, as % of the loan portfolio):

$$\frac{\text{Loan impairments}_{\text{ano n}} - \text{Recovery of loans in arrears previously written-off}_{\text{ano n}}}{\text{Average balance of Customer loan portfolio (gross)}_{\text{year n}} - \text{Average balance of loans in arrears}_{\text{year n}}}$$

Increase in loans in arrears, adjusted by write-offs, as % of the loan portfolio:

$$\frac{\text{Balance of loans in arrears}_{\text{year n}} - \text{Balance of loans in arrears}_{\text{year n-1}} + \text{Write-offs}_{\text{year n}}}{\text{Average balance of Customer loan portfolio (gross)}_{\text{year n}} - \text{Average balance of loans in arrears}_{\text{year n}}}$$

Increase in loans in arrears, adjusted by write-offs and deducted of recoveries of loans in arrears written-off, as % of the loan portfolio:

$$\frac{\text{Balance of loans in arrears}_{\text{year n}} - \text{Balance of loans in arrears}_{\text{year n-1}} + \text{Write-offs}_{\text{year n}} - \text{Recovery of loans in arrears previously written-off}_{\text{year n}}}{\text{Average balance of Customer loan portfolio (gross)}_{\text{year n}} - \text{Average balance of loans in arrears}_{\text{year n}}}$$

1) Corrected for duplication of balances.

2) Adjusted for duplication of balances.

Pension liabilities cover:

$$\frac{\text{Pension funds}}{\text{Pension liabilities with retired and past services of current employees}} \times 100$$

Data per share:

$$\frac{\text{Cash flow, net profit or dividend}}{\text{Weighted average number of shares}}$$

$$\frac{\text{Book value}}{\text{Final number of shares}^{1}}$$

Weighted average number of shares:

Weighted average number of shares ranking for dividends[1]

Total shareholder return (ROI):

Appreciation of the shares on the stock exchange + Appreciation of the dividends reinvested on shares

Price as a multiple of …

$$\frac{\text{Closing adjusted price at 31 December}}{\text{Cash flow, net profit or book value per share}}$$

Dividend yield (%):

$$\frac{\text{Dividend per share for the year (paid next year)}}{\text{Closing adjusted price in the beginning of the year}} \times 100$$

Earnings yield (%):

$$\frac{\text{Net profit per share}}{\text{Closing adjusted price at 31 December}} \times 100$$

Profitability, efficiency, loan quality and financial strength, calculated in accordance with Bank of Portugal Instruction 16 / 2004:

Profitability:

$$\frac{\text{Net profit + Minority interests + Taxes}}{\text{Average total assets (net)}}$$

$$\frac{\text{Net operating income from banking}^{2}}{\text{Average total assets (net)}}$$

$$\frac{\text{Net profit + Minority interests + Taxes}}{\text{Average shareholders' equity + Average minority interests (in the balance sheet)}}$$

Efficiency:

$$\frac{\text{Personnel costs}^{3}}{\text{Net operating income from banking}^{2}}$$

$$\frac{\text{Personnel costs}^{3}\text{ + Outside supplies and services + Amortisation and depreciation}}{\text{Net operating income from banking}^{2}}$$

Loan quality:

$$\text{Non-performing loans ratio} = \frac{\text{Non-performing loans}^{4}}{\text{Total loan portfolio}}$$

$$\text{Ratio of non-performing loans, net of provisions} = \frac{\text{Non-performing loans}^{5} - \text{Specific provisions for loans in arrears and doubtful loans}^{5}}{\text{Total loan portfolio} - \text{Specific provisions for loans in arrears and doubtful loans}^{5}}$$

Financial strength:

$$\text{Ratio of total own funds requirements} = \frac{\text{Total own funds}^{6}}{\text{Own funds requirements}^{6} \times 12.5}$$

$$\text{Ratio of basis own funds requirements} = \frac{\text{Basis own funds}^{6}}{\text{Own funds requirements}^{6} \times 12.5}$$

1) Adjusted by the effects of capital increases reserved for Shareholders.

2) In the calculation of profitability and efficiency indicators according to Bank of Portugal notice, the net operating income from banking is determined as follows:
Net operating income from banking = Net interest income (narrow sense) + Unit linked gross margin + Income from securities (variable yield) + Commissions related to deferred cost (net) + Technical results of insurance contracts + Commissions and other similar income (net) + Profits from financial operations + Operating income and charges + Equity-accounted results of subsidiaries.

3) Excluding costs with early retirements.

4) Non-performing loans = Loans in arrears for more than 90 days + doubtful loans, treated as loans in arrears for provisioning purposes.

5) Calculated in accordance with Bank of Portugal Notices 3 / 1995 and 8 / 2003.

6) Calculated in accordance with Bank of Portugal Notices 12 / 92, 1 / 93 and 7 / 96. From June 2007 onwards, 50% of the deductions relating to shareholdings in financial institutions and insurance undertakings began to be allocated to core Tier I funds and consequently to Tier I funds, whereas previously these deductions were fully allocated to Tier II funds.

Methodological notes

CREATING SHAREHOLDER VALUE

The most appropriate measure of shareholder value added is achieved by conducting an analysis from the shareholder's own perspective. When an investor acquires shares he does so in the expectation that he will secure a capital gain that is higher than that which he would have achieved in an alternative investment with a similar degree of risk.

Shareholder's gain

Shareholder's gain per share = Selling price - Cost price + Dividend

The shareholder's overall gain is the sum of the capital gain, which results from the share's appreciation on the stock exchange, and the appropriation of the company's earnings in the form of dividends received.

Shareholder's rate of return

The rate of return calculation takes into consideration the investment time span in order to establish a relationship between the capital employed in the acquisition of shares and the gain obtained, and permits an analysis to be made of the investment return by comparing this with alternative investment opportunities.

In the rate of return calculation, given that the cash flows occur at different time intervals, the internal rate of return (IRR) method is utilised. The rate of return is hence the average rate of the investment period which equates the present value of the incoming flows resulting from the sale of shares and the dividend paid to the present value of the capital invested.

$$\Sigma \frac{CFj}{(1 + \text{Shareholder's annual average rate of return})^{(dj-d0)/365}} = 0$$

CFj – Cash flow at the moment j (incoming flows are registered as positive figure and outgoing flows as negative figure)

dj – which corresponds to the moment j

d0 – date in relation to which cash flows are converted to present values and corresponds to the moment in which the first capital investment is made

Based on the assumption that all years have 365 days.

The investment in any particular share produces different rates of return depending on the moment chosen for making the investment and the corresponding disinvestment.

Matrix of spreads on a shareholder's nominal annual average return

The yield matrix presents various annual average rates of return obtained by the BPI shareholder according to the investment time span.

The shareholder considered makes an initial investment in BPI SGPS nominative shares with dividend rights. During the investment period he reinvests the dividends in new BPI SGPS shares in the day following their receipt, and participates in all share capital increases and convertible-debt issues reserved for shareholders, subscribing for the maximum quantity he is entitled to.

SHARE INDICATORS

The "Earnings per share (EPS)" ratio is an extremely important figure when evaluating a particular share investment.

The principal reason for this is the fact that this indicator is, in turn, the denominator of the relationship between the share price and the net income[1] attributable to it, otherwise commonly termed P/E or PER ("Price to Earnings Ratio"). The prospective P/E is probably the indicator most often used by the market when assessing the appeal of a given investment in that it expresses the price at a specific moment and the estimated future profit flows of the company concerned.

In building the EPS indicator, the only matter that has to be resolved is the ascertainment of the number of shares to be used as the denominator – the weighted average number of shares with dividend rights in issue during the relevant period – in such a manner as to ensure comparability of past EPS data.

A number of events can signify that the number of shares has to be adjusted; the most common are share-capital increases, be it an incorporation of reserves (a bonus / capitalisation issue) or a subscription reserved for shareholders (a rights issue).

The fact that the issue price is below the ruling market price (a very common procedure) means that the shareholder's right to subscribe for new shares has an asset-related content that is detachable from the share and negotiable on the market. This constituent element is called the subscription right.

In practical terms, a share issue reserved for shareholders can, and should therefore, be subdivided into an incorporation of reserves (theoretical)[2] followed by a share issue at the price which theoretically would be struck on the market after the capital increase.

For purposes of determining the weighted average number of shares:

- when an incorporation of reserves takes place, whether theoretical (stemming from the above-mentioned subdivision) or real, this should be deemed to have occurred on the first day of the financial year;

- the number of shares issued at "market price" in a subscription reserved for shareholders should be weighted on a time basis to reflect the period during which the proceeds from the capital increase contributed to the year's earnings.

When the shares issued in a year do not confer any dividend rights in respect of that year – only the right to dividends in ensuing years – the appropriate procedure in such circumstances is, for all intents and purposes, to consider that the share-capital increase took place on the first day of the following year, maintaining the basic method outlined above[3].

Another adjustment to be made to the denominator involves deducting from the weighted average number of issued shares the average number of own shares held during the year, considering that, in accordance with IAS / IFRS, own shares must be deducted from shareholders' equity.

1) The net earnings figure used in EPS calculations is susceptible to various adjustments. In this report, the figure employed is always the BPI Group's net accounting profit without any adjustments.

2) A share-capital increase by way of the incorporation of reserves involves the mere book-entry transfer of amounts from one accounting component of shareholders' equity (net assets) to another, and does not entail any payment on the part of shareholders.

3) A different scenario is where the number of shares to be used is required for calculating the "book value per share" indicator as at 31 December of a financial year which precedes that in which the share-capital increase is realised. In this case, the two aggregates are static, with the result that the number to be used is the final number of shares in existence on that date, adjusted only by subsequent events.

General index

Appendices

ANNEXES

Index of figures, tables and “boxes”

THEMATIC INDEX

Miscellaneous information

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BUSINESS ADDRESS OF GOVERNING BODY MEMBERS
Rua Tenente Valadim, 284
4100-476 Porto

BPI Group Investor Relations web site
www.ir.bpi.pt

Banco BPI Web site (informative)
www.bpi.pt

Banco de Fomento Angola web site
http://www.bfa.ao

Calendar[1] of important facts to investors and analysts for 2008

Date	Time	Event
24 January	16:45 (aprox.)	2007 consolidated results release
24 January	16:45 (aprox.)	Media conference on 2007 activity and results
25 January	11:00	Conference Call for Analysts & Institutional Investors regarding 2007 results
22 April	16:45 (aprox.)	1st quarter 2008 earnings release
22 April	16:45 (aprox.)	Conference Call for Analysts & Institutional Investors regarding 1st quarter 2008 results
23 April	10:00	Annual Shareholders' General Meeting
23 April	-	Publication of the 2007 Annual Report and Accounts[2]
24 April	11:00	Media conference regarding 1st quarter 2008 results and activity
May, to be defined	-	First day the shares are traded on the stock exchange ex-dividend (ex-dividend date)
May, to be defined[3]	-	Payment of dividend relating to the 2007 financial year
23 July	16:45 (aprox.)	1st half 2008 earnings release
23 July	16:45 (aprox.)	Media conference regarding 1st half 2008 results
24 July	11:00	Conference Call for Analysts & Institutional Investors regarding 1st half 2008 results
Until 30 August	-	Publication date of Interim Report 2008
30 October	16:45 (aprox.)	3rd quarter 2008 earnings results
30 October	16:45 (aprox.)	Media conference regarding 3rd quarter 2008 results
31 October	11:00	Conference Call for Analysts & Institutional Investors regarding 3rd quarter 2008 results

1) The forthcoming events dates are indicative and subject to change.
2) Assuming that the shareholders approve the Board of Directors' proposal relating to the 2007 Report and Accounts.
3) Date on which Banco BPI pays to the shareholders who have their shares deposited at a BPI group bank and to the other (remaining) financial brokers.

INFORMATION ON BANCO BPI SHARES

At 31 December 2007, Banco BPI, S.A. share capital is represented by 760 000 000 ordinary nominative shares with a nominal value of EUR 1 each. Banco BPI shares are listed in the Euronext Lisbon.

Codes and tickers
ISIN and Euronext code: PTBPI0AM0004
Reuters: BBPI.LS
Bloomberg: BPI PL

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 760 000 000

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