Annual Report

Banco BPI 2004

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Report

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Index

REPORT

Leading business indicators 4
Introduction 6
Governing bodies 9
Historical milestones 10
The identity of BPI 12
Financial structure and business 13
Distribution channels 14
The BPI Brand 16
BPI Governance 19
Social investment 22
Highlights of 2004 24
Background to operations 25
Human resources 34
Technology 39
Operations 44
Commercial Banking 45
Insurance 71
Asset Management 72
Investment Banking 78
Financial investments 83
Private Equity 84
Financial review 85
Adoption of the International Accounting Standards 126
Risk management 129
Rating 151
Banco BPI shares 153
Shareholders 157
Shareholders value creation 158
Final acknowledgements 159
Proposed appropriation of net profit 160

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

Consolidated financial statements 161
Notes to the consolidated financial statements 169
Legal Certification of Accounts and Audit Report 230
Report and Opinion of the Audit Board 232

THE BPI GROUP'S CORPORATE GOVERNANCE REPORT

The BPI Group's Corporate Governance Report 233
Appendices 302

ANNEXES

Trading information 311

Appendices

Definitions, acronyms and abbreviations 314
Glossary 316
Formulary 320
Methodological notes 322
General index 323
Thematic index 327
Index of figures, tables, charts and "boxes" 328
Miscellaneous information 331

Leading business indicators

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

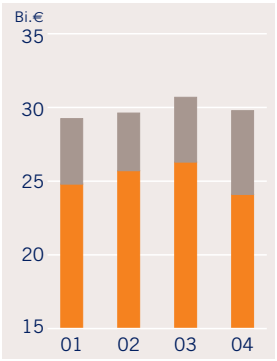
	2000	2001	2002	2003	2004	Δ% 03 / 04
Total assets	21 907.4	24 792.9	25 669.1	26 195.3	24 010.3	(8.3%)
Total assets plus disintermediation[F]	26 331.3	29 098.3	29 565.4	30 662.4	29 670.1	(3.2%)
Shareholders' equity	930.0	908.7	1 168.9	1 227.3	1 231.5	0.3%
Loans to Customers (gross) and guarantees	16 542.8	18 768.9	19 738.0	20 690.1	21 958.9	6.1%
Customer deposits	10 463.7	11 494.3	12 224.6	12 181.4	12 297.3	1.0%
Total Customer resources[F]	16 507.8	17 392.9	17 678.8	18 093.2	19 558.1	8.1%
Assets under management	7 638.4	7 544.4	7 512.6	8 575.5	9 664.4	12.7%
Net operating income	152.5	190.6	192.1	200.8	249.6	24.3%
Net profit	152.4	133.3	140.1	163.8	192.7	17.6%
Cash flow after taxation[F]	278.5	269.6	258.4	292.2	300.2	2.8%
Return on average total assets (ROA)[F]	0.8%	0.6%	0.6%	0.6%	0.8%	
Return on Shareholders' equity (ROE)[F]	21.8%	14.8%	13.5%	13.9%	15.2%[1]	
Administrative overheads, depreciation and amortisation as a % of operating income from banking	67.2%	64.7%	65.4%	63.6%	61.4%	
Ratio of own funds requirements[G 2]	9.8%	9.2%	10.2%	9.9%	9.8%	
Tier I[2]	6.7%	5.9%	7.3%	6.7%	6.5%	
Loans in arrears for more than 90 days as % of Customer loans	1.0%	0.9%	1.3%	1.2%	1.1%	
Provisioning cover for arrear loans[F]	194.2%	210.0%	153.0%	148.4%	160.6%	
Cover of pension obligations[F 3]	101.6%	100.0%	100.1%	101.4%	100.3%	
Data per share adjusted[F] (euro)[4]						
Cash flow after taxation[F]	0.44	0.40	0.35	0.38	0.40	2.8%
Net profit	0.24	0.20	0.19	0.22	0.25	17.6%
Dividend	0.09	0.09	0.08	0.09	0.10	11.1%
Book value	1.37	1.34	1.54	1.61	1.62	0.3%
Weighted average no. of shares[F] (in millions)[4]	626.3	679.0	728.3	760.0	760.0	0.0%
Closing price (euro)[4]	3.18	2.15	2.18	2.92	2.98	2.1%
Total Shareholder return[F]	(16.0%)	(30.4%)	3.0%	38.5%	5.1%	
Stock market capitalisation at year end	2 156.4	1 459.1	1 656.8	2 219.2	2 264.8	2.1%
Dividend yield[F]	2.4%	2.7%	2.6%	4.1%	3.4%	
Retail branches[5] (number)	592	584	564	573	573	0.0%
Corporate and institutionals centres network[6]	63	63	61	54	48	(11.1%)
BPI Group staff complement (number)[7]	8 257	8 091	7 506	7 025	7 080	0.8%

Table 1

1) 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.
2) Calculated in accordance with the Portuguese Central Bank's rules governing minimum own funds requirements (Notice 7 / 96).
3) Pension liabilities recognised in the balance sheet.
4) Adjusted for capital increase, re-denomination and re-nominalisation.
5) Includes traditional branches (483 in 2003 and 495 in 2004), housing shops, in-store branches, investment centres and automatic shops.
6) Distribution network specialising in serving companies (42 corporate centres), 1 Project Finance[G] Centre, Institutionals (4 centres) and the branch in Madrid.
7) Group staff complement in the domestic activity (6 490) and international activity (590). Includes term Employees and temporary workers.

GROWTH, PROFITABILITY, STRENGTH AND VALUE 2001-2004

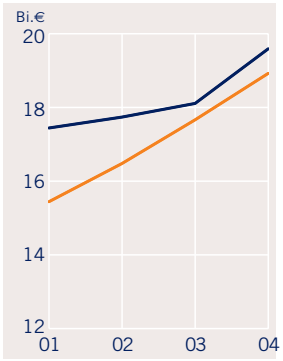
Net total assets plus disintermediation



Net total assets[1]
Disintermediation[2]

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

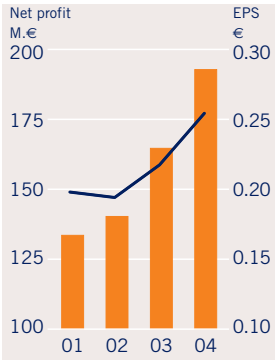
Loans and Customer resources



Total Customer resources[1]
Loans to Customers

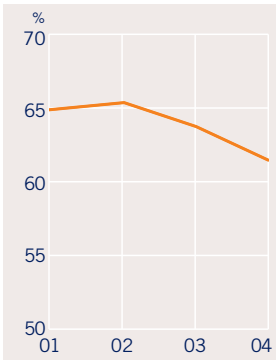
1) Corrected for duplication of balances.

Net profit and earnings per share

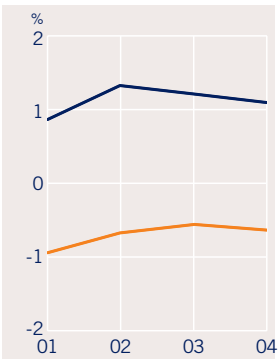


Net profit
Earnings per share (EPS)

Administrative overheads, depreciation and amortisation
As % of operating income from banking



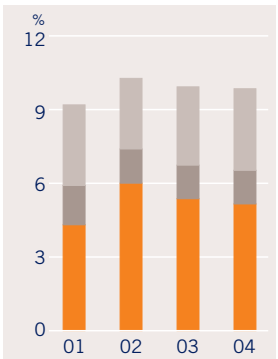
Quality of loan portfolio



Ratio of loans in arrears[1]
Loans in arrears[1] net of provisions, as % of loans to Customers

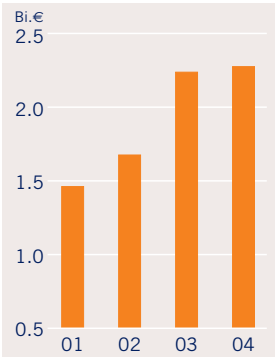
1) Loans in arrears for more than 90 days.

Own funds requirements ratio
According to Bank of Portugal rules



Tier II
Preference shares
Core capital
Tier I

Stock market capitalisation



BPI Ratings
Issuer

A+ Stable	Fitch Ratings 15 Sep. 04*
A2 Positive	Moody's 2 Nov. 04*
A- Stable	Standard & Poor's 21 Feb. 05*

Long-term rating notations
* last report

Figure 1

Introduction

Sustained growth

For BPI, the 2004 financial year represents the consolidation of the positive effects generated by the rationalisation process embarked on in 2001 with the object of achieving a sustainable improvement in the Bank's **efficiency** and **profitability**, primarily through rigorous cost control and the diversification of business **growth** sources.

Besides the quantitative aspects of the earnings attained, which is reflected in the 18% growth in net profit and earnings per share, it is important to highlight the quality and consistency of these results, as borne out by the reinforcement of BPI's **sound financial base, profitability, efficiency, growth and service quality**. Special mention should be made, while doing this evaluation, to the fact that the average tax rate increased from 13 to 22%, mainly due the exhaustion of the tax losses carried forward following the restructuring operation of the BPI Group in 2002.

As concerns the **solid financial base**, it is worth mentioning the loan-portfolio indicators, where the Bank of Portugal indicator relating to loans in arrears for more than 90 days declined from 1.3 to 1.1%, accompanied by an increase from 134 to 154% in the respective provisioning cover. Net loan losses, as measured by the increase both in loans in arrears for more than 30 days and in the amount of non-performing loans written off (net of recoveries) also present a very positive trend, to stand at 0.17% of the portfolio compared with 0.61% in 2002 and 0.24% in 2003. The year also saw the debt situation with Banco Nacional de Angola being resolved, resulting in the recovery of EUR 55 million. The capital adequacy ratios based on BIS and Bank of Portugal criteria stood at 10.9% and 9.8% respectively, while "tier I" capital registered 6.6 and 6.5%. It should be noted that the sale of BPI's stake in SIC – agreed to in 2004 and actually executed in 2005 – will improve the own funds requirements ratio, as calculated in accordance with criteria fixed by the Bank of Portugal, from 9.8 to 10.5% and "Tier I" capital from 6.5 to 7.2%.

The Bank's improved structural situation is also reflected in its **profitability and efficiency**: net profit as a percentage of shareholders' equity (ROE) climbed from 13.9 to 15.2%, net profit as a percentage of average total assets (ROA) increased from 0.63 to 0.80%, while the indicator of administrative overheads, depreciation and amortisation as a percentage of net operating revenue, which in 1999 and 2003 reached 71.6% and 63.6% respectively, fell to 61.4% in 2004. This performance, in respect of the 2004 financial year, reflects the combined effect of the 4.5% rise in revenues with the mere 0.9% increase in administrative overheads, depreciation and amortisation. The trend over the past four years demonstrates unequivocally the success and consistency of the policies implemented in this domain. Total administrative overheads, depreciation and amortisation in 2004 were less than those

recorded in 2001, despite the higher level of international activity due, in particular, to the Bank's expanded presence in Angola, trough Banco de Fomento. On the other hand, it is worth underlining the considerable diversification achieved in revenue sources, as evidenced by the higher contributions from investment banking, international activity, insurance and asset-management business.

The Group's **growth** is globally reflected through its consolidated net operating revenue, which advanced by 4.5% in 2004, spurred mainly by the rises of 3.2% and 6.7% respectively in net interest income and commissions. The loan portfolio expanded by 7%, with home loans continuing to constitute the prime growth factor. Meanwhile, total Customer resources rose by 8%, with off-balance sheet resources posting an expansion of 17% thanks to the placing of unit trust funds and long-term savings products (which benefited from the quality of the Bank's performance in the sphere of financial-asset management). BPI is ranked second closely behind the market leader in the placing of investment funds, unit-linked insurance and structured products, with market shares of 23%, 23% and 24%, respectively. In the international arena, we have witnessed the success of the expansion strategy mapped out for Angola, where the BPI Group (through BFA) is today the leading bank in deposits with a share of 28%, and second-placed in terms of loans – 26% market share – backed by a network which is expected to expand from 32 branches at the end of 2004 to more than 50 during the course of 2005. The Bank's good performance, served by 600 Employees (almost all Angolans), is illustrated by the total operating costs / net operating revenue indicator of 30% and by the 34% growth of its contribution to the Group's net profit.

This overview of 2004 would be incomplete without a final word dedicated to the importance attributed to the **Bank's public affirmation**. In just four years, the BPI brand has consolidated a prominent place in the national financial sector, both in terms of awareness and from the standpoint of its main qualitative attributes. This achievement is confirmed by its own and other independent surveys, which **place the Bank amongst the frontrunners as regards Customer attendance and service**, thereby rewarding the investments made in Employee behavioural training and in modernising the

Chairman of the Board of Directors

Artur Santos Silva

branch network. Other important examples of market recognition have been the distinctions attributed by independent juries. In 2004, BPI won six of the nine first prizes as part of the Investor Awards instituted by Deloitte and Semanário Económico. And its Investor Relations website (for the second year running) and its online Annual Report were voted to be Europe's best by IR Global Rankings. However, the most gratifying reward from management's perspective is the behaviour of the share price, which has appreciated by around 40% between December 2001 and December 2004, while the market (portrayed by the PSI 20 index) fell in the same period, thus fully vindicating the management strategy pursued and also validated by the performance achieved during the past year.

Executive Committee of the Board of Directors

António Farinha Morais
Maria Celeste Hagatong
António Domingues
(Chairman) *Fernando Ulrich*
José Pena do Amaral
Manuel Ferreira da Silva
Pedro Barreto

Governing bodies

General Meeting		
Chairman	Rui Manuel Chancerelle de Machete	
Secretaries	Galucho – Indústrias Metalomecânicas, S.A.	Vitalina Justino Antunes
	Produtos Sarcol, Lda.	Maria Estela Magalhães Barbot
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	
	Caixa Holding, S.A., Sociedad Unipersonal	Fernando Ramirez[1]
	Isidro Fainé Casas	
	José Pena do Amaral	
	Klaus Dührkop	
	Manuel Ferreira da Silva	
	Manuel de Oliveira Violas	
	Maria Celeste Hagatong	
	Pedro Barreto[2]	
	Riunione Adriática di Sicurtá	Herbert Walter[3]
	Roberto Egydio Setúbal	
	Tomaz Jervell	
Executive Committee of Board of Directors		
Chairman	Fernando Ulrich	
Members	António Domingues	
	José Pena do Amaral	
	Maria Celeste Hagatong	
	Manuel Ferreira da Silva	
	António Farinha Morais	
	Pedro Barreto	
Audit and Internal Control Committee		
Chairman	Artur Santos Silva	
Deputy-Chairman	Ruy Octávio Matos de Carvalho	
Members	Carlos da Câmara Pestana	
	Alfredo Rezende de Almeida	
	Caixa Holding, S.A., Sociedad Unipersonal	Fernando Ramirez[1]
Audit Board		
Chairman	Jorge de Figueiredo Dias	
Members	José Ferreira Amorim	
	Deloitte & Associados, SROC, S.A.	Augusta Francisco
Remunerations Committee		
Chairman	Itaúsa Portugal – Sociedade Gestora de Participações Sociais, S.A.	
Members	Cotesi – Companhia de Têxteis Sintéticos, S.A.	
	Arsopi – Indústrias Metalúrgicas Arlindo Soares de Pinho, S.A.	

1) Replaced by Marcelino Armenter Vidal, on the 3rd of February 2005. The registration process with the Bank of Portugal is currently being attended to. *Figure 2*

2) Elected in the Annual General Meeting on the 20th of April 2004 to fill the vacancy left by João Talone's renouncement;

3) Represents Riunione Adriática di Sicurtá since 21 April 2004 (replacing Diethart Breipohl).

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** 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 Banco Itaú, initially through its equity participation in BFB. In 1994, 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.

Net total assets plus disintermediation

1996 / 1998

A year later (in **1996**) the **acquisition of Banco de Fomento and Banco Borges** marked the beginning of a process 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 **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.

2001-2004

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.

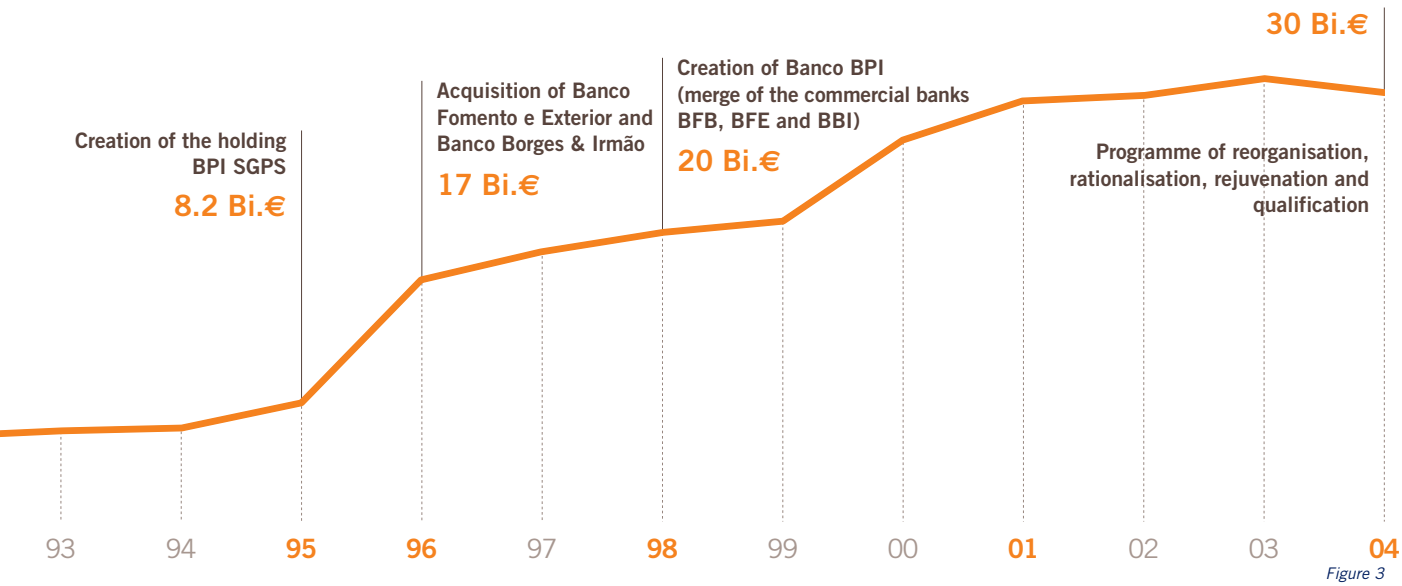


Figure 3

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 personality 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.

Financial structure and business

The BPI Group – headed by Banco BPI – is a universal financial and multi-specialist group, focusing predominantly on commercial banking business in Portugal (that is, domestic activity), to which 89% of its capital has been allocated.

The Group's commercial bank Banco BPI serves more than 1.4 million Customers – Individuals, Companies and Institutions – through its multi-channel distribution network comprising more than 500 retail branches, 15 investment centres, a homebanking service (BPI Net), telephone banking (BPI Directo), specialist branches, agents network and structures dedicated to the Corporate (44 Centres) and Institutional segments (4 units).

In addition, BPI has branches, representative offices and distribution agreements in foreign cities where there are large communities of Portuguese emigrants.

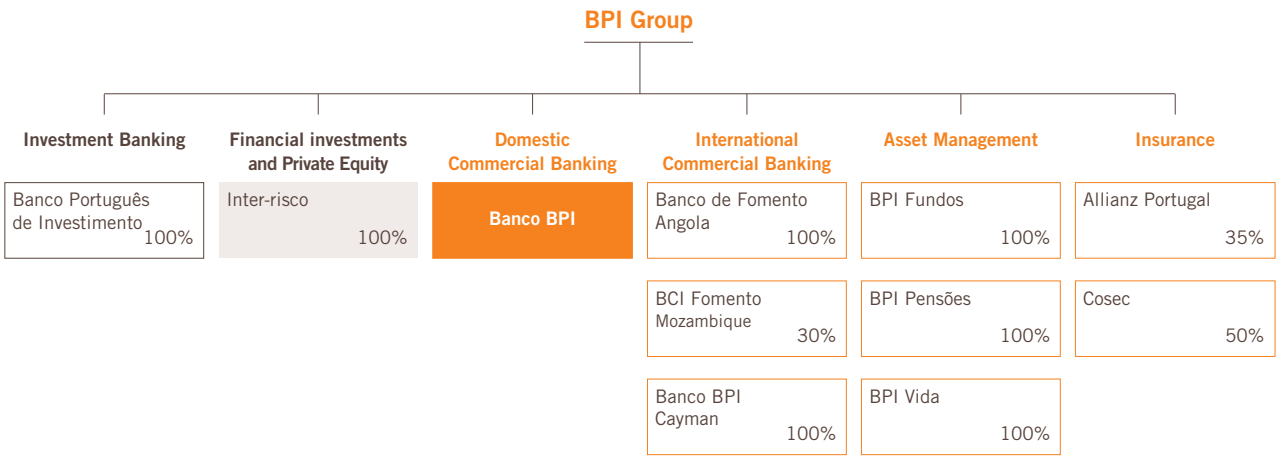
Banco Português de Investimento, the BPI Group's original matrix, is engaged in investment banking business – Equities, Corporate Finance and Private Banking – in the Iberian Peninsula, to which 1% of the Group's capital has been allocated.

In asset management activity, BPI is a prime player in the management of unit trust funds, pension funds and life-capitalisation insurance.

In Angola, the BPI Group owns 100% of an Angolan-law commercial bank, to which 6% of the Group's capital has been allocated: BFA serves 175 thousand Customers. In Mozambique, BPI has a 30% participating interest in BCI Fomento (in partnership with Caixa Geral de Depósitos).

Insofar as insurance interests are concerned, BPI has a long-standing partnership arrangement with Allianz for general insurance and life assurance, materialised in an equity stake of 35% in Allianz Portugal and in an accord covering insurance distribution via the Bank's commercial network. BPI also controls 50% of Cosec, undisputed leader in the national credit-insurance and insurance-guarantee market.

Main units of the BPI Group

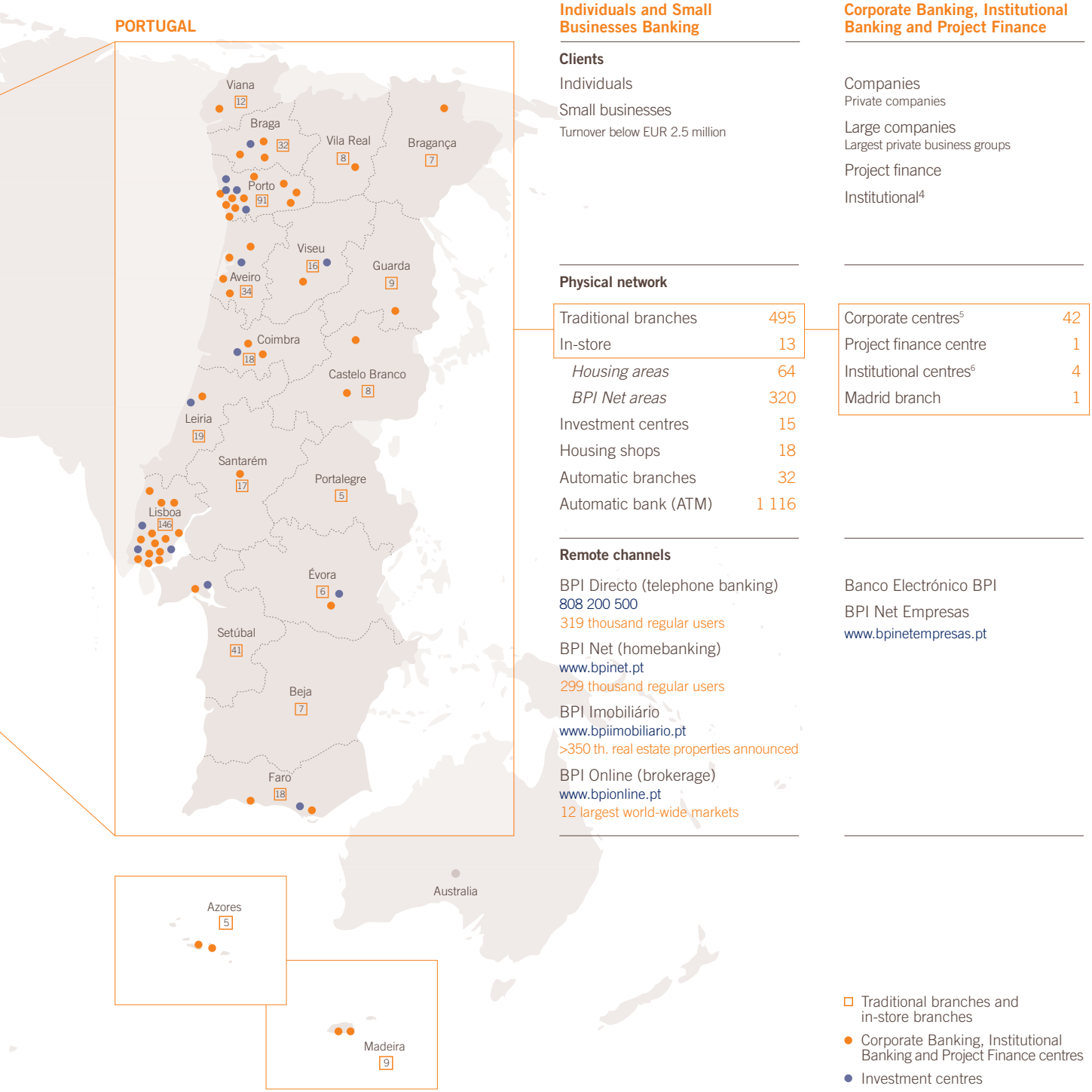


Note: The percentages indicated refer to the (direct and indirect) participations of Banco BPI in each company.

Figure 4

Distribution channels

1) 30% shareholding. At 31 December 2004 held 32 branches.
2) Distribution agreements with banks or post offices to support the emigrant communities (marked with a *) and agent networks.
3) Offshore branch.
4) Local authorities, autonomous regions, social security system, universities, public utility associations, State Business Sector and other non-profit entities.
5) Includes the branch of Galiza.
6) Includes the corporate centre of State Business Sector.



Individuals and Small Businesses Banking

Clients

Individuals

Small businesses
Turnover below EUR 2.5 million

Physical network

Traditional branches	495
In-store	13
Housing areas	64
BPI Net areas	320
Investment centres	15
Housing shops	18
Automatic branches	32
Automatic bank (ATM)	1 116

Remote channels

BPI Directo (telephone banking)
808 200 500
319 thousand regular users

BPI Net (homebanking)
www.bpinet.pt
299 thousand regular users

BPI Imobiliário
www.bpiimobiliario.pt
>350 th. real estate properties announced

BPI Online (brokerage)
www.bpionline.pt
12 largest world-wide markets

Corporate Banking, Institutional Banking and Project Finance

Companies
Private companies

Large companies
Largest private business groups

Project finance

Institutional[4]

Corporate centres[5]	42
Project finance centre	1
Institutional centres[6]	4
Madrid branch	1

Banco Electrónico BPI

BPI Net Empresas
www.bpinetempresas.pt

- Traditional branches and in-store branches
- Corporate Banking, Institutional Banking and Project Finance centres
- Investment centres

Figure 5

The BPI Brand

The 2004 financial year marked the end of the five-year period since the creation and launch of the BPI Brand in the wake of the mergers which gave origin to the new bank. This milestone justifies a brief review of the principal results attained, taking as its reference point the internal surveys conducted regularly and the independent information published by specialist institutions, namely the BASEF – Estudo Base sobre o Sistema Financeiro (Base Study of the Financial Sector), carried out annually by Marktest with a uniform criterion since 2000.

Growth

According to this study, one of the merits of which is that it permits the observation of comparative data over the whole period under review, the BPI Brand has consistently asserted itself as one of the leading banking brands in Portugal. Testimony to this achievement are the very significant growth rates noted, not only in quantitative indicators, such as awareness(+7%), but also in terms of qualitative attributes, such as trust (+42%), soundness (+17%), efficiency (+30%), attendance (+34%) and innovation (+15%). According to these indicators, BPI is situated in second, third or fourth place in the classification of Portuguese banking brands, that is, above the Bank's position in the rankings by market shares and with a sustained ascendancy in relation to its closest competitors.

In 2004, BPI appears as the third Portuguese banking brand in various independent and internal polls, but drops one place in the BASEF classifications by virtue of the scale effect engendered by the merging of the BCP group's brands. Hence, the BPI Brand descended to fourth place in the awareness (top-of-mind) indicator, drawing closer in the meantime to its nearest competitor, while retaining the second or third slots in the main qualitative attributes, thus maintaining its upward trend.

Efficiency

The results achieved must also be appraised in the light of the volume of the investments made. BPI was the fifth biggest investor in the sector in 2004, but secured the second position, *ex aequo*, in the top-of-mind indicator and second position as regards the proven television recollection, continuing to present by a wide margin the second best indicator in terms of advertising investment efficiency. It is important to underline that, from the same perspective, BPI's advertising expenditure grew by only 4% in 2004, which compares with a rise of 36% for the financial sector as a whole, according to Mediamonitor data.

As regards communication policy, of special note in the year under review was the sponsorship of the Euro 2004 (dealt with in a separate note to this chapter) and which marked all the Bank's campaigns in the first half of the year, thereby permitting a permanent association with major international brands. Outside of this ambit, the campaign dedicated to the presentation of the new branches registered exceptional results, obtaining the best value for the sector's proven recollection in 2004 and the best values for top-of-mind, total recollection and television recollection attained to date by BPI.

Quality

A fundamental cornerstone for the Brand's affirmation and its attributes is the Quality policy that has been consistently pursued over the last three years. In turn, this policy is rooted in the permanent upgrading of the technological solutions for supporting the networks, streamlining the integration of channels, behavioural training for Employees and the renovation of spaces devoted to sales and service.

This drive was reflected in the considerable improvement in the Bank's indicators in internal and external surveys addressing Customer attendance and satisfaction. By way of example and on the internal front, the IQS –Service Quality Index (described in another chapter of this Report) yet again registered a positive trend, while on the external front, BPI obtained absolute leadership amongst Portuguese banks for the first time in 2004 in the ECSI – European Customer Satisfaction Index. The ECSI is constructed by the Instituto Português da Qualidade (Portuguese Quality Institute), the Associação Portuguesa para a Qualidade (Portuguese Association for Quality) and the Instituto Superior de Estatística da Universidade Nova de Lisboa (New Lisbon University's Higher Institute for Statistics), based on a model supervised at European level.

SPONSORSHIP OF EURO 2004

BPI was one of the national sponsors of the European Football Championship held in Portugal, with the status of official bank of the Euro 2004. This was the most important sponsorship in the Bank's history, justified by the initiative's exceptional nature. This was probably the most high-profile media event ever staged by Portugal, affording a rare opportunity and one particularly suited to mass marketing.

This sponsorship extended over the period of a year, between August 2003 and August 2004, and was organised on a platform marked by four positioning criteria:

- promoting the event and not specifically football;
- permanent involvement in all communication initiatives and modes, in accordance with the Bank's commercial priorities;
- use of the event for promoting the Bank's central products, maximising the opportunities of association with the other sponsors;
- valuing the access to tickets as a factor of differentiation and springboard for an extensive direct marketing and public relations programme.

The fulfilment of this strategy translated itself into the following principal initiatives:

- the launch of a Euro 2004 credit card, with the holding of a draw for 10 tickets per day during nine months, in association with MasterCard, which counted with the participation of Pelé and Eusébio;
- the launching of six product campaigns in association with the other sponsors: "Choque Fiscal" (Tax Shock) offering an official Adidas soccer ball; "Conta Ordenado" (Salary Account) with the offer of a special Swatch commemorating the Euro; PPR/E (Retirement / Education Savings Plan) with the offer of a Euro 2004 Kit; "Financiamento Automóvel com a Hyundai" (Motor Car Finance with Hyundai) and "Crédito Pessoal com a JVC e a TMN" (Personal Loans with JVC and TMN);
- the organisation of a massive public relations programme, targeted at fostering loyalty with BPI's best Clients, with the close involvement of the commercial networks via which some thirteen thousand tickets for all the championship games were distributed by direct invitation.

Although no specific measurements by campaign were carried out, it is possible to recognise the sponsorship's very positive impact on cultivating the relationship with Customers, on animating commercial activity and on the indicators associated with the Brand. It is worth highlighting in this domain that BPI emerges in first place amongst banking brands and in sixth absolute place amongst the national and international sponsors as regards top-of mind awareness associated with the Euro 2004 (according to the evaluation realised by the specialist company Memorandum) during the first half of 2004.

BPI Governance

Renovation

With the holding of the Shareholders' Annual General Meeting on 20 April 2004, a new phase commenced in BPI's existence whereby the offices of Chairman of the Board of Directors and Chairman of the Executive Committee are no longer held by the same person. It is, as stated in the introduction to the 2003 annual report, a planned renovation executed as envisaged, that will bring with it strategic continuity underwritten by consistent history, shared along the victorious journey of the last twenty years.

In terms of the statutes (article 26(3)) following a proposal presented by the Chairman and approved by the Board of Directors in 1998, Artur Santos Silva ceased to exercise executive functions at BPI on reaching the age of 62, although he continues to carry out the mandate, for which he was elected by the Shareholders, of Chairman of the Board of Directors.

On 3 December 2003, in the exercise of its statutory powers and following a motion tabled by its Chairman, the Board of Directors unanimously nominated Fernando Ulrich for the post of Executive Committee Chairman.

The exercise of the functions of Chairman of the Board of Directors and of Chairman of the Executive Committee is governed by the clear definition of each officer's responsibilities and the powers and duties of each of the respective governing bodies, as laid down in the relevant regulations.

Guiding principles

Since its inception, BPI has adopted a set of guiding principles for its corporate governance policy that include the creation of value as the Directors' and Employees' prime objective, transparency and independence in executive management, and equity in the relationship with Shareholders, Customers and Employees.

It is with reference to these principles that BPI's corporate governance is put into practice, leading to the incorporation (in the majority of cases in advance) of the Portuguese Securities Market Commission's rules and recommendations on corporate governance.

Annual Corporate Governance Report

BPI's Board of Directors is permanently refining the Group's corporate governance model and respective dissemination policy, keeping abreast of the latest pronouncements in this field by leading European bodies.

Another noteworthy development was the fact that the Audit and Internal Control Committee became responsible with effect from 2004 for overseeing the principles and structure of the company's corporate governance, as well as the reinforcement of the Committee's powers with respect to the contracting and remuneration of the work of the External Auditors and the safeguarding of their independence.

Amongst the aspects analysed in the BPI Group's Corporate Governance Report which is annexed to the Directors' Report, the following merit special mention:

- the detailed description of the composition, areas of responsibility and activity carried out by the BPI Group's management and oversight bodies;

- report on the protection of Shareholders' interests, including the measures taken by BPI aimed at encouraging participation in the company's affairs, in particular, at the General Meetings;

- an outline of BPI's remuneration policy and information about the amounts earned by members of the Board of Directors, including an exhaustive description of the share incentive and options scheme (Portuguese initials RVA);

- a description of BPI's policies and practices – set out in the regulations and codes of conduct that are binding on the management bodies and Employees – designed to prevent conflicts of interest, violation of professional confidentiality, and to ensure diligence and loyalty in stock broking activity, as well as to promote the combat against terrorism, money laundering and insider trading[G].

Corporate Governance rating

The global nature of investment in the equities market has as a consequence for BPI that an important number of foreign institutional investors participate in its capital.

Since corporate governance policies and practices are also global issues, the specific aspects relating to each market's legal system and organisational culture make it difficult however, to make a proper appraisal of the merit of the practices actually adopted by a given company, above all, when the foreign investor's own market has quite different corporate governance structures.

With the object of providing investors with an independent assessment, BPI submitted its corporate governance practices to an independent rating in 2004 conducted by a North American entity – Institutional Shareholders Services (ISS), world leader in this type of service.

The *Corporate Governance Quotient* (CGQ) used by ISS is a rating system which evaluates the quality of companies' corporate governance practices. In this regard, more than 5 500 American companies and a growing number of companies outside the United States have availed themselves of ISS' services.

ISS attributed BPI a classification of 87.6 in relation to the MSCI EAFE® and 89.8 in the banks' segment. These ratings mean that BPI's corporate governance practice was considered by ISS to be better than that of 87.6% of the 1700 companies making up the MSCI EAFE® and better than 89.8% of the 140 banks present in this index.

The MSCI EAFE® index encompasses companies from 21 European, Australasia and Far Eastern countries and is acknowledged to be one of the international equity markets' benchmark indices.

Recognition received in 2004

The work undertaken by BPI in the area of *corporate governance* and *Investor Relations* is frequently acknowledged by outside entities. In certain cases, this recognition is forthcoming through the attribution of awards or the Bank's good positioning in rankings.

In the 2004 edition of the "*Investor Relations Awards*", BPI won for the fourth consecutive year (and for the ninth time in sixteen editions) the prize for the "Best Annual Report of the financial sector". The jury also awarded the Bank the prize for the "Best information concerning *Corporate Governance*", repeating the distinction received in 2003 and 2002 (year this category was created) and the prize for the "Best utilisation of technology in Investor Relations". The event, promoted by Deloitte, Semanário Económico and Diário Económico, aims to reward excellence in the communication of financial information by companies listed on the Euronext Lisbon.

In the 7th edition of the "IR Global Rankings", BPI's Investor Relations website was once again adjudged the best on the Iberian Peninsula, as well as the best for the financial sector as a whole in terms of the "content" criterion (426 companies from 42 countries competed). BPI's Internet version of the Annual Report won 1st overall place amongst the competing 116 rivals. The awards jury was composed of JP Morgan, Linklaters, MZ Consult and KPMG (who audited the awards-judging process).

Banco BPI also obtained the best classification in the ranking of the "*IR Magazine Awards*" amongst Portuguese banks. This ranking assesses the performance of quoted companies in the euro zone in terms of Investor Relations activity, and was based on the opinions of 400 analysts and portfolio managers throughout Europe. The survey was prepared by Mary Maude Research and counted with the backing of the Financial Times, Thomson Financial, JP Morgan, amongst others.

Investor Relations '04 Awards

Best Annual Report of the financial sector

of Euronext Lisbon

BPI

Investor Relations '04 Awards

Best information concerning Corporate Governance

of Euronext Lisbon

BPI

Investor Relations '04 Awards

Best utilisation of technology in Investor Relations

of Euronext Lisbon

BPI

IR magazine AWARDS

Best Investor Relations activity

#1 – Portuguese banks
#3 – Portuguese quoted companies

BPI

IR GLOBAL RANKINGS

Best Annual Report on-line

Global

BPI

IR GLOBAL RANKINGS

Best Investor Relations website

of Europe
Voting of analysts and investors

BPI

Social investment

Within the scope of its social investment policy, BPI continued to lend its support to major social initiatives in 2004 at both local and national level, in the fields of solidarity, education, research and culture.

Social solidarity and cooperation

On the social solidarity front and in association with the Portuguese Red Cross and the Internal Administration Ministry, work continued on the programme for providing aid to the victims of the 2003 forest fires, materialised in the construction of 27 dwellings for those left homeless in the Castelo Branco, Faro and Santarém districts. This programme was financed from funds collected through the public campaign "Vida Nova" (New Life), backed by SIC and Expresso, which raised close to 1.5 M.€, to which BPI contributed with an initial donation of 1 M.€.

On the one hand, continuity was given to the policy of offering regular support to social-welfare institutions involved in health and drug addiction, amongst which Abraço (aids victims), CAOS Juvenil, Associação para o Tratamento das Toxicodependências (ATT) (treatment for drug addiction), and on the other, Fundação Portuguesa de Cardiologia (cardiology foundation), Liga Portuguesa Contra o Cancro (cancer league), Associação Portuguesa contra a Leucemia (leukaemia), Associação Portuguesa de Paralisia Cerebral (cerebral palsy), Liga dos Amigos do Hospital Maria Pia (friends of the Maria Pia Hospital), Fundação Pro Dignitate and the Fundação Infantil Robert MacDonald. In a unique initiative, BPI unveiled a campaign at Christmas time promoting the use of credit cards, in which a portion of the revenue reverted to associations aiding children with specific illnesses, such as CADIN, Acreditar, CVP, Sol and Novo Futuro associations.

As concerns cooperation policy, BPI sponsored a creation of masters degree course in Law at the Centro Universitário de Huíla, in Angola, while maintaining its regular contribution to the activities of three institutions: ELO – Associação Portuguesa para o Desenvolvimento Económico e Cooperação, Leigos para o Desenvolvimento and OIKOS – Cooperação e Desenvolvimento.

Education and research

In the education and research fields, the main highlight was the patronage protocol for three years entered into with the "IPATIMUP – Instituto de Patologia e Imunologia Molecular do Porto" (Institute of Molecular Pathology and Immunology of the University of Porto), an institution which has already carried out work of the utmost importance in its specialisation field. Other noteworthy activities were undertaken in collaboration with the Instituto Superior Técnico and with the Faculdade de Ciências e Tecnologia da Universidade de Coimbra, pursuant to the long-term protocols established with both these Universities. Other support was provided to the Universities of Oporto and Coimbra, to Universidade Técnica de Lisboa, INSEAD and AR.CO Centro de Arte e Comunicação Visual. Merit special mention the support lend to Universidade Católica Portuguesa, through the participation in its Foundation and the sponsoring of the activities of its centre for political studies.

Culture and publication

Turning to cultural affairs, BPI maintained its status as Patron of the Serralves Museum in Oporto, the most visited of Portuguese museums in the last two years. Continuity was given, in partnership with the Fundação Gulbenkian and Oni, to the sponsorship of the cycle "Great World Orchestras", which has become one of the most important regular programmes of the music season in Portugal. The Bank also became one of the patrons of the Museum of the Presidency, with effect from 2004.

Reference is also made to the contributions to the holding of the exhibition entitled "Cinco Pintores da Modernidade Portuguesa" (Five Painters of Portuguese Modernity) at the Museum of Modern Art of S. Paulo, the sponsorship of the Oporto International Music Contest and ongoing support for the Bienal de Vila Nova de Cerveira, Centro nacional de Cultura and to the Foundations Aquilino Ribeiro, Casa de Mateus, Eça de Queiroz, Eugénio de Andrade, Júlio Resende, Luís Miguel Nava, Rei Afonso Henriques and Maria Isabel Guerra Junqueiro.

On the other hand, BPI continued to undertake a significant initiative in supporting the publication of books and publications, amongst which "21 Retratos do Porto para o século XXI" (21 Portraits of Oporto for the XXI Century), with foreword by Eduardo Lourenço and graphic direction of Armando Alves, the catalogue of the anthological exhibition of Pedro Calapez, at the Centre for Modern Art of the Fundação Gulbenkian, Lisbon in the "Cais da Memória" of Eduardo Gageiro, "Casa Havaneza – 140 anos à esquina do Chiado" (140 years at the corner of the Chiado) by Luísa Paiva Boléo, the "História do Clube Portuense" (history of the Oporto Club) and the commemorative edition of the Lawn Tennis Clube da Foz's centenary.

Highlights of 2004

January, 29 BPI discloses consolidated results for 2003. The net profit was 163.8 M.€ yielding a ROE of 13.9%.

January Simultaneous launching of the BFA institutional website and Internet home-banking service (BFA Net) aimed at serving both its individual and corporate Clients.

April, 20 Shareholders meet in General Meeting and unanimously approve a vote of praise for Artur Santos Silva, founder and chairman of BPI, for the manner in which he has exercised the executive command of the Bank for the past 23 years. Artur Santos Silva ceases executive functions on reaching the age of 62 (age limit for the exercise of executive functions at the Bank imposed by the statutes). Shareholders also approve unanimously a vote of congratulations for the manner in which the transfer of the chairmanship of the Executive Committee has taken place, with this office being assumed effective from this date by the Deputy-Chairman Fernando Ulrich. Fernando Ulrich's appointment was proposed by the Chairman of the Board of Directors Artur Santos Silva and unanimously approved by the Board.

April, 20 The Annual General Meeting, at which shareholders holding 60.9% of the voting rights were present or represented, approves with more than 99% of votes in favour, the annual report and the dividend in respect of the 2003 year.

April, 21 BPI presents the results for the first quarter. Net profit was 48.5 M.€ giving a ROE of 15.4%.

May, 3 BPI comes to terms for the selling of its shareholding of Auto-Estradas do Atlântico. The transaction was effected on 5 January 2005, for a total consideration of 19.1 M.€, that yielded a capital gain of 17 M.€.

May, 10 BPI pays dividend of nine cents per share, which corresponds to a payout of 41.7% and a dividend yield of 4.1%.

May BPI enters into with Euler Hermes – held by the Allianz Group, one of the biggest insurance groups and world leader in credit insurance – a strategic partnership in the management of COSEC, undisputed leader in the national credit-insurance and insurance-guarantee market, and which consequently now forms part of this vast worldwide network.

June, 10 Banco Português de Investimento hosts in Sintra the first Iberian conference for small and mid cap companies with the presence with 50 institutional investors and 20 Iberian companies.

June – July Banco BPI is the Official Bank of EURO 2004™ associating itself to an event which promoted the image of Portugal in the world and the positive values of happiness, socialising and sportsmanship.

July, 7 In the "Investor Relations Awards", event organised by Deloitte, Semanário Económico and Diário Económico with the object of rewarding excellence in the communication of financial information amongst companies listed on the Euronext Lisboa, BPI won the prizes for the best "Annual Report of the financial sector" for the ninth time (fourth year running) and – in its third edition and for the third time – the best Corporate Governance Report, as well as the award (attributed for the first time) for the best use of technology in Investor Relations.

March, 17
July, 19 Banco Português de Investimento's membership as dealing member of the Spanish Derivatives Exchange (MEFF) (17 March) and as Member of the Madrid Stock Exchange (19 July), reinforcing Banco Português de Investimento's positioning as an Iberian broker.

July, 21 BPI presents the results for the first six months of the year. Reports net profit of 86.7 M.€ and ROE of 14%.

September, 15
November, 2
(05) February, 21 Moody's, Standard & Poor's and Fitch Ratings confirm BPI's "A" rating. The rating agencies highlight globally the Bank's proven ability to present sound profitability ratios, good service quality indicators, and the fact that it has been successful in holding on to its market position despite the increased competition and notwithstanding difficulties being encountered by the Portuguese economy.

October, 15 BPI announces outsourcing agreement with IBM for the period of 10 years, covering the management of the information systems' infrastructure.

October, 26 BPI presents the results for the third quarter. Net profit at 30 September of 126.6 M.€ and ROE of 14%.

December, 22 BPI announces agreement for the sale of the 41.4% stake held in SIC – Sociedade Independente de Comunicação.

December, 31 BPI sells its 24.5% equity stake in Aquapor.

December, 31 The BPI Group records consolidated net profit for the year of 192.7 M.€, which corresponds to a return on shareholders' equity of 15.2%.

Background to operations

BACKGROUND TO OPERATIONS IN PORTUGAL

After a promising first six months, economic activity in the OECD countries once again began to mark time in the closing stages of the year. Several economic factors contributed to this scenario. In the US, economic policy gradually began to assume a less expansionist stance, in particular, in the light of the successive hikes in the Fed's intervention rate from 1% to 2.25% during the course of the year. This trend is expected to continue, although it has not been compensated by the dollar's depreciation, the effect of which is greatly limited by the policy pursued by a large number of countries (notably, Asiatic) of anchoring their currencies to the American currency.

Conversely, in Europe the effect of the euro's appreciation has been felt and, coupled with the volatility[G] of the oil price and the precarious budgetary situation, led to a further slowdown in the tempo of activity. However, this landscape continues to reveal quite contrasting behaviour, even amongst the EU-15 countries, with Germany, Italy and Portugal presenting falls in GDP at the end of the year, whilst Spain, the United Kingdom and the Nordic countries continue to record satisfactory growth. This is fundamentally due to the latter group of countries' good performance on the budgetary front, which underpinned high confidence levels and permitted the maintenance of an anti-cyclical budget policy.

In Asia, the developing countries continue to experience robust growth, although the same cannot be said for Japan, where a revision to statistical data revealed that growth was negative in the last three quarters of 2004, thereby countering earlier projections pointing to this country's strong revival.

Inflation and salary increases remained subdued by virtue of the precarious employment situation and level of activity. The only place where inflation breached the 3% mark was in the US, reflecting above all the spiralling oil price. The European economy's lacklustre performance has dispelled expectations of a hike in interest rates in the short term, at the same time underling the need for a more gradual perspective on the budgetary consolidation front in those countries where this has not yet been achieved. However, the pressure of pension costs and health expenditure, coupled with the lack of leeway in Europe vis-à-vis the tax burden and the public-debt ratio, continue to be this consolidation's priority areas bearing in mind the financial risks stemming from a climb in long-term interest rates – a risk that is also compounded by America's budget imbalance.

Portuguese economy

In the first half of the year, the Portuguese economy – strongly influenced by the staging of the European soccer championship – shadowed the European economy's positive evolution, attaining a year-on-year growth rate midway through the year of 1.8%. In the final two quarters, however, it began to record falls in absolute terms, ending the year with a year-on-year growth rate of 0.6%, which corresponds to an annual average change of 1%.

Real GDP growth
Year-on-year rates of change

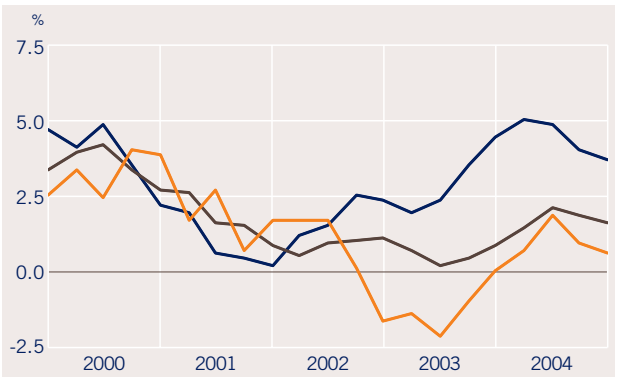


Chart 1

Sources: Eurostat (Euro zone and Portugal) and Bureau of Economic Analysis (United States).

This trend reflected primarily domestic output's weak response to higher demand. Consumption (public and private) accelerated at the end of the year, while investment also recorded an average behaviour that was more positive than in the previous year. However, this trend corresponded to a worse performance by those sectors that compete with the exterior. Throughout the year, exports maintained a positive (although decelerating) trend, while penetration by imports became more pronounced, thus underscoring the fact that the economy's sustained recovery will have to be founded first and foremost on competitive gains.

In this way, the year 2004 drew the curtain on a cycle of economic policy that sought to restore macroeconomic equilibrium fundamentally at the expense of restricting domestic demand. Its shortcoming was confirmed in an international background that demands a far-reaching restructuring of the State's apparatus, the country's manufacturing sector, labour relations, workers' skill and business acumen. The internal market's strong expansion, the accommodation of which was permitted by the integration of the single currency, relegated these structural adjustments to a lower priority plane. The economy's recent behaviour has demonstrated however that it is precisely here where its attention needs to be focused, which does not exclude – on the contrary, it highlights – the need for a stable and sound budgetary and fiscal policy.

Public investment cannot be abandoned as an essential instrument for boosting competitiveness and integration in world trade. This manifests itself both in transport and communications infrastructures – which are far from being completed – and in the environmental or energy areas, or even in the stimulus for innovation and the re-qualification of workers and managers. What is crucial is that such investment concentrates on these priorities and that it takes maximum advantage of the opportunities afforded by European grants and project finance.

The rationalisation of local financing is another priority area for action with a view to introducing greater efficiency into local administration, which although having not direct influence on issues such as the economy's competitiveness, still plays a vital role in fields like the environment, employment and social cohesion.

Detailed forecasts for Portugal and the Euro zone

Growth rates in %

	2004			2005		
	Portugal		Euro zone	Portugal		Euro zone
	INE[1]	EC[2]	EC[2]	BP[3]	EC[2]	EC[2]
Private consumption	2.3	2.1	1.5	1.5	1.8	1.7
Public consumption	1.2	0.6	1.5	0.0	0.5	1.1
Fixed investment	1.3	2.4	2.2	1.7	3.3	3.2
Exports of goods and services	5.1	7.9	7.6[6]	7.5	7.0	6.4[6]
Imports of goods and services	7.0	7.8	7.1[6]	5.2	5.5	6.7[6]
GDP	**1.0**	**1.3**	**2.1**	**1.6**	**2.2**	**2.0**
Inflation[4]	**2.5**	**2.4**	**2.1**	**2.1**	**2.4**	**1.9**
Current account balance[5]	-5.4	-6.8	0.8	-5.3	-6.5	0.8

1) Actual figures, Quarterly Domestic Accounts, 4th quarter 2004.
2) European Commission, Autumn Forecasts, October 2004.
3) Bank of Portugal, Economic Bulletin, December 2004.
4) Harmonised Index of Consumer Prices.
5) As a percentage of GDP. The Bank of Portugal's forecasts also include the balance on capital account, the most significant component of which are community transfers previously integrated into the current account of the balance of payments.
6) Trade of commodities, inside and outside EU.

Table 2

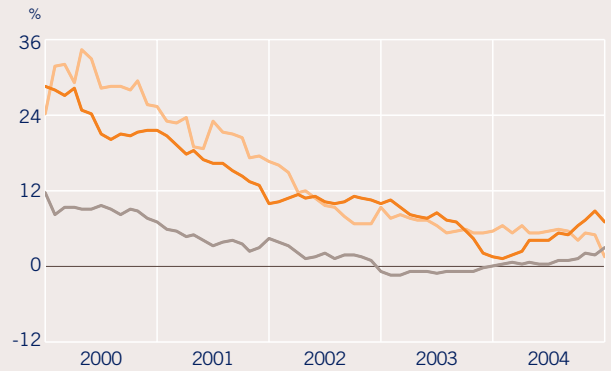
Portuguese financial system

In 2004, the banking sector displayed considerable dynamism, with total lending[1] registering a slight acceleration from 6.6% at the end of 2003 to 7.4% in December 2004, while residents' deposits expanded at the end of the year, posting growth of 3.2% in December (1% at the end of 2003).

The expansion in lending activity continued to be fuelled chiefly by loans to individuals (+7% during the course of 2004), while loans to non-financial companies decelerated sharply in December to 1.3% (against 5.6% at the end of the previous year). In particular, lending to the manufacturing sector revealed a sharp contraction, ending 2004 with a fall of 6% and a financing volume corresponding to just 15% of bank loans to companies. The ratio of non-performing loans declined in 2004 in both the corporate (1.8% in December against 2.1% at the end of the preceding year) and individuals' segments (from 2.4% to 2.2%).

One of the Portuguese economy's positive points is the continued soundness of its financial system. This opens up the prospects for the support of a policy aimed at the re-conversion of the manufacturing sector and the stimulation of investment directed at the new requirements of competitiveness.

Loans and bank deposits
Year-on-year rates of change



Loans to non-financial companies
Loans to individuals
Total deposits of individuals and emigrants

Chart 2

Source: Bank of Portugal.

1) All the rates are based on Bank of Portugal data, adjusted for securitisation operations.

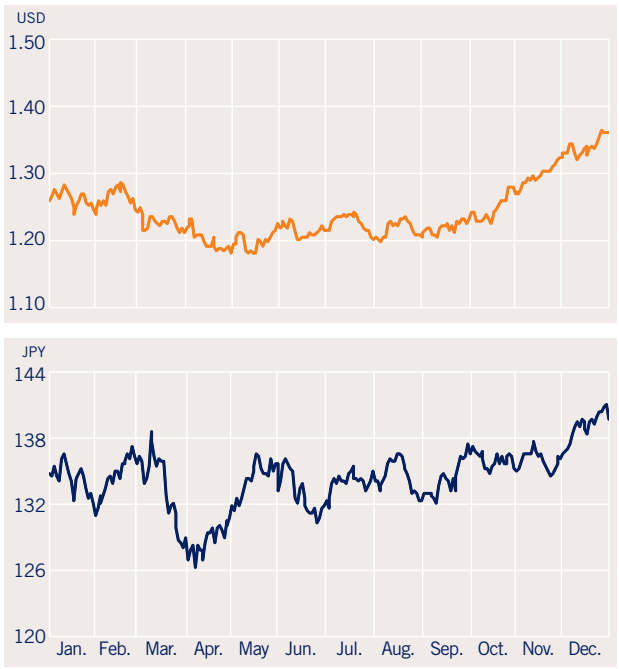
Currency market

In 2004 and as had been expected, the American dollar's debility became more pronounced. The early months were dominated by the euro's persistent upward trend (a legacy from 2003), peaking at the historical high of 1.29. Nevertheless, the fresh outbreak of the uncertainty surrounding the European recovery, the about-turn in the interest-rate differential between the USA and Europe and the veiled threats of currency intervention on the part of the European authorities, apprehensive about the impact of their currency's appreciation on the behaviour of the external component of demand – the motor for the EMU's revival – triggered a change in the EUR / USD trend, leading to its fall to 1.18.

Subsequently, the deterioration in North America's external imbalance and the decline in capital inflows into the US – indispensable for the funding the deficit on the current account balance – induced a recovery by the European currency which resulted in the formation of a corridor bracketed between 1.20 and 1.25 and which dominated the period June to October. At the end of the year, the confirmation of president Bush's re-election, Giving support to the economic policy followed by him, originated a new dip in the dollar, propelling the EUR / USD rate to 1.36, which constituted the new historical high.

At the beginning of 2005, a further upward movement in the euro was generally anticipated with the currency widely tipped to pierce the 1.40 barrier. But more recently the EUR / USD exchange rate appears to be on track for a repetition of its 2004 performance, namely through the construction of a broad trading interval within the 1.25 and 1.35 band. Despite the deterioration in America's external accounts, its financing is not apparently in jeopardy due to the continued influx of capital, thanks not only to the acquisition of US Treasuries by Asiatic central banks, but also to the repatriation of American multinationals' profits in order to take advantage of the tax benefit available only this year. In the meantime, the differential in interest rates is now in the dollar's favour, while the European recovery remains susceptible to the perverse effects of the euro's appreciation. Nevertheless from a structural standpoint, the trend of a EUR exchange rate strengthening against the USD remains intact.

Euro exchange rates in 2004



USD / EUR
JPY / EUR

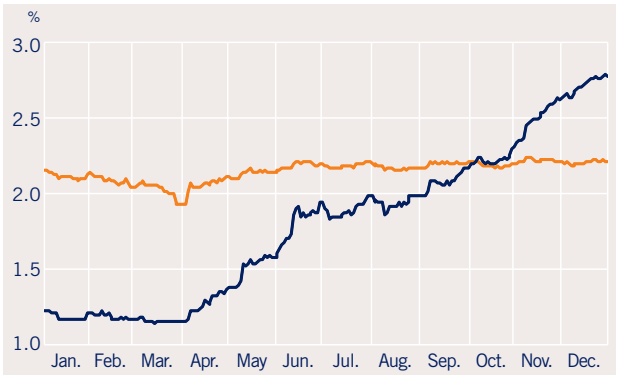
Chart 3

Money market

The consolidation of the US economic recovery, despite keeping inflation in check, was conducive to the return of short-term interest rates to normality. As anticipated, the Federal Reserve (Fed), confronted by negative real interest rates in an environment of improving economic activity, inaugurated a cycle of hikes in its key interest rates in June, raising the fed funds rate from 1% to 1.25%. The Fed carried out a further four hikes of 25 basis points each time, lifting this benchmark to 2.25%. This movement aimed at restoring the leeway for monetary policy was slowly anticipated by the money market, guided by declarations made by senior Fed officials. Thus, the USD's 6-month Euribor[G] rate climbed from 1.17% in January to 2.80% in December. In Europe, the initial expectations of the ECB's delayed replication of the Fed's behaviour were defrauded. The fragile economic recovery and the associated risks motivated the postponement of the abandonment of the accommodative policy. Short-term interest rates in Europe were characterised by relative stability throughout 2004.

As concerns 2005, the Fed reaffirmed its determination to pursue a monetary policy directed at maintaining a neutral stance, with further hikes in the fed funds rate anticipated in the coming months that will elevate this benchmark to the neighbourhood of 3.75% or 4%. In Europe, the recovery's debility restrains a more aggressiveness posture in the conduct of monetary policy. Nonetheless, if inflation remains stable in the vicinity of the official goal of 2%, the existing surplus liquidity will trigger an acceleration in lending and considerable increases in the prices of financial and real-estate assets. Although the ECB has postponed any change to the direction of its monetary policy, 2005 will probably be characterised by the end to the refinancing rate's steadfast anchorage at 2%.

Six-month interest rates in 2004



— Euribor
— Libor USD

Chart 4

Sources: BPI, Reuters.

Bond market

The public-debt market's evolution in 2004 was marked by paradoxical behaviour patterns. Notwithstanding the policy of normalising key interest rates, long-term yields – after a strong correction registered in July that was responsible for the 100 basis-point climb in the American 10-year rate to 4.85% – returned in the second half of the year to their January levels. In Europe, this phenomenon is explained by the redefinition of expectations relating to the conduct of the ECB's monetary policy, with the concomitant delay in hikes in key interest rates. In the US, the decrease in the inflation premium, the continued purchase of Treasuries by Asiatic central banks, the spectre of economic slowdown and the uninspiring yield alternatives offered by other assets, justified the maintenance of long-term interest rates at low levels relative to with similar expansionary phases of previous economic cycles. In general terms, the yield curves saw an important flattening in their slopes, with their pivotal point focused on the long term.

Meanwhile, the desynchronised upturn observed in the US and Europe led to a reversal in the differential in the 10-year rates between these two economic zones. Whilst in January the spread between 10-year Treasuries and Bunds was a negative figure of 15 basis points, in December this differential had swung to 60 basis points in favour of North American securities. In Europe, despite warnings concerning the deterioration in the quality of the Portuguese Republic's debt as a result of the persistence of public debt hovering above the 3% of GDP ceiling (after taking into account extraordinary receipts) laid down in the Stability and Growth Pact, the spread between 10-year Bunds and the Portuguese Treasury Bonds approximated zero.

As regards 2005, giving credence to the attainment of a consensual macroeconomic scenario, the move towards higher long-term interest rates will remain intact, albeit in a less pronounced fashion. This is due both to the higher demand for this type of instrument in a climate of limited supply, and to the expectation of a less aggressive monetary policy: in other words, the authorities may be content with attaining only neutral rates.

Ten-year interest rates in 2004

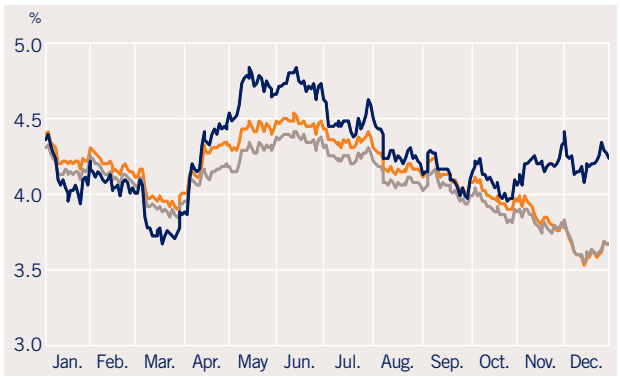


Chart 5

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

Sources: BPI, Reuters.

In the corporate debt market, the main highlight was the continued compression of premiums on all classes of risk. The existing surplus liquidity and the reduced aversion to risk were the prime factors behind this trend. Given that the current spreads only remunerate the probability of implicit default and that rating agencies predict a stabilisation in companies' payment conditions, the movement towards the narrowing of premiums should stagnate. In fact, there could be a correction if the macroeconomic landscape springs a positive surprise, leading to the reconstitution of portfolios with equities; on the other hand, if it pulls a negative surprise, we could witness a worsening in the aversion to risk.

Corporate credit risk premiums
Euro-denominated issues (2002-2004)

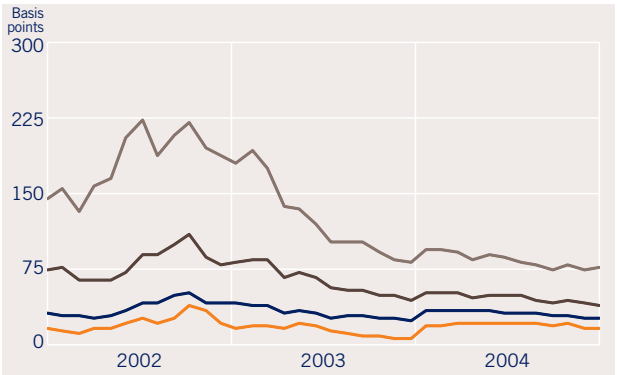


Chart 6

— BBB
— A
— AA
— AAA

Source: Morgan Stanley, Bloomberg.

Equities market

At the beginning of 2004 the world's principal markets posted gains of between 5% and 8%, anticipating an improved global economic environment and, consequently, the prospects of growth in corporate earnings. This climate was spurred by the disclosure of highly favourable indicators relating to the North American and Asiatic economies. In Europe, the corresponding indicators pointed to an upturn in the Euro zone economy.

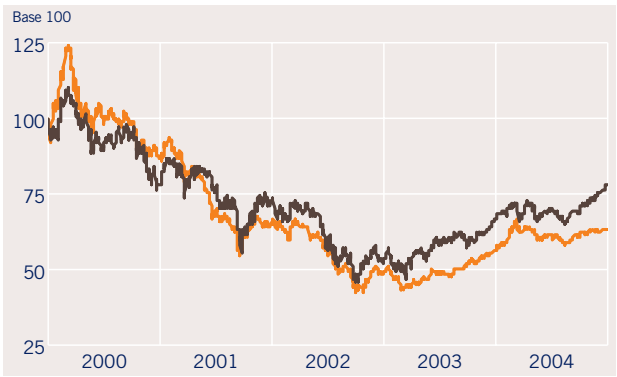
However, an about-turn in this trend was observed during March. The resurfacing of geopolitical tensions, coupled with the spiralling oil price and the reversal in the direction of interest rates in the US, were the chief factors responsible for a more uncertain landscape, with repercussions for the world's equity markets. This period, which continued up until the end of August, was characterised by a fall in market liquidity and the downward slide in the main indices.

Curiously, the growing uncertainty did not translate itself into greater implicit volatilities. During this period, the VDAX index (German stock market's implicit volatility[G]) reached historical lows.

Following the summer months, the markets staged a strong rally, closing 2004 at the year's highs. The principal catalyst fuelling this upswing was the end to the uncertainty surrounding the American presidential elections, as well as the easing of geopolitical tensions. This revival of the equity markets (in part fuelled by investors' strong liquidity) led to an increase in trading volumes.

In 2004, the world's principal indices posted positive returns: the American indices (Nasdaq and S&P) gained around 9%, while their European counterparts (FTSE 100, CAC40 and DAX) rose by roughly 7%. The leading Iberian indices appreciated 13% (PSI20) and 17% (IBEX 35), with small and medium capitalisation companies turning in highly positive performances.

PSI20 and IBEX 35 indexes' evolution



PSI20
IBEX 35

Chart 7

Source: Bloomberg.

2004 saw reanimation in merger and acquisition activity and the growing preoccupation on the part of companies to implement shareholder remuneration policies. At global level, the banking and telecommunications sectors were the most active in this domain.

The initial public offerings (IPO) market recorded strong growth, especially in the US. On the Iberian Peninsula, the main spotlight fell on the media sector, with the Media Capital offering in Portugal and the Tele5 flotation in Spain. Besides these two companies, Cintra, Fadesa Imobiliária and Probitas were also objects of IPO's in Spain.

BACKGROUND TO OPERATIONS IN ANGOLA[1]

Angolan economy

The Angolan economy presented extremely favourable macroeconomic indicators in 2004.

Preliminary estimates point to an expansion in gross domestic product in the vicinity of 12%, reflecting not only the higher domestic production of crude oil (13.9%), but also the dynamism of the economy's other sectors, such as construction and agriculture (which posted growth of around 14%).

On the other hand, inflation, as measured by the Consumer Price Index in Luanda, registered a year-on-year change of 34% in November 2004 (47% in the moving average for the last 12 months), evidencing a significant slowdown relative to the rates recorded in previous years.

Inflation rate in Angola

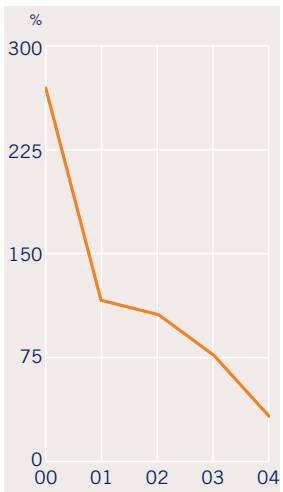


Chart 8

Real GDP growth in Angola

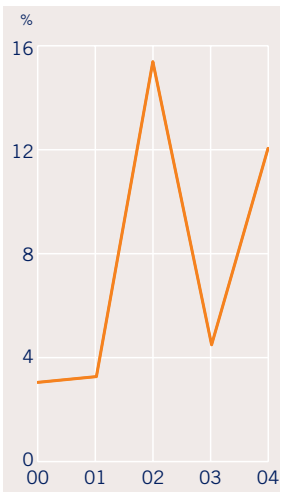
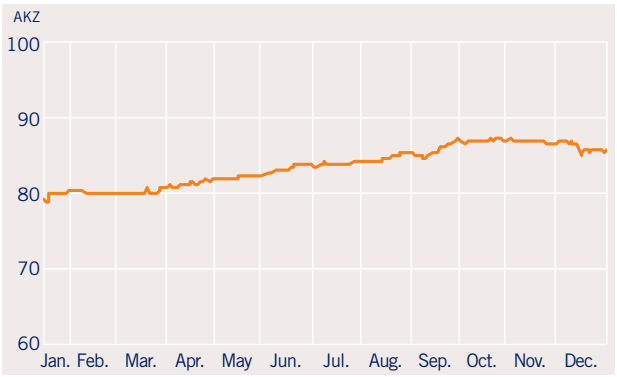


Chart 9

Sources: Banco Nacional de Angola (Central Bank of Angola), International Monetary Fund and Economist Intelligence Unit.

Contributing to inflation's behaviour was the greater stability of the local currency against the North American dollar, the Angolan economy's currency of reference. Indeed, the kwanza registered in December 2004 a year-on-year depreciation of 8.3%. In the closing months of 2004, the kwanza even recorded a revaluation relative to the dollar.

Kwanza / Dollar exchange rate in 2004



Source: Banco Nacional de Angola (Central Bank of Angola). *Chart 10*

Also noteworthy in the final months of the year was the strong expansion in foreign reserves (which surged from USD 634 million in December 2003 to 1 234 million at the end of 2004). This state of affairs can be ascribed to the rising oil price on the international markets and the approval (in September) by the Cabinet for the creation of the Fundo de Reserva do Tesouro Nacional (national treasury reserve fund) at Banco Nacional de Angola (central bank), to which the surplus revenues earned from the higher oil price than that budgeted for (USD 22.6 / barrel for 2004) are channelled. These resources are set aside to meet any unforeseen treasury difficulties, by way of the Cabinet's authorisation.

1) BPI Group holds by 100% a commercial bank in Angola – Banco de Fomento – which accounts for 6% of the Group's capital.

Angolan financial system

The financial system, which is still in its initial development stage – to be expected in a country where only a small portion of the population resort to banking services and where the weight of loans and deposits on GDP is low –, once again evidenced great dynamism in 2004: deposits expanded by 33% and loans by 105% when expressed in euro, or by 55% and 139% in local currency terms. Another occurrence worth highlighting was the approval in 2004 of the new Financial Institutions Law and the Payments System and Negotiable Securities Laws.

The State Budget for 2005 (approved in December) projects a public deficit of 8.9% of GDP, which compares with an estimate of 5.3% for 2004. This increase is the result of the higher capital expenditure associated with the reconstruction drive and the lowering of the oil sector's effective tax rate.

Covering the deficit entails on the external front the use of various bilateral credit lines, namely with Brazil, Portugal and China, which should cover 49% of requirements. On the home front, the use of some USD 600 million of the Treasury's reserves is expected to occur, thereby securing roughly 33% of requirements. At the same time, 4% is expected to be covered by donations.

It is also worth referring to the dynamism imparted to activity on the Securities market by Banco Nacional de Angola, which has been absorbing excess liquidity through the issue of its central bank monetary certificates (TBC) and Public Debt Securities (T-Bills and T-Bonds).

Central Bank of Angola securities
Placement interest rates in 2004

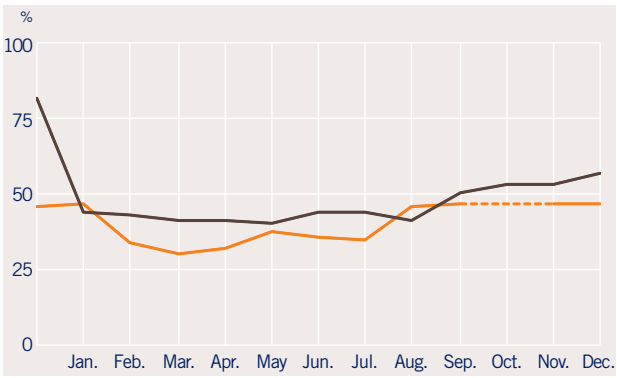


Chart 11

Source: Central Bank of Angola.

Human resources

RATIONALIZATION, REJUVENATION AND QUALIFICATION

At 31 December 2004, the BPI Group's workforce numbered 7 080, of whom 92% were deployed in domestic activity, while the remaining 8% comprised Banco de Fomento's staff headcount in Angola. In activity relating to Portugal, the priority in 2004 centred on the execution of the strategic programme mapped out for the period 2002-2004 and directed at raising efficiency and reducing costs. In activity in Angola, priority was given to the expansion and upgrading of the staff complement in order to respond to the steep growth in activity, while simultaneously preparing the bank for future growth.

BPI staff complement in 2004
Distribution by area of activity

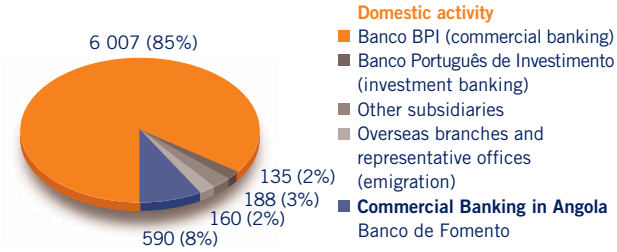


Chart 12

BPI Group Employees

	End-of-period figures					Period-average figures			
	2001	2002	2003	2004	Δ% 03/04	2002	2003	2004	Δ% 03/04
Domestic activity									
Banco BPI	6 699	6 513	6 093	6 007	(1.4%)	6 479	6 451	6 246	(3.2%)
Banco Português de Investimento	453	200	139	135	(2.9%)	437	160	132	(17.4%)
Other subsidiary companies	450	224	196	188	(4.1%)	413	208	190	(8.6%)
Subtotal – Activity in Portugal[1]	7 602	6 937	6 428	6 330	(1.5%)	7 329	6 819	6 568	(3.7%)
Overseas branches and representative offices[1]	163	162	156	160	2.6%	164	160	162	1.4%
Subtotal – domestic activity	**7 765**	**7 099**	**6 584**	**6 490**	**(1.4%)**	**7 493**	**6 979**	**6 731**	**(3.6%)**
International activity									
Banco de Fomento Angola	228	286	441	590	33.8%	258	340	510	49.8%
Banco de Fomento Mozambique[2]	98	121	-	-	-	109	123	-	(100.0%)
Subtotal – international activity	**326**	**407**	**441**	**590**	**33.8%**	**367**	**463**	**510**	**10.1%**
BPI Group Total[1]	**8 091**	**7 506**	**7 025**	**7 080**	**0.8%**	**7 860**	**7 442**	**7 240**	**(2.7%)**
Note:									
Activity in Portugal									
Fixed-term contracts	569	359	246	302	22.8%	464	288	302	4.8%
Temporary employment	111	46	82	81	(1.2%)	74	107	196	84.1%
Overseas branches and representative offices									
Fixed-term contracts	22	15	13	13	0.0%	20	13	17	32.8%
Temporary employment	-	-	-	-	-	-	-	2	-

1) Includes fixed-term contracts and temporary employment of persons with no binding work contracts with BPI.
2) In 2003, Banco de Fomento Mozambique (100% held) was merged by incorporation into Banco Comercial e de Investimentos, following which BPI now owns a 30% interest in the resulting entity (BCI Fomento) and which since then is consolidated using the equity method.

Table 3

BANCO BPI

Activity in Portugal

Management of the BPI Group's human resources in Portugal remained primarily concentrated on the execution of the strategic programme delineated for the period 2002-2004 and which was aimed at boosting efficiency and reducing costs:

In 2004:

- the early retirement programme defined for the three-year period was concluded;
- priority continued to be given to the recruitment of Employees with university degrees;
- investment continued to be made in IT tools supporting the commercial and back-office activities made available to all Employees in a decentralised, but selective, manner through the BPI Group's intranets.

Banco BPI Employees
Selected indicators

	2002	2003	2004
Employees	6 513	6 093	6 007
Employees as % of the Group total staff	87%	87%	85%
Employees with higher education	34.5%	37.2%	40.2%
Employees with higher education at the branches	26.5%	28.1%	32.8%
Average age	40.5	40.3	39.9
Average period of service	15.4	15.1	13.8
Men	52.8%	51.9%	50.8%
Women	47.2%	48.1%	49.2%
Employees per branch	6.2	5.9	5.8

Table 4

Banco BPI Employees[1, 2]
Distribution by area of activity

	2002	2003	2004	% do total
Retail Branches network[3]	3 171	3 164	3 215	54%
Corporate Centres[4]	456	434	431	7%
Non-traditional channels[5]	296	236	265	4%
Product factories[6]	519	482	549	9%
Marketing	93	92	97	2%
Commercial activity	**4 535**	**4 408**	**4 557**	**76%**
Central services	1 978	1 685	1 450	24%
Total	**6 513**	**6 093**	**6 007**	**100%**

1) Activity in Portugal.
2) Includes temporary workers (82 in 2003 and 81 in 2004) and fixed-term contracts (236 in 2003 and 290 in 2004).
3) Branches, investment centres and respective support structure (divisions of: loans to individuals and small businesses, retail network projects, new branches and commercial support).
4) Corporate Centres and Credit Risks Division.
5) Telephone Banking, Internet, Automated Banking and Protocol Banking.
6) Cards, mortgage loan financing (which includes 19 Housing Shops), personal loans and motor-car finance.

Table 5

Of the 6 007 Employees working at Banco BPI at the end of the year 2004, 76% were integrated in commercial activity and 24% in central support services. The efficiency gains at central services translated themselves into a decrease of 235 Employees (-14%), whilst in the commercial areas efforts were directed at boosting capacity.

Banco BPI staff complement in 2004
Distribution by functional areas

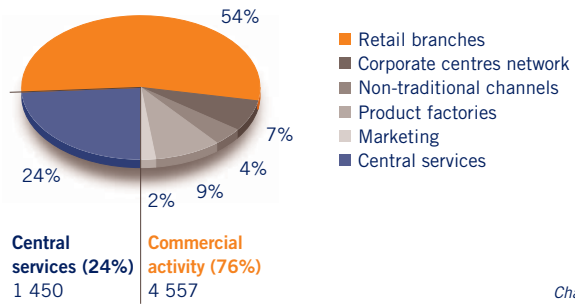


Chart 13

In 2004, 428 persons left the payroll due to early retirement, pre-retirement or mutual-accord work rescissions. These Employees had an average age of 56, an average 33 years of service in banking and an academic background which, in the majority cases, did not go beyond basic or secondary schooling.

At the same time, 253 new Employees were contracted by way of rigorous selection processes in which special attention was paid to the behavioural and technical profile of candidates, who in the majority of cases possess tertiary academic qualifications.

The results of this policy made it possible to raise the percentage of Employees with university education to 40%, while at the same time reducing the average age to 39.9 years.

Fruit of this drive, it was possible to attain in the universe of Employees attached to the Individuals network, a share of 31% of Employees with university education, when in beginning of the triennial 2002-2004 this indicator was situated at 21.6%.

Banco BPI staff complement
University degree

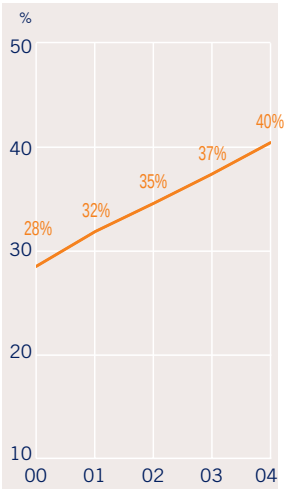


Chart 14

Banco BPI staff complement
Average age

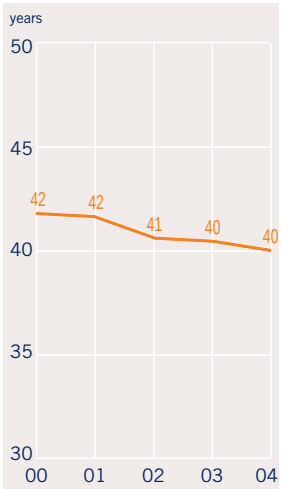


Chart 15

Training

BPI's training policy has been permanently based on enhancing efficiency and the quality of service, not only through the professional training offered, but also via the Bank's support for the personal advancement of Employees (degrees and post-graduate courses).

During 2004 around 49% of Employees deployed in domestic activity (3 189 persons) participated in in-house and external training courses, occupying 77 287 training hours. The training rate rose significantly when compared to the preceding year, as did the training investment per participant.

Training activity undertaken during 2004 revolved around three fundamental areas:

Realisation of ongoing training initiatives

Examples of this are behavioural training for the Individuals and Small Businesses Network, training on resource products, economic and financial analysis, home loan processes and the various welcoming programmes directed at the different functions of branch Employees. Training in the form of practical experience periods continued with the Local Loan Commissions.

Realisation of new projects designed for network and central services Employees

The main highlights were the preparation of Bursary-holders for the functions of branch accounts supervisors, the extended training in personal computing directed at the Investment Centres, and behavioural training for the real estate financing and personal loans divisions, as well as sessions devoted to the new International Accounting Standards (IAS / IFRS).

Adoption of a new training model: e-learning

In 2004 the e-learning[G] training model was adopted for the first time for an important group of training actions:

- resolution of overdrawn accounts for the branches and investment centres;
- overdrafts and defaults for corporate banking;
- persons and accounts, embracing a vast universe of Employees;
- STAR.Net, the new branch platform, for all users of the Commercial Networks.

It was thus possible to train a high number of Employees in a short period of time without them having to leave their work posts.

	2001	2002	2003	2004
Classroom training				
Percentage of Employees with training	61%	60%	39%	49%
Employees attending in-house courses (%)	57%	57%	37%	47%
Employees attending external courses (%)	5%	3%	2%	2%
Average no. of training hours per Employee	20	27	24	24
Average duration of training (hours)	8	15	6	8
Average sessions per Employee	4.3	6.3	3.1	3.8
Percentage of personnel allocated to training (%)	0.28%	0.20%	0.17%	0.12%
Investment in training as percentage of payroll (%) (training rate)	1.1%	1.2%	0.7%	1.1%
Investment in training per participant (€)	454	538	498	692
Support for personal advancement				
Graduates	150	140	117	184
Post-graduates	34	40	27	56
E-learning training				
No. of Employees	–	–	–	229
Average duration of training per Employee (hours)	–	–	–	1.5

Table 6

BANCO DE FOMENTO ANGOLA

In 2004 Banco de Fomento Angola continued to reinforce its workforce in order to respond to the strong growth in activity and to prepare the bank for future expansion.

Banco de Fomento Angola Employees
Selected indicators

	2002	2003	2004
Employees	286	441	590
Employees as % of the Group total staff	3.9%	6.3%	8.3%
Employees with higher education	35.2%	32.4%	45%
Average age	31.2	30.6	29.1
Men	49.3%	45.9%	47.4%
Women	50.7%	54.1%	52.6%

Table 7

At the end of 2004, BFA had a workforce of 590 Employees, 65% of whom were deployed in the commercial network (an average of 12 Employees per branch) and 35% placed at the Bank's central services.

This staff complement is characterised by its youth – 90% of those on the payroll are less than 35 years of age; by their significant professional experience – as evidenced by an average length of service at the Bank of 3.3 years; by a balanced distribution between the sexes (47% are male and 53% female), and by an appreciable qualification level – 45% of staff are graduates or attend university. It is worth underling that as a result of the adopted policy aimed at the advancement of Angolan human resources, of BFA's 590 Employees, only 7 are from BPI's workforce in Portugal.

With the object of enhancing the professional competence of Employees, importance continued to be attributed to in-house and external training through the realisation of 530 training initiatives.

BANCO PORTUGUÊS DE INVESTIMENTO

Banco Português de Investimento's activity is centred on the equities, corporate finance and private banking businesses, the backbone of which is a youthful, experienced and highly-qualified workforce with superior technical skills (78% have a university education).

Banco Português de Investimento Employees
Selected indicators

	2002	2003	2004
Employees[1]	200	139	135
Employees with higher education	78.5%	76.7%	77.8%
Average age	36.0	37.2	37.7
Average period of service	9.5	10.8	8.7
Men	59.0%	56.2%	57.8%
Women	41.0%	43.8%	42.2%

1) One of the consequences of the demerger-merger process of a part of the activity of Banco Português de Investimento into Banco BPI, which took place at the end of 2002, was the transfer of a group of 54 Employees to Banco BPI in 2003, in addition to the passage of 250 persons (already transferred during 2002).

Table 8

Technology

INFORMATION SYSTEMS IN PORTUGAL

BPI's information systems are supported on technological platforms which are integrated in an effective manner, ranging from the operating applications to distribution ▷ middleware, from the presentation layers to the decision-support systems, the functioning of which results in significant availability and performance indices.

Efficiency, availability and performance in Portugal
Principal indicators

	2002	2003	2004
Central systems processing capacity (in millions of instructions per second – MIPS)	610	610	1 094
Central and middle-range systems storage capacity (in terabytes)	15.4	15.9	17.1
PC's per Employee[1]	1.2	1.3	1.3
Employees with access to the intranet and e-mail	100%	100%	100%
Number of processes available through the intranet	62%	68%	70%
Page views on the intranet, per day	330 000	510 000	550 000
Employees with access to the Internet[2]	20%	33%	23%
Availability of transaction sites	99.8%	99.75%	99.75%
Page views on the Internet per day (all the BPI sites)	310 000	567 000	978 000
Branches: opening before 8:30 a.m.[3]	99.2%	99.2%	99.6%
Real time in cards: from 7 a.m. till 4 p.m.	100%	100%	100%
Response time to transactions at the branches (less than three seconds)	99.9%	99.7%	99.8%
Transactions on the multi-channel platform per day	200 000	250 000	400 000
Technological Help desk: resolution of problems in less than two hours[4]	98%	76%	86%

1) Including PC's without specific user and PC's dedicated to management, monitoring and testing tasks.
2) In 2004, the need for each Employee to have access to the Internet was re-assessed as part of the rationalisation of the technical-access infrastructure and the network's overall security management.
3) In weekdays.
4) The scope of questions broached widened, including issues which surpass the resolution of problems.

Table 9

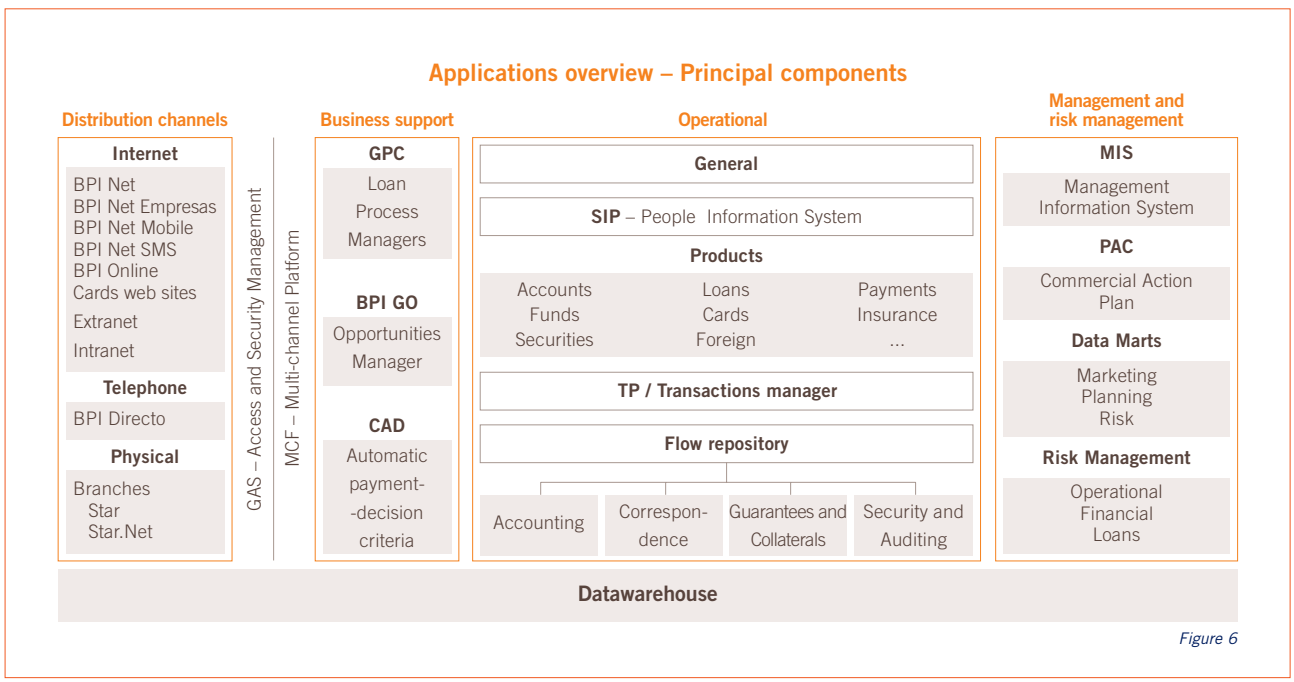


Figure 6

ACTIVITY IN 2004

Technological renovation

The development of multiple projects which involved the central services and distributed systems with the objective of enhancing performance, reliability and operations available, resulted in a high index of technical renovation of the Bank's IT platforms in 2004.

Renovation and augmenting the capacity of the central systems

This project, the implementation of which took place in January and February, had as its goal endowing the IBM central system with the processing capacity required to deal with the Bank's challenges. Capacity was raised by roughly 75% embracing the development, quality and production environments.

With the same objective, the systems formerly housed at other Group buildings were concentrated at the Lisbon data-processing centre. In parallel, equipment was replaced by new units boasting better performance and increased growth capacity.

Updating the operating system at the distributed platforms of the central buildings

Work in this domain entailed the migration to all servers and work stations at the central buildings of the most recent versions of the Microsoft software associated to the Bank's distributed platforms.

Within the scope of this migration, of special note were the updates to the operating system, which entailed upgrading from the Windows NT and Windows 2000 versions to Windows 2003 (in the case of servers) and to Windows XP (in the case of work stations). At the same time and as regards personal productivity tools, the year also saw the migration to Office 2003.

Restructuring the telecommunications network

A far-reaching restructuring of the Group's telecommunications network was carried out in 2004, entailing the reformulation of the respective topology, architecture and base communication technology with a view to improving its performance, capacity and flexibility.

The project involved the Group's entire commercial network, central buildings and the interconnection of the Lisbon and Oporto data-processing centres, and entailed the generalised increasing of the band width. This was achieved with the introduction of mechanisms capable of giving priority to traffic linked to the performance of the Bank's most critical applications. The increase in the band width was also due to the technological renovation of the greater part of telecommunications equipment.

Evolution of application and decision-support solutions

Projects of paramount importance for supporting the Group's activity was completed in 2004, thereby giving expression to the strategy targeted at modernising and rationalising the applications.

- STAR.NET is a new application for supporting transactional activity at the commercial branches. It is characterised by the underlying technological renovation, whose functionality and security and whose control of processes and authorisations have been considerably refined.

- The SIP – Sistema de Informação de Pessoas (People Information System) –, the primary function of which is the centralisation of information about Customers and the respective relationship and participation in BPI contracts and internal processes.

Star.Net – Banco BPI's new branch platform

STAR.NET is a new application for providing operational back-up to the network's commercial activity. It manages financially-related operations involving the various products, services and payment means made available by Banco BPI to its Customers. This application is responsible for the improvement in functionalities, offering greater control over operating risk.

It is important to highlight the fact that the project – New Branch Platform – entailed the migration to Windows 2003 / XP, the restructuring of the Bank's telecommunications network, the evolution of the multi-channel platform, the adoption of the Access Management System (Sistema de Gestão de Acessos – GAS) and the grassroots development of a new application – the Star.net. The Bank resorted to the assistance of Microsoft Consulting Services for evaluating the impact of the solution on telecommunications and performance.

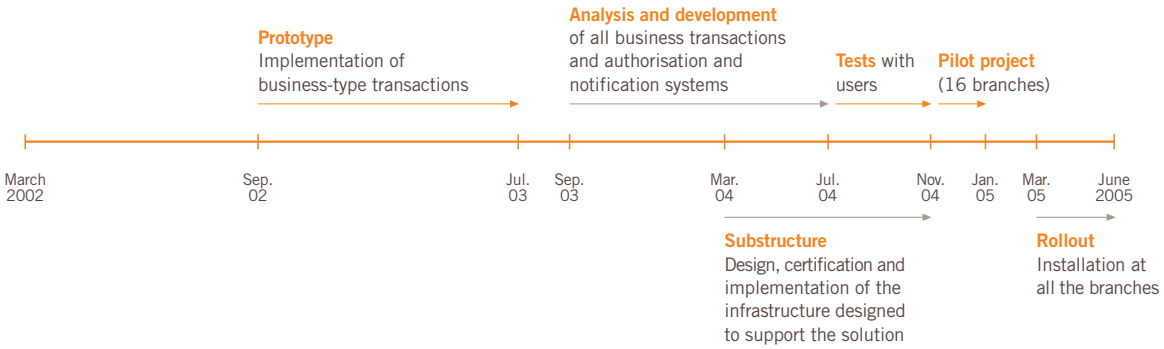


Figure 7

The implementation of tools which automate processes has been a BPI priority for some considerable time. Some of the most salient launches in 2004 were:

- GPC Automóvel is a tool conceived for managing all aspects of motor car finance, from simulation right through to final contracting. It permits greater decision and control speed and consequently improved service to the Customer, coupled with a significant reduction in the associated processing costs;

- GIAF is a fixed-asset and procurement management tool, from the requisition through to reception and payment. It is a decentralised tool, with front-end on Banco BPI's intranet, thereby permitting a meaningful reduction in associated administrative costs, greater control over processes and improved management of information.

Security

The availability of the Access Management System (GAS) made it possible to consolidate and homogenise the administration of information systems usage. A key feature is the incorporation of the requirements of the commercial, audit and control networks.

Turning to solutions geared to ensuring business continuity by reducing the risk of disruption to processes based on the information systems, reference is made to the successful realisation of the central system's scheduled disaster-recovery exercises, the installation of the multi-channel platform (redundant and geographically independent), as well as the ongoing work aimed at upgrading solutions and rendering them more robust in order to safeguard the internal network's security perimeter.

Response to regulatory requirements and risk

The adoption of the new accounting standards – IAS – brings in its wake a vast number of implications for the Group's various computer applications. Since it is a regulatory imposition and, therefore, one that necessitates the preparation and adaptation of applications capable of guaranteeing the timely compliance with legal provisions, this important project also constituted an opportunity to improve certain applications and processes. Indeed, this project was put into practice by insisting upon greater rigour relating to the quality of data, enriching the information made available, as well as enhancing the control and automation of procedures. As a consequence, certain administrative control processes were replaced.

In parallel, many of these adaptations constitute an important contribution to the reporting and risk-control requirements under the Basle II accord. In this regard, two important developments dealing with risk management merit special mention:

- the development of a module for calculating general credit risks, as well as for certain alert mechanisms pertaining to possible problems in data quality, thereby making the provision-calculation process more robust and consistent;

- the development of an application for operating-risk management – GRO – which permits in a first phase the recording of and alterations to activity, tasks and associated risks. in subsequent phases, it will allow the recording of occurrences, as well as the establishment of control and alert mechanisms.

Outsourcing of central systems

Following a period of analysis and negotiation which lasted for approximately two years, Banco BPI signed in November 2004, an outsourcing contract with IBM contemplating the management, evolution and recovery (in the event of a disaster) of BPI's central platforms, namely the Mainframe, i-Series, and Unix.

The agreement has a duration of ten years and the following main characteristics:

- technological renovation (hardware and software) over the term of the contract;

- annual costs indexed to the consumption of resources previously decided upon by BPI;

- stringent definition of service levels, without overlooking the availability, performance and process execution aspects;

- benchmarking[G] (as from the 24th month) of the unit prices envisaged in the contract;

- inclusion of rescission and assistance clauses in case the contract is cancelled, safeguarding the Bank's interests;

- creation of a complementary company grouping called TechSource, whose mission is the provision of the services under the agreement. Employees will be seconded to this complementary company grouping who at the Bank perform the functions which are the object of the outsourcing contract.

BPI and IBM agreed to a joint management and monitoring model for the contract, which is structured at different levels ranging from operational to strategic aspects.

INFORMATION SYSTEMS AT BANCO DE FOMENTO ANGOLA

Evolution of the information systems

The steep growth in Banco de Fomento Angola's business has been accompanied by the development and streamlining of the information systems' support infrastructures, with the concomitant increase in information processing and storage capacity covering the production and back-up systems. Considering these systems' crucial importance, a start was made in 2004 to the project relating to the revision of the high-availability and disaster recovery solution. This project is scheduled to be completed in the first half of 2005.

Efficiency, availability and performance of BFA information systems
Principal indicators

	2004
Central systems processing capacity (CPW[1])	1 620
Central and middle-range systems storage capacity (in terabytes)	1.9
PC's per Employee	0.9
Employees with access to the e-mail	70%
Employees with access to the intranet	90%
Number of processes available through the intranet	5%
Employees with access to the Internet	2%
Page views on the Internet, per day	3 800
Availability of transaction sites	99.8%
Transactions on the multi-channel platform per day	3 500
Active debit cards	30 000
Real time cards: 24h	100%
Branches: opening before 8 a.m.	99%
Response time to transactions at the branches – Luanda (less than two seconds)	98%
Response time to transactions at the branches – province (less than eight seconds)	98%
Technological help desk: resolution of problems (less than two hours)	90%

1) Commercial Processing Workload (capacity of processing commercial transactions); benchmark IBM for IBM AS/400 systems.

Table 10

Communication

A new telecommunications solution between BFA and BPI was implemented in 2004 and which permitted the installation of a video-conferencing system between the two banks. The next step forward in this arena is the interconnection of the respective telephone switchboards and data networks, scheduled to take place in 2005.

Applications and product-support solutions

2004 also saw the start being made to the implementation of a solution for VISA credit cards, the processing of which is undertaken by the SIBS (in Portugal) and whose sponsor is BPI. The technical and information systems support will be shared by the teams responsible for BFA's and BPI's IT infrastructures.

Internet solutions

During 2004 BFA consolidated its leading position in the availability of Internet-based solutions.

- In August, the new homebanking service for companies was launched (BFA Net Empresas). Besides allowing consultation of accounts and operations, customers can now effect ad hoc transfers and process payment and collection files (internal and interbank) by means of a three-tier authorisation system.

- The homebanking solution for individuals (BFA Net), which was unveiled in 2003 to permit consultations, was upgraded in April and now allows customers to conduct account operations, as well as to request cheques and cards.

Operations

Concerns about costs and quality management, as well as with the efficiency of the services offered to external and internal Customers, have been an ever-increasing priority over the last three years. This situation has motivated coordinated action on three fronts:

- analysis of resources and processes and their consequent rationalisation, that led to a significant decrease in operating costs;

- recourse to external means for the undertaking of activities (outsourcing) – programme initiated in 2000 that has resulted in a progressive reduction in costs, an improvement in service quality and the concentration of resources on the essential activities of banking business;

- organic and geographical centralisation of purchases, resulting in greater efficiency in the negotiation of prices and conditions with the principal strategic partners and suppliers.

Integrated procurement solution

The BPI Group's procurement system began to be supported on an integrated computerised solution (Enterprise Resource Planning) in 2004, which offers the integrated execution of requisitioning, ordering, accounting and payment. This is possible because it communicates with other internal and third-party applications. This solution requires minimal human involvement in the introduction and validation of the various requisites throughout the entire process. It also provides management information essential for procurement planning, for rigorous budgetary control, for the assessment of suppliers' and product positioning, and for negotiation.

Outsourcing

IBM – In the last quarter of 2004, the BPI Group and IBM entered into a service agreement based on the outsourcing regime and covering the information systems' infrastructures. This agreement encompasses the management and operation of the systems (hardware and software), managing the evolution and optimisation of the platforms and back-up services, and disaster recovery. This agreement permits utilisation of the necessary resources based on a "on demand" perspective, that is, actual usage according to programmed needs. It will contribute globally to making the costs associated with the information systems' area more flexible and rational.

Portugal Telecom – In the second half of 2004, the commercial bank – Banco BPI – and the investment bank – Banco Português de Investimento – started to use a Portugal Telecom telecommunications service founded on a single and integrated solution with controlled costs. This includes integrated voice and data communications and entailed the upgrading of networks and equipments.

Leasing – The recourse to external services to undertake the recovery of goods which are the object of leasing operations was done in an integrated fashion, and included the phases of storage, monitoring of legal procedures, collection and recovery of goods, advertising and sale of the goods. This process permits the rationalisation of storage spaces, as well as human and logistical resources.

Fleet management – Since 2002, the BPI Group has been implementing in a phased manner the substitution of operating rentals for the direct acquisition model. This option, besides generating significant annual savings, avoids the investment in non-productive and progressively depreciating assets, as well as allowing for a more rigorous control over the associated costs.

Commercial Banking

INDIVIDUALS AND SMALL BUSINESSES BANKING

OVERVIEW

Individuals and Small Businesses Banking was responsible for a loan portfolio of 15 610 M.€ and resources of 11 221.9 M.€ at the end of 2004. The annual growth rate in 2004 was 7.4% for resources and 9.7% for loans.

Principal business indicators Amounts in M.€

	2003	2004	Δ%
Total Customer resources[1]	14 538.0	15 610.0	7.4%
Balance sheet resources	9 738.1	9 906.6	1.7%
Off-balance sheet resources	4 799.9	5 703.4	18.8%
Loan portfolio	10 232.1	11 221.9	9.7%
Ratio of loans in arrears	1.3%	1.3%	-
Accounts opened (in thousands)	123.5	125.8	1.9%

1) Securities not included. *Table 11*

Turning to the evolution of two priority segments of Individuals and Small Businesses Banking, the main aspects were:

- the high segment – Customers with vast wealth or potential to accumulate financial assets – which recorded a business turnover growth rate of 8 p.p. above the overall growth rate and 3.4 p.p. more its growth rate in 2003;
- the small-sized companies and unincorporated businesses segment, which presented a growth rate of 2.9 p.p. above the overall rate and 1.8 p.p. higher than its own growth rate in 2003.

In 2004 more than 150 commercial initiatives with almost 3.5 million contacts were realised involving some 850 thousand Customers. Of the total contacts made, 44% were undertaken by the branches and the remainder by telemarketing, via mailing or e-mail.

Individuals and Small Businesses Banking serves some 1.3 million Customers and registered at the end of 2004 the opening of almost 126 thousand new accounts.

BPI continued to pay special attention to the account-opening process – a crucial moment in the Customer's relationship with the Bank – which encompassed the following:

- the introduction of a Satisfaction Survey at the moment of opening of an account, carried out with some 14 thousand Customers (approximately 11% of Customers who opened accounts), which will permit measuring the quality of the process and identifying factors that could be improved;
- the reinforcement of incentives for the placing of basic products (salary account, payment orders, debit and credit cards, access to remote channels) amongst new Customers;
- the launching of the New Customers' Monitoring Plan, comprising a series of commercial initiatives directed at placing products and services during the first 6 months of relationship with the Customer, with the object of ensuring high levels of bonding with the Bank.

Loans and guarantees to individuals and small businesses
Domestic activity

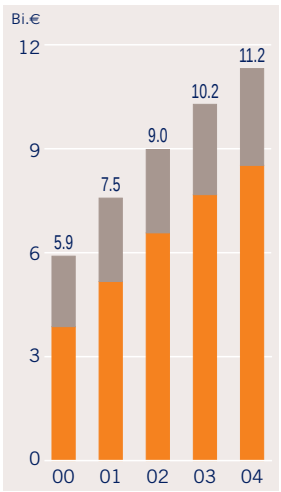


Chart 16

Customer resources from individuals and small businesses
Domestic activity

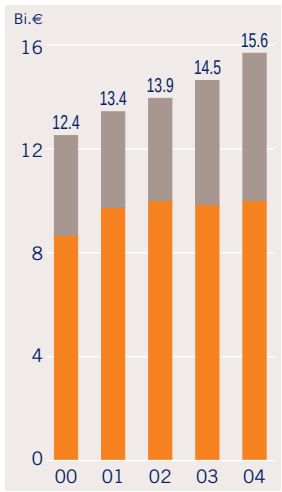


Chart 17

At the end of the end year, each Customer[1] of Individuals and Small Businesses Banking possessed on average of 2.9 products or services, compared with an indicator of 2.8 at the end of 2003. The products which registered the biggest increases in their respective penetration rates during 2004 were debit cards, +5.2 p.p. to 67.8% and BPI Directo / Net, +2.7 p.p. to 49.4%.

MANAGEMENT TOOLS IN INDIVIDUALS BANKING

In recent years, Banco BPI has invested heavily in the development of a number of new management tools which contributed decisively to modernising management of the commercial network: Incentive and Motivation System (SIM), Comparative Sales Indicators (ICV), Service Quality Index (IQS) and Internal Growth Potential (PIC). These tools, which are interlinked and complement each other, lent support to the transition from a activity focused essentially on the product to a commercial activity centred on the Customer and on his / her satisfaction with the service provided by the bank, maintaining at the same time a constant surveillance over and dynamic approach to the priority business areas.

PIC	ICV
Represents the growth potential from branch cross-selling	Compares the branch's commercial activity with the best internal practices
SIM	**IQS**
Measures the performance relative to the predefined business objectives	Measures Customer satisfaction with the service received

Figure 8

Incentive and Motivation System (SIM)

The Incentive and Motivation System (SIM) is the oldest tool designed to boost commercial activity. It is based on a "championships" structure, whereby branches with similar characteristics compete amongst each other. This system measures the performance of each branch vis-à-vis the business growth objectives which were previously defined for each one based on their internal and external potential. Every quarter, those branches which distinguished themselves by meeting their goals are rewarded; there is also an annual prize (normally, a trip) which is shared by those in charge of the branches with the best results.

Service Quality Index (IQS)

Banco BPI has been systematically using the Service Quality Index (IQS) since 2000 to monitor Customer perception of the quality of the Bank's service. To date, some 200 thousand Customers have been interviewed.

Nowadays the IQS is an important instrument for monitoring the commercial network and the contact channels with the Customer, supplying important pointers for the ongoing improvement to organisational and attendance processes.

The IQS is made up of three components:

- **IQS Competition** – Biennial survey of roughly 2 000 bank Customers aimed at assessing the Bank's positioning vis-à-vis the competition.
- **IQS Bank** – Annual survey of 5 000 Banco BPI Customers with a view to evaluating the Bank's service from the standpoint of an organisation.
- **IQS Branch** – Quarterly survey of 15 000 Banco BPI Customers with the object of evaluating the quality level of the service provided by each branch. The results are determined and published quarterly.

Overall conclusions of the IQS Bank

The results of the 2004 IQS Banco point to a sustained increase in the quality of the service provided by Banco BPI. The global IQS Bank rises from 789 points (recorded in 2002) to 808 points, with gains in virtually all the 15 service quality factors.

1) Individual Clients residents in Portugal with more than 15 years and active.

Overall conclusions of IQS-Branch for the 4th quarter of 2004

The satisfaction level of BPI Customers who have contact with the branches rose again in 2004, in the 4th quarter achieving growth of 3.4% relative to its initial position (4th quarter of 2002). The improvement in the level of Customer satisfaction is fundamentally linked to the factors "Employees competence and efficacy" and "waiting time". The service quality factor in respect of which BPI continues to present the highest satisfaction is "personal attendance", even managing to surpass the global satisfaction level – IQS.

Service quality at the branches

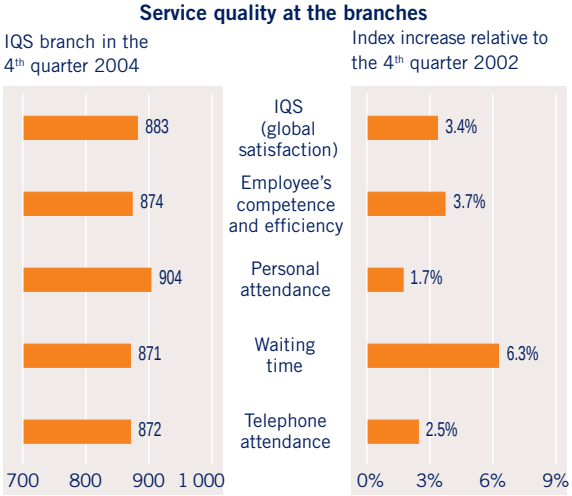


Chart 18

Internal Growth Potential (PIC)

Since 2003 Banco BPI has had at its disposal an important tool for ascertaining and exploring the growth potential of each one of its Customers. The Internal Growth Potential (PIC) measures the potential for cross-selling, using the information resulting from the statistical models developed internally and benchmarks[G] based on systematic market studies.

During 2004 some 4 million commercial opportunities were made available to the commercial network for presentation to 1 million Customers promoting 17 products from Banco BPI's range. These opportunities are made available to the branch teams together with information about marketing campaigns and other commercial alerts, so acting as an important and structured launch pad for commercial activity.

This instrument's quality as a support for commercial activity is reflected in the excellent results reported by the commercial network. During 2004, roughly 11% of the total opportunities were used, with a success rate of about 66%.

Comparative Sales Indicators (ICV)

The Comparative Sales Indicators (ICV) are performance yardsticks for commercial activity presented from a comparative perspective. They permit the setting of standards in accordance with the "best internal practices" and to sort the branches on a hierarchical basis. The "Best Internal Practices" concept results from the performance of the top 25% best branches in each group of similar branches.

The ICV translates in a quantitative manner the responses to the following questions:

- How is each branch's Customer attraction progressing in quantitative and qualitative terms?
- How are branch Customers being accompanied and how did his / her relationship with the Bank evolve (in particular, Customers with a one-year relationship)?
- How is the net taking of resources, loan contracting and the net placement of services per Employee?
- How is each Employee contributing to cross-selling?
- How does each branch, in each of these question categories, compare with the best branches?

CUSTOMER RESOURCES

The good performance noted in Customer resources collected by the Individuals and small businesses banking in 2004 was positively influenced by the trend in off-balance sheet resources, which registered annual growth of 18.8%. ▷

On-balance sheet resources grew by 1.7%, with a highlight being the placement of some 400 M.€ in bonds and structured products with Clients, via 91 issues, thus raising the outstanding balance of such resources by 12%.

Individuals and Small Businesses Banking – Customer resources[1]

Amounts in M.€

	2000	2001	2002	2003	2004	Δ% 03 / 04
Balance sheet						
Sight deposits	2 297.1	2 605.3	2 589.4	2 683.3	2 779.7	3.6%
Time deposits	5 055.2	5 696.3	5 901.3	5 754.4	5 670.5	(1.5%)
Bonds and structured products[2] placed with Customers	1 270.4	1 344.3	1 381.0	1 300.4	1 456.4	12.0%
Subtotal	**8 622.6**	**9 645.9**	**9 871.7**	**9 738.1**	**9 906.6**	**1.7%**
Off-balance sheet						
Unit trust funds (excluding PPR and PPA)	1 925.9	1 981.3	1 982.2	2 423.7	2 680.2	10.6%
PPR and PPA[3]	1 060.4	1 045.1	1 095.9	1 202.7	1 360.0	13.1%
Capitalisation insurance	795.3	749.1	909.7	1 173.6	1 663.2	41.7%
Subtotal	**3 781.6**	**3 775.5**	**3 987.8**	**4 799.9**	**5 703.4**	**18.8%**
Total Customer resources	**12 404.2**	**13 421.4**	**13 859.5**	**14 538.0**	**15 610.0**	**7.4%**

1) Does not include securities portfolio.
2) Guaranteed-capital and limited-risk bonds indexed to the stock markets.
3) Retirement Savings Plans and Equity Savings Plans in the form of unit trust funds.

Table 12

Unit trust funds

The unit trust (mutual) funds portfolio – in its components bonds, money market, equities and diversification (i.e. excluding PPR and PPA) – relating to Individuals and Small Businesses Banking Customers registered a net inflow of funds totalling 257 M.€, corresponding to growth of 10.6%. At 31 December 2004, the portfolio stood at 2 680.2 M.€, while the number of Customers holding this type of investment fund was close to 168 thousand (13.5 thousand more than in 2003).

The overall portfolio of unit trust (mutual) funds – including PPR and PPA – grew by 9.1%.

Retirement savings plans

Banco BPI has been asserting itself as a key bank in the area of retirement planning. During 2004, several commercial campaigns were realised for these products, involving around 230 thousand Customers with the following objectives:

- increasing the number of Customers with PPR;
- placing periodic subscription plans with the holders of these products;
- rejuvenating the Customer base holding this product;
- boosting the volume of the subscriptions.

The portfolio of retirement-savings plans of Individuals and Small Businesses Banking Customers grew by 14.2%. This performance benefited from the 44% increase in the volume of subscriptions and the 15% decrease in the amount of redemptions[1]. The BPI Group's market share in terms of subscriptions rose by 1.6 p.p., retaining its 4th place in the ranking.

At the end of 2004, close to 138 thousand Customers were holders of PPR/E (28 thousand new Customers in 2004); the commercial drive directed at the placing of periodic subscription plans meant that about 26% of Customers with a PPR had, at the end of 2004, a periodic subscription plan associated to this product, which compares with 17% in December 2003. As a result of the drive to rejuvenate the Customer base subscribing to this product, roughly 38% of the Customers were aged less than 50 years, which compares with 32% at the end of 2003.

Capitalisation (unit linked) insurance

The capitalisation (unit linked) insurance portfolio registered growth of 41.7% in 2004. Contributing to this growth was the 51.6% increase in the volume of Banco BPI Customers' subscriptions, which enabled the BPI Group to achieve the biggest increase in market share in 2004, in terms of subscriptions, with a rise of 5.2 p.p. to 23.4%, thus retaining the second largest share and narrowing the gap with the leader to 1.5 p.p.

PPR/E
Customers' distribution by age

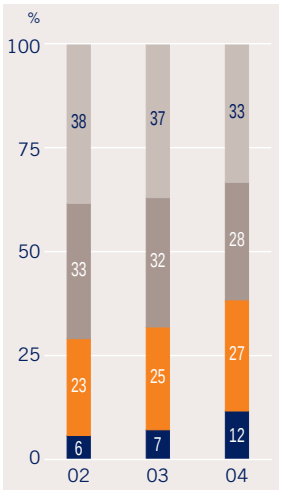


Chart 19

PPR/E
Customers with periodic subscription plans

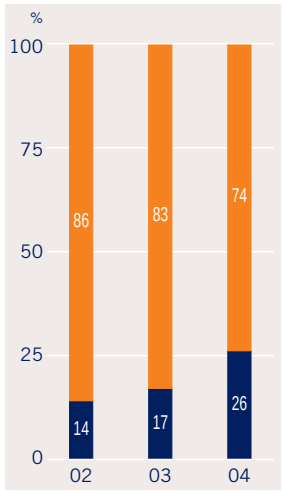


Chart 20

1) Internal and inter-product transfers were excluded in both subscriptions and redemptions.

CUSTOMER LOANS

The portfolio of loans to individuals and small businesses expanded by 9.7% in 2004 to 11 221.9 M.€. The portfolio's overall growth of some 1 000 M.€ is explained in large measure by the increases of 800 M.€ in the mortgage-loan portfolio, 100 M.€ in commercial loans and close to 35 M.€ in leasing.

Individuals and Small Businesses Banking – Customer loans

Amounts in M.€

	2000	2001	2002	2003	2004	Δ% 03 / 04
Mortgage loans[1]	3 806.6	5 144.5	6 512.5	7 648.8	8 457.5	10.6%
Personal loans	487.9	491.2	449.7	447.9	463.9	3.6%
Credit cards[2]	123.8	134.8	140.0	153.6	165.9	8.0%
Car finance[3]	169.6	151.0	216.0	262.0	266.1	1.6%
Commercial loans[4]	958.0	1 154.9	1 175.1	1 228.0	1 333.2	8.6%
Bank guarantees	105.2	127.1	134.5	142.0	149.8	5.4%
Equipment and property leasing[3]	241.8	306.9	331.7	349.8	385.4	10.2%
Total	**5 892.9**	**7 510.4**	**8 959.5**	**10 232.1**	**11 221.9**	**9.7%**

1) Loans secured by fixed property. Corresponds primarily to home loans and loans for home alterations.

Table 13

2) Includes outstanding credit of non-Bank Customers.
3) Includes motor car financing and leasing originated by Individuals and Small Businesses Banking.
4) Includes overdrafts, current accounts loans, discounted bills receivable and other loans which form part of the loans products tailored mainly for sole traders and small businesses.

Home mortgage loans

The home mortgage loans portfolio grew 10.6% to 8 457.5 M.€, a figure that at 31 December 2004 represented 45% of the BPI Group's consolidated loan portfolio.

At the end of 2004, BPI held a 10% market share as regards the portfolio of mortgages, thus posting a great jump over its 6.1% share in 1999.

The implementation at the end of 2003 of more stringent credit-approval criteria applied to applicants' incomes and expenses was reflected in the quantity and quality of the contracts entered into in 2004: BPI contracted 1 469.7 M.€, 14.4% less than in 2003 but with better risk indicators, that is, with an average relationship between financing and associated security of 57%, against 59% in the preceding year. As concerns the portfolio, this relationship fell from 64% to 62.4%.

The average term of new loans and the average amount contracted per Customer in 2004 emulated the growth trend observed in previous years – 30 years and 68 thousand euro, respectively.

Home mortgage loans
Principal indicators

	2003	2004	Δ%
Loan portfolio			
Balance on loan portfolio (M.€)	7 648.8	8 457.5	10.6%
Market share – portfolio balance[1]	10%	10%	-
Loan-to-value ratio	64.0%	62.4%	-1.6 p.p.
Average amount per contract (th.€)	46.7	47.8	2.4%
Ratio of loans in arrears for more than 30 days	0.9%	1.0%	+0.07 p.p.
Loan contracting			
Loans contracted in the year (M.€)	1 717.0	1 469.7	(14.4%)
Market share – contracting	12.8%	10.2%	-2.6 p.p.
Loan-to-value ratio	59%	57%	-2 p.p.
Average amount per contract (th.€)	61.3	68.3	11.4%
Average period of loan (in years)	28	30	7%

1) Market value includes securitised loans.

Table 14

The development, over the last few years, of a network of specialised sales channels – housing shops, branches with home-loan "areas" and real-estate brokers – was decisive for the affirmation of BPI's image as a mortgage specialist.

In 2004, these channels concluded roughly 44% of the total mortgage loans contracted. The amount contracted per housing shop and per branch with a home-loan counter is more than triple and double, respectively, that contracted per branch without a home-loan section, thereby underlining the importance of these units.

At the end of 2004, there were 550 real-estate agents with access to the BPI Habitação application in an Extranet environment which generates an immediate and in loco preliminary decision regarding the loan application. This number represents double that noted in 2003 and roughly 37% of the total active partnerships.

Home mortgage loans
New loans contracted by specialised channels in 2004

		Contracting (M.€)		
	#	Per unit	Total	%
Housing shops	18	6.6	118.8	8%
Branches:				
With home-loan areas	64	4.4	281.2	19%
Without home-loan areas	444	1.9	826.4	56%
Real-estate agents	-	-	243.3	17%
Total	**-**	**-**	**1 469.7**	**100%**

Table 15

Turning to the theme of housing on the Internet, it is also worth referring to the fact that the BPI Imobiliário site has the largest online database of properties and real-estate projects for sale in Portugal, with some 350 thousand advertisements stemming from 1 770 partnerships, that is, 25% and 18% more respectively than in 2003. In 2004, 15 thousand subscriptions to this site's alert service were recorded, 11% more than in 2003, having originated 453 thousand reply e-mails. The number of requests to visit properties effected via the site was 25 thousand, versus 17 thousand the preceding year.

BPI Imobiliário web site
Principal indicators

Amounts in thousands

	2003	2004	Δ%
No. of active partners	1.5	1.8	18%
No. of property announcements	281	351	25%
No. of e-mail messages sent to subscribers to the alert service	13.7	15.2	11%
No. of reply e-mails sent to subscribers to the alert service	528	453	(14%)
No. of requests for visits made via the site	17	25	47%

Table 16

Personal loans

The personal loans portfolio grew by 3.6% in 2004 to 463.9 M.€.

The results of the two campaigns launched in 2004 promoting personal loans permitted partially counteracting the negative effect of the economic climate and the heavy weight that normal repayments exert on a portfolio having a short maturity profile.

Personal loans
Principal indicators

Amounts in M.€

	2003	2004	Δ%
Loan portfolio			
Consumer credit	441.3	456.1	3.3%
Loans for acquisition of securities	6.6	7.8	18.9%
Total loan portfolio	**447.9**	**463.9**	**3.6%**
Ratio of loans in arrears for more than 30 days	2.8%	2.7%	-0.1 p.p.
Loan contracting			
Consumer credit	214.7	207.8	(3.2%)
Loans for acquisition of securities	0.0	5.5	-
Total loans contracted	**214.7**	**213.3**	**(0.7%)**
Average period of loan (in years)[1]	5.3	5.2	

1) Loans for securities purchase not included. *Table 17*

Contracting totalled 213.3 M.€ in 2004 (214.7 M.€ in 2003). Loans in arrears overdue 30 days or more, represented 2.7% of the portfolio at the end of 2004, a slightly better indicator than the 2.8% observed at the end of 2003.

Credit cards

The number of credit cards placed with Banco BPI Customers rose by 15.1% to more than 483 thousand at the end of 2004. Market share was situated at 12.0% (data refers to September 2004).

Accumulated billing in 2004 was 802.6 M.€, corresponding to growth of 9.8%.

Credit cards
Principal indicators

	2003	2004	Δ%
No. of cards at the end of the year (thousand)	419.9	483.1	15.1%
Market share[1]	11.7%	12.0%	-
Billing (M.€)	731.3	802.6	9.8%
Credit (M.€)[2]	153.6	165.9	8.0%
Ratio of loans in arrears for more than 30 days	4.8%	5.2%	+0.4 p.p.

1) Market value includes the cards Visa, American Express and Mastercard.
2) Outstanding credit. *Table 18*

A highlight of the year was the BPI Euro 2004 card issued by the Mastercard network and which offered cardholders the opportunity to attend the Euro 2004 soccer matches. More than 10% of these cards were placed with new Customers.

Debit cards

The number of debit cards placed climbed by 7.9% during 2004 to reach 835 thousand cards at the end of the year. This performance enabled the Bank to improve its market share which, in September (latest data available for the market) was 8.1%. Debit card billings totalled 3 044 M.€, which corresponded to an increase of 18.4%.

Debit cards
Principal indicators

	2003	2004	Δ%
No. of cards at the end of the year (thousand)	773.7	834.7	7.9%
Market share[1]	7.6%	8.1%	0.5 p.p.
Billing (M.€)	2 571.1	3 044.1	18.4%

1) Market value includes the Visa, Maestro and Multibanco cards. *Table 19*

Motor car finance

Motor car finance advanced to individuals and small businesses climbed to 266.1 M.€ (+1.6%) at the end of 2004 and represented 47% of the BPI Group's motor-car finance portfolio.

New business contracted totalled 155.4 M.€, that is, 11.6% more than in 2003.

Motor car finance
Principal indicators

Amounts in M.€

	2003	2004	Δ%
Loan portfolio			
Long-term rental	113.5	101.5	(10.6%)
Credit	67.6	69.5	2.8%
Leasing	80.9	95.2	17.7%
Total loan portfolio	**262.0**	**266.1**	**1.6%**
Credit contracted in the year	139.3	155.4	11.6%
Loans in arrears (30 days)	0.8%	1.2%	+0.4 p.p.

Table 20

2004 saw continuity being given to the mono-brand campaigns following the success obtained in 2003. A total of six campaigns were launched during the year involving five makes of motor cars, culminating in the sale of 848 units in 2004 and net financing of 12.1 M.€.

Motor car finance
Results of mono-brand campaigns in 2004

	Sales (No.)	Credit financed net (M.€)
Volvo[1]	175	5.3
Fiat Panda	284	2.8
Hyundai	236	2.3
Chrysler	98	2.8
Suzuki[2]	99	1.2

1) Campaign initiated in 2003.
2) Campaign terminated in 2005.

Table 21

In 2004, BPI's motor-car finance product range began to include the innovative Motor Car Maintenance Service, a product which extends the array of advantages which Customers can benefit from in terms of security and cost savings. This service, which is made available in partnership with Mondial Assistance (Allianz Group), complements motor-car finance business and covers the vehicle's servicing needs during the financing term – substitution of spare parts, breakdowns and routine servicing – through the payment of a fixed monthly sum.

BPI was the Official Sponsoring Bank of the "Salão Internacional do Automóvel – Lisboa 2004" (Lisbon International Motor Show), repeating the success from its participation in the 2002 edition. BPI's participation had as its purpose transmitting to its Partners and Customers the Bank's sustained commitment to innovation and strategic alliances in the sectors, translating into tangible advantages for its Customers.

Commercial credit guarantees and leasing

Banco BPI has been increasingly affirming itself as one of the principal banks giving support to Portugal's small and micro-sized companies. In 2004, the portfolio of commercial credit, guarantees and equipment and real-estate leasing recorded a growth rate of 8.6%.

Commercial credit and leasing
Principal indicators

Amounts in M.€

	2003	2004	Δ%
Commercial loans[1]	1 228.0	1 333.2	8.6%
Bank guarantees	142.0	149.8	5.4%
Equipment leasing	146.8	149.7	1.9%
Real-estate leasing	203.0	235.8	16.2%
Total loan portfolio	**1 719.8**	**1 868.4**	**8.6%**
Ratio of loans in arrears (30 days)			
Commercial loans	2.5%	2.0%	-0.4 p.p.
Leasing	1.9%	2.1%	+0.2 p.p.

1) Includes overdrafts, current account loans, discounting of bills of exchange and other loans which form part of the loan products designed primarily for sole traders and small businesses.

Table 22

Also noteworthy has been the reinforcement of the Bank's action in the conclusion of protocols with institutions and other companies. This drive has contributed to boosting business with existing Customers and the capture of new ones. This growth was achieved without compromising good credit-risk indicators, which continued to evolve favourably.

INDIVIDUALS AND SMALL BUSINESSES BANKING DISTRIBUTION CHANNELS

PHYSICAL NETWORK

Reorganisation and divisional structure

In 2004, Banco BPI reorganised the divisional structure of the Individuals and Small Businesses Network with the object of simplifying the management process and reinforcing the efficacy of the commercial teams. This reorganisation encompassed the following alterations:

- increasing from three to five the number of Regional Divisions reporting directly to the Division's Director;
- elimination of the seven coordination structures which existed between the Central Managers and the Area Managers;
- extending the responsibilities of the Area Managers through the elimination of the distinction of functions between the Managers of the Individuals Area and those of the Small Businesses Area;
- reduction in the number of branches monitored by each Area Manager to a minimum and maximum number of 8 and 12, defined according to geographical dispersion, except in the cities of Lisbon and Oporto where the maximum number can reach 15 branches;
- nomination at Regional Division of a second person-in-charge, an Area Manager who, in addition to managing a number of branches, substitutes the Regional Manager in his absence.

Growth of the physical network

During 2004, 12 new traditional branches and four new Investment Centres were opened, while a further 66 branches were equipped with "Espaço BPI-Net" areas. At year's end, Individuals and Small Businesses Banking comprised a total of 508 traditional branches (of which 13 were in-store branches) and 15 Investment Centres which offer a personalised financial advisory service to high net-worth Customers.

Physical distribution network of individuals and small Businesses Banking
No. of branches

	2003	2004
Traditional branches	483	495
New layout	101	116
Housing areas	64	64
Internet areas	254	320
In-store outlets	13	13
Investment centres	11	15
Housing shops	19	18
Automated shops	47	32

Table 23

At the end of 2004, 120 intelligent deposit machines for notes and cheques and 51 cheque-dispensing machines were installed at branches. During the course of the year these machines registered some 4.5 million transactions, of which two thirds were deposits. It should be noted that these deposits are recorded immediately in Customers' accounts, while these machines are available 24 hours a day, 365 days a year.

Customer satisfaction with these facilities is clearly evident in the migration rates attained which, in certain months, have already surpassed the 65% mark.

Optimisation of processes

In the area of work-process optimisation, it is worth referring in 2004 to the availability of two applications – Automatic Decision Criteria and Resolution of Overdrawn Accounts – which permitted cutting the time involved in these activities by the equivalent of 200 Employees, thereby increasing the time dedicated to commercial action.

Automatic decision criteria

This application is designed to assess the Customer's profile based on objective and systematic criteria, and the consequent automatic decision with regard to the payment or rejection of operations for which the account balance available is not sufficient.

Resolution of overdrawn accounts

This application makes it possible in an automatic manner and with systematic hierarchical reporting to effect a series of actions in order to attempt to resolve and reduce the risk associated with overdrawn and non-compliant accounts.

NETWORK OF EXTERNAL PROMOTERS

A commercial partnership programme was developed in 2004 between the Network of External Promoters, launched in 2003, and Individuals and Small Businesses Banking with the aim of identifying and developing new business opportunities. 2004 was the first full year of this network's activities and confirmed its great importance as a vehicle for capturing new Customers and business. The Network of External Promoters was responsible for the opening of 3 615 new accounts (3% of the total) and 121 M.€ in new business for Individuals and Small Businesses Banking (5.9% of the total taken by this network). In 2004, 950 new business partners adhered to this project.

It is the intention to maintain the Network of External Promoters in 2005 as an important growth platform for Banco BPI's Retail Banking, pursuing the goal to attract new Customers and to expand the business portfolio.

INVESTMENT CENTRES

The Investment Centres form a network specifically geared to serving Banco BPI's high-income Customers – Customers with vast wealth or potential to accumulate financial assets – a segment selected as being a priority for the Bank's growth strategy. The Investment Centre concept was launched in the first half of 2002 with three units. At the end of 2004 this network comprised 15 centres.

Activity in 2004

The Investment Centres generated a business volume of 1 422 M.€ in 2004, which represents growth of 30% relative to the end of 2003. Of the total turnover, 1 150 M.€ related to assets (excluding securities), which posted an increase of 30%.

Investment centres
Principal indicators

Amounts in M.€

	2003	2004	Δ%
Clients resources	1 024	1 325	29%
Resources ex-securities	885	1 150	30%
Securities	139	175	26%
Loans granted	69	97	41%
Business turnover	**1 093**	**1 422**	**30%**

Table 24

Turning to the trend in Customer resources, it is worth highlighting the 36.7% rise in resources allocated to the core range of investment products, namely, unit trust (mutual) funds, capitalisation (unit-linked) insurance, structured products and savings plans.

Service

Through the Investment Centres, BPI provides a customised financial advisory service to support decisions concerning investments or financing with the aid of a team of highly qualified and experienced professionals.

Attendance facilities

Comfortable attendance areas, conceived to offer privacy and enhance interaction, constitute an essential distinguishing feature of Banco BPI's Investment Centre concept.

2004 saw the opening of four new Investment Centres, in Setúbal, Faro, Gaia and Matosinhos. Hence, the Investment Centre network now comprises fifteen units, ten of which are located in the country's main cities – Lisbon (3), Oporto (2), Gaia, Matosinhos, Braga, Aveiro, Coimbra, Leiria, Viseu, Setúbal, Évora and Faro.

VIRTUAL CHANNELS

The virtual channels constitute an important factor in boosting the Bank's efficiency. By transferring low-value operations to these channels, automating processes and supplying information electronically, the physical network is able to focus on selling activity based on personal contact and service quality.

Activity carried out via the virtual channels grew significantly in 2004, as did these services' penetration rates in the various Customer segments. A determining factor behind this expansion was the launch of new services and content on the two main channels: Internet and Telephone.

As regards Customer services, three new banking services via the Internet were launched: BPI Net Mobile Banking and BPI Net SMS, which allowed extending the number of new channels available for the realisation of banking operations, while a new service was unveiled for card Customers – Home Banking ACP. On the telephone channel, new attendance lines were introduced, as well as the enlargement to practically all the branches (finalised at the start of 2005) of attendance centralisation of the 1st line calls directed at the branch network.

BPI Net / BPI Directo Particulares

The BPI Net / BPI Directo services continued to experience growth in the number of users and usage, at the same time as new functionalities in the cards and payments areas were added. In quantitative terms, the following are the statistics registered at year's end:

- 584 thousand users of the BPI Net / BPI Directo services in December 2004 (up 26% on 2003);
- 478 thousand Customers were active users of the BPI Net and BPI Directo services;

BPI Net

- 299 thousand active users (+34% relative to 2003);
- 13.6 million accesses registered in 2004 (+32% relative to 2003);
- 40.4 million operations carried out;

BPI Directo

- 319 thousand active users (+19% relative to 2003);
- 1.3 million calls received;
- 1.4 million operations carried out (+37% relative to 2003);
- 70% of calls received were attended in less than 20 seconds;
- 67% of the calls attended at BPI Directo were dealt with by way of automatic attendance;

BPI Net and BPI Directo
Subscribers with altered password[1]

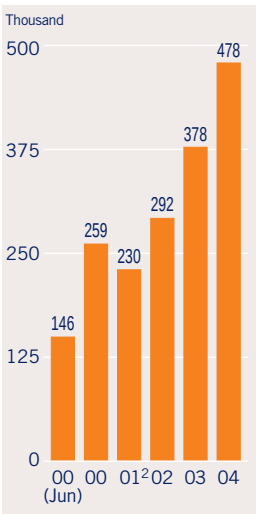


Chart 21

BPI Net and BPI Directo
Transactions and consultations

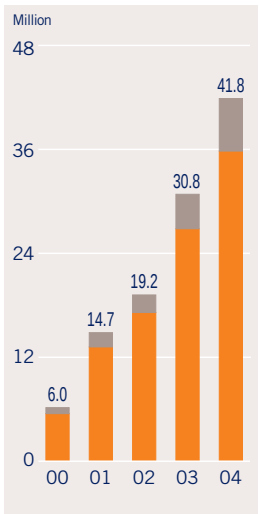


Chart 22

1) A single contract and password, valid simultaneously for BPI Net and BPI Directo.
2) In August 2001, it was made the write-off of all subscriptions of Clients that until 15 March 2001 had never accessed to BPI Net / BPI Directo or, even having, done no consulting or operation in those channels during the 6 months before. There were in this situation around 90 thousand Clients.

Mobile Banking and SMS

Two new services giving access to Banco BPI were inaugurated in October 2004: BPI Net SMS – a service that permits consultations and simple operations through the exchange of SMS messages – and BPI Net Mobile – a service which allows accessing the Bank via mobile phones and PDA's.

- Since the service's launch, there have been more than 9 thousand accesses to BPI Net SMS, with each user making on average 3.3 accesses per day.

- BPI Net Mobile has recorded an average of 4.6 thousand users / month, with 9.9 thousand accesses having been made to the service.

Information

The increase in the information made available through the remote channels, sites and information lines was another determining factor behind the higher interaction with Customers in 2004, as borne out by the following figures:

BPI Sites

- 12.2 million page views for all the Sites;
- 350 thousand properties available on the site BPI Imobiliário (+20% than in Dec. 03);
- 479 thousand e-mails sent to subscribers to the BPI Imobiliário site's alert system;

Telephone attendance service

- Availability of specific information lines for loan products (home loans, consumer loans, motor car finance), unit trust (mutual) funds, investment products and Internet sites.
- 104 thousand calls received by the information lines.

Call Centre attendance

In this domain, continuity was given to the process of centralising at the Call Centre phone calls directed to the branches and other BPI areas and companies, as well as extending the centralisation of Banco BPI's Help Desk:

- extending to 435 branches (more than 85% of Banco BPI's total branches) the call centralisation system;
- 224 thousand calls at the help desk, representing an increase of 61% in relation to 2003.

Outbound activity

During 2004, telephone sales activity continued at a high level, while contacts via E-mail and SMS were intensified:

- 1.8 million e-mails sent;
- 171 thousand decision-makers contacted by telephone;
- 108 thousand SMS messages;
- permanent realisation of 6 types of Customer surveys;
- 47 thousand Customers contacted by means of registered mail and notifications.

BPI Imobiliário
Properties available on the web site

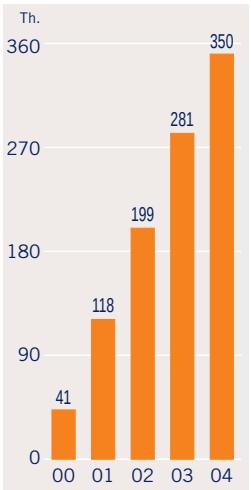
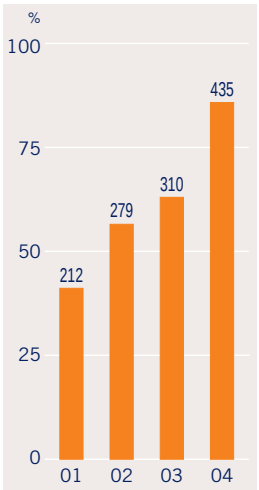


Chart 23

Centralisation of telephone calls attendance
Branch network coverage[1]



1) Traditional and in-store branches; number of branches embraced.

Chart 24

OVERVIEW

At the end 2004, Corporate Banking, Institutional Banking and Project Finance were responsible for a loan and guarantee portfolio of 9 847 M.€. This figure represented an increase of 3.4% relative to 2003.

Corporate Banking continued to implement the policy of portfolio risk diversification and selectivity in the granting of loans, already adopted to a large degree in preceding years.

The control standards for the biggest exposures maintained their stringent requirements, which entailed the implementation of a policy aimed at re-balancing and diversifying the loan and guarantee portfolio. The weight of the Large Companies segment relative to total remunerated assets fell from 34.3% to 29.9% in 2004, while in the Companies' segment this share increased from 43.3% to 45.2%.

The Project Finance and Institutional Banking segments registered increases of some 9% and 14%, respectively. The State Business Sector posted the highest growth (42%).

Total resources amounting to 1 701 M.€ registered an increase of 6.1% when compared with the December 2003 figure.

Corporate Banking, Institutional Banking and Project Finance
Principal business indicators

Amounts in M.€

	2003	2004	Δ M.€	Δ%
Loans and guarantees[1]				
Large corporations	3 269.1	2 946.0	(323.1)	(9.9%)
Companies	4 124.6	4 449.2	324.5	7.9%
Project Finance	988.6	1 072.8	84.2	8.5%
Institutional Banking	899.4	1 029.3	130.0	14.4%
State Business Sector	246.3	349.9	103.6	42.1%
Loans and guarantees	**9 528.1**	**9 847.3**	**319.2**	**3.4%**
Resources	**1 604.1**	**1 701.4**	**97.3**	**6.1%**

1) Includes loans to Customers, loans to credit institutions, debt securities and guarantees.

Table 25

Loans and guarantees to companies, institutionals and project finance
Domestic activity

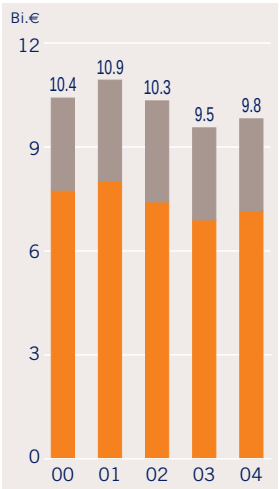


Chart 25

CORPORATE BANKING, INSTITUTIONAL BANKING AND PROJECT FINANCE DISTRIBUTION CHANNELS

Physical network

The Corporate Banking, Institutional Banking and Project Finance areas manage in an integrated manner the Bank's relationship with some 14 thousand BPI corporate and institutional Customers, as well as the respective product range.

Corporate Banking Customers are divided into segments according to their respective business volumes – Large Corporations and Companies –, and according to their specific business mission – Project Finance and Institutional Banking. The overriding objective of this distribution was to better tailor the Group's products and services to each segment's characteristics and requirements.

Corporate Banking and Institutional Banking have their own dedicated commercial networks – corporate centres and institutional centres – which ensure proximity, concentration and efficiency in the service rendered to Customers. The Project Finance area is dedicated to the organisation, mounting and participation in Project Finance operations and public-private partnerships, as well as in other structured financing deals.

Virtual channels

During the course of 2004 BPI Net Empresas – the Internet Corporate Banking service targeted at Corporate Customers and Institutional Clients – registered a substantial increase in the number of users and transaction volumes as a result of the availability of new functionalities.

This service offers a comprehensive range of banking operations, including foreign operations and salary payments, as well as the immediate access to up-to-date information about the company (integrated position, balances and movements). It also allows the downloading of files for subsequent use with efficiency, speed, security and flexibility, thereby affording the opportunity for better treasury management. It is possible for various users from the same company (with different access levels) to utilise this service.

BPI Net Empresas attained a penetration rate of 56% amongst its active Customers. In 2004, the transactions carried out through this service amounted to 15.4 thousand million of euros, 40% more than in 2003.

In parallel, Banco Electrónico BPI – point-to-point connection solution between the Bank and the Customer – continues to function. The total penetration rate for the all electronic channels is 61%.

Office for Angola

The Office for Angola is a centre designed to assist Portuguese companies seeking to explore business opportunities with that country. In 2004, the Office for Angola was involved in intense activity, having realised more than 250 initiatives, in the majority of cases with businessmen and senior representatives of Portuguese companies, as well as with institutional bodies and leading personalities of the two countries.

In this arena, it was possible to detect and channel a significant number of business opportunities both to BFA and to other areas of Banco BPI. The majority of opportunities identified (48%) are related to investment projects involving the setting up of new businesses, the creation of Angolan-law companies and the acquisition of premises and equipment or the expansion of productive activity and modernisation.

LARGE CORPORATIONS AND COMPANIES

The loan and guarantees portfolio in the Large Corporations and Companies segments amounted to 7 395 M.€ in December 2004. This figure reflects the maintenance of the previous year's levels and mirrors the policy of portfolio re-balancing and diversification, with a reduction in the exposure to the Large Companies segment and a higher level of exposure to medium-sized Companies. ▷

The Companies segment grew by 8% as the Bank focused its activity on extending the relationship with its Customers with a view to promoting their loyalty and improving the portfolio's profitability, as well as broadening its Customer base.

The consolidation of the process aimed at concentrating risk management at the Credit Risk Division, resulted in a better control over loan portfolio risk and a more efficient management of loan recovery.

Other important initiatives:

Public incentive systems – in line with previous years, BPI once again assumed a leading role in 2004 in participation in incentive schemes for companies, namely, the SIME (business modernisation programme) and the protocol line established with the Instituto do Turismo de Portugal (Portugal's Tourism Institute).

Partnership with Euler Hermes in COSEC – the BPI Group and the EULER HERMES Group (held by the Allianz Group – one of the leading insurance groups and world leader in credit insurance) forged an agreement making provision for a strategic partnership in the management of COSEC.

Commercial collaboration protocol with COSEC – the BPI Group and Cosec established a commercial collaboration protocol with the object of intensifying the sale of credit insurance through Banco BPI's corporate centres and branches.

Mutual guarantee – Banco BPI has contributed to the dynamic development of Mutual Guarantee business through its commercial activity, assuming a leading position in the system's overall portfolio, both in terms of the amount contracted and in performing credit, with market shares of 47.9% and 48.5%, respectively. The Bank is similarly leader in regional terms in operations carried out by the three mutual guarantee companies – Lisgarante, Norgarante and Garval.

Debt securitisation – Banco BPI, IAPMEI and PME Investimentos signed a protocol with the aim of undertaking the first securitisation of national SME's debts in the amount of 500 M.€. The proceeds from this operation will be fully utilised in the granting of new loans to SME's.

PROJECT FINANCE

Outstanding loans and guarantees portfolio in the Project Finance segment reached 1 073 M.€ in December 2004, which signified a year-on-year growth of around 9%. On the same date, the total amount of operations in the portfolio (including amounts not yet advanced) was 1 384 M.€.

The trend in Project Finance[G] activity during 2004 continued to reflect BPI's leading position in the structuring, mounting and underwriting[G] of projects in strategic sectors, with particular emphasis in the infrastructures and public-services areas, notably, motorway and railroad transport, telecommunications, energy and the environment.

Besides maintaining its involvement in a number of projects initiated in previous years, mention is made in 2004 of the dynamic participation in the renewable energies market in Portugal with recourse to project finance (namely wind farms), as well as in the waste-treatment sector.

In this context, amongst the operations in which BPI was involved, the following warrant special mention:

Public-private partnerships and public administration

- **Ministry of Health:** support to Health Partnerships in the preparation and launching of projects, amongst which the tenders called for the hospitals of Loures, Cascais and Braga, as well as the National Wealth Service's new call centre.
- **Ministry for Internal Administration:** as financial advisor in the launch of the Integrated System of Security and Emergency Networks of Portugal (Sistema Integrado das Redes de Segurança e Emergência de Portugal – SIRESP).
- **Regional Government of the Azores:** as global coordinator of the consulting team within the scope of the motorway concession for the island of São Miguel.
- **Mafra municipality:** within the ambit of the structuring, mounting and launch of the Mafratlântico project, (the first case of a municipal roadway financed by means of project finance).
- **Aveiro Port Administration**, financial consultancy mandate for the definition of the operating model for the new North, Ro-Ro (processment of load transported by semitrailer) and solid grain terminals.
- **Metro do Porto** – advising on Public Private Partnerships for the extensions to the Light Rail System.

Structuring and mounting of financial restructurings / financial solutions in the public business sector

- **Transgás:** monitoring and updating the concession's economic-financial model.
- **Águas de Portugal:** support in the financial structuring of the multi-municipality systems, including the negotiations with the European Investment Bank.
- **REFER:** financial consultancy services rendered in defining the bases of the contract-programme to be entered into with the State and in the management of liabilities.
- **Casa da Música / Porto 2001:** support in the restructuring of the respective medium / long-term financing, including negotiations with the European Investment Bank.
- **EMPORDEF and OGMA:** assistance in formulating the strategic and financial restructuring and in the preparation and development of a privatisation model for OGMA – Indústrias Aeronaúticas, S.A. concluded in December 2004.
- **Empresa Geral de Fomento:** financial consulting services for the reorganisation of the multi-municipal systems (concessions) for solid urban-waste management and mounting / consolidation of associated financing under the project finance regime, including the presentation thereof to the European Investment Bank.
- **Estaleiros Navais de Viana do Castelo (shipyards):** mandate to give support in the company's economic and financial restructuring.

Structuring, mounting and financing of project finance operations

- **Auto-Estradas do Atlântico:** shareholder restructuring and advising on the financing of the West concession.
- **Via Expresso (Madeira):** participation in the financing of 287 M.€ for the operation and maintenance, on a public-service concession regime, of a number of regional roads in Madeira, with a length of approximately 80 km.
- **Companhia Logística de Combustíveis da Madeira:** financial consulting services relating to the structuring of finance, under the project finance[G] regime, for Madeira's new logistical fuel terminal.
- **Águas da Figueira:** participation in the financing of up to 33.7 M.€, related to the concession contract which covers the provision of a public service for the operation of water-supply (catchment, treatment and distribution) and sanitation systems (collection, treatment and effluent rejection) for the Figueira da Foz borough.
- **Renewable energies:** involvement in the mounting and participation in the financing of several wind farms in Portugal, involving financing in the aggregate amount of some 500 M.€.

International area

- **Eólica Campollano:** participation in the financing of the construction, operation and maintenance of 3 wind farms situated in the Albacete province (Spain), involving a total of 124.1 megawatts, representing an investment of 129 M.€.
- **Eólica de Cabezo de San Roque:** participation in the financing of the construction, operation and maintenance of a wind farm situated in Saragoça (Spain),with a total capacity of 23.25 megawatts, representing a total investment of 25.5 M.€.
- **Eólica San Juan de Bargas:** participation in the financing of the construction, operation and maintenance of a wind farm situated in the region of Aragão in Spain with a total capacity of 44.8 megawatts, representing a total investment of 52.6 M.€.

INSTITUTIONAL BANKING

In the wake of the restructuring carried out at Corporate Banking, 2004 saw the formation of the Institutional Banking and State Business Sector Division which now serves the Bank's Clients in the public sector, in addition to foundations, associations and other non-profit organisations.

In December 2004, the new division's portfolio of loans, guarantees and other similar products reached (on a comparable basis) 1 379 M.€, representing overall growth of some 20%.

The Central Administration maintained and even tightened its rigorous budgetary constraints on the level of the municipal sector's expenditure, translating itself into the imposition of zero growth in local authorities' net borrowings. The specific growth noted in this segment (around 14.5%) resulted primarily from the Bank's stepped-up efforts to reinforce the competitiveness of the financial conditions presented to municipalities within the ambit of public bid offers. The linkage of projects to credit lines negotiated earlier with the European Investment Bank contributed decisively to this enhanced competitiveness, namely in the long-term financing of municipal projects.

In parallel and in liaison with the Project Finance area, Institutional Banking collaborated in the structuring of new financial solutions for local authorities and municipal companies, based on the capacity to generate funds from existing capital projects, capable of allowing the pursuance of investment programmes in priority areas, notably social housing and urban re-qualification (Programa Polis). Still on the subject of local authorities' priority investments, negotiations were successfully concluded with the European Council's Development Bank for a first credit line in the amount of 20 M.€, earmarked exclusively for the refinancing of long-term credit operations for the construction of new social housing in Portugal.

The portfolio of loans and guarantees to the State Business Sector grew around 42% in 2004.This trend reflects the Bank's increased monitoring of the sector's own requirements, which now benefits from the work of a dedicated and specialised team and the provision of the financial products (as a rule, short term) that are best adapted to the needs of public-sector companies.

The following were amongst the chief operations concluded in 2004:

- long-term loans for investment projects concluded in particular with the municipal councils of Castelo Branco, Arcos de Valdevez, Oliveira de Azeméis, Montalegre, Aveiro, Ovar, Cascais, Alcobaça, Loulé, Sintra and Beja;

- operation for the advance payment of social housing rentals realised with the company Espaço Municipal, Renovação Urbana e Gestão de Património, of the municipality of Maia.

As in previous years, the Institutional Banking and State Business Sector Division, in collaboration with the Bank's specialised areas, carried out advisory work in the process aimed at obtaining international ratings for the major ▷ municipalities, registering during the year the attribution of the inaugural rating (Aa2) to the Sintra municipality by the agency Moody's Investor Services and the maintenance of Lisbon's rating by Moody's (Aa2) and Fitch Ratings (AA).

Infrastructures associated with the Euro 2004

Banco BPI was the National Partner and Official Bank of the UEFA Euro 2004™ football championship organised by Portugal, thereby associating itself with an event of paramount importance for the country and for its international affirmation.

Also in the realm of financing the construction of infrastructures associated with the Euro 2004, the Bank assumed a very prominent role in the following operations:

Project financing

- Futebol Clube do Porto's new stadium – Organisation, mounting and underwriting of the syndicated financing for its construction. Global amount of the financing: 93 M.€.
- Boavista Futebol Clube's new stadium – Organisation, mounting and underwriting of the syndicated financing for its construction. Global amount of the financing: 15 M.€.

Financing of municipal projects

- Braga Municipal Stadium – Long-term finance to the Braga Municipal Council for the construction and equipment for the stadium and upgrading the surrounding area. Amount: 15 M.€.
- Estádio D. Afonso Henriques – Long-term financing to the Guimarães Municipal Council for the reformulation and enlargement of the stadium and surrounding zone. Amount: 5 M.€.
- Aveiro Municipal Stadium – Real estate leasing operation with the Aveiro Municipal Council for the construction and equipment for the stadium and upgrading the surrounding zone. Amount: 25 M.€.
- Estádio Municipal Dr. Magalhães Pessoa – Financing in the form of two long-term loans, for the Leiria Municipal Council for the stadium's construction. Amounts: 22.5 M.€ and 19.4 M.€.
- Estádio do Algarve – Long-term financing to the Faro Municipal Council for the stadium's construction. Amount: 3.2 M.€.

BANCO DE FOMENTO ANGOLA

At the end of 2004, Banco de Fomento Angola's (BFA) shareholders' equity amounted to 77.5 M.€ and its assets 799 M.€, (6.3% and 3.3% respectively of the Group's corresponding indicators).

The Customer deposits recorded an expansion of 21.4%, reaching 590.8 M.€. At the end of 2004, BFA had a market share of 28% in terms of deposits, making it market leader.

The loan portfolio registered an increase of 60.6% to stand at 211.1 M.€. Loans expressed in American dollars were the major contributing factor to this expansion, in spite of the increased confidence of economic agents in Angola's national currency. At the end of 2004, BFA's market share in terms of loans was 26%, which corresponds to second place in this market.

Loans to Customers
Banco de Fomento Angola

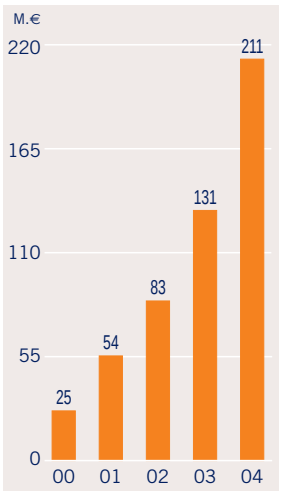


Chart 26

Customer deposits
Banco de Fomento Angola

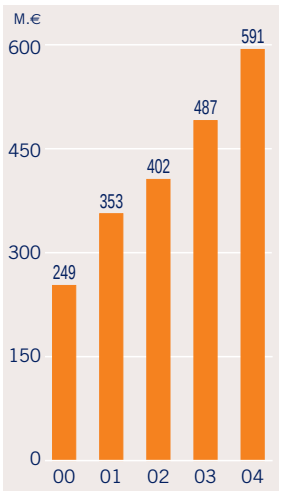


Chart 27

Banco de Fomento de Angola
Leading business indicators

Amounts in M.€

	2003	2004	Δ%
Total assets	645.5	798.5	23.7%
Loans to Customers (net)	131.4	211.1	60.6%
Loans in arrears for more than 90 days	0.9%	0.7%	-
Provisioning cover	553%	759%	-
Customer deposits	486.7	590.8	21.4%
Shareholders' equity	56.4	77.5	37.3%
Capital adequacy ratio	8.7%	9.7%	
Operating income from banking	53.3	74.4	39.4%
Net interest income	26.7	39.3	47.3%
Commissions	13.6	16.7	22.9%
Profits from financial operations	13.0	18.3	40.5%
Administrative overheads, depreciation and amortisation	17.2	22.6	31.8%
Administrative overheads, depreciation and amortisation / operating income from banking	32.2%	30.4%	-
Personnel costs / operating income from banking	14.8%	12.6%	-
BFA's contribution to the BPI Group's net profit	20.6	27.5	33.6%
No. of Employees	441	590	33.8%
Traditional branches	27	32	18.5%
No. of Customers	134 000	175 000	30.6%
Customers using BFA NET	-	9 775	-
Of which, individuals	-	8 509	-
companies	-	1 266	-
ATM machines (no.)	15	23	53.3%
ATM machine cards issued (valid)	22 000	62 250	183.0%

Table 26

The loan portfolio's quality indicators continued to evolve favourably in 2004: the ratio of loans in arrears for more than 90 days improved from 0.9% to 0.7%, while provisioning cover rose from 553% to 759%. The ratio of loans in arrears for more than 30 days stood at 0.9% at the end of 2004 (1.2% in 2003) and was covered by provisions to the extent of 592% (441% in 2003).

BFA's securities portfolio represented roughly 141.8 M.€, representing some 18% of total assets at 31 December 2004 and had a predominantly short to medium-term maturity profile, considering that approximately 80% of the portfolio's securities mature within six months.

The value of foreign operations was 4 508 M. USD, up 62% on the corresponding 2003 figure (2 785 M. USD).

In 2004, BFA's contribution to Banco BPI's consolidated net profit was 27.5 M.€, an improvement of 33.6% thanks to the very favourable trend in revenue (+39.4%). This performance compensated for the 31.8% increase in administrative overheads, depreciation and amortisation resulting from the policy to expand the network.

BFA continued to enlarge its distribution network throughout Angolan territory during 2004. It opened five new branches; one in Luanda (Mulemba) and the other four in the provinces (Malange, Saurimo, Santa Clara and Matala).

By the end of 2004, BFA boasted a network of 32 branches (18 of which situated in the provinces and 14 in the capital), thereby giving it full national coverage and a market share of 20% in terms of the total number of branches in the Angolan banking system.

Banco de Fomento Angola's branches network

Figure 9

Management of the distribution network has concentrated on amplifying commercial activity, improving efficiency and operability, as well as raising the quality of service.

In this sphere, the commercial network has been segmented based on a philosophy of business segmentation. Insofar as the commercial network is concerned, 2004 saw the creation of corporate centres and structures designed to serve in a specialised manner the universe of Company Customers. At the end of 2004, BFA had three corporate centres, two of which situated in Luanda – Head Office and Rainha Ginga – and one in the province – Lubango. This specialist network served close to 1 500 companies at the end of 2004.

In order to cater for the network's expansion, BFA screened and recruited 149 new Employees during the year. By the end of the year, the workforce numbered 590, of whom only seven working at BFA belonged to BPI's Portuguese staff.

The number of Customers increased from 130 thousand in December 2003 to 175 thousand in December 2004.

Branches
Banco de Fomento Angola

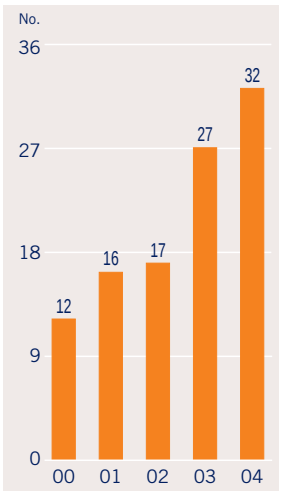


Chart 28

Staff Complement
Banco de Fomento Angola

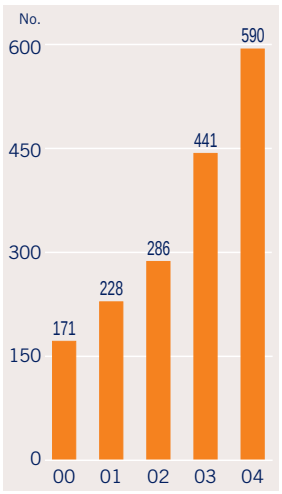


Chart 29

BFA's distribution capability, backed by the market's second biggest physical network, has been complemented by the development of the respective technological infrastructures and the modernisation of the information systems vis-à-vis the virtual distribution channels. In this respect, the main highlight was the development of BFA's institutional site (www.bfa.ao), open to the public in January 2004.

At the same time, BFA unveiled its Customer homebanking service (www.bfa.net.ao), which has consistently registered significant increases in the number of users and transactions since its launch in early 2004. By the end of 2004, BFA NET registered 9 775 Customers, of whom 1 266 were companies and 8 509 individuals.

During 2004, BFA consolidated its position as one of the principal issuers of ATM cards, achieving a new contracting share of around 53% (issue of 62 250 cards) using a network of some 70 ATM. 2004 also saw the placing of ATM at companies.

Straight Through Processing – Excellence Award

In 2004 BFA received the prize for the best automatic processing of foreign operations in 2003 (Straight Through Processing, – Excellence Award), awarded by Deutsche Bank. BFA was considered to be one of the world's best 75 banks and the first in Africa, in terms of the quality of payment order processing, taking into account the reduced number of operations requiring human intervention in New York to correct errors and omissions. This distinction is indeed international recognition of the efficacy of BFA's foreign area, which subscribed to the best international practices.

MILESTONES OF THE BANKING OPERATION IN ANGOLA

1990

Opening in Luanda of a representative office of the former Banco de Fomento Exterior – BFE.

1993

Reinforced presence with the opening in July 1993 of a BFE branch, also in Luanda, which commenced activity as a universal commercial bank with a capital equivalent to four million American dollars.

1996

Acquisition of BFE by the BPI Group in August 996, giving rise to a major expansion of the activity and dimension of the operation in Angola.

2002

BFA, 100%-controlled by BPI, assumed the status of a separate legal entity subject to Angolan law in July 2002, following the transformation of Banco BPI's branch, with a capital equivalent to 30 million Amercian dollars.

2003

Its new head office building in Luanda is inaugurated in July 2003, the high point of the BFA brand's affirmation in the Angolan market and a reference point in the plan for the expansion of the Bank's commercial network now that the central services are housed at a single venue.

2004

BFA launched the Internet-based homebanking service for its individual and corporate Clients. At the end of 2004 BFA Net had close to 10 thousand users.

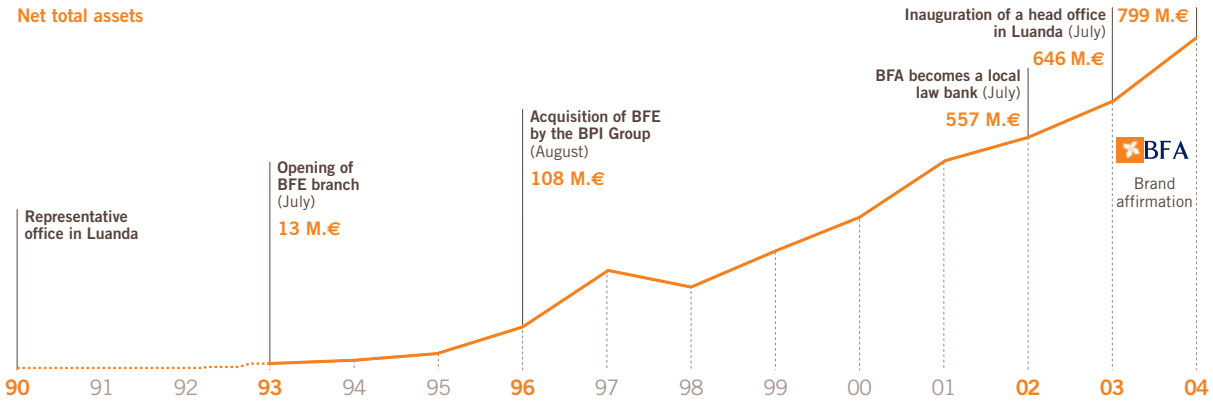


Figure 10

Insurance

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

BPI Customers thus have at their disposal an extensive range of insurance products which cover both general insurance – motor car, household all risks, fire, alterations and installations, public liability and theft, personal accidents, unemployment and disease – and life assurance – death or disability.

INCREASE IN THE LEVEL OF GLOBAL SATISFACTION

According to the results of a survey covering bancassurance Customer satisfaction carried out by the renowned multinational market survey firm – Deloitte – the level of global satisfaction of BPI Customers who are insured with Allianz attained in 2004 a value of 88% (82% in 2003). Similarly, Allianz obtained very positive results in the individualised analysis of each one of the attributes considered – contact accessibility; commitment and responsiveness, level and quality of information made available; technical competence and knowledge; attribution of responsibility for claims – while 82% of those Customers with claims were satisfied with the manner in which these were resolved (74% in 2003).

BPI Customer global satisfaction index

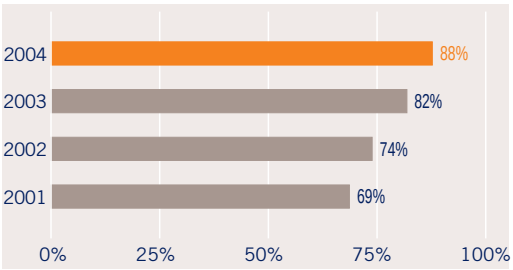


Chart 30

The positive results obtained are mirrored in activity and income levels, and in the number of policies contracted in 2004:

- the value of commissions rose by 26%, to 16.2 M.€;
- life-assurance and general insurance premiums totalled respectively 34.7 M.€ and 30 M.€. The growth rates seen in these premiums compare very favourably with the sector averages, exceeding the non-endowment life assurance premiums by 9 p.p. and by 4 p.p. in the non-life (general) insurance segment;
- the trend in the number of insurance policies has also registered a positive performance, with the number of active life assurance policies at the end of 2004 exceeding 360 thousand and the number of non-life policies topping 265 thousand.

Commissions
Intermediation of insurance products

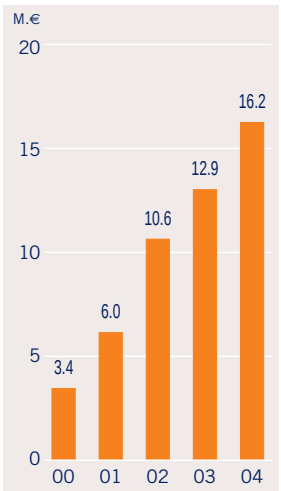


Chart 31

Asset Management

OVERVIEW

The volume of third-party financial assets under the BPI Group's management expanded by 12.7% in 2004 to 9 664 M.€. For the second consecutive year, the volume of managed assets climbed by some 1 100 M.€. However, whereas in 2003 about half of the increase had its origin in unit trust (mutual) funds and a little more than one third in capitalisation insurance, in 2004 the relationship did an about turn. The share of capitalisation insurance rose from 17% in 2003 to 21% in 2004 of the total. The unit trust funds represent 42% of total managed assets.

Assets under management Amounts in M.€

	2003	2004	Δ%
Unit trust (mutual) funds	4 018	4 389	9.2%
Pension funds	2 099	2 229	6.2%
Life assurance	1 574	2 143	36.1%
Private Banking	1 319	1 332	1.0%
Institutional Clients	257	297	15.6%
Assets under management[1]	**8 576**	**9 664**	**12.7%**

1) Adjusted for duplication of balances.

Table 27

Assets under management

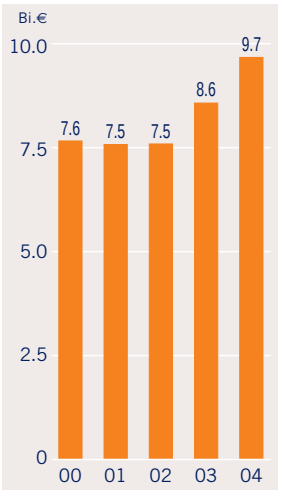


Chart 32

Breakdown of assets under management
At 31 December 2004

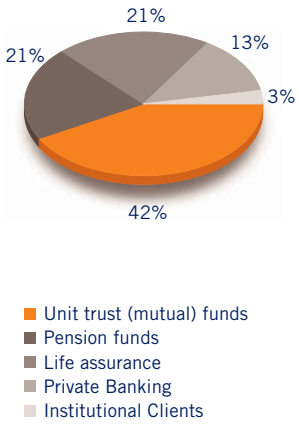


Chart 33

UNIT TRUST FUNDS

BPI's unit trust funds portfolio expanded by 9% in 2004, amounting close to 4 400 M.€ at the end of the year.

Trend in the volume of BPI's unit trust funds Amounts in M.€

	2003	2004	Δ%
Bond and money market	1 980	2 146	8.4%
Capital growth (equities)	219	250	14.2%
Tax efficiency (PPR/E and PPA)[1]	1 250	1 392	11.4%
Diversification	569	601	5.6%
Total	**4 018**	**4 389**	**9.2%**

1) Retirement / education savings plan (PPR/E) and equity savings plans (PPA).

Table 28

Contributing to this growth was the net capture of resources of 244 M.€ (the market's third highest), corresponding to a share of 23% in new business contracted. This performance enabled BPI Fundos to improve its share with respect to the accumulated portfolio to 17.9% (17.5% at the end of 2003).

BPI Fundos kept its fourth place in the ranking of Portuguese unit trust (mutual) fund management companies, but narrowed the gap that separates it from the market leader from six to two percentage points.

It is important to note that, in the segment of value-added funds (which does not include money market funds, variable-rate funds and the PPR/E), BPI Fundos occupy second position with a market share of 19%.

Breakdown of unit trust funds under management
At 31 December 2004

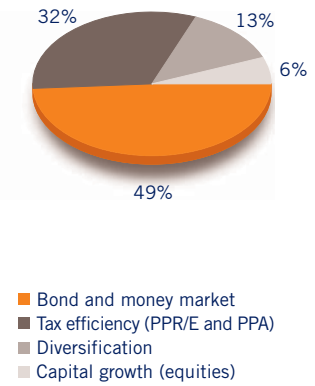


Chart 34

Distribution of BPI's unit trust funds
At 31 December 2004

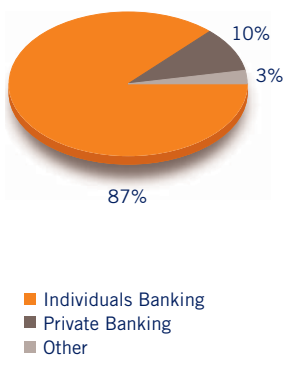


Chart 35

Unit trust funds under management

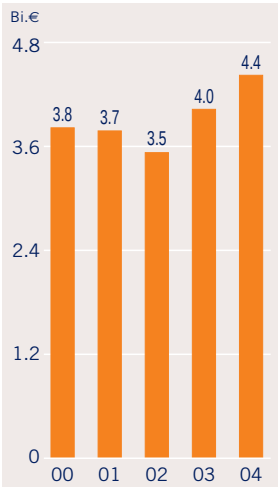


Chart 36

At the end of 2004, BPI's portfolio of unit trust (mutual) funds comprised 20 funds whose assets totalled 4 389 thousand M.€.

Of this figure, 3 659 M.€ corresponds to five funds: two retirement / education savings plans (1 310 M.€); BPI Liquidez, a money market fund (1 228 M.€); BPI Global, a diversified fund (569 M.€); and BPI Taxa Variável (variable rate) (552 M.€). Consequently, these account for 84% of BPI's range of unit trust funds domiciled in Portugal. It is important to highlight the fact that of the universe of 224 collective investment funds registered in Portugal, the abovementioned five funds are situated amongst the 17 biggest national funds, with BPI Liquidez occupying second place.

As the national unit trust funds market is essentially composed of low-risk products, we once again highlight the fact that BPI Fundos is the only fund management company in Portugal which manages a fund under the "mixed funds" category (BPI Global), whose expressive volume is the market's 15th biggest. The total number of unitholders exceeds 30 thousand.

During 2004 another noteworthy development was the excellent results in the contracting of retirement / education savings plan, in particular, through the constitution of period subscription plans. This success was the result of the work carried out aimed at disclosing the advantages and need for the systematic and consistent saving for retirement. At the end of 2004, of the 138 thousand Customers with retirement / education savings plan, 26% now contribute on a monthly basis. More significant still is the rejuvenation of the Customer base subscribing to this type of investment, considering that 28% of Customers with monthly – contribution retirement savings are aged under 35.

Returns

BPI's funds once again achieved good results, bearing testimony to BPI Fundos' experience and abilities in asset management:

- BPI Reestruturações (restructurings), which posted a return of 14.98%, was the best fund in its class in 2004;
- BPI OARAR, high-yield bond fund, achieved a yield of 10.35%, the best fund in 2004 within its class;
- BPI Brasil (Brazil), which managed a yield of 12.19% in 2004, was the best fund in its class in 2004;
- BPI Euro Taxa Fixa (fixed rate), which posted a return of 4.86% in 2004, was once again one of the best funds in its class and the best over three years;
- BPI's PPR/E managed returns of 5.48%, in the case of Fundo Reforma Investimento (which invests in equities); and 2.25%, in the case of Fundo Reforma Segura, which has a more conservative investment profile.

Sources: APFIPP and BPI Fundos.

LIFE CAPITALISATION ASSURANCE

The volume of assets managed by BPI Vida increased by 36% in 2004 to 2 143 M.€, well above the average market growth of 14.5%.

Life capitalisation assurance business written[1] Amounts in M.€

	2003	2004	Δ%
BPI Taxas Garantidas (guaranteed rates)	22.7	28.6	26%
BPI Novo Aforro Familiar (new family savings)	476.7	710.5	49%
Other	74.4	94.7	27%
Total	**573.8**	**833.8**	**45%**

1) Includes pension funds and endowment products.

Table 29

In 2004, BPI Vida occupied first place in the sale of life capitalisation assurance (not considered as PPR), with a market share of 23.1%. BPI's strategy has been to sell retirement / education savings plan in the form of unit trust funds and not as capitalisation (unit-linked) insurance.

The increase in the volume of assets managed by BPI Vida is in essence explained by the rise of 45% in the contracting of capitalisation insurance, which expanded from 574 M.€ in 2003 to 834 M.€ in 2004.

This trend is intrinsically linked to the success attained by Banco BPI's branch network in the distribution of savings products, in particular, that relating to BPI Novo Aforro Familiar (new family savings). This capital-guaranteed product has posted consistent results in recent years and for this reason has been a favourite amongst investors seeking more conservative investments, of low-risk, or even the benefit of guaranteed capital.

Life capitalisation assurance
New business per year

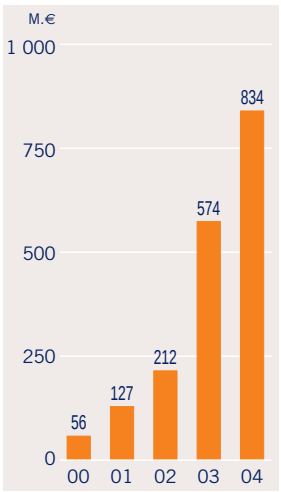


Chart 37

Life capitalisation assurance
Assets under management

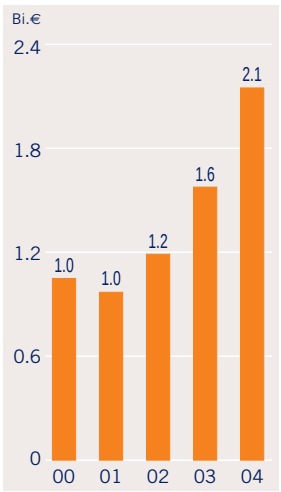


Chart 38

PENSION FUNDS

At 31 December 2004, BPI Pensões managed 29 pension funds, representing a total volume of financial assets of 2 229 M.€. This figure represents an increase of 6.2% relative to 2003.

At the end of 2004, BPI Pensões also managed 80 corporate pension plans and 692 accounts of individual participants, whose volume of contributions was 133 M.€ while the total amount of pension and benefit payments was 142 M.€.

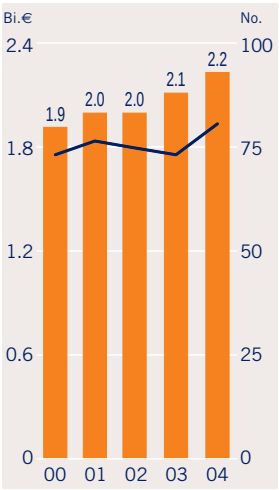
Drive to attract new Clients

On the commercial front, BPI Pensões secured six new management mandates for pension plans:

- Finangeste, S.A.,
- EDP Group (new defined contribution plan),
- Masa – Mantenimiento y Montajes Industriales, S.A. Portugal Branch,
- Serono Portugal, Lda.,
- Total Portugal Petróleos, S.A.,
- Watson Wyatt International Limited – Subsidiary in Portugal.

BPI Pensões also participated in tenders for the pension-plan management of the NetJets Group in Portugal and the Fundação Calouste Gulbenkian, having been selected in both mandates. The pension-plan management will commence at the beginning of 2005.

Pension funds under management



Note: In 2003, BPI Pensões obtained 7 new Clients, while 5 pension funds were extinguished and 3 were transferred.

Chart 39

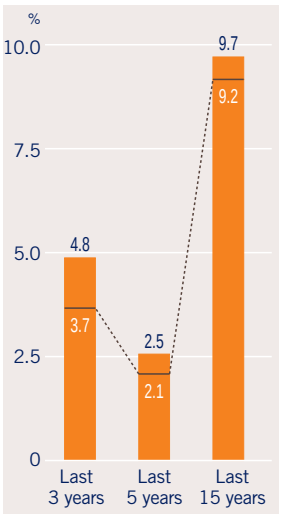
Pension fund returns

As was the case in the previous year, 2004 was marked by the excellent returns obtained by the managed pension funds. BPI Pensões was able to realise a good result in the ranking of national pension-fund management companies according to surveys published by two respected consultants: Mercer Investment Consulting and Watson Wyatt International Ltd.

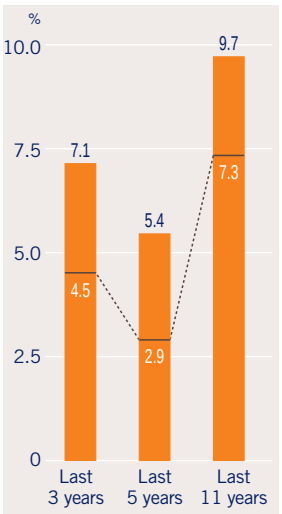
According to the results disclosed by Mercer Investment Consulting, BPI Pensões's median return in 2004 was situated at 7.2%, against the market's 5.7%. According to Watson Wyatt International Ltd – Subsidiary in Portugal, the return indicators were situated at 7.7% and 7.2%, respectively, for the BPI Pensões' weighted average and for the market median attained by pension-fund management companies.

Based on a long-term analysis, BPI Pensões continues to present very positive results. According to the surveys conducted by the two consulting firms, the performance (based on the return median achieved) of the pension funds managed by BPI Pensões, is well above the return median achieved by market, at any time horizon analysed – three, five, eleven and fifteen years.

Pension funds long term returns



Source: Mercer Investment Consulting.



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

■ BPI Pensões weight average
– Market median

Chart 40

Creation of a site for participants

In 2004, BPI Pensões launched an institutional site dedicated to the Participants in defined contribution pension plans. With this new service (which will be gradually extended to Corporate Clients with this type of plan), the respective workers will have access to their account movements and balances in the pension funds. In the case of contributory pension plans, they can also transmit directly their investment options via the Internet. With this new service, the Participants in defined contribution plans managed by BPI Pensões will be able to monitor and control the progress of their complementary pension account, along the same lines as they do today with respect to their financial relationship with their Bank. They will, therefore, be able to have online access to their statement details, to give instructions within defined rules for each plan, to request payment of benefits, etc.

OTHER INSTITUTIONAL CLIENTS

The volume of other institutional Clients' assets under discretionary management and advisory mandates totalled 297 M.€, 40 M.€ more than in 2003, which represents an increase of 15.6%. This increase in assets was the result of the signing-up of new Clients and the reinforcement of the asset portfolios entrusted to BPI, taking into account of the positive results which have been achieved.

During 2004, BPI launched on the site BPI Institucionais (bpiga.bancobpi.pt) – in an area restricted to Clients – detailed information about the asset portfolios held by institutional Clients, namely: portfolio schedules, management reports and technical files relating to certain products, returns, events and Banco BPI research. In the public area, the site contains general information about the financial markets, while permitting interaction with other sites of the Group.

Investment Banking

OVERVIEW

Investment Banking activity's contribution – corporate finance, brokerage, equities trading and private banking – increased by 91%, from 7.0 M.€ in 2003 to 13.4 M.€ in 2004. ROE was 96%, with the result that activity continues to present high returns by virtue of the low level of capital consumed.

In corporate finance activity, the main highlights were the advisory services rendered to Petrocer in the acquisition of a 40.79% stake in Galp Energia, as well as to Auto-Sueco in its internationalisation venture in the United States and to Cofina in the spin off of its media and industrial businesses. Also noteworthy in the brokerage business were the organisation of a conference for institutional Clients (which was attended by 20 Portuguese and Spanish companies) and the awards for the best research analyst and (for the second time), the best research team in Portugal.

In private banking activity, whose turnover at the end of the year totalled some 1 900 M.€ (of which 1 300 M.€ corresponded to managed assets), of special note were the returns obtained on the funds under Private Banking's discretionary management, notably, capitalisation insurance and discretionary management mandates.

Investiment Banking
Principal business indicators

Amounts in M.€

	2003	2004	Δ%
Commissions and other income (net)	19.3	21.7	12.3%
Profits from financial operations	6.4	9.2	43.6%
Operating income from banking	36.2	42.2	16.6%
Contribution to the consolidated net profit	7.0	13.4	91.3%
Average allocated capital	12.3	13.4	8.9%
As % of the Group's average Shareholders' Equity	1.0%	1.1%	-
ROE	53.4%	96.0%	-
Assets under discretionary management or effective advisory mandates entrusted to BPI Private Banking	1 318.9	1 332.3	1.0%
Market shares:			
Equity brokerage in the Euronext Lisbon	9.7%	9.6%	-
On-line brokerage	7.0%	8.7%	-

Table 30

CORPORATE FINANCE

The demand for corporate finance services remained subdued throughout 2004 – as evidenced by the very few public offers for share distribution, M&A operations and privatisation operations – at the same time as the market witnessed intense competition.

The permanent attention paid to the satisfaction of Customers' needs and the quality of the solutions proposed – reflected in the growing loyalty of a diversified group of Customers – enabled the Bank and notwithstanding the aforementioned overriding factors, to render a range of services during 2004, amongst which:

ACE: advising on the analysis of investment and financing decisions.

Amorim Lage: advising on the group's restructuring; assistance in the analysis of investment decisions.

Auto-Sueco: advising on the reinforced internalisation process, through the acquisition of the distribution business – sales and rental – of Volvo machines for the construction industry in the south-eastern region of the United States of America.

Carris: advising on the analysis of alternatives for optimising the returns on the real-estate holdings.

Certica: advising on the sale of assets in the IT area.

CIN: advising on the group's valuation.

Cofina: advising on the group's reorganisation.

Hidroeléctrica de Cahora Bassa: advising on the company's valuation.

Jerónimo Martins: advising on the organisation, mounting and underwriting of the company's capital increase; support in the analysis of the investment and financing decisions.

Ibersol: advising on the analysis of investment decisions.

Lusomundo Media: advising on the group's valuation.

Metro do Porto: advising on Public Private Partnerships for the extensions to the Light Rail System.

Ministry of Finances: advising on the leasing and rental of the State's real-estate assets.

OGMA: Advising on the privatisation of OGMA – Indústria Aeronáutica de Portugal, S.A.

Petrocer: advising on the acquisition of a shareholding of 40.79% in the capital of Galp Energia, SGPS.

Portucel: advising Portucel, SGPS in the privatisation of Portucel, S.A.'s capital; valuation of Portucel Tejo as part of its privatisation.

Rincon: advising on the shareholding reorganisation.

Tertir: advising on the group's valuation and reorganisation.

Unicer: advising on the canvassing of financial grants for the investment project.

Viacer: advising on the analysis of investment decisions.

Vista Alegre Atlantis: advising on the analysis of internationalisation investment projects.

EQUITIES

The world economy's strong growth, principally due to the Asiatic and American economies, the dissipation of geopolitical uncertainty and a propitious interest rates environment, meant that there was a strong flux of liquidity into the equity markets. Despite the relatively poorer performance of the European economies, and in particular, the Portuguese economy, 2004 turned out to be a good year for the European stock markets (and more specifically, the Iberian markets). The main Iberian indices gained 12.6% (PSI20) and 17.4% (IBEX 35) with a highly positive performance by the small and medium cap companies.

2004 was the first year after the migration (completed in November 2003), to the Euronext trading and clearing systems. This migration entailed an investment in a new dealing and back-office system. During 2004, BPI continued to invest heavily in its dealing platforms: in February, BPI became a member of the MEFF (Spanish derivatives exchange); in July, BPI concluded its membership application to the Madrid Stock Exchange; during 2004, BPI facilitated the access to the international markets through a single platform.

Joining the Madrid Stock Exchange was an important step in BPI's affirmation as an Iberian broker. In this regard, BPI reinforced its local presence via its Madrid branch.

Secondary equities market

On the secondary equities market, BPI generated commissions of 4.3 M.€ (positive year-on-year change of 8%). The improved stock market climate and the increased turnover on the international markets, more specifically, on the Madrid Stock Exchange, explain this improvement. However, the average brokerage fees charged to Clients continued to deteriorate. In the equities segment, BPI maintained its market share on the Euronext Lisbon (9.7% in 2003 versus 9.6% in 2004).

BPI Online, Banco de Investimento's broker via the Internet, continued to increase its market share in this segment, confirming the trend observed in 2003, from 7.0% in 2003 to 8.7% in 2004. This increase in share was accompanied by a 75% change in trading volume. In this fashion, with relatively minor investments, BPI Online jumped one position in the ranking, advancing to 4th place.

Primary equities market

On the primary market, BPI co-led and underwrote the capital increase reserved for Jerónimo Martins shareholders.

Research and sales

During the first half of 2004 research coverage was extended to 83 companies, of which 54 are Spanish and 29 Portuguese. During this period coverage commenced of a further 10 companies: Acciona, ACS, Amadeus, Antena3, Cintra, Gescartão, Media Capital, Metrovacesa, Sacyr and SOS Cuetara. With the enlargement of coverage, BPI strengthened its positioning as an Iberian broker specialising in small and medium cap companies.

Equities research continued to be recognised for its quality. In Portugal, BPI's research won for the second consecutive year the prize for the best Research team attributed by Semanário Económico Deloitte. The analyst Graça Graça Moura was distinguished in the same survey as the best analyst in Portugal. BPI's research continued to receive good classifications in the rankings which evaluate the quality of their estimates and recommendations. Of note was the survey conducted by AQ, which was based on purely quantitative criteria, which rated BPI's Research in 2004 as the second best in Spain in the Mid Caps segment and the first amongst the local brokers based on the performance of its recommendations.

BPI continued to organise road shows for Iberian companies, namely for: Abengoa, Banco BPI, Banco Santander, BBVA, Bankinter, EDP, Gamesa, Gas Natural, Iberdrola, Ibersol, Jerónimo Martins, Portugal Telecom, Sonaecom and SOS Cuetara. BPI also organised a conference dedicated to small and medium cap Iberian companies and which was attended by 20 companies (12 Spanish and 8 Portuguese) and more than 50 investors.

Trading

Equities trading activity made a positive contribution of 6.5 M.€ to BPI's results in 2004, which compares with a contribution of 3.7 M.€ in 2003.

PRIVATE BANKING

At the end of December 2004, BPI Private Banking's turnover was 1 902 M.€, representing growth of 5% relative to the end of the previous year. Assets under BPI Private Banking's discretionary management or advisory mandate (the main component of business volume) amounted to 1 332.3 M.€. Of the remaining 569.7 M.€, 455.2 M.€ refers to stable investments for safekeeping and 114.5 M.€ to loans.

Contributing to the positive evolution in turnover were, on the one hand, the increased concentration of commercial activity in the canvassing for new Clients and in the recourse to tailor-made solutions – structured products, advisory portfolios, managed portfolios and personalised capitalisation insurance – and, on the other, the good performances achieved by the main products and services on permanent offer.

In this domain, it is worth underlining the results obtained by the investment solutions managed on a discretionary basis by BPI Private Banking's investment management area, namely Seguros BPI Capitalização Private Banking (capitalisation unit-linked insurance) and the Discretionary Management Mandates. In fact, despite the market sentiment shrouded by uncertainty and the absence of clear trends, it was possible to attain attractive performances that compared favourably with both the respective benchmarks[G] and with the competition.

BPI Private Banking Capitalisation Insurance
Gross yields

	2003	2004	Last 24 months
BPI Capitalização PB – Ultra Conservative	2.65%	4.87%	3.75%
BPI Capitalização PB – Conservative	3.62%	6.17%	4.88%
BPI Capitalização PB – Balanced	4.38%	7.16%	5.76%
BPI Capitalização PB – Aggressive	2.17%	9.86%	5.95%

Table 31

Activity developed in 2004 also centred on refining even further the sophistication of the service offered and to enhance the level of operating efficiency. Work continued on extending the scope of the international service through BPI (Suisse) S.A., at the same time as boosting the capacity to develop custom-made solutions with high added value. In parallel with these measures, it was prosecuted a rigorous control over operating costs.

BPI (Suisse) S.A.

In 2004, BPI (Suisse) S.A. more than doubled the volume of Client assets under management and advisory mandates. This performance can be ascribed to the maintenance of the intensive commercial drive amongst potential Clients. Equally, it reflects the priority attributed to the permanent personalised monitoring of current Clients with a view to ascertaining their real needs and, therefore, to offer a service that clearly projects the Group head and shoulders above the competition.

In tandem with the intensive commercial activity, a new computerised platform for managing Client relationships was implemented.

Financial investments

At the end of 2004, the Group's investment portfolio amounted to 533.5 M.€, corresponding to the participating interests in Portugal Telecom, SIC, BCP, Impresa, Viacer, Auto-Estradas do Oeste, Cofina and Vista Alegre Atlantis.

In 2004, the BPI Group sold its holdings in Aquapor and agreed to sell the 20% holding in Auto-Estradas do Oeste for 19.1 M.€. The last-mentioned transaction was concluded at the beginning of 2005.

In addition, an agreement was reached for the sale of the total holding in SIC to the Impresa Group for an amount of some 129 M.€, subject to approval from the Competition Authority (which decision was received in 2005).

The BPI Group formed part of the Petrocer consortium that was the successful bidder in the tender for the acquisition of a 41.8% shareholding in GALP. Petrocer will make an overall investment of around 700 M.€ in acquiring this stake.

Financial investments At 31 December 2004

Company	% held	Net balance sheet amount (M.€)
Portugal Telecom	1.7%	220.0
SIC	41.4%	128.7
BCP	1.7%	97.3
Impresa	8.42%	47.1
Viacer	26.0%	21.6
Auto-Estradas do Oeste	20.0%	3.2
Cofina	6.6%	9.3
Vista Alegre Atlantis[1]	19.7%	6.3
Total		**533.5**

1) Corresponds to the direct equity holdings of Banco BPI (12.72%) and Inter-Risco (5.11%), 99.9% held by the BPI Group, as well as the direct equity holding of the Fundo FRIE Inter Risco (1.89%), whose management company is Inter-Risco, and which is not reflected in the Group's consolidated investment portfolio.

Table 32

Private Equity

At the end of 2004, the BPI Group's Private Equity area (through Inter-Risco) managed a group of assets which totalled some 50 M.€, (at balance sheet value), including its own portfolio and third party funds.

In this regard, it is worth highlighting the Fundo Caravela – a venture capital fund promoted by the BPI Group – whose capital was increased in 2004 to 30 M.€.

During the course of 2004, prospective investment projects were received and analysed representing investment intentions in the order of 95 M.€. In line with recent year trends, the majority of these referred to expansion projects at the expense of other types of projects. In the light of prevailing market conditions, stringent analysis and project selection criteria were maintained, with the result that the rejection rate for projects in this past year exceeded 85%.

During 2004, an investment of 4 M.€ was made in the Douro Azul Group as part of an operation for raising capital which is earmarked to fund this group's expansion projects in the tourism sector. This operation involving a total investment of 15 M.€ was undertaken by a syndicate of four venture capital operators led by Inter-Risco.

Notwithstanding the fact that business activity in Portugal has languished at low levels and thus impacting on disinvestment opportunities, 5 holdings with a balance sheet value of 18 M.€ were disposed of.

The venture capital sector in Portugal continued to display the same fundamental characteristics in 2004 as those noted in recent years: lack of attractive investment opportunities, minimal prospects for investment-portfolio rotation due to the abovementioned lacklustre business climate, and a global activity level that is quite insignificant within the European context.

BPI's Private Equity[G] activity in 2004 was essentially limited to keeping track of the portfolio of current holdings, as well as the management of the venture capital funds in which the Group has a stake.

Private Equity holdings At 31 December 2004

Company	% held	Activity
Ibersol[1]	11.83%	Fast food outlets (Pizza Hut, Goody's, KFC, O'Kilo, Pasta Café, Frangão)
Douro Azul SGPS	11.26%	Cruise operator on the river Douro and hotel business
Arco Bodegas Unidas	2.14%	Wine production and sales
Fernando & Irmãos (Aveleda)	13.14%	Wine production and sales
Caravela Gest	20.0%	Food retailer (Häagen Dazs)
Tecmic	24.45%	Microelectronics
ChipIdea	4.76%	Provisions of services to the semiconductors and chip design industry
WhatEverNet	12.58%	Information technology products and services
Sociedade Vinhos Borges	12.50%	Wine production and sales

1) Corresponds to the direct shareholdings of Banco BPI (6.33%) and the indirect shareholding (5.50%) held via IES. *Table 33*

Financial review

CONSOLIDATED RESULTS

OVERVIEW

BPI's consolidated net profit in 2004 was 192.7 M.€, which represents an improvement of 17.6% when compared with the 163.8 M.€ earned in 2003. Earnings per share grew by 17.6% to 25.4 euro cents, while the return on shareholders' equity (ROE) was 15.2%.

The moderate recovery in economic activity in Portugal influenced the volume of business and justified the maintenance of restrictive criteria in the granting of loans to both individuals and companies. At the same time, there was an increase in competition for better-risk Customers. The consolidated loan portfolio expanded by 7.0%; the home mortgage-loan portfolio grew by 10.5%.

Total Customer resources rose by 8.1%. Balance sheet resources taken grew 2%, while off-balance sheet resources registered an expansion of 17%, reflecting mainly the placing of long-term savings products.

Revenue grew by 4.5% relative to 2003, while costs rose by 0.9%. The ratio between administrative overheads, depreciation and amortisation and net operating revenue improved from 63.6% in 2003 to 61.4% in 2004. In tandem with the improved efficiency, provisioning requirements fell by 22.7% in line with the decline in the incidence of defaulting loans. As a consequence, net operating income advanced 24.3% to 249.6 M.€.

It is also worth noting the very significant increase in the contribution from equity-accounted subsidiaries, from 15.5 M.€ in 2003 to 37.7 M.€ in 2004, due primarily to the higher contribution from Group's the insurance companies.

At the end of 2004, BPI presented sound financial strength indicators:

- the ratio of loans in arrears for more than 90 days was 1.1% (1.2% in 2003), while the level of existing provisions ensured these were covered to the extent of 161% (148% in 2003);
- unrealised gains on the portfolio of participating interests and equities investment portfolio exceeded unrealised losses by 2.7 M.€;
- the pension funds' net assets fully covered (100.3%) pension obligations recognised in the balance sheet;
- the own funds requirements ratio[G], calculated in accordance with the Bank of Portugal's rules, stood at 9.8% and the Tier I ratio 6.5%; total ratio of 10.9% and Tier I of 6.6%, in conformity with the Bank of International Settlements (BIS) standards.

Net profit

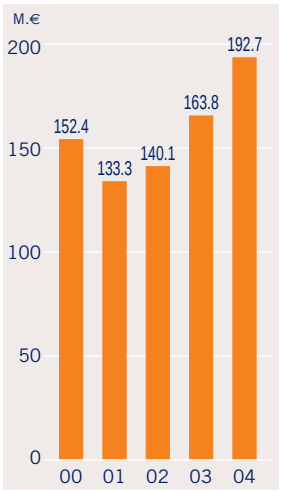


Chart 41

Administrative overheads, depreciation and amortisation
as % of operating income from banking

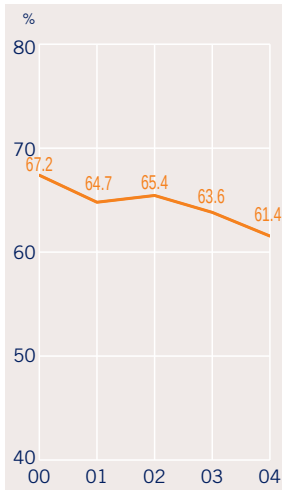


Chart 42

PRINCIPAL INDICATORS

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

	2003	2004			
	Consolidated	Domestic activity	International activity	Consolidated	Δ%
Net total assets	26 195.3	23 527.4	809.9	24 010.3	(8.3%)
Assets under management[1]	8 575.5	9 664.4	0.0	9 664.4	12.7%
Business volume[2]	38 893.4	40 873.2	847.1	41 671.5	7.1%
Loans to Customers (gross) and guarantees	20 690.1	21 751.3	256.3	21 958.9	6.1%
Bonds portfolio (Corporate Banking)	110.1	154.6	0.0	154.6	40.5%
Total Customer resources	18 093.2	18 967.2	590.8	19 558.1	8.1%
Business volume[2] per Employee (thousands of euros)[3]	5 633	6 413	1 436	5 985	6.2%
Operating income from banking per Employee (average no.) (thousands of euros)[3]	106	113	146	116	8.8%
Administrative overheads, depreciation and amortisation / operating income from banking	63.6%	64.6%	30.4%	61.4%	
Cost-to-income[4]	57.5%	59.0%	25.1%	55.9%	
Personnel costs / operating income from banking and "equity method" results[5]	35.8%			33.3%	
Administrative overheads, depreciation and amortisation / operating income from banking and "equity method" results[5]	62.0%			58.4%	
Net operating income	200.8	206.9	42.7	249.6	24.3%
Net profit	163.8	161.5	31.2	192.7	17.6%
Data per share[F] (euro)					
Net profit	0.22			0.25	17.6%
Dividend	0.09			0.10	11.1%
Book value	1.61			1.62	0.3%
Weighted average no. of shares[F] (in millions)	760.0			760.0	0.0%
Operating income from banking + "equity method" results as % of average total assets[5]	3.1%			3.5%	
Profit before taxation and minority interests as % of average total assets[5]	0.8%			1.0%	
Return on average total assets (ROA)[F]	0.6%	0.7%	4.2%	0.8%	
Profit before taxation and minority interests as % of average shareholders equity (including minority interests)[5]	13.4%			16.1%	
Return on equity (ROE)[F]	13.9%	13.6%	39.6%	15.2%	
Loans in arrears for more than 90 days as % of Customer loans	1.2%	1.1%	0.7%	1.1%	
Provisioning cover for arrear loans[F]	148.4%	156.1%	759.2%	160.6%	
BPI Group Employees pension funds assets	1 495.5			1 581.7	5.8%
Pension obligation cover[F, 6]	101.4%			100.3%	
Shareholders' equity	1 227.3	1 143.5	88.0	1 231.5	0.3%
Own funds[7]	1 788.3			1 744.5	(2.4%)
Risk weighted assets[7]	18 017.1			17 784.5	(1.3%)
Own funds requirements ratio[G 5, 7]	9.9%			9.8%	
Tier I[5, 7]	6.7%			6.5%	
BIS ratio[G]	11.1%			10.9%	
Tier I (BIS)	6.8%			6.6%	

1) Unit trust (mutual) funds, PPR and PPA, capitalisation insurance, assets under discretionary management and advisory mandates of Private Banking Clients and institutional Clients and assets of the managed pension funds (including the Group's staff pension funds).
2) Loans, bond portfolio under the responsibility of the Corporate Banking Division, guarantees and total Customer resources.
3) Number of Employees of the companies which are consolidated in full.
4) Administrative overheads as a percentage of operating income from banking.
5) Calculated in accordance with Bank of Portugal Instruction 16 / 2004.
6) Pension liabilities recognised in the balance sheet.
7) Calculated in accordance with Bank of Portugal rules for minimum own funds requirements (Notice no. 7 / 96).

Table 34

EARNINGS AND PROFITABILITY BY BUSINESS AREAS

The consolidated return on average shareholders' equity (ROE) was 15.2% in 2004[1].

ROE by business areas

Amounts in M.€

	Domestic activity						International activity of Commercial Banking		BPI Group (consolidated)	
	Commercial Banking		Investment Banking		Participating interests and other					
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
Average risk weighted assets	**16 474.5**	**16 583.2**	**193.2**	**196.6**	**585.8**	**675.6**	**188.8**	**234.1**	**17 442.4**	**17 689.6**
Shareholders' equity	1 004.4	1 082.5	36.6	47.4	59.8	61.9	80.2	78.9	1 181.1	1 270.7
Adjustment for capital reallocation	46.7	49.8	(24.3)	(34.0)	(22.5)	(15.7)	-	-	-	-
Capital allocated (adjusted)	**1 051.2**	**1 132.3**	**12.3**	**13.4**	**37.4**	**46.1**	**80.2**	**78.9**	**1 181.1**	**1 270.7**
Net profit	134.8	160.9	7.0	13.4	2.1	(12.8)	19.9	31.2	163.8	192.7
Adjustment to profit due to capital reallocation	0.8	0.7	(0.4)	(0.5)	(0.4)	(0.2)	-	-	-	-
Net profit (adjusted)	**135.6**	**161.6**	**6.6**	**12.9**	**1.7**	**(13.0)**	**19.9**	**31.2**	**163.8**	**192.7**
ROE	**12.9%**	**14.3%**	**53.4%**	**96.0%**	**0.3%**	**neg.**	**24.9%**	**39.6%**	**13.9%**	**15.2%**

Note: The capital allocated to each area in domestic activity is adjusted while in international activity shareholders' equity is used. In domestic activity, in determining the capital allocated to each area it is assumed that each one uses the exact same amount of capital as the average of capital employed in domestic activity. In this manner, the amount of capital allocated to each area is calculated by multiplying the weighted assets by the quotient between shareholders' equity and the domestic activity weighted assets. 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. The return generated by each area results from the quotient between the adjusted contribution and the capital allocated to the area.

Table 35

The contribution made by Commercial Banking's domestic activity improved by 19.3% (+26.1 M.€) to 160.9 M.€ in 2004. The return on allocated shareholders' equity (89.1% of the Group's capital employed) rose from 12.9% in 2003 to 14.3% in 2004.

The Investment Banking area – which is engaged in corporate finance, brokerage, equities trading and private banking –, increased the contribution to consolidated net profit from 7.0 M.€ in 2003 to 13.4 M.€ in 2004, corresponding to 6.9% of consolidated earnings. ROE was 96% (53% in 2003). It therefore continues to present high profitability levels by virtue of the reduced consumption of capital which characterises this business (1.1% of the Group's capital).

1) For the purpose of calculating ROE in 2004, 126.5 M.€ were added to shareholders' equity, corresponding to the goodwill[G] on the consolidation of SIC which, for accounting purposes, was written off against shareholders' equity in June 2004.

The contribution from equity holdings swung from a positive figure of 2.1 M.€ in 2003 to a negative amount of 12.8 M.€ in 2004, owing to the provisioning of unrealised losses on these investments.

The contribution made by international activity registered an improvement to 31.2 M.€ in 2004, 57% higher than in the preceding year. It accounted for 16% of the Group's earnings in 2004. This trend reflects the strong expansion in activity in Angola, where loans to Customers advanced by 61%, Customer resources by 21%, the number of Customers by 35%, and the workforce by 34%. In addition, five new branches were opened, representing an increase of 18.5% in the distribution network.

Contributions by business area to 2004 net profit

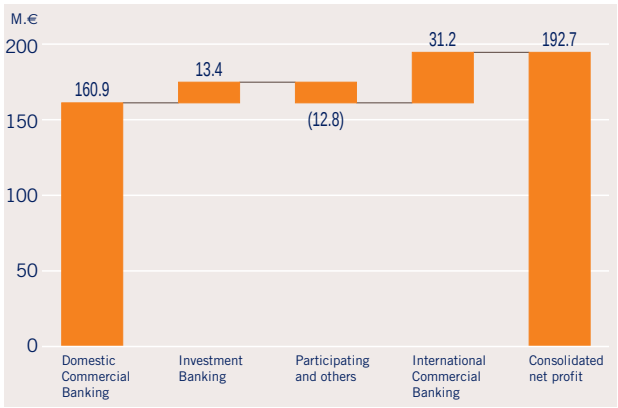


Chart 43

Capital allocation by business areas in 2004

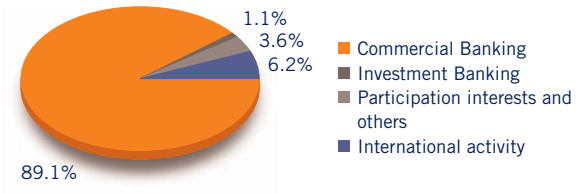


Chart 44

GEOGRAPHICAL SEGMENTATION OF THE BPI GROUP'S ACTIVITY

Domestic activity comprises the Commercial Banking activity conducted in Portugal and the provision of banking services to non-residents, namely, amongst emigrant communities and those of the Madrid branch, as well as the activities relating to Investment Banking, Private Equity and other investments.

International activity[1] comprises the activity conducted by Banco Fomento Angola and the appropriation of the 30% equity interest held in BCI Fomento in Mozambique.

Consolidation of Banco de Fomento Angola's activity

Banco de Fomento Angola's accounts are included in the Group's consolidated financial statements using the purchase method.

Their inclusion is preceded by the conversion of the results and balances into euro based on the reference exchange rates published by way of indication by the Banco Nacional de Angola.

In converting the results to euro, the exchange rate ruling at the end of each month is applied to the revenue generated and costs incurred in that month. Losses or gains resulting from the conversion are recognised in the respective period's income statement.

Balances relating to assets, liabilities and shareholders' equity are converted using the year-end exchange rate. The increase or decrease in the amount of the initial shareholders' equity resulting from its restatement at the year-end exchange rate is a component of the financial period's results and is recorded in the caption "profits from financial operations".

The Kwanza is the local currency; however, the high "dollarisation" of the Angolan economy explains why virtually all business conducted with Banco de Fomento Angola Customers is expressed in American dollars. A substantial portion of revenues and costs are expressed in the American currency or are indexed to it, as is the case with personnel costs. Another example is that at the end of 2004, roughly 82% of deposits were denominated on dollars (the balance being expressed in local currency).

In December 2004, roughly 68% of assets, liabilities and shareholders' equity were expressed in strong foreign currencies, while the balance was expressed in Kwanza (AKZ).

Euro exchange rates

	2003	2004	Δ%
At the end of the year			
AKZ / EUR	98.85580	116.66621	18.02%
USD / EUR	1.25000	1.36230	8.90%
Average of the year			
AKZ / EUR	86.01031	104.26037	21.22%
USD / EUR	1.13729	1.24411	9.39%

Table 36

Pursuant to regulations of Angola's central bank, Banco de Fomento has created a special reserve for the maintenance of own funds in order to compensate for the decrease in the amount of shareholders' equity (expressed in Kwanza) as a result of the local currency's depreciation.

1) Until close towards the end of 2003, international activity included, besides the activity conducted by Banco de Fomento Angola, the activity of Banco de Fomento Mozambique, as well as the appropriation of the results attributable to the 17% shareholding in Banc Post of Rumania. November 2003 saw the conclusion of the sale of the 17% stake in Banco Post, while December saw the merger by incorporation of Banco Fomento, SARL (Mozambique) into Banco Comercial e de Investimentos. As a result of this merger, the BPI Group now has a 30% stake in BCI-Fomento (the commercial brand name adopted by the resulting entity), whose accounts relating to the month of December 2003 have already been consolidated using the equity method[G].

INCOME STATEMENT

Net profit rose by 28.9 M.€ (up 17.6%) to 192.7 M.€ in 2004.

Consolidated operating income from banking improved 4.5% to 809.8 M.€ in 2004, with the following trend in its principal components: increases of 3.2% in net interest income and 6.7% in commissions and other net income.

For their part, administrative overheads, depreciation and amortisation registered a rise of 0.9%, less than the advance in revenues thereby allowing for the continued improvement in efficiency. The indicator administrative overheads, depreciation and amortisation as a percentage of net operating revenue improved from 63.6% in 2003 to 61.4% in 2004.

Provisions net of reversals decreased 22.7%, due principally to the reduction in the need to provide for non-performing loans[1]. Amounts set aside for specific credit risk as a percentage of the performing loan portfolio fell from 0.49% in 2003 to 0.37% in 2004.

The aforementioned improvement in efficiency and the drop in the cost of credit risk permitted net operating income to climb by 24.3% (+48.8 M.€) to 249.6 M.€.

Added to these results is the appreciable increase (+22.1 M.€) in the contribution from partially-consolidated subsidiaries (equity method[G]), the global amount of which reached 37.7 M.€ (+142%) in 2004.

On the other hand, the evolution in earnings was negatively affected by the diminution in net extraordinary items, from a negative amount of 18.9 M.€ in 2003 to a net negative 40.2 M.€ in 2004 (which in turn is basically explained by the costs of 428 early retirements negotiated in 2004).

The average rate of corporate income tax[2] rose from 13% in 2003 to 22% in 2004.

Net profit in 2004

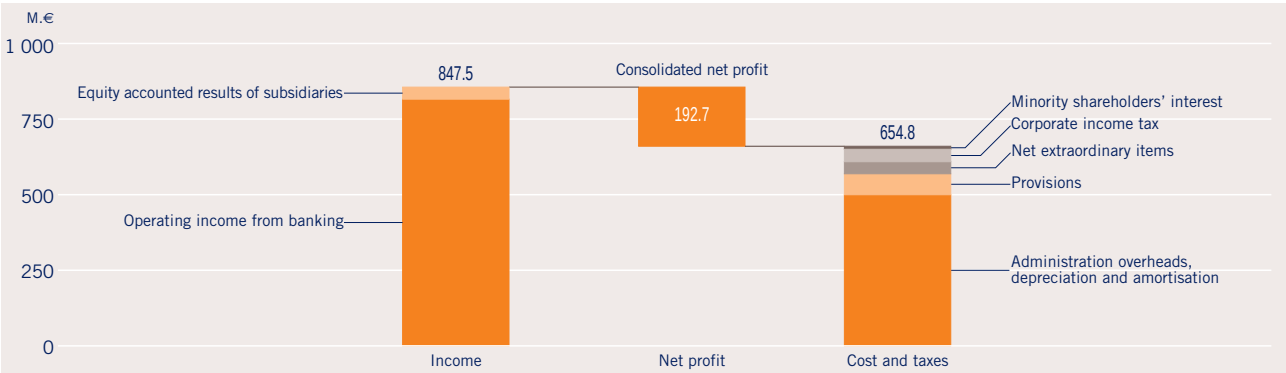


Chart 45

1) Provisioning cover for loans in arrears and doubtful loans is realised in a progressive manner, in conformity with minimum cover coefficients laid down by the Bank of Portugal (Notice 8 / 2003) which take into consideration the age of the default situations, the type of loan and the nature of the guarantees.
2) Measured by the relationship between the provision for taxation and profit before taxation.

Income statement

Amounts in M.€

	Domestic activity			International activity[1]			BPI Group (consolidated)		
	2003	2004	Δ%	2003	2004	Δ%	2003	2004	Δ%
Net interest income (narrow meaning)	437.3	435.6	(0.4%)	30.5	39.3	28.9%	467.8	474.9	1.5%
Income from securities (variable yield)	6.8	14.7	117.7%	-	-	-	6.8	14.7	117.7%
Net interest income	444.0	450.3	1.4%	30.5	39.3	28.9%	474.5	489.6	3.2%
Commissions and other similar income (net)	228.4	243.3	6.5%	15.2	16.7	10.0%	243.6	260.0	6.7%
Recovery of loans in arrears written-off	20.5	15.3	(25.5%)	0.1	-	-	20.6	15.3	(25.9%)
Profits from financial operations (net)	24.0	26.5	10.8%	12.2	18.3	50.2%	36.2	44.9	24.1%
Operating income from banking	**716.9**	**735.4**	**2.6%**	**58.1**	**74.4**	**28.2%**	**774.9**	**809.8**	**4.5%**
Personnel costs	275.3	274.0	(0.5%)	9.3	9.3	0.8%	284.6	283.4	(0.4%)
Other administrative costs	152.3	160.0	5.0%	8.9	9.3	4.5%	161.3	169.3	5.0%
Depreciation and amortisation	44.0	40.7	(7.5%)	3.0	3.9	30.7%	47.0	44.6	(5.0%)
Administrative overheads, depreciation and amortisation	**471.6**	**474.7**	**0.7%**	**21.2**	**22.6**	**6.6%**	**492.8**	**497.4**	**0.9%**
Net operating income before provisions	**245.2**	**260.7**	**6.3%**	**36.8**	**51.8**	**40.6%**	**282.1**	**312.5**	**10.8%**
Provisions (net)	73.7	53.8	(27.0%)	7.6	9.1	19.4%	81.3	62.8	(22.7%)
Net operating income	**171.5**	**206.9**	**20.6%**	**29.2**	**42.7**	**46.1%**	**200.8**	**249.6**	**24.3%**
Net extraordinary items	(19.0)	(40.1)	(110.9%)	0.1	(0.1)	-	(18.9)	(40.2)	(113.2%)
Profit before taxation	**152.5**	**166.8**	**9.4%**	**29.4**	**42.6**	**45.0%**	**181.9**	**209.4**	**15.1%**
Corporate income tax	13.5	30.1	123.5%	10.2	15.1	48.3%	23.6	45.2	91.2%
Profit after taxation	**139.1**	**136.7**	**(1.7%)**	**19.2**	**27.5**	**43.2%**	**158.3**	**164.2**	**3.8%**
Equity-accounted results of subsidiaries	14.8	34.0	129.1%	0.7	3.7	408.6%	15.5	37.7	142.2%
Minority shareholders' share of profit	10.0	9.2	(8.1%)	(0.0)	0.0	-	10.0	9.2	(8.1%)
Net profit	**143.9**	**161.5**	**12.2%**	**19.9**	**31.2**	**56.6%**	**163.8**	**192.7**	**17.6%**
After-tax cash flow	**261.6**	**256.0**	**(2.1%)**	**30.6**	**44.2**	**44.8%**	**292.2**	**300.2**	**2.8%**

1) In 2003, international activity's contribution included the net profit of Banco Fomento Angola (20.6 M.€) and Banco Fomento Mozambique up until the end of November 2003 (-1.3 M.€), date on which it was incorporated into Banco Comercial e de Investimentos, and the equity-accounted results attributable to the 17% equity holding in Banc Post of Romania (1.2 M.€), sold in November 2003, and to the 30% equity holding in BCI Fomento (-0.5 M.€ generated in December 2003). In 2004, international activity's contribution included the net profits of Banco Fomento Angola (27.5 M.€) and BCI Fomento, the latter equity-accounted for the whole of 2004 (3.7 M.€).

Table 37

Net interest income

Consolidated net interest income advanced by 3.2% when compared to 2003, that is, 15.1 M.€. Net interest income as a percentage of average total assets rose from 1.82% to 2.03%.

Net interest income

Amounts in M.€

	Domestic activity			International activity			BPI Group (consolidated)		
	2003	2004	Δ%	2003[1]	2004	Δ%	2003	2004	Δ%
Net interest income (narrowing meaning)	437.3	435.6	(0.4%)	30.5	39.3	28.9%	467.8	474.9	1.5%
As % of average total assets	-	-	-	-	-	-	1.80%	1.96%	-
Income from securities (dividends)	6.8	14.7	117.7%	-	-	-	6.8	14.7	117.7%
Net interest income	**444.0**	**450.3**	**1.4%**	**30.5**	**39.3**	**28.9%**	**474.5**	**489.6**	**3.2%**
As % of average total assets	**-**	**-**	**-**	**-**	**-**	**-**	**1.82%**	**2.03%**	**-**

1) In 2003, included the contribution of 3.8 M.€ from Banco de Fomento Mozambique.

Table 38

Domestic activity

Net interest income derived from domestic activity expanded by 6.3 M.€ (+1.4%). The 6.6% growth posted by the loan portfolio was insufficient to compensate for the contraction in spreads (-0.24 p.p.), with the result that narrow net interest income dipped 0.4% (-1.7 M.€) relative to 2003. However, dividends received rose by 7.9 M.€ to 14.7 M.€ in 2004. The most significant contributions came from the participating interests held in Portugal Telecom (3.3 M.€ in 2003 and 4.6 M.€ in 2004), SIBS (0.7 M.€ in 2003 and 4.3 M.€ in 2004) and BCP (4.2 M.€ in 2004).

International activity

In international activity, narrow net interest income registered an advance of 28.9%, that is, an increase in absolute terms of 8.8 M.€. In 2003, this item still included the contribution of 3.8 M.€ from Banco Fomento Mozambique. The 47% surge in Banco Fomento Angola's net interest income reflects the robust expansion in activity, as borne out by growth rates of 74% in lending and 31% in resources (in terms of average balances), and the increased investment in public-debt (Treasury Bills) and Banco Nacional de Angola (central bank) securities.

Net interest income

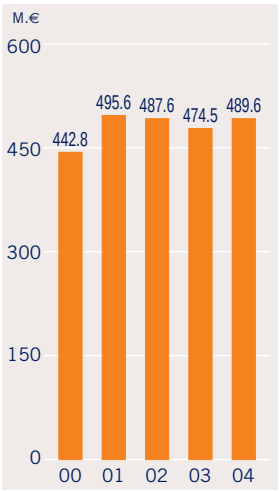
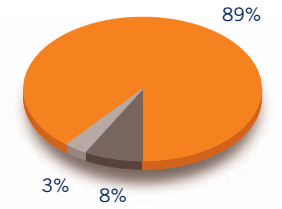


Chart 46

Net interest income in 2004
Breakdown by geographical area



Narrow interest income:
- Domestic activity
- International activity

Income from securities (dividends)

Chart 47

Consolidated analysis – spreads and volume review

The following table presents for the average balance of remunerated assets and liabilities the corresponding average interest rates, and the spread between these and the average market rate. The 3-month Euribor[G] was used as the market rate.

Average interest rates on remunerated assets and liabilities

Amounts in M.€

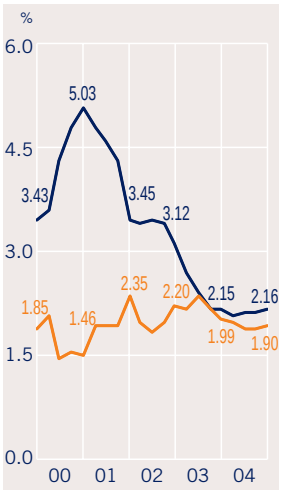
	2003			2004			Δ 2003 / 2004	
	Average balance	Average rate	Average spread[1]	Average balance	Average rate	Average spread[1]	In average balances (M.€)	In average spread (p.p.)
Placements with credit institutions	2 949.6	2.4%	0.0%	1 639.5	2.0%	(0.1%)	-1 310.1	-0.16
Loans to Customers	16 794.4	4.5%	2.1%	18 072.1	4.0%	1.9%	+1 277.7	-0.24
Bonds and other fixed-income securities	3 245.0	5.0%	2.7%	1 536.8	6.2%	4.1%	-1 708.2	+1.44
Interest-earning assets	**22 988.9**	**4.3%**	**1.9%**	**21 248.4**	**4.0%**	**1.9%**	**-1 740.6**	**-0.04**
Amounts owed to credit institutions	6 944.7	2.8%	(0.5%)	3 937.5	2.3%	(0.2%)	-3 007.2	+0.28
Amounts owed to Customers	12 103.1	1.7%	0.7%	12 063.3	1.5%	0.6%	-39.8	-0.04
Debt securities	3 726.7	2.6%	(0.3%)	4 745.7	2.5%	(0.4%)	+1 019.0	-0.10
Subordinated debt	662.5	3.6%	(1.3%)	766.1	3.3%	(1.2%)	+103.6	+0.09
Interest-bearing liabilities	**23 437.0**	**2.2%**	**0.1%**	**21 512.6**	**1.9%**	**0.2%**	**-1 924.4**	**+0.07**
Average spread between remunerated assets and liabilities			**2.1%**			**2.1%**		**+0.03**
Note:								
Average total assets	26 009.2			24 172.8			-1 836.4	
Euribor 3M		2.3%			2.1%			

1) 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

Table 39

Loans to Customers – the average spread on the loan portfolio[2] (which accounts for 85% of average interest-earning assets) decreased by 0.24 percentage points in 2004. The contraction in spreads was observed in the segment comprising loans to individuals and small businesses (above all in Customers representing better risk), while the spreads on lending to companies remained generally stable. In home loans, the reduction in the average spread vis-à-vis the respective benchmarks was 0.15 percentage points. It is worth pointing out that practically the entire home-loan portfolio is subject to the variable-rate regime (99% of the portfolio), which is directly indexed to market rates, with a repricing gap[G] of roughly six months on average.

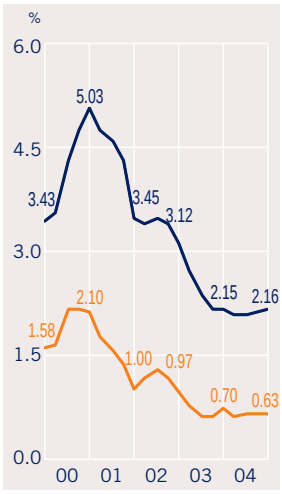
Loan portfolio's quarterly average spread
In relation to the market average rate



— Average market interest rate (3-month Euribor)
— Loan portfolio's average spread

Chart 48

Resources' quarterly average spreads
In relation to the market average rate



— Average market interest rate (3-month Euribor)
— Deposits and other remunerated amounts owed to Customers' average spread

Chart 49

2) Average spread in relation to the annual average of the 3-month Euribor.

Securities portfolio – the aspects relating to the evolution of the securities portfolio with the most significant impact on net interest income in 2004 were:

- with a positive impact – the increase in the Banco Fomento Angola's average securities portfolio from 36.8 M.€ in 2003 to 102.7 M.€ in 2004, chiefly owing to the acquisition of public-debt securities and securities issued by Angola's central bank, expressed in Kwanza and in Kwanza indexed to the USD and remunerated at relatively high interest rates (securities portfolio average interest rate of 29% in 2004), which originated an increase in net interest income of some 20 M.€;

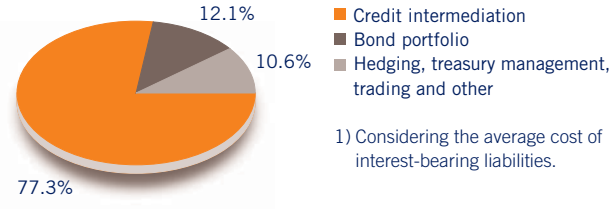
- with a negative impact – the reduction in the portfolio of foreign companies' bonds with high ratings[1], the average balance on which decreased by 62% (-449 M.€). Taking into account the portfolio's average spread of 2.3 percentage points relative to Euribor[G], the aforementioned reduction generated a negative volume effect on net interest income of 10 M.€.

Resources – the stabilisation in interest rates that occurred commencing in the 2nd half of 2003 and which prolonged throughout 2004, contributed to a stabilisation in the price paid for Customer resources. However, the permanent competition for this type of resources even justified a drop of 0.04 p.p. in the average margin on deposits vis-à-vis Euribor between 2003 and 2004. However, despite the deceleration in the rhythm of loan expansion, the trend in deposits, the average balance on which fell by 0.3%, was insufficient to finance growth, with the result that BPI continued to favour resorting to the issue of medium and long-term debt (senior and subordinated) to Customers and institutional investors. These resources funded roughly 88% of the loan portfolio's growth. This option reinforced the stability of balance sheet funding, but inevitably leads to a narrowing in the average spread on resources. However, it is worth noting the decrease throughout the year in the costs of medium and long-term financing on the international market, reflecting the global contraction in spreads. Between the first and last 5-year issues effected during the year, the Bank's cost of borrowing for this maturity term fell from 0.21% to 0.16%, with this trend being visible in all maturity terms.

Consolidated analysis – balance and spread effects on the trend in net interest income

The following table presents the variation in net interest income explained by the effect of the variation in the average balances of remunerated assets and liabilities (balance effect) and in the average interest-rate spread (rate effect). The spread on the interest-earning assets was defined as the difference between the average rate of remuneration on assets and the market rate and, inversely, the spread on interest-bearing liabilities as the difference between the market interest rate and the average interest rate on resources. The market rate used is the average 3-month Euribor rate.

Net interest income generation[1] in 2004



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

Chart 50

1) The decision to sell resulted from the narrowing noted in the portfolio's spreads which had been constituted in the 1st half of 2003, taking advantage of a period in which these spreads were situated at high levels, and generated gains of 16.9 M.€. The negative impact on net interest income is partially compensated by the positive impact on Swaps[G].

Trend in interest income and expense

Amounts in M.€

	2003	Balance effect	Spread effect	Residual effect	Total change	2004
Interest margin from interest-earning assets						
Placements with credit institutions	0.6	(0.3)	(4.7)	2.1	(2.9)	(2.3)
Loans to Customers	359.7	27.4	(39.7)	(3.0)	(15.3)	344.4
Bonds and other fixed-income securities	86.7	(45.6)	46.8	(24.6)	(23.5)	63.2
Correction for the structure effect[1]	-	(15.3)	(10.9)	26.2	-	-
Interest margin from interest-earning assets	**447.0**	**(33.8)**	**(8.5)**	**0.6**	**(41.7)**	**405.3**
Interest margin from interest-bearing liabilities						
Amounts owed to credit institutions	(32.3)	14.0	19.7	(8.5)	25.1	(7.1)
Remunerated Customer deposits and other liabilities	79.8	(0.3)	(4.3)	0.0	(4.5)	75.2
Debt securities	(10.9)	(3.0)	(3.7)	(1.0)	(7.7)	(18.6)
Subordinated debt	(8.4)	(1.3)	0.6	0.1	(0.6)	(9.0)
Correction for the structure effect[1]	-	(11.7)	3.6	8.1	-	-
Interest margin from interest-bearing liabilities	**28.2**	**(2.3)**	**15.8**	**(1.3)**	**12.2**	**40.5**
Gap between interest-earning assets and interest-bearing liabilities	(10.4)				4.9	(5.6)
Subtotal (interest margin from assets + interest margin from liabilities + gap between assets and liabilities)	**464.8**				**(24.6)**	**440.2**
Other income and costs[2]	(18.4)				(0.7)	(19.1)
Net income from swaps and other off-balance sheet operations	21.4				32.4	53.8
Net interest income (narrow meaning)	**467.8**				**7.1**	**474.9**
Income from securities (variable yield)	6.8				7.9	14.7
Net interest income	**474.5**				**15.1**	**489.6**

Note: the "balance effect" corresponds to the change in net interest income resulting from changes in balances, considering spreads do not change; the "spread effect" corresponds to the change in net interest income due to changes in spreads, considering the same average balances of the previous year; the "residual effect" is the combined impact of changes in balances and spreads (corresponds to the net interest income change not explained by the two previous effects). *Table 40*

1) Reconciliation line for the sum of the volume, spread 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) Interest income on liquid and other assets, net of the contributions to the deposit guarantee fund and interest expense on other liabilities.

The loan portfolio had a negative impact on net interest income of 15.3 M.€, bearing in mind that the positive effect (in the amount of 27.4 M.€) of the 7.6% growth in the loan portfolio's balance, was not sufficient to compensate the negative impact resulting from the decrease in the portfolio's average spreads.

The securities portfolio registered a decrease in its contribution to net interest income of 23.5 M.€, which principally reflects a negative impact (in domestic activity) of 42.5 M.€ associated with the decrease in the dealing portfolio and the portfolio of investment bonds of foreign companies, which was partially compensated by the positive impact of 19.0 M.€ resulting from the increase in the average portfolio of securities at Banco Fomento Angola.

On the resources side, it is worth highlighting the negative impact on net interest income of 8.4 M.€ stemming from the recourse to senior and subordinated debt issues for the purpose of funding the expansion in lending operations (roughly 88% of the increase in loans).

Remunerated assets and liabilities generated net interest income in 2004 of 440.2 M.€, which corresponds to a decrease of 5.3%. However, the increase of 32.4 M.€ in gains on hedging swaps[G], essentially relating to the hedging of positions in the bonds and securitised-debt portfolio, meant that narrow net interest income grew by 7.1 M.€ (+1.5%).

Banco de Fomento Angola

Net interest income generated by Banco de Fomento Angola totalled 39.3 M.€ in 2004, evidencing an increase of 47.3% relative to 2003. This trend was essentially attributable to the expansion in activity – the average balances on loans and resources grew by 74% and 31%, respectively – and to the increase in Angolan public-debt securities which generated significant volume effects.

Average balance sheet and factors influencing the trend in net interest income from BFA

Amounts in M.€

	2003			2004			Change in net interest income			
	Average balance	Average rate	Interest (income / cost)	Average balance	Average rate	Interest (income / cost)	Volume effect	Rate effect	Resi-dual effect	Total
Placements with credit institutions	327.7	0.7%	2.4	331.2	0.9%	2.9	0.0	0.5	0.0	0.5
Loans to Customers	104.7	14.0%	14.7	182.0	10.3%	18.7	10.8	(3.9)	(2.9)	4.0
Bonds and other fixed-income securities	36.8	30.7%	11.3	102.7	29.5%	30.3	20.3	(0.5)	(0.8)	19.0
Other	36.0	-	-	56.6	-	-	-	-	-	-
Correction for the structure effect[1]	-	-	-	-	-	-	(21.7)	14.5	7.2	-
Income from interest-earning assets	**505.2**	**5.6%**	**28.4**	**672.5**	**7.7%**	**51.9**	**9.4**	**10.6**	**3.5**	**23.5**
Remunerated Customer deposits and other liabilities	414.7	0.3%	1.3	544.2	0.6%	3.4	0.4	1.3	0.4	2.1
Debt securities	2.6	13.2%	0.3	28.9	31.7%	9.1	3.5	0.5	4.9	8.8
Other	38.8	-	0.1	-	-	0.0	-	-	-	(0.1)
Correction for the structure effect[1]	-	-	-	-	-	-	(3.4)	6.5	(3.1)	-
Cost of interest-bearing liabilities	**456.2**	**0.4%**	**1.7**	**573.1**	**2.2%**	**12.6**	**0.4**	**8.3**	**2.1**	**10.9**
Average spread between interest-earning assets and interest-bearing liabilities		5.3%			5.5%					
Net interest income			**26.7**			**39.3**				**12.6**

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.

Table 41

Recovery of non-performing loans

The recoupment of arrear loans and interest previously provided for and written off assets amounted to 15.3 M.€ in 2004. In 2003, loan and interest recoveries totalled 20.6 M.€, with 7.2 M.€ referring to the recovery of an old default situation, the final court ruling of which only became known in that period.

Commissions

Commissions and other similar income (net) grew by 6.7% taking the whole Group as a whole when compared to 2003, which chiefly reflects the growth (in domestic activity) in commissions associated with asset management and commercial banking business.

Commissions and other similar income[1] (net) Amounts in M.€

	2003	%	2004	%	Δ%
Domestic activity					
Commissions associated with loans and guarantees	65.8	27%	69.0	27%	4.9%
Income from cards	46.5	19%	51.1	20%	9.9%
Unit trust funds and unit-linked insurance	38.2	16%	43.0	17%	12.4%
Deposits and related services	29.0	12%	27.9	11%	(3.8%)
Intermediation of insurance products	12.5	5%	15.9	6%	27.6%
Related to credit for the acquisition of non-financial products	4.0	2%	2.5	1%	(37.9%)
Banking services	8.8	4%	6.7	3%	(23.9%)
Of which: consultancy and valuation	4.6	2%	3.6	1%	(23.0%)
Securities-related services	3.5	1%	3.4	1%	(2.5%)
Other	0.5	0%	1.4	1%	-
Commercial Banking commissions	**208.8**	**86%**	**221.0**	**85%**	**5.9%**
Unit trust funds and unit-linked insurance	7.9	3%	10.3	4%	30.9%
Banking services	6.8	3%	7.4	3%	8.8%
Of which: portfolio management and advisory services	2.3	1%	3.6	1%	58.9%
consultancy and valuations	4.0	2%	2.9	1%	(26.6%)
Securities-related services	4.3	2%	4.4	2%	3.5%
Of which: brokerage	4.0	2%	4.5	2%	12.1%
Other	0.7	0%	0.2	0%	(72.3%)
Investment Banking commissions	**19.6**	**8%**	**22.3**	**9%**	**13.7%**
Domestic activity commissions	**228.4**	**94%**	**243.3**	**94%**	**6.5%**
International activity					
Banco de Fomento Angola	13.6	6%	16.7	6%	22.9%
Banco de Fomento Mozambique	1.6	1%	-	0%	(100.0%)
International activity commissions	**15.2**	**6%**	**16.7**	**6%**	**10.0%**
Total	**243.6**	**100%**	**260.0**	**100%**	**6.7%**

1) Includes other net operating income, excluding non-performing loan recoveries and includes other taxes except corporate income tax. *Table 42*

Domestic activity

In domestic activity, commissions and other similar income from Commercial Banking registered growth of 5.9% (+12.2 M.€). Of particular note were the increases in commissions from cards, (+9.9%), as well as those associated with investment funds, capitalisation insurance (+12.4%) and insurance broking[1] (+27.6%) relative to 2003.

Investment Banking commission for their part registered in 2004 an increase of 13.7% (+2.7 M.€) as a result of the growth in commissions associated with investment funds and capitalisation insurance of 30.9% (+2.4 M.€), and in commissions from asset management and advisory mandates (up 58.9% or +1.3 M.€).

Commissions and other similar income (net)

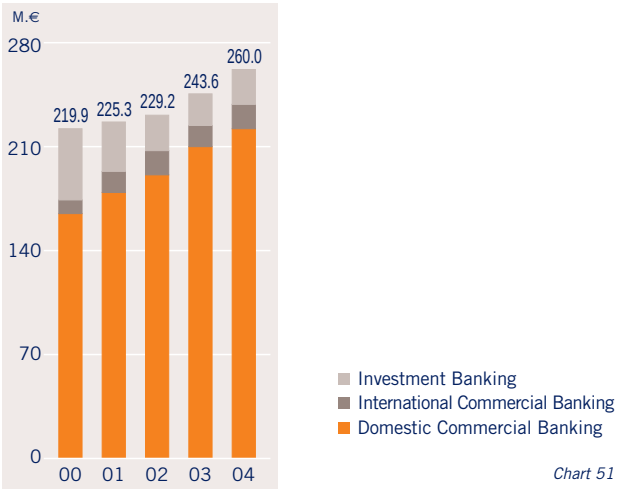


Chart 51

International activity

In Commercial Banking's international activity, commissions and other similar income totalled 16.7 M.€. At Banco Fomento Angola commissions grew by 22.9% from 13.6 M.€ to 16.7 M.€, a trend which chiefly reflects the strong expansion in foreign operations. In 2003, international activity's contribution included Banco Fomento's (Mozambique) commissions of 1.6 M.€.

1) Commissions from insurance intermediation include the share in the results of the insurance portfolios. In 2004, from the total increase in insurance intermediation commissions of 3.4 M.€, 0.9 M.€ resulted from the placement of insurance products and 2.5 M.€ from the share in the portfolios results.

Profits from financial operations

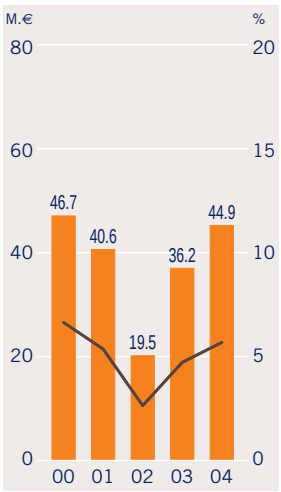
Profits from financial operations rose by 24.1% (+8.7 M.€) to 44.9 M.€ in 2004. Their importance relative to operating income from banking climbed from 4.7% in 2003 to 5.5% in 2004.

Profits from financial operations Amounts in M.€

	2003	2004	Δ M.€
Domestic activity			
Interest rate instruments	15.4	14.3	(1.2)
Equities and equity futures	3.8	6.7	+2.9
Structured products	3.4	3.7	+0.3
Private Equity	0.8	0.3	(0.4)
Currency gains	2.3	1.9	(0.4)
Other	(1.6)	(0.3)	+1.3
Domestic activity	**24.0**	**26.5**	**+2.6**
International activity			
Banco de Fomento Angola	13.0	18.3	+5.3
Banco de Fomento Mozambique	(0.8)	-	+0.8
International activity	**12.2**	**18.3**	**+6.1**
Total	**36.2**	**44.9**	**+8.7**

Table 43

Profits from financial operations



Profits from financial operations (left-hand scale)
Profits from financial operations as % of operating income from banking (right-hand scale)

Chart 52

Domestic activity

Domestic activity contributed with 26.5 M.€, (+2.6 M.€ than in 2003), of which 14.3 M.€ corresponded to gains on interest-rate instruments (mainly gains realised on the sale of foreign companies' bonds).

Trading activity (including arbitrage) in equities and equity futures[G] generated a contribution of 6.7 M.€ (3.8 M.€ in 2003).

International activity

In international activity, profits from financial operations were 18.3 M.€ (12.2 M.€ in 2003). Approximately 75% of these gains resulted from foreign exchange operations with Customers, carried out as part of the Commercial Banking business in Angola.

Administrative overheads, depreciation and amortisation

Administrative overheads, depreciation and amortisation – personnel costs, outside supplies and services and depreciation and amortisation – registered an increase of 0.9% relative to 2003, which is lower than the rise in revenues, with the result that the indicator "administrative overheads, depreciation and amortisation as a percentage of operating income from banking" improved from 63.6% in 2003 to 61.4% in 2004.

Administrative overheads, depreciation and amortisation Amounts in M.€

	2003	2004	Δ%
Domestic activity			
Personnel costs	275.3	274.0	(0.5%)
Outside supplies and services	152.3	160.0	5.0%
Administrative overheads	**427.6**	**434.0**	**1.5%**
Depreciation and amortisation	44.0	40.7	(7.5%)
Administrative overheads, depreciation and amortisation in domestic activity	**471.6**	**474.7**	**0.7%**
International activity			
Banco de Fomento Angola	17.2	22.6	31.8%
Banco de Fomento Mozambique	4.1	-	(100.0%)
Administrative overheads, depreciation and amortisation in international activity	**21.2**	**22.6**	**6.6%**
Administrative overheads, depreciation and amortisation (consolidated)	**492.8**	**497.4**	**0.9%**
Consolidated indicators			
Personnel costs / operating income from banking	36.7%	35.0%	
Administrative overheads / operating income from banking	57.5%	55.9%	
Administrative overheads, depreciation amortisation / operating income from banking	63.6%	61.4%	
Efficiency indicators according to the Bank of Portugal Instruction 16 / 2004			
Personnel costs / operating income from banking and "equity method" results	35.8%	33.3%	
Administrative overheads, depreciation and amortisation / operating income from banking and "equity method" results	62.0%	58.4%	

Table 44

Domestic activity

In domestic activity, administrative overheads, depreciation and amortisation advanced by 0.7% to 474.7 M.€ in 2004: personnel costs fell by 0.5%, outside supplies and services rose by 5.0% and depreciation and amortisation decreased 7.5%.

International activity

In international activity, the continuing buoyant expansion of business in Angola was responsible for the evolution of costs. At Banco Fomento Angola administrative overheads, depreciation and amortisation climbed by 31.8%, from 17.2 M.€ in 2003 to 22.6 M.€ in 2004. This trend chiefly reflects the increases of 33.8% in the Employee headcount, of 18.5% in the number of branches and the inauguration of the new head office midway through 2003. It should be pointed out that in 2003 costs in international activity included costs of 4.1 M.€ associated with the operation in Mozambique and which, effective from December 2003, began to be equity accounted.

Personnel costs

Consolidated personnel costs were down 0.4% when compared to 2003. The average number of Employees on the payroll of BPI Group entities consolidated using the purchase method – key aggregate for the trend in personnel costs – declined by 4.0%, from 7 296 in 2003 to 7 005 in 2004.

Personnel costs Amounts in M.€

	2003	2004	Δ%
Domestic activity	**275.3**	**274.0**	**(0.5%)**
International activity			
Banco de Fomento Angola	7.9	9.3	18.7%
Banco de Fomento Mozambique	1.4	-	(100.0%)
International activity	**9.3**	**9.3**	**0.8%**
Total	**284.6**	**283.4**	**(0.4%)**

Table 45

Personnel costs in 2004

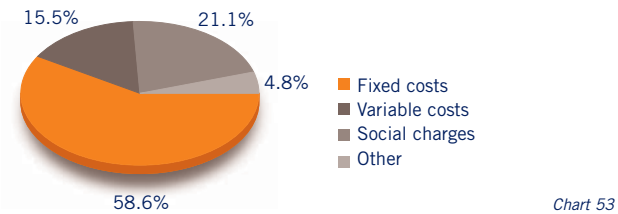


Chart 53

Domestic activity

In domestic activity, personnel costs fell by 0.5%. The average number of Employees (at fully-consolidated companies) dropped by 4.9% (from 6 833 to 6 495). The salary increase awarded in 2004 according to the review of the ACTV (collective employment agreement for the banking sector) was 2.7%, which translated itself into an effective increase in personnel costs of around 4% as a consequence of the combined effect of the clauses of a pecuniary nature.

The number of early retirements negotiated in the year as part of the 2001-2004 human resources rationalisation programme was 428 (in 2003, 487 Employees took early retirement). The cost of early retirements related to the increase in pension obligations is recorded under the caption net extraordinary items.

The dynamic negotiation of early retirements meant that in 2004, 276 people ceased to form part of the staff complement (of which 38 were contracted in 2003 and 238 contracted in 2004). The staff departures occurred, in average terms, in August.

The costs associated with the remuneration and employer's contributions (in the caption "personnel costs") relating to Employees taking early retirement ceases with their effective exit from the payroll.

302 new Employees were recruited in 2004 with an average age of 28 years (of whom 62% were university graduates), most of whom admitted to perform commercial functions. These Employees with admitted to the Group on average in June, with the result that the associated costs are reflected in 6.6 months of the year.

International activity

In international activity, personnel costs rose marginally by 0.8% (to 9.3 M.€); however, in 2003, besides Angola's Banco de Fomento's personnel costs, this item included the costs in the activity in Mozambique which in 2004 began to be recognised using the equity method.

Banco Fomento Angola's personnel costs rose from 7.9 M.€ in 2003 to 9.3 M.€ in 2004 (+18.7%). The average Employee headcount climbed from 340 to 510 (+50%).

However, on the one hand, the lower cost per capita of recently-graduated Employees and, on the other, the dollar's depreciation against the euro in 2004 bearing in mind that salaries at BFA are indexed to the first of these currencies, explain the lower increase in personnel costs when expressed in euro (consolidation currency). Given the Angolan economy's high "dollarisation", a substantial portion of costs and revenues are tied to the American currency.

BPI Group Employees

	Average no. of Employees			No. of Employees at end of the year		
	2003	2004	Δ%	2003	2004	Δ%
Staff complement of fully-consolidated companies						
Domestic activity						
Activity in Portugal						
Banco BPI in Portugal	6 345	6 050	(4.7%)	6 011	5 926	(1.4%)
Banco Português de Investimento	160	132	(17.3%)	139	135	(2.9%)
Other subsidiaries in Portugal	168	153	(9.0%)	157	152	(3.2%)
Activity in Portugal	6 673	6 334	(5.1%)	6 307	6 213	(1.5%)
Overseas branches and representative offices	160	161	0.3%	156	160	2.6%
Domestic activity	**6 833**	**6 495**	**(4.9%)**	**6 463**	**6 373**	**(1.4%)**
International activity						
Banco Fomento Angola	340	510	49.8%	441	590	33.8%
Banco Fomento Mozambique	123	-	(100.0%)	-	-	-
International activity	**463**	**510**	**10.1%**	**441**	**590**	**33.8%**
Employees of fully-consolidated companies	**7 296**	**7 005**	**(4.0%)**	**6 904**	**6 963**	**0.9%**
Employees of equity-accounted subsidiaries	40	38	(5.1%)	39	36	(7.7%)
Total Group Employees	**7 335**	**7 043**	**(4.0%)**	**6 943**	**6 999**	**0.8%**
Temporary workers[1]	107	198	85.6%	82	81	(1.2%)
	7 442	**7 240**	**(2.7%)**	**7 025**	**7 080**	**0.8%**

1) The cost of temporary work is reflected under the item Outside Supplies and Services.

Table 46

Outside supplies and services

Outside supplies and services in the consolidated accounts increased by 5.0% relative to 2003.

Outside supplies and services Amounts in M.€

	2003	%	2004	%	Δ%
Domestic activity					
Advertising, public relations and studies					
Advertising campaigns (recognised in a phased manner)	9.8	6%	8.3	5%	(15.2%)
Events	0.5	0%	3.1	2%	559.1%
Other advertising costs	10.7	7%	12.6	7%	18.5%
Studies	4.0	3%	3.0	2%	(24.6%)
Subtotal: advertising, public relations and studies	24.9	15%	27.1	16%	8.5%
Costs related to businesses					
Cards and Automatic Banking	9.2	6%	9.4	6%	1.9%
Treasury, compensation and cheques	7.2	4%	7.1	4%	(0.2%)
Home loans, consumer credit and motor car finance	7.2	4%	7.1	4%	(0.9%)
Other	4.5	3%	4.3	3%	(3.5%)
Subtotal: costs related to businesses	28.1	17%	28.0	17%	(0.2%)
Costs with installations, communications, IT and other					
Installations	35.4	22%	37.1	22%	4.6%
Communications	20.8	13%	20.5	12%	(1.5%)
IT costs (software and hardware)	15.8	10%	17.6	10%	11.2%
Other	22.7	14%	22.6	13%	(0.3%)
Subtotal: costs with installations, communications, IT and other	94.7	59%	97.8	58%	3.2%
Costs related to human resources	4.2	3%	6.9	4%	65.2%
Other costs	0.4	0.2%	0.2	0.1%	(34.3%)
Domestic activity	**152.3**	**94%**	**160.0**	**94%**	**5.0%**
International activity					
Banco Fomento Angola	6.8	4%	9.3	6%	36.6%
Banco Fomento Mozambique	2.1	1%	-	-	(100.0%)
International activity	**8.9**	**6%**	**9.3**	**6%**	**4.5%**
Total	**161.3**	**100%**	**169.3**	**100%**	**5.0%**

Table 47

Domestic activity

In domestic activity outside supplies and services also rose by 5%. This trend was associated above all to the 8.5% rise in the aggregate covering advertising, communications, public relations and studies, to the 4.6% increase in rentals (+1.6 M.€) resulting from the opening of 12 retail branches and 4 investment centres, and to the 11.2% rise in IT costs (+1.8 M.€), associated with the execution of the technological renovation process (includes external consultancy projects).

As regards the evolution in outside supplies and services costs relating to human resources, it is worth mentioning the 0.7 M.€ increase in training costs (which in 2004 amounted to 2.1 M.€), and the rise in temporary employment costs from 1.6 M.€ in 2003 to 3.4 M.€ in 2004 as a result of the additional recourse to temporary labour.

BPI recognises in a phased manner (over three financial years) the expenditure on institutional advertising and product publicity campaigns, on the grounds that the benefits flowing from such investments extend over several financial periods. In 2004, the investment on advertising campaigns with these characteristics amounted to 9.9 M.€ (11.1 M.€ in 2003).

In terms of this procedure, the income statement recorded a charge of 8.3 M.€ in 2004, of which 2.7 M.€ referred to the partial recognition of advertising investments realised in the year, and 5.6 M.€ relating to those carried out in previous years. At the end of 2004, the amount to be imputed to subsequent financial years was 12.4 M.€.

International activity

In international activity, outside supplies and services totalled 9.3 M.€. Activity in Angola registered growth in costs of 36.6%, from 6.8 M.€ to 9.3 M.€ in 2004.

Depreciation and amortisation

Consolidated depreciation and amortisation decreased by 5.0% to 44.6 M.€ in 2004 (2.4 M.€ less than in 2003).

Depreciation and amortisation of intangible and tangible fixed assets Amounts in M.€

	Depreciation and amortisation in the year			Net fixed assets
	2003	2004	Δ%	31 Dec. 2004
Domestic activity				
Intangible assets	8.6	6.1	(28.9%)	6.8
Premises	9.4	9.9	5.6%	169.9
Computer hardware	10.8	9.7	(10.8%)	19.7
Other fixed assets	15.2	15.0	(1.1%)	68.0
Capital expenditure in progress	-	-	-	1.3
Tangible fixed assets	35.4	34.6	(2.3%)	259.0
Domestic activity	**44.0**	**40.7**	**(7.5%)**	**265.8**
International activity				
Banco Fomento Angola	2.5	3.9	60.5%	28.4
Banco Fomento Mozambique	0.6	-	(100.0%)	-
International activity	**3.0**	**3.9**	**30.7%**	**28.4**
Total	**47.0**	**44.6**	**(5.0%)**	**294.2**

Table 48

Domestic activity

In domestic activity, depreciation and amortisation fell by 7.5%, that is, 3.3 M.€ to 40.7 M.€. This trend is partially explained by the lower level of capital expenditure following the heavy investments made in recent years (mainly in 1999 and 2000) directed at the expansion of the traditional branch network by 20%, the launching and development of the virtual channels, and preparing and adapting the computer systems for the year 2000 and the introduction of the euro.

The classes of assets in which the biggest reduction in depreciation and amortisation charges were noted in 2004 were intangible assets (-28.9%) and IT equipment (-10.8%). This is due to the fact that because of their shorter useful lives (and consequently, correspondingly shorter deprecation periods) any abatement in capital investment is reflected sooner in the income statement. In addition, the withdrawal of fixed assets allocated to activities which have been outsourced implies their recognition under the caption outside supplies and services, whereas previously they were recorded under this caption.

International activity

In international activity, depreciation and amortisation totalled 3.9 M.€. The depreciation and amortisation charge in Angola rose by 60.5%, from 2.5 M.€ in 2003 to 3.9 M.€ in 2004. This steep increase reflects primarily the depreciation of Banco de Fomento's new head office (investment of 20 M.USD) effective from July 2003, as well as the opening of five new branches (18.5% expansion of the distribution network).

Depreciation and amortisation in 2004

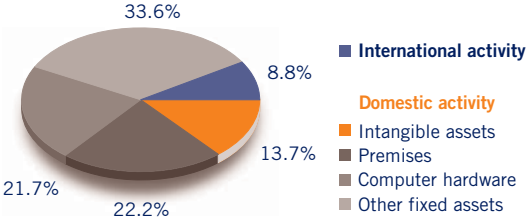


Chart 54

Provisions

Amounts set aside for provisions (net of reversals) decreased by 22.7% from 81.3 M.€ in 2003 to 62.8 M.€ in 2004.

Loan provisioning amounted to 75.6 M.€ (65.6 M.€ for specific default situations and 10 M.€ for general provisions).

Provisions (income statement)

Amounts in M.€

	Domestic activity			International activity			BPI Group (consolidated)		
	2003	2004	Δ M.€	2003[1]	2004	Δ M.€	2003	2004	Δ M.€
Loan provisions									
Specific loan provisions	77.3	65.1	(12.2)	2.8	0.4	(2.3)	80.1	65.6	(14.5)
General loan provisions	5.9	4.7	(1.2)	3.9	5.3	+1.4	9.7	10.0	+0.2
Reversal of general provisions (which were used for increasing specific provisions for loans; Bank of Portugal Notice 8 / 2003)[2]	(27.2)	-	+27.2	-	-	-	(27.2)	-	+27.2
Total provisions for Customer loans	**56.0**	**69.8**	**+13.8**	**6.7**	**5.7**	**(0.9)**	**62.7**	**75.6**	**+12.9**
Provisions for unrealised losses on securities and participating interests	(6.9)	6.6	+13.5	0.2	0.1	(0.1)	(6.7)	6.8	+13.4
Provisions for loans to credit institutions	(0.0)	(55.4)	(55.4)	-	-	-	(0.0)	(55.4)	(55.4)
Other provisions	24.6	32.7	+8.1	0.7	3.2	+2.5	25.3	35.9	+10.6
Total	**73.7**	**53.8**	**(19.9)**	**7.6**	**9.1**	**+1.5**	**81.3**	**62.8**	**(18.4)**

Table 49

1) In 2003, includes provisions at Banco de Fomento Mozambique of 2.0 M.€, of which: 2.2 M.€ of specific provisions for loans, 0.1 M.€ of provisions for diminution in the value of securities and investments, and reversals (net of increases) of -0.2 M.€ for other risks.

2) In 2003, the application of the new provisioning rules imposed by Bank of Portugal Notice 8 / 2003 which, amongst other measures, prescribed a decrease from 1% to 0.5% in the provisioning coefficient for general credit risks in home mortgage loans, generated a surplus of 27.2 M.€ in accumulated general provisions carried in the balance sheet. This surplus was fully utilised in 2003, through the reversal of general provisions 27.2 M.€, which were offset by the transfer of a similar amount earmarked for specific loan provisions.

Domestic activity

In domestic activity, an amount of 65.1 M.€ was set aside (net of reversals) for specific non-performing loans, down by 12.2 M.€ on the corresponding figure for 2003 (-15.7%).

Specific provisions for non-performing loans as a percentage of the performing loan portfolio declined from 0.47% in 2003 to 0.37% in 2004. This is in line with the decrease in default levels, as measured by the indicator "increase in loans in arrears adjusted for write-offs[G] as a percentage of the loan portfolio", from 0.35% in 2003 to 0.26% in 2004[3].

The loan portfolio's expansion was responsible for amounts being set aside (net of reversals) for general provisions[4] in the amount of 4.7 M.€ (5.9 M.€ in 2003).

In August of 2004, the process involving the resolution of the debt owed by Banco Nacional de Angola was concluded. In terms of this agreement, Banco BPI received approximately 55 M.€ in full and final settlement of the amounts owed to it (capital and interest).

3) The net loan loss is however lower – 0.23% in 2003 and 0.17% in 2004 – because this indicator also takes into consideration recoveries of arrear loans already written off assets.

4) In domestic activity, the growth in the loan portfolio implies the obligation to create provisions for general credit risks corresponding to 0.5% of loans secured by a mortgage over fixed property or real-estate leasing operations (in both cases, when the property is to be used for the borrower's residence), to 1.5% of consumer credit and personal loans for unspecified purposes, and to 1% of the remainder of loans granted. In this manner, the general credit provisions dictate that the largest provisioning effort is made in phases where the most pronounced growth in lending takes place.

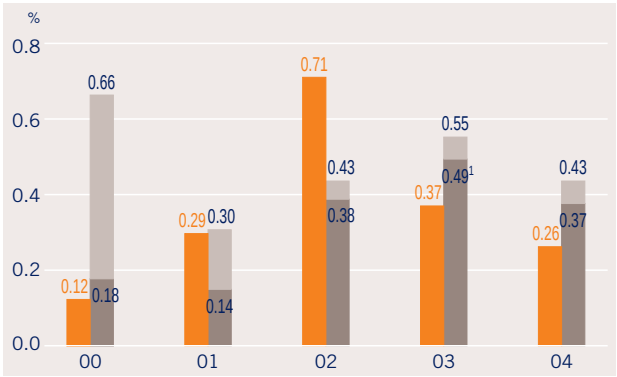
In Banco BPI's financial statements (in domestic activity), these operations were accounted for as loans in arrears to financial institutions in the amount of 84 M.€ and were fully provided for. In this manner, the amount repaid by Banco Nacional de Angola originated the reversal of provisions totalling 55 M.€, while that portion of the debt not repaid was written off assets through the use of the respective provisions in the amount of 29 M.€.

In 2004, a total of 39.3 M.€ were set aside (net of reversals) for securities, participating interests, other investments and country risk. Provisions for unrealised losses on shares and financial investments were 35.1 M.€ (6.6 M.€ in the caption "provisions for unrealised losses on securities and participating interests" and 28.5 M.€[1] included in provisions for other risks and charges). In this way, almost all unrealised losses associated with the portfolio were fully covered, with the exception of the shareholdings in Portugal Telecom and Impresa. In 2003, the Bank set aside provisions (net) for securities, participating interests, other investments and country risks of 17.7 M.€.

International activity

In international activity, provisions totalled 9.1 M.€ in 2004. Specific provisions for arrear loans in the amount of 0.4 M.€ represented 0.33% of the performing loan portfolio at the beginning of the year, which reflects the quality of the loan portfolio. General loan provisions[2] in 2004 totalled 5.3 M.€ as a result of the loan portfolio's sharp expansion in Angola.

Loan provisions and annual net additions in loans in arrears
As % of performing loan portfolio



Total loan provisions (specific + general)
General loan provisions
Specific loan provisions
Annual increase in loans in arrears[2], adjusted by write-offs [G]

Chart 55

1) In 2003, EUR 27.2 million were set aside for specific loan provisions (0.17% of the performing loan portfolio) by using, through reversals in the income statement, the surplus general provisions resulting from the application of the new provisioning rules. Consequently, that increase in specific provisions had no impact on the income statement.
2) Loans in arrears for more than 30 days.

1) Includes 14.6 M.€ of amounts set aside for provisions created for other risks and charges, the balance sheet amount of which was transferred to the caption provisions for unrealised losses in securities and participating interests.
2) In the activity in Angola, the growth in the loan and guarantees portfolio is responsible for the creation of a provision for general credit risks, corresponding to the application of a coefficient, falling in a band with a minimum of 2% and a maximum of 4%, to the amount of change in the balance of loans and guarantees. In 2003 and 2004, Banco de Fomento Angola used a coefficient of 4% for purposes of creating the provisions for general credit risks.

Net extraordinary items

Net extraordinary items in 2004 closed with a negative balance of 40.2 M.€ and mainly reflect pension costs of 42.2 M.€ (36.6 M.€ in 2003).

Net extraordinary items — Amounts in M.€

	2003	2004
Domestic activity		
Capital gains and other income related to the sale of shareholdings and fixed assets	20.4	1.0
Pension-related costs	(36.6)	(42.2)
Other net extraordinary items	(2.8)	1.1
Domestic activity	**(19.0)**	**(40.1)**
International activity		
Banco Fomento Angola	-	(0.1)
Banco Fomento Mozambique	0.1	-
International activity	**0.1**	**(0.1)**
Total	**(18.9)**	**(40.2)**

Table 50

The impact of early-retirement costs on 2004 earnings was 33.3 M.€, of which 9.7 M.€ refers to incentives for early retirement (428 early retirements in 2004) and the remaining 23.7 M.€ corresponds to the accrual-basis recognition of the additional obligations relating to early retirements concluded, of which 17.3 M.€ refers to 2001, 2002 and 2003 and 6.4 M.€ to 2004.

In addition, net extraordinary items register in 2003 and 2004 a cost of 8.5 M.€ relating to the contributions to pension funds to meet the additional obligations derived from the non utilisation of disability decreases[G] in the actuarial calculation, in terms of Bank of Portugal regulations issued in 2001 and in force since 2002.

Pension-related costs — Amounts in M.€

	2003	2004
Incentives for early retirement	10.8	9.7
Amortisation of additional pension obligations due to early retirements	17.3	23.7
[Of which, relating to those concluded in 2001, 2002 and 2003]	17.3	17.3
[Of which, relating to those concluded in 2004]	-	6.4
Amortisation of the additional pension obligations due to non-utilisation of disability decreases	8.5	8.5
Other pension-related costs	(0.1)	0.3
Pension-related costs	**36.6**	**42.2**

Table 51

At the end of 2004, the following amounts had still to be recognised in the income statement:

- 181.9 M.€, which is being recognised as a cost over a maximum period of ten years, of which 177.3 M.€ refers to the additional obligations associated with the early retirements effected in the period 2001 to 2004[1];
- 83.0 M.€, relating to the additional obligations arising from the non-utilisation of disability decreases in the actuarial calculation. This amount is being funded and recognised in the financial statements over a period of 20 years by means of a plan of uniform instalments.

1) For purposes of calculating the regulatory capital ratios, an amount of 181.9 M.€ has been deducted from basis own funds (Tier 1) at 31 December 2004, in terms of Bank of Portugal rules.

Corporate income tax

The average rate of corporate income tax[1] in 2004, as measured by the relationship between the provision for taxation (45.2 M.€) and the BPI Group's consolidated profit before tax (209.4 M.€), was 21.6%.

The portion of consolidated profit before taxation generated by domestic activity was 166.8 M.€, which corresponded to taxable income of 106.8 M.€.

The main adjustments to the accounting profit which resulted in a lower taxable income figure were:

- deduction of dividends received in the amount of 22.1 M.€, in conformity with tax legislation aimed at eliminating double taxation;
- deduction of 18.7 M.€ referring to the results of the offshore financial branches established in the Madeira and Santa Maria free-trade zones which, in terms of the law, are partially exempt from IRC until 31 December 2011;
- early retirement costs of 14.1 M.€, which were amortised against reserves in the accounts (and thus have no impact in the income statement), but which for tax purposes and in accordance with applicable regulations, are being recognised as a cost in a gradual manner over the period elapsing between the early retirement date and the date on which these people would reach normal retirement age;
- deduction of unrealised gains of 13.3 M.€ resulting from the revaluation of derivative instrument positions, the recognition of which for taxation purposes, only occurs in the year these operations are settled;
- deduction of bond interest costs of 9.6 M.€, recorded in the consolidated accounts under the caption "minority shareholders' interests";
- deduction of 7.7 M.€ relating to Banco Português de Investimento's tax loss carry forward;
- miscellaneous other factors explain in net terms the deduction of the remaining 7.9 M.€ from taxable income.

On the other side, an amount of 33.4 M.€ equal to the amounts transferred to provisions (net of reversals) not deductible for tax purposes, was added to taxable income.

In domestic activity, the provision for taxation in 2004 was 30.1 M.€, which relative to the book profit before taxation, was equivalent to an average tax rate of 18.0%. In addition, BPI constituted a provision for deferred taxation of 5.0 M.€, relating to the unrealised gains on operations with derivative instruments, on the grounds that the payment of tax is only due at the moment such operations are settled, and on operating leases.

In domestic activity, if account is taken of the provision for deferred taxation, then the average tax rate in 2004 rises to 20.4%.

In international activity, profit before taxation in 2004 was 42.6 M.€, while the average tax rate was 35.4%.

In the consolidated accounts (domestic and international activity), if the provision for deferred taxation (5.0 M.€) is added to the provision for taxation (45.2 M.€), then the average tax rate in 2004 climbs to 23.4%.

1) Although the BPI Group companies are subject to corporate income tax (Portuguese initials IRC) on an individual basis, the figures presented hereafter refer to the Group as a whole. In Portugal, the normal IRC rate applied to taxable income is 25%, to which must be added a local authority surcharge up to a maximum of 2.5% (resulting in a maximum tax rate of 27.5%); in Angola the statutory corporate tax rate is 35%.

Results of equity-accounted subsidiaries

Subsidiaries consolidated on the basis of the equity method contributed 37.7 M.€ to consolidated net profit in 2004, which represents an improvement of 22.1 M.€ on the equity-accounted earnings recorded in 2003. It must be noted that the equity-accounted earnings in 2004 include for the first time the appropriation of the results of 4.4 M.€ generated by SIC since June 2004 by virtue of this shareholding's consolidation, and the appropriation of BCI Fomento's full-year earnings of 3.7 M.€, when in 2003 the contribution referred only to the results generated in the month of December.

Equity-accounted results of subsidiaries Amounts in M.€

	2003	2004	Δ M.€
Domestic activity			
Subsidiaries in insurance areas			
BPI Vida	4.0	11.7	+7.7
Allianz Portugal	4.6	7.5	+2.9
Cosec	0.6	1.3	+0.8
Subsidiaries in insurance areas	9.2	20.5	+11.4
BPI Pensões	2.0	2.3	+0.3
Viacer	3.6	5.7	+2.2
SIC[1]	-	4.4	+4.4
Other	0.1	1.0	+0.9
Domestic activity	**14.8**	**34.0**	**+19.1**
International activity			
BCI Fomento (Mozambique)[2]	(0.5)	3.7	+4.2
Banc Post[3]	1.2	-	(1.2)
International activity	**0.7**	**3.7**	**+3.0**
Total	**15.5**	**37.7**	**+22.1**

1) BPI agreed in 2004 to the sale, with the deal expected to be concluded in 2005.
2) In 2003 corresponds to the appropriation of the profit earned in December 2003.
3) Participating interest sold in November 2003.

Table 52

Domestic activity

In domestic activity, this performance resulted principally from the increase of 11.4 M.€ in the contribution from the subsidiaries in the insurance areas – in particular from BPI Vida in life-capitalisation business (+7.7 M.€) and Allianz Portugal, in the non-life insurance and life assurance areas, (+2.9 M.€) –, the increase of 2.2 in the appropriated earnings of Viacer and the appropriation of 4.4 M.€ of profits generated by SIC since 30 June 2004 (date on which this participating interest began to be consolidated). In the meantime, BPI has entered into an agreement for the sale of the last-mentioned interest and which should be finalised in 2005.

International activity

In international activity, equity-accounted results amounted to 3.7 M.€ in 2004 and corresponded to the appropriation of the results attributable to the 30% holding in BCI Fomento (-0.5 M.€ in 2003).

Minority shareholders' interests

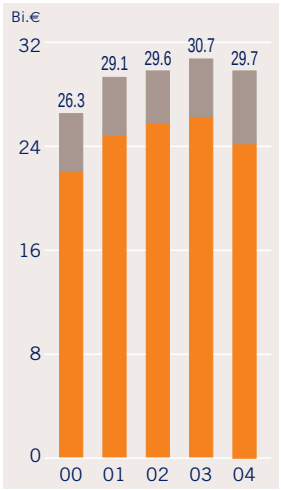
Minority shareholders' interests in net profit amounted to 9.2 M.€ in 2004 and correspond mainly to the dividends of the preference shares issued by BPI Capital Finance (250 M.€ with a variable interest rate equivalent to the three-month Euribor[G] plus 155 basis points) in the amount of 9.6 M.€.

BALANCE SHEET

Net total assets at 31 December 2004 amounted to 24 010.3 M.€, which corresponds to a decrease of 8.3% relative to the end of 2003. This trend is essentially explained by the decrease in the dealing portfolio comprising interest-rate instruments and the sale of foreign corporate bonds, with a concomitant reduction in short-term funding.

At the end of 2004, total assets in international activity stood at 809.9 M.€, corresponding to 3.4% of the Group's consolidated assets.

Net total assets and disintermediation



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

Chart 56

Balance sheet

Amounts in M.€

	Domestic activity[1]			International activity[1]			BPI Group (consolidated)		
	2003	2004	Δ%	2003	2004	Δ%	2003	2004	Δ%
Assets (net)									
Liquid assets	943.2	654.0	(30.7%)	93.4	110.1	17.9%	1 035.0	758.4	(26.7%)
Loans to credit institutions	2 433.2	1 136.4	(53.3%)	300.3	302.9	0.9%	2 401.4	1 118.3	(53.4%)
Loans to Customers	17 506.9	18 662.4	6.6%	131.4	211.1	60.6%	17 638.3	18 873.5	7.0%
Bonds portfolio	2 862.2	1 165.1	(59.3%)	79.3	141.8	78.7%	2 941.5	1 306.9	(55.6%)
Equities portfolio	192.6	176.3	(8.5%)	-	-	-	192.6	176.3	(8.5%)
Investments	656.3	540.4	(17.7%)	7.4	11.2	51.0%	663.7	551.5	(16.9%)
Fixed assets	291.0	265.8	(8.7%)	32.3	28.4	(12.2%)	323.4	294.2	(9.0%)
Sundry assets	990.9	926.9	(6.5%)	8.6	4.4	(48.4%)	999.4	931.2	(6.8%)
Total assets	**25 876.2**	**23 527.4**	**(9.1%)**	**652.9**	**809.9**	**24.1%**	**26 195.3**	**24 010.3**	**(8.3%)**
Liabilities and shareholders' equity									
Amounts owed to credit institutions	6 482.3	3 632.6	(44.0%)	-	-	-	6 196.3	3 335.7	(46.2%)
Amounts owed to Customers[2]	11 865.9	11 840.4	(0.2%)	489.8	595.2	21.5%	12 355.6	12 435.6	0.6%
Debt securities	4 298.5	5 055.5	17.6%	-	-	-	4 298.5	5 055.5	17.6%
Sundry liabilities	812.0	641.2	(21.0%)	88.9	110.2	24.0%	853.0	721.3	(15.4%)
Provisions and fund for general banking risks	215.3	229.9	6.8%	10.4	16.4	57.9%	225.7	246.3	9.1%
Subordinated debt	775.9	724.7	(6.6%)	-	-	-	775.9	724.7	(6.6%)
Minority shareholders' interests	262.9	259.6	(1.3%)	0.0	0.0	70.2%	262.9	259.6	(1.3%)
Subscribed share capital and reserves	1 019.6	982.0	(3.7%)	43.9	56.8	29.4%	1 063.4	1 038.8	(2.3%)
Net profit	143.9	161.5	12.2%	19.9	31.2	56.6%	163.8	192.7	17.6%
Total shareholders' equity	**1 163.5**	**1 143.5**	**(1.7%)**	**63.8**	**88.0**	**37.9%**	**1 227.3**	**1 231.5**	**0.3%**
Total liabilities and shareholders' equity	**25 876.2**	**23 527.4**	**(9.1%)**	**652.9**	**809.9**	**24.1%**	**26 195.3**	**24 010.3**	**(8.3%)**
Note:									
Bank guarantees	2 907.8	2 942.5	1.2%	15.0	44.0	193.7%	2 907.0	2 937.8	1.1%
Off-balance sheet Customer resources[3]	5 562.0	6 507.8	17.0%	-	-	-	5 562.0	6 507.8	17.0%

1) The balances resulting from the addition of the balance sheets relating to domestic activity and international activity are greater than those appearing in the consolidated balance sheet owing to intra-group operations, the balance of which are eliminated for consolidation purposes.
2) Customer deposits and other resources, namely, cheques and payment orders.
3) 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 53

The consolidated Customer loans portfolio at the end of 2004 totalled 18 873.5 M.€, which corresponded to 79% of total assets, while bank guarantees (recorded off-balance sheet) amounted to 2 937.8 M.€.

Balance sheet resources taken from Customers (deposits, structured products and fixed-rate bonds) totalled 13 898.2 M.€, representing 58% of total assets. Off-balance sheet resources – unit trust (mutual) funds, equity and retirement savings plans and capitalisation insurance – stood at 6 507.8 M.€. Total Customer resources (19.6 thousand M.€) exceed the Customer loans portfolio (18.9 thousand M.€).

The more moderate expansion in balance sheet Customer resources relative to the loan portfolio has been accompanied by the taking of medium and long-term resources from institutional investors, thereby ensuring funding that is adapted to the maturity profile of assets. At the end of 2004, the transformation rate of more stable resources (Customer and institutional resources – medium and long-term issues and credit lines) into loans was situated at 98.7% (97.4% at the end of 2003).

At the close of 2004, assets amounting of 577 M.€, or 2.4% of total assets, were allocated to trading activities in interest-rate instruments and equities.

Balance sheet (consolidated) Amounts in M.€

	2003	2004	Δ%
Assets (net)			
Trading book			
Buy-sell back operations[1]	1 291	182	(86%)
Bonds and equities portfolio	1 338	395	(71%)
Subtotal: trading book	2 629	577	(78%)
Banking book	23 566	23 434	(1%)
Total assets	**26 195**	**24 010**	**(8%)**
Liabilities and shareholders' equity			
Trading book[2]	2 629	577	(78%)
Banking book			
Third-party resources[3]	20 822	20 837	0%
Shareholders' equity and other liabilities[4]	2 744	2 597	(5%)
Subtotal: banking book	23 566	23 434	(1%)
Total liabilities and shareholders' equity	**26 195**	**24 010**	**(8%)**

1) Recorded in the caption loans to credit institutions.
2) Recorded in the caption amounts owed to credit institutions: selling operations with repurchase agreement, short sales and short-term funding (money market).
3) Deposits, senior and subordinated debt securities and short, medium and long-term amounts owed to credit institutions.
4) Miscellaneous liabilities, accrual, deferral and other accounts, provisions and fund for general banking risks and minority shareholders' interests.

Table 54

Balance sheet structure

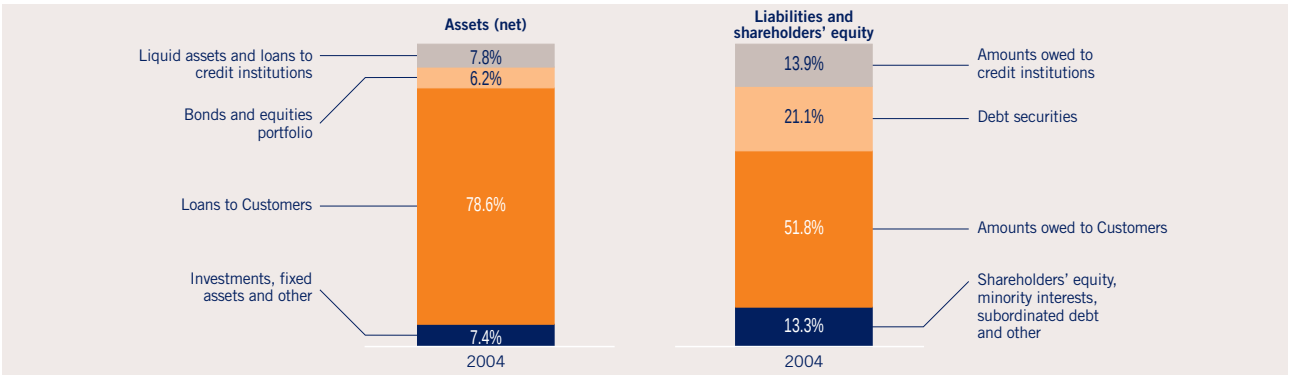
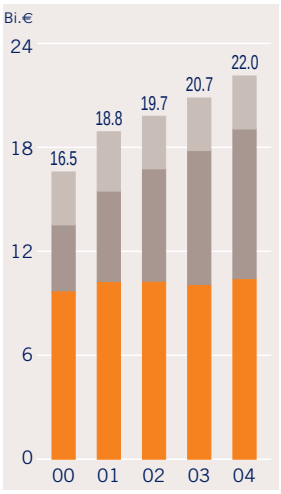


Chart 57

Loans to Customers

The consolidated Customer loans portfolio grew by 7%. The performing loans portfolio in domestic activity, which represents 99% of the consolidated loan portfolio, expanded by 6.8%. The mortgage-loan portfolio increased by 10.5%, accounting for 45% of the total performing loans portfolio at the end of 2004, while loans to small businesses expanded 8.4%. Corporate Banking's loan portfolio registered growth of 3.2%. The continued selectivity in the granting of loans was justified by the modest economic recovery after a particularly adverse cycle in Portugal.

Loans to Customers[1] and guarantees



1) Gross loan portfolio.

Chart 58

Loan portfolio in 2004
Breakdown by Customer segment

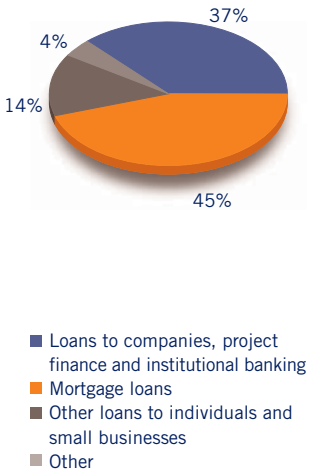


Chart 59

Customer loan portfolio

Amounts in M.€

	2003	%	2004	%	Δ%
Domestic activity					
Large companies	1 940.4	11%	1 677.9	9%	(13.5%)
Companies	3 158.3	18%	3 358.7	18%	6.3%
Institutional Banking	969.2	6%	1 148.9	6%	18.5%
Project Finance	682.9	4%	780.8	4%	14.3%
Corporate Banking	6 750.8	38%	6 966.3	37%	3.2%
Mortgage loans	7 649.5	44%	8 455.9	45%	10.5%
Loans to individuals – other purposes	861.8	5%	897.3	5%	4.1%
Loans to small businesses	1 602.6	9%	1 737.4	9%	8.4%
Loans to Individuals and Small Businesses	10 113.9	58%	11 090.6	59%	9.7%
Specialised loans – leasing and long-term rental[1]	274.0	2%	225.5	1%	(17.7%)
Other	274.3	2%	307.5	2%	12.1%
Domestic activity	**17 413.0**	**99%**	**18 589.9**	**99%**	**6.8%**
International activity	**130.9**	**1%**	**210.4**	**1%**	**60.8%**
Portfolio of performing loans	**17 543.8**	**100%**	**18 800.3**	**100%**	**7.2%**
Total loans in arrears	239.2		220.8		(7.7%)
Specific provisions	144.7		147.6		2.0%
Consolidated net loan portfolio	**17 638.3**		**18 873.5**		**7.0%**
Bank guarantees	2 907.0		2 937.8		1.1%

Note: an apportionment was made of loans in the form of leasing, factoring and long-term rental (ALD) amongst the various Customer segments.
1) Commercial loans not allocated to segments.

Table 55

Portfolio of securities and participating interests

At 31 December 2004, the BPI Group's securities and participating interests portfolio totalled 1 850.7 M.€, that is, 1 810 M.€ less (-49.4%) than at the end of 2003.

Securities and participating interests portfolio — Amounts in M.€

	2003	%	2004	%	Δ%
Bonds of public-sector issuers					
Issued by Portuguese government entities	624.5	17%	587.9	32%	(5.9%)
Issued by foreign government entities	1 131.1	31%	270.8	15%	(76.1%)
Subtotal – bonds of public-sector issuers	1 755.6	48%	858.7	46%	(51.1%)
Bonds of international financial bodies	58.5	2%	42.5	2%	(27.4%)
Portuguese corporate bonds	182.2	5%	210.9	11%	15.7%
Foreign corporate bonds	867.1	24%	181.8	10%	(79.0%)
Subordinated securities issued by companies	78.2	2%	13.1	1%	(83.2%)
Shares, investments and financial fixed assets					
Dealing portfolio	39.6	1%	56.1	3%	41.5%
Investment portfolio	152.9	4%	120.2	6%	(21.4%)
Participating interests[1]	491.8	13%	330.2	18%	(32.9%)
Financial fixed assets[2]	35.2	1%	37.3	2%	5.9%
Subtotal: shares, investments and financial fixed assets	719.6	20%	543.7	29%	(24.4%)
Total	**3 661.1**	**100%**	**1 850.7**	**100%**	**(49.4%)**

1) Investments in associated companies not included in the consolidation perimeter and other financial investments. Does not include the shareholdings in Viacer and in SIC in 2004, the latter of which began to be equity accounted in June of 2004.
2) Accounted for in the caption "other assets"; do not include loans.

Table 56

The most salient aspects relating to the securities and participating interests portfolio in 2004 were:

- the decrease of 860 M.€ (-76%) in the portfolio of bonds of foreign public issuers when compared to December 2003, associated with dealing activity;
- the decrease in the foreign corporate bonds portfolio of 685 M.€ (-79%) relative to December 2003;
- the consolidation in June 2004, for the first time, of the 41.4% participating interest (direct and indirect) in SIC. The gross acquisition amount was 229.2 M.€, while the provisions created for this stake on that date stood at 90.9 M.€[1].

At the end of 2004, the public-issue bonds portfolio represented 46% of the total securities and participating interests portfolio (3.6% of total assets), the corporate bonds portfolio represented 22% (1.7% of total assets) and the equities and investments portfolio 29% (2.3% of total assets).

At 31 December 2004, as participating interests and investment portfolios (valued at the closing prices in the case of listed companies, and resorting to BPI's valuation in the case of unquoted companies), registered potential capital gains of 40.2 M.€.

1) In the consolidation of the shareholding, there was no appropriation of the results generated by SIC in the first half of 2004, and a goodwill[G] of 126.5 M. € was fully written off against reserves. Still in 2004, Banco BPI reached agreement with Cinforma, Lda, a company whose capital is fully controlled by Impresa SGPS, for the sale of the 41.4% shareholding in SIC, for a total consideration of 128.7 M. €. This operation is expected to be concluded in 2005.

This figure includes the 15.9 M.€ gain to be realised on the sale of the 20% stake in the company Auto Estradas do Oeste[1]. This operation (disclosed to the market at the appropriate time) was agreed to in the first half of 2004. However, the conclusion of this deal occurred at the beginning of January 2005 due to the fact that it was dependent upon Government authorisation. Accordingly, the transaction will only be recorded in the accounts in 2005.

At the end of December 2004, BPI had unrealised losses not provided for of 37.5 M.€, of which 37.2 M.€ relating to the participating interests held in Portugal Telecom and Impresa.

At 31 December 2004, the balance between potential capital gains and unrealised capital losses amounted to a positive figure of 2.7 M.€.

Unrealised capital gains / losses, net of provisions, on participating interests at 31 December 2004

Amounts in M.€

	% of capital held	Balance sheet value, net of provisions	Closing share price at 31 Dec. 04 (in €)	Market value	Unrealised capital gains / losses, net of provisions
Investments with potential capital gains					
Equities investment portfolio					
BCP	1.7%	97.3	1.89	103.1	5.8
Other	-	22.9	-	32.1	9.3
Subtotal: equities investment portfolio	-	120.2	-	135.2	15.0
Participating interests					
Cofina	6.6%	9.3	3.64	12.3	3.0
Ibersol	6.3%	5.4	4.89	6.2	0.7
Auto Estradas do Oeste	20.0%	3.2	-	19.1	15.9
Other	-	37.4	-	42.9	5.5
Subtotal: participating interests	-	55.3	-	80.5	25.1
Financial fixed assets	-	22.3	-	22.3	0.0
Subtotal (potential capital gains)	**-**	**197.7**	**-**	**237.9**	**40.2**
Investments with unrealised capital losses					
Participating interests					
Portugal Telecom	1.7%	220.0	9.10	188.8	(31.2)
Impresa	8.4%	47.1	5.80	41.0	(6.0)
Vista Alegre Atlantis	17.8%	5.7	0.59	5.7	0.0
Other	-	2.1	-	2.1	(0.1)
Subtotal: participating interests	-	274.9	-	237.6	(37.3)
Financial fixed assets	-	15.0	-	14.8	(0.2)
Subtotal (unrealised capital losses)	**-**	**289.9**	**-**	**252.3**	**(37.5)**
Total: equities investment portfolio, participating interests and financial fixed assets	**-**	**487.6**	**-**	**490.3**	**2.7**
Note:					
Loans and shareholders' loans	-	14.2	-	15.3	1.1
Of which: Auto Estradas do Oeste	-	9.2	-	10.3	1.1

Note: The Bank of Portugal prescribed in 2002 a transitional regime (Notice no. 4 / 2002) for covering unrealised losses on the shareholdings acquired up until 31 December 2001. Since the end of 2003, BPI attained the total provisions required by the Bank of Portugal. Consequently, taking into account the write-off from Tier II of 15.1 M.€ already made and the existence of a corridor of 15% not subject to provisioning in the amount of 43.2 M.€, the amount of unrealised losses to be covered (based on the average prices for the last six months) was 0.8 M.€.

Table 57

1) In addition to the sale of the shareholding, the operation included the cession of the shareholder loans due to Banco BPI by Auto Estradas do Oeste. The overall gain realised on the operation was 17 M.€.

Resources taken

Total Customer resources grew by 8.1% to 19 558.1 M.€ on 31 December 2004. Customer resources carried in the balance sheet amounted to 13 898.2 M.€, equivalent to growth of 2% relative to 2003. For their part, off-balance sheet resources expanded by 17% to 6 507.8 M.€.

Total Customer resources Amounts in M.€

	Domestic activity			International activity			BPI Group (consolidated)		
	2003	2004	Δ %	2003	2004	Δ %	2003	2004	Δ %
On-balance sheet third-party resources									
On-balance sheet Customer resources									
Sight deposits	5 036.9	4 841.4	(3.9%)	288.7	1.0	(99.7%)	5 325.7	4 842.4	(9.1%)
Term and savings deposits	6 657.7	6 865.1	3.1%	198.0	589.8	197.9%	6 855.7	7 454.9	8.7%
Total deposits	11 694.6	11 706.5	0.1%	486.7	590.8	21.4%	12 181.4	12 297.3	1.0%
Structured products – guaranteed capital / limited risk and fixed-rate bonds	1 444.7	1 600.9	10.8%	-	-	-	1 444.7	1 600.9	10.8%
[1.] On-balance sheet Customer resources	**13 139.3**	**13 307.4**	**1.3%**	**486.7**	**590.8**	**21.4%**	**13 626.1**	**13 898.2**	**2.0%**
Medium and long term resources from interbank market and institutional investors									
Medium and long term interbank gap									
Medium and long term resources from other C.I.	-	-	-	-	-	-	1 828.0	1 574.9	(13.8%)
[-] Medium and long term loans to other C.I.	-	-	-	-	-	-	823.0	373.8	(54.6%)
Medium and long term interbank gap	-	-	-	-	-	-	1 005.0	1 201.1	19.5%
Debt securities placed with institutional investors	-	-	-	-	-	-	2 853.8	3 454.6	21.1%
Subordinated debt	-	-	-	-	-	-	775.9	724.7	(6.6%)
[2.] Medium and long term resources from interbank market and institutional investors	**-**	**-**	**-**	**-**	**-**	**-**	**4 634.8**	**5 380.4**	**16.1%**
Short term interbank gap[1]									
Short term resources from other C.I.	-	-	-	-	-	-	1 738.0	1 184.2	(31.9%)
[-] Short term loans to other C.I.	-	-	-	-	-	-	287.0	562.5	96.0%
[3.] Short term interbank gap	**-**	**-**	**-**	**-**	**-**	**-**	**1 451.0**	**621.7**	**(57.2%)**
Total on balance sheet third-party resources [= 1.+ 2.+ 3.]	**-**	**-**	**-**	**-**	**-**	**-**	**19 711.8**	**19 900.3**	**1.0%**
Off-balance sheet resources									
Unit trust (mutual) funds	2 862.2	3 094.6	8.1%	-	-	-	2 862.2	3 094.6	8.1%
Retirement (PPR) and equity (PPA) savings plans	1 305.0	1 449.7	11.1%	-	-	-	1 305.0	1 449.7	11.1%
Capitalisation (unit-linked) insurance	1 394.8	1 963.6	40.8%	-	-	-	1 394.8	1 963.6	40.8%
[4.] Off-balance sheet resources	**5 562.0**	**6 507.8**	**17.0%**	**-**	**-**	**-**	**5 562.0**	**6 507.8**	**17.0%**
[5.] Of which: placements in deposits and structured products issued by the Group	1 094.8	848.0	(22.5%)	-	-	-	1 094.8	848.0	(22.5%)
Note:									
On-balance sheet Customer resources [=1.]	13 139.3	13 307.4	1.3%	486.7	590.8	21.4%	13 626.1	13 898.2	2.0%
On-balance sheet stable third-party resources [= 1. + 2.]	-	-	-	-	-	-	18 260.8	19 278.6	5.6%
Transformation ratio of total stable third-party resources into loans	-	-	-	-	-	-	97.4%	98.7%	-
Total Customer resources [= 1. + 4. -5.]	17 606.5	18 967.2	7.7%	486.7	590.8	21.4%	18 093.2	19 558.1	8.1%

1) Exclude the positions allocated to interest-rate and equities trading activities.
2) Total resources corrected for double counting.

Table 58

In domestic activity, Customer deposits registered a slight change of +0.1%, while the placing of structured products with Customers permitted an increase of 156.2 M.€ (+10.8%) in the balance on the respective portfolio.

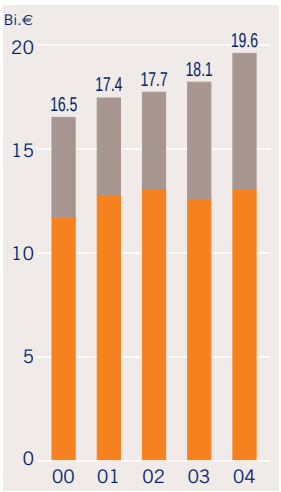
The conception of savings products (on and off the balance sheet) is realised in an integrated manner. The backdrop of historically low interest rates was favourable to the promotion of off-balance sheet resources, in particular, the placement of long-term savings and retirement products, which are suited to the maintenance of investors' preference for low-risk investments. In this way, off-balance sheet Customer resources posted growth of 17.0% relative to 2003. Meanwhile, the capitalisation (unit-linked) insurance portfolio expanded 40.8%, which represented roughly 60% of the expansion noted in the portfolio of off-balance sheet resources.

International activity saw the maintenance of high growth levels, with deposits expanding 21.4% (+104.1 M.€).

Complementing the growth in the base of Customer resources, attention was focused on increasing the weight of medium and long-term resources carried in the balance sheet as a means of extending funding's average maturity structure, with a corresponding reduction in the exposure to borrowings on the money market. This increase was effected in the particularly favourable context of the international bond market: during the course of 2004, BPI issued 1 171 M.€ in private issues with an average maturity of 4.7 years and successively diminishing costs throughout 2004. With the goal of conferring flexibility to the medium and long-term financing plan, the "Euro Medium Term Notes" (EMTN) programme was raised from 4 thousand M.€ to 5 thousand M.€.

Total stable resources taken by the Group posted growth of 5.6% to 19 278.6 M.€ at the end of 2004. On that date, loans to Customers (gross) represented 98.7% of third-party resources of a more stable nature carried in the balance sheet.

Total Customer resources[1]



1) Corrected for duplication of balances.

Chart 60

Shareholders' equity

At the end of 2004, shareholders' equity stood at 1 231.5 M.€.

Effective from June 2004, the 41.4% shareholding in SIC began to be consolidated using the equity method. This situation gave rise to the recognition of goodwill[G] of 126.5 M.€, which was written off against reserves.

Still in 2004, Banco BPI agreed to sell the SIC holding. This deal was subject to a condition precedent – the securing of a no-opposition decision from the Competition Authority – which was eventually issued in February 2005. This operation's conclusion in 2005 will originate an increase in shareholders' equity of 126.5 M.€, in other words, a complete reversal of the goodwill already written off.

Shareholders' equity Amounts in M.€

	2003	2004
Shareholders' equity at beginning of the year	**1 168.9**	**1 227.3**
Previous year's dividends paid	(60.4)	(67.7)
Net profit	163.8	192.7
Provisions for participating interests (Notice no. 4 / 2002)	(40.9)	-
Goodwill paid on the consolidation of participating interests	(9.0)	(126.4)
Changes in the revaluation reserves of insurance companies	5.7	5.7
Other	(0.9)	(0.0)
Shareholders' equity at the end of the year	**1 227.3**	**1 231.5**
Of which:		
Capital, reserves and retained earnings[1]		1 144.3
Dividend declared for the year		76.0
Revaluation reserves		11.2

1) After deduction of dividends payable with respect to the year (does not include revaluation reserves).

Table 59

Shareholders' equity evolution in 2004

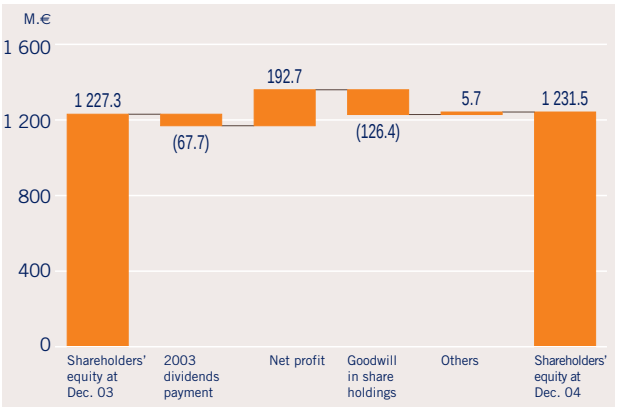


Chart 61

2005 heralds the adoption of the International Financial Reporting Standards (IAS / IFRS) issued by the International Accounting Standards Board (IASB). At the moment of transition, the balances of the principal differences vis-à-vis the present Chart of Accounts for the Banking System (PCSB) will be disclosed in retained earnings.

Own funds

Own funds decreased by 2.4% (-43.7 M.€) relative to 2003. This trend is explained as follows.

Factors with positive impact:

- net profit for the year to be retained after the distribution of dividends[1] in the amount of 116.7 M.€;
- decrease in unrealised losses and consequent adjustment of 13.8 M.€ as deduction from own funds.

Factors with negative impact:

- consolidation of the participating interest in SIC with effect from June 2004, which originated a negative impact on own funds of 108.9 M.€, as a result of the goodwill[G] write-off of 126.5 M.€ against reserves and the release of own funds of 17.6 M.€ constituting Tier II, which in December 2003 were allocated to covering unrealised losses not provided for. It is worth noting that the sale of the participating interest in SIC, agreed to at the end of 2004 and to be concluded in 2005, will originate an estimated increment in own funds by the amount of the goodwill;
- the realisation of 428 early retirements, which entailed contributions in the amount of 62.4 M.€[2] to pension funds in order to cover the additional obligations.

Own funds
Calculated according to Bank of Portugal rules — Amounts in M.€

	2003	2004
Share capital, reserves and retained earnings[3]	1 155.0	1 144.3
Minority interests	253.4	250.0
[of which, preference shares]	[250.0]	[250.0]
Fund for general banking risks	1.0	-
Negative differences in first consolidation	-	0.4
Contributions to the pension fund still not disclosed as cost	(142.1)	(181.9)
Intangible assets	(27.7)	(29.8)
Treasury stock	(29.6)	(23.2)
Basis own funds	**1 209.9**	**1 159.9**
Revaluation reserves	3.9	11.2
Perpetual subordinated debt	55.5	53.7
Participating bonds and non-perpetual subordinated debt	605.0	578.2
Complementary own funds	**664.4**	**643.1**
Deduction of participating interests	(25.2)	(30.0)
Unrealised losses on participating interests not provided for	(46.4)	(15.1)
Other deductions	(14.9)	(13.4)
Deductions	**(86.5)**	**(58.5)**
Supplementary own funds	**0.5**	**-**
Total own funds	**1 788.3**	**1 744.5**

3) After deduction of dividends declared for the year.

Table 60

1) In accordance to the proposed appropriation of net profit.
2) The contributions relating to the early retirements concluded are being recognised in the income statement over a maximum period of 10 years. For purposes of calculating regulatory own funds, the contributions to the pension fund relating to early retirements, as regards that portion still not disclosed as a cost, are written off from basis own funds. In 2004, of the 62.4 M.€ of contributions to the pension funds, 6.4 M.€ had already been recognised in the income statement, with the result that 56.0 M.€ still have to be recognised.

Own funds requirements

Total own funds requirements[G] decreased by 18.6 M.€ (-1.3%) relative to 2003. The most significant variations in fund requirements were noted:

- in the loan portfolio, which grew by 7.0% and required a further 70.8 M.€ in own funds (+6.7%), bearing in mind that mortgage loans (with a lower consumption of capital) represented 64% of the portfolio's growth, whilst loans to companies and institutions registered more moderate growth;
- in the securities portfolio, with a decrease of 59.6 M.€ (-64.6%) in own funds requirements, chiefly as a result of the sale of foreign corporate bonds.

The capital required to cover the risks associated with the dealing portfolio and the positions in foreign currency represents only 1.0% of total own funds requirements.

Own funds requirements
Calculated according to Bank of Portugal rules

Amounts in M.€

	2003			2004		
	Assets (balance sheet net value)	Weighted average coefficient	Risk-weighted assets	Assets (balance sheet net value)	Weighted average coefficient	Risk-weighted assets
Liquid assets	1 036.7	9.3%	96.7	759.9	7.2%	54.5
Loans to credit institutions	1 111.9	18.8%	209.4	942.0	20.7%	194.9
Loans to Customers	17 638.3	74.4%	13 127.1	18 873.5	74.2%	14 011.6
Bonds and equities portfolio	1 959.2	58.9%	1 153.4	1 166.5	35.0%	408.5
Investments	638.4	100.0%	638.4	549.4	100.0%	549.4
Tangible fixed assets	312.7	100.0%	312.7	286.9	100.0%	286.9
Sundry assets	300.6	68.5%	205.8	270.1	66.2%	178.8
Assets	**22 998.0**	**68.5%**	**15 743.5**	**22 848.3**	**68.6%**	**15 684.6**
Off-balance sheet items			2 120.6			2 079.2
(-) Provisions for general credit risks			(169.9)			(177.5)
Risk weighted assets			**17 694.1**			**17 586.4**
Credit risks (weighted assets x 8%)			1 415.5			1 406.9
Securitisation operations			2.5			2.0
Market risks			23.3			13.9
Total own funds requirements			**1 441.4**			**1 422.8**
Total requirements x 12.5			**18 017.1**			**17 784.5**

Table 61

Ratio of own funds requirements

At 31 December 2004, the ratio of own funds requirements based on the Bank of Portugal's rules was situated at 9.8% and the Tier I ratio at 6.5%.

The preference shares represented 21.5% of Tier I. The core capital (basis own funds less preference shares) corresponded to 5.1% of risk-weighted assets.

If account is taken of the sale of the participating interest held in SIC[1] (agreed to in 2004 but to be concluded in 2005), then the own funds requirements ratio at the end of 2004 would have been 10.5% and Tier I at 7.2%.

Own funds requirements ratio
Calculated according to Bank of Portugal rules — Amounts in M.€

	2003	2004
Total own funds	1 788.3	1 744.5
[Of which, basis own funds]	1 209.9	1 159.9
Total own funds requirements	1 441.4	1 422.8
Total own funds requirements x 12.5	18 017.1	17 784.5
Own funds requirements ratio[2]	9.9%	9.8%
Tier I[2]	6.7%	6.5%
Core Tier I	5.3%	5.1%

2) Calculated according to the Bank of Portugal Instruction 16 / 2004. *Table 62*

The total ratio, calculated according to the rules of the Bank of International Settlements (BIS), was 10.9% and Tier I 6.6% at the end of 2004.

Own funds requirements ratio
According to Bank of Portugal rules

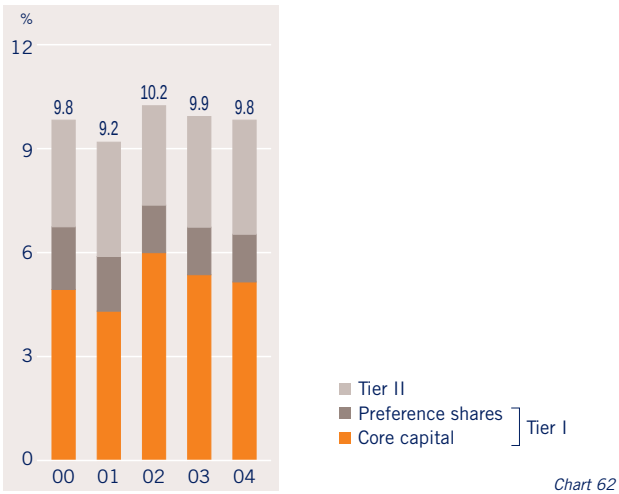


Chart 62

The adoption of the IAS / IFRS will similarly have an impact on solvency levels. In order to introduce a gradual repercussion of these impacts that permits an efficient management of capital adequacy levels, the Bank of Portugal laid down a transitional period for the recognition of these impacts. 5-year phasing in periods will be adopted for the impact arising from retirement pensions, with the exception of those related to medical care (phasing in period of 7 years), and 3 years for the remaining impacts.

1) In June 2004, the shareholding in SIC began to be consolidated using the equity-method. This situation gave rise to the recognition of goodwill of 126.5 M.€, which was written off against reserves. Still in 2004, Banco BPI agreed to sell the SIC holding. This deal was subject to a condition precedent – the securing of a no-opposition decision from the Competition Authority – which was eventually issued in February 2005. This operation's conclusion in 2005 will originate an increase in shareholders' equity of 126.5 M.€, compensating in full the goodwill already written off.

Pension obligations

At 31 December 2004, the Group's pension funds guaranteed the total funding (100.3%) of pension obligations carried in the balance sheet.

In 2004, the pension funds earned a net annual average return of 7.5%, which resulted in a decrease of 5.0 M.€ in the margin used by the "corridor", envisaged by the Bank of Portugal to accommodate variances in actuarial assumptions and the funds' net profit without giving rise to any impact on the income statement. At the end of 2004, accumulated negative variances in the "corridor" totalled 20.7 M.€, leaving an unutilised margin in the "corridor" of 145.2 M.€.

At 31 December 2004, there were 83.0 M.€[1] in pension obligations which are being funded and recognised in the financial statements in accordance with a plan of uniform instalments beginning in 2002 and extending over a period of 20 years. Taking this amount into consideration, the funds' net assets were equivalent to 95.3% of total pension obligations at the end of 2004 (95.8% in 2003).

Pension obligations cover — Amounts in M.€

	2003	2004
Obligations for current pensions under payment	1 273.1	1 395.6
Obligations for past services of current Employees	287.9	263.8
Total pension obligations	**1 561.1**	**1 659.3**
Disability decreases	85.5	83.0
Total obligations recognised in the balance sheet[2]	**1 475.5**	**1 576.3**
Pension funds	**1 495.5**	**1 581.7**
Financing of obligations recognised in the balance sheet	101.4%	100.3%

2) Taking into account disability decreases in the calculation of the amount of the obligations.

Table 63

1) As a result of the entry into force at the end of 2001 of the current regulatory framework relating to pension obligations' cover (Bank of Portugal Notice 12 / 2001), there was an increase in the present value of pension obligations by virtue of the fact that the disability decreases could no longer be used in the calculation of the present value of pension obligations.

PENSION OBLIGATIONS – REGULATORY FRAMEWORK

Bank of Portugal Notices no. 12 / 2001 and no. 7 / 2002

At 31 December 2004, the most salient aspects of the current regulatory framework relating to meeting pension obligations, in force since the end of 2001, were:

- the requirement that the funds' net assets are sufficient to meet a minimum of 100% current pension liabilities under payment, the establishment of a minimum of 95% cover for obligations for the past services of personnel on the payroll;
- the non consideration of disability decreases in the calculation of the present value of obligations for the past services of personnel on the payroll;
- the treatment of additional obligations due to early retirements and to changes in the actuarial assumptions as a deferred cost, in accrual, deferral and other asset accounts; the additional obligations resulting from early retirements are recognised as a cost over a maximum period of 10 years and those stemming from changes to the actuarial assumptions are recognised as cost (minimum amount of 10% per annum) in the net extraordinary items account, effective in the financial year following the one in which they were ascertained;
- the double accounting treatment of the gains and losses resulting from the variance between the actuarial assumptions and the actual amounts confirmed (actuarial gains and losses), depending on whether the respective accumulated amount exceeds or not a certain interval ("corridor"), which corresponds to 10% of the greater of the amount of the pension obligations or the pension funds' net assets (with reference to the end of each year).

Considering this regulatory framework,

- the actuarial losses (and gains) noted are recorded in the caption "valuation fluctuations" (in the accrual, deferral and other accounts), up to the accumulated amount equals the limit defined by the "corridor", not giving rise to any impact in the income statement;
- the portion which fall outside the interval is recorded as a deferred cost or income (in the accrual, deferral and other accounts) and recognised in the income statement (minimum amount of 10% per annum) effective in the financial year following the one in which they were ascertained.

IAS / IFRS

Pursuant to Regulation no. 1606 / 2002 of the European Parliament and Council of 19 July, the BPI Group will have to adopt the International Accounting Standards. Insofar as the accounting treatment of post-retirement benefits is concerned, it will adopt IAS 19 and IFRS1 on transition date.

The main difference between IAS 19 and Bank of Portugal Notice 12 / 2001 are as follows:

- IAS 19 is wider than Notice 12 / 2001, in that it requires the recognition of all post-retirement benefits, which in the BPI Group's case, results in the additional recognition of obligations for medical care on retirement and death subsidy on retirement;
- in terms of actuarial-financial assumptions, IAS 19 (and contrary to Notice 12 / 2001, which established maximum differentials between the rate of return and the rate of salaries and pension increases), sets out only a reference for the discount rate – "market rates of low-risk bonds, with their maturity term being similar to the payment period of the obligations";
- the costs relating to early retirements must be recognised in the year in which they are incurred, with the possibility of this cost being deferred over a maximum period of 10 years ceasing to exist;
- the "corridor" regime remains, only that in addition to the actuarial variances, the impact of the changes to the actuarial-financial assumptions may also be accommodated in this "corridor". The amounts falling outside the corridor may be amortised over an expected average period up until receipt of the benefits (according to Notice 12 / 2001, the maximum amortisation period was 10 years).

BPI GROUP PENSION FUNDS

In terms of Bank of Portugal rules, banks are required to guarantee that pension obligations are funded exclusively by way of pension funds. Other financial companies must ensure full funding of retirement obligations by pension funds or by an insurance contract serving the same purpose, while the unfunded portion must be covered by provisions carried in the balance sheet.

The Group's pension funds fully guarantee the old age, disability and survivors' pensions of the banks' Employees and former Employees (Banco BPI and Banco Português de Investimento) and of the subsidiaries which adhered to the Vertical Collective Employment Agreement (BPI Fundos and Inter-Risco).

At the end of 2004, the funds' net assets totalled 1 582 M.€ (which exceeds the Group's shareholders' equity of 1 231.5 M.€ on the same date) and encompassed a universe of 6 038 current Employees, 7 106 pensioners and 1 222 former Employees.

Recapitalisation of the pension funds

When the Group ventured into Commercial Banking in 1991 through the acquisition of Banco Fonsecas & Burnay (BFB), BFB had a pension fund shortfall of 128 M.€ (of which 89 M.€ refers to obligations for current pension payments and 39 M.€ to pension obligations for the past services of current Employees). Hence at the time of the acquisition, the shortfall in pension funds' net assets to meet the obligations of current pension payments was covered by setting aside provisions carried in the balance sheet.

As a consequence of the financial effort made, at the end of 1995 the pension funds fully covered the obligations for current pension payments, while 100% cover for the retirement obligations relating to current Employees was achieved at the end of 1998.

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 was one the priorities assumed and which translated itself 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 2004, a total of 3 859 early retirements have been realised which have led to an increase of 554 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 have been executed.

Pension funds assets and BPI Group Employees pension liabilities

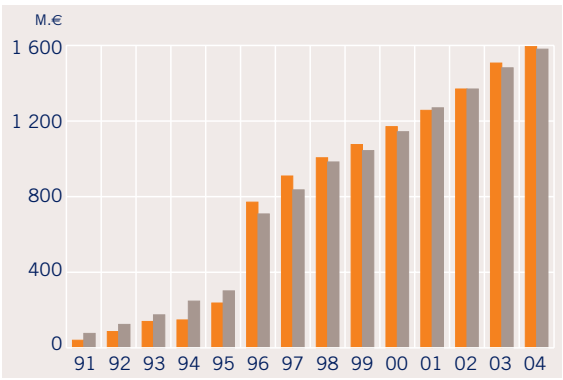


Chart 63

Returns

In 2004 the BPI Group's staff pension funds achieved a gross annual average return of 7.8%.

Since 31 December 1991, the Group's pension funds have earned an annual average return of 11.2%, whilst the pay increases under the Banking Sector's ACTV salary scale averaged 4.1% and the pension-fund market's return median was situated at 8.3% (according to data disclosed by Mercer Investment Consulting).

At 31 December 2004, Banco BPI Pension Fund's portfolio, which corresponded to 99% of the total net assets of the Group's staff pension funds, presented the following composition:

Breakdown of Banco BPI Employees pension funds assets
At 31 December 2004

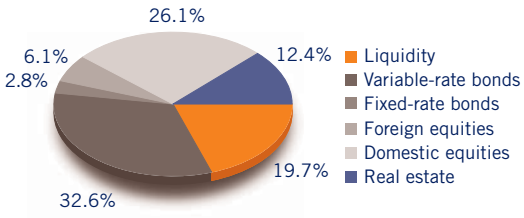
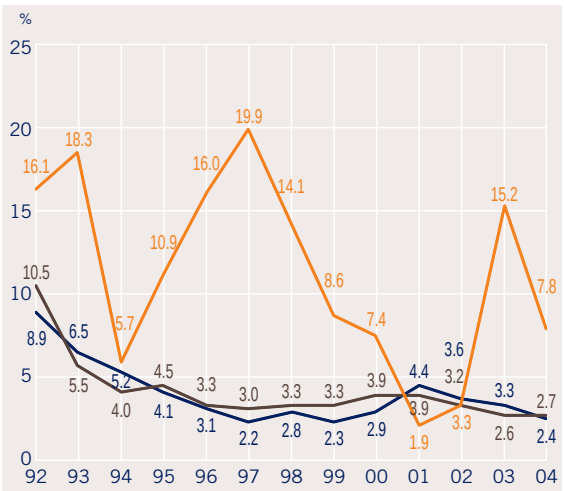


Chart 64

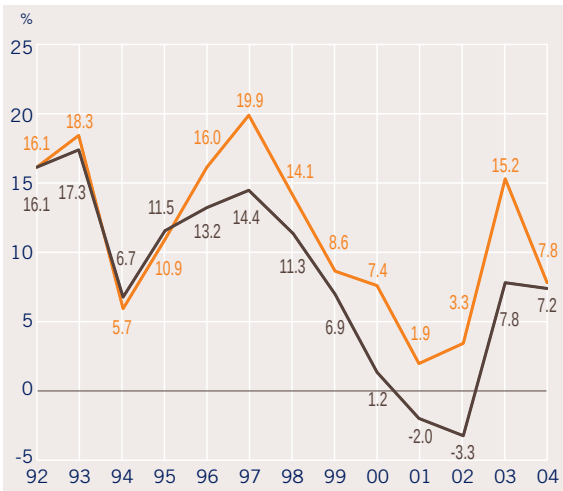
BPI Group Employees pension funds
Return vs. inflation and ACTV salary scale review



BPI Group Employees pension funds return
ACTV salary scale review
Inflation rate

Chart 65

BPI Group Employees pension funds
Return vs. market performance



BPI Group Employees pension funds return
Pension funds market's return median

Chart 66

Adoption of the International Accounting Standards (IAS / IFRS)

INTERNATIONAL ACCOUNTING STANDARDS

The adoption of the International Accounting Standards (IAS / IFRS) issued by the International Accounting Standards Board (IASB) came into force on 1 January 2005. These standards aim to harmonise international accounting standards, thereby achieving greater comparability between enterprises, more transparency and better quality information. In this fashion, the markets expect to witness increased confidence on the part of all interested parties.

Applicable legal framework

- European Parliament and Council's Regulation no. 1606 / 2002 of 19 July, which regulates the application of the IAS / IFRS on the European Union's financial markets.
- European Commission's Regulations no. 1725 / 2003 of 29 September, which adopts all the existent IAS as at 31 December 2002, with the exception of IAS 32 and 39.
- European Commission's Regulation no. 707 / 2004 of 6 April, which amended Commission Regulation no. 1725 / 2003 of 29 September, with a view to adopting IFRS 1 and subsequent amendments to the other international accounting standards.
- European Commission's Regulation no. 2086 / 2004 of 19 November, which adopts IAS 39 Financial Instrument: Recognition and Measurement, with the exception of certain of its provisions referring to use of the fair value option and others relating to hedge accounting.
- European Commission's Regulations no. 2236, 2237 and 2238 of 29 December 2004 and Regulation 211 / 2005 of 4 February, which adopt certain standards in conformity with European Parliament and Council Regulation 1606 / 2002.
- Decree Law 35 / 2005 of 17 February, which transposes into Portuguese law Directive no. 2003 / 51 / CE of the European Parliament and Council, of 18 June, which is intended to ensure coherence between community accounting legislation and the International Accounting Standards.

In terms of the Regulation 1606 / 2002, companies with securities listed on stock exchanges in Europe are obliged to present consolidated accounts which are compliant with the IFRS with effect from 1 January 2005. The Regulation also requires the presentation of comparative figures for the preceding years which are restated in conformity with the IAS / IFRS, except insofar as Standards 32 and 39 are concerned (relating to the presentation of information and the accounting for financial instruments and to the recognition and measurement of these financial instruments, respectively).

In parallel, Bank of Portugal notice 1 / 2005 prescribes the reporting model to be adopted by the entities subject to its supervision. As expected, this instruction makes the application of the IAS / IFRS to the consolidated accounts mandatory, but insofar as the individual accounts are concerned, it permits entities to opt for the application of the existing standards in 2005 (Chart of Accounts for the Banking Sector – Instruction 4 / 96) and the "Adjusted Accounting Standards".

The concept of the "Adjusted Accounting Standards" is founded on the IAS / IFRS platform, introducing alterations to issues such as:

- valuing and provisioning for loans granted, retaining the present regime (Bank of Portugal notice 1 / 2005);
- fixing of a phasing in period of 5 to 7 years (medical care) for cushioning the impact originated in the transition through the application of IAS 19 Employee Benefits (Bank of Portugal notice 4 / 2005);
- restriction in the application of a few options contemplated in the IAS / IFRS, for example, not permitting the valuation of tangible assets at fair value.

In its individual accounts, the BPI Group will opt for the application of the adjusted accounting standards, thereby reducing the complexity underlying the maintenance of a dual accounting system and ensuring greater comparability and consistency between its consolidated and individual accounts.

The adoption of the IAS / IFRS also entails the re-appraisal of the prudential norms currently in force, which will lead to a distinct accounting and prudential treatment with the object of guaranteeing, to the extent possible, the stability in capital adequacy levels (Bank of Portugal notice 2 / 2005). From this standpoint, we envisage the creation of a transitional period for the recognition of the accounting repercussions engendered by the transition to the international accounting standards. The Bank of Portugal prescribes a phasing-in period of 5 to 7 years for the repercussions relating top retirement pensions, and 3 years for the remaining impacts.

PRINCIPAL ALTERATIONS TO THE PRESENT CHART OF ACCOUNTS

The following are the major differences to the Chart of Accounts for the Portuguese Banking System (PCSB) introduced by the IAS / IFRS in the preparation of the BPI Group's financial statements:

Impairment

The concept of impairment applies when the fair value of an asset is lower than its book value. Impairment can exist in terms of an individual asset, an operating group of assets or the company as a whole (goodwill[G]). An impairment loss must be recognised in the income statement. A loan impairment is based on discounted cash flow methods and on estimates of recoverable amount.

Financial instruments

Financial instruments are classified into four categories which determine their form of measurement and recognition of the respective variations in the balance sheet value.

Asset classification	Measurement	Variations in balance sheet value
Dealing	Fair value	Income statement
Held to maturity	Amortised cost	Income statement
Loans and accounts receivable	Amortised cost	Income statement
Available for sale	Fair value[1]	Shareholders' funds[2]

Table 64

1) Except in situations where the fair value cannot be measured reliably.
2) Until the asset is sold, collected, abandoned or the respective impairment determined, at which moment the variations are recorded in the income statement for the period.

In the measurement of financial instruments, it is assumed that the company is capable of determining its fair value ("amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in a transaction realised under normal market conditions"). When this is not possible, the investments must be maintained at cost net of any impairment losses.

Contrary to their current treatment, both unrealised gains and losses in the portfolio of securities available for sale must now be reflected in the balance sheet value, with a corresponding adjustment made in the shareholders' funds caption (fair value reserve). Where any impairment to these assets is ascertained, the total amount recorded in the fair value reserve must be recognised in the income statement.

All derivatives (hedging or built into other instruments) are stated at fair value.

Hedge accounting

The hedge relationship must be formally documented, with its efficacy being tested in each period. When a fair-value hedge relationship exists, the instrument hedged must be revalued through the income statement, just as happens with the hedging instrument.

Accrual accounting for commissions

The recognition of income associated with loans must be accrual-accounted over the period of the loan.

De-recognition of assets

The de-recognition of assets (that is, ceasing to record assets in the balance sheet) should only occur when control over the contractual rights of the asset concerned has been lost. De-recognition should not occur where there exists the obligation to repurchase in the future or where the company retains certain risks / benefits or control over the asset sold. The principles of financial-asset de-recognition shall be applied to transactions occurring after 1 January 2004.

Intangible assets

The definition of an intangible asset is more stringent than the present one and, therefore, expenses which do not conform to this definition must be fully recorded as a cost in the year incurred (advertising costs, exploration and research, training, start-up expenses, reorganisation costs, etc.).

Tangible assets

Tangible assets can be revalued. The respective revaluations must be based on fair value, with tax-based revaluations not being accepted. When an item of tangible fixed assets is revalued, the entire class of which it forms part must also be revalued. The depreciation method must reflect the flow of benefits generated for the company. Depreciation must take into account the asset's residual value and its expected useful life (these parameters must be reviewed periodically).

Employee benefits

Pension obligations must also include medical-care costs and the death subsidy on retirement. The actuarial assumptions (demographic and financial) must be founded on market expectations at balance sheet date, be mutually compatible and be based on updated mortality tables. The discount rate must be determined based on market rates for low-risk bonds with a similar maturity period as that for the settlement of the liabilities.

The existence of a "corridor" is retained and, besides the actuarial variances, changes to assumptions must also be contemplated in this corridor. Amounts falling outside the corridor must be amortised over a period corresponding to the difference between the expected average retirement age and the average age of current Employees (in accordance with the Bank of Portugal's current rules, the amortisation period is 10 years). Early retirements are fully recognised as costs in the year in which they occur.

Deferred tax

Deferred tax assets and liabilities are recognised. A deferred tax asset must be recognised only to the extent that it is probable that there will be future taxable profits against which the deferred tax assets can be used. Deferred tax assets and liabilities cannot be discounted and must be measured on the basis of tax rates that are expected to be applied at the time the differences that gave rise to these assets and liabilities are reversed.

Transition

In accordance with IFRS1, the transition date for IAS / IFRS is 1 January 2004, except for IAS 39 the 1st application of which is 1 January 2005. At the transition date, the balances of the principal differences between the IAS / IFRS and the Chart of Accounts for the Banking Sector must be disclosed in retained earnings.

IMPLEMENTATION OF THE IAS / IFRS AT THE BPI GROUP

The project for the implementation of the IAS / IFRS at the BPI Group commenced midway through 2003 with the brief to identify and assess the general differences between the Bank of Portugal's accounting principles and those under the IAS / IFRS.

During the course of 2004, the BPI Group continued to study in greater depth the qualitative and quantitative adjustments required for adoption of the new legal platform introduced by the IAS / IFRS. On the operational front, more exhaustive work centred on the classification of financial instruments and on changes to the methods applied to the valuation of financial instruments for purposes of ascertaining loan impairment, situations these which necessitated far-reaching alterations to the Group's IT systems.

This process has been broadly concluded, although at 31 December 2004, work progressed on systems adaptation, namely, that related to the preparation of a new accounting matrix. In the beginning of 2005, the implementation of the IAS / IFRS at the BPI Group was in the process validation phase with the aim of improving and optimising current processes. A full audit of all the work carried out has not yet been performed.

At the same time, Banco BPI participated actively in working groups set up by the Bank of Portugal and the Portuguese Association of Banks, contributing to the analysis of the principal changes stemming from the adoption of the IAS / IFRS by the banking sector at accounting, prudential and tax levels.

On 1 January 2005, Banco BPI effected the migration of its systems to the IAS / IFRS environment.

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, market risks, liquidity risk, operating 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.

Risk Analysis and Control Division

The Risk Analysis and Control Division was formed in 2004 from the now-extinct Risk Analysis and Control Advisory Unit. Its direct mission is to equip the Bank with a more solid and centralised structure dedicated to risk control and analysis, in the light of best organisation practices in this domain and the requirements of the Basle Accord.

This Division comprises a Ratings and Scorings unit; a unit for analysing the overall risks attaching to the whole balance sheet; as well as a new unit responsible for the implementation and management of a Risk Datamart. The latter includes tasks such as maintaining links between the various sources of internal and external information; physical architecture and conceptual model for data; links to data-treatment applications; and the production of routine or sporadic information reports needed for the Risk Analysis and Control Division activity.

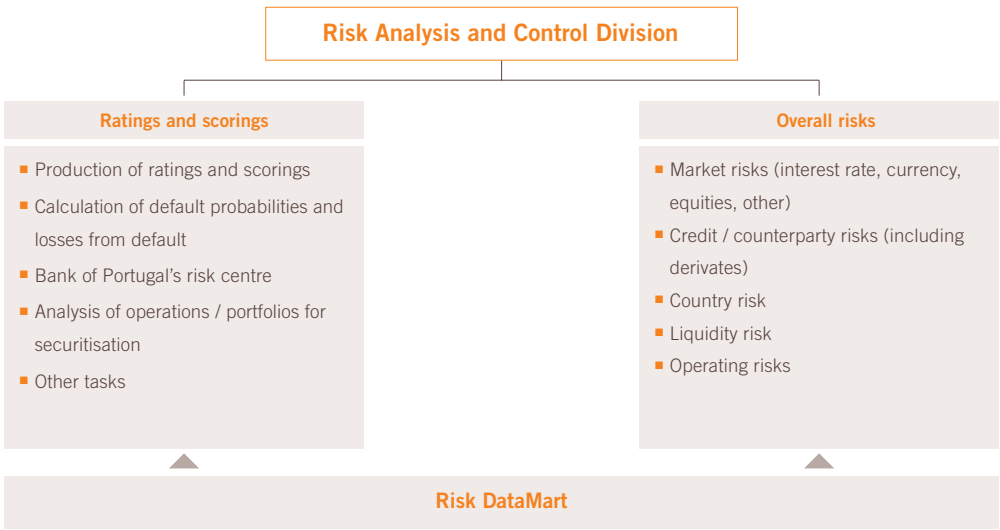


Figure 11

In the concrete sphere of credit / counterparty risks, this central structure allows the Bank to benefit from the evident economies of scale in the development of rating or scoring models, without eliminating the desirable proximity between the various risk-analysis areas of specific operations (housing, cards, motor cars, companies, which are the responsibility of the Credit Risk Division, etc.) and the respective commercial areas.

This structure also permits a transversal overview of all the risks, bearing in mind the trade-off between the different risks, the correlation, or simply the similarity or complementarity of the analysis methodologies.

PRINCIPAL INDICATORS

	2003	2004		
	Consolidated	Domestic activity	International activity	Consolidated
Loans in arrears for more than 90 days as a % of total loans	1.2%	1.1%	0.7%	1.1%
Provisioning cover of loans in arrears for more than 90 days	148.4%	156.1%	759.2%	160.6%
Non-performing loans (loans in arrears for more than 90 days and doubtful loans[1]) as a % of total loans[2]	1.3%	-	-	1.1%
Provisioning cover of non-performing loans	134.4%	-	-	154.0%
Loans in arrears for more than 90 days and doubtful loans, net of specific loan provisions, as a % of total loans[2]	0.57%	-	-	0.41%
Loans in arrears for more than 30 days as a % of total loans	1.3%	1.2%	0.9%	1.2%
Provisioning cover of loans in arrears for more than 30 days	131.5%	143.3%	592.1%	147.2%
Increase in loans in arrears for more than 30 days, adjusted by write-offs, as a % of the performing loan portfolio	0.37%	0.26%	0.30%	0.26%
Increase in loans in arrears for more than 30 days, adjusted by write-offs and deducted of recovery of loans in arrears written-off, as a % of the performing loan portfolio	0.24%	0.17%	0.30%	0.17%
Specific loan provisions, charged in the income statement (net of reversals), as a % of the performing loan portfolio	0.49%	0.37%	0.33%	0.37%
Total loan provisions, charged in the income statement (net of reversals), as a % of the performing loan portfolio	0.55%	0.40%	4.37%	0.43%
Country-risk exposure, net of provisions (M.€)	-	-	-	294.0
As % of total assets (net)	-	-	-	1.2%
Market risk (VaR)				
Maximum (M.€)	20.8	-	-	17.8
Monthly average (M.€)	9.8	-	-	6.1
Loans as a % of deposits	146.0%	-	-	154.7%
Loans as a % of Customer resources	130.5%	-	-	136.9%
Loans as a % of stable resources[3]	-	-	-	94.2%

1) Doubtful loans treated as arrears loans for provisioning purposes.

2) Calculated in accordance with 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 65

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.

Exposure to this risk is evaluated using different complementary methods (expert system, ratings, scorings, filters, replacement values and add-ons for derivatives and others). The Risk Analysis and Control Division is responsible for the centralised development of the ratings and scorings models which support the actions of the different risk areas (cards, personal loans, small businesses, etc) and of the Credit Risk Division (companies) which analyse the operations of the respective credit segment. The Risk Analysis and Control Division is also in charge of analysing the exposure to counterparty risk in Derivatives.

After an evaluation of exposure and its approval, specific approval for credit operations follows the principles and procedures laid down in the Credit Regulations. For each one of the different divisions involved, the relevant hierarchical levels for the approval of credit according to their characteristics have been defined with the object of decentralising decisions and, therefore, ensuring processing speed and efficacy. Operations must fall within the pre-determined limits and must conform to the desired levels of return on the capital employed.

The approval of credit operations falls within various strategies, including techniques such as diversification by geographical area, sector, segment, counterparty and maturity; the use of guarantees / collateral and margins; periodic payment / repayment schemes; legal preference clauses of the ISDA – International Swaps and Derivatives Association – and guarantees CSA – Credit Support Annex – in derivatives; credit derivates or settlement clauses.

Prescribed counterparty, market, maturity, product or currency limits are adhered to taking into account the degree of risk, the Customer's borrowing capacity, relationship with the Bank (including past experience relating to the use of limits and Customer profitability), as well as the actual amount of BPI's shareholders' equity.

Subsequently, the Bank maintains constant vigilance over the evolution of its exposure (including resorting to a warning system in the case of companies) 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 actual (or near actual) or expected losses arising from default (designated "economic provisions[G]") in such a way as to assess the adequacy of accounting provisions. The economic provisions are the object of a monthly assessment by the Board of Director's Executive Committee (Executive Committee for Credit Risks), and are reviewed every six months by the external auditors. These reports are also reviewed regularly by the Audit and Internal Control Committee.

Functioning as agents controlling this entire management process, besides the Board of Directors, the Audit and Internal Control Committee and the Executive Committee for Credit Risks, are the Risk Analysis and Control Division, the Credit Boards, the Credit Risk Divisions, the Internal and External Auditors and the Bank of Portugal.

The Internal Control Committee reviews twice monthly the economic provisions[G] for the loan portfolio, the unrealised losses associated with the securities and investment portfolio, the credit risk exposures in excess of 5% but less than 15% of Banco BPI's consolidated shareholders' equity, and defaults on loans in arrears for more than 90 days relating to exposures of more than 500 th.€.

The Executive Committee for Credit Risks analyses and decides on credit risk exposures over 25 M.€ and assesses on a monthly basis non-performing loans, the situation regarding debt-recovery processes and the constitution of economic provisions.

The credit boards analyse and decide upon credit exposures in excess of 2.5 M.€ and issue reports on the proposals sent for decision to the Executive Committee for Credit Risks.

Evaluation of credit risk exposure

Companies, Institutions, specialised finance

Credit operations involving companies, institutional Clients and project finance are evaluated by specialist analysts.

With the exception of institutional loans and project finance operations (due to their very specific nature) the entire analysis of credit risk relating to large and medium-sized companies is undertaken by the Credit Risk Division.

This Division (set up in 2002) permits a greater specialisation and independence in the analysis of these risks, so contributing to BPI's approximation to the global objectives of the Basle II Committee's recommendations with respect to the evaluation and monitoring of credit risk.

The Credit Risk Division is composed of three principal areas: credit lending, monitoring and recovery.

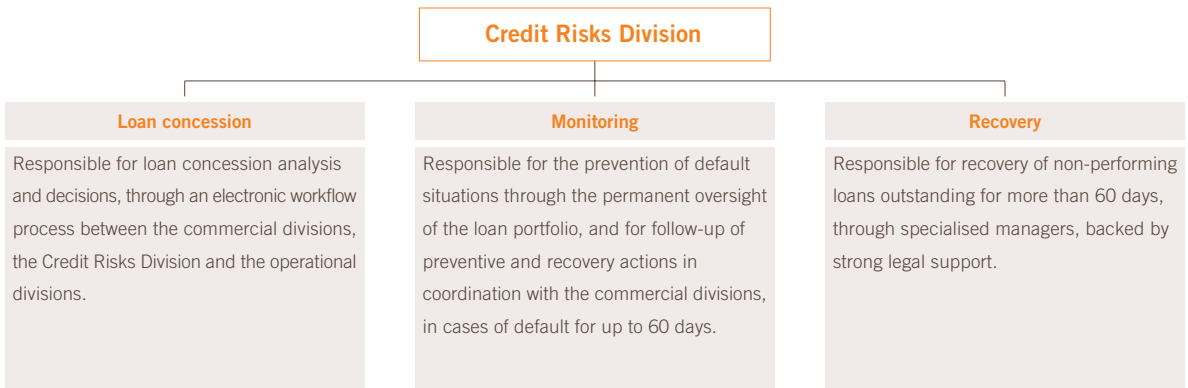


Figure 12

In the credit-risk evaluation process, the commercial divisions play a key role bearing in mind that the Credit Risk Division only analyses credit applications which have been approved by them. On the other hand, the commercial divisions are responsible for furnishing relevant qualitative information about their corporate Customers.

The Credit Risk Division, in the execution of its function of monitoring exposure limits, is also supported by an alert system which grades Customers with monitoring scores. This system permits the detection of changes in the risk attaching to corporate Customers, generating information which complements that supplied by the commercial divisions, as well as providing guidelines for managing and monitoring credit risk.

In addition, BPI uses an internal rating system for companies, with five grades for evaluating medium-sized and large companies. The classification grade is determined on the basis of economic and financial ratios, as well as indicators that take into account past experience, commercial concept, incidents and risks associated with the market / sector in which the company operates.

Following the creation of the Credit Risk Division, the BPI Group implemented the procedures relating to non-performing company loans which are incorporated in the General Credit Regulations.

PROCEDURES ADOPTED IN RELATION TO NON-PERFORMING CORPORATE LOANS

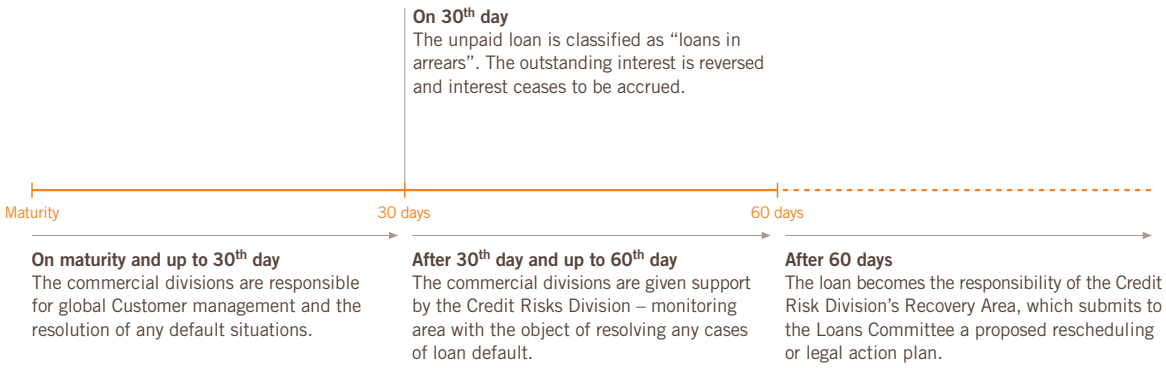


Figure 13

The Credit Risk Division or, in the final instance, the Executive Committee for Credit Risks, complements this information about the probability of default with a qualitative analysis of the company's strategy and management (which results in a possible overrule of the current rating), and with an analysis of the information concerning the expected or potential loss in the event of default (including in particular the analysis of collateral).

According to this risk-evaluation and credit-approval method, the portfolio's average risk is 49.1 (class A) against 48.4 in the previous year.

Corporate and institutionals loan portfolio in 2004
Breakdown by risk class (internal rating)

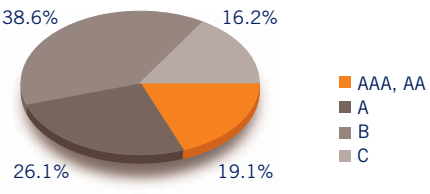


Chart 67

Loans, securities and guarantees portfolio of companies and institutionals
Breakdown of exposure by classes of risk (internal rating)

Classes of risk	2002	2003	2004
AAA (<10)	12.6%	17%	14%
AA (10-30)	10.7%	5.6%	5.1%
A (30-50)	37.1%	20.5%	26.1%
B (50-70)	34.1%	42.7%	38.6%
C (70-100)	5.5%	14.1%	16.2%
Total	**100%**	**100%**	**100%**
Average points	**43.1**	**48.4**	**49.1**

Table 66

These systems for evaluating counterparty risk are complemented by others, in particular, by identifying the concentration of exposure to a counterparty or Group ("large exposures") and by the calculation of the capital at risk, in accordance with the assessment method envisaged in the regulations dealing with solvency ratio[G], or a variation thereof. At global level, the portfolio is also evaluated according to the degree of geographical or sectorial diversification and to maturities.

Individuals and small businesses

In the individuals segment, there are different Customer scorings and selection filters. In the case of loans backed by specific guarantees (housing, motor car) the probable loss is low by virtue of the relationship between the amount financed and the relevant guarantee. BPI prescribes a loan to value ratio for home loans that has a maximum ceiling of 90%. In exceptional cases, this ratio may exceed 90% provided that the borrower has personal protection insurance.

As concerns other loans to individuals, Customer selection is primarily based on the assessment of default probabilities by recourse to scoring or expert systems, while credit is advanced within predetermined limits. In order to reduce the probability of default, credit protection insurance is required (with unemployment and hospitalisation cover) for Crédito Pessoal BPI (BPI Personal Loan). Overall Customer acceptance or rejection indices are associated with the minimum desired profitability levels taking into account the inherent risks.

The analysis of exposure to counterparty risk in the small business segment is conducted by recourse to a non-empirical scoring and expert system. Besides the analysis of any collateral, this procedure also involves the scrutiny of different indicators and the issue of a subjective opinion on the possibility of default by the counterparty or the entity providing the guarantee.

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 by securities of low credit-risk issuers.

Bonds and fixed-interest securities' investment portfolio[1]
Breakdown of exposure by classes of risk (external rating)

Amounts in M.€

Classes of risk	2003	%	2004	%
Aaa	133.7	7.5%	115.4	11.4%
Aa	620.9	34.9%	592.1	58.3%
A	367.8	20.6%	46.1	4.5%
Baa	485.4	27.3%	75.1	7.4%
Other / Not rated (NR)	41.0	2.3%	71.8	7.1%
Commercial paper (NR)[2]	131.3	7.4%	115.8	11.4%
Total	**1 780.1**	**100.0%**	**1 016.3**	**100.0%**

1) Includes preference shares which are recorded in the equities portfolio.
2) Non-rated commercial paper is guaranteed by credit institutions.

Table 67

Bonds investment portfolio in 2004
Breakdown by risk class (external rating)

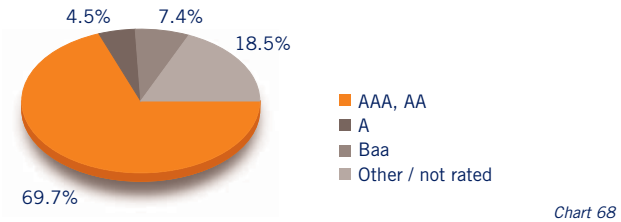


Chart 68

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 by the Risk Analysis and Control Advisory Unit.

In order to mitigate derivatives credit risk, besides resorting to contracts containing clauses which permit the setting off of obligations in the event of default (even in the case of insolvency), the Group has entered into credit-risk limitation agreements with its most important counterparties in these markets. 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 377 M.€ (gross amount) to 102 M.€ (net amount) at the end of 2004.

Current credit risk
Substitution value of derivatives by type of counterparty

Amounts in M.€

	2003	%	2004	%
BPI Group	22.7	20.8%	7.5	7.3%
Unit trust and pension funds	0.0	0.0%	0.0	0.0%
Companies	7.2	6.6%	11.4	11.1%
Individuals	8.8	8.1%	5.4	5.3%
Banks	70.1	64.5%	78.1	76.3%
Total	**108.7**	**100%**	**102.4**	**100.0%**

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 68

This form of evaluating exposure to counterparty risk is supplemented by the traditional regulatory approach and anticipates, to a certain extent, the best practices embodied in the new Basle accord.

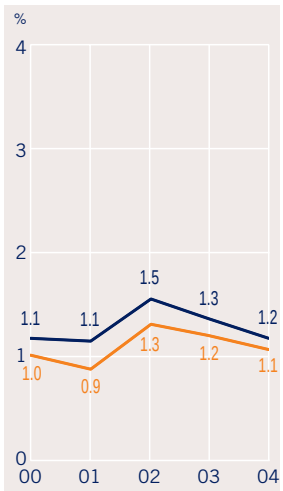
Default, provisioning and recovery levels

At the end of 2004, Customer loans in arrears for more than 90 days amounted to 202.4 M.€, which corresponded to 1.1% of the gross loan portfolio and was 161% covered by provisions. In the domestic activity, loans in arrears for more than 90 days totalled 200.9 M.€, corresponding to a loans in arrears ratio of 1.1%, and were 156% covered by provisions. In the international activity the ratio of loans in arrears was situated at 0.7% and provisioning cover was 759%.

The non-performing loan ratio calculated in accordance with Bank of Portugal letter-circular 99 / 2003 was situated at 1.1%, while provisioning cover was 154%. Besides loans in arrears for more than 90 days, the aforesaid ratio includes doubtful loans treated as overdue for provisioning purposes. At December 2004, these totalled 8.6 M.€.

It should be pointed out that overdue securities carried in the balance sheet are of minor expression in the balance sheet. At the end of 2004, overdue securities and interest amounted to 0.3 M.€ and were fully provided for.

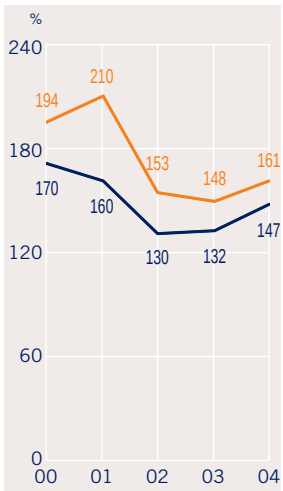
Ratio of loans to Customers in arrears



Loans in arrears for more than 30 days
Loans in arrears for more than 90 days

Chart 69

Provisioning cover of loans to Customers in arrears



Loans in arrears for more than 30 days
Loans in arrears for more than 90 days

Chart 70

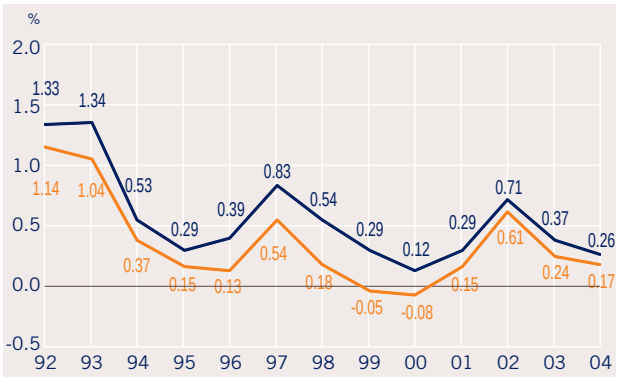
In 2004, the increase in Customer loans in arrears for more than 90 days (adjusted for write-offs[G] effected) was 54.4 M.€, which corresponded to 0.31% of the performing loan portfolio at the beginning of the year. These figures represent a significant decrease in default levels when compared to the percentages of 0.73% registered in 2002 and 0.43% in 2003.

On the other hand, 15.3 M.€ in overdue loans and interest previously written off assets was recovered during the course of 2004. In 2003, recoveries totalled 20.6 M.€; however, this figure included the recovery of 7.2 M.€ related to the resolution of an old non-performing debt.

Accordingly, the increase in loans in arrears (for more than 90 days) in the year, adjusted for the write-offs[G] effected and for loan recoveries, was 0.22% of the performing loan portfolio at the beginning of the year, which compares favourably with the values for the past two years (0.63% in 2002 and 0.31% in 2003).

It is important to note that at 31 December 2004, the balance of restructured credit amounted to 45.9 M.€, which represents an increase of 8.8 M.€ relative to that outstanding at the end of 2003. This increase corresponds to 0.05% of the performing loan portfolio at the start of the year.

Annual net additions in loans in arrears[1]
As % of performing loan portfolio at beginning of the year



— Annual variation in loans in arrears, adjusted by write-offs
— Annual variation in loans in arrears, adjusted by write-offs, less recovery of loans in arrears written-off

1) Loans in arrears for more than 30 days.

Chart 71

Loans in arrears for more than 90 days

Amounts in M.€

	2000	2001	2002	2003	2004
Customer loan portfolio at the end of the year (gross)	**13 494.4**	**15 471.0**	**16 615.2**	**17 783.0**	**19 021.1**
Loans in arrears for more than 90 days					
Loans in arrears for more than 90 days at the beginning of the year	138.8	135.8	133.2	216.3	212.0
Net increase in arrear loans (adjusted for write-offs)	13.9	17.2	111.5	70.9	54.4
Write-offs	(16.9)	(19.7)	(28.5)	(75.2)	(64.0)
Loans in arrears for more than 90 days at the end of the year	**135.8**	**133.2**	**216.3**	**212.0**	**202.4**
Doubtful loans[1]	**-**	**-**	**-**	**22.2**	**8.6**
Ratio of arrear and doubtful loans					
Loans in arrears for more than 90 days as a percentage of total loans	1.0%	0.9%	1.3%	1.2%	1.1%
Loans in arrears for more than 90 days and doubtful loans[1] as a percentage of total loans[2]	-	-	-	1.3%	1.1%
Recovery of loans in arrears previously written-off	**18.7**	**18.9**	**14.7**	**20.6**	**15.3**
Increase in arrear loans as a % of the performing loan portfolio at the beginning of the year					
Increase in arrear loans adjusted for write-offs	0.15%	0.13%	0.73%	0.43%	0.31%
Increase in arrear loans adjusted for write-offs and deducted of recovery of loans in arrears written-off	-0.05%	-0.01%	0.63%	0.31%	0.22%

1) Doubtful loans treated as being in arrears for purposes of provisioning.
2) Calculated in accordance with Bank of Portugal Instruction 16 / 2004.

Table 69

Provisions for loans

Amounts in M.€

	2000	2001	2002	2003	2004
Total loan provisions at the beginning of the year	218.3	263.7	279.8	331.0	314.6
Increases (net of reversals)					
Specific for arrear loans	18.4	17.0	57.4	67.6	70.7
Specific for doubtful loans	(1.6)	2.2	1.1	12.5	(5.1)
Country risk	1.8	(2.1)	(1.6)	(0.4)	(0.2)
Reversals of general provisions (which were utilised to increase specific provisions)	-	-	-	(27.2)	-
General loan provisions	45.2	21.1	7.5	9.7	10.0
Transfers, currency revaluations and other	(1.5)	(2.4)	15.1[1]	(3.4)	(1.0)
Write-offs	(16.9)	(19.7)	(28.5)	(75.2)	(64.0)
Total loan provisions at the end of the year	**263.7**	**279.8**	**331.0**	**314.6**	**325.0**
Provisioning cover					
For loans in arrears for more than 90 days	194.2%	210.0%	153.0%	148.4%	160.6%
For loans in arrears for more than 90 days and for doubtful loans[2]	-	-	-	134.4%	154.0%
Loans in arrears for more than 90 days and for doubtful loans, net of specific provisions as a % of net loan portfolio[3]	-	-	-	0.57%	0.41%

1) Includes 18.5 M.€ of provisions relating to the acquisition of EFTA fund's credits.
2) Doubtful loans treated as being in arrears for purposes of provisioning.
3) Calculated in accordance with Bank of Portugal Instruction 16 / 2004.

Table 70

When taking into account loans in arrears for more than 30 days, the non-performing loan ratio was situated at 1.2% at the end of 2004, while the level of provisioning cover for non-performing loans stood at 147%.

Loans in arrears for more than 30 days and provisions Amounts in M.€

	2003	2004
Customer loan portfolio (gross)	17 783.0	19 021.1
Doubtful loans[1]	22.2	8.6
Loans in arrears for more than 30 days	239.2	220.8
Total loan provisions	314.6	325.0
Ratio of arrear and doubtful loans		
Loans in arrears for more than 30 days as a percentage of total loans	1.3%	1.2%
Loans in arrears for more than 30 days and doubtful loans[1] as a percentage of total loans	1.5%	1.2%
Provisioning cover		
For loans in arrears for more than 30 days	131.5%	147.2%
For loans in arrears for more than 30 days and for doubtful loans[1]	120.4%	141.7%

1) Doubtful loans treated as being in arrears for purposes of provisioning. *Table 71*

The decline in default levels was essentially noted in loans to individuals and small businesses. In this segment, the increase in loans in arrears for more than 30 days and adjusted for write-offs[G], represented 0.26% of the loan portfolio which corresponds to a decrease of 31 basis points relative to 2003. The same ratio at Corporate Banking represented 0.22% of the loan portfolio whereas in 2003 it had been -0.03% – a situation which reflected the recovery of a significant amount of non-performing loans.

Increase in loans in arrears for more than 30 days by Customer segments Amounts in M.€

	2003		2004	
	Increase in arrear loans, adjusted for write-offs	As % of the segment performing loan portfolio	Increase in arrear loans, adjusted for write-offs	As % of the segment performing loan portfolio
Domestic activity				
Corporate Banking	-2.0	-0.03%	15.0	0.22%
Individuals and Small Businesses Banking				
Mortgage loans	24.5	0.38%	13.6	0.18%
Loans to individuals – other purposes	9.6	1.14%	5.4	0.63%
Loans to small businesses	16.1	1.06%	7.1	0.44%
Individuals and Small Businesses Banking	50.2	0.57%	26.1	0.26%
Specialised loans – leasing and ALD[1]	0.5	0.15%	3.7	1.34%
Other	9.2	3.26%	0.5	0.17%
Domestic activity	**57.9**	**0.35%**	**45.2**	**0.26%**
International activity	**0.5**	**0.58%**	**0.4**	**0.30%**
Consolidation adjustment[2]	2.4	-	-	-
Total	**60.7**	**0.37%**	**45.6**	**0.26%**

Note: loans in the form of leasing, factoring and ALD have been broken down into the various Customer segments. *Table 72*

1) Commercial loans not allocated to the segments.

2) In 2003 BPI Rent, BPI Locação and Eurolocação began to be consolidated using the purchase method, while the activity in Mozambique began to be equity accounted. For analysis purposes, the trend in arrear loans in 2003 was adjusted.

The following table presents the ratios of loans in arrears for more than 30 days, by Customer segment, as well as the contribution made by each segment to the gross loan portfolio.

Loans in arrears for more than 30 days by Customer segments

	2003		2004	
	Loans portfolio (gross) as % of the consolidated loan portfolio	Ratio of loans in arrears	Loans portfolio (gross) as % of the consolidated loan portfolio	Ratio of loans in arrears
Domestic activity				
Corporate Banking				
Large companies	11%	1.6%	9%	0.2%
Companies	18%	1.8%	18%	1.6%
Institutional Banking	5%	0.02%	6%	0.01%
Project Finance	4%	-	4%	0.01%
Corporate Banking	38%	1.3%	37%	0.8%
Loans to Individuals and Small Businesses Banking				
Mortgage loans	43%	0.9%	45%	1.0%
Loans to individuals – other purposes	5%	2.6%	5%	2.7%
Loans to small businesses	9%	2.3%	9%	2.0%
Loans to Individuals and Small Businesses Banking	58%	1.3%	59%	1.3%
Specialised loans – leasing and ALD[1]	2%	2.8%	1%	4.3%
Other	2%	3.2%	2%	3.0%
Domestic activity	**99%**	**1.3%**	**99%**	**1.2%**
International activity	**1%**	**1.2%**	**1%**	**0.9%**
Total	**100%**	**1.3%**	**100%**	**1.2%**

Note: loans in the form of leasing, factoring and ALD (long-term rental) have been apportioned amongst the various Customer segments. *Table 73*
1) Commercial loans not allocated to the segments.

The amount set aside for specific provisions for loans in arrears and doubtful debts in domestic activity totalled 65.1 M.€ (net of reversals) in 2004. Of this figure, 21.5 M.€ is earmarked to cover loans associated with domestic activity which entered into default during 2004, while the balance referred to provisioning for non-performing loans in arrears for more than one year and for doubtful debts.

At the end of 2004 and with reference to domestic activity, Customer loans in arrears for less than one year amounted to 80.7 M.€ and were 26.6% covered by specific provisions for loans in arrears.

Loans in arrears for more than one year stood at 138.2 M.€, or roughly 63% of total loans in arrears. These were covered by specific provisions to the extent of 75.7%, resulting in a net figure of 33.6 M.€.

Domestic activity – age analysis of Customer loans in arrears and specific provisioning cover (at 31 December 2004)

Amounts in M.€

Age analysis of arrear loans by classes[1]	< 1 year				1-2 years		2-3 years (classes VIII and IX)	> 3 years (classes X to XII)	Total
	<3 months (class I)	3-6 months (class II)	6-9 months (class III)	9-12 months (class IV)	12-18 months (class V and VI)	18-24 months (class VII)			
Home loans									
Loans in arrears	1.5	2.1	7.2	9.4	11.0	10.0	16.3	13.3	70.9
Provisioning cover	0.5%	10.0%	25.0%	25.0%	31.2%	50.0%	68.0%	58.9%	44.8%
Other loans with asset-backed security									
Loans in arrears	3.0	1.6	2.3	6.1	4.7	5.5	14.7	8.6	46.6
Provisioning cover	0.9%	9.6%	24.9%	24.8%	49.9%	75.0%	78.0%	100.0%	61.9%
Loans with personal guarantees									
Loans in arrears	3.5	4.0	3.5	2.6	6.4	4.0	3.0	0.9	27.7
Provisioning cover	1.0%	10.0%	25.0%	25.0%	60.2%	100.0%	100.0%	87.2%	48.7%
Unsecured loans									
Loans in arrears	9.7	7.7	8.7	7.7	11.9	8.8	10.5	8.6	73.7
Provisioning cover	8.7%	25.0%	49.8%	74.5%	98.6%	97.8%	98.4%	97.8%	70.5%
Total loans in arrears									
Loans in arrears	**17.8**	**15.4**	**21.7**	**25.8**	**34.0**	**28.4**	**44.5**	**31.4**	**218.9**
Provisioning cover	5.2%	17.4%	35.0%	39.7%	62.8%	76.8%	80.6%	81.6%	57.6%

1) Classes of arrear loans by age analysis, in accordance with Bank of Portugal Notice 8 / 2003.

Table 74

At 31 December 2004, in domestic activity, total provisioning cover (specific and general) for non-performing loans stood at 143%.

The above mentioned cover conforms to the accounting provisioning levels prescribed by the Bank of Portugal. The specific provisions (for arrear and doubtful loans) are created in conformity with the coefficients defined by the Bank of Portugal for covering non-performing loans, while the general provisions correspond to a percentage of the total performing loan and guarantees portfolio, in respect of which there is no identified risk of default.

In addition, in order to assess the adequacy of the accounting provisions set aside, Banco BPI makes an estimate every month of the actual losses, quasi-actual or expected loan losses (known as "economic provisions[G]") on its loan and guarantees portfolio.

Based on this analysis, at the end of 2004 Banco BPI's (including BPI Rent) accounting provisions totalling 308.7 M.€ exceeded by 8.3 M.€ the estimated loss of 300.4 M.€ on the loan and guarantees portfolio.

The economic provisions are reviewed every six months by the external auditors.

Trend in BPI's non-performing loans versus the banking system in Portugal

The quality indicators relating to BPI's loan portfolio compare very favourably vis-à-vis the average for the various segments within the Portuguese banking system.

At the end of 2004, BPI presented a ratio for loans in arrears for more than 30 days (domestic activity) of 1.2%, that is, below the banking sector's 2.0%. At BPI, the ratio for non-performing company loans (including credit to small businesses) was 1.1%, whereas the market average stood at 1.8%. In the individuals segment (housing, consumption and other purposes), the same ratio at BPI was 1.1%, or about half that presented by the sector.

The indicator relating to the increase in arrear loans (adjusted for write-offs[G]) as a percentage of BPI's loan portfolio was situated at 0.26% in 2004 in the case of companies and small businesses, and at 0.22% in the case of loans to individuals. This situation reflects incidence levels which are below the sector averages of 0.53% for companies and 0.27% for individuals. It is worth underlining the decline in incidence levels registered by the sector in 2004, in particular in the segment encompassing loans to individuals.

Portuguese banking system[1]
Loans to residents: non-financial companies and individuals

	Loans (gross) as % of total (31 Dec. 04)	2001	2002	2003	2004
Ratio of loans in arrears (for more than 30 days)					
Loans to non-financial companies[2]	48%	2.4%	2.4%	2.1%	1.8%
Loans to individuals (include emigrants)	52%	2.0%	2.1%	2.4%	2.2%
Of which: housing loans	41%	1.2%	1.4%	1.6%	1.5%
Of which: consumption and other	11%	4.4%	4.4%	5.1%	4.7%
Loans to residents – non-financial companies and individuals	**100%**	**2.2%**	**2.2%**	**2.3%**	**2.0%**
Increase in arrear loans, adjusted by write-offs, as a % of the performing loan portfolio at the beginning of the year					
Loans to non-financial companies[2]		0.84%	0.80%	0.58%	0.53%
Loans to individuals		0.46%	0.42%	0.65%	0.27%
Loans to residents – non-financial companies and individuals		**0.64%**	**0.61%**	**0.61%**	**0.40%**

Source: Bank of Portugal and BPI *Table 75*

1) Monetary financial institutions, excluding the central bank: banks, savings banks, agricultural savings and loans banks and money market funds.
2) Includes loans to small businesses. Differs from the segmentation presented by BPI, considering that this credit forms part of Individuals and Small Businesses Banking segment.

Regime governing loan provisioning

Types of provisions

In Portugal, the regime that regulates credit risk provisioning (Bank of Portugal Notices 3 / 1995 and 8 / 2003) prescribes three types of loan provisions:

- specific provisions for loans and interest in arrears – destined to cover loans (capital and interest) in arrears which are in default for more than 30 days;
- specific provisions for doubtful loans – earmarked to cover the risk on loans which are not yet in arrears in a credit operation or on the total loans advanced to a single Customer in respect of whom there are overdue instalments;
- provisions for general credit risks – are constituted as a percentage of the total performing loan and guarantees portfolios and in respect of which there is no identified risk of default.

Specific provisions for loans and interest in arrears

Loans in default for more than 30 days are deemed to be loans in arrears. After this period, the recording of interest as income on the capital registered as loans in arrears is suspended, while the interest accrued since the last paid instalment of interest is annulled.

As regards mortgage loans, BPI adopts a policy that leads to the earlier recognition of non-performing loans. Given that BPI institutes legal action for the recovery of the loan 5 to 6 months after the first instalment falls into arrears, BPI accounts for interest until the date on which it initiates legal action, and at that point, the entire loan (capital and interest), and not just the instalments in default, is fully recognised as loans in arrears.

Provisioning for loans in arrears is done on a progressive manner, in accordance with the minimum cover coefficients laid down in Bank of Portugal Notice 8 / 2003, which sets out a differentiated treatment depending on the purpose of the loan, the nature of the securities and the age history of the default.

Minimum provisioning coefficients (Notice 8 / 2003)

Figures in percentage (%)

Period of loan in default	Classes	Loan purposes and nature of the securities					
		Unsecured loans	Secured loans				
			With personal guarantee	With real guarantee			
				Non mortgage	Mortgage loans		
					Loans for other purposes	Housing loans	
						Loan-to-value ≥ 75%	Loan-to-value < 75%
From 1 to 3 months	I	1	1	1	1	0.5	0.5
>3 to ≤6 months	II	25	10	10	10	10	10
>6 to ≤9 months	III	50	25	25	25	25	25
>9 to ≤12 months	IV	75					
>12 to ≤15 months	V	100	50	50	50		
>15 to ≤18 months	VI		75			50	
>18 to ≤24 months	VII		100	75	75		50
>24 to ≤30 months	VIII					75	
>30 to ≤36 months	IX			100	100		
>36 to ≤48 months	X						75
>48 to ≤60 months	XI					100	
>60 months	XII						100

Figure 14

Specific provisions for doubtful loans

The instalments not yet due in a credit operation are classified as doubtful loans when:

- there are instalments in default (capital and interest) which exceed 25% of the outstanding capital (plus interest due) or;
- there are instalments in default for more than 6 months in operations with a maturity of less than 5 years, for more than 12 months in operations with a maturity of 5 to 10 years, or for more than 24 months in operations with a maturity of more than 10 years.

In the above-mentioned two situations and for provisioning purposes, the instalments not yet due are treated as loans in arrears, in other words, the same provisioning coefficients are applied as those to loans in arrears, whereby they are attributed the identical debt ageing as the first instalment in default.

Also classified as doubtful loans are the total instalments not yet due by a Customer when such person has instalments in default (capital and interest) which exceed 25% of the total capital in debt (plus interest due).

In this situation and for provisioning purposes, half of the arrear loan provisioning coefficients are applied to the total instalments not yet due by this Customer, while the debt's age is determined as from the date on which the overdue instalments exceed 25% of the outstanding capital.

Provisions for general credit risks

Provisions for general credit risks are constituted for the portfolio of performing loans and guarantees. These correspond to 0.5% of loans secured by a mortgage over real estate or real-estate leasing operations (in both cases when the property is destined for the borrower's residence), to 1.5% of consumer credit and unspecified loans to individuals, and to 1% for the remainder of loans granted. In this way, the loan portfolio's expansion is responsible for a higher level of provisioning in phases when the growth in lending is more pronounced.

COUNTRY RISK

Country risk is very similar in terms of its respective effects to counterparty risk and is associated with the changes or specific disturbances of a political, economic or financial nature in those places where the counterparties operate (or, more rarely, in a third country where the business transaction takes place), which impede full compliance with the contract, irrespective of the counterparties' will or capacity. The "country-risk" designation is also used to classify the counterparty risk involved in loans to state entities, given the similarity between the analysis methods for country risk and those for a state's counterparty risk (sovereign risk).

The inclusion of a specific country as a being one bearing country-risk is effected on the basis of the Bank of Portugal's regulatory classification.

Country-risk[G] evaluation is carried out by the Bank's International Division, which resorts to published external ratings, and external and in-house studies. The Board of Directors' Executive Committee approves the list of countries and the type of operations eligible for country-risk exposure. 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, medium-term operations with political risk hedging or which, due to their structuring, are not subject to transfer risk.

In 2004, this activity was concentrated on Brazil and Turkey.

The country-risk table also includes exposure through the holding of international participating interests (Banco de Fomento Angola and the 30% interest in Banco Comercial e de Investimentos in Mozambique).

Country-risk exposure (at 31 December 2004) Amounts in M.€

Country	Rating	Gross exposure	Guarantees[1]	Exposure net of guarantees[2]	Country-risk provisions	Exposure net of provisions
Morocco	BB	12.7	6.9	5.7	0.4	5.3
Brazil	BB-	151.6	0	151.6	0	151.6
Cape Verde	B+	33.2	32.5	0.7	0.1	0.6
Turkey	B+	37.0	0	37.0	0	37.0
South Africa	BBB	0.9	0	0.9	0	0.9
Kazakhstan	BBB-	1.5	0	1.5	0	1.5
Panama	BB+	1.0	0	1.0	0	1.0
Angola	n.a.	84.3	0	84.3	0.2	84.1
Mozambique	B	25.0	14.6	10.4	0	10.4
Other	n.a.	1.6	0	1.6	0	1.6
Total		**348.8**	**54.0**	**294.7**	**0.7**	**294.0**

1) Guarantees from residents, namely, the COSEC (National Export Credit Agency), exporters or deposits. *Table 76*
2) Short-term external financing operations, operations with multilateral development banks or those covered by political-risk insurance are not subject to country-risk provisions.

MARKET RISKS

Market or price risk (interest rates, foreign exchange rates, equity prices, commodity prices, others) is defined as the possibility of incurring losses due to unexpected variations in the price of 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, duration gaps).

The Bank is structurally exposed to the fall in interest rates.

Value at Risk (VaR)

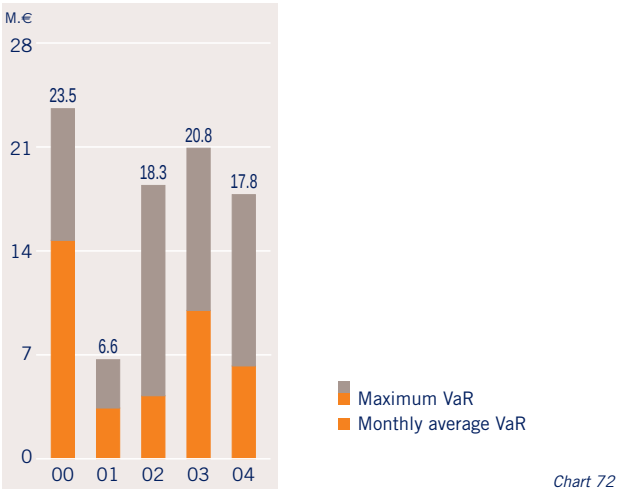


Chart 72

Interest rate risk
Repricing gaps[1] (at 31 December 2004)

Amounts in M.€

	1 year	1 to 2 years	2 to 5 years	3 to 5 years	5 to 7 years	7 to 15 years	> 15 years
Accumulated gap	777.9	1 036.8	1306	1 287.5	1 295.1	1 343.5	1 362.6

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.

Table 77

In the currency arena, the financial holdings are taken into account in the structural position, including the currency position in Kwanza associated with BFA shareholders' equity. The positions in the remaining currencies are of minor significance.

To complement this evaluation, specially in the case of evaluating exposure in trading operations, the Risk Analysis and Control Division performs a daily calculation of the VaR – Value at Risk – using standardised assumptions, as a rule consistent with the BIS's set of recommendations. The exposure due to options is controlled based on specific models. The information generated by the risk evaluation and control system is available online for authorised users.

Foreign exchange rate risk
Structural position (at 31 December 2004)

Amounts in M.€

	Sight	Term	Total
AKZ[1]	77.5	0	77.5
USD	(286.1)	289.9	3.8
GBP	3.7	2.7	6.4
Other			
Position 1			97.6
Position 2			97.6
Position 3			97.6

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) This position corresponds to Banco Fomento Angola's shareholders' equity. This exposure is protected in terms of the subsidiary in Angola through the provision for the maintenance of own funds.

Table 78

Overall market risk[1]

Amounts in M.€

	1st quarter	2nd quarter	3rd quarter	4th quarter	2004
VaR (monthly average)	9.4	8.2	2.7	4.2	6.1
Interest rate risk	8.4	7.5	2.1	2.1	5.0
Currency risk	3.1	2.7	0.7	2.9	2.4
Equities risk	1.4	1.5	1.2	0.8	1.2
Commodities	0.0	0.0	0.0	0.0	0.0
VaR (maximum)	17.8	17.1	3.1	8.6	17.8

1) Includes trading and banking book. 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 79

Trading positions are managed autonomously by the traders and maintained within the exposure limits (by market or by product) which are fixed and periodically revised. There are varying exposure limits, including overall VaR limits laid down by the Executive Committee for Market Risks. These are then distributed autonomously amongst the various books by the divisions involved in trading activity. In addition, stop-loss[G] limits are defined.

From the perspective of market risk, the management of positions 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 (interest rate or currency risk) are managed in accordance with the norms laid down by the Executive Committee for Market Risks.

As regards the structural position resulting from the investments portfolio, the attendant market risk is not easily measurable by recourse to traditional methodologies such as VaR in view of the investment's holding period, the importance of the positions or the absence of a quoted price on the equities market. This portfolio's performance and respective provisioning are analysed in the financial review chapter.

LIQUIDITY RISK

Liquidity risk is monitored in terms of its two components: i) in the tradability of the different assets; ii) in its overall context, whereby liquidity risk is defined at grassroots level as the (in)ability to keep pace with the asset's growth and to satisfy treasury needs without incurring abnormal losses.

In terms of the different assets, the various managers keep a constant watch over the transaction levels of the various instruments in accordance with a variety of indicators (BPI's market share, number of days to unwind positions, size and volatility[G] of spreads, etc.), although always obeying the operating limits set for each market.

The evaluation of overall exposure is carried out by the Risk Analysis and Control Division by means of tables showing the expected evolution of liquidity (thus permitting the timely identification of gaps and their dynamic cover (hedging)), as well as by way of stress test tables (monitored by the Bank of Portugal).

Liquidity risk
Gaps[1] (at 31 December 2004) Amounts in M.€

	Up to 1 year	1 to 2 years	2 to 5 years	> 5 years
Gap	(2 963)	(1 362)	(2 681)	1 101
Accumulated Gap	(2 963)	(4 325)	(7 006)	(5 905)

1) The Gap includes all currencies. It does not include the activity of the offshore financial branches. Growth over the next 12 months in loans and balance sheet Customer' resources was taken into account. Equities and trading operations were deemed to be "without term". *Table 80*

The value of the 1-year gap (and beyond) is comfortable when compared with the short-term positions on the interbank market at the end of the year (1 922 M.€); if we consider the possibility of BPI resorting to eligible assets from the System of European Central Banks (614 M.€ at year end); and furthermore, if we take into account the fact that BPI has prepared the team and processes that enable the Group to launch securitisation operations. The gaps are below the conservative limits laid down by the Bank. In the interbank money market, close to the end of the year, BPI maintained some 49 active counterparties out of a total of 134 potential parties with whom it maintains or maintained relations in the recent past (last 12 months). At the end of the year, the 5 biggest creditors represented 31.8% of the total, although the composition thereof rotated during the course of the year. From a country perspective, the main relative shares were Germany (21.6%), Spain (14.1%), Italy (14%) and Portugal (12.8%).

Responsibility for this risk category's management strategy is vested in the Executive Committee for Market Risks and the Group's Financial Division. The slow evolution in Customer deposits, which contrasted with the more rapid expansion in medium and long-term loans (in particular, home loans), contributed to the continued adherence to a strategy of reinforcing long-term funding (attained 6 664 M.€ at the end of 2004). The transformation rate for stable resources into loans was situated comfortably below the 100% mark.

Liquidity risk
Sundry indicators

	BPI (December 2004)	Portuguese banking system (June 2004)
Degree of transformation of deposits into loans	154.7%	125.5%
Degree of transformation of Customer resources into loans	136.9%	114.7%
Degree of transformation of stable resources[1] into loans	94.2%	n.a.

Source: Bank of Portugal Economic Bulletin (banking system). *Table 81*
1) Stable resources as defined in Bank of Portugal Instruction 1 / 2000: Customer deposits, participating securities, provisions for loans (specific and genera)l, loans (certificated or not) with a residual maturity term of more than 1 year, minority shareholders' interests and shareholders' equity, after deducting the profits to be distributed by way of dividends.

OPERATING RISKS

Operating risks are defined as possible 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 2004, according to the basic method for analysing operating risks, the value / capital at operating risk at BPI was situated slightly below 116.8 M.€. A proxy to the Basle II basic method was used. The average of the operating income from banking for the last 3 years was multiplied by 15%. The figure attained is a prudent one (proxy by excess when compared to Basle II recommendation). According to an analysis performed by the bank, the losses resulting from risk operational causes over the last 5 years, were, on average, 2.4 M.€ per year.

In the quest to adopt the best practices which already form part of the regulatory project known as "Basle II", a system was prepared in 2004 for gathering information concerning operating risks from the various divisions, identifying the frequency and severity of the losses which are classified into 7 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 identification of this information by the various divisions is attainable by means of the proper training of the designated operating 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 and standard methods (3 alternatives contemplated in the Basle II Accord).

This information will also help formulate the management strategy for operating risk. In this domain and under the Executive Committee's supervision, the Organisation Division and, of course, all the Divisions where factors critical to operating risk have been identified, assume a crucial role.

In this regard, management is primarily focused on the training / quality of human resources and their proper organisation. This entails aspects such as the segregation of functions, definition of responsibility, procedures and supervision. This supervision is also underpinned by the internal and external auditing actions and the centralised management of alerts.

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 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 method applies 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, in accordance with 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 risks.

LEGAL RISKS

Legal risks are related to the unexpected losses associated with shortcomings in the legal situation applicable to contracts / positions to be established or any changes to this legal context.

Particular attention is paid in the sphere of legal risks to reviewing the legal situation and the identification of any regulatory discrepancy; to analysing the prospects of altering the legal framework and respective consequences; to clarifying the nature of contractual relations and their interpretation by counterparties; product analysis, their legal status, centralisation of communications with supervisory entities and the drawing up of the respective processes with these entities; and to the identification / proposal of the measures capable of minimising risks of litigation.

Rating

The BPI Group's strategy, competitive position, solid financial base and capacity to generate earnings continued to merit high credit ratings from independent and reputable entities – Fitch Ratings, Moody's and Standard & Poor's.

The rating agencies highlight in broad terms the successful growth strategy implemented by BPI, materialising in the acquisition of four banks – Banco Fonsecas & Burnay, Banco Borges & Irmão, Banco de Fomento e Exterior and Banco Universo – and their correct integration. They also underline the high quality of the Group's assets and earnings.

Throughout an adverse background in the last years, of strong economic deceleration and increasing lending risk in the economy, BPI Group maintained its rating notations.

Following the BPI Group's restructuring at the end of 2002, the rating agencies Moody's, Standard & Poor's and Fitch Ratings confirmed BPI's rating classifications and maintained their outlook as "stable", highlighting the benefits to be reaped from the much simpler structure, as well as the potential for cost savings engendered by the reorganisation.

In November 2003, Moody's upgraded its "outlook" from "stable" to "positive" for Banco BPI long term rating and financial strength, underlining the preservation of the bank's profitability and asset quality.

Rating classifications

	Latest report		Long term	Short term	Outlook
	Date	Action			
Banco BPI					
Moody's	2 Nov. 04	Hold	A2	P-1	Positive
Fitch Ratings	15 Sep. 04	Hold	A+	F1	Stable
Standard & Poor's	21 Feb. 05	Hold	A-	A-2	Stable
BPI Investimentos					
Fitch Ratings	15 Sep. 04	Hold	A+	F1	Stable
Standard & Poor's	21 Feb. 05	Hold	A-	A-2	Stable

Table 82

Moody's: A2 Bonds which are rated "A" possess very favourable attributes and are considered as superior-medium grade investments. (the modifier 2 denotes a middle position in 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. (the modifier – denotes a lower position in category A).

RATING REPORTS

Moody's, 2 November 2004

"The A2 / P-1 / C+ ratings of Banco BPI ("BPI") reflect its position as the fifth largest banking group in Portugal with a market share of some 10%, its improving financial condition and its successful transformation into a universal banking group by developing its previously limited retail operations. The ratings also take into account its strategy of remaining a mainly domestic-oriented group, which may limit its growth opportunities, and the challenges that it will face in a more consolidated and increasingly competitive environment as well as the implications of the rapid growth in credit throughout the Portuguese market in the context of a sluggish economy."

"The positive outlook reflects the bank's improving profitability, as well as its good asset quality, despite the recent past's more difficult Portuguese economic conditions. It also takes into account the bank's success in maintaining its position within the increasingly competitive Portuguese market."

Fitch Ratings, 15 September 2004

"Banco BPI's ratings reflect management's track record in delivering consistently good results, its sound capital ratios and asset quality, conservative risk profile and strong franchise in certain business areas. Since the launch of the BPI brand in mid-1998, management has developed a multi-channel approach and focused on business expansion, particularly in domestic retail banking."

"The group's ROE and ROA have held up well, despite the decline in net interest margin (in 2003) and its improved equity base, while relatively stable costs have had a positive effect on the group's cost / income ratio, though this still remains higher than its peers'."

"BPI Group continues to demonstrate the best ratios (of asset quality) among its peer group.(leading Portuguese banks)..."

Standard & Poor's, 21 February 2005

"The ratings on Banco BPI S.A. (BPI) are supported by the bank's good positioning in Portugal, skilled management, good asset-quality track record, and adequate, fairly stable financial performance.

The stable outlook assumes that, under a less challenging economic environment than the one prevailing since the end of 2001, BPI will be in a position to gradually strengthen its asset quality and financial performance, in line with the developments seen so far in 2004. Although the high private sector leverage in Portugal will continue to represent a threat to credit quality, this concern is mitigated by the return of the economy to positive, if still modest, growth. That said, Standard & Poor's expects the bank to pursue moderate loan growth until the economic situation becomes more supportive. BPI is expected to show progress in profitability in 2005, with revenues growing at a faster pace than expenses, thanks to the bank's tight control over costs. The stable outlook also assumes that core solvency will remain close to current levels, with shareholders contributing additional resources if needed, as in the past."

Banco BPI shares

Shareholder return on investment

Banco BPI shares registered a price appreciation of 2.1% in 2004. If the income obtained from the distribution of dividends is taken into consideration then, besides the share's appreciation on the stock exchange, Banco BPI shares generated a return (ROI) of 5.1%.

Over the last 3 years, Banco BPI shares have outperformed the market by an expressive margin. In fact, in the three-year period 2002-4, Banco BPI shares registered an accumulated gain of 38.7%, while the Portuguese stock market[1] retreated 3.0% and the banking sector[2] in Europe depreciated 2.2%.

Earnings per share

Net profit per BPI share grew by 18% in 2004 to 0.254 € (0.216 € in 2003). Net book value per share at the end of December 2004 was situated at 1.62 €.

Dividends

The dividend proposed to the Shareholders' General Meeting in respect of 2004 is 0.10 €, attributable to each one of the 760 million shares representing the issued share capital at 31 December 2004. The proposed dividend is 11% higher than that paid in the previous year and corresponds to a payout ratio of 39.4%.

Liquidity

Banco BPI shares generated a trading volume in excess of 625 M.€ during the year, with 782 thousand shares worth 2.4 M.€ being traded on average per stock market session.

Stock market capitalisation

The market value of the BPI Group, as measured in terms of its stock market capitalisation at 31 December 2004, amounted to 2 265 M.€. BPI was, at the end of 2004, the eighth largest company with shares listed on the Euronext – Lisbon, representing 4.4% of the market's global capitalisation.

Banco BPI shares' evolution in 2004

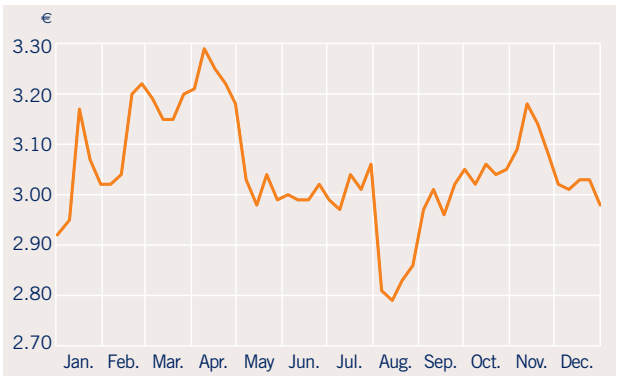


Chart 73

Banco BPI shares and key indices performance over the last 3 years

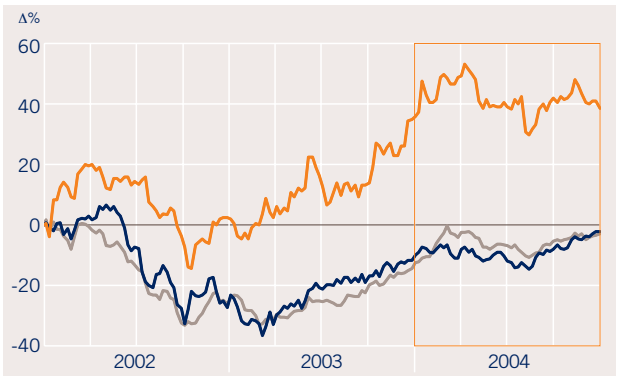


Chart 74

— Banco BPI
— PSI-20
— DJ Europe STOXX Banks

1) Taking as reference the trend in the PSI-20.
2) Taking as reference the trend in the Dow Jones Europe STOXX Bank.

Market multiples

The PER (price earnings ratio[1]) fluctuated between a minimum of 10.8 and a maximum of 13.1 during the course of 2004, to be fixed at 11.8 at the end of 2004. The price cash flow[2] indicator stood at 7.5 at the end of the year, while the price book value[3] was 1.8.

Communication with the market

Details of the Investor Relations Division's activity in 2004, in particular, the staging of road shows and the holding of individual meetings with analysts and investors (one-on-ones) are provided on the BPI Group's Corporate Governance Report annexed to the Directors' Report. On the same report, mention is made of the main facts communicated to the CMVM and to the market in general, as well as the variation in the Banco BPI share price in the days following the disclosure of such facts.

Share capital

Banco BPI's share capital is composed of 760 000 000 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 2004 and following years. The shares representing Banco BPI's share capital are all quoted on the Euronext market.

OTHER USEFUL INFORMATION ABOUT BANCO BPI SHARES

Index weighting[4]

- PSI-20: 6.653%; #6
- Euronext 100: 0.161%
- Dow Jones STOXX 600: 0.028%
- Dow Jones Europe STOXX Bank: 0.132%

Codes and Tickers

- ISIN and Euronext code: PTBPI0AM004
- Reuters: BPIN.IN
- Bloomberg: BPIN PL

1) Price as multiple of net profit per share earned in 2004.
2) Price as multiple of cash-flow after taxation per share in 2004.
3) Price as multiple of book value per share at the end of 2004.
4) Figures at 31 December 2004.

Treasury stock

In 2004, Banco BPI traded both on and off the market 14 990 033 own shares corresponding to 1.97% of share capital. Of these transactions, 14 632 980 own shares, or 97.6% of the total traded, were earmarked for the execution of the variable-remuneration programme for Employees and Directors (2001 series, 2002 series and 2003 series) through the attribution of shares and share options (Portuguese initials RVA). For its part, Banco Português de Investimento, S.A., – the entity 100% owned by Banco BPI – traded on the stock exchange 1 463 827 Banco BPI shares, which corresponded to 0.19% of Banco BPI's share capital.

Own shares transactions in 2004

	Purchase			Sale			Total traded	
	Quantity (no.)	Amount (€)	Unitary average price (€)	Quantity (no.)	Amount (€)	Unitary average price (€)	Quantity (no.)	As % of share capital
Banco BPI								
Stock exchange market	6 237 079	19 468 705	3.12	823 631	2 361 978	2.87	7 060 710	0.93%
Over-the-counter market	13 032	36 943	2.83	7 916 291	25 104 224	3.17	7 929 323	1.04%
	6 250 111	**19 505 648**	**3.12**	**8 739 922**	**27 466 202**	**3.14**	**14 990 033**	**1.97%**
Banco Português de Investimento								
Stock exchange market	726 855	2 245 650	3.09	736 972	2 263 487	3.07	1 463 827	0.19%
Over-the-counter market	-	-	-	-	-	-	-	-
	726 855	**2 245 650**	**3.09**	**736 972**	**2 263 487**	**3.07**	**1 463 827**	**0.19%**
Total								
Stock exchange market	6 963 934	21 714 355	3.12	1 560 603	4 625 465	2.96	8 524 537	1.12%
Over-the-counter market	13 032	36 943	2.83	7 916 291	25 104 224	3.17	7 929 323	1.04%
	6 976 966	**21 751 298**	**3.12**	**9 476 894**	**29 729 689**	**3.14**	**16 453 860**	**2.16%**

Table 83

At 31 December 2004, Banco BPI held 7 603 640 own shares, that is, 1.0% of share capital. Of these, 7 246 587 shares were reserved exclusively for the execution of the stock incentive and options scheme – RVA – in force at the Group since 2001: 114 288 shares were destined to cover the attribution of shares in 2001 under condition precedent, and 7 132 299 shares earmarked for covering the stock options' scheme (2001 series, 2002 series and 2003 series). For its part, Banco Português de Investimento held 280 005 Banco BPI shares at 31 December 2004, or 0.04% of capital, all of which were held for hedging positions in PSI-20 futures.

The other subsidiaries over which Banco BPI exercises effective management control did not acquire or sell any Banco BPI shares and, at the end of December 2004, did not hold any Banco BPI shares in their portfolios.

Other information

As described in the chapter dealing with the bank's shareholder structure, the Banco BPI Employees' pension fund held 13 901 124 Banco BPI shares at 31 December 2004, corresponding to 1.83% of the Bank's capital.

Banco BPI shares
Principal indicators

Amounts expressed in euro and millions of euro

	2000	2001	2002	2003	2004
Stock exchange price of Banco BPI shares[1] (euro)					
Highest price	4.10	3.83	2.63	2.95	3.32
Average price	3.50	2.65	2.34	2.46	3.07
Lowest price	3.09	1.81	1.74	1.96	2.73
Closing price	3.18	2.15	2.18	2.92	2.98
Changes in price and key indices[1]					
Variation in Banco BPI share price	(17.6%)	(32.3%)	1.5%	33.9%	2.1%
Variation in PSI-20 index	(13.0%)	(24.7%)	(25.6%)	15.8%	12.6%
Variation in Dow Jones STOXX 600 index	(5.2%)	(17.0%)	(32.5%)	13.7%	9.5%
Variation in Dow Jones Europe STOXX Bank index	9.3%	(9.5%)	(26.8%)	21.6%	9.9%
BPI shareholder's overall return (ROI)					
Shareholder's overall return[F]	(16.0%)	(30.4%)	3.0%	38.5%	5.1%
BPI Group's market value					
No. of shares at the end of the year (in millions)	645.6	645.6	760.0	760.0	760.0
Stock market capitalisation at the end of the year (M.€)	2 156	1 459	1 657	2 219	2 265
Data per share[F] (euro)[2]					
Cash flow after taxation[F]	0.445	0.397	0.355	0.384	0.395
Net profit	0.243	0.196	0.192	0.216	0.254
Dividend	0.093	0.086	0.083	0.090	0.010
Book value	1.370	1.338	1.538	1.615	1.620
Weighted average no. of shares[F] (in millions)	626.3	679.0	728.3	760.0	760.0
Market valuation					
Price as a multiple[F] of:					
Cash flow after taxation[F]	7.1	5.4	6.1	7.6	7.5
Net profit	13.1	10.9	11.3	13.5	11.8
Book value	2.3	1.6	1.4	1.8	1.8
Earnings yield[F]	6.3%	6.2%	9.0%	9.9%	8.7%
Liquidity					
Annual trading volume (M.€)	992.9	390.8	602.0	602.1	625.3
Share capital rotation[G]	45.2%	21.7%	36.7%	32.3%	26.8%
Daily average trading volume (M.€)	4.1	1.6	2.4	2.4	2.4
Dividends					
Net profit (M.€)	152.4	133.3	140.1	163.8	192.7
Distributed earnings (M.€)	58.1	58.1	60.8	68.4	76.0
Payout ratio	38.1%	43.6%	43.4%	41.7%	39.4%
Dividend per share (€)	0.093	0.086	0.083	0.090	0.100
Dividend yield[F]	2.4%	2.7%	3.9%	4.1%	3.4%

1) Source: Bloomberg.
2) Adjusted for capital increases.

Table 84

Shareholders

STRUCTURE AND PRINCIPAL SHAREHOLDERS

At 31 December 2004, Banco BPI's capital was held by 19 000 shareholders, of whom 18 500 were individuals ▷ representing 11.4% of the capital, while 500 were institutional investors and companies holding 88.6% of the capital.

Distribution of Banco BPI's share capital[1] At 31 December 2004

Type of Shareholder	Nationals		Foreign[2]		Total	
	No. of Shareholders	% of capital held	No. of Shareholders	% of capital held	No. of Shareholders	% of capital held
Individuals	18 321	11.3%	179	0.1%	18 500	11.4%
Pension funds	59	7.5%	0	0.0%	59	7.5%
Unit trust funds	27	1.5%	0	0.0%	27	1.5%
Other institutionals[3]	231	51.3%	183	28.3%	414	79.6%
Total	**18 638**	**71.6%**	**362**	**28.4%**	**19 000**	**100%**

Table 85

1) The distribution of Banco BPI's capital is based on information received from the securities clearing house (Central de Valores Mobiliários), which reflects the registration of 759 903 850 €, or 99.99% of Banco BPI's share capital (which is 760 000 000 €).
2) The distribution amongst types of shareholders is as concerns foreigners merely indicative. BPI does not have information that permits it to identify the holders of shares registered in the name of foreign custodian banks.
3) Includes the direct holdings of BPI's key institutional shareholders, companies' holdings and shares in the name of custodian banks.

Shareholders owning more than 2% of Banco BPI's capital At 31 December 2004

Shareholder	No. of shares held	% of capital held	% of voting right[1] (according to Securities Code)
Itaú Group[2, 3]	122 323 944	16.1%	16.3%
La Caixa Group[2, 4]	121 556 379	16.0%	16.2%
Allianz Group[5]	67 029 287	8.8%	8.9%
Banco Santander Central Hispano[6]	51 267 136	6.7%	6.8%
The Chase Manhattan Bank[7]	30 583 789	4.0%	4.1%
BCP Group[8]	29 074 026	3.8%	3.9%
Qualified shareholding of Banco BPI[9]	27 829 714	3.7%	3.7%
Arsopi[10]	22 266 044	2.9%	3.0%
Violas Group	21 681 062	2.9%	2.9%
Espírito Santo Group[11]	16 099 536	2.1%	2.1%

Table 86

Note: shareholder positions recorded at 31 December 2004 at the securities clearing house (Central de Valores Mobiliários), based on the information received from the Central de Valores Mobiliários.
1) Taking into consideration that as at 31 December 2004 the BPI Group had 7 736 190 own shares corresponding to 1.02% of Banco BPI's share capital registered at the Central de Valores Mobiliários.
2) In terms of the company's statutes, the exercise of voting rights is limited to 12.5%.
3) Through IPI – Itaúsa Portugal SGPS, S.A., 100% controlled.
4) Through Catalunya de Valores-SGPS, Unipessoal, Lda., 100% controlled through Caixa Holding, S.A., Sociedad Unipersonal.
5) Through the subsidiaries controlled by Reunione Adriática di Sicurtá S.p.A. (55.5%-held by Allianz AG): through RAS International, N.V.(8.64%), 100%-controlled and through Companhia de Seguros Allianz Portugal (0.18%), 65% held and by Allianz Portugal pension fund.
6) Through Banco Santander Totta and companies controlled by it (5.80%), by the staff pension funds of Banco Santander Totta (0.71%), by unit trust funds (0.12%) and by other entities controlled by Banco Santander Central Hispano (0.11%). In the course of 2004, Banco Totta altered its denomination to Banco Santander Totta.
7) Custodian bank.
8) Through BCP and companies controlled by it (1.17%), by the BCP Group's Pension Fund (2.19%) and by unit trust funds (0.47%).
9) Through the Banco BPI staff pension fund (1.83%), through the unit trust funds managed by BPI Fundos (0.21%), through the Customer portfolios under the discretionary management of Banco Português de Investimento (0.08%), and held by the members of Management and Supervisory Boards of Banco BPI and companies controlled by it (1.55%)
10) Shares held by companies of the Arsopi Group and by its shareholders.
11) Through BES and companies controlled by it.

Shareholders value creation

Return on investment (ROI)

The capital appreciation registered by BPI shares has been consistent: an investor who subscribed for shares in the share capital increase realised by way of an initial public offering in September 1986 has achieved an annual average return on his investment of 12.5% until the end of 2004. Had he opted for an alternative investment in Portuguese equities – using the PSI Geral index as the yardstick – the annual average return would have been 10.4%.

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, disinvested at the end of the same year or at the end of each one of the following years:

Annual return obtained by a Banco BPI shareholder — At 31 December 2004

	BPI	Market[1]
Since the Initial Public Offering *September 1986*	+12.5%	+10.4%
Since the acquisition of Banco Fonsecas & Burnay *August 1991*	+10.1%	+9.3%
Since the acquisition of Banco Fomento e Exterior *August 1996*	+12.8%	+9.3%
Last 2 years *December 2002*	+20.6%	+17.7%

1) Return calculated on the basis of the closing price of the PSI Geral index ("total return") on 31 December 2004.

Table 87

Value creation for BPI shareholders[1] (1981-2004) — Percentage return; annual average rates

Entry[2] \ Exit[3]	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1981	56.0	70.6	50.0	43.2	31.5	25.6	22.9	27.5	16.2	12.5	14.3	26.7	27.2	24.4	19.5	12.3	11.1	13.9	13.0
1986[4]	3 089	319.2	93.2	61.3	34.5	25.0	21.7	27.7	14.4	10.8	12.9	26.7	27.2	24.2	19.0	11.6	10.5	13.4	12.5
1987		148.4	39.2	29.3	15.0	11.4	11.5	18.6	8.2	5.9	8.6	21.7	22.7	20.4	16.0	9.6	8.8	11.7	11.0
1988			(16.2)	(2.9)	(6.5)	(4.2)	(0.5)	8.6	0.3	(0.7)	2.9	16.2	17.8	16.1	12.4	6.7	6.3	9.2	8.8
1989				12.6	(1.8)	(0.5)	3.0	13.2	2.6	1.1	4.8	19.4	20.8	18.5	14.1	7.8	7.2	10.2	9.7
1990					(12.3)	(5.3)	0.7	13.4	1.2	(0.1)	4.1	20.0	21.4	18.9	14.2	7.6	7.1	10.2	9.7
1991						0.5	4.9	19.8	3.3	1.3	5.7	23.3	24.4	21.3	15.8	8.5	7.8	11.0	10.4
1992							9.6	30.8	4.3	1.5	6.6	27.1	27.8	23.6	17.2	9.1	8.2	11.6	10.9
1993								56.2	1.8	(0.9)	6.0	30.3	30.5	25.4	18.0	9.1	8.2	11.7	10.9
1994									(30.9)	(19.1)	(4.8)	25.5	26.8	21.8	14.6	5.9	5.5	9.4	8.9
1995										(5.6)	9.6	49.0	43.9	33.4	22.1	10.4	9.1	13.0	12.0
1996											22.6	76.9	59.4	41.7	26.2	12.1	10.3	14.4	13.1
1997												139.9	77.5	47.2	26.8	10.5	8.9	13.6	12.3
1998													31.2	15.7	3.5	(7.2)	(4.9)	2.2	2.7
1999														2.5	(7.4)	(16.3)	(11.3)	(2.1)	(0.9)
2000															(16.0)	(23.8)	(15.1)	(3.1)	(1.4)
2001																(30.4)	(14.7)	1.1	2.1
2002																	3.0	19.9	14.6
2003																		38.5	20.6
2004																			5.1

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).

4) Entry in September 1986 at the initial public offering.

Table 88

Final acknowledgements

Dr. Diethart Breipohl resigned in April 2004 as this Board's representative of RAS International, N.V. by virtue of his retirement. A person of superior human and professional qualities, Dr. Breipohl's opinion contributed greatly to this Board's decisions, so we take this opportunity to express our special gratitude for his unswerving and valuable collaboration.

A well-deserved acknowledgement is also due to all Employees for their dedicated commitment, to our Customers for their preference, to the Monetary and Financial Authorities for their cooperation and, finally, to the indispensable support and trust deposited by our Shareholders.

Had it not been for this broad spectrum of contributions it would not have been possible – in an economic landscape that deteriorated appreciably – to carry out the ambitious rationalisation plan targeted at the Group's organisation and functioning which we undertook to execute in the mandate which is now terminating. It is most gratifying to record the most positive results and indicators attained.

Oporto, 3 March 2005

The Board of Directors

Proposed appropriation of net profit

Banco BPI, S.A. made a consolidated net profit in 2004 of EUR 192 717 515 and an individual net profit of EUR 127 889 458.10.

The Board of Directors proposes that, in relation to the 2004 financial year, a dividend of EUR 0.10 (10 euro cents) be distributed for each one of the 760 000 000 shares representing the issued share capital at 31 December 2004.

The proposed dividend per share represents an 11% improvement on the 2003 dividend distribution and corresponds to 39.4% 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 the Legal Reserve (article 97 (1) of the GRCIFC)	EUR 12 788 945.81
Dividends	EUR 76 000 000.00
Transfer to Free Reserves	EUR 39 100 512.29
Total	EUR 127 889 458.10

Oporto, 3 March 2005

The Board of Directors

Consolidated financial statements

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

ASSETS	Notes	2004			2003
		Gross	Depreciation and provisions	Net	Net
Cash and deposits at central banks	4.1	485 738		485 738	551 606
Loans and advances to credit institutions repayable on demand	4.2	272 642		272 642	483 377
Other loans and advances to credit institutions	4.3	1 118 287	18	1 118 269	2 401 387
Loans and advances to Customers	4.4	19 021 089	147 569	18 873 520	17 638 346
Bonds and other fixed income securities					
Issued by government entities	4.5	858 675	7	858 668	1 755 573
Issued by other entities	4.5	449 268	1 026	448 242	1 185 939
Shares and other variable-yield securities	4.6	206 394	30 126	176 268	192 552
Investments in associated companies	4.7	131 119	2 775	128 344	103 570
Investments in subsidiary companies excluded from the consolidation	4.8	96 394		96 394	80 957
Other investments	4.9	346 487	19 700	326 787	479 142
Intangible assets	4.10	83 433	76 140	7 293	10 620
Tangible fixed assets	4.11	663 857	376 949	286 908	312 748
Of which: [Premises]		[326 504]	[136 448]	[190 056]	[197 610]
Treasury stock		23 153		23 153	29 620
Other assets	4.12	227 528	23 536	203 992	209 539
Accruals, deferrals and others	4.13	704 049		704 049	760 285
Total assets		**24 688 113**	**677 846**	**24 010 267**	**26 195 261**

OFF BALANCE SHEET ITEMS			
Guarantees provided and other contingent liabilities	4.28	2 937 773	2 907 044
Of which:			
[Guarantees and sureties]		[2 850 293]	[2 836 525]
[Others]		[87 480]	[70 519]
Commitments	4.28	3 495 809	3 449 706

The Accountant

(Amounts expressed in thousands of euro)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2004	2003
Amounts owed to credit institutions			
Repayable on demand	4.14	23 900	29 048
Term or notice deposits	4.14	3 311 750	6 167 223
Amounts owed to Customers			
Savings deposits	4.15	857 649	871 989
Other debts			
Repayable on demand	4.15	4 842 370	5 325 681
Term or notice	4.15	6 735 590	6 157 962
Debt securities			
Outstanding bonds	4.16	5 055 073	4 298 061
Others	4.16	420	448
Other liabilities	4.17	181 074	154 893
Accruals, deferrals and others	4.18	539 885	698 101
Consolidation differences	4.26	387	
Provisions for sundry risks			
Provisions for retirement benefits	4.19	21 104	17 159
Other provisions	4.19	224 072	206 577
Fund for general banking risks	4.19	1 139	1 933
Subordinated debt	4.21	724 749	775 949
Minority interests	4.22	259 570	262 947
Subscribed share capital	4.23	760 000	760 000
Share premium account	4.24	231 306	231 306
Reserves	4.25	47 511	72 141
Consolidated net profit for the year	4.36	192 718	163 843
Total liabilities and shareholders' equity		**24 010 267**	**26 195 261**

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

The Board of Directors

CONSOLIDATED STATEMENTS OF INCOME BY NATURE
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

EXPENSES	Notes	2004	2003
Interest and similar expenses	4.29	901 432	1 023 054
Commissions	4.30	23 063	19 930
Losses on financial operations	4.31	336 406	1 100 843
General and administrative expenses			
Personnel costs	4.32	283 365	284 577
Other administrative expenses		169 342	161 254
Depreciation	4.10 / 4.11	44 643	47 011
Other operating expenses	4.33	13 060	12 954
Provisions for overdue loans and other risks	4.27	165 868	126 922
Provisions for investments	4.27	29 399	6 690
Extraordinary expenses	4.34	57 491	47 909
Income tax	4.35	45 168	23 629
Other taxes		3 544	3 869
Minority interests in the consolidated net profit for the year	4.22	9 172	9 978
Consolidated net profit for the year	4.36	192 718	163 843
		2 274 671	**3 032 463**

The Accountant

(Amounts expressed in thousands of euro)

INCOME	Notes	2004	2003
Interest and similar income	4.29	1 376 351	1 490 829
Income from securities	4.29	14 696	6 751
Commissions	4.30	240 211	224 623
Gains on financial operations	4.31	381 299	1 137 020
Reversal of provisions	4.27	132 418	52 315
Earnings of associated companies and subsidiaries excluded from the consolidation		37 668	15 549
Other operating income	4.33	74 766	76 337
Extraordinary income	4.34	17 262	29 039
		2 274 671	**3 032 463**

The accompanying notes form an integral part of these statements.

The Board of Directors

CONSOLIDATED STATEMENTS OF INCOME BY FUNCTIONS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(Amounts expressed in thousands of euro)

	2004	2003
Financial margin	474 919	467 776
Provisions for credit risk	(20 059)	(61 700)
Credit recoveries	15 289	20 619
Net financial margin	470 149	426 695
Net commissions	217 148	204 693
Other net operating results	48 203	45 841
Services margin	265 351	250 534
Income from securities	14 696	6 751
Earnings of companies recorded by the equity method	37 668	15 549
Net gains on financial operations	44 893	36 177
Provisions for unrealised losses on securities	236	9 607
Investment margin	97 493	68 084
Other costs	(5 331)	(6 946)
Income before transformation costs	827 662	738 367
Personnel costs	(283 365)	(284 577)
Other administrative expenses	(169 342)	(161 254)
Depreciation	(44 643)	(47 011)
Transformation costs	(497 350)	(492 842)
Operational result	330 312	245 525
Other provisions	(43 025)	(29 204)
Net gains on the sale of investments	258	13 111
Other extraordinary results	(40 487)	(31 982)
Profit before taxes and minority interests	247 058	197 450
Taxes	(45 168)	(23 629)
Minority interests	(9 172)	(9 978)
Consolidated net profit for the year	**192 718**	**163 843**

The accompanying notes form an integral part of these statements.

The Accountant

The Board of Directors

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR YEARS ENDED DECEMBER 31, 2004 AND 2003

(Amounts expressed in thousands of euro)

	2004	2003
Operating activities		
Interest, commissions and similar income received	1 917 877	2 437 503
Interest, commissions and similar expenses paid	(1 012 673)	(1 600 178)
Payments to personnel and suppliers	(442 177)	(514 655)
Recovery of loans and interest in arrears	15 289	20 619
Net extraordinary operating expenses	(41 115)	(31 554)
Net cash flow from income and expenses	437 201	311 735
Decreases (increases) in:		
Other loans and advances to credit institutions	1 338 513	740 368
Loans and advances to Customers	(1 302 306)	(1 077 837)
Bonds and other fixed income securities	1 654 450	(74 570)
Shares and other variable-yield securities	1 579	(61 732)
Other assets, accruals, deferrals and others	100 026	(19 166)
Net cash flow from operating assets	1 792 262	(492 937)
Increases (decreases) in:		
Amounts owed to credit institutions – term or notice deposits	(2 855 472)	(555 389)
Amounts owed to Customers	79 978	53 073
Other liabilities, accruals, deferrals and others	(113 082)	65 107
Net cash flow from operating liabilities	(2 888 576)	(437 209)
Contributions to the pension funds	(69 083)	(21 180)
Income tax paid	(30 357)	(15 675)
	(758 553)	**(655 266)**
Investing activities		
Purchase / incorporation of equity investments:		
BPI Vida – Companhia de Seguros de Vida, S.A.		(32 012)
CrédiUniverso – Serviços de Marketing, S.A.		(8 400)
Inter-Risco – Sociedade de Capital de Risco, S.A.	(2 585)	
Purchase of other investments	(3 305)	(41 334)
Sale of equity investments:		
Banc Post S.A.		23 000
Pararede – SGPS, S.A.	10 851	
Cofina, SGPS, S.A.	3 425	
Aquapor – Serviços, S.A.	11 572	
Impresa – Sociedade Gestora de Participações Sociais, S.A.	7 384	
Other	4 982	66 814
Purchase of tangible fixed assets and intangible assets	(89 338)	(78 638)
Sale of tangible fixed assets	14 345	4 243
Dividends received and other income	16 227	11 896
	(26 442)	**(54 431)**

The accompanying notes form an integral part of these statements.

(Amounts expressed in thousands of euro)

	2004	2003
Financing activities		
Issuance of debt securities and subordinated debt	1 932 119	2 182 098
Redemption of debt securities	(1 068 261)	(1 251 820)
Purchase and sale of own debt securities and subordinated debt	(136 792)	139 016
Redemption of preference shares		(204 587)
Issuance of preference shares		250 000
Interest on debt securities and subordinated debt	(136 485)	(127 716)
Dividends paid on preference shares	(9 303)	(8 248)
Distribution of prior year profit	(67 738)	(60 371)
	513 540	**918 372**
Net increase (decrease) in cash and equivalents	(271 455)	208 675
Cash and equivalents at the beginning of the year	1 005 935	808 423
Changes in BPI Group companies		(11 163)
Cash and equivalents at the end of the year	**734 480**	**1 005 935**

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
Fernando Ramirez
Herbert Walter
Isidro Fainé Casas
José Pena do Amaral
Klaus Dührkop
Manuel de Oliveira Violas
Manuel Ferreira da Silva
Maria Celeste Hagatong
Pedro Barreto
Roberto Egydio Setúbal
Tomaz Jervell

Notes to the consolidated financial statements

Notes to the consolidated financial statements as of 31 December, 2004 and 2003

(Unless otherwise indicated, all amounts are expressed in thousands of euro – th. euro)

1. THE FINANCIAL GROUP

The BPI Group started operating in 1981 with the incorporation of SPI – Sociedade Portuguesa de Investimentos, S.A.R.L. By public deed dated December 1984, that company 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. BPI – SGPS, S.A. was a holding company that resulted from the transformation of BPI – Banco Português de Investimento, S.A. on 30 November, 1995, its exclusive purpose being to act as the BPI Group's holding company. BPI Investimentos was founded on this date, in order 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.

Banco BPI is the central entity of a financial group dedicated to the banking business, which offers a diversified range of financial services and products to companies, institutional investors and individuals. Banco BPI has been listed on the stock exchange since 1986.

At 31 December, 2004 the banking business of the Group was carried out mainly by two banks: Banco BPI, in retail banking; and BPI Investimentos, in investment banking. The BPI Group also has the fully owned subsidiary, Banco de Fomento Angola, S.A.R.L., which operates as a commercial bank in Angola.

Banco BPI has direct and indirect investments in subsidiary and associated companies. Subsidiary companies are those in which the participating interest exceeds 50% of the subsidiary's share capital. Associated companies are those in which the participating interest is between 20% and 50% of their share capital, or where Banco BPI has direct or indirect significant influence over their management and financial policy (note 4.7).

During 2003 the BPI Group subscribed for the full amount of the capital increase of BPI (Suisse), S.A. from 1 500 000 to 3 000 000 Swiss francs.

During 2003 Banco BPI acquired the remaining 50% of the share capital of CrédiUniverso – Serviços de Marketing, S.A. Subsequently, CrédiUniverso was merged into Banco BPI. For accounting purposes, the merger was considered to take place on 1 January, 2003.

During 2003 the BPI Group sold its 17% investment in the share capital of Banc Post, S.A.

During 2003, following the merger of Banco de Fomento Moçambique, S.A.R.L. into Banco Comercial e de Investimentos, S.A.R.L., the BPI Group became holder of a 30% participation in the share capital of Banco Comercial e de Investimentos, S.A.R.L. and therefore this investment started being recorded in accordance with the equity method. For accounting purposes the merger was considered to take place on 1 December, 2003.

During 2003 Banco BPI subscribed for the full amount of the capital increases of BPI Vida, from 17 987 550 euros to 25 000 000 euros and to 50 000 000 euros.

During 2003 the BPI Group acquired 15% of the share capital of SIC and so became holder of a 41.4% participation in SIC. The BPI Group has been authorised by the Bank of Portugal to keep this investment recorded at cost, net of provisions, until 31 March, 2004. On 30 June, 2004 the investment in SIC – Sociedade Independente de Comunicação, S.A. started being recorded in accordance with the equity method.

During 2004 the BPI Group acquired 16.3% of the share capital of Inter Risco, increasing its participating interest from 83.7% to 99.9% of the share capital of that company.

At 31 December, 2004 the companies that make up the BPI Group were:

	Head office	Share-holders' equity	Total assets	Net profit / (loss) for the year	Direct participation	Effective participation	Consolidation method
Banks							
Banco BPI, S.A.	Portugal	1 240 565	24 281 460	127 891			
Banco Português de Investimento, S.A.	Portugal	52 031	1 953 665	15 063	100.0%	100.0%	Full consolid.
Banco Comercial e de Investimentos, S.A.R.L.	Mozambique	35 542	336 036	5 165	29.4%	30.0%	Equity method
Banco de Fomento, S.A.R.L.[1]	Angola	77 475	799 842	24 888	100.0%	100.0%	Full consolid.
Banco BPI Cayman, Ltd.	Cayman Islands	158 036	437 488	8 036		100.0%	Full consolid.
Specialised loan companies							
BPI Rent – Comércio e Aluguer de Bens, Lda.	Portugal	8 536	186 271	553	100.0%	100.0%	Full consolid.
Eurolocação – Comércio e Aluguer de Veículos e Equipamento, S.A.	Portugal	364	483	(98)	100.0%	100.0%	Full consolid.
BPI Locação de Equipamentos, Lda.	Portugal	448	30 888	(61)	100.0%	100.0%	Full consolid.
Asset management companies and dealers							
BPI Dealer – Sociedade Financeira de Corretagem (Moçambique), S.A.R.L.[2]	Mozambique	100	101	31	12.5%	92.7%	Full consolid.
BPI Fundos – Gestão de Fundos de Investimento Mobiliários, S.A.	Portugal	25 770	31 288	15 770	100.0%	100.0%	Full consolid.
BPI – Global Investment Fund Management Company, S.A.	Luxembourg	397	481	232	100.0%	100.0%	Full consolid.
BPI Pensões – Sociedade Gestora de Fundos de Pensões, S.A.	Portugal	5 085	5 571	2 311	100.0%	100.0%	Equity method
Sofinac – Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.	Portugal	1 237	1 418	291	100.0%	100.0%	Full consolid.
BPI (Suisse), S.A.	Switzerland		2 002	(612)		99.90%	Full consolid.
Venture capital companies							
F. Turismo – Capital de Risco, S.A.	Portugal	5 394	5 609	195	25.0%	25.0%	Equity method
Inter-Risco – Sociedade de Capital de Risco, S.A.	Portugal	16 483	25 152	(2 391)	99.9%	99.9%	Full consolid.
Solo – Investimentos em Comunicação, SGPS, S.A.	Portugal	(317)	123 297	(291)	100.0%	100.0%	Full consolid.
Insurance companies							
BPI Vida – Companhia de Seguros de Vida, S.A.	Portugal	90 547	2 141 699	11 735	100.0%	100.0%	Equity method
Cosec – Companhia de Seguros de Crédito, S.A.	Portugal	30 889	117 537	2 540	50.0%	50.0%	Equity method
Companhia de Seguros Allianz Portugal, S.A.	Portugal	131 420	941 156	21 366	35.0%	35.0%	Equity method
Others							
BPI Capital Finance Ltd.[3]	Cayman Islands	259 570	261 035	9 558	100.0%	100.0%	Full consolid.
BPI, Inc.[4]	U.S.A.	398	400	(7)	100.0%	100.0%	Equity method
BPI Madeira, SGPS, Unipessoal, S.A.	Portugal	157 853	157 855	7 642	100.0%	100.0%	Full consolid.
Douro – Sociedade Gestora de Participações Sociais, S.A.	Portugal	4 021	4 132	(36)	100.0%	100.0%	Full consolid.
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	Portugal	40 336	155 877	2 955	32.8%	32.8%	Equity method
Promática – Sociedade de Informação e de Organização de Empresas, S.A.	Portugal	534	785	(24)	100.0%	100.0%	Equity method
Simofer – Sociedade de Empreendimentos Imobiliários e Construção Civil, Lda.	Portugal	(5 014)	1 802	78	100.0%	100.0%	Equity method
Viacer – Sociedade Gestora de Participações Sociais, Lda.	Portugal	82 969	83 286	21 810	26.0%	26.0%	Equity method
SIC – Sociedade Independente de Comunicação, S.A.	Portugal	39 243	115 546	20 335	23.0%	41.4%	Equity method

Note: Unless otherwise indicated, all amounts are as of 31 December, 2004 (accounting balances before consolidation adjustments).

1) Banco BPI holds 1 305 253 shares. The share capital of this company is made up of 1 305 561 shares, fully owned by the BPI Group.
2) These amounts refer to balances at 31 August, 2004 translated from meticais at the exchange rate as of 31 December, 2004.
3) The share capital is made up of 5 000 ordinary shares with a nominal value of 1 US dollar each, and 10 000 000 non-voting preference shares with a nominal value of 25 US dollars each. The BPI Group's effective participation corresponds to 0.002% considering the preference shares.
4) These amounts refer to balances at 30 September, 2004, translated from US dollars at the exchange rate as of 31 December, 2004.

2. BASIS OF PRESENTATION, CONSOLIDATION PRINCIPLES AND PRINCIPAL ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements were prepared from the accounting records of Banco BPI and its subsidiary and associated companies. The accounting records are maintained in accordance with the Chart of Accounts for the Portuguese Banking System established by the Bank of Portugal pursuant to the authority conferred upon it by item 1 of Article 115 of the General Regime for Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras"), approved by Decree-Law 298 / 92 of 31 December (with the changes introduced by Decree-Law 246 / 95 of 14 September, Decree-Law 232 / 94 of 5 December, Decree-Law 222 / 99 of 22 June, Decree-Law 250 / 00 of 13 October, Decree-Law 285 / 2001 of 30 November and Decree-Law 201 / 2002 of 26 September), as well as the rules established in Decree-Law 36 / 92 of 28 March. In addition, consolidation adjustments were made.

CONSOLIDATION PRINCIPLES

The financial statements of subsidiary companies were consolidated using the full consolidation method, except if their consolidation would impair achievement of the objective of presenting a true and fair view of the equity, financial position and results of the BPI Group (item 1 of Article 5 of Decree-Law 36 / 92 of 28 March). All 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 INTERESTS.

The investments in subsidiary companies which meet the conditions described in item 1 of Article 5 of the above mentioned Decree-Law, as well as investments in associated companies, are recorded based on the equity method[G]. The carrying value of these investments corresponds to the percentage of share capital, reserves and results of these companies, equivalent to Banco BPI's direct or indirect participation in them.

The financial statements of non-operating subsidiary or associated companies, companies in liquidation, those in which the investment is of a development nature, or those that are likely to be sold, were excluded from the consolidation and from application of the equity method.

The financial statements expressed in foreign currencies were included in the consolidation after being translated to euro at the exchange rates published by the Bank of Portugal, the exchange differences resulting from the translation being recognised in the income statement.

Goodwill[G] arising from the difference between acquisition cost and the corresponding equity value of subsidiary and associated companies as of the date of the first consolidation is fully amortised against reserves in the year of acquisition, or of the first consolidation. Negative goodwill is recorded in the liability caption CONSOLIDATION DIFFERENCES.

Consolidated net profit is the sum of Banco BPI's individual net result and the percentage of the net results of the other Group companies, equivalent to Banco BPI's effective participation in them, considering the period they are held for, after elimination of income and expenses resulting from inter-group transactions.

Equity investments, which were not consolidated by the full consolidation method or accounted for under the equity method, are stated in accordance with principles described in note 2.4.

PRINCIPAL ACCOUNTING POLICIES

The following accounting policies are applicable to the consolidated financial statements as of 31 December, 2004 and 2003.

2.1. Accruals basis

Interest income and expenses are recognised in accordance with the principle of accrual-based accounting, being recorded in the period to which they relate, regardless of when they are received or paid. However, interest overdue is recorded as interest in arrears at the due date, awaiting settlement for a maximum period of 30 days. After this period, interest stops being accrued on principal recorded as overdue and all interest accrued is reversed, except for interest on mortgage loans which remains recorded up to the date those loans are sent for collection through legal channels. These operations are considered as in litigation when the corresponding petition to execute is delivered to the court, which is usually 150 days after the first default.

Advertising campaigns relating to the launch of medium and long term products and the "Banco BPI" brand, are recorded as deferred costs when incurred and amortised to OTHER ADMINISTRATIVE EXPENSES over the following thirty-six months.

Dividends are recognised when they are declared or received. In accordance with this procedure, interim dividends are recorded as income in the period in which they are declared.

Other income and expense items are also recognised on an accruals basis, except for pension liabilities, which are recorded as explained in note 2.12.

2.2. Tangible fixed assets

Tangible fixed assets are stated at cost or at revalued amounts, calculated in accordance with the applicable legislation. The net surplus arising from the revaluations is recorded in the shareholders' equity caption REVALUATION RESERVES.

Depreciation is provided on a straight-line monthly basis using the maximum rates allowed by prevailing tax legislation, which reflect the following estimated useful lives of the assets:

	Useful life (years)
Premises	20 to 50
Improvements in premises for own use	10 to 50
Non-recoverable expenditure on leasehold buildings	3 to 10
Equipment	3 to 12
Other fixed assets	3 to 10

In accordance with current tax legislation, 40% of the additional depreciation charge resulting from the revaluation of fixed assets is not deductible for income tax purposes. The resulting deferred tax liability has not been recognised.

Property received as settlement of defaulting loans is recorded in the caption OTHER ASSETS BY THE AMOUNT STATED IN THE SETTLEMENT AGREEMENT, which is the lower of the amount of the outstanding debt or the appraisal value as of the date of the agreement. These properties remain stated as assets until they are sold, and are subject to periodic appraisals, with provisions being recorded whenever the appraisal value is lower than their book value.

Non-recoverable expenditure on leasehold buildings is amortised according to its estimated useful life, or the remaining period of the lease contract, with a maximum period of 10 years.

2.3. Intangible assets

The BPI Group records, in this caption, notary, registration and other expenses relating to share capital increases as well as expenses with studies and projects (namely consulting studies and software) undertaken by third parties, if their impact extends beyond the financial year in which they are incurred.

Intangible assets are amortised on a straight-line monthly basis using the maximum rates allowed by prevailing tax legislation, which, in general, correspond to a period of three years.

2.4. Equity investments

Investments in companies that are not consolidated nor accounted for under the equity method are recorded at cost.

Provisions for unrealised losses on equity investments are recorded in accordance with Bank of Portugal Notices 4 / 2002 and 3 / 95 of 25 June and 30 June, respectively.

In accordance with Bank of Portugal Notice 4 / 2002, of 25 June, when the unrealised loss on an investment – determined using the average of the daily market prices for the last six months for listed companies, or using the company's equity value multiplied by the factor 1.5 for unlisted companies – exceeds 15% of the corresponding book value of the investment, a minimum provision of 40% of that excess is required.

The above mentioned Notice establishes a transitory regime applicable to the investments already in the portfolio at 31 December, 2001. Under this special regime, provisions and deductions to own funds resulting from unrealised losses on these investments are recorded gradually up to 2006, if the investments relate to companies that are not subject to Bank of Portugal or Portuguese Insurance Institute supervision, and up to 2011 if the investments are in companies supervised by those entities. Provisions recorded during 2002, 2003 and 2004 may be charged against reserves.

Under this regime the BPI Group recorded, up to 31 December, 2003, the full amount of the provisions required up to the end of the transitory period, in accordance with the terms of the notice. In 2004, the movement in the provisions for equity investments was recorded by corresponding entry to the income statement.

In addition, Bank of Portugal Notice 3 / 95 of 30 June establishes that provisions for unrealised losses on equity investments must be required if one of the following situations applies to the company in which the investment is held:

- the company has incurred losses in three years, successive or not, during the last five years;
- the company is insolvent, has been declared bankrupt, has been subject to some company recovery measure or has ceased operating.

2.5. Bonds, shares and other fixed or variable-yield securities

Purchases and sales of securities are recorded on the transaction dates except where, by force of the contractual terms or of any legal provision or regulation, the rights and obligations inherent to the securities are transferred at a different date, in which case the operations are only recorded on the date the transfer occurs.

The procedures for recording securities differ depending on their characteristics and the intention when they are purchased.

i) Trading securities

Securities bought for subsequent resale within a period of six months, with the objective of obtaining a capital gain, are classified as trading securities, provided that their nature and volume do not raise doubts as to their negotiability, taking into consideration market conditions.

Bonds and other fixed income securities are recorded at cost and revalued daily based on their market value, plus accrued interest. Unlisted bonds and other fixed income securities are recorded at cost plus accrued interest. Any negative or positive differences arising from the application of these criteria are recognised as losses or gains, respectively (notes 2.8 and 4.5).

Shares are recorded at market value or, in the case of unlisted shares, at the lower of cost or estimated market value. Differences between cost and the market value of shares included in the composition of indexes with adequate liquidity are recorded as expense or income. Differences between cost and the market value of other shares are recorded in the asset or liability balance sheet caption ACCRUALS, DEFERRALS AND OTHERS, depending on whether they represent unrealised losses or gains. Where they correspond to unrealised losses, a provision is recorded (notes 2.8 and 4.6).

Treasury stock is recorded as explained above, except for treasury stock relating to the RVA (Remuneração variável em acções) program – Variable Remuneration in Shares (note 2.18).

ii) Investment securities

Securities acquired with the purpose of being held for a period of more than six months are classified as investment securities.

Securities issued at a discount are valued at their redemption price (nominal value). The difference between nominal value and cost is recorded as deferred income. The interest accrued on these securities is recorded as income on a monthly basis, in accordance with the implicit interest rate determined on a compound basis.

Bonds and other fixed income securities issued at their nominal value are recorded at cost. Accrued interest is accounted for as interest receivable. The difference between the original cost of the securities and their redemption value – which represents the premium or discount at the time of purchase – is recorded as an expense or income over the period to maturity.

Where cost (corrected for the premium or discount already recognised as expense or income, as appropriate) exceeds the market value of bonds and other fixed income securities the excess is fully provided for (notes 2.8 and 4.5).

The carrying value of securities with interest capitalisation incorporates the accrued interest.

Shares and other variable-yield securities are recorded at cost. Whenever the market value (or estimated market value, in the case of unlisted securities) is lower than cost, a provision is recorded (notes 2.8 and 4.6).

Treasury stock is recorded as explained earlier.

iii) Short-selling of securities

Sales of securities that result in short positions are credited to the caption SHORT-SELLING OF SECURITIES, which is reflected under the balance sheet caption AMOUNTS OWED TO CREDIT INSTITUTIONS OR TO CUSTOMERS, depending upon the counter-party.

Securities purchased to cover short positions arising from the short selling of securities are debited to the caption SHORT-SELLING OF SECURITIES.

The balance of the short-selling of securities account is adjusted daily based on the market value of the securities sold, the valuation differences being recorded as expenses or income or deferred in the caption ACCRUALS, DEFERRAL AND OTHERS, depending on the valuation criteria applicable to these securities if they were part of the own trading portfolio.

2.6. Foreign currency operations

Foreign currency operations are recorded in conformity with the "multi-currency" system, that is in their original currencies.

The accounting procedures differ depending on the effect the operations have on the foreign exchange position. While operations which cause a change in a foreign currency's net balance (for example purchases, sales and the incorporation of results in a foreign currency) have a corresponding entry to the foreign exchange position, the setting up or acceptance of deposits and the granting or collection of loans have no effect on the foreign exchange position.

i) Foreign exchange position and foreign currency swaps

The content and revaluation criteria of foreign currency bills and coins and foreign exchange position, are as follows:

Foreign currency bills and coins

Foreign currency bills and coins are revalued daily using the fixing exchange rates published by the Bank of Portugal. Differences arising from the revaluations are recorded as income or expense for the period.

Spot position

The spot position in any particular currency is the net balance of all assets and liabilities denominated in that currency, plus the amount of spot transactions pending settlement and all forward operations maturing in the ensuing two business days. The spot foreign exchange position is revalued using the daily fixing exchange rates published by the Bank of Portugal. The resulting foreign exchange differences (in national currency) are recorded in the foreign exchange position account, with a balancing entry to losses or gains.

Forward position

The forward position in any particular currency is the net balance of forward operations pending settlement, excluding those that mature in the ensuing two business days. All contracts relating to these operations are revalued at market forward rates or in their absence, at forward rates calculated using the interest rates of the respective currencies applicable for the time period remaining to maturity. Differences arising between the corresponding amounts in euro after applying the forward rates and the contracted exchange rates represent the loss or profit resulting from the revaluation of the forward position and are recorded in a foreign exchange position revaluation account (in the ACCRUALS, DEFERRALS AND OTHERS caption) with a balancing entry to expenses or income.

Foreign currency swaps

Swaps[G] and other foreign exchange rate hedging operations are not included in the revaluation of spot and forward positions. The premiums and discounts on these operations are amortised on a straight line basis over the period to maturity, the corresponding gain or loss being duly recognised.

ii) Translation to euro of balances expressed in foreign currencies

Assets and liabilities expressed in foreign currencies are translated to euro at the official market rates published by the Bank of Portugal.

iii) Translation to euro of income and expenses expressed in foreign currencies

Income and expenses expressed in foreign currencies are translated to euro at the exchange rates in force on the dates they are recognised.

2.7. Provisions for specific credit risk

Provisions are recorded for specific credit risk on loans, securities and interest in arrears, as well as for other credits of doubtful collection, in accordance with Bank of Portugal Notice 3 / 95, of 30 June (with the changes introduced by Bank of Portugal Notice 8 / 03, of 30 January).

The purpose of the provisions for loans, securities and interest in arrears is to cover the risk of non-collection of overdue instalments of principal or interest (notes 4.3, 4.4, 4.5 and 4.27). The amounts provided depend on the existence of any collateral, and increase in proportion to the period of time that has elapsed since the default started.

The purpose of the provisions for other doubtful debts is to cover the risk of non-collection of future instalments of debts not yet due (notes 4.4, 4.12 and 4.27), as follows:

a) Instalments not yet due on operations with overdue instalments of principal and interest in any one of the following situations:

   (i) which exceed 25% of the total principal plus overdue interest;

   (ii) overdue for more than:
   - six months, on operations for periods of less than five years;
   - twelve months, on operations for periods of five to ten years;
   - twenty-four months, on operations for periods equal to or greater than ten years.

   The credits in the above conditions are considered to be overdue only for the purpose of determining the provisions required, these being recorded using the rates applicable to overdue credit on these operations.

b) Principal not yet due on all loans to a Customer when, in accordance with the reclassification referred to in the preceding paragraph, the overdue instalments and interest on all the operations with that Customer exceed 25% of the total credit granted plus overdue interest. Provisions for these credits are recorded using one half of the rates applicable to overdue credits.

The changes introduced by Bank of Portugal Notice 8 / 03, with respect to provisions for doubtful debts, had a transitory period of six months, becoming effective only as from August 2003. Up to that date the provisions for doubtful debts continued to be recorded in accordance with Bank of Portugal Notice 3 / 95.

The Group banks carry out monthly risk assessments of all loans and guarantees provided and not yet matured, as well as of their securities portfolios, in order to assess the adequacy of the provisions recorded.

2.8. Provisions for unrealised losses on securities and other assets

Provisions for unrealised losses on securities and other assets are recorded in order to cover all unrealised losses arising from the valuation criteria adopted for bonds, shares, other fixed and variable-yield securities and other assets (notes 2.4, 2.5, 4.5, 4.6, 4.9, 4.12 and 4.27).

2.9. Provisions for country risk

The purpose of these provisions is to cover the risks associated with financial assets and off-balance sheet items over countries considered to be of risk (notes 4.3, 4.4, 4.5 and 4.27).

These provisions are recorded in accordance with the rules established by Bank of Portugal Notice 3 / 95 of 30 June, Bank of Portugal Instruction 94 / 96, published in the Bulletin of Rules and Information no. 1 of 17 June, 1996 and Bank of Portugal Bulletin under the reference 51 / 04 / DSBDR of 22 June, 2004.

2.10. Provisions for sundry risks

i) General credit risks

The BPI Group's credit institutions subject to Bank of Portugal Notice 3 / 95, of 30 June (with the changes introduced by Bank of Portugal Notices 2 / 99 and 8 / 03, of 26 January and 30 January, respectively) record a provision for general credit risks of 1.5% of consumer credit and loans to individuals for unspecified purposes, of 0.5% for credits guaranteed by mortgage or real estate financial lease operations, in both cases where the real estate is to serve as the borrower's residence, and of 1% of other credit granted, including that represented by acceptances, guarantees and other instruments of a similar nature (notes 4.19 and 4.27). The provisions released on loans guaranteed by mortgage of real estate or real estate financial lease operations, in both cases where the real estate is to serve as the borrower's residence, which became subject to a provision of 0.5% (instead of 1%), had to be used to record or increase the provisions for specific credit risks.

In accordance with the prevailing tax legislation, increases in this provision as from 1 January, 2003 are no longer accepted as tax deductible costs. Additionally, in accordance with current tax legislation, as from 1 January, 2001, when a reversal of provisions for general credit risks is made, the first to be considered as income for the year are those that were considered as tax deductible costs in the years they were recorded.

ii) Other risks

This caption includes provisions to cover other specific risks, namely those arising from tax contingencies, legal processes and other losses arising from operations of the BPI Group, as well as tax liabilities resulting from gains on derivative operations in progress which, in accordance with article 78 of the Portuguese Corporate Income Tax Code (Portuguese initials – CIRC), only become taxable upon liquidation of those operations (notes 4.19 and 4.27).

2.11. Fund for general banking risks

The purpose of this provision is to cover unspecified risks associated with the operations of the BPI Group (notes 4.19 and 4.27).

2.12. Retirement and survivor pensions

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 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. The pensions consist of a percentage, which increases with the number of years of service, applied to their salaries.

The regime for calculating, recording, funding and expensing the liability for retirement and survivor pensions is established in Bank of Portugal Notice 12 / 2001 of 23 November with the changes introduced by Bank of Portugal Notice 7 / 2002 of 31 December. This regime came into force on 31 December, 2001 and establishes:

- the requirement to fully fund the pensions under payment and a minimum of 95% of the past service liability for current personnel;

- a 10% corridor based on the higher of the present value of the past service liability or the amount of the pension fund, so that the actuarial gains and losses resulting from differences between the actuarial and financial assumptions used and the actual amounts are not reflected in the statement of profit and loss, provided that the net accumulated amount is within this limit; and,

- non utilisation, in the calculation of the present value of the past service liability of current personnel, of decreases resulting from incapacity, unless that amount includes the present value of the past service liability relating to the guarantee of pensions due to incapacity or if the risk of incapacity is fully transferred to an insurance company.

The past service liability (including the increased liability due to early retirements) is covered by pension funds.

According to the established regime, the net accumulated amount of the actuarial gains and losses resulting from changes in the actuarial and financial assumptions and changes in the general conditions of the pension plans, as well as amounts which exceed the corridor relating to differences between the actuarial and financial assumptions used and the actual amounts, can be recorded as deferred expenses or deferred income and must be amortised at a rate of at least 10% per year, as from the year subsequent to that in which they were determined. At 31 December, 2004 and 2003 the BPI Group recorded, as deferred expenses, actuarial losses resulting from changes in the actuarial and financial assumptions and changes in the general conditions of the pension plans, as well as amounts which exceed the corridor relating to differences between the actuarial and financial assumptions used and the actual amounts; and the amount that can be allocated to the corridor was recorded in valuation fluctuations (note 4.13).

Under the provisions of Bank of Portugal Notice 12 / 2001, the increase in the past service liability resulting from early retirements must be fully covered by a corresponding contribution to the pension fund, such contribution having to be expensed over a maximum period of 10 years, not exceeding the fourth year following that in which the retirement would presumably have occurred. At 31 December, 2004 and 2003 the BPI Group recorded, in deferred expenses, the balance of the contributions to the pension fund resulting from the increase in the liability due to early retirements not yet charged to expenses (note 4.13).

The increase in the past service liability for current Employees, due to non utilisation of the decreases resulting from incapacity, is being recognised as a cost and funded in accordance with a plan of uniform annual instalments over a maximum period of 20 years as from the year 2002. The plan was approved by the Bank of Portugal. At 31 December, 2004 and 2003 the BPI Group recorded, in off balance sheet accounts, the increase in the liability resulting from the above matter not yet amortised or funded (note 4.28).

2.13. Income tax

All the Group companies are subject to income tax 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.

Profits generated by 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 Decree 555 / 2002 of 4 June, for the purpose of applying this exemption, at least 80% of the taxable profit from Banco BPI's global operations is considered to result from activities outside the institutional scope of the Madeira and Santa Maria Free Trade Zone. This regime came into force on 1 January, 2003.

Banco BPI and its subsidiaries do not record deferred tax assets, except for associated companies, where that is authorised by the Portuguese Official Chart of Accounts ("Plano Oficial de Contabilidade") or by the Portuguese Insurance Institute. The BPI Group also does not record deferred tax liabilities, except on profits on derivative operations in progress which are only considered for tax purposes in the year the operations are liquidated and on timing differences between taxable results and accounting results on operating lease contracts.

2.14. Financial Leasing

As lessee

Leased tangible fixed assets are depreciated in accordance with the procedures described in note 2.2. Lease instalments comprise an interest charge (financial expense) and a principal repayment component. Interest is recorded in the statement of income during the term of the lease in such a manner as to produce a constant interest rate charge on the outstanding balance for each period. Liabilities are reduced by the amounts corresponding to the principal repayment component of each of the instalments.

As lessor

Assets held under financial lease are recorded in the balance sheet as loans granted and are carried at the net amount paid on the date the assets are acquired. The 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 principal amount.

2.15. Factoring

Assets resulting from factoring operations with recourse are recorded in 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 in the balance sheet, as loans granted, by the amount of the credit taken, with a corresponding entry to the LIABILITY caption CREDITORS FOR FACTORING CONTRACTS. The amounts advanced under the contracts are debited to the caption CREDITORS FOR FACTORING CONTRACTS.

The 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 under unused credit lines are recorded as off-balance sheet items.

2.16. Derivatives

Interest rate swaps

Interest rate swaps[G] are recorded, at their notional value[G], in off-balance sheet accounts and are classified as held for hedging or trading purposes.

In the case of hedging operations, interest income and expenses are recorded in the statement of income on an accruals basis. Swaps are revalued only if provisions are recorded for losses on the assets hedged.

Trading operations are revalued daily and the interest flow is recorded in the statement of income on an accruals basis. The operations are revalued based on the present value of the future amounts receivable and payable, calculated at market rates, less accrued interest. The resulting negative or positive differences are recorded directly in the statement of income, with a corresponding entry to an ACCRUALS, DEFERRALS AND OTHERS caption.

Forward rate agreements

Forward rate agreements (FRA) are recorded, at their notional value[G], in off-balance sheet accounts and are classified as held for hedging or trading purposes. The entry is reversed at the settlement date.

In the case of hedging agreements the net interest received or paid on the settlement date is recognised over the period of the operation and charged or credited to the expense or income accounts associated with the hedged liabilities or assets.

Trading agreements are revalued monthly based on the cost or income that would result if settlement occurred on the revaluation date. The resulting negative or positive differences are recorded as losses or gains, with a corresponding entry to an ACCRUALS, DEFERRALS AND OTHERS caption.

Futures

Futures contracts[G] entered into for trading purposes and for the proprietary account are recorded as off-balance sheet items at their daily updated market value. This entry is reversed on the date the positions are closed.

These positions are revalued daily, based on the market price or at the closing-out price (in the case of closed positions), with profits and losses being recorded in the statement of income with a corresponding entry to other assets (profits) and other liabilities (losses). The balances on these accounts are cleared by corresponding entry to the financial movements arising daily by the settlement of the market price variations.

Options

Options contracts are recorded as off-balance sheet items at their notional value and are classified according to their nature (hedging or trading).

Trading options are revalued monthly, based on the available market quotations, with profits and losses being recorded in the statement of income with a corresponding entry to other assets and other liabilities accounts. Premiums received on options sold or paid on options bought are recorded as deferred income or expenses up to the strike data of the option.

Options on indexes for hedging purposes are revalued monthly based on the evolution of the underlying indexes with profits and losses being recorded in the statement of income with a corresponding entry to ACCRUALS, DEFERRALS AND OTHERS captions. These profits and losses are offset by the opposite results of the operations covered. Premiums paid on options purchased and premiums received on options sold are recorded as deferred costs and deferred income and amortised over the period of the contracts.

2.17. Third party securities received for safekeeping

Third party securities received for safekeeping are recorded as off-balance sheet items at their market value or, in its absence, at their nominal value (for fixed income securities), at cost (for variable-yield securities) or at their equity value (for participating units in investment funds).

2.18. Treasury Stock relating to the Variable Remuneration in Shares (Remuneração Variável em Acções – RVA) program

The Variable Remuneration in Shares (RVA) Program is a remuneration plan under which part of the variable remuneration of the Executive Directors and Employees of the BPI Group (with variable remuneration equal to or exceeding 2 500 euro) is paid in BPI shares and BPI share options. 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. Variable remuneration costs, including the RVA program costs, are recorded in the caption PERSONNEL COSTS.

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 is fully transferred on the date they are granted[1]. The call options over the shares can be exercised between the first and the fifth year, as from the date they are granted.

1) Under the 2001 RVA program, by option of the beneficiaries, the BPI Group granted shares under a suspense condition, in which ownership is transferred as the shares become available. Treasury stock granted under a suspense condition, not yet transferred to the beneficiaries, was recorded at the value of the grant, in the balance sheet asset caption ACCRUALS, DEFERRALS AND OTHERS, and is not revalued to fair value. As the difference between the cost of the shares and the value of the grant was recorded in the income statement, their book value corresponds to their sales value (value of the grant).

The BPI Group 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 the evolution of the price of an option and evolution of the price of the underlying shares. The treasury stock held to hedge the risk of variation in the value of the options sold is recorded in the trading portfolio, where it remains while held for that purpose. The shares are revalued to market value, the valuation differences being recorded in ACCRUALS, DEFERRALS AND OTHERS captions. If the net amount of these differences and the revaluation of the share options corresponds to a loss, a provision of the same amount is recorded.

3. BREAKDOWN, BY BUSINESS SECTOR, OF APPLICATIONS AND PORTFOLIO OF SECURITIES AND FINANCIAL PARTICIPATIONS

3.1. Breakdown of applications by business sector

At 31 December, 2004 the applications of the BPI Group companies consolidated by the full consolidation method, by business sector, were as follows:

	Loans		Loans[1] and securities overdue		Guarantees given[2]		Bonds[3]		Shares[4]		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Agriculture, forestry and fishing	76 253	0.4	636	0.3	8 300	0.3					85 189	0.4
Mining	63 030	0.3	670	0.3	10 145	0.3					73 845	0.3
Manufacturing industries												
Beverage, tobacco and food	285 241	1.5	2 749	1.2	67 187	2.3	20 781	4.6	1 312	0.6	377 270	1.7
Textiles and clothing	265 746	1.4	11 889	5.4	40 316	1.4			10		317 961	1.4
Leather and related products	31 753	0.2	1 552	0.7	3 271	0.1			4		36 580	0.2
Wood and cork	149 282	0.8	2 839	1.3	39 693	1.4					191 814	0.8
Pulp, paper and cardboard and graphic arts	125 943	0.7	981	0.5	27 507	0.9			2 226	1.1	156 657	0.7
Coke, oil products and nuclear fuel	576				7 568	0.3			1 998	1.0	10 142	
Chemical and synthetic or artificial fibres	64 700	0.3	565	0.3	20 774	0.7	5 001	1.1	187	0.1	91 227	0.4
Rubber and plastic materials	59 131	0.3	478	0.2	12 342	0.4					71 951	0.3
Other mineral non-metallic products	241 823	1.3	1 408	0.6	75 131	2.6	23 206	5.2			341 568	1.5
Metalworking industries	173 878	0.9	2 616	1.2	45 177	1.5	9 500	2.1	101		231 272	1.0
Manufacturing of machinery and equipment	77 663	0.4	668	0.3	35 508	1.2			89		113 928	0.5
Manufacturing of electrical and optical equipment	66 276	0.4	498	0.2	41 733	1.4			1 412	0.7	109 919	0.5
Manufacturing of transport material	60 597	0.3	1 616	0.7	80 627	2.7	4 374	1.0	931	0.5	148 145	0.7
Other manufacturing industries	82 518	0.4	1 780	0.8	11 809	0.4			8		96 115	0.4
Electricity, gas and water	287 949	1.5	15		314 090	10.7	18 971	4.2	7 598	3.7	628 623	2.8
Construction	789 648	4.2	17 191	7.8	687 223	23.4			2 264	1.1	1 496 326	6.6
Wholesale and retail trading	1 430 669	7.6	17 803	8.1	341 326	11.6	9 000	2.0	2 624	1.3	1 801 422	8.0
Restaurants and hotels	177 880	0.9	1 781	0.8	32 171	1.1			468	0.2	212 300	0.9
Transport, warehousing and communication	640 530	3.4	2 798	1.3	348 158	11.9	1 177	0.3	9 074	4.4	1 001 737	4.4
Banks and other credit institutions	1 359		120	0.1	32 062	1.1	21 972	4.9	120 855	58.6	176 368	0.8
Other financial institutions and insurance companies	163 572	0.9	1		3 610	0.1			643	0.3	167 826	0.7
Investment holding companies	413 569	2.2	795	0.4	129 185	4.4	100 901	22.5	26 214	12.7	670 664	3.0
Real estate, rental and services provided to companies	930 841	5.0	7 160	3.2	158 034	5.4	5 462	1.2	2 081	1.0	1 103 578	4.9
Public administration, defence and mandatory social security	673 791	3.6	39		47 512	1.6					721 342	3.2
Education, health care and welfare	407 505	2.2	2 536	1.1	48 514	1.7			967	0.5	459 522	2.0
Leisure, cultural and sports activities	71 324	0.4	552	0.2	92 457	3.1			1 527	0.7	165 860	0.7
Other service companies	104 708	0.6	523	0.2	4 398	0.1					109 629	0.5
Individuals												
Housing loans	7 032 677	37.4	80 259	36.3							7 112 936	31.5
Others	2 929 514	15.6	48 695	22.0	50 020	1.7					3 028 229	13.5
Multinational financial institutions	4 587				1 948	0.1			3 540	1.7	10 075	
Other sectors	40 948	0.2	5 078	2.3			3 671	0.8	4 072	2.0	53 769	0.2
Non-residents	874 814	4.7	4 761	2.2	119 977	4.1	224 994	50.1	16 189	7.8	1 240 735	5.5
	18 800 295	**100.0**	**221 052**	**100.0**	**2 937 773**	**100.0**	**449 010**	**100.0**	**206 394**	**100.0**	**22 614 524**	**100.0**

1) The loans overdue refer to loans granted to Customers.
2) Includes guarantees and securities, open documentary credits and acceptances and endorsements.
3) Does not include bonds issued by government entities.
4) Includes quotas, participating units and other items.

3.2 Securities and equity investments

At 31 December, 2004 securities and equity investments owned by the BPI Group companies consolidated by the full consolidation method were as follows:

Nature of securities	Quantity	Nominal value	Average cost	Market value	Gross book value	Provisions
			euro		th. euro	
TRADING SECURITIES						
Bonds and other fixed income securities – issued by residents						
Issued by Portuguese government entities						
Treasury Bonds						
TB 3.95% July 1999 / 2009	88	0.01	0.01	0.01		
TB 4.875% August 2002 / 2007	31	0.01	0.01	0.01		
TB 5.25% October 2000 / 2005	4 014	0.01	0.01	0.01		
TB 5.375% June 1998 / 2008	17 960	0.01	0.01	0.01		
TB 5.45% September 1998 / 2013	68	0.01	0.01	0.01		
TB 5.85% May 2000 / 2010	58	0.01	0.02	0.01		
TB 6.625% February 1997 / 2007	14 900	0.01	0.01	0.01		
		0.07				
Bonds and other fixed income securities – issued by non-residents						
Issued by foreign government entities						
Treasury Bills						
Angola Treasury Bills	8 796 658	8.57	7.12		75 400	
					75 400	
Bonds						
National Bank of Angola	4 182 000	8.57	7.47		35 846	
Bundesrepub. Deutsch. – 4.25% (04/07/2014)	410 000 000	0.01	0.01	0.01	4 404	
Bundesrepub. Deutsch. – 4.5% (04/07/2009)	1 000 000 000	0.01	0.01	0.01	10 845	
Finnish Government – 5% (25/04/2009)	976 000 000	0.01	0.01	0.01	10 891	
France (Gov of) – 5% (25/10/2016)	5 000 000	1.00	1.13	1.11	5 619	
France OAT (Princ) – Cz (25/10/2008)	1 015 000	1.00	0.89	0.90	911	
Obligac. Del Estado – 3.6% (31/01/2009)	9 710	1 000.00	1 028.40	1 026.01	10 282	
Obligac. Del Estado – 5.15% (30/07/2009)	1 176	0.01	0.01	0.01		
Greek Rep. – 3.25% (21/06/2007)	36 800	1 000.00	1 015.86	1 013.34	38 366	
Greek Rep. – 3.5% (18/04/2008)	10 450	1 000.00	1 022.60	1 019.96	10 916	
Greek Rep. – 6% (19/05/2010)	27	0.01	0.01	0.01		
Greek Rep. – 6.3% (29/01/2009)	1 142	0.01	0.01	0.01		
U.S. Treasury – 5% (15/02/2011)	15 000	734.16	782.70	780.76	11 918	
U.S. Treasury – 6.25% (15/08/2023)	3 200	734.16	853.92	857.96	2 801	
					142 799	
Issued by other non-residents						
Other Bonds						
TDM 2001	13 000	50.43	3.88	3.88	50	
Yuan (Merrill Ly) CZ – 2006	60	1 000.00	976.00	980.30	59	
					109	
Shares and other variable-yield securities – issued by residents						
Shares						
Banco Comercial Português – Nom.	2 419 533	1.00	1.81	1.89	4 573	
Banco Espírito Santo – Nom.	92 116	5.00	13.24	13.30	1 225	
Brisa – Priv.	158 730	1.00	6.27	6.75	1 072	
Cimpor – Cim. de Portugal – SGPS	99 000	1.00	4.09	4.15	411	
Cofina – SGPS	193 490	0.50	3.60	3.64	704	
Corticeira Amorim – SGPS	19 635	1.00	1.16	1.06	21	
EDP – Energias de Portugal	1 126 295	1.00	2.23	2.23	2 512	
Gescartão, SGPS	2 805	5.00	9.30	10.60	30	
Grupo Media Capital, SGPS	100 355	0.09	4.11	5.45	547	
Impresa – SGPS	112 360	1.00	4.14	5.80	652	

Nature of securities	Quantity	Nominal value	Average cost	Market value	Gross book value	Provisions
			euro		th. euro	
Shares and other variable-yield securities – issued by residents (cont.)						
Shares (cont.)						
Jerónimo Martins – SGPS	18 480	5.00	9.54	9.70	179	
Mota-Engil – SGPS	150 000	1.00	1.76	1.98	264	
Novabase, SGPS	55 000	0.50	5.71	6.27	314	
Pararede – SGPS	88 440	0.10	0.37	0.37	33	
Portucel Industrial – Nom.	100 155	1.00	1.52	1.43	143	
Portugal Telecom – Nom.	116 840	1.00	9.03	9.10	1 063	
PT Multimédia, SGPS – NOM.	73 674	0.50	17.73	18.49	1 362	
Semapa – Soc. de Inv. e Gestão – SGPS	16 762	1.00	3.36	4.10	69	
Sonae.Com., SGPS	340 385	1.00	3.43	3.80	1 293	
Sonae SGPS	3 596 955	1.00	0.95	1.07	3 849	
Teixeira Duarte – Eng. Constr. – St. Split	61 875	0.50	1.19	1.01	62	
					20 378	
Other variable-yield securities – issued by non-residents						
Shares						
Abengoa	155 450	0.25	7.14	7.27	1 104	
Aegon – NV	20 000	0.12	8.41	10.03	201	
Aldeasa	34 405	1.20	25.71	31.10	875	
Amadeus Global Travel Dist. – A	100 000	0.01	7.35	7.57	757	
Antena 3 Television	15 000	3.00	51.28	53.15	769	
Banco Bilbao Vizcaya Argentaria	223 200	0.49	12.59	13.05	2 913	
Banco Santander Central Hispano	86 502	0.50	8.94	9.13	790	
Banco Santander Central Hispano (BVLP) – N	571 598	0.50	8.41	9.10	5 202	
Bayerische Motoren Werke BMW	6 300	1.00	33.69	33.20	209	
Carrefour	8 250	2.50	34.75	35.04	289	
Cintra Concesiones de Infraestr. Transp.	110 000	0.20	7.78	8.08	857	
Daimlerchrysler AG	7 900	0.51	33.96	35.26	279	
Deutsche Lufthansa	15 000	2.56	10.93	10.55	158	
Ebro Puleva	124 650	0.60	9.54	10.50	1 168	
Endesa – Empresa Nacional Electricidade	267 000	1.20	15.77	17.29	4 616	
Grupo Empresarial Ence	53 797	4.50	22.73	22.53	1 223	11
Grupo Prisa	20 000	0.10	14.21	15.62	312	
Iberdrola	147 000	3.00	17.40	18.70	2 749	
Indra Sistemas	20 000	0.20	10.78	12.57	251	
Lóreal	2 900	0.20	55.10	55.85	162	
Muenchener Rueck. Ag – REG	3 000	0.51	78.37	90.45	271	
NH Hoteles	32 677	2.00	9.33	9.76	319	
Reed Elsevier NV	25 000	0.06	9.96	10.03	251	
Repsol YPF	104 300	1.00	17.94	19.16	1 998	
Telefonica	480 000	1.00	13.76	13.86	6 653	
Unicrédito Italiano SPA	50 000	0.50	4.24	4.23	212	
Unilever NV – CVA V. N. Red.	4 000	0.51	54.10	49.33	197	
Vivendi Universal	20 000	5.50	22.51	23.49	470	
					35 255	**11**
TREASURY STOCK						
Banco BPI, S.A.	637 058	1.00	3.00	2.98	1 899	
Banco BPI, S.A. (RVA 2001)	1 299 051	1.00	2.80	2.98	3 871	
Banco BPI, S.A. (RVA 2002)	2 849 130	1.00	2.69	2.98	8 490	
Banco BPI, S.A. (RVA 2003)	2 984 118	1.00	2.83	2.98	8 893	
					23 153	
					297 094	**11**

Nature of securities	Quantity	Nominal value	Average cost	Market value	Gross book value	Provisions
			euro		th. euro	
INVESTMENT SECURITIES						
Fixed income securities – issued by government entities						
Issued by Portuguese government entities						
Treasury bonds						
TB 3.25% July 2004 / 2008	100 000 000	0	0.01	0.01	1 009	7
TB 5% June 2002 / 2012	50 000 000 000	0.01	0.01	0.01	508 802	
TB 5.25% October 2000 / 2005	7 650 000 000	0.01	0.01	0.01	77 631	
TB 11.875% February 1995 / 2005	44 027 710	0.01	0.01	0.01	441	
					587 883	**7**
Issued by foreign government entities						
Bonds						
Gov. Spain – JPY / 1995 – 4.75% (14/03/2005)	100	71 608	71 607.59	72 968.13	7 161	
Angola Treasury Bonds	33 270	857.15	783.16		30 498	
Greek Republic – EUR / 1998 – 5.75% (31/3/2008)	15 000 000	1.00	0.99	1.09	14 934	
					52 593	
Fixed income securities – other issuers						
Issued by other Portuguese entities						
Cash bonds						
Banco Alves Ribeiro / 2001 – Ob. Cx. – 1.ª Em.	500	5 000.00	5 000.00	5 000.00	2 500	
					2 500	
Other bonds						
Auto Sueco / 2000	1 000 000	5	5.00	5.00	5 000	
Banco Itaú Europa – Tx. Vr. (12/07/2007)	10 000	1 000.00	999.41	1 002.50	9 995	
CMP / 1997	3 825 779 874	0.01	0.01	0.01	22 955	
EDP – 25.ª Em / 1998 – Tx. Vr.	1 776 006 760	0.01	0.01	0.01	17 701	
Indasa / 2001	25 500	10.00	9.77	10.00	251	
Jerónimo Martins 2003 – Tx. Vr.	668 000	5.00	5.00	5.00	3 340	
Lisnave – Estaleiros Navais de Lisboa – 92/070530	9 854 251		0.01	0.00	45	1
Medinfar / 2003 – Tx. Vr. (15/12/2008)	180	5.00	5.00	5.00	1	
Mota Engil – Tx. Vr. (09/12/2010)	500	1 000.00	1 000.00	1 000.00	500	
Mota Engil – Tx. Vr. 2004-2011	3 000 000	5.00	5.00	5.00	15 000	
Polimaia / 89 – Série C	4 000	1.75	1.29		7	
Salvador Caetano / 2002 – 1st Issue	500 000	8	7.50	7.50	3 750	
Semapa / 1998	1 198 797 669	0.01	0.01	0.01	9 590	
Soares da Costa / 2000	1 250 000	3.13	3.11	3.13	3 899	
Somague SGPS / 1998	115 084	4.99	4.99	4.90	574	11
					92 608	**12**
Commercial paper						
Amoreiras Center E. 47					917	
Cin S.A. E 1					5 000	
Climaespaço Em. 29					1 270	
Incompol 11.ª					624	
J M Fonseca Intl Vinhos 1					5 000	
JMV S.A. Em 1					2 500	
J Pinto Leitão S.A. Em 1					1 500	
JP Vinhos Em. 2					1 000	
Lactogal Em. 4					17 500	
Lactogal Em. 39					9 150	
Lactogal Em. 40					4 600	
Manuel Poças Junior 14.ª					469	
Mundicenter SGPS E8					1 167	
Mundicenter SGPS E9					3 333	
Ramirez & Comp (Filhos) E1					1 000	

Nature of securities	Quantity	Nominal value	Average cost	Market value	Gross book value	Provisions
			euro		th. euro	
Fixed income securities – other issuers (cont.)						
Issued by other Portuguese entities (cont.)						
Commercial paper (cont.)						
Solverde 194.ª					9 500	
Sonae SGPS					27 800	
Sonae SGPS Em. 73					8 940	
SV Terras Valdigem E 14					313	
Tertir 14.ª					1 177	
Unicer Em. 15					13 000	
					115 760	
Issued by foreign entities						
Issued by international financial entities						
Bonds						
EIB – PTE / 1995 – Tx. Vr. (Mar. 2005)	5 226 600	5	5.00	4 639.91	26 070	5
EIB – PTE / 1996 F.R.N. (Dec. 2006)	3 299 500	4.99	4.99	734.16	16 458	30
					42 528	**35**
Issued by other foreign entities						
Other bonds						
Aegis SRL – CL 1 Tx. Vr. (01/06/2016)	50	4 640	4 881.90	4 639.91	232	
Avalon Capital Ltd. 2 – Tx. Vr. (24/5/2012)	10 000	734.16	733.60	734.16	7 338	
Avalon Capital Ltd. 2 – Tx. Vr. (24/5/2012)	4 000	734.16	734.16	734.16	2 937	
Banque AIG – c/z (24/06/2016)	273	10 000.00	9 600.00		2 622	
Bosphorus Fin. Serv. (15/11/09) – S. AX – C.A.	5 000	734.16	734.16		3 671	
Brazil Div Pymt Rights – T.V. (20/03/2007)	10 000	616.35	734.16	616.35	6 163	
Brazil Foreign Div. P.R.F. – 5.5% (20/09/2011)	5 000	734.16	734.16		3 671	
Brazilian Mer Vouch R 5.911% (15/06/2011)	3 000	734.16	734.16	724.86	2 202	28
CVRD Finance Ltd. Tx. Vr. (15/10/2007)	300	4 730.14	4 730.14	4 730.14	1 419	
Deutshe Telekom Int Fin – 6.625 (11/07/11)	10 000	1 000.00	1 115.00	1 182.30	10 920	
Dollar Divers. Ri.F – 6.55% (16/12/2013) – Reg	5 000	734.16	734.16	790.03	3 671	
Dutch Mor. Port. Loans (15/9/34) – O. Hip – Cl. B	8	500 000.00	500 850.00	500 000.00	4 006	6
Eurofima – PTE – Tx. Vr. 1995 / 2005	6 000 000	4.99	4.99	4.99	29 928	
Eurofima – PTE – Tx. Vr. 1998 / 2008	1 564	4 987.98	4 987.98	4 964.04	7 801	37
Euro Vip – USD / 1990 – Tx. Vr. (23/11/2030)	6 000	734.16	734.16	653.40	4 405	485
France Telecom – (14/03/2008)	20 000	1 000.00	1 111.35	1 120.50	21 443	
France Telecom – 7.25% (28/1/2013)	1 500	1 000.00	994.47	1 216.80	1 493	
Goldman Sachs Group – PTE / 1997 – Tx. Vr. (24/04/2007)	10 000	498.80	498.80	498.79	4 988	
International Divers. Pay. Rig. DO – 6.75% (20/08/2010)	5 000	734.16	729.14	787.58	3 651	
Italease Finance Spa (10/03/2011) O. Hip. – Cl. A	5 000	1 000.00	998.90	1 000.00	4 997	
K2 Corporation – Tx. Vr. (28/02/2013)	5 000	734.16	734.16	734.16	3 671	
Madison Avenue C. Ltd. (24/03/2014) – O. Hip. Cl. A	10	329 856.00	349 088.90	313 363.21	3 298	165
Morgan Guar. Trust C.ª N.Y. / 97 – 2017 C. Zero	500	498.80	805.69	886.86	403	
Pemex Proj. FDG Master Trust – 7.75% (02/08/2007)	5 000	1 000.00	1 119.00	1 109.00	5 374	
Stichting Eurostar CDO (10/03/2013) O. H – Cl – A1	10	454 237.97	464 177.70	454 237.97	4 533	
Tafisa, S.A.	80	60 100.16	60 101.21		4 808	
Telecom Italia SPA – 4.5% (28/01/2011)	75	100 000.00	99 570.00	103 370.00	7 472	
Telecom Italia SPA – 6.25% (01/02/2012)	7 500	1 000.00	1 045.03	1 133.40	7 764	
Union Fenosa Finance – 5% (09/12/2010)	40	100 000.00	99 481.00	106 930.00	3 982	
					168 913	**721**
Commercial paper						
Brazcomp One – Votorantrad					13 494	
					13 494	

Nature of securities	Quantity	Nominal value	Average cost	Market value	Gross book value	Provisions
			euro		th. euro	
Variable income securities – issued by residents						
Shares						
Alar – Emp. Ibérica de Material Aeronautico, S.A.	2 200	5	9.02		20	
Apis – Soc. Ind. Parquetes Azarujense	65 000	4.99				
Banco Comercial Português	54 529 081	1.00	1.78	1.89	97 292	
Boavista Futebol Clube	21 900	5.00	5.00		110	
Buciqueira – SGPS – Cap. Red. – Em. 2001	8	5.00	112.25		1	
Caderno Verde – Comunicação (C)	134 230	1.00	7.20		967	967
Carmo & Braz	65 000	4.99				
Casa Hipólito, S.A.	17 789	4.99	4.99		89	
Change SGPS, S.A.	3 740 000	1.00	1.00		3 740	3 279
Cimpor – Cimentos de Portugal, S.A.	3 565	1.00	1.89	4.15	7	
Companhia Águas da Fonte Santa de Monfortinho, S.A.	10	5.00	4.50			
Companhia Aurifícia, S.A.	578	14.00	41.42		24	
Companhia Aurifícia, S.A. (Nominal Value 7 EUR)	30	7.00	20.80		1	
Companhia de Diamantes de Angola	167 716	2.49				
Companhia de Fiação e Tecidos de Fafe, S.A.	240	4.99	1.25			
Companhia Portuguesa do Cobre – Imobiliária, S.A.	57 200	4.99	0.07		4	
Comundo – Consórcio Mundial de Import.e Export., S.A.	3 269	0.50	1.74		6	4
Corticeira Amorim – SGPS	127 419	1.00	2.47	1.06	315	180
Douro Azul – Soc. Marítimo Turística, S.A.	1 000 000	1.00	1.00		1 000	
Empresa Cinematográfica S. Pedro – Águeda	100	4.99	4.99			
Empresa O Comércio do Porto, S.A.	50	2.49	15.56		1	
Ensitel – SGPS	4 134 173	0.50	1.77		7 313	7 313
Esence – Soc. Nac. Corticeira – Nom.	54 545	4.99				
Estamparia Império – Emp. Industriais e Imobiliários, S.A.	170	4.99	7.89		1	
Eurodel – Ind. Metalurgicas e Participações	23	5.00	5.00			
Eurofil – Ind. de Petróleos, Plástico e Filamentos, S.A.	11 280	4.99	2.21		25	
Fábricas Vasco da Gama – Ind. Transformadoras, S.A.	33	4.99	22.82		1	
Fernando & Irmão, Lda.	27 190	100.00	100.00		2 719	
Fit – Fomento e Industria do Tomate, S.A.	148	4.99	16.95		3	
Foncar – Org. Industrial Com. Textil, S.A.	6	4.99	4.17	0.80		
Futebol Clube do Porto	105 000	5.00	5.14	2.54	539	273
Gap – Gestão Agro-Pecuária, SGPS, S.A.	548	4.99	4.99		3	
GEIE – Gestão de Espaços de Incub. Empres. S.A.	12 500	1.00	1.00		13	13
Gregório & Ca.	1 510	4.99	2.89		4	
Impresa – SGPS	4 891	1.00	5.26	5.80	10	
Incal – Indústria e Comércio de Alimentação, S.A.	2 514	1.13	0.89		2	
Intersis, S.A.	42 147	4.99	31.01		1 307	1 307
J. Soares Correia – Armazéns de Ferro, S.A.	84	5.00	21.17		2	
Jotocar – João Tomás Cardoso, S.A.	3 020	4.99	2.49		7	
Lisnave – Est. Navais	180	5.00	4.99		1	
Matur – Sociedade de Empreend. Tur. da Madeira, S.A.	13 435	5.00	10.85		146	146
Matur – Sociedade de Empreend. Tur. da Madeira, S.A.	4	5.00				
Maxstor	8 190	4.99	4.99		41	41
Metalurgia Casal, S.A.	127	4.99	4.94		1	
Multitema	405 379	1.00	1.34		542	542
Nutroton – Industrias da Avicultura	11 395	5.00	4.38		50	
Pema, S.A.	532	3.25	0.07			
Pirites Alentejanas, S.A.	178	1.00	0.03			
Porto de Cavaleiros, SGPS	2	4.99				

Nature of securities	Quantity	Nominal value	Average cost	Market value	Gross book value	Provisions
			euro		th. euro	
Variable income securities – issued by residents (cont.)						
Shares (cont.)						
Portugal Telecom – N	4 080	1.00	14.04	9.10	57	20
Salvador Caetano, Ind. Maq. e Veic. de Transp., S.A.	107 025	1.00	3.94	3.60	422	36
Salvor – Soc. Investimentos Hoteleiros, S.A.	10	5.00				
Secca – Construções Metálicas – Ac. Ord. Em. 92	3 627	4.99	4.99		18	18
Secca – Pref. S/ Voto – Em. 92	3 627	4.99	4.99		18	18
Semapa – Soc. Inv. Gestão – SGPS – Stock Split	728	1.00	4.35	4.10	3	
Senal – Soc. Nacional de Promoção de Empresas, S.A.	450	0.50				
Sociedade de Construções ERG	50	4.99	7.38	0.90		
Sociedade Industrial Aliança, S.A.	1	2.49	2.00			
Somotel – Soc. Portuguesa de Moteis, S.A.	1 420	2.50	0.07			
Sonae SGPS	51 868	1.00	2.55	1.07	132	77
Sopeal – Soc. Promoção Educacional Alcacerense, S.A.	100	4.99	4.99			
Sorefame – Socs. Reunidas Fabricações Metálicas, S.A.	31	5.00	9.81			
Sport Lisboa e Benfica (Pub. Geral)	16 010	5.00	4.99		80	
Star – Turismo, S.A.	533	4.99	4.99		3	
SVB, SGPS, S.A.	1 250	4.99	5.00		6	6
TECMIC	11 324	5.00	121.13		1 372	343
Telecine Moro, S.A.	170	4.99	6.48		1	1
Terologos – Tecnologias de Manutenção – P	7 960	4.99	4.99		40	
Textil Lopes da Costa, S.A.	4 900	4.99	1.70		8	8
Turopa – Operadores Turisticos, S.A.	5	4.99	5.00			
TVTEL – G.P.	191 250	4.98	7.18		1 374	1 374
Unicer – União Cervejeira, S.A.	1 002	1.00	8.07		8	
Whatevernet	128 310	0.50	9.78		1 255	
Xelb Cork – Co. e Ind. Cortiça	87	4.99	4.99			
					121 104	**15 966**
Participating units						
Fundo BPI – América	200 000	0.01	4.99	4.82	998	34
Fundo Grupo BFE Imobiliário	73 707	4.99	5.01	5.70	371	
					1 369	**34**
Other						
Atlântis – Pref. S/ Voto – Dir. Inc. / Em. 97	1					
Banco Comercial Português – Dir. Inc. – Em. 01 – 2.ª	11					
Banco Espírito Santo – Dir. Inc. – Em 2000	1					
Oliva – Direitos de redução	100		0.45			
Cimpor – Cim.Portugal – SGPS – Dir. Inc. – Em. 99	1					
Fabricas Triunfo – Dir. reduçao Em. 2001	8		5.00			
Soc. Construções Erg / 93	3					
Sonae Industria – SGPS – D.I. / Em. 97 – 2.ª	1					
Variable income securities – issued by non residents						
Shares						
Altitude Software	5 984 560	0.04	2.31		13 810	13 810
BPI Strategies, LTD. – Class B	9 389	0.01	781.91	849.42	7 342	
Cis Corporation	39 512	4.49	4.67	0.07	119	117
European Investment Fund	6	1 000 000.00	1 000 000.00		6 000	
Growela Cabo Verde	19 000	9.07	9.07		172	172
Sofaris	13	49.55	94.75		1	
Unirisco Galicia	80	1 202.02	1 202.03		96	16
					27 540	**14 115**

Nature of securities	Quantity	Nominal value	Average cost	Market value	Gross book value	Provisions
			euro		th. euro	
Variable income securities – issued by non residents (cont.)						
Participation units						
Fundo BPI – Europa (Luxemburgo)	23 405	0	7.32	10.23	171	
Scudder New Europe Fund Inc.	10 000	7.34	9.18	13.67	92	
					263	
Subordinated securities						
BNU – PTE / 1998 – Tx. Vr. (15/10/2008) – Ob. Cx. Sub.	947 716 004	0	0.01	0.01	9 477	
K2 Corporation – Tx. Vr. – Pref. Perp	5 000	734.16	734.16	734.16	3 671	
					13 148	
					1 239 703	**30 890**
EQUITY INVESTMENTS						
Investments in associated companies						
Investments subjected to the transitory regime established by Bank of Portugal Notice 4 / 2002						
Auto-Estradas Atlantico II – Conc. Serviços	1 000	5.00	5.00		5	
Auto-Estradas do Oeste – Concessões Rodoviárias	963 336	5.00	4.99		4 805	1 634
Banco Comercial e de Investimentos	9 546 429	0.39	0.41		11 164	
Caravela Gest, SGPS, S.A.	108 572	5.00	4.99		542	336
Companhia de Seguros Allianz Portugal, S.A.	2 768 178	5.00	15.06		45 997	
Cosec – Companhia de Seguros de Crédito, S.A.	750 000	5.00	9.40		15 444	
F. Turismo – Capital de Risco, S.A.	250 000	5.00	4.99		1 349	
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	1 814 125	5.00	14.91	8	13 223	
SIC – Sociedade Independente de Comunicação, S.A.	2 097 739	5.00	102.49		16 201	
Telemanutenção – Assistência Remota e Computadores, S.A.	4 900	4.99	49.88		244	244
Vera Cruz Exportação – Indústria e Comércio, S.A.	689 145	0.28	0.81		558	558
Viacer – Sociedade Gestora de Participações Sociais, Lda.					21 572	
Investments not subjected to the transitory regime established by Bank of Portugal Notice 4 / 2002						
Auto-Estradas Atlantico II – Conc. Serviços	1 000	5.00	5.00		5	
Auto-Estradas do Oeste – Concessões Rodoviárias	2 000	5.00	5.00		10	3
					131 119	**2 775**
Investments in subsidary companies excluded from consolidation						
Investments subjected to the transitory regime established by Bank of Portugal Notice 4 / 2002						
BPI, Inc.	300		12.24		281	
BPI Pensões – Sociedade Gestora de Fundos de Pensões, S.A.	200 000		7.24		5 083	
BPI Strategies Ltd.	1 000	0.01	0.01			
BPI Vida – Companhia de Seguros de Vida, S.A.	10 000 000	5.00	5.21		90 546	
Promática – Sociedade Informação e de Organização de Empresas, S.A.	150 000	5.00	5.72		484	
Simofer – Sociedade de Empreendimentos Imobiliários e Construção Civil, Lda.		1.00				
					96 394	
OTHER INVESTMENTS						
Investments subjected to the transitory regime established by Bank of Portugal Notice 4 / 2002						
Portuguese financial entities						
Lisgarante – Soc. de Garantia Mútua	167 860	1.00	1.00		167	
Norgarante – Soc. de Garantia Mútua	46 160	1.00	1.00		46	
SPGM – Sociedade de Investimentos, S.A. – N	990 730	1.00	1.00		988	
Other Portuguese companies						
Alberto Gaspar, S.A.	60 000	4.99	4.99		141	141
Ambelis – Agência p/ Modernização Economica de Lisboa, S.A.	400	49.88	49.88		20	7
Apor – Agência p/ Modernização do Porto – Cl. B	2 877	5.00	4.16		12	
Arco Bodegas Unidas	63 382	6.01	69.41		4 400	209
Cofina SGPS	3 345 960	0.50	2.76	3.39	9 234	
Coimbravita – Agência Desenvolvimento Regional	15 000	4.99	4.99		75	
Conduril – Construtora Duriense, S.A.	184 262	5.00	4.37	2.00	806	127

Nature of securities	Quantity	Nominal value	Average cost	Market value	Gross book value	Provisions
			euro		th. euro	
OTHER INVESTMENTS (cont.)						
Investments subjected to the transitory regime established by Bank of Portugal Notice 4 / 2002 (cont.)						
Other Portuguese companies (cont.)						
Digitmarket – Sistemas de Informação, S.A.	4 950	1.00	150.00		764	743
EIA – Ensino, Investigação e Administração, S.A.	10 000	4.99	4.99		50	16
FIEP – Fundo para a Internacionalização das Empresas Portuguesas SGPS, S.A.	3 900 000	4.99	4.99		19 465	182
Gestinsua – Aq. Al. Patrimonio	430	5.00	5.00		2	2
Ibersol – SGPS, S.A.	1 265 930	1.00	4.30	4.47	5 444	
Impresa – SGPS	7 076 949	1.00	7.35	4.51	52 029	4 936
International Factors Group	12	50.00	50.00		1	
Margueira – Sociedade Gestora de Fundos Investimento Imobiliário, S.A.	3 362	5.00	4.99		17	
Mimalha, S.A.	40 557	4.99	8.27		336	336
NET – Novas Empresas e Tecnologias, S.A.	6 099	4.99	0.52		3	
PME Capital – Sociedade Portuguesa de Capital de Risco, S.A.	241 527	5.00	4.99		1 205	
Portugal Telecom, S.A.	20 743 391	1.00	10.76	8.75	223 197	3 247
Primus – Prom. e Desenvolvimento Regional, S.A.	8 000	4.99	4.99		40	24
Sanjimo – Sociedade Imobiliária	1 620	4.99	4.99		8	8
SIBS – Sociedade Interbancária de Serviços, S.A.	738 455	5.00	4.22		3 115	
Soc. Portuguesa de Inovação, Consultoria Empresarial e Fomento da Inovação, S.A.	1 500	5.00	4.99		7	
Spidouro – Sociedade Promoção e Investimento Douro e Tras-os-Montes	15 000	4.99	4.99		75	54
Tagusparque – Sociedade de Promoção e Desenvolvimento do Parque, S.A.	480 000	5.00	4.99		2 394	
Unicre – Cartão Internacional de Crédito	299 265	5.00	3.53		1 057	
VAA – Vista Alegre Atlantis SGPS (Merger)	8 391 597	1.00	1.43	0.65	12 036	7 085
VAA – Vista Alegre Atlantis SGPS (St. Split.)	988 485	1.00	2.71	0.66	2 680	2 087
ViaLitoral – Conc. Rodoviária da Madeira	4 750	161.25	166.64		792	102
Other foreign companies						
CLD – Credit Logement Developpment	100	15.24	15.25		2	
Club Financiero Vigo	1	15 626.31	17 730.00		18	6
Empresa Interbancaria de Serviços (EMIS)	7 000	7.34	7.34		50	49
Instituto de Mercado de Capitais (IMC)					3	
InterBancos	100	845.85	0.85			
Nasdaq Europe SA / VN	100	49.96	250.32		25	21
Swift – Society for Worldwide Inf. Dev	47	123.95	341.36		36	
Tharwa Finance (dirhams)	20 895	8.94	8.94		186	
					340 926	**19 382**
Investments not subjected to the transitory regime established by Bank of Portugal Notice 4 / 2002						
Other Portuguese companies						
Cofina SGPS	43 400	0.50	1.75	3.39	76	
Garval – Sociedade de Garantia Mutua	4 000	1.00	1.00		4	
IES – SGPS	110 000	4.99	14.95		1 645	285
Margueira – Sociedade Gestora de Fundos Investimento Imobiliário, S.A.	149	5.00	4.99		1	
NET – Novas Empresas e Tecnologias, S.A.	4 440	4.99	5.00		22	
Plastrade	19 200	5.00	5.00		96	
SDEM – Soc. de Desenvolvimento Empr. Madeira, SGPS	937 500	1.00	1.00		938	
VAA – Vista Alegre Atlantis – Fusão	237 513	1.00	0.73	0.65	173	33
Other foreign companies						
Euronext	125 000	1.00	20.65	22	2 581	
Swift – Society for Worldwide Inf. Dev	13	123.95	1 950.00		25	
					5 561	**318**
					346 487	**19 700**

Nature of securities	Quantity	Nominal value	Average cost	Market value	Gross book value	Provisions
			euro		th. euro	
Other financial assets						
Surety bonds					489	
Subordinated loans						
CLD – Credit Logement Developpment					128	
Supplementary capital contributions						
Plastrade					154	
Petrocer					11	
Free supplementary capital contributions						
Digitmarket					879	879
Shareholders' loan contracts						
Auto Estradas do Oeste, S.A.					11	
Caderno Verde					167	167
Caravela Gest SGPS					1 354	838
Empresa Interbancária de Serviços					82	79
GEIE – Gestão de Espaços de Incb.					23	23
Intersis					50	50
Maxstor – Suportes e Matrizes Informáticos, S.A.					973	973
Multitema					245	245
Propaço – Imobiliária de Paço d' Arcos					5 112	3 788
SVB SGPS, S.A.					2 301	427
ViaLitoral – Conc. Rodoviária da Madeira					1 172	
					11 490	**6 590**
Investments subjected to the transitory regime established by Bank of Portugal Notice 4 / 2002						
Amsco – African Management Services Com	1 807	734.16	406.29		733	735
Associação para Escola Gestão do Porto / 2000	2	4.99	24 939.89		50	17
Citeve – Cent. Tec. Ind. Tex. Vest. Portugal	20	498.80	498.80		10	
Frie Inter-Risco	120	24 939.89	24 939.89		2 993	2 172
Frie – PME Capital	115	24 939.89	24 939.90		2 868	1 267
Frie – PME Capital – Retex	40	24 939.89	24 939.90		998	103
Fun. Cap. Risco P/ Inv. Qual – API CAPITAL II	40	4 987.98	4 987.98		200	6
Fundo Inv. Capital de Risco – F. Turismo	43	24 939.89	25 222.91	20 916.72	1 085	226
Fundo Inv. Imobiliário Margueira Cap.	2 949 761	4.99	4.99		14 713	
Parque Industrial da Matola – MZM	1 920 000	0.04	0.04		74	
Investments not subjected to the transitory regime established by the Bank of Portugal Notice 4 / 2002						
Fundo Caravela	3 000	5 000.00	5 000.00		15 000	
Fundo Inv. Capital de Risco – F. Turismo	121	24 939.89	20 520.01	20 916.72	2 483	66
Fundo Inv. Imobiliário Margueira Cap.	130 730	4.99	4.99		652	
Propaço – Soc. Imob. de Paço D' Arcos		1.00			1	
					41 860	**4 592**
					55 011	**12 061**

The book value and estimated market value in accordance with notice 4 / 2002 of the BPI Group's investments at 31 December, 2004, are as follows:

	Book value			Estimated market value		Unrealised gain / (loss)
	Gross[1]	Provisions	Net	Listed[2]	Not listed[3]	
Investments in associated companies						
Auto-Estradas Oeste	4 815	1 637	3 178			(3 178)
Auto-Estradas Atlantico II – Conc. Serviços	10		10		13	3
Caravela Gest, SGPS, S.A.	542	336	206			(206)
Telemanutenção – Assistência Remota e Computadores, S.A.	244	244			62	62
Vera Cruz Exportação – Indústria e Comércio, S.A.	558	558				
	6 169	**2 775**	**3 394**		**75**	**(3 319)**
Other investments						
Alberto Gaspar, S.A.	141	141			266	266
Ambelis – Agência p/ Modernização Economica de Lisboa, S.A.	20	7	13			(13)
Apor – Agência p/ Modernização do Porto	12		12		56	44
Arco Bodegas Unidas,S.A.	4 400	209	4 191		3 218	(973)
Associação NASDAQ	25	21	4			(4)
CLD – Credit Logement Developpment	2		2		3	1
Club Financiero Vigo	18	6	12			(12)
Cofina,SGPS,S.A.	9 310		9 310	11 502		2 192
Coimbravita – Agência Desenvolvimento Regional	75		75		73	(2)
Conduril – Construtora Duriense, S.A.	806	127	679	369		(310)
Digitmarket – Sistemas de Informação, S.A.	764	743	21		2	(19)
EIA – Ensino, Investigação e Administração, S.A.	50	16	34		2	(32)
Empresa Interbancária de Serviços	50	49	1		92	91
Euronext	2 581		2 581	2 801		220
FIEP – Fundo para a Internacionalização das Empresas Portuguesas SGPS, S.A.	19 465	182	19 283		29 702	10 419
Garval – Sociedade de Garantia Mutua	4		4		6	2
Gestinsua – Aq.Al.Patrimonio	2	2			1	1
Ibersol, SGPS, S.A.	5 444		5 444	5 657		213
IES – Indústria,Engenharia e Serviços, SGPS, S.A.	1 645	285	1 360		684	(676)
Impresa – Sociedade Gestora de Participações Sociais,S.A.	52 029	4 936	47 093	31 885		(15 208)
Instituto de Mercado de Capitais (IMC)	3		3			(3)
International Factors Group	1		1			(1)
Lisgarante	167		167		250	83
Margueira – Sociedade Gestora de Fundos Investimento Imobiliário, S.A.	18		18		24	6
Mimalha, S.A.	336	336				
NET – Novas Empresas e Tecnologias, S.A.	25		25		123	98
Norgarante	46		46		69	23
Plastrade – Comércio Internacional Plásticos, S.A.	96		96		430	334
PME Capital – Sociedade Portuguesa de Capital de Risco, S.A.	1 205		1 205		1 616	411
Portugal Telecom,S.A.	223 197	3 247	219 950	181 601		(38 349)
Primus – Prom. e Desenvolvimento Regional, S.A.	40	24	16		24	8
Sanjimo – Sociedade Imobiliária	8	8				
SDEM – Sociedade de Desenvolvimento de Empresas da Madeira, SGPS	938		938		1 334	396
SIBS – Sociedade Interbancária de Serviços, S.A.	3 115		3 115		11 900	8 785
Soc. Portuguesa de Inovação, Consultoria Empresarial e Fomento da Inovação, S.A.	7		7		6	(1)
Sodera – Sociedade de Desenvolvimento Regional do Alentejo, S.A.					15	15
Soset – Sociedade de Desenvolvimento Regional Peninsula Setubal, S.A.						
SPGM – Sociedade de Investimentos	988		988		1 768	780
Spidouro – Sociedade Promoção e Investimento Douro e Tras-os-Montes	75	54	21		4	(17)
SUBLOC – Locação de submarinos, S.A.						
Swift – Society for Worldwide Inf.Dev	61		61		149	88
Tagusparque – Sociedade de Promoção e Desenvolvimento do Parque, S.A.	2 394		2 394		8 433	6 039
Tharwa Finance	186		186		284	98
Unicre – Cartão Internacional de Crédito	1 057		1 057		6 270	5 213
VAA – Vista Alegre Atlantis, SGPS, S.A. (Merge)	12 209	7 118	5 091	5 607		516
VAA – Vista Alegre Atlantis, SGPS, S.A.	2 680	2 087	593	651		58
ViaLitoral – Conc. Rodoviária da Madeira	792	102	690		958	268
	346 487	**19 700**	**326 787**	**240 073**	**67 762**	**(18 952)**
	352 656	**22 475**	**330 181**	**240 073**	**67 837**	**(22 271)**

1) The gross book value corresponds to cost net of deferred capital gain (amounts not recognised in the income statement).

2) The estimated market value corresponds to the average of the daily market values for the last six months.

3) The estimated market value corresponds to the BPI Group's percentage of the company's equity value multiplied by the factor 1.5.

Investments in listed companies with book values in excess of market value (based on the listed price on the 31 December, 2004 closing) are as follows:

	Book value			Fair value[2]	Unrealised gain / (loss)
	Gross[1]	Provisions	Net		
Impresa – Sociedade Gestora de Participações Sociais, S.A.	52 029	4 936	47 093	41 046	(6 047)
Portugal Telecom, S.A.	223 197	3 247	219 950	188 765	(31 185)
	275 226	**8 183**	**267 043**	**229 811**	**(37 232)**

1) The gross book value corresponds to cost less deferred gains (amounts not recognised in the income statement).
2) Determined based on the closing listed price on 31 December, 2004.

4. NOTES

4.1. Cash and deposits at central banks

This caption is made up as follows:

	2004	2003
Cash	165 817	162 352
Demand deposits at the Bank of Portugal	256 073	311 941
Demand deposits at foreign central banks	63 848	77 313
	485 738	**551 606**

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:

	2004	2003
Domestic credit institutions		
Demand deposits	1 770	5 375
Cheques for collection	186 015	313 199
Other	14 624	12 944
Credit institutions abroad		
Demand deposits	66 365	145 311
Cheques for collection	3 828	6 537
Other	40	11
	272 642	**483 377**

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. Other loans and advances to credit institutions

This caption is made up as follows:

	2004	2003
Placements with central banks		
Bank of Portugal		
Deposit certificates		94 051
		94 051
Placements with other monetary institutions		
Other	27 723	40 016
	27 723	**40 016**
Placements with other credit institutions		
Domestic	98 169	323 141
Abroad	992 395	1 944 105
	1 090 564	**2 267 246**
	1 118 287	**2 401 313**
Loans and interest in arrears		83 016
Provisions for loans and interest in arrears		(82 922)
Provisions for country risk	(18)	(20)
	(18)	**(82 942)**
	1 118 269	**2 401 387**

The deposit certificates at 31 December, 2003 correspond to dematerialised deposits at the Bank of Portugal, subscribed for in amounts established by the Central Bank under the process of change in the regime of minimum cash reserves that came into force on 1 November, 1994. These certificates were fully repaid in November 2004 and at 31 December, 2003 they bore interest at an annual rate of 2.05%.

The caption LOANS AND INTEREST IN ARREARS at 31 December, 2003 corresponds to loans to a Central Bank. In 2004 the process to settle this debt was completed, the Bank having received the amount of th. euro 54 980 in full settlement of the amounts due. As a result of this operation the Bank reversed provisions in the amount repaid (th. euro 54 980) and th. euro 29 100 not repaid was written off against provisions.

The movement in the provisions during 2004 and 2003 is shown in note 4.27.

At 31 December, 2004 and 2003 this caption was made up as follows, by residual period to maturity:

	2004	2003
Up to 3 months	848 124	1 834 935
From 3 months to 1 year	192 730	418 542
From 1 year to 5 years	77 433	127 655
Undefined		20 181
	1 118 287	**2 401 313**

Note: Does not include overdue loans and interest.

4.4. Loans and advances to Customers

This caption is made up as follows:

	2004	2003
Short-term loans		
Domestic		
Discount	387 902	372 685
Loans and advances covered by notes	208 341	205 945
Credits in current accounts	2 509 736	2 438 499
Demand deposits – overdrafts	547 833	627 348
Invoices received – factoring	442 114	364 983
Other loans and advances	67 708	72 284
Foreign	189 035	208 524
	4 352 669	**4 290 268**
Medium and long term loans		
Domestic		
Discount	22 402	25 089
Loans		
Real estate	7 051 103	6 418 219
Others	5 144 580	4 567 273
Loans and advances covered by notes	18 595	25 540
Credits in current accounts	159 412	151 367
Other loans and advances		1 873
Foreign	689 700	782 405
	13 085 792	**11 971 766**
Financial leasing	810 065	797 101
Real estate leasing	525 750	470 285
Subordinated loans	11 223	11 223
Placement of consigned resources	14 796	3 205
	18 800 295	**17 543 848**
Loans and interest in arrears	220 794	239 167
Provisions for doubtful debts	(19 767)	(25 586)
Provisions for loans and interest in arrears	(127 220)	(118 333)
Provisions for country risk	(582)	(750)
	(147 569)	**(144 669)**
	18 873 520	**17 638 346**

The movement in the provisions during 2004 and 2003 is shown in note 4.27.

At 31 December, 2004 and 2003 this caption was made up as follows, by residual period to maturity:

	2004	2003
Up to 3 months	2 534 035	2 312 489
From 3 months to 1 year	2 169 694	1 940 930
From 1 year to 5 years	3 125 244	3 105 592
More than 5 years	10 971 322	9 677 695
Undefined		507 142
	18 800 295	**17 543 848**

Note: Does not include overdue loans and interest.

4.5. Bonds and other fixed income securities

This caption is made up as follows:

	Book value		Market value	
	2004	2003	2004	2003
A. Issued by government entities				
Listed securities				
Trading securities				
Bonds issued by Portuguese government entities				
Fixed rate		27 190		27 190
Bonds issued by foreign government entities	106 953	1 091 002	106 953	1 091 002
Investment securities				
Bonds issued by Portuguese government entities				
Fixed rate	587 883	597 313	629 930	615 101
Floating rate				
Bonds issued by foreign government entities	22 095	40 068	23 647	40 154
Provisions for unrealised losses on securities	(7)			
	716 924	**1 755 573**	**760 530**	**1 773 447**
Unlisted securities				
Trading securities				
Bonds issued by foreign government entities	111 246			
Investment securities				
Bonds issued by foreign government entities	30 498			
	141 744			
	858 668	**1 755 573**		
B. Issued by other entities				
Listed securities				
Trading securities				
Bonds issued by international financial organisations		16 128		16 128
Bonds issued by other foreign entities	109	10 243	109	10 243
Investment securities				
Bonds issued by other domestic entities	95 102	40 257	95 173	40 019
Bonds issued by international financial organisations	42 528	42 529	42 493	42 406
Bonds issued by other foreign entities	154 091	834 392	157 679	847 550
Subordinated debt securities	13 148	78 341	13 150	79 576
Provisions for unrealised losses on securities	(768)	(3 104)		
	304 210	**1 018 786**	**308 604**	**1 035 922**
Unlisted securities				
Investment securities				
Bonds issued by other domestic entities	115 766	142 386		
Bonds issued by other foreign entities	28 266	24 767		
	144 032	**167 153**		
Provisions for country risk				
Securities and interest in arrears	258	195		
Provisions for securities and interest in arrears	(258)	(195)		
	0	**0**		
	448 242	**1 185 939**		

At 31 December, 2004 and 2003 the investment portfolio caption BONDS ISSUED BY OTHER DOMESTIC ENTITIES – UNLISTED included th. euro 115 760 and th. euro 139 036, respectively, relating to commercial paper. At 31 December, 2004 and 2003 the investment portfolio caption BONDS ISSUED BY OTHER FOREIGN ENTITIES – UNLISTED included th. euro 13 494 and th. euro 16 100, respectively, relating to commercial paper.

The movement in the provisions during 2004 and 2003 is shown in note 4.27.

4.6. Shares and other variable-yield securities

This caption is made up as follows:

	Book value		Market value	
	2004	2003	2004	2003
Listed securities				
Trading securities				
Shares	55 633	38 554	56 107	39 255
Participating units		382		382
Value fluctuations	485	706		
Provisions for unrealised losses on securities	(11)	(4)		
Investment securities				
Shares	106 238	58 728	111 964	57 826
Preference shares		38 313		39 181
Participating units	1 632	1 369	1 760	1 377
Provisions for unrealised losses on securities	(737)	(1 143)		
	163 240	**136 905**	**169 831**	**138 021**
Unlisted securities				
Investment securities				
Shares[1]	42 406	119 103		
Other participating units		270		
Provisions for unrealised losses on securities	(29 378)	(63 726)		
	13 028	**55 647**		
	176 268	**192 552**		

1) At 31 December, 2003 this caption included th. euro 62 298 relating to 6.4% of SIC. In 2004 SIC started being recorded in accordance with the equity method and is recorded in the caption INVESTMENTS IN ASSOCIATED COMPANIES (note 4.7).

The movement in the provisions during 2004 and 2003 is shown in note 4.27.

4.7. Investments in associated companies

This caption is made up of investments in the following companies:

	Effective participation (%)		Book value (net)	
	2004	2003	2004	2003
Aquapor – Serviços, S.A.[1]		24.5		9 139
Auto-Estradas do Oeste, S.A.[2]	20.0	20.0	3 178	3 178
Auto-Estradas do Atlântico II, S.A.[2]	20.0	20.0	10	10
Banco Comercial e de Investimentos, S.A.R.L.	30.0	30.0	11 164	7 342
Caravela Gest, SGPS, S.A.	16.7	16.7	206	342
Companhia de Seguros Allianz Portugal, S.A.	35.0	35.0	45 997	41 591
Cosec – Companhia de Seguros de Crédito, S.A.	50.0	50.0	15 444	12 507
F. Turismo – Capital de Risco, S.A.	25.0	25.0	1 349	1 332
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	32.8	32.8	13 223	12 270
Sociedade Independente de Comunicação, S.A.[3]	41.4		16 201	
Sociedade Imobiliária Urbanização do Parque, S.A.[4]		28.0		
Telemanutenção – Assistência Remota a Computadores, S.A.[5]	22.8	22.8		
Vera Cruz Exportação – Indústria e Comércio, S.A.[5]	20.9	20.9		
Viacer – Sociedade Gestora de Participações Sociais, Lda.	26.0	26.0	21 572	15 859
			128 344	**103 570**

Note: The book value of the BPI Group associated companies (note 1) corresponds to the amount of the investments valued in accordance with the equity method[G].

1) This investment was excluded from the consolidation at 31 December, 2003 because the BPI Group held a put option[G] on it, which was exercised during 2004.
2) This investment was excluded from the consolidation because it is subject to a sales contract, which depends upon authorisation from the Portuguese Government (note 4.40).
3) In 2004 this investment started being recorded in accordance with the equity method. At 31 December, 2003 this investment was recorded in the captions INVESTMENT PORTFOLIO – SHARES (note 4.6) and OTHER INVESTMENTS (note 4.9).
4) This investment was sold during 2004.
5) This investment is fully provided for.

The movement in the provisions during 2004 and 2003 is shown in note 4.27.

At 31 December, 2004 the balances relating to operations with associated companies were as follows:

Loans granted	80 274
Deposits	194 927
Creditors	79
Guarantees provided	44 825

4.8. Investments in subsidiary companies excluded from the consolidation

The investments in subsidiary companies excluded from the consolidation are as follows:

	Effective participation (%)		Book value (net)	
	2004	2003	2004	2003
BPI, Inc.	100.0	100.0	281	310
BPI Pensões – Sociedade Gestora de Fundos de Pensões, S.A.	100.0	100.0	5 083	4 776
BPI Strategies, Ltd.	100.0	100.0		
BPI Vida – Companhia de Seguros de Vida, S.A.	100.0	100.0	90 546	75 331
Promática – Sociedade de Informação e de Organização de Empresas, S.A.	100.0	100.0	484	540
Simofer – Sociedade de Empreendimentos Imobiliários e Construção Civil, Lda.[1]	100.0	100.0		
			96 394	**80 957**

Note: The book values of the BPI Group subsidiary companies (note 1) are stated in accordance with the equity method[G].

1) The amount of this investment for consolidation purposes is nil, as there is a provision (in the caption OTHER PROVISIONS – OTHER RISKS) to cover the accumulated losses of the company.

At 31 December, 2004 the balances relating to operations with subsidiary companies not consolidated by the full consolidation method were as follows:

Loans granted	18 039
Deposits	7 364
Creditors	43
Guarantees provided	2 391

4.9. Other investments

This caption is made up as follows:

	2004	2003
Listed securities		
Shares	308 256	333 756
	308 256	**333 756**
Unlisted securities		
Shares	38 231	206 878
	38 231	**206 878**
	346 487	**540 634**
Provisions for unrealised losses on other investments	(19 700)	(61 492)
	326 787	**479 142**

The movement in the provisions during 2004 and 2003 is shown in note 4.27.

At 31 December, 2004 and 2003 this caption was made up as follows:

	Effective participation (%)		Book value (net)	
	2004	**2003**	**2004**	**2003**
Arco Bodegas Unidas	2.1	1.8	4 191	4 105
Cofina, SGPS, S.A.	6.5	8.6	9 310	12 094
Conduril – Construtora Duriense, S.A.	9.2	7.7	679	806
Euronext	0.1	0.1	2 581	2 684
FIEP – Fundo para a Internacionalização das Emp. Portuguesas SGPS, S.A.	19.5	19.5	19 283	19 465
Ibersol – SGPS, S.A.	6.3	6.3	5 444	5 444
IES – Indústria, Engenharia e Serviços, SGPS, S.A.	5.5	4.6	1 360	1 458
Impresa – Sociedade Gestora de Participações Sociais, S.A.	8.4	10.3	47 093	51 553
Pararede – SGPS, S.A.[1]		12.2		8 283
PME Capital – Sociedade Portuguesa de Capital de Risco, S.A.	4.4	4.8	1 205	1 303
PME Investimentos – Sociedade de Investimentos, S.A.[1]		4.8		1 303
Portugal Telecom, S.A.	1.7	1.7	219 950	204 560
SIBS – Sociedade Interbancária de Serviços, S.A.	15.0	15.0	3 115	3 115
SIC – Sociedade Independente de Comunicação, S.A.[2]		34.9		142 865
S.P.G.M. – Sociedade de Investimentos, S.A.	13.2	13.2	988	988
Tagusparque, S.A.	11.0	11.0	2 394	2 394
Unicre – Cartão Internacional de Crédito, S.A.	17.6	17.6	1 057	1 057
VAA – Vista Alegre Atlantis, SGPS, S.A.	17.8	16.5	5 684	12 346
ViaLitoral – Concessão Rodoviária da Madeira	4.8	4.8	690	690
SDEM – Sociedade de Desenvolvimento de Empresas da Madeira, SGPS	18.8	18.8	938	938
Other			825	1 691
			326 787	**479 142**

Note: This table shows all investments with a book value, net of provisions, exceeding th. euro 500.

1) This investment was sold in 2004.

2) In 2004 this investment started being recorded in accordance with the equity method and is reflected under the caption other INVESTMENTS IN ASSOCIATED COMPANIES (note 4.7).

4.10. Intangible assets

This caption is made up as follows:

	Gross				
	Balances at 31-12-03	**Additions**	**Disposals**	**Transfers and others**	**Balances at 31-12-04**
Leasehold rights	481	125		(24)	582
Start-up expenses	12 503	3	(11 589)	(71)	846
Deferred costs	3 754		(25)	(23)	3 706
Research and development expenses	22 325		(15 753)		6 572
Software	52 777	1 542		525	54 844
Other intangible assets	15 594	877	(60)	248	16 659
	107 434	**2 547**	**(27 427)**	**655**	**83 209**
Work in progress	355	636		(767)	224
	107 789	**3 183**	**(27 427)**	**(112)**	**83 433**

4.11. Tangible fixed assets

This caption is made up as follows:

	Gross				
	Balances at 31-12-03	**Additions**	**Disposals**	**Transfers and others**	**Balances at 31-12-04**
Premises					
Premises for own use	216 239	530	(1 272)	5 774	221 271
Other premises	8 007	724	(1 246)	(27)	7 458
Leasehold improvements	88 837	1 261	(358)	8 034	97 774
Work in progress					
Premises for own use	3 695	1 018		(4 713)	
Other premises					
Leasehold improvements	6 214	1 206		(7 419)	1
	322 992	**4 739**	**(2 876)**	**1 649**	**326 504**
Equipment					
Furniture and fixtures	40 561	1 059	(2 112)	2	39 510
Machinery and tools	12 812	777	(1 679)	120	12 030
Computer hardware	129 508	12 625	(14 043)	6 875	134 965
Interior installations	76 097	1 452	(318)	18 520	95 751
Vehicles	17 007	443	(3 735)	(218)	13 497
Security equipment	18 379	641	(245)	279	19 054
Other equipment	278	10	(1)	5	292
	294 642	**17 007**	**(22 133)**	**25 583**	**315 099**
Other fixed assets					
Art collections	2 411	115		(1)	2 525
Fixed assets under financial lease	1 677		(61)		1 616
Fixed assets under operating lease	12 663	49 812	(7 557)	(54 918)	
Others	14 447	74	(5)	233	14 749
	31 198	**50 001**	**(7 623)**	**(54 686)**	**18 890**
Work in progress					
Equipment	16 169	11 443		(26 332)	1 280
Other fixed assets	97	151		(232)	16
Advances on account of fixed assets	7 328	2 815		(8 075)	2 068
	23 594	**14 409**		**(34 639)**	**3 364**
	672 426	**86 156**	**(32 632)**	**(62 093)**	**663 857**

	Amortisation					Net	
	Balances at 31-12-03	Amortisation for the year	Disposals	Transfers and others	Balances at 31-12-04	Balances at 31-12-04	Balances at 31-12-03
	316	134		(43)	407	175	165
	12 306	78	(11 589)	(29)	766	80	197
	3 604	93	(25)	(16)	3 656	50	150
	20 548	1 540	(15 753)		6 335	237	1 777
	47 987	3 275		115	51 377	3 467	4 790
	12 408	1 365	(60)	(114)	13 599	3 060	3 186
	97 169	**6 485**	**(27 427)**	**(87)**	**76 140**	**7 069**	**10 265**
						224	355
	97 169	**6 485**	**(27 427)**	**(87)**	**76 140**	**7 293**	**10 620**

	Depreciation					Net	
	Balances at 31-12-03	Depreciation for the year	Disposals	Transfers and others	Balances at 31-12-04	Balances at 31-12-04	Balances at 31-12-03
	66 287	3 727	(337)	37	69 714	151 557	149 952
	1 878	111	(318)		1 671	5 787	6 129
	57 217	8 209	(330)	(33)	65 063	32 711	31 620
							3 695
						1	6 214
	125 382	**12 047**	**(985)**	**4**	**136 448**	**190 056**	**197 610**
	28 308	2 595	(2 068)	65	28 900	10 610	12 253
	10 742	856	(1 659)	137	10 076	1 954	2 070
	112 931	10 190	(9 643)	649	114 127	20 838	16 577
	44 239	5 997	(277)	(1 003)	48 956	46 795	31 858
	12 578	2 408	(3 538)	(268)	11 180	2 317	4 429
	12 681	1 894	(227)	55	14 403	4 651	5 698
	255	11	(1)	2	267	25	23
	221 734	**23 951**	**(17 413)**	**(363)**	**227 909**	**87 190**	**72 908**
						2 525	2 411
	1 657	20	(61)		1 616		20
	1 201	864	(917)	(1 148)			11 462
	9 704	1 276	(4)		10 976	3 773	4 743
	12 562	**2 160**	**(982)**	**(1 148)**	**12 592**	**6 298**	**18 636**
						1 280	16 169
						16	97
						2 068	7 328
						3 364	**23 594**
	359 678	**38 158**	**(19 380)**	**(1 507)**	**376 949**	**286 908**	**312 748**

4.12. Other assets

This caption is made up as follows:

	2004	2003
Gold, precious metals and coin collections	1 522	1 644
Other available funds	41	76
Debtors		
Loan interest subsidy receivable	25 929	31 361
BPI Taxa Garantida advances	12 497	21 921
Taxes recoverable	16 218	11 136
Others	49 877	29 185
Property received as settlement of defaulting loans		
Real estate	38 916	35 020
Others	4 719	4 274
Margins on futures and options operations	12 919	10 641
Other placements	9 879	26 323
Other financial assets	55 011	53 032
	227 528	**224 613**
Provisions for doubtful debtors	(14)	(19)
Provisions for property received as settlement of defaulting loans	(11 461)	(5 490)
Provisions for unrealised losses on other financial assets	(12 061)	(9 565)
	(23 536)	**(15 074)**
	203 992	**209 539**

Details of the caption OTHER FINANCIAL ASSETS as at 31 December, 2004 are shown in note 3.2.

The movement in the provisions during 2004 and 2003 is shown in note 4.27.

4.13. Accruals, deferrals and others (assets)

This caption is made up as follows:

	2004	2003
Accrued income		
From placements with credit institutions	2 435	3 526
From loans	51 559	51 661
From securities	19 700	39 934
From foreign exchange and interest rate swaps	269 833	286 275
Revaluation of Capital Seguro and Risco Limitado bonds	11 114	
Others	13 819	30 422
	368 460	**411 818**
Deferred costs		
Debt securities	12 625	15 231
Advertising campaigns	12 408	11 217
On the issuance of bonds and other securities	5 137	5 871
Contributions to the pension funds	187 297	162 075
Prepaid comission	5 604	5 452
Premiums on options relating to Capital Seguro operations	15 527	36 527
Swap and other off-balance sheet operations	2 288	537
Others	5 822	12 691
	246 708	**249 601**
Valuation fluctuations		
Pension funds	20 685	25 637
Other	440	358
Other accounts		
Interim dividends on preference shares	8 286	8 248
Other operations pending settlement	44 810	53 945
Revaluation of options bought relating to Capital Seguro operations	12 778	7 181
Others	1 882	3 497
	88 881	**98 866**
	704 049	**760 285**

The balance of the deferred costs caption ADVERTISING CAMPAIGNS at 31 December, 2004 and 2003 results from the following movement:

	2004	2003
Balance at beginning of the year	11 217	9 527
Expenses incurred during the year	9 476	11 462
Amortisation recorded during the year	(8 285)	(9 767)
Change in consolidation method used for Banco de Fomento Mozambique		(5)
Balance at end of the year	**12 408**	**11 217**

The balance of the deferred costs caption CONTRIBUTIONS TO THE PENSION FUNDS at 31 December, 2004 and 2003 is made up of the following (note 4.20):

	2004	2003
Increase in the liability resulting from early retirements	177 253	138 513
Loss resulting from differences between the actuarial and financial assumptions used and the actual amounts[1]	43	75
Loss resulting from changes in the actuarial assumptions[2]	4 593	3 486
Excess coverage of the pension funds	5 408	20 001
	187 297	**162 075**

1) Relates to BPI Fundos.
2) Increased liability resulting from a supplementary pension plan granted to a group of Directors.

The caption VALUATION FLUCTUATIONS / PENSION FUNDS at 31 December, 2004 and 2003 corresponds to the accumulated actuarial losses relating to coverage of the liability for retirement and survivor pensions, resulting from the differences between the actuarial and financial assumptions and the actual amounts (by the amount included in the corridor), in accordance with the provisions of Bank of Portugal Notice 12 / 2001 of 23 November.

The caption OTHER OPERATIONS PENDING SETTLEMENT at 31 December, 2004 and 2003 includes th. euro 14 306 relating to taxes under dispute, paid in accordance with Decree-Law 248 – A / 02 of 14 November.

4.14. Amounts owed to credit institutions

This caption is made up as follows:

	2004	2003
Repayable on demand		
Domestic	15 676	17 849
Foreign	8 224	11 199
	23 900	**29 048**
Term or notice		
Placements of Bank of Portugal		
Term deposits	94 101	20 289
Deposit securities sold to the Bank of Portugal, with repurchase option		150 134
	94 101	**170 423**
Placements of other monetary institutions		
Interbank money market		215 000
Term or notice deposits	69 686	69 412
Other	913	4 177
	70 599	**288 589**
Placements of other credit institutions		
Domestic		
Other	208	911
Foreign		
International financial organisations	429 456	276 594
Term or notice deposits	2 383 836	3 501 286
Margins for hedging derivatives	170 316	177 912
Other	52 870	658 019
	3 036 686	**4 614 722**
Short selling of securities	110 364	1 093 489
	3 311 750	**6 167 223**
	3 335 650	**6 196 271**

The placements of other foreign credit institutions at 31 December, 2004 and 2003 include th. euro 441 052 and th. euro 1 017 895, respectively, relating to placements in the off-shore branches of Banco BPI.

The term or notice amounts owed to credit institutions, by residual period to maturity, are as follows:

	2004	2003
Up to 3 months	1 948 527	4 224 047
From 3 months to 1 year	219 101	852 410
From 1 to 5 years	718 992	646 560
More than 5 years	425 130	325 130
Undefined		119 076
	3 311 750	**6 167 223**

4.15. Amounts owed to Customers

This caption is made up as follows:

	2004	2003
Savings deposits	857 649	871 989
Other debts		
Repayable on demand	4 842 370	5 325 681
Term or notice		
Deposits	6 597 252	5 983 687
Loans	793	2 679
Other liabilities		
Cheques and orders payable	47 704	74 102
Funds obtained through futures and options	10 870	10 027
Other	78 971	87 467
	6 735 590	**6 157 962**
	12 435 609	**12 355 632**

The caption AMOUNTS OWED TO CUSTOMERS at 31 December, 2004 and 2003 includes th. euro 824 702 and th. euro 1 201 926, respectively, relating to deposits of investment funds managed by the BPI Group, as well as deposits of BPI Vida (the company that processes the capitalisation insurance products sold by the BPI Group).

The caption OTHER LIABILITIES – OTHER at 31 December, 2004 and 2003 includes th. euro 47 343 and th. euro 63 574, respectively, relating to guarantee accounts resulting from vehicle finance operations.

The term or notice amounts owed to costumers, including savings deposits, are made up as follows, by residual period to maturity:

	2004	2003
Up to 3 months	4 027 936	3 880 168
From 3 months to 1 year	2 821 576	2 236 184
From 1 to 5 years	725 835	876 444
More than 5 years	540	0
Undefined	17 352	37 155
	7 593 239	**7 029 951**

4.16. Debt securities

This caption is made up as follows:

	2004	2003
Outstanding bonds		
Fixed rate cash bonds		
BBPI Cayman 16/06/03-2008 3.30%	100 000	100 000
BBPI Cayman 08/03/2001-2007 4.25%	5 000	5 000
BBPI Cayman 06/09/2004-2012 3.8%	660	
BBPI Cayman 06/09/2004-2005 3.5%	500	
BBPI Cayman Increased yield USD 2008	18 942	20 690
Fixed rate cash bonds (cont.)		
BBPI Increased yield USD 2003-2008	308	332
BBPI Cayman USD 28/05/02-2005 4%	29 475	32 906
BBPI Increased yield EUR 2003-2008	28 616	29 248
BBPI Fixed yield 3 Years 2.15%	1 826	1 988
BBPI Fixed yield 2 Years 4.00%		3 623
BBPI Fixed yield 2 Years 4.10%		500
BBPI Fixed yield 3 Years 2.35%	3 146	3 416
BBPI Fixed yield 3 Years 2.55%	6 364	6 806
BBPI Fixed yield 3 Years 2.65%	8 865	9 159
BBPI Fixed yield 3 Years 2.70%	5 041	5 189
BBPI Fixed yield 3 Years 2.80%	1 600	1 688
BBPI Fixed yield 3 Years 2.90%	4 804	5 042
BBPI Fixed yield 3 Years 3.00%	10 726	11 119
BBPI Fixed yield 3 Years 3.10%	1 667	2 460
BBPI Fixed yield 3 Years 3.25%	5 975	6 458
BBPI Fixed yield 3 Years 3.40%	9 409	10 004
BBPI Fixed yield 3 Years 3.50%	628	1 835
BBPI Fixed yield 3 Years 3.60%	37 347	38 497
BBPI Fixed yield 3 Years 3.75%	1 595	1 668
BBPI Fixed yield 3 Years 3.85%	35 242	36 962
BBPI Fixed yield 3 Years 4.00%	12 899	16 209
BBPI Fixed yield 3 Years 4.10%		1 114
BBPI Fixed yield 3 Years 4.20%		4 400
BBPI Fixed yield 3 Years 4.25%	69 059	81 022
BBPI Fixed yield 5 Years 3.50%	1 756	1 820
BBPI Fixed yield 5 Years 4.10%		62 859
BBPI Fixed yield 5 Years 4.28%	5 000	5 000
BBPI Fixed yield 5 Years 4.40%	807	821
BBPI Fixed yield 5 Years 4.50%	3 743	3 850
BBPI Fixed yield 7 Years 4.04%	750	750
BBPI Fixed rate	41 048	0
BBPI Increasing fixed yield	109 598	24 565
BBPI Cayman EUR Zero Coupon 2004-2009	10 000	
BPI 97 – 1st Issue / Zero Coupon	768	768
BBPI Increased yield EUR 2004-2010	1 613	
BBPI Increased yield USD 2004-2010	2 515	
BPI 96 – 1st Issue / Zero Coupon		2 032
BBPI Cayman 05/10/2004-2009 5.4575%	56 734	
Variable rate cash bonds		
BBPI Cayman 01/03/2001-2006	15 000	15 000
BBPI Cayman 03/05/2001-2006	600 000	600 000
BBPI Cayman 06/06/2003-2005	500 000	500 000
BBPI Cayman 29/01/2004-2007	425 870	
BBPI Cayman 09/02/2001-2004		400 000
BBPI Cayman 15/12/2003-2007		250 000
BBPI Cayman 18/03/2002-2005	400 000	400 000
BBPI Cayman CZK 15/09/2008	32 889	30 814
BBPI Cayman 08/09/2004-2006	100 000	
BBPI Cayman EMT 15/11/2005	22 500	22 500
BBPI Cayman EMT 30/05/2006	10 000	10 000
BBPI Cayman HKD 10/09/2007	9 445	10 199
BBPI Variable yield 3 Years	46 839	31 114
BBPI Cayman JPY 12/02/2007	35 804	
BBPI Cayman 29/07/2004-2009	410 375	
BBPI Cayman 17/05/2004-2007	100 000	
BBPI Cayman CAD 20/05/2009	9 747	
BBPI Cayman 26/02/2004-2014	15 000	
BBPI Cayman 25/08/2004-2014	90 000	

	2004	2003
Variable-yield cash bonds [1]		
BBPI Cayman Capital Seguro Step Up EUR 2004-2009	35 201	
BBPI Cayman Capital Seguro Step Up USD 2004-2009	1 494	
BBPI Cayman Capital Seguro Step Up USD II 2004-2009	23 272	
BBPI Cayman Capital Seguro Step Up CAD 2004-2007	1 823	
BBPI Cayman Capital Seguro Step Up EUR II 2004-2009	5 930	
BBPI Cayman Capital Seguro Step Up EUR III 2004-2009	25 890	
BBPI Rendimento Acumulado 8.75% 2004-2009	26 209	
BBPI Capital Seguro Euribor Crescente 2003-2008	24 673	24 862
BBPI Capital Seguro Triple Chance 2006		2 000
BBPI Capital Seguro Euribor 6% 12/03/2003-08		25 262
BBPI Capital Seguro Multinacionais / 1999		40 386
BBPI Capital Seguro Portugal / 1999		11 339
BBPI Capital Seguro PTNC 2004		3 735
BBPI Capital Seguro Quattro 2004		23 262
BBPI Risco Limitado Portugal Telecom 2002-2004		8 702
BBPI Capital Seguro Inflação Plus 2003-2008	25 684	26 653
BBPI Cayman EMT 26/06/2008 Index Link	119 276	119 276
BBPI Risco Limitado 80 Cabaz Indices 2008	5 000	5 000
BBPI Risco Limitado 90 Cabaz Indices 2008	5 000	5 000
BBPI Capital Seguro Brasil / 99		1 507
BBPI Capital Seguro Zona Euro 2004		18 824
BBPI Capital Seguro Zona Euro 2007	24 195	26 535
BBPI Capital Seguro Internet USD / 99		1 460
BBPI Capital Seguro Internet Euro / 99		31 438
BBPI Capital Seguro Internet Euro / 99 – 2nd Issue		13 912
BBPI Risco Limitado Comunicações Móveis USD / 2000	6 029	6 710
BBPI Capital Seguro Comunicações Móveis USD / 2000	3 313	3 948
BBPI Capital Seguro Comunicações Móveis EUR / 2000	43 615	46 731
BBPI Capital Seguro Comunicações Móveis EUR / 2000 2nd Issue	44 317	47 354
BBPI Risco Limitado 10 Uncommon Values USD / 2000	454	506
BBPI Capital Seguro Comunicações Móveis EUR / 2000 3rd Issue	47 600	50 378
BBPI Capital Seguro Biotecnologia USD / 2000	3 033	3 653
BBPI Risco Limitado Biotecnologia USD / 2000	1 156	1 359
BBPI Capital Seguro Comunicações Móveis EUR / 2000 4th Issue	46 937	48 347
BBPI Capital Seguro 10 Uncommon Values USD / 2000	2 438	2 755
BBPI Capital Seguro Zona Euro 2005 2nd Issue	39 319	42 133
BBPI Capital Seguro Euro Stoxx 50 / 2008	2 500	2 500
BBPI Risco Limitado Euro Stoxx 50 2005	1 480	2 980
BBPI Capital Seguro Euro Stoxx 50 2005	1 170	1 263
BBPI Capital Seguro Euro Stoxx 50 / 2007	8 584	8 784
BBPI Capital Seguro Índices Mundiais 2001	37 729	37 438
BBPI Capital Seguro Zona Euro 2006	21 842	23 154
BBPI Capital Seguro Zona Euro 2006 – 2nd Issue	19 342	20 975
BBPI Capital Seguro Rendimento Máximo 27.5% 2001-2004		6 220
BBPI Capital Seguro Directo 2001		1 181
BBPI Capital Seguro Healthcare 2001-2006	4 936	5 120
BBPI Capital Seguro Healthcare 2006 – 2nd Issue	2 378	2 486
BBPI Capital Seguro Euro Stoxx 50 2001 – 2004		650
BBPI Cayman EMT 18/10/2006 Index Link	63 525	63 525
BBPI Cayman EMT 15/11/2005 Index Link	7 500	7 500
BBPI Capital Seguro Imobiliário 2002	38 697	42 350
BBPI Capital Seguro Euro Imobiliário 2002-2007	5 098	5 714

	2004	2003
Variable-yield cash bonds [1] (cont.)		
BBPI Capital Seguro Cinco Mais 2002	17 867	19 120
BBPI Capital Seguro Rendimento Máximo 5% 2002	36 518	37 591
BBPI Capital Seguro Rendimento Máximo 25% 2002-2005	4 419	4 758
BBPI Capital Seguro Inflação Zona Euro 10 anos	32 925	30 750
BBPI European Inflation 4.2% 2003-2013 Cayman	4 200	4 200
BBPI Capital Seguro Rendimento Máximo 27.5% 2002-2005	22 447	23 336
BBPI Cayman Global Brands 2003-2009	250	250
BBPI Cayman EMT 08/08/2008 Index Link	180 000	180 000
BBPI Capital Seguro Reverse Euribor2003-2008	38 039	38 511
BBPI Capital Seguro Reverse Libor USD II 2003-2008	21 507	23 540
BBPI Capital Seguro Libor Digital EUR 2003-2004		10 500
BBPI Cayman Global Brands II 2003-2008	2 080	2 080
BBPI Capital Seguro Reverse Libor USD III 2003-2007	46 371	50 331
BBPI Cayman EMT 28/11/2008 Inf Link	129 740	129 740
BBPI Capital Seguro Reverse Libor CHF 2003-2008		2 682
BBPI Capital Seguro Grandes Marcas 2003-2009	33 277	34 773
BBPI Capital Seguro American Call / 2003-2008	3 000	3 000
BBPI Capital Seguro Grandes Marcas II 2003-2008	2 799	2 825
BBPI Capital Seguro American Call II / 2003-2008	2 621	3 000
BBPI Capital Seguro American Call III / 2003-2008	300	700
BBPI Risco Limitado Portuguese Basket 2003-2009	3 095	3 100
BBPI Capital Seguro Euro Best Of 9 2003-2009	3 996	4 000
BBPI Capital Seguro Reverse Euribor 2003-2010	3 980	4 980
BBPI Capital Seguro Athena V	4 390	
BBPI Capital Seguro América 2004-2009	3 000	
BBPI Capital Seguro América II 2004-2009	2 500	
BBPI Capital Seguro American Inflation USD 2004-2009	1 101	
BBPI Capital Seguro Decreasing Maturity Swap 2004-2009	25 225	
BBPI Capital Seguro Digital SX5E 2004-2009	2 000	
BBPI Capital Seguro Eur Reverse US Libor 2004-2009 Cayman	1 045	
BBPI Capital Seguro Europa 2004-2009	2 000	
BBPI Capital Seguro Europa II 2004-2009	2 500	
BBPI Capital Super Reverse US Libor 2004-2009	25 477	
BBPI Capital Seguro Reverse Libor USD II 2004-2009	10 204	
BBPI Capital Seguro Reverse Libor USD IV 2004-2008	8 331	
BBPI Capital Seguro VMS 5% 2004-2009	1 980	
BBPI Capital Seguro Europa Selector 2004-2009	18 875	
BBPI Cayman Capital Seguro World Basket Max 2004-2009	400	
BBPI Capital Seguro Top Cabaz Mundial 2004-2009	10 309	
BBPI Capital Seguro World Basket Max 2004-2009	7 600	
BBPI Cayman Capital Seguro Dupla Oportunidade USD 2004-2009	16 496	
BBPI Cayman Capital Seguro Renda Máxima 4.75% 2004-2009	9 130	
BBPI Cayman Capital Seguro Rendimento Máximo 4.75% 2004-2009	41 981	
BPI Capital Seguro Inflação Plus 2004-2009	2 500	
BPI Capital Seguro Inflação Plus II 2004-2009	27 470	
BPI Capital Seguro Rendimento Real Plus 2004-2009	5 000	
BPI Capital Seguro Seis 60 2004-2008	1 260	
BBPI Cayman Capital Seguro Snowball USD 2004-2007	734	
Other		
Deposit certificates	420	448
	5 055 493	**4 298 509**

1) The BPI Group has options to hedge the risk resulting from cost variations associated with these bonds.

At 31 December, 2004 the conditions of these securities were as follows:

	Nominal Value	Remuneration	Interest rate at 31-12-04 (%)	Maturity date
Fixed rate cash bonds				
BBPI Cayman 16/06/03-2008 3.3%	100 000	Fixed rate of 3.3%	3.3	June, 2008
BBPI Cayman 08/03/2001-2007 4.25%	5 000	Fixed rate of 4.25%	4.25	August, 2007
BBPI Cayman 06/09/2004-2012 3.8%	660	Fixed rate of 3.8%	3.8	September, 2012
BBPI Cayman 06/09/2004-2005 3.5%	500	Fixed rate of 3.5%	3.5	September, 2005
BBPI Cayman Increasing yield USD 2008 (2 issues)	19 881 (USD 27 080 000)	Fixed rates of 2.75% (2004), 3.25% (2005), 3.5% (2006), 3.75% (2007) and 4.0% (2008)	3.25	April, 2008
BBPI Cayman USD 28/05/02-2005 4%	31 601 (USD 43 044 000)	Fixed rate of 4%	4.0	May, 2005
BBPI Increasing yield EUR 2003-2008	29 500	Fixed rates of 3.25% (2004), 3.5% (2005), 3.75% (2006), 4.0% (2007) and 4.25% (2008)	3.5	May, 2008
BBPI Fixed yield 3 Years 2.15% (2 issues)	2 028	Fixed rate of 2.15%	2.15	Between June, 2006 and July, 2006
BBPI Fixed yield 3 Years 2.35% (2 issues)	3 425	Fixed rate of 2.35%	2.35	Between June, 2006 and July, 2006
BBPI Fixed yield 3 Years 2.55% (2 issues)	7 063	Fixed rate of 2.55%	2.55	Between March, 2006 and May, 2006
BBPI Fixed yield 3 Years 2.65% (4 issues)	9 690	Fixed rate of 2.65%	2.65	Between March, 2006 and April, 2006
BBPI Fixed yield 3 Years 2.70% (2 issues)	5 205	Fixed rate of 2.70%	2.7	Between May, 2006 and August, 2006
BBPI Fixed yield 3 Years 2.80%	1 782	Fixed rate of 2.80%	2.8	February, 2006
BBPI Fixed yield 3 Years 2.90% (2 issues)	5 190	Fixed rate of 2.90%	2.9	Between February, 2006 and August, 2006
BBPI Fixed yield 3 Years 3.00% (2 issues)	11 298	Fixed rate of 3.00%	3.0	Between January, 2006 and September, 2006
BBPI Fixed yield 3 Years 3.1%	1 773	Fixed rate of 3.1%	3.1	January, 2006
BBPI Fixed yield 3 Years 3.25% (3 issues)	6 959	Fixed rate of 3.25%	3.25	Between January, 2005 and December, 2005
BBPI Fixed yield 3 Years 3.4% (2 issues)	10 894	Fixed rate of 3.4%	3.4	November, 2005
BBPI Fixed yield 3 Years 3.5%	696	Fixed rate of 3.5%	3.5	February, 2005
BBPI Fixed yield 3 Years 3.6% (2 issues)	40 165	Fixed rate of 3.6%	3.6	October, 2005
BBPI Fixed yield 3 Years 3.75%	1 730	Fixed rate of 3.75%	3.75	March, 2005
BBPI Fixed yield 3 Years 3.85% (2 issues)	38 762	Fixed rate of 3.85%	3.85	September, 2005
BBPI Fixed yield 3 Years 4.0% (2 issues)	13 848	Fixed rate of 4.0%	4.0	Between March, 2005 and August, 2005
BBPI Fixed yield 3 Years 4.25% (8 issues)	76 483	Fixed rate of 4.25%	4.25	Between April, 2005 and August, 2005
BBPI Fixed yield 5 Years 3.50%	1 855	Fixed rate of 3.50%	3.5	January, 2009
BBPI Fixed yield 5 Years 4.28%	5 000	Fixed rate of 4.28%	4.28	August, 2006
BBPI Fixed yield 5 Years 4.4% (2 issues)	938	Fixed rate of 4.4%	4.4	March, 2005
BBPI Fixed yield 5 Years 4.5% (2 issues)	4 182	Fixed rate of 4.5%	4.5	February, 2005
BBPI Fixed yield 7 Years 4.04%	750	Fixed rate of 4.04%	4.04	October, 2009
BBPI Fixed rate 5 Years 3.25% (10 issues)[1]	28 015	Fixed rate of 3.25%	3.25	Between February and August, 2009
BBPI Fixed rate 5 Years 2.75% (4 issues)[1]	3 239	Fixed rate of 2.75%	2.75	Between April and December, 2009
BBPI Fixed rate 5 Years 2.6% (2 issues)[1]	1 115	Fixed rate of 2.6%	2.6	April, 2009 and January, 2010
BBPI Fixed rate 5 Years 2.7%[1]	221	Fixed rate of 2.7%	2.7	December, 2009
BBPI Fixed rate 5 Years 3.5%[1]	3 509	Fixed rate of 3.5%	3.5	January, 2009
BBPI Fixed rate 5 Years 2.8%[1]	678	Fixed rate of 2.8%	2.8	October, 2009
BBPI Fixed rate 5 Years 2.85%[1]	1 034	Fixed rate of 2.85%	2.85	May, 2009
BBPI Fixed rate 5 Years 2.9%[1]	933	Fixed rate of 2.9%	2.9	October, 2009
BBPI Fixed yield 5 Years 3% (2 issues)[1]	2 056	Fixed rate of 3%	3.0	July and October, 2009
BBPI Fixed yield 5 Years 3.1%[1]	1 443	Fixed rate of 3.1%	3.1	September, 2009

1) These bonds can be redeemed, in full or in part, by initiative of the holders, on the respective interest payment dates, as from the date of the 1st coupon.

	Nominal Value	Remuneration	Interest rate at 31-12-04 (%)	Maturity date
Fixed rate cash bonds (cont.)				
BBPI Increasing fixed yield 3 Years (5 issues)	8 447	Fixed rates of 2.5% (2004), 2.75% (2005) and 3.0% (2006)	2.5	Between January, 2007 and May, 2007
BBPI Increasing fixed yield 3 Years (2 issues)	7 996	Fixed rates of 2.50% (2003), 2.75% (2004) 3.00% (2005)	2.75	October, 2006
BBPI Increasing fixed yield 3 Years	3 065	Fixed rates of 3.00% (2004), 3.10% (2005) and 3.20% (2006)	3.1	November, 2006
BBPI Increasing fixed yield 3 Years (4 issues)	13 530	Fixed rates of 2.75% (2003), 3.00% (2004) and 3.25% (2005)	3.0	Between September, 2006 and December, 2006
BBPI Increasing fixed yield 3 Years (7 issues)	22 447	Fixed rates of 2.75% (2004), 3% (2005) and 3.25% (2006)	2.75	Between January, 2007 and August, 2007
BBPI Increasing fixed yield 3 Years	963	Fixed rates of 2.2% (2004), 2.45% (2005) and 2.7% (2006)	2.2	April, 2007
BBPI Increasing fixed yield 3 Years (2 issues)	3 067	Fixed rates of 2.35% (2004), 2.6% (2005) and 2.85% (2006)	2.35	Between April, 2007 and December, 2007
BBPI Increasing fixed yield 3 Years	1 216	Fixed rates of 2.25% (2004), 2.5% (2005) and 2.75% (2006)	2.25	March, 2007
BBPI Increasing fixed yield 3 Years (2 issues)	6 452	Fixed rates of 2.7% (2004), 2.95% (2005) and 3.2% (2006)	2.7	September, 2007
BBPI Increasing fixed yield 3 Years (2 issues)	11 787	Fixed rates of 2.65% (2004), 2.9% (2005) and 3.15% (2006)	2.65	Between July, 2007 and October, 2007
BBPI Increasing fixed yield 3 Years (2 issues)	6 019	Fixed rates of 2.45% (2004), 2.7% (2005) and 2.95% (2006)	2.45	November, 2007
BBPI Increasing fixed yield 3 Years	4 474	Fixed rates of 2.55% (2004), 2.8% (2005) and 3.05% (2006)	2.55	October, 2007
BBPI Increasing fixed yield 3 Years	1 999	Fixed rates of 2.3% (2004), 2.55% (2005) and 2.8% (2006)	2.3	December, 2007
BBPI Increasing fixed yield 5 Years	647	Fixed rates of 2.4% (2004), 2.65% (2005), 2.9% (2006), 3.15% (2007) and 3.4% (2008)	2.4	December, 2009
BBPI Increasing fixed yield 5 Years	1 906	Fixed rates of 2.5% (2004), 2.75% (2005), 3% (2006), 3.25% (2007) and 3.5% (2008)	2.5	December, 2009
BBPI Increasing fixed yield 5 Years	9 140	Fixed rates of 2.8% (2004), 3.05% (2005), 3.3% (2006), 3.55% (2007) and 3.8% (2008)	2.8	October, 2009
BBPI Increasing fixed yield 5 Years	2 021	Fixed rates of 2.7% (2004), 2.95% (2005), 3.2% (2006), 3.45% (2007) and 3.7% (2008)	2.5	October, 2009
BBPI Increasing fixed yield 5 Years	4 655	Fixed rates of 2.6% (2004), 2.85% (2005), 3.1% (2006), 3.35% (2007) and 3.6% (2008)	2.6	November, 2009
BBPI Increasing fixed yield 5 Years	1 533	Fixed rates of 2.9% (2004), 3.15% (2005), 3.4% (2006), 3.65% (2007) and 3.9% (2008)	2.9	September, 2009
BBPI Cayman Zero Coupon 2004-2029	10 000	Implicit interest rate of 5.45%, with the possibility of early redemption in 2009, 2014, 2019 and 2024		June, 2029
BPI 97 – 1st Issue / Zero Coupon	768	Difference between the redemption value and the issue price (th. euro 499)		November, 2005
BBPI Increasing fixed yield EUR 2004-2010	1 613	Fixed rates of 3.25% (2004 and 2005), 4% (2006 and 2007) and 4.25% (2008 and 2009)	3.25	October, 2010
BBPI Increasing fixed yield USD 2004-2010	2 515	Fixed rates of 3.75% (2004 and 2005), 4% (2006 and 2007) and 4.5% (2008 and 2009)	3.75	September, 2010
BBPI Cayman 05/10/04-2009 5.4575%	56 734	Fixed rate of 5.4575%	5.4575	October, 2009
Variable rate cash bonds				
BBPI Cayman 01/03/2001-2006	15 000	Indexed to the 3 month Euribor rate	2.338	April, 2006
BBPI Cayman 03/05/2001-2006	600 000	Indexed to the 3 month Euribor rate	2.377	May, 2006
BBPI Cayman 06/06/2003-2005	500 000	Indexed to the 3 month Euribor rate	2.297	June, 2005
BBPI Cayman 29/01/2004-2007	500 000	Indexed to the 3 month Euribor rate – Telerate	2.273	January, 2007
BBPI Cayman 18/03/2002-2005	400 000	Indexed to the 3 month Euribor rate	2.325	March, 2005
BBPI Cayman 15/09/2003-2008	32 889	Indexed to the CZK – Pribor – PRBO rate	3.03	September, 2008
BBPI Cayman 08/09/2004-2006	100 000	Indexed to the 3 month Euribor rate	2.275	September, 2006
BBPI Cayman EMT 15/11/2005	22 500	Indexed to the 3 month Euribor rate	2.304	November, 2005
BBPI Cayman EMT 30/05/2006	10 000	Indexed to the 6 month Euribor rate	2.378	May, 2006
BBPI Cayman HKD 09/09/2003 – 10/09/2007	9 444 (HKD 100 000 000)	Indexed to the 3 month HKD – Hibor – HKAB rate	0.8624	September, 2007

1) These bonds can be redeemed, in full or in part, by initiative of the holders, on the respective interest payment dates, as from the date of the 1st coupon.

	Nominal Value	Remuneration	Interest rate at 31-12-04 (%)	Maturity date
Variable rate cash bonds (cont.)				
BBPI Variable yield 3 Years (46 issues)	49 192	Indexed to the 1 year Euribor rate		Between February, 2006 and December, 2007
BBPI Cayman JPY 12/02/2004-2007	35 803 (JPY 5 000 000 000)	Indexed to the 3 month JPY – Libor – BBA rate	0.1018	February, 2007
BBPI Cayman 29/07/2004-2009	500 000	Indexed to the 3 month Euribor – Telerate	2.323	April, 2009
BBPI Cayman 17/05/2004-2007	100 000	Indexed to the 3 month Euribor rate	2.323	May, 2007
BBPI Cayman CAD 20/05/2004-2009	9 746 (CAD 16 000 000)	Indexed to the 3 month CA – BA – CDOR rate	3.0385	May, 2009
BBPI Cayman 26/02/2004-2014	15 000	Indexed to the Euribor rate	2.413	February, 2014
BBPI Cayman 25/08/2004-2014	90 000	Indexed to the Euribor rate	2.407	August, 2014
Variable yield cash bonds				
BBPI Step Up Euro 2004-2009[1]	35 500	Rates of 3.5%, 3.5%, 3.75%, 4.0% and 4.25%, from the 1st to the 5th years, respectively	3.5	February, 2009
BBPI Step Up USD 2004-2009[1]	1 494	Rates of 2.5%, 3.0%, 3.5%, 4.0% and 4.5%, from the 1st to the 5th years, respectively	2.5	February, 2009
BBPI Step Up USD II 2004-2009[1]	23 860	Rates of 3%, 3.5%,, 4.25%, 5.0% and 6.0%, from the 1st to the 5th years, respectively	3.0	November, 2009
BBPI Step Up CAD 2004-2007[1]	1 823	Rates of 3.5%, 4.0% and 4.5%, from the 1st to the 3rd years, respectively	3.5	June, 2007
BBPI Step Up Euro II 2004-2009[1]	6 000	Rates of 3.5%, 3.5%, 3.75%, 4.0% and 4.25%, from the 1st to the 5th years, respectively	3.5	February, 2009
BBPI Step Up Euro III 2004-2009[1]	26 500	Rates of 3.0%, 3.25%, 3.5%, 3.75% and 4.0%, from the 1st to the 5th years, respectively	3.0	March, 2009
BBPI Rendimento Acumulado 8.75% 2004-2009	26 452	Rate of 5.75% in the 1st year and 10% less two times the 1 year Euribor rate in the following years. Early redemption when the sum of the coupons reaches 8.75%	5.75	March, 2009
BBPI Capital Seguro Euribor Crescente 2003-2008	25 000	Fixed rates of 4.5% and 4.75% in the 1st and 2nd years, and indexed to the 1 year Euribor rate from the 3rd to the 5th years	4.75	March, 2008
BBPI Capital Seguro Inflação Plus 2003-2008	27 015	3.5% in the 1st year and linked to the HICP (Euro harmonised consumer index price, excluding tobacco), from the 2nd to the 5th years	2.7	April, 2008
BBPI Cayman EMT 26/06/2008 Index Link	119 276	3% in the 1st year and linked to the HICP (Euro harmonised consumer index price, excluding tobacco), from the 2nd to the 5th years	1.722	June, 2008
BBPI Risco Limitado 80 Cabaz de Índices	5 000	Linked to the valuation of Nasdaq 100, Eurostoxx 50 and S&P 500 indices		April, 2008
BBPI Risco Limitado 90 Cabaz de Índices	5 000	Linked to the valuation of Nasdaq 100, Eurostoxx 50 and S&P 500 indices		April, 2008
BBPI Capital Seguro Zona Euro 2007	39 500	Linked to the DJ Euro Stoxx 50 Price Index. The lower limit is 0.16 Euro per bond		August, 2007
BBPI Risco Limitado Comunicações Móveis USD / 2000	24 043 (USD 32 750 000)	Linked to the BPI Comunicações Móveis Index. The lower limit is USD – 0.1 per bond		January, 2005
BBPI Capital Seguro Comunicações Móveis USD / 2000	9 727 (USD 13 250 000)	Linked to the BPI Comunicações Móveis Index. The lower limit is zero per bond		January, 2005
BBPI Capital Seguro Comunicações Móveis EUR / 2000	50 250	Linked to the BPI Comunicações Móveis Index. The lower limit is zero per bond		February, 2005
BBPI Capital Seguro Comunicações Móveis EUR / 2000 2nd Issue	50 750	Linked to the BPI Comunicações Móveis Index (2nd Issue). The lower limit is zero per bond		March, 2005
BBPI Risco Limitado Sector Nasdaq 100 USD / 2000	2 936 (USD 4 000 000)	Linked to the Nasdaq 100 Index. The lower limit is USD – 0.1 per bond		March, 2005
BBPI Risco Limitado Sector Internet USD / 2000	2 936 (USD 4 000 000)	Linked to the Dow Jones Internet Composite Index. The lower limit is USD – 0.1 per bond		March, 2005
BBPI Risco Limitado Sector 10 Uncommon Values USD / 2000	2 202 (USD 3 000 000)	Linked to the 10 Uncommon Values Index. The lower limit is USD – 0.1 per bond.		April, 2005
BBPI Risco Limitado Sector Biotecnologia USD / 2000	5 506 (USD 7 500 000)	Linked to the Amex Biotechnology Index. The lower limit is USD – 0.1 per bond.		March, 2005
BBPI Capital Seguro Comunicações Móveis EUR / 2000 3rd Issue	55 200	Linked to the BPI Comunicações Móveis Index (3rd Issue). The lower limit is zero per bond.		March, 2005
BBPI Capital Seguro Biotecnologia USD / 2000	5 946 (USD 8 100 000)	Linked to the Amex Biotechnology Index. The lower limit is zero per bond.		March, 2005
BBPI Risco Limitado Biotecnologia USD / 2000	16 665 (USD 22 700 000)	Linked to the Amex Biotechnology Index. The lower limit is USD – 0.1 per bond.		March, 2005

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	Nominal Value	Remuneration	Interest rate at 31-12-04 (%)	Maturity date
Variable yield cash bonds (cont.)				
BBPI Risco Limitado 10 Uncommon Values USD / 2000 2nd Issue	6 534 (USD 8 900 000)	Linked to the 10 Uncommon Values Index. The lower limit is USD – 0.1 per bond.		April, 2005
BBPI Capital Seguro Comunicações Móveis EUR / 2000 4th Issue	51 250	Linked to the BPI Comunicações Móveis Index (4th Issue). The lower limit is zero per bond.		April, 2005
BBPI Capital Seguro 10 Uncommon Values USD / 2000	4 497 (USD 6 125 000)	Linked to the 10 Uncommon Values Index. The lower limit is zero per bond.		April, 2005
BBPI Capital Seguro Zona Euro 2005 – 2nd Issue	50 000	Linked to the DJ Euro Stoxx 50 Price Index. The lower limit is zero per bond.		June, 2005
BBPI Capital Seguro Euro Stoxx 50 / 2008	2 500	Linked to the Dow Jones Euro Stoxx 50 Price Index. The lower limit is 0.05 Euro per bond.		July, 2008
BBPI Risco Limitado Euro Stoxx 50 2005	3 000	Linked to the Dow Jones Euro Stoxx 50 Price Index. The lower limit is –0.1 euro per bond.		August, 2005
BBPI Capital Seguro Euro Stoxx 50 2005	2 125	Linked to the Dow Jones Euro Stoxx 50 Price Index. The lower limit is zero per bond.		August, 2005
BBPI Capital Seguro Euro Stoxx 50 2001-2007	10 000	Linked to the Dow Jones Euro Stoxx 50 Price Index. The lower limit is zero per bond.		April, 2007
BBPI Capital Seguro Índices Mundiais 2001	50 000	Linked to the Nikkei 225, FTSE 100, Dow Jones Euro Stoxx 50, Nasdaq 100 and S&P 500 Price Indices. The lower limit is zero per bond.		March, 2006
BBPI Capital Seguro Zona Euro 2006	25 000	Linked to the DJ Euro Stoxx 50 Price Index. The lower limit is 10 euro per bond.		May, 2006
BBPI Capital Seguro Zona Euro 2006 – 2nd Issue	25 000	Linked to the DJ Euro Stoxx 50 Price Index. The lower limit is 10 euro per bond.		June, 2006
BBPI Capital Seguro Healthcare 2001-2006	5 300	Linked to the Dow Jones Healthcare Price Index. The lower limit is zero per bond.		December, 2006
BBPI Capital Seguro Healthcare 2006 – 2nd Issue	2 500	Linked to the Dow Jones Europe Stoxx Healthcare Price Index. The lower limit is zero per bond.		December, 2006
BBPI Cayman EMT 18/10/2006 Index Link	63 525	Linked to a basket of indices.		October, 2006
BBPI Cayman EMT 15/11/2005 Index Link	7 500	Fixed rate of 0.5% per year and, at maturity, linked to a basket of Dow Jones indices.	0.5	November, 2005
BBPI Capital Seguro Imobiliário 2002	50 000	Linked to the European Public Real Estate Index. The lower limit is 10 euro per bond		June, 2007
BBPI Capital Seguro Euro Imobiliário 2002-2007	6 000	Linked to the European Public Real Estate Index. The lower limit is 8 euro per bond		May, 2007
BBPI Capital Seguro Cinco Mais 2002	25 000	Linked to the valuation of Endesa, JP Morgan Chase, Nestlé, Portugal Telecom and Royal Dutch Petroleum shares. The lower limit is zero per bond		June, 2007
BBPI Capital Seguro Rendimento Máximo 5% 2002	39 600	Indexed to the 6 month USD Libor rate		March, 2005
BBPI Capital Seguro Rendimento Máximo 25% 2002-2005	5 750	Linked to the valuation of Acesa, Aegon NV, Bayer and British American Tobacco shares.		March, 2005
BBPI Inflação Zona Euro 10 years (4 issues)	33 800	Linked to the HICP Index (Euro harmonised consumer index price, excluding tobacco)		Between October, 2012 and December, 2014
BBPI European Inflation 4.2% 2003-2013 Cayman	4 200	Linked to the HICP Index (Euro harmonized consumer index price, excluding tobacco), with a lower limit of 4.2%	4.2	August, 2013
BBPI Capital Seguro Rendimento Máximo 27.5% 2002-2005	25 000	Linked to the valuation of Intel, AT&T, Hewlett-Packard and Deutsche Telekom shares		May, 2005
BBPI Cayman Global Brands 2003 –2009	5 000	Linked to a basket of 15 shares		July, 2009
BBPI Cayman EMT 08/08/2008 Index Link	180 000	Fixed rate of 3.25% in the 1st year and linked to the inflation rate of the Euro Zone from 08/08/2004	2.881	August, 2008
BBPI Capital Seguro Reverse Euribor 2003-2008 – Cayman[1]	45 000	Fixed rates of 3.75% in the 1st year, and 5.5%, 6.5%, 7.5% and 8.5% less the 1 year Euribor rate from the 2nd to the 5th year. The lower limit is zero per bond	3.228	August, 2008
BBPI Capital Seguro Reverse Libor USD II 2003-2008 – Cayman[1]	25 696 (USD 35 000 000)	Fixed rates of 3.75% in the 1st year, and 5.5%, 6.5%, 7.5% and 8.5% less the 1 year USD Libor rate from the 2nd to the 5th year. The lower limit is zero per bond	3.27	August, 2008
BBPI Cayman Global Brands II 2003 –2008	2 500	Linked to a basket of 15 shares with a lower limit of 1% in 2004	1.0	October, 2008
BBPI Capital Seguro Reverse Libor USD III 2003-2007 – Cayman[1]	47 720 (USD 65 000 000)	Fixed rates of 5.00% in the 1st year, and 5.75%, 6.25% and 7.0% less the 1 year USD Libor rate from the 2nd to the 4th year. The lower limit is zero per bond	2.8188	November, 2007

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	Nominal Value	Remuneration	Interest rate at 31-12-04 (%)	Maturity date
Variable yield cash bonds (cont.)				
BBPI Cayman EMT 28/11/2008 Inf Link	129 740	Fixed rate of 3.25% for the 1st year and linked to the inflation of the Euro Zone from 11/28/2004	3.1295	November, 2008
BBPI Capital Seguro Grandes Marcas 2003-2009	35 000	Maximum between a fixed component (2% at the beginning and never less than the prior year yield) and a variable component linked to a basket of 15 shares	2.0	July, 2009
BBPI Capital Seguro American Call 2003-2008	3 000	Linked to the SPX (500) Index		October, 2008
BBPI Capital Seguro Grandes Marcas II 2003-2008	2 825	The greater between a fixed component (1% at the beginning and never less than the prior year yield) and a variable component linked to a basket of 15 shares	1.0	October, 2008
BBPI Capital Seguro American Call II 2003-2008	3 000	Linked to the SPX (500) Index		November, 2008
BBPI Capital Seguro American Call III 2003-2008	1 000	Linked to the SPX (500) Index		November, 2008
BBPI Risco Limitado Portuguese Basket 2003-2009 Cayman	3 500	Linked to the valuation of Portugal Telecom, BCP and EDP shares		November, 2006
BBPI Capital Seguro Eur Best of 9 2003-2009 Cayman	5 000	Linked to a basket of 9 EFT´s (Exchanged Traded Funds)		February, 2009
BBPI Capital Seguro Reverse Euribor 2003-2010[1]	5 000	Fixed rates of 5.75% in the 1st and 2nd year and 8.25% less the 1 year Euribor rate from the 3rd to the 7th year. The lower limit is zero per bond	5.75	December, 2010
BBPI Capital Seguro Athena V 2004-2007 Cayman	4 500	Linked to the Dow Jones Euro Stoxx 50		February, 2007
BBPI Capital Seguro América 2004-2009 Cayman (2 issues)	5 500	Linked to the S&P 500 index		Between March and June, 2009
BBPI Capital Seguro American Inflation USD 2004-2009 Cayman	1 101 (USD 1 500 000)	Fixed rate of 3.00% in the 1st year and linked to the American inflation IHCP rate in the following years	3.0	March, 2009
BBPI Capital Seguro Decreasing Maturity Swap 2004-2009 Cayman	25 225	Linked to the EUR-ISDA-Euribor rate. The upper limit is 5%		February, 2009
BBPI Capital Seguro Digital SX5E 2004-2006 Cayman	2 000	Linked to the Dow Jones Euro Stoxx 50 index, with limits of 5% or 0% depending on whether the evolution of the index is higher or lower than 10%		March, 2006
BBPI Capital Seguro Euro Super Reverse US Libor 2004-2009 Cayman[1]	1 500	Fixed rate of 5% in the 1st year and 4%, 4.5%, 6% and 7% less the 3 month USD Libor BBA rate from the 2nd to the 5th year. The upper limit is 8% and the lower limit is zero	5.0	June, 2009
BBPI Capital Seguro Europa 2004-2009 Cayman (2 issues)	4 500	Linked to the Dow Jones Euro Stoxx 50 index		Between March and June, 2009
BBPI Capital Seguro Super Reverse Libor USD 2004-2009 Cayman[1]	25 601 (USD 34 872 000)	Fixed rate of 5% in the 1st year and 4%, 5%, 6% and 7% less the 3 month USD Libor BBA rate from the 2nd to the 5th year. The upper limit is 8% and the lower limit is zero	5.0	June, 2009
BBPI Capital Seguro Super Reverse Libor USD II 2004-2009 Cayman[1]	10 204 (USD 13 900 000)	Fixed rate of 6% in the 1st year and 4.25%, 5.25%, 6.35% and 7.5% less the 3 month USD Libor BBA rate from the 2nd to the 5th year. The upper limit is 8% and the lower limit is zero	6.0	June, 2009
BBPI Capital Seguro Reverse Libor USD IV 2004-2008 Cayman[1]	8 443 (USD 11 500 000)	Fixed rate of 5% in the 1st year and 5.75%, 6.25% and 7% less the 1 year USD Libor BBA rate from the 2nd to the 4th year. The upper limit is 8% and the lower limit is zero	5.0	January, 2008
BBPI Capital Seguro VMS 5% 2004-2009 Cayman	2 000	Linked to the EUR-ISDA-Euribor rate. The upper limit is 5%		March, 2009
BBPI Capital Seguro Europa Selector 2004-2009	18 984	Linked to a basket of 4 indices		June, 2009
BBPI Capital Seguro World Basket 2004-2009 Cayman	400	Linked to a basket of 3 indices		July, 2009
BBPI Capital Seguro Top Cabaz Mundial 2004-2009	10 366	Linked to a basket of 3 indices		July, 2009
BBPI Capital Seguro World Basket Max 2004-2009 Cayman	7 600	Linked to a basket of 3 indices		July, 2009
BBPI Capital Seguro Dupla Oportunidade USD 2004-2009 Cayman	16 518	Fixed rate of 4.25% and 4.5% in the 1st and 2nd year, respectively. For the following years, the remuneration is calculated based on evolution of the 6 month Libor rate in relation to an average predetermined upper barrier	4.25	August, 2009

1) These bonds can be redeemed, in full or in part, by initiative of the holders, on the respective interest payment dates, as from the date of the 1st coupon.

	Nominal Value	Remuneration	Interest rate at 31-12-04 (%)	Maturity date
Variable yield cash bonds (cont.)				
BBPI Capital Seguro Rendimento Máximo 4.75% 2004-2009 Cayman (2 issues)	52 000	Fixed rate of 4.00% in the 1st and 2nd year, and in the following years indexed to the 1 year Euribor – Telarate, depending on whether it is higher or lower than the relevant barrier for the period (5%)	4.0	August, 2009
BBPI Capital Seguro Inflação Plus 2004-2009	2 500	Fixed rate of 3.5% in the 1st year. For the following years linked to the HICP Index (Euro harmonised consumer index price, excluding tobacco)	3.5	October, 2009
BBPI Capital Seguro Inflação Plus II 2004-2009	27 500	Fixed rate of 3.5% in the 1st year. For the following years linked to the HICP Index (Euro harmonised consumer index price, excluding tobacco)	3.5	November, 2009
BBPI Capital Seguro Rendimento Real Plus 2004-2009	5 000	Fixed rate of 3.5% in the 1st year. For the following years linked to the HICP Index (Euro harmonised consumer index price, excluding tobacco)	3.5	November, 2009
BBPI Capital Seguro Seis 60 2004-2008	1 260	At the maturity date, payment of remuneration can vary between 6% and 60% of the evolution of a basket of 3 indexes	6.0	December, 2008
BBPI Capital Seguro Snowball USD 2004-2007 Cayman[1]	734	Fixed rate of 7% in the 1st year. From the 2nd to the 3rd year the rate corresponds to the difference between the rates of 2.5% and 3.5% and the 3 month USD Libor BBA rate, respectively, with a lower limit of zero and a floating upper limit as from the 2nd year	7.0	December, 2007

1) These bonds can be redeemed, in full or in part, by initiative of the holders, on the respective interest payment dates, as from the date of the 1st coupon.

4.17. Other liabilities

This caption is made up as follows:

	2004	2003
Creditors		
Suppliers	15 139	14 441
Creditors for factoring contracts	8 685	13 464
Creditors for securities subscribed, not yet realized	14 012	11 251
Other creditors	101 185	85 451
Other liabilities		
State administrative sector		
Income tax	21 729	8 830
Taxes withheld at source	12 629	12 916
Other	2 358	2 071
Contributions to the pension funds	10	7
Other	5 327	6 462
	181 074	**154 893**

The caption OTHER CREDITORS at 31 December, 2004 includes th. euro 36 113 relating to securities sold with repurchase agreements[G], to Clients of Banco de Fomento Angola.

4.18. Accruals, deferrals and others (Liabilities)

This caption is made up as follows:

	2004	2003
Accrued expenses		
On funds from credit institutions	16 143	16 186
On deposits	41 652	43 039
On loans		180
On debt securities	48 076	43 065
Administrative costs		
Variable personnel costs	33 159	27 767
Other	41 310	36 961
On foreign-exchange and interest rate swaps	77 599	124 036
Revaluation of Capital Seguro and Risco Limitado bonds	8 497	8 721
Other	20 441	12 398
	286 877	**312 353**
Deferred income		
On securities issued at a discount	4 823	750
Premiums on options sold relating to Capital Seguro operations	3 396	941
Swap operations	23 602	24 535
Other off-balance sheet operations	2 935	2 656
Other	21 681	20 739
	56 437	**49 621**
Valuation fluctuations	747	954
Other accounts		
Collected amounts	36 921	127 197
Stock exchange operations pending settlement	7 354	10 571
Operations pending settlement	82 849	86 247
Revaluation of options relating to Capital Seguro operations	1 404	885
Corporate income tax – payments on account	13 257	8 907
Other	19 099	29 104
	161 631	**263 865**
Other internal accounts (note 2.6)	34 940	72 262
	539 885	**698 101**

The caption OTHER DEFERRED INCOME at 31 December, 2004 and 2003 includes th. euro 2 112 and th. euro 3 658, respectively, relating to the purchase of Fundo EFTA. This amount results from credits owned by the Fund that were bought by BPI at below their nominal value.

The caption STOCK EXCHANGE OPERATIONS PENDING SETTLEMENT at 31 December, 2004 and 2003 corresponds to the net value of the operations on securities recorded from the date of the transaction to the date of the respective financial settlement established in the regulations (note 4.13).

The caption OPERATIONS PENDING SETTLEMENT at 31 December, 2004 includes th. euro 18 148 and th. euro 22 579, respectively, relating to interbank electronic transfers and ATM / POS transactions to be settled with SIBS (th. euro 20 488 and th. euro 21 115, respectively, at 31 December, 2003).

The caption OTHER ACCRUALS, DEFERRALS AND OTHERS at 31 December, 2004 includes th. euro 9 348 corresponding to amounts to be settled relating to lease and factoring operations and th. euro 6 149 relating to revaluations under the Variable Remuneration Program (RVA).

4.19. Provisions for sundry risks and fund for general banking risks

These captions are made up as follows:

	2004	2003
Provisions for retirement benefits	21 104	17 159
Other provisions (note 2.10)		
For general credit risks	177 466	169 940
For other risks	46 606	36 637
	224 072	**206 577**
Fund for general banking risks (note 2.11)	1 139	1 933
	246 315	**225 669**

The members of the Executive Board of Banco BPI, S.A. and the other board members of BPI Investimentos benefit from a supplementary retirement and survivor pensions plan. The present value of the past service liability of the pension plan at 31 December, 2004 amounted to th. euro 15 928.

The caption PROVISIONS FOR RETIREMENT BENEFITS at 31 December, 2004 and 2003 includes th. euro 15 928 and th. euro 12 544, respectively, to cover this liability.

The Employees of Banco de Fomento Angola, S.A.R.L. (BFA) are covered by the Angolan Social Security system. The Bank intends to establish a supplementary retirement and survivor pension plan for its Employees, for which it has been recording provisions. The caption PROVISIONS FOR RETIREMENT BENEFITS at 31 December, 2004 and 2003 includes th. euro 5 176 and th. euro 4 615, respectively, relating to the provision for pensions of BFA Employees.

The movement in the provisions during 2004 and 2003 is shown in note 4.27.

4.20. Liability for retirement and survivor pensions

The past service liability relating to pensioners and current Employees that are, or have been, Employees of BPI Group companies[1], which is covered by pension funds, is calculated in accordance with the requirements of Bank of Portugal Notice 12 / 2001 of 23 November, with the changes introduced by Bank of Portugal Notice 7 / 2002 of 31 December.

BPI Pensões is the entity responsible for the actuarial calculations necessary to determine the amount of the retirement and survivor pension liability, as well as for management of 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 was used to calculate the cost of the incapacity and survivor benefits.

The main actuarial and financial assumptions used to calculate the liability for pensions are as follows:

	Assumptions	Realised	
		2004	2003
Mortality Table	TV – 73 / 77	-	-
Incapacity Table	EKV 80	-	-
Discount Rate	7.0%	-	-
Pension Fund Income Rate, net	7.0%	7.5%	14.7%
Pensionable salary growth rate[1]	4.0%	4.9%	4.5%
Pension growth rate[2]	3.0%	2.7%	2.6%
Personnel turnover rate	0%	-	-
Decreases	By mortality	-	-

1) Calculated based on the changes in pensionable salaries from 2003 to 2004, relating to personnel that were current Employees in both 2003 and 2004.
2) Corresponds to the rate used to update the Collective Vertical Labour Agreement rates.

At 31 December, 2004 and 2003 the pensioners and Employees that were beneficiaries of the pension plans funded by pension funds were as follows:

	2004	2003
Pensioners by age	6 189	5 788
Survivor pensioners	917	878
Current Employees	6 038	6 261
Former Employees (clause 137 A and 140)	1 222	1 131
	14 366	**14 058**

1) Companies consolidated by the full consolidation method (Banco BPI, BPI Investimentos, BPI Fundos and Inter-Risco).

The present value of the retirement and survivor pension liability at 31 December, 2004 and 2003 was as follows:

	2004	2003
A. Past service liability		
Liability for pensions under payment	1 395 564	1 273 133
Of which: [increase in the liability resulting from early retirements during the year]	[62 411]	[68 825]
Past service liability of current Employees	263 283	287 498
Past service liability of former Employees	468	439
	1 659 315	**1 561 070**
B. Future service liability	295 311	293 059
C. Total past and future service liability (A+B)	**1 954 626**	**1 854 129**

In accordance with the procedures established in Bank of Portugal Notice 12 / 2001, as from 31 December, 2001 incapacity decreases[G] are no longer used to calculate the past service liability for current Employees. This change resulted in an increase in the liability which, following agreement with the Bank of Portugal, is being expensed and funded in accordance with a plan of equal annual instalments over a maximum period of 20 years as from the year 2002 (note 4.28). The increase in the liability resulting from not using the incapacity decreases amounts to th. euro 83 014 and th. euro 85 529 as of 31 December, 2004 and 2003, respectively.

At 31 December, 2004 and 2003 the past service liability was funded as follows:

	2004	2003
A. Total past service liability	1 659 315	1 561 070
B. Total past service liability to be recognised up to 2021	(83 014)	(85 529)
C. Past service liability recognised in the balance sheet	**1 576 301**	**1 475 541**
D. Pension Fund Assets		
Opening balance	1 495 542	1 363 326
Contributions of BPI Group companies	69 083	21 179
Contributions of Employees	1 713	1 562
Net income of the funds	111 997	196 390
Pensions paid out of the funds	(96 626)	(86 915)
E. Total coverage	**1 581 709**	**1 495 542**
F. Excess coverage (E-C)	5 408	20 001
G. Coverage of the past service liability recognised in the balance sheet (E/C)	100%	101%
H. Coverage of the total past service liability (E/A)	95%	96%

The contributions to the pension funds in 2004 and 2003 were made in cash.

At 31 December, 2004 and 2003 the pension funds' assets included properties totalling th. euro 95 581 and th. euro 88 976, respectively, rented to BPI Group companies. At 31 December, 2004 and 2003 the pension funds had shares totalling th. euro 41 425 and th. euro 49 351, respectively issued by Banco BPI.

At 31 December, 2004 and 2003 the past service liability not yet expensed was as follows:

	2004	2003
A. Increased liability due to early retirements	177 253	138 513
B. Actuarial losses (gains) related to changes in actuarial assumptions		
B1. Recognised as deferred costs	4 593	3 486
C. Actuarial losses (gains) related to differences between actuarial and financial assumptions and actual amounts		
C1. Recognised as valuation fluctuations	20 685	25 637
C2. Recognised as deferred costs	43	75
D. Liability not yet expensed (A+B+C2)	**181 889**	**142 074**

The consolidated statements of income for the years ended 31 December, 2004 and 2003 reflect the following costs relating to the pension liability:

	2004	2003
Personnel costs		
Current costs	16 299	17 966
Extraordinary losses (gains)		
Increased liability resulting from not using incapacity decreases	8 503	8 503
Amortisation of early retirement costs	23 669	17 340
Amortisation of actuarial losses (gains) related to:		
– changes on actuarial assumptions	335	(55)
– differences between actuarial and financial assumptions and actual amounts	8	6
	32 515	**25 794**

4.21. Subordinated debt

This caption is made up as follows:

	2004	2003
Participating bonds		
BFE 87 participating bonds – 1st Issue	14 179	14 190
BFE 87 participating bonds – 2nd Issue	13 839	13 725
Subordinated loans		
BPI 94 subordinated cash bonds		49 880
BPI 96 subordinated cash bonds	74 820	74 820
BPI 96 subordinated perpetual bonds in Yens	53 705	55 534
BFB 1997 / 2007 subordinated cash bonds	74 820	74 820
BPI 2001 "Rendimento Mais" subordinated cash bonds	93 621	98 980
BPI 2001 / 2011 subordinated cash bonds	150 000	150 000
BPI 2003 / 2013 subordinated cash bonds	249 765	244 000
	724 749	**775 949**

At 31 December, 2004 these securities had the following characteristics:

	Nominal value	Interest rate	Interest rate as of 12-31-04 (%)	Maturity date
Participating bonds				
BFE 87 participating bonds – 1st Issue	14 209	Linked to the 1 year Euribor rate and to Banco BPI's profits	Fixed: 1.5683 Variable: 1.1417	
BFE 87 participating bonds – 2nd Issue	13 872	Linked to the 1 year Euribor rate and to Banco BPI's profits	Fixed: 1.5415 Variable: 1.1265	
Subordinated loans				
BPI 96 subordinated cash bonds	74 820	Linked to the 6 month Euribor rate	2.369	June, 2006
BPI 96 subordinated perpetual bonds in Yens	53 705 (7 500 million JPY)	4% until November 2011 and thereafter indexed to the rate of the 5 year securities issued by the Japanese government	4.0	
BFB 1997 / 2007 subordinated cash bonds	74 820	Linked to the 3 month Euribor rate	2.4	November, 2007
BPI 2001 "Rendimento Mais" subordinated cash bonds	100 000	Linked to the 6 month Euribor rate	3.076	July, 2006
BPI 2001 / 2011 subordinated cash bonds	150 000	5% in the first year, 5.1% in the second year, 5.2% in the third year, 5.3% in the fourth year, 5.4% in the fifth year, 5.5% in the sixth year, 5.85% in the seventh year, 6.2% in the eighth year, 6.55% in the ninth year and 7% in the tenth year	5.3	July, 2011
BPI 2003 / 2013 subordinated cash bonds	250 000	Linked to the 3 month Euribor rate	2.697	October, 2013

The BPI 96 subordinated cash bonds, BFB 1997 / 2007 subordinated cash bonds, BPI 2001 "Rendimento Mais" subordinated cash bonds and BPI 2003 / 2013 subordinated cash bonds can be redeemed earlier, in whole or in part, at the option of Banco BPI, on any interest payment date as from the 10th, 20th, 10th, and 20th coupons, respectively. The BPI 96 subordinated perpetual bonds in Yens can be redeemed earlier, in whole or in part, at the option of Banco BPI as from 15th year, inclusive, and subsequently on the respective interest payment dates.

The Bank of Portugal considers that the funds resulting from these liabilities are equivalent, for purposes of computing the solvency ratio, to own funds. In the five years preceding their repayment, the amount equivalent to own funds is subject to a program of gradual reduction, in accordance with the provisions of Bank of Portugal Notice 12 / 92, of 22 December.

4.22. Minority interests

This caption is made up as follows:

	Balance sheet		Income statement	
	2004	2003	2004	2003
Minority shareholders of:				
BPI Capital Finance Ltd.	259 544	259 538	9 584	9 530
CrediUniverso – Serviços de Marketing, S.A.				767[1]
Inter-Risco – Sociedade de Capital de Risco, S.A.	19	3 404	(414)[1]	(318)
BPI (Suisse), S.A.		1	(1)	(1)
BPI Dealer – Sociedade Financeira de Corretagem (Mozambique), S.A.R.L.	7	4	3	
	259 570	**262 947**	**9 172**	**9 978**

1) Includes results acquired from minority shareholders.

At 31 December, 2004 minority interests of BPI Capital Finance Ltd. included th. euro 250 000 corresponding to 250 000 C Series preference shares with a nominal value of 1 000 euro each, issued by that subsidiary of Banco BPI in August 2003. During 2003, 6 000 000 non-voting A Series preference shares and 4 000 000 non-voting B Series preference shares, with nominal values of 25 US Dollars each, issued by BPI Capital Finance Ltd, were redeemed.

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 at a 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.

The dividends paid by BPI Capital Finance to the preference shareholders in 2004 amounted to th. euro 9 303, of which th. euro 8 010 relates to interim dividends.

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.

These shares are subordinated to all liabilities of Banco BPI and *"pari passu"* to any other preference shares that might be issued by the Group in the future.

4.23. Subscribed share capital

At 31 December, 2004 Banco BPI's share capital was made up of 760 000 000 fully paid shares with a nominal value of 1 euro each.

The Shareholders General Meeting held on 20 April, 2004 empowered Banco BPI's Board of Directors to do the following during a period of 18 months:

a) to purchase treasury stock up of to 10% of Banco BPI's capital, provided that:

   i) it is purchased in 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 report or loan operations of Banco BPI shares, and the 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 loans granted by Banco BPI and, for that purpose, the value attributed 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) sell treasury stock 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 variable remuneration under the terms and conditions established in the Variable Remuneration Program (RVA) regulations; or

   ii) it is sold to third parties under the following conditions:

   - sold in a market registered at the Securities Market Commission (CMVM); and
   - 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) it is sold to third parties as a result of report or loan operations of Banco BPI shares, and the operations are registered at Euronext Lisboa – Sociedade Gestora de Mercados Regulamentados, S.A.

4.24. Share premium account

The movement in this caption from 31 December, 2002 to 31 December, 2004 was as follows:

Share premium account as of 31 December, 2002	**286 833**
Provisions for equity investments (Notice 4 / 2002)	(55 527)
Share premium account as of 31 December, 2003 and 2004	**231 306**

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 stock.

4.25. Reserves

This caption is made up as follows:

	2004	2003
Legal reserve	39 922	25 369
Free reserves	83 909	20 668
Merger reserves	(2 463)	(2 463)
	121 368	**43 574**
Consolidation reserves	(73 857)	28 567
	47 511	**72 141**

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 changed 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 such reserve equals the greater of the amount of share capital or the sum of the free reserves plus retained earnings.

The movement in the caption MERGER RESERVES from 31 December, 2002 to 31 December, 2004, was as follows:

Merger reserves at 31 December, 2002	**7 360**
Changes to the merger reserve in 2002	(103)
Merger of CrédiUniverso into Banco BPI in 2003	(9 720)
Merger reserves at 31 December, 2003 and 2004	**(2 463)**

At 31 December, 2004 and 2003 the share premium accounts and legal reserves of the companies included in the consolidation of the BPI Group which, under the applicable regulation may not be distributed, amounted to th. euro 116 493 and th. euro 106 056, respectively. These balances, weighted by Banco BPI's effective holding in these companies, amounted to th. euro 46 131 and th. euro 39 519, respectively. These reserves are included in the caption CONSOLIDATION RESERVES.

At 31 December, 2004 and 2003 the revaluation reserves of the companies included in the consolidation of the BPI Group by the full consolidation method were as follows:

	2004	2003
Banco Português de Investimento, S.A.[1]	703	703
Banco de Fomento (Angola), S.A.R.L.[2]	10 509	3 214
	11 212	**3 917**

1) Corresponds to the revaluation of tangible fixed assets in accordance with Decree-Law no. 31 / 98, of 11 February.
2) Corresponds to the exchange revaluation of tangible fixed assets in accordance with Decree-Law no. 6 / 96, of 26 January of Angola.

At 31 December, 2004 and 2003 the revaluation reserves of the companies included in the consolidation of the BPI Group by the equity method, weighted by Banco BPI's effective holding in them, amounted to th. euro 7 099.

The caption CONSOLIDATION RESERVES reflects the difference between the amount corresponding to Banco BPI's effective participation in the equity of the associated and subsidiary companies and the cost of the investments, after making the adjustments considered necessary.

The caption CONSOLIDATION RESERVES at 31 December, 2004 and 2003 includes th. euro 23 614 and th. euro 22 369, respectively, relating to the reversal of valuation fluctuations on foreign currency investments in subsidiary and associated companies:

	2004	2003
Banco de Fomento (Angola), S.A.R.L.	18 996	16 980
Banco Comercial e de Investimentos, S.A.R.L.	4 475	5 218
BPI Dealer – Sociedade Financeira de Corretagem (Mozambique), S.A.R.L.	65	75
BPI (Suisse), S.A.	77	96
BPI, Inc.	1	
	23 614	**22 369**

The movement in this caption from 31 December, 2002 to 31 December, 2004 was as follows:

Reserves at 31 December, 2002	**(18 027)**
Consolidated net profit for 2002	140 069
Dividends paid in 2003	(60 371)
Provisions for equity investments (Notice 4 / 2002)	14 664
Changes in the revaluation reserves of the insurance companies	5 740
Results distributed to the Board of Directors and Employees	(89)
Goodwill on the acquisition of a 50% participation in CrédiUniverso	(6 601)
Goodwill on the merger of Banco de Fomento Mozambique into Banco Comercial e de Investimentos	(2 439)
Other	(805)
Reserves at 31 December, 2003	**72 141**
Consolidated net profit for 2003	163 843
Dividends paid in 2004	(67 738)
Changes in the revaluation reserves of the insurance companies	5 709
Correction of Goodwill on the merger of Banco de Fomento Mozambique into Banco Comercial e de Investimentos	110
Goodwill on the consolidation of 41.4% of SIC	(126 517)
Results distributed to the Board of Directors and Employees	(37)
Reserves at 31 December, 2004	**47 511**

4.26. Negative goodwill and goodwill

Negative goodwill on the acquisition of a 16.3% participation in Inter Risco during 2004 was determined as follows:

Adjusted shareholders' equity of InterRisco	18 283
Shareholders' equity of Inter Risco acquired by Banco BPI (16.3%)	2 972
Cost of the investment acquired by Banco BPI	(2 585)
Negative goodwill	**387**

Goodwill[G] on the acquisition of a 50% participation in CrédiUniverso during 2003 was determined as follows:

Adjusted shareholders' equity of CrédiUniverso	3 598
Shareholders' equity of CrédiUniverso acquired by Banco BPI (50%)	1 799
Cost of the investment acquired by Banco BPI	(8 400)
Goodwill	**(6 601)**

Goodwill on the merger of Banco Fomento Mozambique with Banco Comercial e de Investimentos during 2003 was determined as follows:

Shareholders' equity of Banco Comercial e de Investimentos	26 352
Shareholders' equity of Banco Comercial e de Investimentos acquired by Banco BPI (30%)	7 905
Banco BPI's investment in Banco de Fomento Mozambique	(10 234)
Goodwill	**(2 329)**

Goodwill on the consolidation of 41.4% of the share capital of SIC – Sociedade Independente de Comunicação, recorded in 2004, was determined as follows:

Shareholders' equity of SIC	28 526
Shareholders' equity of SIC acquired by Banco BPI (41.4%)[1]	11 800
Cost of the investment acquired by Banco BPI	(229 206)
Provisions for the investment in the share capital of SIC	90 889
Goodwill	**(126 517)**

1) 23.0% owned directly by Banco BPI and 18.4% owned through Solo.

4.27. Provisions

The movement in the Group's provisions during 2004 was as follows:

	Balances at 31-12-03	Increases	Transfers	Write offs	Reversals	Currency fluctuations and others	Balances at 31-12-04
Provisions for doubtful debts							
For loans and advances to Customers (note 4.4)	25 586	10 822	660	(1 372)	(15 927)	(2)	19 767
For debtors and other placements (note 4.12)	19				(5)		14
Provisions for credit and interest in arrears							
For loans and advances to credit institutions (note 4.3)	82 922			(29 321)	(55 393)	1 792	
For loans and advances to Customers (note 4.4)	118 333	74 681	1 057	(62 605)	(3 992)	(254)	127 220
For securities (note 4.5)	195	63					258
Provisions for country risk							
For loans and advances to credit institutions (note 4.3)	20	1			(3)		18
For loans and advances to Customers (note 4.4)	750	97			(265)		582
Provisions for unrealised losses on bonds and other fixed income securities (note 4.5)	3 104	36			(2 365)		775
Provisions for unrealised losses on shares and other variable-yield securities (note 4.6)	64 873	20 751	(33 158)	(3 673)	(18 658)	(9)	30 126
Provisions for unrealised losses on associated companies	5 086	136	90 890	(90 904)	(2 433)		2 775
Provisions for unrealised losses on							
Other investments (note 4.9)	61 492	25 759	(43 156)	(4 618)	(19 775)	(2)	19 700
Other financial assets (note 4.12)	9 565	3 504	24	(777)	(198)	(57)	12 061
Provisions for property received as settlement of defaulting loans (note 4.12)	5 490	6 151		(175)	(5)		11 461
Provisions for retirement and survivor benefits (note 4.19)	17 159	5 604			(1 193)	(466)	21 104
Provisions for general credit risks (note 4.19)	169 940	14 269	(1 506)		(4 290)	(947)	177 466
Provisions for other risks (note 4.19)	36 637	31 181	(13 811)	(408)	(6 993)		46 606
Fund for general banking risks (note 4.19)	1 933	2 212	(1 000)	(940)	(923)	(143)	1 139
	603 104	**195 267**		**(194 793)**	**(132 418)**	**(88)**	**471 072**

Of the provisions for unrealised losses on associated companies, th. euro 90 889 was used for the investment in SIC, due to the fact that on 30 June, 2004 this investment started being recorded by the BPI Group in accordance which the equity method (notes 2 and 4.26).

The caption PROVISIONS FOR OTHER RISKS at 31 December, 2004 includes th. euro 13 925 to cover the unrealized loss resulting from the agreement entered into in December 2004 to sell the BPI Group's investment in SIC. The provision corresponds to the difference between the agreed selling price (th. euro 128 741) and the book value of Solo and SIC at 31 December, 2004 (th. euro 16 149) plus the amount of goodwill[G] charged in full to reserves (th. euro 126 517) (note 4.40).

The movement in the Group's provisions during 2003 was as follows:

	Balances at 31-12-02	Increases	Transfers	Write offs	Reversals	Currency fluctuations and others	Balances at 31-12-03
Provisions for doubtful debts							
For loans and advances to Customers (note 4.4)	21 383	16 115	(2 740)	(4 612)	(3 621)	(939)	25 586
For debtors and other placements (note 4.12)	55				(36)		19
Provisions for credit and interest in arrears							
For loans and advances to credit institutions (note 4.3)	99 790				(27)	(16 841)	82 922
For loans and advances to Customers (note 4.4)	120 077	69 594	2 740	(70 598)	(2 012)	(1 468)	118 333
For securities (note 4.5)	341	41		(38)	(129)	(20)	195
Provisions for country risk							
For loans and advances to credit institutions (note 4.3)	28				(8)		20
For loans and advances to Customers (note 4.4)	1 142				(392)		750
For securities (note 4.5)	409				(409)		
Provisions for unrealised losses on bonds and other fixed income securities (note 4.5)	5 184	195			(2 275)		3 104
Provisions for unrealised losses on shares and other variable-yield securities (note 4.6)	75 006	2 461	(2 308)	(274)	(9 987)	(25)	64 873
Provisions for unrealised losses on associated companies	1 182	263	3 641				5 086
Provisions for unrealised losses on							
Other investments (note 4.9)	23 872	1 312	(860)		(3 727)	40 895	61 492
Other financial assets (note 4.12)	6 646	5 115	(473)	(1 361)	(28)	(334)	9 565
Provisions for property received as settlement of defaulting loans (note 4.12)	7 238	203		(973)	(995)	17	5 490
Provisions for retirement and survivor benefits (note 4.19)	14 541	4 886		(303)	(677)	(1 288)	17 159
Provisions for general credit risks (note 4.19)	188 397	4 252			(21 670)	(1 039)	169 940
Provisions for other risks (note 4.19)	12 042	28 847	2 059	(204)	(6 320)	213	36 637
Fund for general banking risks (note 4.19)	5 059	328	(2 059)	(203)	(2)	(1 190)	1 933
	582 392	**133 612**		**(78 566)**	**(52 315)**	**17 981**	**603 104**

The amounts in the currency fluctuations and others column at 31 December, 2003 for the captions PROVISIONS FOR UNREALISED LOSSES ON ASSOCIATED COMPANIES and PROVISIONS FOR UNREALISED LOSSES ON OTHER FINANCIAL ASSETS include th. euro 40 863 relating to provisions recorded by charge against reserves, under the terms of Bank of Portugal Notice 4 / 2002 (notes 2.4, 4.24 and 4.25).

Bank of Portugal Notice 8 / 2003 of 30 January changed the rate used to provide for general credit risks on mortgage loans to finance the borrower's residence, from 1% to 0.5%. The decrease of th. euro 27 167 in the provision was transferred in full to the provision for specific credit risks (credit in arrears and credits of doubtful collection).

The provisions for loans and advances to Customers and for securities used during 2004 and 2003, correspond to write-offs recorded in these periods.

4.28. Off-balance sheet items

This caption is made up as follows:

	2004	2003
Guarantees provided and other contingent liabilities		
Guarantees and sureties	2 850 293	2 836 525
Stand-by letters of credit	1 111	
Documentary credits	86 316	70 464
Sureties and indemnities	53	55
	2 937 773	**2 907 044**
Assets given as collateral	387 027	584 428
Commitments to third parties		
Irrevocable commitments		
Options on assets	26 183	26 075
Forward operations – Sale of securities	9 493	
Irrevocable credit lines	25 048	35 168
Underwriting commitment		24 500
Liability for retirement pensions (note 4.20)	83 014	85 529
Commitments to the Deposit Guarantee Fund	35 019	32 560
Potential commitments to the Investor Indemnity System	12 921	11 174
Other irrevocable commitments	1 366	2 418
Revocable commitments	3 302 765	3 232 282
	3 495 809	**3 449 706**
Responsibilities for services rendered		
Custody and safekeeping	25 057 812	24 692 552
Amounts for collection	270 718	275 748
Assets managed by the institution	5 105 031	4 003 656
	30 433 561	**28 971 956**

The caption ASSETS GIVEN AS COLLATERAL at 31 December, 2004 includes:

- th. euro 116 654 relating to securities given in guarantee of loans from the European Investment Bank (EIB) to Banco BPI;
- th. euro 221 897 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);
- th. euro 36 436 relating to securities given as guarantee to the Deposit Guarantee Fund;
- th. euro 4 741 relating to securities given in guarantee to Euronext to carry out derivate operations.

The caption RESPONSIBILITIES FOR RETIREMENT PENSIONS NOT COVERED BY THE PENSION FUNDS at 31 December, 2004 and 2003 corresponds in full to the increase in the liability resulting from non utilisation of incapacity decreases in the calculation of the past service liability relating to current Employees (note 4.20).

The caption COMMITMENTS TO THE DEPOSIT GUARANTEE FUND at 31 December, 2004 and 2003 corresponds to BPI's irrevocable responsibility to pay to the fund, upon request by it, the part of the annual contributions not yet paid.

At 31 December, 2004 and 2003 the caption POTENTIAL COMMITMENTS TO THE INVESTOR INDEMNITY SYSTEM corresponds to the irrevocable obligation assumed by BPI, under the applicable legislation, to pay the system, if required to do so, the amounts necessary to indemnify the investors.

The caption OPTIONS ON ASSETS at 31 December, 2004 and 2003 corresponds to share options issued by the BPI Group under the Variable Remuneration Program (RVA).

At 31 December, 2004 the BPI Group had the following third party assets under its management:

Investment funds and PPR (retirement plan funds)	4 544 264
Pension funds[1]	2 228 889
Capitalisation products	1 963 577

1) Includes the Group companies' pension funds.

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, to meet the specific needs of its Clients, or in order to hedge its exposure.

The BPI Group operates with financial derivatives, namely foreign exchange contracts, interest rate contracts, commodities contracts and contracts on shares or indexes. These operations are carried out in over-the-counter (OTC) markets and in organised markets (especially stock exchanges).

Derivatives are negotiated in organised markets in accordance with those markets' own rules. Derivatives are negotiated in the OTC market, normally based on a standard bilateral contract (an ISDA contract in the case of interprofessional transactions and a contract prepared by BPI in the case of transactions with Customers) which covers the derivative operations between the parties and establishes the compensation of responsibilities in the case of non compliance (the extent of the compensation being covered by the contract and regulated by law).

These transactions can be recorded by their book value, gross replacement value and net market value. The book value, recorded in off balance sheet accounts, is based on the notional amount used in the calculation of the cash flows resulting from the underlying operations. The gross replacement value corresponds to the present value of the estimated loss, should the counterparty of each derivative transaction fail to meet its obligations. In the case of a derivative contract that provides for the compensation of responsibilities in the event of non-compliance, the gross replacement value is the sum of the market values of the operations covered by the contract, when positive. In the case of operations where the contract does not establish the compensation of responsibilities, the gross replacement value is equal to the sum of the market values of each individual transaction, if positive. The scope of the compensation clauses, in case of default, is considered by the BPI Group in a conservative perspective, considering that, in the case of doubt, compensation does not exist. The net market value (fair value) corresponds to the value of the derivatives if they were sold or purchased in the market place on the reference date. Besides these values, that provide information about the relative importance of the derivatives portfolio in the Group's activity, the impact of that portfolio on the balance sheet is also indicated (by means of accrued interest and premiums and revaluations).

Whereas in normal loan operations the market value corresponds directly to the amount loaned, in derivatives operations, with determined cash flows, the market value is based on the net present value of those cash flows, given the market yield curve at the time of the calculation (swaps[G] and forward contracts[G]) or is determined by the market (futures[G]). In the case of options, market value is determined through the application of models that reflect the price and the price volatility[G] of the underlying assets at the time of the calculation and the characteristics inherent to those options (strike price and maturity).

The book value of derivative operations is merely a volume measure for the different markets, and it is not possible to establish a direct connection between this value and the credit risk of the operation. The credit risk of derivative operations is given by the positive gross replacement value. In futures contracts[G], 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 anticipate the possibility of netting outstanding balances with the same counterparty, which eliminates or reduces the credit risk. Additionally, in order to reduce the credit risk in OTC derivatives, some agreements have been signed under which the Bank receives from (or transfers to) the counterparty, assets (in cash or in securities) to guarantee the fulfilment of its obligations.

Derivative operations are mostly associated with other operations relating to assets and liabilities included in the financial statements. The evaluation of these operations must take this association into account.

At 31 December, 2004 and 2003 the BPI Group's derivative operations were as follows:

	2004				2003
	Notional value[1]	Book value[2]	Gross replacement value[3]	Net market value[4]	Notional value[1]
Currency contracts					
Hedging portfolio					
Outright forwards	536 329	(10 808)	1 264	(10 977)	229 223
Currency swaps	1 213 547	(26 569)	8 375	(26 859)	1 556 239
Medium and long term swaps	154 781	(4 416)	3 158	(3 560)	56 851
Options bought	4 873		16		-
	1 909 531	**(41 793)**	**12 813**	**(41 396)**	**1 842 313**
Interest rate contracts					
Trading portfolio					
Futures[5]	391 204	(1)		238	247 180
Options bought (stock exchange)	6 240	14	28	28	
Options bought (OTC)	8 000	65	65	65	
Options sold (OTC)	8 000	(65)		(65)	-
Medium and long term interest rate swaps	2 959 554	4 844	17 488	4 844	5 260 295
Hedging portfolio					
Medium and long term interest rate swaps	6 161 408	184 372	238 568	186 284	8 490 765
Options bought	12 868	(57)	360	303	3 750
Options sold	12 868		127	(234)	-
	9 560 142	**189 173**	**256 636**	**191 464**	**14 001 990**
Contracts on shares					
Trading portfolio					
Futures[5]	59 258	(448)		(455)	27 998
Options bought (stock exchange)	56 318	1 107	1 109	1 109	-
Options sold[6]	10 105	(1 556)		(1 403)	-
Hedging portfolio					
Options bought[6]	492 565	21 023	27 681	27 681	626 587
Options sold[6]	25 329			(5 308)	17 775
	643 575	**20 126**	**28 790**	**21 624**	**672 360**
Contracts on commodities					
Trading portfolio					
Futures[5]					341
	12 113 247	**167 506**	**298 239**	**171 692**	**16 517 004**
Credit risk reduction agreements on derivatives			(166 093)		
Netting effect[7]			(28 365)		
	12 113 247	**167 506**	**103 782**	**171 692**	**16 517 004**

1) Off-balance sheet value.
2) Impact on the balance sheet of derivative operations.
3) Sum of the replacement amounts of the counterparties, considering compensation terms, when they exist.
4) Sum of the market values of the operations at the reference date.
5) The replacement cost of the futures[G] is zero, because they are traded on organised stock exchanges.
6) Does not include options on bonds issued or bought.
7) Effect of compensating replacement values with the same counterparty, but recorded on different lines in the table.

At 31 December, 2004 the notional value[G], 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
Currency contracts						
Hedging portfolio						
Outright forwards	519 310	11 747	5 272			536 329
Currency swaps	1 064 497	53 625	95 425			1 213 547
Medium and long term swaps	8 340			146 441		154 781
Options bought			4 873			4 873
	1 592 147	**65 372**	**105 570**	**146 441**		**1 909 531**
Interest rate contracts						
Trading portfolio						
Futures	236 142		105 062	50 000		391 204
Options bought (stock exchange)	6 240					6 240
Options bought (OTC)					8 000	8 000
Options sold (OTC)					8 000	8 000
Medium and long term interest rate swaps	268 919	143 968	436 247	1 370 471	739 948	2 959 554
Hedging portfolio						
Medium and long term interest rate swaps	513 967	367 611	460 299	3 646 948	1 172 582	6 161 408
Options bought			3 750		9 118	12 868
Options sold			3 750		9 118	12 868
	1 025 268	**511 580**	**1 009 109**	**5 067 419**	**1 946 766**	**9 560 142**
Contracts on shares						
Trading portfolio						
Futures	59 258					59 258
Options bought (stock exchange)	43 360		12 958			56 318
Options sold			1 120	8 985		10 105
Hedging portfolio						
Options bought	196 492	92 093	7 694	196 285		492 565
Options sold				25 329		25 329
	299 110	**92 093**	**21 772**	**230 599**		**643 575**
	2 916 526	**669 045**	**1 136 450**	**5 444 459**	**1 946 766**	**12 113 247**

At 31 December, 2004 the profile of derivative operations, by counterparty, was as follows:

	Book value	Notional value	%
Currency contracts			
OTC with financial institutions	(36 057)	1 323 515	10.9%
OTC with Customers	(5 736)	586 016	4.8%
	(41 793)	**1 909 531**	**15.7%**
Interest rate contracts			
OTC with financial institutions	167 351	8 414 007	69.5%
OTC with Customers	21 808	748 691	6.2%
On the Stock Exchange	13	397 444	3.3%
	189 173	**9 560 142**	**79.0%**
Contracts on shares			
OTC with financial institutions	21 023	517 894	4.3%
OTC with Clients	(1 556)	10 105	0.1%
On the Stock Exchange	659	115 576	1.0%
	20 126	**643 575**	**5.3%**
	167 506	**12 113 247**	**100.0%**

At 31 December, 2004 the profile of derivative operations, by counterparty external rating, was as follows:

	2004			2003
	Notional value	Gross replacement value	Net market value	Notional value
Traded on OTC				
AAA	659 292	9 862	7 635	700 811
AA	7 857 483	191 971	126 152	9 516 731
A	1 719 303	40 899	26 107	4 827 393
BBB	1 995	239	239	33 666
N.R.	1 362 153	25 766	10 639	1 162 885
	11 600 227	**268 737**	**170 772**	**16 241 486**
Traded on stock exchanges	513 020	1 137	921	275 518
	12 113 247	**269 874**	**171 692**	**16 517 004**
Credit risk reduction agreements on derivatives		(166 093)		
	12 113 247	**103 782**	**171 692**	**16 517 004**

Note: The amounts were accumulated by rating levels of the counterparties, considering the senior medium and long term debt ratings attributed by the Moody, Standard & Poor and Fitch agencies as of the reference date. The selection of a rating for a given counterparty follows the rules recommended by the Basel Committee in force on the reference date (where there are diverging ratings the second best was selected). In terms of mapping a perfect correspondence between the levels attributed by the three agencies as from the top (Aaa = AAA; Aa1 =AA+; etc) was considered. The operations with entities without ratings (N.R.) correspond essentially to Clients with internal ratings.

4.29. Financial margin

This caption is made up as follows:

	2004	2003
Interest and similar income		
Interest on placements		
With credit institutions	32 262	69 318
Loans	719 200	744 177
Securities	95 795	165 079
Other assets	383	756
Credit in arrears	5 970	6 894
Interest on swap operations	508 107	486 420
Other interest and similar income	14 634	18 185
	1 376 351	**1 490 829**
Income from securities		
Portugal Telecom	4 564	3 319
SIBS	3 879	678
BCP	4 190	
Others	2 063	2 754
	14 696	**6 751**
Interest and similar expenses		
Interest expense on funds raised		
From credit institutions	90 099	194 092
Deposits	178 931	202 240
Debt securities	118 608	97 732
Other resources	14	61
Interest expense on own funds and equivalents	25 154	23 802
Contributions to the Deposit Guarantee Fund	2 459	2 313
Interest on swap operations	463 126	475 612
Other interest and similar expenses	23 041	27 202
	901 432	**1 023 054**

4.30. Net commission

This caption is made up as follows:

	2004	2003
Commission received		
On guarantees provided	25 962	23 819
On commitments to third parties	6 601	5 386
On banking services provided	167 035	154 162
On factoring operations	2 815	2 858
On operations realised on behalf of third parties	17 100	17 280
Other	20 698	21 118
	240 211	**224 623**
Commission paid		
On banking services provided by third parties	15 063	14 016
On operations realised by third parties	4 298	3 769
Other	3 702	2 145
	23 063	**19 930**

4.31. Net profit on financial operations

This caption is made up as follows:

	2004	2003
Gain on financial operations		
Gain and differences on the revaluation of the foreign exchange position	53 716	259 164
Gain and differences on the revaluation of placements	163 837	398 301
Differences on the revaluation of third party resources	70 363	337 248
Gain on off-balance sheet operations	44 836	55 765
Other	48 547	86 542
	381 299	**1 137 020**
Loss on financial operations		
Loss and differences on the revaluation of the foreign exchange position	37 068	244 678
Loss and differences on the revaluation of placements	115 419	385 975
Differences on the revaluation of third party resources	85 497	334 168
Loss on off-balance sheet operations	39 721	45 098
Other	58 701	90 924
	336 406	**1 100 843**

The captions OTHER GAINS ON FINANCIAL OPERATIONS and OTHER LOSSES ON FINANCIAL OPERATIONS at 31 December, 2004 include th. euro 25 342 and th. euro 30 119, respectively, relating to Capital Seguro and Risco Limitado operations. Additionally, the captions GAINS ON OFF-BALANCE SHEET OPERATIONS and LOSSES ON OFF-BALANCE SHEET OPERATIONS at 31 December, 2004, include th. euro 5 234 and th. euro 1 909, respectively, relating to these operations. The captions OTHER GAINS ON FINANCIAL OPERATIONS and OTHER LOSSES ON FINANCIAL OPERATIONS at 31 December, 2003 include th. euro 38 254 and th. euro 39 023, respectively, relating to Capital Seguro and Risco Limitado operations.

4.32. Personnel costs

This caption is made up as follows:

	2004	2003
Remuneration of management and supervisory bodies	8 658	7 714
Employee remuneration	209 902	210 188
Social charges		
Mandatory	57 212	59 468
Optional	2 718	2 621
Other personnel costs	4 875	4 586
	283 365	**284 577**

The caption PERSONNEL COSTS at 31 December, 2004 and 2003 includes the full amount of the variable remuneration cost, namely the cost of implementing the Variable Remuneration Program (RVA) in 2004 and 2003 (note 2.18).

4.33. Other operating income and other operating expenses

These captions are made up as follows:

	2004	2003
Other operating income		
Income from real estate	1 672	2 055
Remuneration from serving on management bodies	2	11
Sundry services rendered	9 733	8 747
Reimbursement of expenses	29 924	28 217
Gain on leased assets	1 930	1 505
Recovery of loans and interest in arrears	15 289	20 619
Other	16 216	15 183
	74 766	**76 337**
Other operating expenses		
Subscriptions and donations	1 786	3 077
Remuneration of participating securities	140	140
Loss on leased assets	1 947	1 658
Other	9 187	8 079
	13 060	**12 954**

4.34. Extraordinary income and expenses

These captions are made up as follows:

	2004	2003
Extraordinary income		
Gain on the sale of investments and fixed assets	6 704	15 887
Indemnities due to non-compliance with contracts	577	301
Other prior year income	8 060	6 919
Other extraordinary income	1 921	5 932
	17 262	**29 039**
Extraordinary expenses		
Loss on the sale of investments and fixed assets	5 708	204
Other losses on fixed assets	19	5
Fines and other legal penalties	82	139
Losses arising from theft, loss and falsification	299	437
Indemnities due to non-compliance with contracts		64
Prior year expenses	32 449	27 010
Other extraordinary expenses	18 934	20 050
	57 491	**47 909**

The gain on the sale of investments and fixed assets net of losses at 31 December, 2004 includes th. euro 2 567, relating to gain on the sale of the investment in Pararede and th. euro 2 525 relating to loss on the sale of part of the investment in Impresa. The gain on the sale of investments and fixed assets net of losses at 31 December, 2003 includes th. euro 9 814 relating to gain on the sale of the investment in Banc Post and th. euro 5 117 relating to gain on the sale of the investment in Barbosa & Almeida.

The caption EXTRAORDINARY EXPENSES at 31 December, 2004 and 2003 includes th. euro 32 515 and th. euro 25 794 relating to the coverage of the liability for retirement and survivor pensions, respectively (note 4.20). At 31 December, 2004 and 2003, these captions also included th. euro 9 675 and th. euro 10 832 corresponding to other early retirement costs in 2004 and 2003, respectively.

4.35. Income tax

The tax rate, measured by the relationship between the provision for income tax and profit before income tax, was as follows:

	2004	2003
Income tax	45 168	23 629
Provision for taxes payable income[1]	4 993	732
	50 161	**24 361**
Profit for the year before income tax[2]	214 383	182 633
Effective tax rate	23.4%	13.3%

1) Provisions for tax payable recorded during the year (note 2.10 ii)).
2) Includes profit before income tax and minority interests and excludes profits of subsidiary companies excluded from the consolidation.

The low effective tax rate in 2003 reflects utilisation of Banco BPI's tax losses carried forward following the restructuring operation of the BPI Group in December 2002.

Profits generated by the off-shore financial branches of the Group during 2004 and 2003, which are exempt from taxation, considering the limit established by Ministerial Order 555 / 2002 of 4 June, were as follows:

	2004	2003
Funchal financial branch	1 998	2 799
Santa Maria financial branch	16 728	17 442

4.36. Consolidated net profit

Consolidated net profit for 2004 and 2003 is made up as follows:

	2004	2003
Banco BPI' net profit (non-consolidated)	127 889	145 532
BPI Investimentos' net profit (non-consolidated)	15 063	5 280
Banco de Fomento S.A.R.L.'s (Angola) net profit (non-consolidated)	24 888	16 693
Banco Comercial e de Investimento S.A.R.L.'s net profit (non-consolidated)[1]	2 591	488
Banc Post net profit (non-consolidated)		590
Banco BPI Cayman's net profit (non-consolidated)	8 036	5 399
Contribution of Banco BPI' subsidiary and associated companies (excluding the banks) to the consolidated net profit	55 680	26 053
Elimination of provisions	(10 497)	(4 695)
Elimination of dividends	(35 794)	(25 384)
Recognition and elimination of gains and losses on the sale of investments	282	(7 386)
Other consolidation adjustments	4 580	1 273
	192 718	**163 843**

1) At 31 December, 2003 corresponds the net profit of Banco de Fomento S.A.R.L. (Mozambique) for 2003.

The contribution of Banco BPI and its subsidiary and associated companies to the consolidated net profit of 2004 and 2003, is as follows:

	2004		2003	
	Amount	%	Amount	%
Banks				
Banco BPI, S.A.[1]	90 217	46.8	107 334	65.5
Banco Português de Investimento, S.A.[1]	15 063	7.8	5 263	3.2
Banco de Fomento S.A.R.L. (Angola)[1]	27 459	14.3	20 554	12.5
Banco Comercial e de Investimentos, S.A.R.L.[1]	3 713	1.9	(1 797)	(1.1)
Banco Post S.A.[1, 2]			1 182	0.7
Banco BPI Cayman, Ltd.	8 036	4.2	5 399	3.3
Specialised loan companies				
BPI Locação de Equipamentos, Lda.	200	0.1	276	0.2
BPI Rent – Comércio e Aluguer de Bens, Lda.	646	0.3	922	0.5
Eurolocação – Comércio e Aluguer de Veículos e Equipamentos, S.A.	(98)	(0.1)	(2)	0.0
Asset management companies and dealers				
BPI Dealer – Sociedade Financeira de Corretagem (Mozambique), S.A.R.L.[1]	38	0.0	(6)	0.0
BPI Fundos – Gestão de Fundos de Investimento Mobiliários, S.A.	15 770	8.2	11 664	7.1
BPI – Global Investment Fund Management Company, S.A.	231	0.1	276	0.2
BPI Pensões – Sociedade Gestora de Fundos de Pensões, S.A.	2 311	1.2	2 003	1.2
Sofinac – Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.	291	0.2	267	0.2
BPI (Suisse), S.A.[1]	(688)	(0.4)	(927)	(0.6)
Venture capital companies				
F. Turismo – Capital de Risco, S.A.	49	0.0	37	0.0
Inter-Risco – Sociedade de Capital de Risco, S.A.[1]	(1 803)	(0.9)	(1 614)	(1.0)
Solo – Investimentos em Comunicação, SGPS, S.A.	(291)	(0.2)	(43)	0.0
Insurance companies				
BPI Vida – Companhia de Seguros de Vida, S.A.	11 735	6.1	4 022	2.5
Cosec – Companhia de Seguros de Crédito, S.A.	1 325	0.7	575	0.4
Companhia de Seguros Allianz Portugal, S.A.	7 478	3.9	4 577	2.8
Others				
BPI, Inc.[1]	(29)	0.0	83	0.1
SIC – Sociedade Independente de Comunicação, S.A.	4 401	2.3		
BPI Madeira, SGPS, Unipessoal, S.A.[1]	26	0.0	4	0.0
Douro SGPS, S.A.	(48)	0.0	271	0.2
Finangeste – Empresa Financeira de Gestão e Desenvolvimento, S.A.	953	0.5	401	0.2
Promática – Sociedade de Informação e Organização de Empresas, S.A.	(56)	0.0	(417)	(0.3)
Simofer – Sociedade de Empreendimentos Imobiliários e Construção Civil, Lda.	77	0.0	(14)	0.0
Viacer – Sociedade Gestora de Participações Sociais, Lda.	5 712	3.0	3 553	2.2
	192 718	**100.0**	**163 843**	**100.0**

1) Adjusted profit.
2) Investment sold during 2003.

4.37. Breakdown by geographical market and business segment

Following is a breakdown, by geographical market, of the BPI Group's operations for the year ended 31 December, 2004:

	Portugal	Rest of the European Union	Rest of Europe	Africa	Rest of the World[1]	Inter-segment operations	Total
Interest and similar income	1 193 454	24 165	2	51 934	277 884	-171 088	1 376 351
Interest and similar expenses	789 682	12 869	11	12 594	257 364	-171 088	901 432
Commission (income)	225 298	6 784	572	7 529	765	-737	240 211
Commission (expenses)	20 606	1 530	3	1 645	16	-737	23 063
Income from securities	14 696						14 696
Gain on financial operations	312 004	975	13	32 449	35 858		381 299
Loss on financial operations	293 330		1	14 105	28 970		336 406
Reversal and write-off of provisions[2]	103 456	2 040		3 363	1 152		110 011
Provisions for credit in arrears and other risks[2]	152 444	222		12 325	877		165 868
Other operating income	62 268	175	3	12 315	5		74 766
Net profit for the year							192 718
Loans granted to Customers (net)	17 924 873	413 812		211 078	325 604	-1 847	18 873 520
Amounts owed to Customers	9 561 498	198 800		595 245	2 080 087	-21	12 435 609
Total net assets							24 010 267

1) The amounts in the column "Rest of European Union" corresponds essentially to the Madrid and Paris branches. The amounts in the column "Rest of the World" correspond to the companies with head-offices located in Cayman (BBPI Cayman branch, Banco BPI Cayman and BPI Capital Finance).
2) Does not include provisions for equity investments.

Following is a breakdown, by business segment, of the BPI Group's operations for the year ended 31 December, 2004:

	Corporate finance	Trading and sales	Brokerage (retail)	Retail banking		Commercial banking	Payments and settlements	Custody	Asset management	Others	Inter-segment operations	Total
				Domestic	Abroad							
Interest and similar income	3	586 262	6	461 251	51 928	273 090			511	10 969	-7 669	1 376 351
Interest and similar expenses	3	692 520		147 371	12 594	21 578			19 823	15 212	-7 669	901 432
Commission (income)	3 346	1 361	6 597	120 668	7 522	52 572	9 932	2 817	37 078	1 114	-2 796	240 211
Commission (expenses)	5	1 164	1 502	15 379	1 644	1 072	242	1 726	2 763	362	-2 796	23 063
Income from securities		4 822								9 874		14 696
Gain on financial operations		347 935	11	13	32 438					902		381 299
Loss on financial operations		322 093		1	14 104					208		336 406
Reversal and write-off of provisions[1]												110 011
Provisions for credit in arrears and other risks[1]												165 868
Other operating income	51	1 451	26	47 496	12 289	9 383	48		407	3 727	-112	74 766
Net profit for the year												192 718
Loans granted to Customers (net)	1 098	75 076		11 571 511	211 078	6 990 519			2 361	45 799	-23 922	18 873 520
Gross amounts	1 723	75 337		11 665 717	212 267	7 040 803			2 391	46 773	-23 922	19 021 089
Provisions	625	261		94 206	1 189	50 284			30	974		147 569
Amounts owed to Customers	15 824	50 366		8 855 146	595 245	1 701 406			880 719	385 166	-48 263	12 435 609
Total net assets												24 010 267

1) Does not include provisions for equity investments.

4.38. Personnel

The average and end-of-year number of Employees[1] during 2004 and 2003 was as follows:

	2004		2003	
	Average for the period	End of the period	Average for the period	End of the period
Members of the Board of Directors	14	14	15	14
Management staff	506	495	512	498
Other staff	3 236	3 237	3 302	3 174
Other Employees	3 249	3 217	3 497	3 218
	7 005	**6 963**	**7 296**	**6 904**

1) Employees of the Group companies consolidated by the full consolidation method. Employees of foreign branches of Banco BPI are also included.

4.39. Loans and advances to the Directors of Banco BPI

In accordance with the Bank's policy the President of the Board of Directors and 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, 2004 the outstanding mortgage own housing loans granted to the President of the Board of Directors and the members of the Executive Committee by banks of the Group amounted to th. euro 3 329.

Under the RVA program – Variable Remuneration in shares, the President of the Board of Directors 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 attributed under the RVA program, available to all the Banks' Employees. At 31 December, 2004 the total balance of these loans to the President of the Board of Directors and the members of the Executive Committee by the Group's banks amounted to th. euro 3 990.

4.40. Other issues

In December 2004 Banco BPI entered into an agreement with Cinforma – Centro de Informática Limitada, a wholly owned subsidiary of Impresa SGPS, S.A., to sell its 41.366% direct and indirectly owned participation in SIC – Sociedade Independente de Comunicação, S.A. The operation consists of the sale by Banco BPI of 1 382 108 shares of SIC and of Solo – Investimentos em Comunicação, SGPS, S.A., which in turn owns 1 101 922 shares of SIC. The total selling price is th. euro 128 741 resulting in a loss of th. euro 13 925, which is fully provided for under the caption PROVISIONS FOR OTHER RISKS (note 4.27). The operation is subject to a suspensive condition, relating to the obtention of a non opposition decision by the Portuguese Competition Authority ("Autoridade da Concorrência").

In January 2005 Banco BPI sold its investment in the company Auto-Estradas do Atlântico – Concessões Rodoviárias de Portugal, S.A. owned through the company Auto-Estradas do Oeste – Concessões Rodoviárias de Portugal, S.A. The investment was sold for th. euro 19 053. In addition to the investment, BPI also transferred to the same entities its shareholders' loan to Auto-Estradas do Oeste for the amount of th. euro 10 326. Banco BPI realised a capital gain of th. euro 16 971 on these transactions, which will be recorded in financial statements for 2005.

On 3 August, 2004 Banco BPI signed a promissory purchase and sales contract, in which Parpública – Participações Públicas (SGPS), S.A. is the seller and Petrocer, SGPS, Lda. is the purchaser. The object of the contract is a block of shares of Galp Energia, SGPS, S.A. corresponding to 40.79% of its share capital and voting rights.

Banco BPI participates in this contract as partner of Petrocer SGPS, Lda (in which it has a 13.5% participation). The other partners of Petrocer SGPS, Lda (Viacer – Sociedade Gestora de Participações Sociais, Limitada, Violas – Sociedade Gestora de Participações Sociais, S.A. and Arsopi Holding – Sociedade Gestora de Participações Sociais, S.A.) have also signed the promissory contract.

In the promissory contract, Petrocer's partners declared and guaranteed, on behalf of themselves and Petrocer SGPS, Lda., to Parpública – Participações Públicas (SGPS), S.A., Lda, that on the transfer date of the shares subject to the promissory contract they will have the necessary financial means to carry out the transaction.

5. EXPLANATION ADDED FOR TRANSLATION

The accompanying financial statements are a translation of financial statements originally issued in Portuguese in accordance with generally accepted accounting principles in Portugal and the disclosures required by the Portuguese Chart of Accounts for the Banking System, some of which may not conform with 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 & Associados, SROC S.A.
Inscrição na OROC n.º 43
Registo na CMVM n.º 231

Edifício Atrium Saldanha
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Portugal

LEGAL CERTIFICATION OF ACCOUNTS AND AUDIT REPORT
CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of euro – th. euro)

Introduction

1. Pursuant to the applicable legislation, we present our Legal Certification of Accounts and Audit Report on the consolidated financial information included in the Directors' Report and the accompanying consolidated financial statements of Banco BPI, S.A. ("the Bank") for 2004, which comprise the consolidated balance sheet as of 31 December, 2004, which reflects a total of th. euro 24 010 267 and shareholders' equity of th. euro 1 231 535, including net profit for the year of th. euro 192 718, the consolidated statements of income by nature and by functions and the consolidated statement of cash flows for the year then ended and the corresponding notes.

Responsibilities

2. The Board of Directors of the Bank is responsible for: (i) the preparation of consolidated financial statements that present a true and fair view of the financial position of the companies included in the consolidation, the consolidated results of their operations and their consolidated cash flows; (ii) the preparation of historical financial information in accordance with generally accepted accounting principles and that is complete, true, up-to-date, clear, objective and licit, as required by the Securities Market Code (Código dos Valores Mobiliários); (iii) adopting adequate accounting policies and criteria and maintaining appropriate systems of internal control; and (iv) informing 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 verification that, in all material respects, the information is complete, true, up-to-date, clear, objective and licit, as required by the Securities Market Code, and to issue a professional and independent report based on our examination.

Scope

4. Our examination was performed in accordance with the auditing standards ("Normas Técnicas e Directrizes de Revisão/Auditoria") issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that the audit 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 test basis, evidence supporting the amounts and disclosures in the financial statements and assessing the significant 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 and application of the equity method and verifying that the financial statements of the companies included in the consolidation were adequately examined, assessing the adequacy of the accounting principles used, their uniform application and their disclosure considering the circumstances, verifying the applicability of the going concern concept, assessing the adequacy of the overall presentation of the consolidated financial statements, and verifying that, in all material respects, the financial information is complete, true, up-to-date, clear, objective and licit. Our examination also included verifying that the consolidated financial information included in the Directors' Report is consistent with the other consolidated documents of account. We believe that our examination provides a reasonable basis for expressing our opinion.

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Deloitte Touche Tohmatsu

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Deloitte & Associados, SROC S.A.
Inscrição na OROC n.º 43
Registo na CMVM n.º 231

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. as of 31 December, 2004 and the consolidated results of its operations and its consolidated cash flows for the year then ended in conformity with generally accepted accounting principles in Portugal for the banking sector and the information included therein is complete, true, up-to-date, clear, objective and licit in accordance with the definitions included in the standards referred to in paragraph 4 above.

Emphasis

6. The consolidated financial statements for the year ended 31 December, 2003 are presented by the Bank in order to comply with the requirements for publication of accounts. The Legal Certification of Accounts and Audit Report on these financial statements, dated March 4, 2004, includes an emphasis paragraph regarding the impact of the provisions recorded for unrealised losses on equity investments by charge to the share premium account and reserves, in accordance with Bank of Portugal Notice 4 / 2002 of June 25 (notes 2.4, 4.24, 4.25 and 4.27).

Oporto, March 4, 2005

DELOITTE & ASSOCIADOS, SROC S.A.
Represented by Maria Augusta Cardador Francisco

Report and Opinion of the Audit Board

REPORT AND OPINION OF THE AUDIT BOARD
CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Banco BPI, S.A.

In conformity with current legislation and our mandate, we present our Report and Opinion which covers the work performed by us and the consolidated documents of account of Banco BPI, S.A. ("the Bank") for the year ended 31 December, 2004, for which the Board of Directors is responsible.

During 2004 we accompanied the evolution of the activities and business of the Bank and its principal participated companies, the adequacy of their accounting records and their compliance with the requirements of their respective articles of association, having obtained from the Board of Directors and employees of the Bank and from the statutory boards and employees of the principal participated companies the information and explanations requested.

Within the scope of our functions we examined the consolidated balance sheet as of 31 December, 2004, the consolidated statements of income by nature and by functions, the consolidated statement of cash flows and the accompanying notes, as well as the Directors' Report prepared by the Board of Directors for the year then ended. In addition, we reviewed the Legal Certification of Accounts and Audit Report, prepared by the Statutory Auditor who is a member of this Board, with which we are in agreement.

Based on the above, it is our opinion that the above mentioned consolidated financial statements and Directors' Report, as well as the proposal included therein, are in compliance with the applicable accounting requirements and provisions of the articles of association and therefore can be approved by the Shareholders' General Meeting.

We wish to thank the Board of Directors and employees of Banco BPI, S.A. for their co-operation.

Oporto, March 4, 2005

Jorge Figueiredo Dias
President

José Ferreira Amorim
Member

DELOITTE & ASSOCIADOS, SROC S.A.
Represented by Maria Augusta Cardador Francisco
Member

The BPI Group's Corporate Governance Report

The BPI Group's Corporate Governance Report

Declaration of compliance 235

1. Introduction 236
2. Guiding principles of the BPI Group's governance policy 237
3. Structure, division of duties and functioning of the BPI Group's principal management and control bodies 238
3.1. Structure of the Group's governance and supervision 238
3.2. General Meeting 240
3.3. Board of Directors 247
3.4. Executive Committee of the Board of Directors 252
3.5. Audit and Internal Control Committee 256
3.6. Audit Board 259
3.7. Remuneration Committee 260
3.8. BPI Group's Corporate Governance monitoring committee 261
3.9. Banco Português de Investimento's management 261
3.10. Banco de Fomento Angola's management 262
4. The Group's functional organisation chart 265
5. Risk management 267
5.1. Principles of risk management 267
5.2. Division of responsibilities in risk control and management matters 267
6. External auditors 268
6.1. Independence 268
6.2. Liability 270
6.3. Remuneration 270
6.4. Other safeguard mechanisms 270
7. Remuneration 271
7.1. Remuneration policy 271
7.2. Remuneration of members of Banco BPI's governing bodies 272
7.3. Remuneration of members of Banco Português de Investimento's Board of Directors 274
7.4. Share incentive scheme (Portuguese initials "RVA") 274
7.5. Pension plans for Directors of the Banks 285
7.6. Loans to members of Banco BPI's Board of Directors 286
7.7. Insurance of Banco BPI's Directors 286
7.8. Other benefits / compensation 286
8. Shareholder control and transferability of shares 287
8.1. Shareholder control 287
8.2. Shareholder agreements relating to the exercise of company rights or to the transferability of shares 287
9. Exercise of voting rights and Shareholder representation 288
9.1. Encouraging of the exercise of voting rights 288
9.2. Attribution of voting right 288
9.3. Procedures relating to proxy representation 288
9.4. Procedures relating to postal voting 289
9.5. Procedures relating to voting by electronic means 289
10. Exercise of corporate rights by BPI Group entities 290
11. Code of ethics and professional conduct 292
11.1. Commitment to strict standards of ethics and professional conduct 292
11.2. Equity and safeguarding against conflict of interest 292
11.3. Violation of professional secrecy and confidentiality 292
11.4. Stock brokerage activity 293
11.5. Combat against money laundering 294
11.6. Prevention of insider trading 294
11.7. Business dealings between Banco BPI and members of the Board of Directors, the Audit Board, the holders of qualified shareholdings or companies belonging to the Group 295
11.8. Accounting transparency 295
11.9. Social investment 295
12. Communication with the market 296
12.1. Principles governing the disclosure of financial information and other important facts 296
12.2. Investor Relations Division 296
12.3. Internet site 297
12.4. Representative for relations with the market 298
13. Banco BPI shares 299
13.1. Shareholder return 299
13.2. Trend in Banco BPI's share and communication of important facts to the market 300
14. Dividend policy 301

APPENDICES
- Corporate Governance regime in Portugal 302
- Other management or supervisory positions occupied by members of Banco BPI's Board of Directors 303
- Similarities between the CMVM's regulations and recommendations dealing with corporate governance and the BPI Group's Report on Corporate Governance 305
- Publications, communications and institutional events in 2005 306

Declaration of compliance

BPI complies fully with the CMVM's recommendations relating:

- to the governance of quoted companies;
- to the exercise of postal voting in open companies;
- to the disclosure of information via the Internet.

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 share 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 attributed 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.

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 2004[1], in compliance with its duty of information and transparency, and in conformity with the rules in force.

Banco BPI's Board of Directors has endeavoured to present an increasingly comprehensive report, with the overriding concern of responding positively to the initiatives[2] of the Comissão do Mercado de Valores Mobiliários (CMVM – Portuguese Securities Market Commission) and to refine the bank's governance model and respective reporting policy, in accordance with the guidelines published by various European bodies, notably the European Commission and the Organisation for Economic Development and Cooperation (OECD).

Refinements in the 2004 Report

Amongst the improvements made to the BPI Group's Report on Corporate Governance, the following merit special reference:

- revision of the list of the Audit and Internal Control Committee's responsibilities, resulting from a resolution adopted on 21 April 2004 by the Board of Directors, in which this body was entrusted the function of overseeing the BPI Group's corporate governance principles and giving prior approval for the contracting of non-audit services to be provided by the external auditors, as well as the respective fee terms;

- introduction of a new chapter which identifies in summarised form and from a corporate governance perspective, the principal legislative and regulatory norms to which Banco BPI (and subsidiaries) are subject as quoted company, credit institution, or simply in its capacity of a public liability company;

- provision of comprehensive information about the Board of Directors of Banco de Fomento Angola, including a section on the legal and regulatory framework governing its activity;

- more detailed information about the policies and procedures implemented at Deloitte & Touche with a view to guaranteeing the highest standards in service quality, the commitment to stringent standards of ethics and professional conduct and safeguarding the auditor's independence vis-à-vis the audit Client;

- more extensive chapter relating to the manner in which the BPI Group's entities which operate on the market as institutional investors exercise the rights attaching to the securities which they hold and whose management is entrusted to them, namely voting rights;

- indication of the spectrum of requirements and incompatibilities envisaged in the General Regime governing Credit Institutions and Financial Companies, compliance with which is essential before a specified person is eligible to become a member of the Board of Directors, the Audit Board or the Remuneration Committee;

- in the "Ethics and professional conduct" chapter, the topic "Combating money laundering" was revised and dealt with in greater detail;

- in the chapter on "Remuneration", besides a full description on the 2004 RVA programme, it is worth mentioning the section devoted to "Loans to members of Banco BPI's Board of Directors", through the indication of the legal precepts contemplated in "General Regime governing Credit Institutions and Financial Companies" dealing with this issue.

1) The Directors' Report includes a chapter dedicated to the BPI Group's governance which is deemed to form an integral part of this document.
2) Embodied principally in the approval of CMVM Regulation no. 11 / 2003 and in the revision to its "Corporate Governance Recommendations" (November 2003).

2. Guiding principles of the BPI Group's 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 Board and the members of the Audit and Internal Control 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.

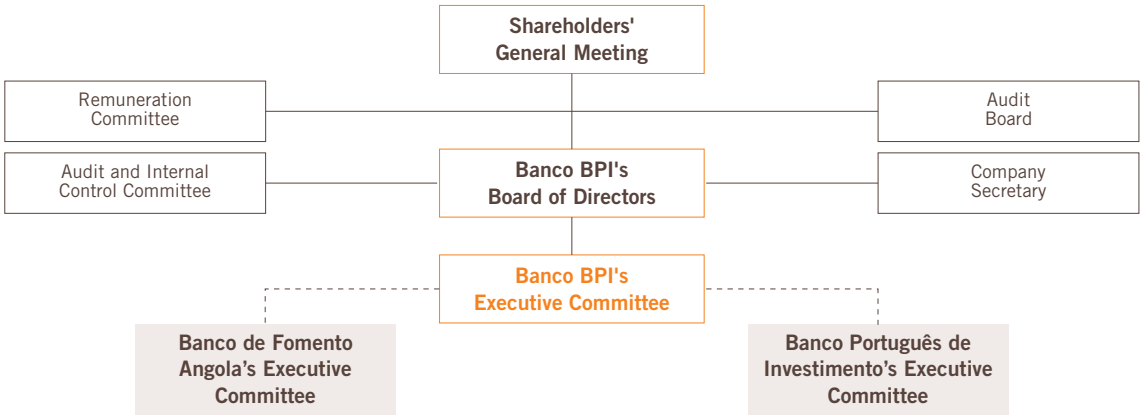
10 Harmony

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 principal management and control bodies

3.1. STRUCTURE OF THE GROUP'S GOVERNANCE AND SUPERVISION

The BPI Group's major strategic lines are defined by Banco BPI's Board of Directors. These guidelines, which are periodically endorsed at the Shareholders' General Meeting, are subsequently implemented by Executive Committee of Banco BPI's Board of Directors, whose activity is systematically monitored by the Board of Directors.



Thus, the Board of Directors decides on the existence and composition of the Executive Committee and the Boards of Directors of the Group's Banks, approves the annual operating plan and budget; assesses the Group's performance vis-à-vis the budget; deliberates about the taking of significant holdings in financial institutions or in the capital of other companies; monitors the trend in credit and market risks; evaluates the management of the pension funds and the performance of the investments portfolios; and analyses the reports issued by the rating agencies, by the supervisory authorities and by financial analysts on the BPI Group's activity. In its plenary session, it also approves the Group's quarterly results and their communication to the market.

The Executive Committee of Banco BPI's Board of Directors is the executive body responsible for the management of the Group's activity. Its principal functions include the allocation of capital to the principal areas of the Group's activity in accordance with the Board of Directors' guidelines, evaluation of the profitability of the main business areas, management of financial risks, deciding on credit risks and their monitoring, taking investment or disinvestment decisions on equity holdings which do not fall within the scope of the Board of Directors' powers, and managing human resources policy.

In order to undertake the close monitoring of all the BPI Group's risk areas, the Internal Control Committee was created in 1999 within the ambit of the Board of Directors: in 2004, it was renamed the Audit and Internal Control Committee.

This body is directed by the Chairman of the Board of Directors and is composed of four non-executive Directors, of whom two are Deputy-Chairmen of the Board of Directors. The Audit and Internal Control Committee has as its main functions appointing the external auditors and promoting their independence, the formulation of the annual internal and external audit programmes, overseeing the internal control systems of the credit institutions controlled by the BPI Group (including since 2005 those of Banco de Fomento Angola), as well as monitoring the areas whose activity give rise to the more important credit and operating risks for the BPI Group. The Audit and Internal Control Committee is also responsible for monitoring compliance with the BPI Group's corporate governance principles.

The Audit Board is charged with overseeing Banco BPI's overall activity, ensuring compliance with the law and the company's statutes.

The Remuneration Committee fixes the remuneration of the officers of Banco BPI's governing bodies and carries out the evaluation of the members of Banco BPI's Executive Committee and the Boards of Directors of Banco Português de Investimento, and since 2005 of Banco de Fomento Angola, with a view to determining the respective annual variable remuneration.

The Company Secretary, besides performing the functions envisaged in the law, is responsible for relations with the supervisory and inspection authorities, namely, the Bank of Portugal, the Securities Market Commission (*Comissão do Mercado de Valores Mobiliários* – CMVM)[1], the Insurance Institute of Portugal (*Instituto de Seguros de Portugal*), the Directorate-General for Taxes (*Direcção Geral de Impostos e Inspecção de Finanças*). Banco BPI's Secretary writes up the minutes of the Board of Directors' and the Executive Committee's meetings, and then circulates these amongst all the members, while ensuring that supporting documents for the meetings are made available at the Board of Directors meetings.

Banco BPI's Statutes are available on the Investor Relations website at www.ir.bpi.pt.

ELIGIBILITY FOR MANAGEMENT AND SUPERVISORY BODIES – REQUISITES EMBODIED IN PORTUGUESE LAW

Requirements of integrity, professional experience and availability

The General Regime of Credit Institutions and Financial Companies (GRCIFC) establishes a set of requirements and incompatibilities, compliance with which is indispensable so that a specified person 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 *Instituto de Seguros de Portugal* and the *Comissão do Mercado de Valores Mobiliários* 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[2]

The GRCIFC 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[3]

The GRCIFC 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[4]

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".

1) In liaison with the Representative for Relations with the Securities Market.
2) Extracts from Article 30 of Chapter III of the GRCIFC.
3) Extracts from Article 31 of Chapter III of the GRCIFC.
4) Extracts from Article 33 of Chapter III, of the GRCIFC.

3.2. GENERAL MEETING

Composition, principal functions and manner of participation

The General Meeting (GM) is the governing body composed of the Shareholders entitled to vote – that is, all shareholders owning at least one thousand Banco BPI shares – which considers matters of vital importance for the company's affairs, deliberating on and then voting on them.

PRINCIPAL FUNCTIONS OF THE GENERAL MEETING

- Election of the members of the Board of Directors, the Audit Board, the Remuneration Committee and the General Meeting Committee.
- Evaluation of the Board of Directors' and Audit Board's performance.
- Consideration of the Board of Directors' annual report, discussion and vote on the consolidated and individual balance sheet and accounts, as well as on the opinion of the Audit Board.
- Review of the strategic orientation and polices adopted.
- Deliberate about the appropriation of the annual results, capital increases and issue of convertible bonds or bonds conferring the right to subscribe for shares.
- Deliberate about alterations to the statutes.
- Deliberate about the acquisition and sale of treasury stock.

Shareholders owning less than one thousand shares can group together in order to reach this number and thus acquire voting rights. In terms of the company's statutes, the votes cast by one Shareholder (either in his own name or as the representative of another or others) which exceed 12.5% of the total votes corresponding to the share capital, shall not be taken into account.

Shareholders have a number of ways of participating at Meetings: physical presence, by proxy (by other Shareholders or by third parties) and postal or electronic voting.

Composition of the General Meeting Committee

Chairman	Rui Manuel Chancerelle de Machete
Secretaries	Galucho – Indústrias Metalomecânicas, S.A. (represented by Vitalina Justino Antunes)
	Produtos Sarcol, Lda. (represented by Estela M. Barbot)

Functioning rules

In terms of the law[1], Banco BPI's Annual General Meeting must be held before the end of May.

The Committee Chairman must convene an extraordinary General Meeting whenever this is requested by the Board of Directors, by the Audit Board, by Shareholders owning shares corresponding to at least 5% of the share capital or in other cases contemplated in the law.

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 and demerger operations, amongst other special situations envisaged in the law[2]. For these cases it is necessary that Shareholders owning shares corresponding to at least one third of the company's capital[3] must be present or represented, and that the motions under consideration are approved by two thirds 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.

At the last three Meetings held on 8 November 2002, 10 April 2003 and 20 April 2004, shareholders owning shares corresponding to 60.4%, 59.3% and 60.9% of the voting rights respectively were present or represented.

The Shareholder or Shareholders owing 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.

During the course of General Meetings, any Shareholder can request that information be supplied so that he can form a substantiated opinion about the matters being deliberated. Notwithstanding the faculty expressed in the previous paragraph, the motions presented to the Shareholders' meeting have as rule been at the initiative of the Board of Directors.

1) This is because Banco BPI presents consolidated accounts, otherwise it would have to meet by the end of March (article 376(1) of the Companies Code).
2) Art. 386(2) of the Companies Code.
3) Art. 383(2) and 386(2) of the Companies Code.

Results of the Shareholders' Meetings held in the last 5 years

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 table below:

Motions (in general terms) presented at the Shareholders' Meetings held in the last five years and the percentage of votes in their favour

	29 Mar. 00	19 Sep. 00	29 Mar. 01	26 Jun. 01	03 Apr. 02	08 Nov. 02	10 Apr. 03	20 Apr. 04
Report and Accounts	99.99%	-	99.99%	-	99.84%	-	99.986%	99.31%
Appropriation of Results	99.99%	-	99.99%	-	99.83%	-	100.000%	99.99%
General appraisal of management and supervision[1]	99.99%	-	99.98%	-	99.84%	-	99.546%	99.99%
Acquisition and disposal of treasury stock	-	99.988%	-	-	99.84%	-	99.998%	99.99%
Triennial election of governing bodies	-	-	-	-	99.84%[2]	-	-	-
Alteration of the statutes	-	-	-	-	-	-	100.000%	99.99%
Corporate reorganisation	-	-	-	100.00%	-	100.00%[3]	-	-
Alteration in the composition of the Board of Directors	-	-	-	99.99%	-	-	99.998%	99.99%[5]
Capital increase	-	99.988%[4]	-	-	99.84%	-	-	-

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, 4 motions were voted on, all of which relating to the corporate reorganisation concluded at the end of 2002.
4) Associated to this motion, another was also voted on relating to the limitation of shareholders' right of preference, which was approved by the same percentage of votes.
5) 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.

Shareholders' General Meetings held in 2004

Banco BPI's Shareholders' General Meeting met once in 2004, on 20 April. It was attended by Shareholders or their representatives owning shares corresponding to 60.9% of the voting rights, with Shareholders having deliberated and approved the following motions:

	Percentage of votes		
	In favour	Abstentions	Against
Banco BPI individual and consolidated annual report and accounts for the financial year ended December 31, 2003	99.31%	0.69%	-
Appropriation of net income for 2003, including the payment of a 9 cents dividend per share to be attributed to each of the 760 000 000 shares in issue at 31 December 2003	99.99%	0.01%	0.0024%
Vote of confidence and praise to the Board of Directors and Audit Board, extended each and every member of the governing bodies, for the manner in which they carried out their respective mandates during 2003	99.99%	0.01%	-
Filling up a vacancy on the Board of Directors	99.99%	0.01%	-
Amendment to Article 12 of the Company's Articles of Association	99.99%	0.01%	-
Acquisition and disposal of own shares	99.99%	0.01%	-
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 over the last 23 years	100.00%	-	-

BPI adopts 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 BPI's Investor Relations website (www.ir.bpi.pt) and sent to the general and specialist media bodies.

Change in the position of Chairman of the Executive Committee

With the approval of the 2003 accounts under point 1 of the General Meeting's order of business, Artur Santos Silva ceased executive functions – which he had performed since the founding of BPI – in terms of article 26 (3) of the Bank's statutes, which stipulates that the Directors who are members of the Executive Committee cease functions on this Committee when the accounts for the year in which they attain the age of 62 are approved.

The introduction of this limit resulted from a proposal made by Artur Santos Silva himself to the Board of Directors in 1998. On 3 December 2003, the Board of Directors approved the nomination of Fernando Ulrich as Chairman of the Executive Committee following the proposal made by the Chairman of the Board of Directors, Artur Santos Silva.

The texts which follow are transcriptions of the declarations (recorded in the minutes) made by the Chairman of the Board of Directors and former Chairman of the Executive Committee, Artur Santos Silva, of the nominated Chairman of the Executive Committee, Fernando Ulrich and of the Deputy-Chairman of the Board of Directors, Carlos da Câmara Pestana.

STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS, ARTUR SANTOS SILVA

[...] Artur Santos Silva enumerated the reasons that led him to submit to the Board of Directors in December 2003 a proposal for the nomination of the future Chairman of the Executive Committee:

- in the first place, because he believed that it was advantageous that such nomination be made well in advance of its materialisation;
- in second place, because at that Board of Directors meeting in December 2003, the operating plan and budget for 2004 was going to be discussed; accordingly it should be presented by the person who would be responsible for its execution.

Having referred to the agreement and approval of the Board of Directors for the proposal presented by him at the said meeting at which Fernando Ulrich be nominated as the future Chairman of Banco BPI's Executive Committee, commencing functions with effect from the approval of the 2003 accounts, Artur Santos Silva, decided, to be more precise, to read the contents of the communication which he presented to the Board members on the aforesaid date, as follows:

"The proposed solution is the most desirable for BPI because the personality, the qualities and the ability – all exceptional – of the Deputy-Chairman Fernando Ulrich confer on him the conditions most suited to directing the Bank and the BPI Group. I emphasise in particular the character, the leadership capacity, the strategic vision, the loyalty to BPI, the determination and the courage of the Deputy-Chairman Fernando Ulrich.

I recall that Fernando Ulrich has been associated with BPI for more than 20 years and that he has made a notable contribution to the Investment Bank's leading position in the Portuguese market, namely, in the launch of the capital market, in the privatisation process, in the modernisation of public-debt and corporate-debt instruments and in the area of asset management.

From the moment when BPI extended its business interest to commercial banking (in 1991) with the acquisition of Banco Fonsecas & Burnay, Fernando Ulrich made a special contribution to our important role in retail banking. This contribution was reinforced in 1996 with the acquisition of Banco de Fomento and Banco Borges & Irmão and, most notably, since 1998 with the creation of Banco BPI.

More recently (since 1999), he has chaired retail banking's Executive Committee and, since 2002, commercial banking's Executive Committee, which has made a highly significant contribution to the strong positions which the Group has conquered in retail banking and in the successful restructuring of the entire commercial banking business, which has led to the very visible improvement in Banco BPI's efficiency despite the very difficult and complex climate pervading the financial system and the Portuguese economy."

The Chairman of the Board of Directors stated that the above proposal was supported by the Board, citing what had been recorded in the minutes, in which it was recognised that "Fernando Ulrich possesses a professional personality and the qualities which fully meet those required for the office, highlighting as especially important the degree of affinity with the objectives of the Bank's business orientation that he always maintained with the Chairman of the Board of Directors, an affinity which now becomes even more pertinent for the proper coordination of Board's plenary work with that of its Executive Committee."

He terminated citing and signing the following closing remark to the report presentation:

"In this way, a start is made to a new phase in the institution's existence in which the posts of Chairman of the Board of Directors and Chairman of the Executive Committee will not be occupied by the same person. It is a planned renovation, executed as programmed, from which we expect strategic continuity founded on a consistent history that has been shared through the successful journey of the past 20 years. BPI now has at its helm the same Chairman of the Board of Directors and a new Chairman of the Executive Committee with great professional sand human stature with a proven track record. His appointment is not only the correct one, it was earned."

STATEMENT OF THE NOMINATED CHAIRMAN OF THE EXECUTIVE COMMITTEE, FERNANDO ULRICH

"Allow me to commence my address by sharing with you the essence of what I said to the Board of Directors last December 3rd when I was nominated for Chairman of the Executive Board with effect from the close of this General Meeting.

I said at the time: In the first place, I would like to say that I enthusiastically accept the responsibility to preside over this Board's Executive Committee as from April next year. I am grateful for the trust deposited in me and I shall do everything in my power to be equal to this great responsibility.

There are relatively few Portuguese companies listed on the stock exchange which take the market seriously. There are even fewer Portuguese companies which submit themselves to rating by the world's principal agencies. To preside over the Board of Directors' Executive Committee of one such company is the greatest challenge confronting a management professional in Portugal. I am fully aware of the honour. This honour is that much greater when we remember that the company concerned is Banco BPI. Due to the quality and prestige of the Financial Institutions and Companies represented on this Board of Directors. Due to the human and professional qualities of this Board's members Due to the fact that the Chairman of the Board of Directors is Mr. Artur Santos Silva – and I hope for many years to come. For the technical abilities and team spirit of those with whom I shall be working on the Executive Committee.

Permit me to devote a little of your time to our Chairman, Mr. Artur Santos Silva. Mr. Artur Santos Silva founded a private bank in a country which only a few years earlier some had predicted would be the Cuba of Europe. He possessed the credibility to bring together the capital of national and foreign shareholders. He had the charisma to form good teams right from day one. The history which followed is common knowledge today. Twenty two years since its foundation and twenty four since the conception of the initial idea, BPI is today in good health, gaining market share and creating value of its Shareholders and Customers. Mr. Artur Santos Silva's professional career path since 1979 makes him one of the most prominent figures in Portuguese entrepreneurial life of the XXth century. We may all be intelligent, hard working and dedicated. But there are very few who can pride themselves in having created a winning project from scratch, and what is even more commendable, having done so in an adverse climate. Mr. Artur Santos Silva is one of them; pioneers who explore new frontiers and leave the World a better place than they found it. Sometime in 1982 I had the luck of having a friend who declined an invitation from Mr. Artur Santos Silva to open a representative office of SPI in Lisbon, proposing my name instead. I accepted Mr. Artur Santos Silva's offer (who I did not know personally) and I adhered to the SPI project in July 1983.

The pleasure I derive from the tariffs I carry out, and the respect and friendship for the people with whom I have worked, are clearly visible and do not require further reference. All I have to do is to thank Mr. Artur Santos Silva for what he has offered me: it has been immense.

A company that boasts key shareholders such as BPI has (some since its foundation), and whose business success and ethics serve as examples for us to follow. A Company whose founder was capable of planning and executing his own transition from Chairman of the Board of Directors and of the Executive Committee to Chairman of the Board of Directors in the same manner as Mr. Artur Santos Silva is now doing. A company which mobilises the excellent professionals that Mr. Artur Santos Silva has united here over a number of years. A company with these attributes has the duty to go farther. It depends on the Executive Committee and its Chairman having the stature to face the challenges and responsibilities. Even more so now that we are going to count with a reinforcement of fundamental importance: a Chairman of the Board of Directors who, in addition to being a great banker, is a personality of enormous prestige in Portuguese society and who, freed from the day-to-day details, will become the principal trump card along the path of BPI's expansion that we seek to pursue.

Chairmen, Lady and Gentleman Shareholders, The most impressive fact when one analyses BPI today – a particularly important exercise because it marks the starting point for the new Executive Committee Chairman – is the resilience which the Bank has demonstrated to successfully weather the extremely adverse economic landscape.

Gross Domestic Product in Portugal fell by 1.3% in 2003, while over the last three years ending last December, it grew by a mere 0.7%, in other words, in the last three years the Portuguese economy has grown by a fifth of what it should have done in each year if convergence with the European Union were to have taken place at the proper rhythm. The weak economic growth, coupled with some of the consequences of the globalisation of markets and industrial production, have led to a significant increase in unemployment and the need for financial and manufacturing restructuring programmes to be implemented at several Portuguese companies. During the greater part of this three-year period, the equity markets have been retreating and it was only midway through last year that they began to rally in anticipation – or so we hope – of an economic revival in the OECD's economies (including Portugal). As is generally known, the behaviour of the equity markets nowadays has a major influence on banks' results – even those of commercial banks – namely, in the form of asset management, custody and stock brokerage commissions and,

above all, owing to the impact which it has on the confidence of economic agents and on the general business climate at both corporate and individual levels (and even on the States themselves when they are involved in privatisation processes).

At the end of these extremely difficult three years, BPI has managed to deliver its best ever results in 2003, 164 M.€; to capture market share in the principal business areas; to obtain the best loan-portfolio quality indicators within the Portuguese banking system; to improve the return on shareholders' funds, from the 13.5% posted in 2002 to 14% in 2003.

These good results in such a negative economic environment are a clear indication of BPI's financial strength and its sound business model. Results as good as these in such a testing business context lead me to conclude that BPI merits the best classifications from the leading rating agencies. It is quite understandable that the rating agencies are prudent and conservative in their decisions, and for this it is the Executive Committee's responsibility to show them that BPI now deserves better ratings. We are not in a hurry, secure in the knowledge that BPI enjoys a very solid financial situation and excellent receptiveness on the part of the capital markets. Moreover, we are the only large Portuguese bank which has not yet resorted to asset securitisation operations to fund itself. We are not in a hurry, although we are aware that an improved rating would lead to better financing costs and the strengthening of the Bank's image on the international markets.

[...] At the moment and under the circumstances in which I find myself, it is very helpful in preparing my speech to talk about "transition" and "the end of a cycle". I am not going to be able to avoid this rule because 2004 is the last year in which we will be working with the Chart of Accounts for the Banking System as prescribed by the Bank of Portugal. As from next year, we will be subject to the International Accounting Standards, the famous IAS – International Financial Reporting Standards – which are now called IFRS – International Financial Reporting Standards – but which I shall continue to refer to here as "IAS". Today not all the rules relating to the application of the IAS are known with absolute certainty, nor what will be the tax consequences of the new accounting system. Assuming a scenario of tax and prudential neutrality (capital requirements), it is important to underline three points referring to the introduction of the IAS. The first is that the adoption of new accounting rules does not per se alter the economic value of companies (in this case, banks). The second is that the use of new accounting rules may alter the perception that observers have of the value of companies. And the third is that if the changes in the perception of value are appreciable, then corporate managements may have to introduce adaptations to their policies. These are common concerns for the managements of all the companies in the various European countries in which the IFRS will be introduced at the beginning of 2005.

What are the medium-term objectives that will govern the Executive Committee's actions? There are two: Gaining market share through organic growth in all the markets, segments and products defined as being priority goals. Raising the Return on Shareholders' Equity (ROE) from the present 14% to 17%.

How to do we propose to fulfil them? In the first place, by not losing sight of the fact that the essence of banking business is all about trust. The trust of and in our Customers; the trust of the business partners; the trust of and in our Employees; the trust of the Shareholders, rating agencies, auditors, the supervising and regulatory authorities. Secondly, by continuing to work with an obsessive preoccupation with the quality of service and by paying close attention to our Customers' needs. In third place, by reinforcing the commitment to people.

One of the chief lessons that I have learnt from the Chairman of our Board of Directors during the close to 21 years in which he has worked at BPI, has been the importance of the Human Resources to a company and how to deal with people, how to work in a team and knowing how to listen. In recent years, human resources management at BPI has played a crucial role in the success of the cost containment strategy, bearing in mind that personnel costs represent a major component of any Bank's cost structure (58% of the total in BPI's case).

The results which the Bank has managed to achieve, the signs of a recovery in economic activity and the growth opportunities which we have identified for BPI, enable me to foresee a greater commitment to training, to the development of talent and existing abilities within the institutions, and to the recruitment of new Employees from Universities and the labour market, in particular, from outside the Portuguese banking sector so as to enrich the BPI team's vast experience. If we perform our work properly, we will be able to significantly reinforce the platform from which to launch future growth. No other Portuguese banking group is simultaneously as strong in Portugal, Angola and Mozambique; no other Portuguese banking group has simultaneously such strong partners in Spain and in Brazil; no other Portuguese banking group participates in an alliance with one of the world's biggest insurance groups.

This outline has been sketched from a dream that makes sense in a globalised world. Of course, its realisation does not depend solely on us, and we are conscious of the difficulties of multilateralism and international cooperation. For our part, we will do everything to enrich the component for which we are responsible. Lady and Gentleman Shareholders, Your Board of

Directors has decided to appoint me to serve as the Chairman of the respective Executive Committee as from today. As I said at the beginning, I do so with great honour and the utmost pleasure. In particular, for the privilege of working with such a strong team, highly motivated and which was taught to be demanding in all that it does. The 7 members of the Executive Committee of BPI's Board of Director's have an average age of 48 and have worked at BPI for at least 8 years. Together, we have overcome many difficulties. It is a sufficiently young team to be ambitious, but also has the wisdom of many years' experience, which is an indispensable attribute in the management of a financial institution. In order to terminate, two personal notes: If physically capable, I would like to inform you that I will fight to be re-elected a year from now when I terminate the present mandate and thereafter every 3 years until attaining the age limit contemplated in the present Statutes. If I can attain these goals, I am convinced that when I cease executive functions, the share incentive scheme (RVA) will have allowed me to benefit more from BPI than Mr. Artur Santos Silva has done. It will be an enormous injustice, but will be a good signal for the Shareholders. Secondly and to terminate, I extend my hand to Artur as gesture of congratulations and infinite gratitude. For all that he has done and will continue to do for his country, his city and his bank.

Thank you very much."

STATEMENT OF THE DEPUTY-CHAIRMAN OF THE BOARD OF DIRECTORS CARLOS DA CÂMARA PESTANA

"We are reminded that Mr. Artur Santos Silva relinquishes at this Meeting the post of Chairman of our Bank's Executive Committee, although he continues as Chairman of its Board of Directors.

In any institution of substantial size – as is the case with our Bank – the transfer of the office of Chairman of its Executive Committee is an extremely important decision.

This changeover takes place in accordance with the change to the statutes, approved at the Shareholders' General Meeting of 21 April 1999, which stipulated an age limit for the exercise of executive functions by the members of the Board of Directors.

This age limit was introduced into the Statutes at the initiative of Mr. Santos Silva, pronouncing that this would be the way in which to guarantee the desired renovation in the Bank's executive at the highest level.

Obviously, Mr Santos Silva, in defending in 1999 the 62 years age limit, was aware that five years later this new statutory provision would mean the end of his executive career at the Bank which he promoted and founded.

What is worth underlining now is that the statutory amendment which now applies to Mr Santos Silva, reveals an attitude of marked unselfishness by our Chairman of the Board of Directors which, in line with so many other attitudes that he has had throughout his life, is an example of the rectitude of his character and his moral personality.

At the same time, it shows that Mr. Santos Silva is convinced that the Institution he has created has all the conditions to pursue its future course without the daily presence of its Founder and under the executive chair of Fernando Ulrich.

Because I believe that the Meeting of Shareholders cannot be indifferent to the change in the Bank's executive command and to Mr Santos Silva's attitude, whom I hope he will remain for many years to come at the head of its Board of Directors.

I propose that the Meeting of Banco BPI's Shareholders approves:

- a vote of congratulations for the planned and seamless manner in which transfer of the office of our Institution's Chairman of its Executive Committee has taken place and for the fact that, with the nomination of Fernando Ulrich, up until now this Committee's Deputy-Chairman, continuity has been guaranteed for the principles that have been guided the BPI Group's management since its founding in 1981;

- a vote of praise for Artur Santos Silva, promoter and founder of the BPI Group, for his remarkable achievements over the past 23 years of uninterrupted executive command which resulted in resounding successes, as borne out by our Institution's expansion and strengthened financial base, where a business culture has been developed and implanted that is profoundly marked by rigour, ethical values and social responsibility."

Annual General Meeting– 20 April 2005

The Annual General Meeting will be held on 20 April, at 11 a.m. at the Fundação de Serralves, in the city of Oporto.

The Board of Directors will propose to the Shareholders the deliberation and voting of the following motions:

1. Banco BPI' individual and consolidated annual report and accounts for the financial year ended December 31, 2004;
2. the proposed appropriation of net income for 2004;
3. the review the Company's management and supervision;
4. the election of new members to the governing bodies for the term 2005-2007;
5. the acquisition and disposal of own shares.

BPI is permanently concerned with encouraging Shareholder participation in the company's affairs, in particular, at General Meetings. To this end, it actively promotes the exercise of voting rights – in person, by proxy or by postal or electronic mail, making available to Shareholders – which goes well beyond what is required by law – all the information and means needed to participate at these meetings. All the information is provided to Shareholders simultaneously in Portuguese and English.

Preparatory information for the Shareholders' General Meeting of 20 April 2005 and available information media

	Communication channels								
	Made available by BPI						Other channels		Date available on BPI channels
					Postal mail				
	In person[1]	Internet (www.ir.bpi.pt)	E-mail (ag2005@bancobpi.pt)	Information phone line about the SGM (226 073 333)	At BPI's initiative	At shareholder's request[2]	CMVM Website (www.cmvm.pt)	Media	
Elements required by law or regulations[3]									
Meeting notice	✓	✓	✓	–	✓[4]	✓	✓	✓	18 March 05
Board of Directors' Proposals:									
Annual report and accounts for the financial year ended December 31, 2004[5]	✓	✓	✓	–	–	✓	✓	–	5 April 05
Appropriation of net income for 2004	✓	✓	✓	–	✓[4]	✓	✓	–	5 April 05
Acquisition and disposal of own shares	✓	✓	✓	–	✓[4]	✓	✓	–	5 April 05
Shareholders' proposals									
Review the company's management and supervision	✓	✓	✓	–	–	✓	–	–	5 April 05
Members of the governance bodies for the period 2005 / 2007	✓	✓	✓	–	✓[4]	✓	✓	–	5 April 05
Name, qualifications, professional experience and number of Banco BPI shares held by the members of the Governing bodies for the period 2005-2007	✓	✓	✓	–	–	✓	–	–	5 April 05
Name, qualifications and professional experience of a new member to propose by the current members of the Board of Directors	✓	✓	✓	–	–	✓	–	–	5 April 05
Additional elements made available by BPI									
Drafts of proxy vote forms	✓	✓	✓	–	✓[4]	✓	–	–	18 March 05
Request for the issue of a registration and mobilisation declaration	✓	✓	✓	–	✓[4]	✓	–	–	18 March 05
Ballot papers for the exercise of postal voting	✓	✓	✓	–	✓[4]	✓	–	–	18 March 05
Drafts forms for the exercise of voting by electronic means	✓	✓	✓	–	✓[4]	✓	–	–	18 March 05
Clarification of matters	✓[6]	✓	✓	✓	–	✓	–	–	Permanent
Banco BPI's Statutes and Regulations	✓	✓	✓	–	–	✓	–	–	Permanent
Results of voting on the proposals	✓	✓	✓	✓	–	✓	✓	–	20 April 05

1) At Banco BPI's head office (Investor Relations Division, Rua Tenente Valadim, n.º 284, 3.º andar, Porto) and in Lisbon, at Public Relations Division, at Largo Jean Monnet, n.º 1, 1.º andar.
2) Postal address: Shareholders' General Meeting – April 2005, Departamento de Títulos – Área de Fundos e Serviços, Rua Tenente Valadim, 284, 4100-476 Porto.
3) Companies Code (article 289) and CMVM Regulations (no. 11 / 2003).
4) Sent to Shareholders entitled to 5 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.

3.3. BOARD OF DIRECTORS

Responsibilities of the Board of Directors

Banco BPI's Board of Directors is the governing body charged with pursuing the company's general interests, through the practice of all the acts necessary or appropriate for carrying out the activities falling under the company's objects. The Board of Directors has delegated the company's day-to-day management to an Executive Committee within the limits defined in the respective regulations.

THE BOARD OF DIRECTORS' PRINCIPAL RESPONSIBILITIES

- Appointing members to the Executive Committee and systematically monitoring its activity.
- Approving the strategic plan, as well as the BPI Group's annual operating plan and budget, periodically monitoring its execution.
- Approving and monitoring risk exposures in excess of 15% of shareholders' equity.
- Monitoring the BPI Group's principal financial holdings.
- Annually evaluating the Bank's internal rating system, applied to all the companies with credit risk and whose turnover exceed 1.25 M.€.
- Making decisions regarding strategic investments and partnerships.
- Monitoring the evolution of the liabilities and assets of the Group's staff pension funds.
- Preparing the annual report and accounts and proposals for the appropriation of net profit for submission to the General Meeting.
- Proposing to the General Meeting any alterations to the memorandum and articles of association, share capital increases and bond issues which fall outside its jurisdiction (bonds convertible into shares and bonds with the right to subscribe for shares).
- Decide on the issue of bonds when this falls within its authority;
- Approve the codes of conduct of the companies controlled by the Group.
- Representing 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 agreement on any actions.
- To acquire, sell or encumber any assets or rights.
- To appoint authorised signatories for the practice of specific acts or categories of acts, defining the extension of their respective mandates.

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. This 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.

Responsibilities

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)

Date of birth	22 May 1941
Academic qualifications	**1985:** Stanford Executive Program, Stanford University **1963:** Law graduate from Universidade de Coimbra
Principal positions held at the BPI Group	Chairman of Banco BPI's Board of Directors Chairman of Banco Português de Investimento's Board of Directors Chairman of Banco de Fomento Angola's Board of Directors
Joined the BPI Group	**1981:** Chairman of SPI – Sociedade Portuguesa de Investimentos
Professional experience	**1977-78:** Vice-Governor of the Bank of Portugal **1975-76:** Secretary of State of the Treasury **1968-75:** Director of Banco Português do Atlântico **1963-67:** Lecturer at the Faculty of Law at the Universidade de Coimbra, in the subjects of Public Finance and Political Economy

Composition of the Board of Directors

Banco BPI's Board of Directors is presently composed of 19 members, seven of whom make up the Executive Committee.

Composition of Banco BPI's Board of Directors

	Board of Directors			Audit and Internal Control Committee	Remuneration Committee
	Executive Committee	Non-executive directors			
		Non-independent	Independent		
Chairman					
Artur Santos Silva			○	Chairman	
Deputy-Chairmen					
Carlos da Câmara Pestana		○		○	Chairman[1]
Fernando Ulrich	Chairman				
Rui Octávio Matos de Carvalho			○	○	
Members					
Alfredo Rezende de Almeida			○	○	
António Domingues	●				
António Farinha Morais	●				
Armando Leite de Pinho			○		○[2]
Fernando Ramirez[3]		○		○	
Herbert Walter[4]		○			
Isidro Fainé Casas		○			
José Pena do Amaral	●				
Klaus Dührkop			○		
Manuel Ferreira da Silva	●				
Manuel de Oliveira Violas			○		○[5]
Maria Celeste Hagatong	●				
Pedro Barreto	●				
Roberto Egydio Setúbal		○			
Tomaz Jervell			○		

1) Representing Itaúsa Portugal, SGPS, S.A.
2) Representing Arsopi – Indústrias Metalúrgicas Arlindo Soares de Pinho, S.A.
3) Representing Caixa Holding, S.A, Sociedad Unipersonal (which succeeded Corporació de Participacions Estrangeres, S.L.). He was substituted on 3 February 2005 by Marcelino Armenter Vidal.
4) Representing Riunione Adriática di Sicurtá since 21 April 2004, substituting Diethart Breipohl.
5) Representing Cotesi – Companhia de Têxteis Sintéticos, S.A.

Members of the Board of Directors are elected for three-year periods, with re-election always being permitted.

Independence of the members of the Board of Directors

In terms of the criteria laid down in CMVM Regulation 11 / 2003, five directors of Banco BPI are classified as "non independents" by virtue of the fact that they exercise management functions at companies which can be considered to be BPI competitors; namely:

- the Directors Carlos da Câmara Pestana and Roberto Egydeo Setúbal exercise management functions at Itaú Group companies;

- the Directors Isidro Fainé Casas and Fernando Ramirez exercise management functions at credit institutions forming part of the "La Caixa" Group; the Director Marcelino Armentar Viadal who on 3 February 2005 substituted Fernando Ramirez, also exercises management functions at credit institutions forming part of the "La Caixa" Group;

- the Director Herbert Walter exercises management functions at Dresdner Bank and Banco Popular Español.

It should also be pointed out that the non-Executive Director Klaus Dürkop was indicated by the Shareholder Allianz which owned 8.8% of BPI's capital at 31 December 2004; the non-Executive Director Armando Leite de Pinho and persons and entities with whom he is related own 2.9% of BPI's capital; the non-Executive Director Manuel de Oliveira Violas is Chairman of the Board of Directors of Violas SGPS, S.A., which owns a stake of 2.9% in BPI's capital and the non-Executive Director Tomaz Jervell is Chairman of Auto Sueco, Lda's Management Board, a company which controls 1.6% of BPI's share capital.

Functioning rules

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 member of the Board of Directors can be represented by another Board member, but none may represent more than one member at any meeting.

Information provided to the non-executive members

With the object of keeping the non-executive directors permanently abreast of 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 includes, whenever possible, a comparison of 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.

Regulations and codes of conduct

It is the Board of Directors' responsibility to regulate its internal functioning through the drafting and approval of regulations. The Board of Directors' and the Executive Committee's regulations were last revised on 3 December 2003 and are available for consultation by the shareholders either at the company's head office or on the website www.ir.bpi.pt.

All the members of the Board of Directors are bound by a strict duty of confidentiality concerning matters discussed at Board of Directors' meetings and at the meetings, if applicable, of the Remuneration Committee and of the Audit and Internal Control Committee.

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 placed in a situation which could indicate the existence or possible existence of conflicts of interests.

CONFLICTS OF INTEREST

Article 9 of the Board of Directors Regulations

1. 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.
2. 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 vote of any proposal that the said operation refers to.

Portuguese law provides that the Directors, as well as the members of the Audit Board, are jointly and severally liable to the company[1] and to the company's creditors[2] for culpable non-compliance with legal requirements and statutory duties.

The members of the Board of Directors owned in their own names at 31 December 2004 0.7% of the share capital and represented Shareholders or exercised management functions at Shareholder companies which, at 31 December 2004, held shares corresponding to 48.3% of Banco BPI's capital.

Details of the other positions occupied by members of Banco BPI's Board of Directors at BPI Group or other companies are presented in the appendix at the end of this report.

Exercise of the Board's functions in 2004 and in the first quarter of 2005

The Board of Directors met seven times in 2004. At its meetings of 27 January and 3 March 2005, the Board of Directors analysed and deliberated on matters relating to 2004, in particular the approval of the year's report and accounts and the proposed distribution of net profit to be presented to the shareholders. During the 2004 financial year and at the meetings of 27 January and 3 March 2005, Banco BPI's Board of Directors deliberated on and approved amongst others the following issues:

Main deliberations of the Board of Directors

Date	Deliberations
	Defining the Group's general policies
2004: 29 Jan.	Reflection concerning the BPI Group's strategic options over the medium term.
2004: 14 Dec.	Review of the BPI Group's strategic goals for the period 2005-2007.
	Approving plans and budgets
2004: 14 Dec.	Approval of the BPI Group's Plan and Budget for 2005.
	Preparing the accounts and proposing the appropriation of net profit
2004: 29 Jan.	Approval of the motion tabled at the Shareholders' General Meeting of 20 April 2004 proposing the payment of a dividend in 2004 of 9 cents per share relating to 2003.
2004: 3 Mar.	Approval of the draft Report and Accounts and the Proposed Appropriation of Net Profit relating to 2003 for presentation to the Shareholders' General Meeting of 20 April 2004.
2005: 27 Jan.	Approval of the motion tabled at the Shareholders' General Meeting of 20 April 2005 proposing the payment of a dividend in 2005 of 10 cents per share relating to 2004.
2005: 3 Mar.	Approval of the draft Report and Accounts and the Proposed Appropriation of Net Profit relating to 2004 for presentation to the Shareholders' General Meeting of 20 April 2005.
	Issuing bonds
2004: 21 Apr.	Renewal / revision of the "Euro Medium Term Note Programme" (EMTN Programme) and increasing of the respective overall amount from 4 Bi.€ to 5 Bi.€.
	Initiatives for the presentation of proposals to the Shareholders' General Meeting
2004: 3 Mar. **2005:** 3 Mar.	Approval of the proposals for the convening of the Shareholders' Ordinary General Meetings held on 20 April 2004 and to be held on 20 April 2005, as well as the proposals to be tabled by the Board of Directors at those Meetings.
	Internal functioning rules
2004: 21 Apr.	Consideration of information provided by the Deputy-Chairman of the Board of Directors and Chairman of the Executive Committee concerning the allocation of executive functions amongst this Committee's members carried out following its re-composition.
2004: 14 Dec.	Approval of the calendar for the General Meeting, the Board of Directors' and the Audit and Internal Control Committee's meetings to be held in 2005.
	Pursuing the company's general interests and undertaking the management of its business affairs
2004: 29 Jan. **2005:** 27 Jan.	Consideration of the consolidated accounts relating to 2003 (29 / Jan / 04) and 2004 (27 / Jan / 05) and discussion about their public release.
2004: 21 Jul.	Approval of the consolidated accounts for the first half of 2004 and discussion about their public release.
2004: 21 Apr., 26 Oct.	Consideration of consolidated accounts for the first and third quarters of 2004, respectively, and discussion about their public release.

1) Companies Code – Chapter VII: "Civil responsibility for the constitution, management and supervision of the company".
2) When the company's net assets are inadequate to meet the aforementioned debts.

Main deliberations of the Board of Directors (cont.)

Date	Deliberations
	Pursuing the company's general interests and undertaking the management of its business affairs (cont.)
2004: 29 Jan., 3 Mar, 21 Apr., 21 Jul., 26 Oct., 14 Dec. **2005:** 27 Jan., 3 Mar.	Analysis of the behaviour of Banco BPI shares on the stock exchange.
2004: 3 Mar, 21 Jul., 26 Oct. **2005:** 3 Mar.	Analysis of individual exposures to credit risks in excess of 15% of BPI's consolidated shareholders' equity.
2004: 26 Oct.	Analysis of the results of the application of the risk evaluation systems in the areas of corporate loans and in loans to individuals (especially mortgage loans) and to small businesses.
2004: 29 Jan., 3 Mar., 21 Abr., 21 Jul., 26 Oct., 14 Dec. **2005:** 27 Jan., 3 Mar.	Analysis of retirement and survivors' pension liabilities and the respective cover by the Pension Fund and the return earned.
2004: 3 Mar., 21 Abr., 21 Jul., 26 Oct., 14 Dec. **2005:** 27 Jan., 3 Mar.	Analysis of the performance of investments which comprise bank's investment portfolio (including private equity).
2004: 3 Mar. e 14 Dec.	Analysis of the BPI Group's shareholder position in the capital of Millennium BCP, in conformity with the guidelines laid down by the Bank of Portugal.
2004: 3 Mar. **2005:** 27 Jan.	Approval of alterations to the RVA share incentive scheme.
2004: 21 Apr.	Approval of the procedures needed to implement the CMVM's recommendations on the constitution of a Corporate Governance Monitoring Group and the reinforcement of mechanisms aimed at guaranteeing the independence of the External Auditors.
2004: 21 Apr., 21 Jul., 26 Oct., 14 Dec. **2005:** 27 Jan., 3 Mar.	Review of the impact of the adoption of the IAS / IFRS on reserves, the profit for the year, own funds and internal organisation.
2004: 21 Jul., 26 Oct., 14 Dec. **2005:** 27 Jan., 3 Mar.	The Board of Directors was informed by its Chairman, who also chairs the Audit and Internal Control Committee, of the work carried out by the latter.
2004: 21 Apr., 26 Oct.	Review of Banco de Fomento Angola's financial and business affairs.
2004: 26 Oct.	Approval of the enlargement of the composition of Banco de Fomento Angola's Board of Directors and Executive Committee.
2004: 21 Apr.	Consideration of a proposal that Banco BPI, in partnership with the Violas and Arsopi Groups, becomes a candidate to acquire a position in the capital of Galp Energia, SGPS, S.A.
2004: 21 Jul., 26 Oct., 14 Dec.	Review of the progress made with the "Petrocer / Galp" project.
2004: 21 Jul.	Review of the impact on the consolidation of SIC's accounts using the equity method. The Board was also informed of the interest shown by a business group in acquiring this holding.
2004: 14 Dec.	Agreement reached on the disposal of Banco BPI's holding in SIC.
2004: 21 Jul., 26 Oct.	Review of information about the settlement of the debt owing by Banco Nacional de Angola.
2004: 26 Oct.	The Board was informed about an outsourcing contract between BPI and IBM covering the management of the information systems' infrastructures.

3.4. EXECUTIVE COMMITTEE OF THE BOARD OF DIRECTORS

Responsibilities of the Executive Committee

The Executive Committee of Banco BPI's Board of Directors (Executive Committee) is the body responsible for the overall management of the Group's business activity. 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.

Wide powers are also vested in the Executive Committee of Banco BPI's Board of Directors, as this is necessary or appropriate for the exercise of banking activity.

PRINCIPAL RESPONSIBILITIES OF THE EXECUTIVE COMMITTEE

- Concession of loans and guarantees, provided that this does not result in an involvement – in one only entity or Group – of more than 15% of Banco BPI's consolidated shareholders' funds.
- Realisation of currency operations.
- Realisation of liability-side operations, including the issue of cash bonds and financial instruments of a similar nature.
- Investing or disinvesting in other companies, with the exception of participating interests in Banks and Insurance Companies or other substantial undertakings.
- Acquisition, sale or encumbering of any other securities, properties, movable goods and services.
- Admission of Employees, defining their remuneration and the exercise of disciplinary power.
- Opening and closure of branches or agencies.
- Nomination of the Bank's representatives at the General Meetings of the companies in which it has equity interests.
- Nomination of the persons to serve on the governing bodies to which the Company has been elected.
- Issue of binding instructions to the companies over which there is full control.
- Representation of the Bank in and out of court.
- Constitution of authorised signatories for the performance of specified acts.

The Executive Committee is barred from all management acts which are not envisaged on the list of the above-mentioned areas.

Chairman of the Board of Directors' Executive Committee

The Chairman of the Board of Directors' Executive Committee is Fernando Ulrich. He was appointed unanimously by the Board of Directors on 3 December 2003, such appointment taking effect from the General Meeting held on 20 April 2004.

Responsibilities of the Executive Committee's Chairman

The Chairman of the Executive Committee is responsible for coordinating its activities, convening and chairing the Committee's meetings, and overseeing the execution of its deliberations. The responsibilities of the Chairman of the Board of Directors' Executive Committee and those of the Board of Directors' Chairman are clearly demarcated through the existence of two autonomous regulations which encapsulate the responsibilities of each one. Although the essence of these regulations is included in this Report, the full version of both can be consulted at the website www.ir.bpi.pt or on request to the Investor Relations Division (investor_relations@bancobpi.pt).

Composition of the Executive Committee

The Executive Committee is composed of seven independent Executive Directors.

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

In total, the members of the Executive Committee owned 0.3% of the company's capital at 31 December 2004.

Experience and professional qualifications of the members of Banco BPI's Board of Directors Executive Committee

Fernando Ulrich (Chairman)

Date of birth	26 April 1952
Academic qualifications	**1969-74:** Attended Business Management Course of the Instituto Superior de Economia de Lisboa
Principal positions held at the BPI Group	Deputy-Chairman of Banco BPI's Board of Directors Chairman of Banco BPI's Board of Directors Executive Committee Deputy-Chairman of Banco Português de Investimento Member of the Board of Directors of Banco de Fomento Angola
Principal areas of responsibility at the BPI Group	Planning and Accounting, Asset Management, Human Resources, Legal Matters, Audit
Joined the BPI Group	**1983:** Assistant Director of SPI – Sociedade Portuguesa de Investimentos
Professional experience	**1981-83:** Chief of the Office of the Minister of Finance and Planning **1979-80:** Officer in the Secretariat for External Economic Cooperation of the Foreign Affairs Ministry (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"

António Domingues (Member)

Date of birth	30 December 1956
Academic qualifications	**1979:** Economics graduate from the Instituto Superior de Economia de Lisboa
Principal positions held at the BPI Group	Member of Banco BPI's Board of Directors Member of Banco BPI's Executive Committee Member of the Board of Directors of Banco de Fomento Angola Chairman of the Executive Committee of Banco de Fomento Angola
Principal areas of responsibility at the BPI Group	Financials, Markets, Information Systems, International, Banco de Fomento Angola
Joined the BPI Group	**1989:** Director responsible for the Financial Division of Banco Português de Investimento
Professional experience	**1988-89:** Assistant Director-Geral of the branch in France of Banco Português do Atlântico **1986-88:** Technical Advisor to 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

José Pena do Amaral (Member)

Date of birth	29 November 1955
Academic qualifications	**1978:** Economics graduate from Instituto Superior de Ciências do Trabalho e da Empresa
Principal positions held at the BPI Group	Member of Banco BPI's Board of Directors Member of Banco BPI's Executive Committee Member of the Board of Directors of Banco de Fomento Angola Member of the Executive Committee of Banco de Fomento Angola
Principal areas of responsibility at the BPI Group	Strategic Marketing, Operational Marketing, Remote Channels, Communication, Brand, Quality, Protocols
Joined the BPI Group	**1986:** Advisor to the Management of Banco Português de Investimento
Professional experience	**1986-96:** Consultant of 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 Economic Community **1982-83:** Member of the Office of the consultants Jalles & Vasconcelos Porto; Correspondent of the "Expresso", RTP and "Deutsche Welle" in Brussels **1980-82:** Head of the Delegation of "ANOP" in Brussels **1979-80:** Editor of the Economic Supplement of the "Diário de Notícias" **1975-80:** Journalist for the "Diário de Notícias"

Maria Celeste Hagatong (Member)

Date of birth	2 July 1952
Academic qualifications	**1974:** Finance graduate from the Instituto Superior de Economia da Universidade Técnica de Lisboa
Principal positions held at the BPI Group	Member of Banco BPI's Board of Directors Member of Banco BPI's Executive Committee Non-executive member of the Board of Directors of Banco Português de Investimento
Principal areas of responsibility at the BPI Group	Corporate Banking network, Institutional Banking and State Business Sector, Project Finance, Credit Risk, Corporate Marketing, Office for Angola and Madrid Branch
Joined the BPI Group	**1985:** Project Manager at BPI's Corporate Department
Professional experience	**1984-85:** Member of the Board of Directors of the Fonds de Rétablissement du Conseil de de L'Europe **1978-85:** Manager of Financial Services at the Directorate-General of the Treasury of the Ministry of Finance **1977:** Administrative and Financial Manager of the Republic's Parliament **1976-77:** Ministry of Finance – Director-General for 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

Manuel Ferreira da Silva (Member)

Date of birth	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 degree from the Economics Faculty of the Universidade do Porto
Principal positions held at the BPI Group	Member of the Board of Directors do Banco BPI Member of the Executive Committee do Banco BPI Chairman of the Executive Committee of the Board of Directors of Banco Português de Investimento
Principal areas of responsibility at the BPI Group	Investment Banking, Private Equity, Investor Relations, Risk Analysis and Control Division, Financial and Economic Studies
Joined the BPI Group	**1983:** Technical member of the Department of Financial Operations of SPI – Sociedade Portuguesa de Investimentos
Professional experience	**1980-89:** Lecturer at the Economics Faculty of the Universidade do Porto **1981-83:** Assistant Director of the Navy's Centre of Operational Investigation

António Farinha Morais (Member)

Date of birth	2 August 1951
Academic qualifications	**1974:** Finance graduate from the Instituto Superior de Ciências Económicas e Financeiras
Principal positions held at the BPI Group	Member of Banco BPI's Board of Directors Member of Banco BPI's Executive Committee Member of the Board of Directors of the Companhia de Seguros Allianz Portugal, S.A.
Principal areas of responsibility at the BPI Group	Real Estate Financing, Personal Loans, Cards, Motor Car Finance, Insurance, Transfers and Loans, Leasing and Factoring, Operations and Procurement, Security and Premises, Training
Joined the BPI Group	**1996:** Central Manager responsible for Banco BPI's Individuals and Small Businesses Network
Professional experience	**1992-96:** Director of Banco de Fomento e Exterior and of Banco Borges & Irmão **1992:** Director of Companhia de Seguros Aliança **1989-91:** Director of Banco Pinto & Sotto Mayor **1984-89:** Director of SEFIS and Eurofinanceira, company of the BFE Group **1981-89:** Director of Financial Services and Capital Markets of Banco de Fomento e Exterior **1978-81:** Technical analyst of investment projects at Banco de Fomento e Exterior **1975-82:** Lecturer at the Instituto Superior de Ciências do Trabalho e da Empresa and at the Instituto Superior de Contabilidade e Administração de Lisboa **1967-78:** Administrative and financial manager for a group of 4 companies

Pedro Barreto (Member)

Date of birth	3 March 1966
Academic qualifications	**2001:** Stanford Executive Program **1989:** Business Management graduate from the Universidade Católica Portuguesa
Principal positions held at the BPI Group	Member of the Board of Directors of Banco BPI Member of the Executive Committee of Banco BPI
Principal areas of responsibility at the BPI Group	Individuals and Small Businesses, Emigration and External Promoters
Joined the BPI Group	**1988:** Analyst in Individuals Network
Professional experience	**1984-1988:** IT Analyst in Soporcel – Sociedade Portuguesa de Celulose

Functioning rules

The Executive Committee can only adopt resolutions when the majority of its members are present, with such decisions requiring an absolute majority of the votes. The Chairman has the casting vote. Proxy voting is not permitted. 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. The Executive Committee met 54 times in 2004.

Specialised Executive Committees

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 is involved on a weekly basis with the specialised areas of the Group's management, for which two specific committees were created:

- Executive Committee for Credit Risk
- Executive Committee for Market Risk

3.4.1. Executive Committee for Credit Risk

The Executive Committee for Credit Risk is the body which monitors and decides on the concession and recovery of loans, analysing mandatorily all the exposures to a sole entity involving more than 25 M.€. 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 Banco BPI's Executive Committee
António Domingues	Member of Banco BPI's Executive Committee
José Pena do Amaral	Member of Banco BPI's Executive Committee
Maria Celeste Hagatong	Member of Banco BPI's Executive Committee
Manuel Ferreira da Silva	Member of Banco BPI's Executive Committee
António Farinha Morais	Member of Banco BPI's Executive Committee
Pedro Barreto	Member of Banco BPI's Executive Committee
Benjamim Pinho	Central Manager of the Credit Risk Division
Francisco Costa	Director of BPI-IB (Investment Bank) and responsible for the Large Companies Southern Division
Maria do Carmo Oliveira	Director of BPI-IB (Investment Bank) and responsible for the Large Companies Southern Division
João Álvares Ribeiro	Central Manager of the Companies Northern Division
João Coutinho	Central Manager of the Companies Centre Division
Joaquim Pinheiro	Central Manager of the Companies Southern and Islands Division
Miguel Alves	Central Manager of the Project Finance / PPP Division
Filipe Cartaxo	Central Manager of the Institutional Banking / State Business Sector Division

3.4.2. Executive Committee for Market Risk

The Executive Committee for Market Risk is the body charged with analysing the conformity of the positions and mechanisms associated with the evaluation of interest, 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 Banco BPI's Executive Committee
António Domingues	Member of Banco BPI's Executive Committee
José Pena do Amaral	Member of Banco BPI's Executive Committee
Maria Celeste Hagatong	Member of Banco BPI's Executive Committee
Manuel Ferreira da Silva	Member of Banco BPI's Executive Committee
António Farinha Morais	Member of Banco BPI's Executive Committee
Pedro Barreto	Member of Banco BPI's Executive Committee
Rui Martins dos Santos	Director of Banco Português de Investimento, responsible for the Risk Analysis and Control Division and Financial and Economic Studies Division
Isabel Castelo Branco	Central Manager responsible for the Financial Divisions of Banco BPI and Banco Português de Investimento
José Manuel Toscano	Central Manager of the International Division

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 a separate chapter of the Directors' report.

3.5. AUDIT AND INTERNAL CONTROL COMMITTEE

The Audit and Internal Control Committee (AICC), created within the ambit of the Board of Directors and functioning since 1999, has been chaired since 20 April 2004 by Artur Santos Silva, who on that date ceased his functions as the Chairman of the Board of Directors' Executive Committee. This appointment resulted from the direct application of the AICC's Regulations, which in its first article provides that "not being a member of the Executive Committee, the Chairman of the Board of Directors shall be the Chairman of the Audit and Internal Control Committee". The Committee is also composed of four other non-executive Directors.

The AICC's regulations provide that the Committee can only be composed of non-Executive members of the Board of Directors.

Composition of the Audit and Internal Control Committee

Chairman	Artur Santos Silva
Deputy-Chairman	Ruy Octávio Matos de Carvalho
Members	Carlos da Câmara Pestana
	Alfredo Rezende de Almeida
	Caixa Holding, S. A., Sociedad Unipersonal (Marcelino Armenter Vidal)

Responsibilities of the Audit and Internal Control Committee

The Committee sets the following objectives with a view to fulfilling the mission entrusted to it:

RESPONSIBILITIES OF THE AUDIT AND INTERNAL CONTROL COMMITTEE

- To assess the Group's efficiency in the use of its resources and in the establishment of control mechanisms which protect it against possible losses arising from the exercise of its business activity, namely, credit, market, liquidity and operating risks.
- To guarantee the integrity, reliability and up-to-date content of the accounting and financial information which is fed into the management information system.
- To ensure the conformity of the operations and businesses conducted by the Group's Banks with legal provisions and other requirements issued by the supervising authorities, as well as with the BPI Group's general regulations and policies.
- To monitor compliance with the BPI Group's corporate governance principles.
- To approve and monitor the execution of the external and internal audit programmes, namely, appraising the recommended changes to procedures advocated by the external auditors.
- To appoint the external auditors and ensure their independence.
- To approve the fees payable to the external auditors for audit services.
- To give prior approval for non-audit related work to be provided by the external auditors, as well as the relevant remuneration conditions.
- To consider the internal control reports to be sent annually to the Bank of Portugal by all the BPI Group banks and financial companies, and to collaborate in all the inspections conducted by the Bank of Portugal, CMVM, Insurance Institute of Portugal (ISP) and the Tax Department General Inspectorate, including the analysis of all the reports stemming from such inspections which must be accompanied by proper internal reports.
- To prevent the BPI Group's involvement in money-laundering related operations.
- To analyse economic provisions[G] relating to the loan portfolio, specific provisions for participating interests and for the securities portfolio.
- To analyse loss incidents arising from Customer or Employee fraud.
- To review exposures to credit risks of more than 5% but less than 15% of Banco BPI's consolidated shareholders' funds
- To review defaulting loans in excess of 90 days where the credit risk exposure exceeds 500 th.€.
- To monitor closely unrealised losses on the securities and participating interests portfolio.
- To monitor the situation of the staff pension funds of the Banks controlled by the BPI Group.
- To analyse Customers' complaints systematically reported in the reports prepared by the Quality Division.
- To keep abreast of the activity of the rating agencies which issue rating grades for BPI.

The Committee's activity in 2004

The Audit and Internal Control Committee monitored the work leading to the introduction of the IAS (international accounting standards) and the changes stemming from the Basle II accord. It also kept informed of the main aspects addressed at the monitoring meetings held by the rating agencies which evaluate Banco BPI.

The BPI Group banks' internal and external auditors participate in the meetings of the Audit and Internal Control Committee, with which they collaborate directly. The Committee's meetings are also attended, but without any voting right, by the Chairman of the Executive Committee of the Board of Directors, and by the BPI Group director responsible for the internal control and audit of the BPI Group's Banks, by senior management members responsible for this area, as well as by those whose presence was deemed necessary in view of the matters included in the meeting agenda.

The Audit and Internal Committee met 5 times in 2004 and, in 2005 (up until the approval of the present report), once on 26 January.

Summary of the activities of the Audit and Internal Control Committee

Dates	Summary of the activities
2004: 22 Jun., 9 Dec.	**Assess the Group's efficiency in the use of its resources and in the establishment of control mechanisms which protect it against possible losses arising from the exercise of its business activity (risk management)** Take stock of the situation relating to the "Operating Risk" project. A document was reviewed on 9 December which, based on the historical analysis of occurrences resulting from the materialisation of operating risk between the beginning of 2000 and September 2004, made it possible to typify the Bank's operating risk profile.
2004: 8 Sep., 9 Dec.	On 8 / Sep. a review was carried out of a proposal by the European Commission regarding a revision of the community regulations relating to credit institutions' and investment companies' own funds, with a view to the adoption of the Basle II rules, although adapted to the characteristics of the European market. On 9 / Dec. the issue of the various methods for calculating own funds as envisaged in the Basle II accord was once again addressed.
2004: 18 Mar., 22 Jun.	**To ensure the conformity of the operations and businesses conducted by the Group's Banks with legal provisions and other requirements issued by the supervising authorities, as well as with the BPI Group's general regulations and policies** Consideration of the rules and recommendations laid down by the Basle Committee dealing with the question of "compliance" and comparing these with the way in which this function is presently exercised at the BPI Group.
2004: 9 Dec.	Studying and reviewing draft European Union legislation dealing with the functions of Audit Committees in the area of supervision of financial information in the light of the Portuguese legal system. Further studies being conducted with a view to defining the Audit and Internal Control Committee's operating model.
2004: 22 Jun.	**To approve and monitor the execution of the external and internal audit programmes, namely, appraising the recommended changes to procedures advocated by the external auditors** Analysis of the conclusions and suggestions put forward by Deloitte in the wake of their review of the existing procedures at the Cards Division and Securities Division.
2004: 18 Mar., 8 Sep., 9 Dec. **2005:** 26 Jan.	Approval of the auditing plan proposed by the Audit and Inspection Division covering the Central, Foreign and Affiliated Companies Centres for the four-month period subsequent and / or appraisal of the work carried out in previous periods.
2004: 18 Mar., 8 Sep. **2005:** 26 Jan.	Appraisal of the work carried out by the Audit and Commercial Inspection Division in the previous six months.
2004: 18 Mar.	Analysis of the conclusions and suggestions put forward by Deloitte relating to the procedures in force for calculating accounting provisions.
2004: 18 Mar.	Approval of the Plan for audit / review procedures to be effected by the External Auditors in 2004.
2004: 22 Jun.	Analysis of the conclusions and suggestions presented by Deloitte in the wake of their review of the existing procedures dealing with the taking of resources from the general public (deposits and debt).
2004: 8 Sep.	Review of the audit procedures plan to be executed by the external auditors in 2004, with a view to the issue of the Audit Board's annual report on the internal control system, in accordance with the Bank of Portugal's guidelines in this area.
2004: 19 Nov.	Analysis of the conclusions and suggestions contained in three documents prepared by Deloitte in the wake of their review of the existing procedures in the areas of: mortgage loans, taxation and risk management associated with the RVA scheme.
2005: 26 Jan.	Analysis of the conclusions and suggestions put forward by Deloitte in the wake of their review of the existing procedures at the Credit Risk Division.
2004: 8 Sep.	**To approve the fees payable to the external auditors for audit services** Approval of the fees to be paid to the external auditors for the audit services provided in 2004.
2004: 22 Jun.	**To give prior approval for non-audit related work to be provided by the external auditors, as well as the relevant remuneration conditions** Approval of the proposed contracting of Deloitte's services for the purpose of preparing an updated version of the Market Rooms Manual.
2004: 8 Sep.	Approval given, by agreement between its members prior to the date of this meeting, to the proposed services of Deloitte and their respective fees relating to (i) the issue of a report on Banco BPI's and BPI Fundos' internal control systems (ii) the analysis of the VAT implications of the partnership between Banco BPI and a company entailing the provision by the first named of a credit card management service.
2004: 9 Dec.	Approval given, by agreement between its members prior to the date of this meeting, of the proposed commissioning of Deloitte to provide technical support to Banco BPI in the implementation of the IAS / IFRS and their respective fees.

Summary of the activities of the Audit and Internal Control Committee (cont.)

Dates	Summary of the activities
2004: 22 Jun.	**To monitor compliance with the BPI Group's corporate governance principles** Establishing the changes to be made to the Audit and Internal Control Committee Regulations as a result of the decision taken by the Board of Directors to attribute to the Audit and Internal Control Committee the function of "Monitoring BPI's Corporate Governance.
2004: 9 Dec.	Comparative study between the Audit and Internal Control Committee's regulations and practices and the recently-drafted community regulations governing Audit Committees' activities and responsibilities.
2004: 22 Jun., 8 Sep.	**To consider the internal control reports to be sent annually to the Bank of Portugal (BP) by all the BPI Group banks and financial companies, and to collaborate in all the inspections conducted by the BP, CMVM, ISP and the DGCI (inland revenue)** Review of the Internal Control Reports relating to Banco BPI, Banco Português de Investimento, BPI Fundos and Sofinac to be sent to the Bank of Portugal. At the 22 / Jun. meeting it was decided that in future all the Banks in which the BPI Group had a controlling interest, namely Banco de Fomento Angola, would also be required to prepare the aforesaid reports.
2004: 18 Mar., 22 Jun.	Analysis of a request by the Bank of Portugal to BPI's Audit Board to make alterations to the reports on the internal control system in order to comply fully with the Letter Circular n.º 33 / 03 / DSBDR.
2004: 8 Sep.	Examining the Bank of Portugal report on the inspection conducted on Banco BPI's consolidated accounts and respective prudential reports with reference to December 2003, as well as the Bank's response to the inspection's main conclusions.
2004: 25 Oct.	Exchange of views on the conclusions contained in the report on the tax inspection carried out by the Tax Inspection and Prevention Division at Banco Português de Investimento covering the 2002 financial year.
2004: 8 Sep.	Discussion of the conclusions of the CMVM's inspection of Banco Português de Investimento's brokerage activities, as well as drafting the Bank's response to the Commission.
2004: 9 Dec. **2005:** 26 Jan.	Review of the letters addressed by the Bank of Portugal to Banco BPI's Boards of Directors and Audit Boards requesting additional information concerning their earlier reports on the internal control systems. On 26 January 2005, the CACI was informed of the Banks' responses to the central bank on this issue.
2004: 8 Sep., 25 Oct.	**To analyse economic provisions relating to the loan portfolio, specific provisions for participating interests and for the securities portfolio** Analysis of the reported submitted by the external auditors in compliance with the guidelines laid down by the Bank of Portugal (BP) regarding the quantification of the economic provisions relative to the risk implicit in Banco BPI's loan portfolio.
2004: 9 Dec.	Analysis of the reported submitted by the external auditors regarding the quantification of the economic provisions relative to the risk implicit in Banco Português de Investimento's loan portfolio as at 30 June 2004.
2004: 18 Mar., 8 Sep., 26 Jan. 05	**To analyse the occurrences that give rise to losses resulting from fraud committed by Customers or Employees** Report listing occurrences detected by the Bank's Audit and Inspection Division (DAISP and DAIC); corrective measures and disciplinary sanctions applied.
2005: 26 Jan.	Analysis of an occurrence that gave rise to a loss of around one million euro resulting from an actual operating risk incident.
2004: 18 Mar., 22 Jun., 8 Sep., 25 Oct., 9 Dec. **2005:** 26 Jan.	**To review exposures to credit risks of more than 5% but less than 15% of Banco BPI's consolidated shareholders' funds** Analysis of the Bank's exposure to credit risks falling between EUR 5 and EUR 15 million, with special emphasis of the financial and economic situation of certain class "C" rated companies and the respective prospects of recovery.
2004: 18 Mar., 22 Jun., 8 Sep., 25 Oct., 9 Dec. **2005:** 26 Jan.	**To review defaulting loans in excess of EUR 100 thousand where the credit risk exposure exceeds EUR 500 thousand** Analysis of the trend in arrear loans at the Corporate Banking Divisions, addressing issues such as recovery, provisions, debt restructuring measures and additional guarantees.
2004: 22 Jun., 8 Sep., 25 Oct., 9 Dec.	**To monitor the situation of the staff pension funds of the Banks controlled by the BPI Group** Analysis of Banco BPI's Pension Fund performance strategy and risk levels. Also covered were aspects such as changes to the population covered by the Fund, use of the corridor and actuarial variances.
2004: 8 Sep.	**To analyse Customers' complaints systematically reported in the reports prepared by the Quality Division** Review of Banco BPI Customers' complaints received during the 1st half of 2004 and discussion on the results of the satisfaction surveys conducted in 2002 and 2003 by outside consultants.
2005: 26 Jan.	Analysis of Banco BPI Customers' complaints received during the 2nd half of 2004; corrective measures implemented.

3.6. AUDIT BOARD

Responsibilities of the Audit Board

It is the Audit Board's function to supervise the Company's affairs and to verify strict compliance with the law and its statutes. Consequently, the Audit Board prepares an annual report on its work and issues an opinion on the annual report and accounts, as well as on the proposed appropriation of net profit presented to the General Meeting by the Board of Directors.

In addition to these responsibilities it has the duty of vigilance[1]: the members of the Audit Board must communicate to the Chairman of the Board of Directors[2] any facts[3] which they become aware of and which reveal difficulties in the normal pursuance of the company's business object.

The members of Banco BPI Audit Board have proper technical qualifications – that is, in the areas of law, accountancy and financial management – as well as professional experience that enable them to comply in an effective and stringent manner with the responsibilities entrusted to them. It is important to note that in Portugal it is a legal requirement that one of the members in office, and one of the alternate members, of the Audit Board must be Portuguese statutory auditors ("revisores oficiais de contas") or firms of such auditors ("sociedades de revisores oficiais de contas").

Portuguese law (i.e. Article 414 of the Companies Code) prescribes a set of requisites and disqualifications which reinforce the independence of the Audit Board members vis-à-vis the statutory audit Client. This aspect is addressed in greater detail in chapter 6 – External Auditors.

Composition of the Audit Board

Chairman	Jorge de Figueiredo Dias
Members	José Ferreira Amorim
	Deloitte & Associados, SROC, S.A. (Augusta Francisco)

The Audit Board met 5 times during 2004 and on 4 March 2005.

EXPERIENCE AND PROFESSIONAL QUALIFICATIONS OF THE MEMBERS OF THE AUDIT BOARD

Jorge de Figueiredo Dias, 67 years of age.
Chair Professor of Penal Law, Penal Process and Criminal Science at the Law Faculty of the Universidade de Coimbra. Was until 2003, President of this faculty's Scientific Council, where he served as President of the Representatives Assembly, of the Management Council and the Pedagogical Council. He is an elected Member of the Universidade de Coimbra's Senate representing the professors. He is Professor of the Law Faculties of the Universidade Católica Portuguesa, the University of Macau, the Paris University I (Panthéon – Sorbonne) and of the Universidade Val Paraíso (Chile); professor in charge and President of the Management Council of the Institute of European Economic Penal Law (Law Faculty of the Universidade de Coimbra); Member of the Management Council of the Fundação Luso-Americana para o Desenvolvimento; past President of the General Meeting of the Caixa Geral de Depósitos.

José Ferreira de Amorim, 79 years of age.
Chairman of the Board of Directors of SIMON – Sociedade Imobiliária do Norte, S.A. and RIAOVAR – Empreendimentos Turísticos e Imobiliários, S.A. Authorised signatory of SANOR – Sociedade Agrícola do Norte, Lda. From 1950 to 1987, he was a director-shareholder and director of companies belonging to the Amorim Group.

Deloitte & Associados, SROC, S.A.
Deloitte & Associados, SROC, S.A. is a firm belonging to the international network Deloitte Touche Tohmatsu.

1) Art. 420 (A) of the Companies Code.
2) If the anomalous fact is detected by a member of the Audit Board who is not a statutory auditor, the communication of the fact is effected indirectly: the former communicates to the latter, who in turn communicates to the Chairman of the Board of Directors.
3) Art. 420 (A) of the Companies Code identifies the principal situations. Namely: repeated non-payment to suppliers, protested bills of exchange, issue of cheques without funds and non-payment of social security contributions or taxes.

Activities of the Audit Board

3 Mar. 04	Review of the conditions for the granting of loans to the members of the governing bodies for the purpose of exercising options under the RVA programme and issuing the relevant opinion.
4 Mar. 04	Review of the 2003 accounts and issue of the relevant opinion.
27 May 04	Review of the accounts for the 1st quarter of 2004.
30 Jul. 04	Internal control report relating to 2003. Review of the accounts for the 1st half of 2004.
8 Nov. 04	Review of the accounts for the 3rd quarter of 2004.
4 Mar. 05	Review of the 2004 accounts and issue of the relevant opinion.

3.7. REMUNERATION COMMITTEE

Responsibilities of the Remuneration Committee

The Remuneration Committee's function is to fix the remuneration of the members of Banco BPI's governing bodies, and to formulate the remuneration policy and the retirement regime to apply to members of Banco BPI's Executive Committee and to members of Banco Português de Investimento's Board of Directors.

Composition of the Remuneration Committee

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 Committee is presently composed of the following Shareholders:

Chairman	Itaúsa Portugal – Sociedade Gestora de Participações Sociais, S.A.
Member	Cotesi – Companhia de Têxteis Sintéticos, S.A.
	Arsopi – Industrias Metalúrgicas Arlindo Soares de Pinho, S.A.

ACTIVITY OF THE REMUNERATION COMMITTEE

On 28 January 2004

- revised – to become effective in 2004 and until the termination of its mandate – the monthly remuneration of the Members of Banco BPI's Executive Committee, as well as that of the other Members of Banco Português de Investimento's Board of Directors;
- fixed the amount of the variable remuneration of the members of Banco BPI's Executive Committee and that of the other Members of Banco Português de Investimento's Board of Directors for the exercise of functions in 2003;
- deliberated about the specific conditions of the 2003 series of the share incentive and options scheme (RVA – programa de Remuneração Variável em Acções) to the members of Banco BPI's Executive Committee, as well as to the other members of Banco Português de Investimento's Board of Directors, with the cost of the options being fixed at 0.45 euro and the price of the shares at 3.13 euro; these figures are the same as those which the Executive Committee fixed for Employees;
- exercised the functions attributed within the ambit of the regime governing the retirement of BPI Group Directors, which regime was approved by the then General Board at its meeting held on 25 July 1995.

On 20 April 2004

- adopted the resolutions stemming from the cessation of functions of the Chairman of the Board of Directors' Executive Committee by Artur Santos Silva and the appointment to this office of Fernando Ulrich, as well as Pedro Barreto's commencement of functions as a member of the Board of Directors and its Executive Committee.

On 27 January 2005

- deliberated, after having heard the Chairman of the Board of Directors and, as regards the members of Banco BPI's Executive Committee and as regards the Directors of Banco Português de Investimento, the Chairman of Banco BPI's Executive Committee, to fix the variable remuneration for the members of Banco BPI's Executive Committee and for the Directors of Banco Português de Investimento;
- deliberated about the specific conditions of the 2004 series of the share incentive and options scheme (RVA – Programa de Remuneração Variável em Acções) for the members of Banco BPI's Executive Committee, as well as for the other members of Banco Português de Investimento's Board of Directors, with the cost of the options being fixed at 0.31 euro and the price of the shares at 3.10 euro; these figures are the same as those which the Executive Committee fixed for Employees.

No Director has the authority to fix his own remuneration. The principles, criteria and amounts involved in the fixing of the remuneration of the officers sitting on Banco BPI's governing bodies are dealt with in more detail in chapter seven ("Remuneration") of this report.

3.8. BPI GROUP'S CORPORATE GOVERNANCE MONITORING COMMITTEE

With effect from April 2004, the Board of Directors passed a resolution to the effect that the functions of assessing and structuring the BPI Group's corporate governance be vested in the Audit and Internal Control Committee.

3.9. 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 11 members, of whom 6 are non-Executive Directors, including the Chairman and Deputy-Chairman, and five 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, member of the Banco BPI's Executive Committee.

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 member of the Board of Directors can be represented by another member of the Board of Directors, but none may represent at any meeting more than one member. The Board of Directors meets at least once every quarter, having met 11 times in 2004. The Executive Committee met 15 times.

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 conflict of interest or situations involving the abuse of privileged information. This issue is dealt with in greater detail under point 11 – Code of Ethics and Professional Conduct, of this report.

Banco Português de Investimento's Board of Directors

Directors	Executive	Non-executive
Artur Santos Silva		Chairman
Fernando Ulrich		Deputy-Chairman
Manuel Ferreira da Silva	Chairman	
Rui de Faria Lélis	●	
José Carlos Agrellos	●	
António Borges de Assunção	●	
Manuel Maria Meneses	●	
Maria Celeste Hagatong		○
Francisco Mendes Costa		○
Maria do Carmo Oliveira		○
Rui Martins dos Santos		○

Banco Português de Investimento's Executive Committee

	Areas of responsibility
Directors	
Manuel Ferreira da Silva	Chairman
Rui de Faria Lélis	Legal Affairs and Human Resources
José Carlos Agrellos	Private Banking
António Borges de Assunção	Corporate Finance
Manuel Maria Meneses	Organisation, Securities, Audit and Security
Central Managers	
Henrique Cabral Menezes	Equities
Carlos Casqueiro	Corporate Finance
Rui Lopes Ferreira	Private Equity

3.10. BANCO DE FOMENTO ANGOLA'S MANAGEMENT

Structure and functioning rules

Banco de Fomento SARL – 100% held by Banco BPI – is an Angolan-law bank engaged in commercial banking business in the Republic of Angola.

In terms of the relevant Statutes, Banco de Fomento 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, which can delegate the day-to-day running of the company to an Executive Committee, made up of an uneven number of Directors.

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 can only deliberate in the presence of the majority of its members, with its resolutions being adopted by a majority of votes. The Chairman has the casting vote.

All the members of Banco de Fomento Angola's governing bodies form part of the BPI Group's Management staff, bound by strict rules of confidentiality and 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.

Composition of the Board of Directors and the responsibilities of its members

The Board of Directors of Banco de Fomento Angola is composed of 7 members: two non-executive Directors – the Chairman of the Board of Directors and the Chairman of the Executive Committee of Banco BPI – and five executive Directors who make up the Executive Committee.

Two members of the Executive Committee reside permanently in Angola: Fernando Mendes Teles – head of the operation in Angola, who oversees the Companies, Individuals and Small Businesses, Financial, Marketing, Human Resources and Computer Services Divisions – and Carlos Alberto Ferreira, who coordinates the Accounting, Transfers and Loans, Internal Audit and Organisation Divisions.

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.

Banco de Fomento Angola's Directors

	Board of Directors	Executive Committee
Artur Santos Silva	Chairman	-
Fernando Ulrich	●	-
António Domingues	●	Chairman
José Pena do Amaral	●	●
José Manuel Toscano	●	●
Fernando Mendes Teles	●	●
Carlos Alberto Ferreira	●	●

The present mandate terminates with the presentation of the 2004 accounts in April 2005.

LEGAL AND REGULATORY FRAMEWORK GOVERNING BFA'S ACTIVITY

1. Financial institutions act

The basic enactment for Financial Institutions (Law 1 / 99) regulates the process for the establishment, exercise of activity, supervision and funding of credit institutions and financial companies. This laws requires, 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 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.

The Act prescribes in a separate chapter rules of conduct on matters such as: professional confidentiality, BNA's cooperation with the supervisory entities of other States, conflicts of interest of members of governing bodies and the defence of competition.

2. Supervision

As a bank subject to Angolan law[1], BFA is subject to the supervision of Banco Nacional de Angola which, according to its Organic Law[2], has as its principal objectives the preservation of the national currencies value and the stability of the financial system. To this end, the BNA is vested with powers to regulate and supervise the banking system.

Subsidiarily, BFA as a full subsidiary of Banco BPI, is subject in terms of Portuguese banking legislation[3] and complementary regulations[4], to supervision on a consolidated basis by the Bank of Portugal.

3. Principal prudential precepts

Adequacy of own funds

Notice 05 / 2003 approximates the rules relating to the defence of the solvency of the institutions subject to the BNA's supervision to international regulatory criteria: prescribes a minimum ratio of 10% for the adequacy of own funds[5] and defines the items comprising basis own funds (FPB), complementary own funds (FPC) and negative elements of own funds. It stipulates that the FPC cannot be more than basis own funds and these cannot be less than the legal minimum capital required for the constitution of institutions.

Limits for the concentration of risks in one Customer or group

Notice 05 / 1996 defines the concept of large risk – exposure of more than 10% of the credit institution's own funds – and lays down that:

- the exposure limit for any one Customer cannot exceed 30% of the Bank's own funds;
- the aggregate value of large risks cannot exceed three times own funds.

Limits to investments

Notice 06 / 1996 provides that credit institutions:

- cannot hold, directly or indirectly, an interest in the capital of a company the amount of which exceeds 15% of its own funds;
- cannot hold an overall amount of qualified shareholdings (i.e. more than 10% of the respective capital or voting rights) in companies which exceed 60% of its own funds.

1) Since June 2003.
2) Law no. 6 / 97 of 11 July.
3) Article 130 of Decree Law 298 / 92 of 31 December.
4) Namely Decree Law 36 / 92 of 28 March.
5) Relationship between own funds and risk-weighted assets.

Minimum limits of provisions

Under notices 05 / 1999 and 09 / 1998, banks must constitute provisions for general credit risks in the currency of the respective loan, by a minimum of 2% and a maximum of 4% of the loan portfolio in foreign or local currency.

Pursuant to Instruction 09 / 1998, loan operations in arrears for 30 days after maturity, including the future instalments of contractually envisaged instalments, must be transferred to a non-performing loan account, with the respective minimum provisions increasing in proportion to the length of time after due date.

Only the recomposition, extension or renovation of arrear loans will allow the reclassification of such loans as normal loans: the reversal of provisions is only permitted when the guarantees pledged are reinforced or when the accrued interest and charges are paid in full.

In terms of Directive 17 / 1998, the operations referring to advances to depositors to cover any overdrawn current accounts must be repaid in the maximum period of 30 days, except those which must be classified to a non-performing loan account and 100% provided for.

Maintenance Reserve for Own Funds

Directive 01 / 2003 confers to financial institutions the possibility of, according to their own criteria, creating a provision for the maintenance of own funds, covering the amount of the capital, reserves (except fixed-asset revaluation reserve) and positive retrained earnings, based on the currency variation which occurred.

Limit of currency position

Notice 6 / 03 permits authorised banking institutions to conduct foreign exchange business, and to hold an open currency position up to 20% of regulatory own funds with reference to the previous month. The currency position limit must be monitored daily and the amount of the currency position must be reported daily to the Banco Nacional de Angola (central bank).

Mandatory reserves

Instruction 10 / 2003 and respective Directives fix a coefficient of 15% for the basis of incidence (residents and non-residents deposits, in local or foreign currency, with the exclusion of resources tied to currency operations) of which half can be kept in Central Bank Securities or Direct Public Debt securities, with a maturity of more than 63 days registered in the Management System for Markets and Assets (GEMA). The reserves requirement is calculated on a weekly basis on the arithmetic average of the balances of the penultimate week's business days.

Control of liquidity

As a indirect means of controlling the Angolan economy's liquidity, Notice 05 / 2004 regulates the issue and trading in Central Bank Securities (TBC), in dematerialised form sold on the primary market with remuneration defined by discount to the face value, with short-term maturity and interest rate fixed by the BNA or defined in auction.

Decrees 51 / 2003 and 52 / 2003 give origin to the Direct Public Debt securities (Treasury Bonds and Treasury Bills), which are dematerialised securities, issued on the basis of purchase bids subscribed to by the institutions authorised by the BNA, according to previously-enunciated placing conditions[1].

Internal control and external audit

Instruction 01 / 1998 provides that the institutions forming part of the financial system must have a system of internal control adapted to the size, nature and risk of the activities undertaken.

This system must be:

- supervised by an internal audit group reporting directly to the Board of Directors;
- reviewed by an external auditor who will prepare a report on the credibility of the financial statements presented relating to the close of the financial year.

1) Regulated under Instruction 06 / 2004.

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 3.10. of this report.

BPI Group functions

The BPI Group units grouped according to their functions are under the direct command of Banco BPI's Executive Committee.

Central structures

These structures embrace the entire universe of shared services (of the back-office kind) which act as direct support to the Group's other units by undertaking the development and maintenance of its operational, physical and technological infrastructure.

Credit risks

The Executive Committee for Credit Risk is the body that takes the principal decisions concerning matters relating to the concession, monitoring and recovery of lending operations. At a more operational level, credit risk management is segregated into five segments: individuals, small businesses, companies, institutional banking and project finance. 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 Finance Division, and defining the parameters for the management of long-term structural positions (interest rate or currency risks) and fixing the global limits for value-at-risk (VaR).

Marketing

The marketing function is 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. 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

The development of the banks' commercial products and services is segregated by specialised Divisions (product units), part of which are – property financing, motor vehicle finance, cards, asset management, leasing and factoring – simultaneously serving the individuals, small businesses and companies segments. The Bank's range of liability-side products, such as time deposits, unit trust funds, structured products and capitalisation insurance, is concentrated at a single unit denominated "Customer Resources".

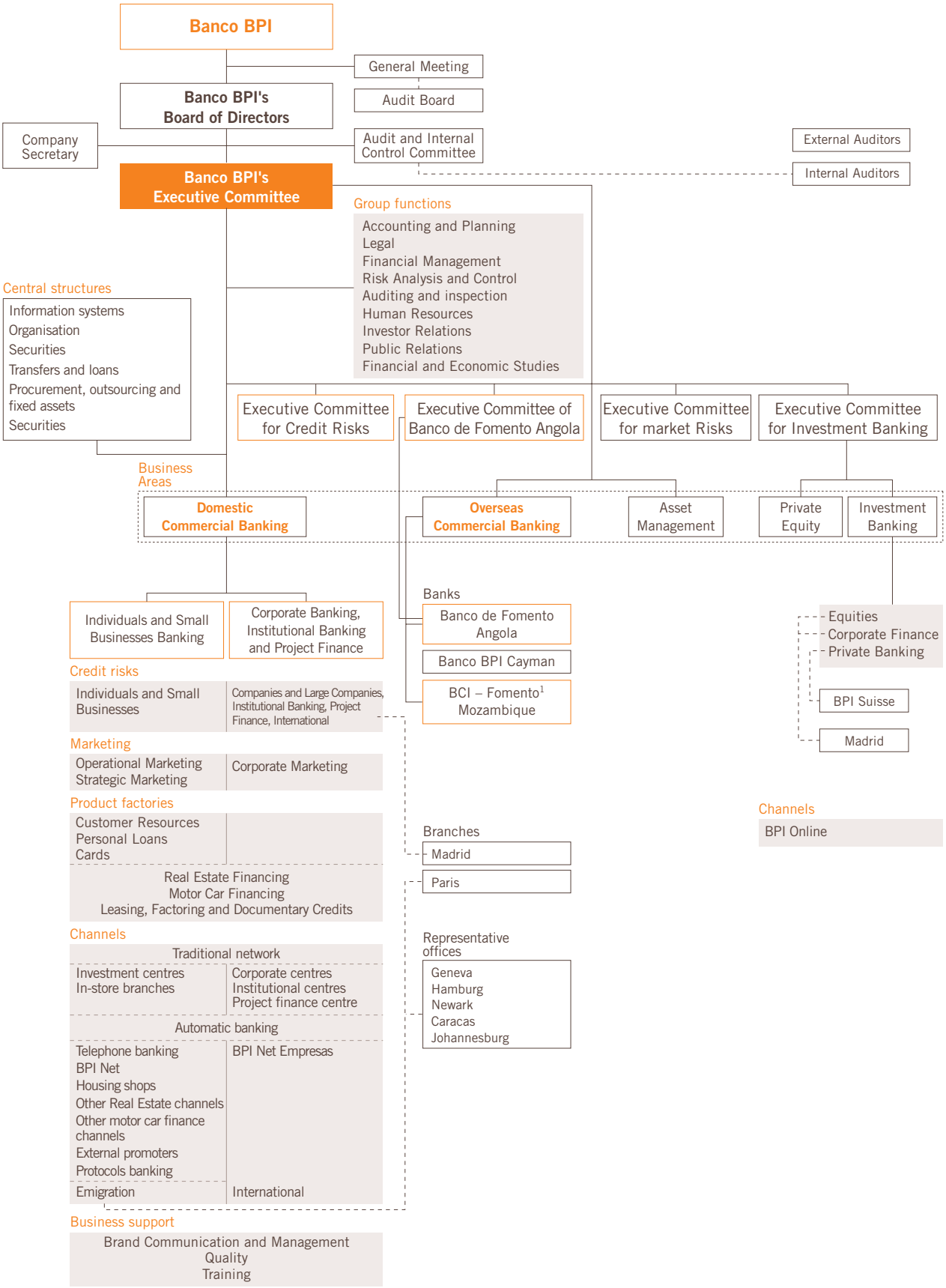
Channels

BPI possesses a multi-channel distribution network, fully integrated, composed of 508 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 (43 corporate centres, four institutional Client centres and one project finance[G] centre). 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 and quality

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.

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[G], 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 reference.

Matrix of responsibilities for risk management and control

	Identification and analysis of exposure	Strategy	Limits and control	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**: Expert System (companies) **Risk areas of DCPEN**: Expert System **DACR**: exposure to derivatives **DACR**: overall analysis of exposure to credit risk	**CA e CERC**: overall strategy and approval of substantial operations **DRC** and **Credit Divisions**: approval of operations	**CA, CERC, DRC, DACR, DIG, DTA** and **risk areas of the Credit Departments**: limits **CA, CACI, CERC, DACR, Internal and external Auditors, Bank of Portugal**: control	**CA** **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	**CA** and **CERM**: overall strategy **DIG, DF, DA, DTA:** operations		
Market risk	**DACR**: analysis of risk by books / instruments and global risks – interest rates, currencies, shares, commodities	**CA** and **CERM**: overall strategy **DF, DA** and **DTA**: operations	**CA, CERM, DACR, DF, DA and DTA**: limits **CA, CACI, CERM, DACR, Internal and external Auditors, Bank of Portugal**: control	
Liquidity risk	**DF**, **DA** and **DTA**: individual risk analysis of liquidity, by instrument **DACR**: analysis of overall liquidity risk	**CA** and **CERM**: overall strategy		
Operating risks	**DACR**: analysis of overall exposure **DORG** and **all the Divisions**: identification of critical points	**CA**: overall organisation **DORG**: regulations	**CA, CERM, DORG, DACR**: regulation and limits **CA, CACI, DORG, DACR, Internal and external Auditors, Bank of Portugal**: control	
Legal risks	**DJ**		**CA, CACI, DJ, Internal and external Auditors, Bank of Portugal**: control	

CA – Conselho de Administração (Board of Directors);
CACI – Comité de Auditoria e de Controlo Interno (Audit and Internal Control 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);
DCPEN – Direcções de Crédito a Particulares, Empresários e Negócios (Individuals and Small Businesses' Credit Divisions);
DF – Direcção Financeira (Financial Division);
DIG – Direcção Internacional do Grupo (the Group's International Division);
DJ – Direcção Jurídica (Legal Division);
DORG – Direcção da Organização (Organization Division);
DP – Direcção de Planeamento (Planning Division);
DRC – Direcção de Riscos de Crédito (Credit Risk Division);
DTA – Direcção de Trading e Arbitragem (Trading and Arbitrage Division).

6. External auditors

Deloitte & Associados, SROC, S.A. (Deloitte), a member firm of the international network Deloitte Touche Tohmatsu, are the BPI Group's external auditors. 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[1], amongst other entities, regarding the safeguarding of auditors' independence vis-à-vis the audit Client. BPI believes that this independence – in spirit and in fact – 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 appointment of the external auditor is the responsibility of the Audit and Internal Control Committee, which as referred to in a separate chapter, is mandatorily composed solely of Banco BPI's Board members with no executive functions;

- 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;

- the BPI Group does not contract persons who maintain professional ties with the Auditor.

On the other side,

- the Companies Code provides that the members of the Audit Board – of which the auditor forms part – are elected by the General Meeting, which reinforces their independence vis-à-vis the Company's management team;

- the auditors' professional statutes provide 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.

As a principle, BPI refrains from entering into any employment contract with an auditor before a significant period of time has elapsed after the termination of auditor relationship.

1) IOSCO – International Organization of Securities Commissions.

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 that its world-wide network provides quality services and complies with all the applicable independence and ethical rules.

QUALITY, 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 provided to Clients are evaluated according to the risks involved, and are subject to quality reviews by other Deloitte partners who are independent vis-à-vis the relevant team;
- 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 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 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. Internal training courses are held periodically dealing with independence and ethics, attendance of which is compulsory.

The functioning of the control system for independence and ethics is in the first place assured by the designation at world-wide and national level of partners with considerable audit experience (Reputation and Risk Leaders), with no routine management responsibilities and whose function in each respective jurisdiction is to take charge of all matters relating to quality, reputation and independence within the Deloitte organisation. Their brief includes:

- the implementation and maintenance of approval and consultations mechanisms (between different service lines and between 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 information produced by independence management software "GIMS" – Global Independence Monitoring System, which covers Clients, persons and services provided;
- control of the process for the annual confirmation of independence, as well as the carrying out of periodic testing and inspection programmes;
- the application of disciplinary procedures in cases of non-compliance with the prescribed independence and ethics rules.

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 2004 amounted to EUR 1.6 million. 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:

Amounts in thousands of euro

Type of service	Banco BPI	Banco de Fomento Angola	Banco Português de Investimento	BPI Fundos	Other BPI Group companies[1]	Total
Statutory audit	446	42	128	80	168	864
Other attest services	120	0	13	15	0	147
Tax consulting	502	0	55	0	0	557[2]
Other services	59	0	0	0	12	70
Total	**1 126**	**42**	**196**	**95**	**180**	**1 638**

1) By order of importance (decreasing) according to the amount paid: BPI Vida, BPI Pensões, Sofinac, Douro – SGPS, Banco BPI Cayman, Inter Risco, BPI Rent, BPI – Locação de Equipamentos, Promática, Eurolocação, Solo and BPI Madeira.
2) Approximately 80% of this figure refers to VAT consultancy.

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.

The terms of the remuneration due for the 2004 statutory audit were approved by the Audit and Internal Control Committee.

6.4. OTHER SAFEGUARD MECHANISMS

In April 2004, Banco BPI's Board of Directors approved a number of alterations to the regulations of the Audit and Internal Control Committee, with the object of attributing to the Committee the powers that refine the mechanisms for safeguarding the independence of the external auditors, namely, subjecting all the services to be rendered by the external auditors and respective remuneration to the Committee's prior consideration.

1) Article 10 of the Securities Code.
2) In terms of article 10 of the Securities Code, the term "auditors" includes "statutory auditors and other persons who have signed the report or opinion" (paragraph 1a) and "the firms of statutory auditors and other audit companies, providing that the documents audited were signed by one of their partners" (paragraph 1b).
3) The network of BPI's auditors comprises Deloitte and Deloitte & Associados, SROC, S.A. and conforms 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

BPI's remuneration policy is founded on five pillars:

Performance

The remuneration packages of BPI's 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 attributed 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 a group of Employees have a portion of their remuneration which is anchored to the performance of Banco BPI shares on the stock exchange.

The remuneration attributed to BPI Group Directors and Employees includes a fixed and a variable component, with the latter increasing 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 made by Banco BPI's Executive Committee.

Employees at the Individuals and Small Businesses commercial network also benefit from a variable component that is dependent upon their commercial performance and which is designated SIM – Sistema de Incentivo e Motivação, (Incentive and Motivation System), the conditions of which are revised quarterly.

In point 7.4 – Variable remuneration in shares programme (Portuguese initials – RVA) detailed information is provided about this important instrument for reinforcing the alignment of Employees' and Directors' interests with those of the Shareholders.

7.2. REMUNERATION OF MEMBERS OF BANCO BPI'S GOVERNING BODIES

7.2.1. Responsibility

The Remuneration Committee is the governing body responsible for the amount of the annual remuneration to be paid to the members of Banco BPI's governing bodies.

7.2.2. Fixed remuneration

The amount of fixed remuneration is fixed every three years at the time the members of the governing bodies are elected. The remuneration of the members of the Executive Committee, are, in the following years, adjusted in accordance with the increase determined under the ACTV[1] for level 18. The remunerations of the Audit Board and of the Audit and Internal Control Committee are susceptible to adjustment during the course of the mandate. The Remuneration Committee does not receive remuneration.

7.2.3. Attendance allowances

The members of the Audit and Internal Control Committee receive attendance allowances for the meetings attended by them.

7.2.4. Variable remuneration

The amount of the variable remuneration paid to members of the Executive Committee is set annually, taking into account the Bank's and each director's individual performance. The non-executive directors do not earn variable remuneration.

The Executive Committee Chairman's remuneration is fixed by the Remuneration Committee, based on a proposal by the Chairman of the Board of Directors.

The remuneration of the other members of the Executive Committee is fixed by the Remuneration Committee, based on a proposal by the Executive Committee's Chairman and on the opinion of the Board of Directors' Chairman.

Remuneration structure of Banco BPI's governing bodies

			Remuneration				Rules	Deciding body
			Fixed		Variable			
			Normal	Attendance allowances	Cash	RVA scheme		
Board of Directors	Members of the Executive Committee	Chairman and Deputy-Chairman[1]	✓	–	✓	✓	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.	Remuneration Committee, based on a proposal of the Chairman of the Board of Directors.
		Other members	✓	–	✓	✓		Remuneration Committee, based on a proposal of the Chairman of the Executive Committee and on the opinion of the Chairman of the Board of Directors.
	Non-executive Directors		✓	–	–		Amount of remuneration (fixed) is fixed at the start of the 3-year mandate.	Remuneration Committee.
	Audit and Internal Control Committee		–	✓	–		Individual attendance allowances attributed for actual presence at meetings.	Remuneration Committee.
Audit Board			✓	–	–		Amount of the remuneration is fixed at the start of the 3-year mandate.	Remuneration Committee.

1) Up until 20 April 2004, Artur Santos Silva was the Chairman of Banco BPI's Executive Committee and Fernando Ulrich was the Deputy-Chairman. As from that date, Banco BPI's Executive Committee began to be chaired by Fernando Ulrich, with no Deputy-Chairman being appointed.

7.2.5. 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 attributed 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.

1) Vertical Collective Employment Agreement (Acordo Colectivo de Trabalho Vertical).

7.2.6. Remuneration earned in 2004

In 2004, the total remuneration paid to Banco BPI's Executive Committee was 5.0 M.€, which corresponds to an increase of 10.6% relative to 2003.

The variable component amounted to 3.4 M.€, corresponding to 67% of the total remuneration (64% in 2003). In 2004, the variable remuneration as a percentage of net profit was situated at 1.8% (1.8% in 2003).

Remuneration of members of Banco BPI's Board of Directors[1]

Amounts in thousands of euro

	2003					2004				
	Fixed[2, 3]	Variable[4]			Total	Fixed[2, 3]	Variable[4, 5]			Total
		Cash	RVA	Total			Cash	RVA	Total	
Executives[6]	1 662	1 615	1 281	2 896	4 559	1 660	1 923	1 457	3 380	5 040
Non-executive	487	-	-	–	487	711	-	-	–	711
Total	**2 149**	**1 615**	**1 281**	**2 896**	**5 046**	**2 372**	**1 923**	**1 457**	**3 380**	**5 752**

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 members of the Audit and Internal Control Committee include its meeting attendance allowances in the overall amounts of 34 th. € and 66 th. € respectively in 2003 and 2004.
4) Includes the remuneration paid for serving on a non-controlled company's governing body as BPI's representative in the amounts of 71 th. € in 2003 and 82 th. € in 2004.
5) Includes the remuneration attributed to the Chairman of the Board of Directors Artur Santos Silva relating to the exercise of the functions of Chairman of the Executive Committee (between 1 January and 20 April 2004), as well as the remuneration paid for the whole of 2004 to the member of the Executive Committee Pedro Barreto, although the latter commenced functions on the Committee as from 20 April 2004.
6) The Executive Directors' combined share in profits cannot exceed annually 5% of net profit (article 25 of the Statutes).

Roughly 57% of the variable remuneration was paid in cash, 1.9 M.€, while the remaining 1.5 M.€ was paid through the granting of BPI shares and share options under the share incentive and options plan (RVA) in force at the Group. The share component represented 60% of the RVA remuneration (54% in 2003) and the options component 40% (46% in 2003).

The 2004 RVA scheme resulted in the attribution to the Executive Directors of 283 thousand Banco BPI shares and 1 866 thousand options to buy Banco BPI shares.

The remuneration of the non-executive members of the Board of Directors was 0.7 M.€ in 2004. This includes with effect from 2004 the remuneration of the Board of Directors' Chairman (relating to the last eight months of 2004), who after having ceased to form part of the Board of Directors' Executive Committee in April 2004 began to earn only fixed remuneration.

RVA 2004 – attribution conditions

Shares scheme	
Transfer condition	Under condition subsequent
Attribution date	28 February 05
Attribution price	3.10 euro
Options scheme	
Attribution date	28 February 05
Exercise period	28 February 06 to 28 February 10
No. of shares that may be acquired for each option held	1
Exercise price	3.10 euro
Value of each option	0.31 euro

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 Executive Committee can only exercise corporate functions at other companies as BPI representatives. The remuneration attributed 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 the members Banco Português de Investimento's Board of Directors[1]

Amounts in thousands of euro

	2003					2004				
	Fixed[2]	Variable			Total	Fixed[2]	Variable			Total
		Cash	RVA	Total			Cash	RVA	Total	
Remuneration	990	842	453	**1 295**	**2 285**	1 014	943	508	1 451	**2 465**

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, in accordance with the alterations introduced to the Annex to CMVM Regulation 7 / 2001 by CMVM Regulation 11 / 2003.

2) Fixed remuneration includes length of service increases and bonuses.

7.4. SHARE INCENTIVE SCHEME (PORTUGUESE INITIALS "RVA")

7.4.1. Outline

The BPI Group has a variable remuneration programme in shares (Portuguese initials – RVA) which entails 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.

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 EUR 2 500.

The RVA 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.

Main characteristics of the RVA Scheme

Type	Attribution of Banco BPI shares and share options
Dilution	No dilution – the execution of the RVA scheme does not entail the issue of new shares.
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 and equivalent to cash settlement.
Frequency	Regular annual attribution programme. 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.
Attribution cost	Fully recorded as cost, under "personnel costs", in the year to which the ward refers.
Cover cost (in-house)	BPI has its own cover system for the options plan, resorting to treasury stock portfolios for this purpose. These shares are revalued at market price and the resulting differences are recorded in accrual and deferral accounts. Whenever the combined result of the revaluation of the options and the portfolio of shares earmarked to cover the plan represents a loss, a provision is created.
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 between the end of the 1st year and the 5th year after the attribution date.
Possibility of repricing the options	No.
Transferability of the options	Not tradable.
Share attribution price in 2004	3.10 euro.
Options attribution price in 2004	0.31 euro.
Options exercise price in 2004	3.10 euro.
2004 RVA attribution as % of capital	1.1%
No. of existing options as a % of capital[1]	2.3%

1) Position at the end of 2004, after adding the attribution under the RVA 2004 scheme in February 2005.

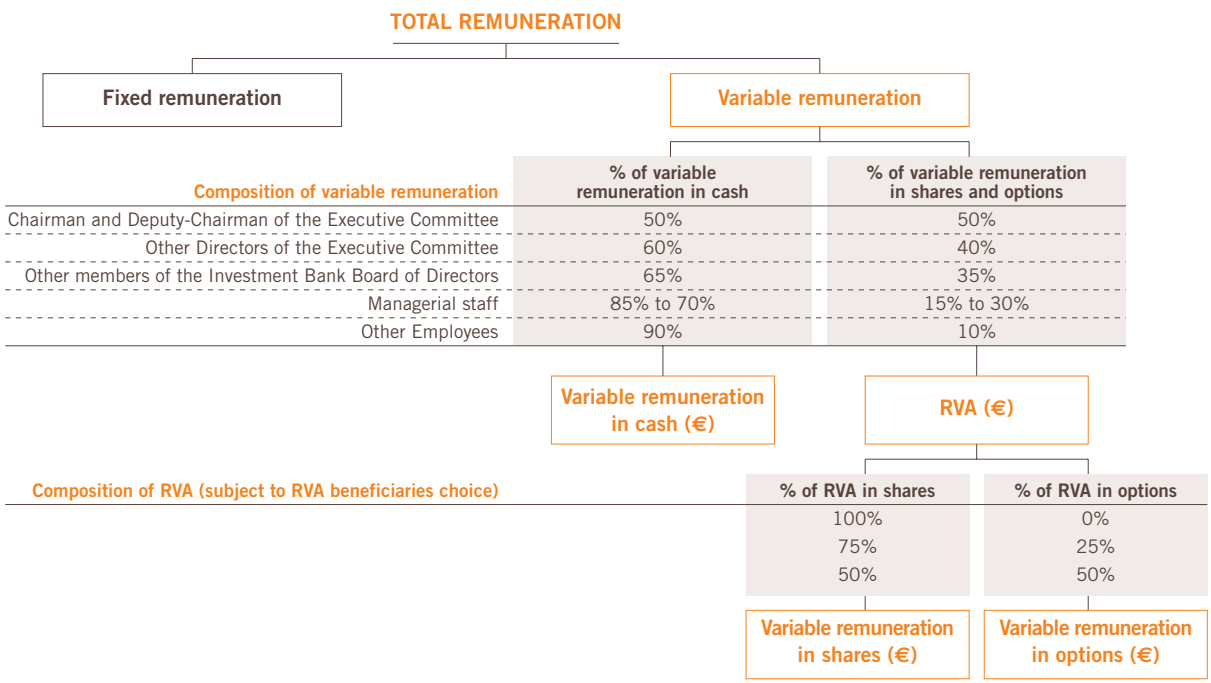
Extension of the RVA Scheme

The variable component of remuneration, which up until 2000 was paid wholly in cash, began to be paid with effect from 2001 to Directors and Employees covered by the RVA partly in cash and partly in shares and options. For these, the portion of the share and options component (RVA) of variable remuneration varies between a minimum of 10% and a maximum of 50%, with the percentage rising commensurately with the level of the Employee's or Director's responsibility.

The number of Executive Directors of the banks, Managers and Employees of the BPI Group covered by the RVA-2004 was 2 285, or 38% of the Group's permanent workforce in Portugal.

	% of RVA in a variable remuneration	No. of persons covered			
		RVA 2001	RVA 2002	RVA 2003	RVA 2004
Banco BPI's Executive Committee[1]					
Chairman and Deputy-Chairman of Banco BPI's Executive Committee[1]	50%	2	2	2	2
Other Directors of Banco BPI's Executive Committee[1]	40%	5	5	5	6
Subtotal: Banco BPI's Executive Committee[1]	-	7	7	7	8
Other Directors of Banco Português de Investimento[2]	35%	8	7	7	7
Managerial staff and other Employees					
Managerial staff					
Central managers	30%	45	38	39	42
Deputy central managers	25%	61	59	58	51
Managers	20%	73	77	81	84
Assistant and deputy managers	15%	319	307	303	287
Subtotal: Managerial staff	-	498	481	481	464
Other Employees	10%	1 565	1 660	1 673	1 806
Subtotal: Managerial staff and other Employees	-	2 063	2 141	2 154	2 270
Total	**-**	**2 078**	**2 155**	**2 168**	**2 285**

1) Executive Directors of BPI SGPS in 2001 and up until 20 December 2002.
2) Other Directors of Banco BPI and Banco Português de Investimento in 2001 and up until 20 December 2002.



Attribution conditions

Share scheme

As a general rule, shares are attributed under a condition subsequent, in terms of which title thereto is 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.

The Executive Committee, just as it did with respect to the RVA 2001, can also award shares subject to a condition precedent, whereby both the transfer of title and their free disposal occurs in a phased manner and simultaneously, with both being subject to the condition of the maintenance of an employment contract.

Share scheme – attribution, transfer and free disposal

	Attribution under condition subsequent			Attribution under condition precedent		
	Attribution	Transfer	Free disposal[1]	Attribution	Transfer	Free disposal[1]
Attribution date	100%	100%	25%	100%	25%	25%
1 year later	-	-	25%	-	25%	25%
2 years later	-	-	25%	-	25%	25%
3 years later	-	-	25%	-	25%	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 options are exercisable between the end of the first year after their attribution – provided the employment relationship still exists (if not, the transfer is cancelled) – and the end of the fifth year after the attribution date.

Option scheme – attribution, transfer and free disposal

	Attribution	Transfer	Free disposal
Attribution date	100%	100%	-
1 year later	-	-	Start of exercise period
2 years later	-	-	
3 years later			
4 years later			
5 years later	-	-	End of exercise period

Determination of value

The value of the shares for attribution purposes corresponds to the weighted average of the share price at the last 10 stock exchange sessions before the attribution date.

In the case of options their fair value is used, with the attribution value of the shares being the exercise price[G]. The fair value of the options is calculated based on a model which, as regards its characteristics and assumptions, complies with accounting rules in force and reflects the best information available.

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 and RVA 2004 programmes 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;
- 100% shares / 0% options.

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 the shares attributed under the condition precedent in 2001 and still not transferred to the Director or Employee, additional shares are attributed by way of adjustment for the payment of dividends or by capital increase through the incorporation of reserves[G]. In the case of a capital increase reserved for shareholders, it is possible to acquire additional shares in the proportion set by the subscription coefficient for the capital increase and at the same price as the subscription price.

For their part, in the case of options, the number held and the exercise[G] price shall be adjusted by capital increases involving the incorporation of reserves or the subscription reserved for shareholders in such a way that the position of the option holder remains in substance identical to the situation before the occurrence of the fact.

In the same manner, the RVA scheme regulations permit technical adjustments to the shares awarded under condition precedent and to the options scheme following events which give rise to a substantial decline in the value of the shares, only with the object of maintaining the RVA beneficiary's position identical to the one prevailing before the occurrence of the event. The execution of the RVA scheme does not envisage 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 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 EUR 2 500 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 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.

In order to permit the execution of the RVA scheme, amongst other motives, the Board of Directors has the authorisation of the General Meeting held on 20 April 2004 to acquire own shares up to the legal limit of 10% of the company's share capital. This authorisation is valid for 18 months, under the following conditions:

- acquisition on a market registered at the CMVM, at a price that does not exceed 110% of the weighted average share price of the preceding 10 stock exchange sessions;
- sale to Employees and Directors, as part of their variable remuneration, of Banco BPI shares and share options, under the terms and conditions embodied in the RVA Regulations;
- sale to third parties on a market registered at the CMVM, for a price that is not less than 90% of the weighted average share price of the preceding 20 stock exchange sessions;
- acquisition or sale to third parties arising from repos and loan agreements, provided that such operations are registered on the Euronext Lisbon and the acquisition resulting from foreclosure agreements destined to extinguish liabilities stemming from financing contracts entered into by Banco BPI and provided that the value attributed to the shares does not exceed 110% of the weighted average share price of the preceding 10 stock exchange sessions.

The Board of Directors has sought the annual renewal of this authorisation at the Shareholders' ordinary General Meeting.

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 scheme, as well as the powers of the governing bodies to execute and amend it, are set out in specific regulations. The RVA Regulations were approved by the General Board on 25 February, with alterations being introduced on 3 March 2004.

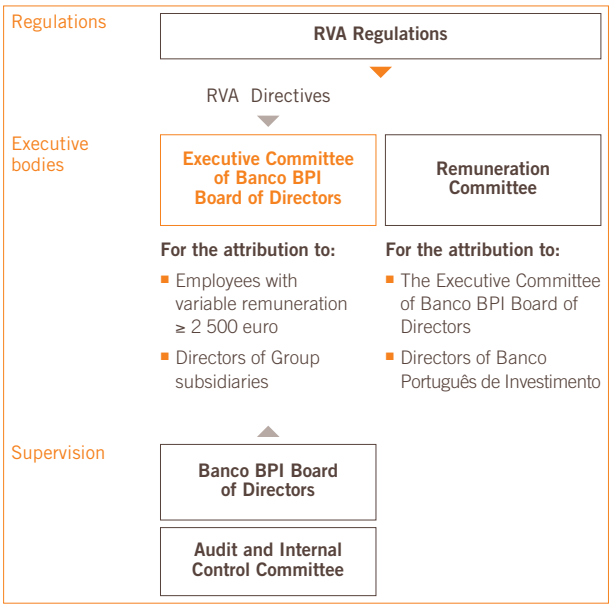
RVA scheme's executive bodies

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:

- 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 and Internal Control Committee, as well as by the Board of Directors.

Management of 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. 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.

1) Management body in the BPI Group's previous governance model.

Accounting treatment

Attribution

The accounting treatment given to the RVA scheme by BPI is identical to that envisaged in International Accounting Standard (IFRS2) for the accounting of cash-settlement share based payments.

Since the attribution value of the RVA scheme is calculated as a percentage of the overall amount of variable remuneration, which varies in accordance with the Employee's level of responsibility and the assessment of his / her performance during the year, the RVA scheme constitutes a component of the remuneration for the services rendered throughout the year. In addition, it should be pointed out that for purposes of awarding shares and the exercise of the options awarded, BPI resorts to the acquisition of treasury stock instead of the issue of new shares.

In this regard, BPI records the remuneration attributed under the RVA scheme in the caption "personnel costs" in the year to which the attribution refers, and at the attribution value. This procedure is identical to that adopted for the recording of the variable remuneration component paid in cash.

BPI uses the fair value 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.

The Executive Committee commissioned an independent opinion from the firm Watson Wyatt relating to the methods and procedures adopted by BPI in the RVA 2003 scheme, with a view to determining the value of the options on attribution and their recording in accordance with IAS. According to Watson Wyatt's opinion dated 25 February 2004, the approach adopted by BPI for determining the value of the option and assumptions used, namely the estimated average life of the option and the estimated volatility[G], are reasonable and realistic and produce a reasonable assessment of the option's value. Watson Wyatt confirmed that BPI's approach is acceptable for purposes of attributing options and that, in their opinion, it conforms to the accounting treatment contemplated in International Accounting Standard 2 (IFRS2).

RVA scheme cover

The BPI Group executes its own cover operations for the RVA share and option scheme.

For the purpose meeting the obligations stemming from the attribution of shares under a condition precedent in 2001, BPI holds a portfolio of shares earmarked exclusively to fully meet this obligation.

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. These shares are revalued to market value and the resulting differences are recorded in accrual and deferral accounts. Whenever the combined result of the revaluation of the options and the portfolio of RVA-cover shares represents a loss, a provision is created in the year in which it occurs.

Up until 31 December 2004, the abovementioned RVA-cover activity did not generate any loss or costs for the BPI Group.

7.4.2 Execution

2004 share incentive scheme

Fixing of the attribution price of shares and purchase options

In terms of the RVA regulations, the Executive Committee designated 28 February 2005 for purposes of the attribution of shares and purchase options in respect of the 2004 financial year.

The price of the shares was fixed at 3.10 euro and corresponded to the weighted average of the share price at the 10 stock exchange sessions which took place between 14 and 25 February 2005.

The value of the options, for an exercise price identical to the share attribution value, was fixed at 0.31 euro.

In accordance with the powers laid down in the RVA Regulations, the Executive Committee used the Black-Scholes model for valuing the options, taking into consideration the following parameters:

- estimated life of the option 3.3 years (2/3 of the contractual maturity);
- estimated volatility of 17.9%;
- risk-free interest rate of 2.7% for the estimated life of the option.

Attribution of shares and purchase options

In 2004, the variable remuneration in the form of RVA incentives amounted to 6.0 M.€, which corresponds to 21% of the variable remuneration attributed to the universe of Directors[1] and Employees covered by the RVA scheme.

Composition of variable remuneration

Amounts in thousands of euro

	Variable remuneration in 2003					Variable remuneration in 2004				
		RVA 2003					RVA 2004			
	Cash	Share scheme	Options scheme	Total RVA	Total	Cash	Share scheme	Options scheme	Total RVA	Total
Executive Committee of Banco BPI[1]	1 615	692	590	1 281	2 896	1 923	879	579	1 457	3 380
Board of Directors of Banco Português de Investimento[2]	842	227	227	453	1 295	943	254	254	508	1 451
Managerial staff and other Employees[3]	17 675	2 283	1 456	3 740	21 415	19 323	2 551	1 485	4 036	23 359
Total	**20 132**	**3 202**	**2 272**	**5 474**	**25 606**	**22 189**	**3 683**	**2 318**	**6 001**	**28 190**

1) In 2004, includes the remuneration of the 7 members of the Executive Committee in office at 31 December 2004 and the remuneration earned by the Chairman of the Board of Directors for the exercise of executive functions up until 20 April.
2) Does not include the members of the Executive Committee of Banco BPI's Board of Directors.
3) Group Employees covered by the RVA scheme.

Under the 2004 RVA scheme, 1 189 thousand shares and 7 476 thousand options were attributed. The total number of shares attributed and the number of shares underlying the options attributed corresponded to 1.1% Banco BPI's capital.

1) Banco BPI's Remuneration Committee deliberated about the amount of the variable remuneration attributed to the members of the Executive Committee of Banco BPI's Board of Directors and the Board of Directors of Banco Português de Investimento on 27 January 2005.

Share attribution

Share attribution scheme	RVA 2001	RVA 2001 (figures adjusted for dividends and the 2002 share capital increase)	RVA 2002	RVA 2003	RVA 2004
Manner of attribution	Under condition subsequent and under condition precedent		Under condition subsequent	Under condition subsequent	Under condition subsequent
Attribution date	21 March 02		22 February 03	23 February 04	28 February 05
Attribution price	2.67 euro	2.54 euro[1]	2.14 euro	3.13 euro	3.10 euro
No. of shares attributed[2]					
Banco BPI Executive Committee[3]	215 875	218 996	265 307	220 930	283 391
Banco Português de Investimento's Board of Directors[4]	86 888	89 452	96 501	72 409	81 914
Managerial staff and other Group Employees	635 217	679 497	810 721	730 208	823 832
Total	**937 980**	**987 945**	**1 172 529**	**1 023 547**	**1 189 137**

1) Attribution price of the RVA-2001 adjusted for the capital increase realised in May 2002.
2) 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 EUR 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.
3) BPI SGPS's Executive Directors in 2001 and up until 20 December 2002.
4) 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 2001 (figures adjusted for the 2002 share capital increase)[1]	RVA 2002	RVA 2003	RVA 2004
Attribution date		21 March 02	22 February 03	23 February 04	28 February 05
Exercise period		21 March 03 a 21 March 07	22 February 04 to 22 February 08	23 February 05 to 23 February 09	28 February 06 to 28 February 10
No. of shares that may be acquired for each option held	1	1	1	1	1
Exercise price	2.67 euro	2.54 euro	2.14 euro	3.13 euro	3.10 euro
Value of each option	0.65 euro	0.62 euro	0.33 euro	0.45 euro	0.31 euro
No. of options granted					
Banco BPI Executive Committee[2]	859 725	904 216	1 720 457	1 310 003	1 866 131
Banco Português de Investimento's Board of Directors[3]	346 818	364 767	625 761	503 614	819 117
Managerial staff and other Group Employees	2 607 040	2 741 681	5 251 558	3 236 802	4 790 338
Total	**3 813 583**	**4 010 664**	**7 597 776**	**5 050 419**	**7 475 586**

1) As a consequence of BPI SGPS's share capital increase (now Banco BPI) realised in May 2002, the exercise price[G] of the options resulting from the RVA-2001 was adjusted from EUR 2.67 to EUR 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.

Record of the share purchase options scheme

Record of the programme for the attribution of share purchase options – 2001, 2002, 2003 and 2004

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
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	24 414	24 414
RVA 2001 options do existing at 31 Dec. 02	**904 216**	**364 767**	**2 717 267**	**3 986 250**
exercised in 2003	0	0	78 634	78 634
extinguished in 2003	0	0	12 570	12 570
RVA 2001 options do existing at 31 Dec. 03	**904 216**	**364 767**	**2 626 063**	**3 895 046**
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 do existing at 31 Dec. 04	**314 178**	**201 695**	**961 370**	**1 477 243**
RVA 2001 exercisable options at 31 Dec. 04	314 178	201 695	961 370	1 477 243
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 do 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	5 269	5 269
RVA 2002 options do existing at 31 Dec. 04	**229 092**	**519 700**	**2 401 527**	**3 150 319**
RVA 2002 exercisable options at 31 Dec. 04	229 092	519 700	2 401 527	3 150 319
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 do existing at 31 Dec. 04	**1 310 003**	**503 614**	**3 198 812**	**5 012 429**
RVA 2003 exercisable options at 31 Dec. 04	0	0	73 117	73 117
RVA 2004 (number of options)				
Granted in February 2005[4]	**1 866 131**	**819 117**	**4 790 338**	**7 475 586**
Exercisable in 2005	0	0	0	0
RVA 2004 options do existing at 31 Dec. 05[5]	1 866 131	819 117	4 790 338	7 475 586

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) Assuming that no options are exercised or extinguished during 2005.

In 2004, 6 764 707 options were exercised. Roughly 36% of the exercise of options was realised by way of recourse to the credit line specifically created for the exercise of options and the retention of shares thus obtained in portfolio. At the end of 2004, the outstanding balance on this credit line was 4.9 M.€.

Credit line for the exercise of options and retention of shares in portfolio

Amounts in thousands of euro

	Executive Committee of Banco BPI	Board of Directors of Banco Português de Investimento[1]	Managerial staff and other Employees	Total
Balance at 31 Dec. 04	3 954	227	762	**4 943**

1) Directors who are not simultaneously members of Banco BPI's Executive Committee.

Current situation of the programme for the attribution of options to purchase shares – 2001, 2002, 2003 and 2004

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 do existing at 31 Dec. 04	1 853 273	1 225 009	6 561 709	9 639 991
Attribution of 2004 RVA options (in Feb.2005)	1 866 131	819 117	4 790 338	7 475 586
Subtotal (Options do existing in Feb.05)[3]	3 719 404	2 044 126	11 352 047	17 115 577
options not exercisable until 31 Dec. 05	1 866 131	819 117	4 790 338	7 475 586
options exercisable until 31 Dec. 05	1 853 273	1 225 009	6 561 709	9 639 991
Number of shares needed for the exercise of:				
Options granted but not yet exercisable				
at the beginning of 2005	1 310 003	503 614	3 125 695	4 939 312
at the end of 2005[4]	1 866 131	819 117	4 790 338	7 475 586
Exercisable options				
at the beginning of 2005	543 270	721 395	3 436 014	4 700 679
at the end of 2005[4]	1 853 273	1 225 009	6 561 709	9 639 991

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) After the attribution of the 2004 RVA options.
4) Assuming that no options are exercised or extinguished during 2005.

7.4.3 Returns on the share incentive schemes

RVA 2001, RVA 2002 and RVA 2003

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 incentive at 2 March 2005 (last stock exchange session before the approval of the present report by the Board of Directors) corresponds, in relative to the attribution value, to an annual average capital growth of 5.1% for the RVA 2001 and 50.9% for the RVA 2002 and -48.4% for the RVA 2003.

Annual average return (Exit on 2 March 2005)[1]

	Share scheme	Option scheme	Total RVA	ROI for Banco BPI Shareholder	ROI for market (PSI Geral)
RVA de 2001					
(attribution date: 21 Mar. 02)	+10.9%	-1.7%	**+5.1%**	+10.9%	+5.2%
RVA de 2002					
(attribution date: 22 Feb. 03)	+24.9%	+72.1%	**+50.9%**	+24.9%	+22.7%
RVA de 2003[2]					
(attribution date: 23 Feb. 04)	+2.9%	-100%	**-48.4%**	+2.9%	+9.9%
Average of RVA 2001, 2002 and 2003	**+14.3%**	**+14.5%**	**+14.4%**	**+14.3%[3]**	**+12.0%[3]**

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 2 March 2005, 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 2 March and the exercise price[G] of the options.
1) Last stock exchange session before the approval of the report by the Board of Directors (Banco BPI share's closing price of 3.13 euro).
2) Considering a composition of the 2003 RVA of 50% shares and 50% purchase options.
3) Average return based on partial investments of equal amounts on each one of the attribution dates and disinvestment on 2 March 2005.

It should be noted that the purchase options at the attribution date start from a nil or close to zero intrinsic value, but provide leverage for capital gains on the stock exchange, while a negative trend in the share price translates itself into a nil value of the incentive. In this way, the RVA Scheme leads to minimum levels of capital appreciation for the shares on the stock exchange in accordance with the value fixed for the attribution of the shares and options, in order for the effective value of the incentive to be higher than the attribution value. Starting from these levels, the RVA Scheme provides the Directors and Employees concerned a lever for maximising the incentive. This effect becomes more evident the higher the responsibility level, given that the relative importance of the RVA scheme on variable remuneration is indexed to the level of responsibility.

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 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 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 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 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%**

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 2001, 2002 and 2003 and 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 2.28 euro for the RVA 2001 share scheme, at a price of 1.97 euro for the RVA 2002 share scheme and at a price of 3.04 euro for the RVA 2003 share scheme.
4) Exercise price[6] plus attribution value of the options.
5) A grant of 50% in shares and a 50% in options was assumed for the RVA 2003 and RVA 2004 attribution.

7.5. PENSION PLANS FOR DIRECTORS OF THE BANKS

The pension plan for the Directors of the BPI Group's Banks is embodied in two regulations: one which applies to the Directors of the Executive Committee of the ex-BPI SGPS and to the ex-members of the elected Management who, after 9 years of service, continue to perform management functions at any Bank controlled by it; and the other which applies to the Directors of Banco BPI (ex-BFB).

In terms of benefits, the regulations prescribe the payment of retirement (old age or disability) and survivors' pensions, calculated with reference to the fixed monthly salary earned in the month before retirement date and the number of years of service, with the maximum benefit (100%) being attained in the 16th year.

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) to the Directors of Banco Português de Investimento. The universe of Directors covered at 31 December 2004 was as follows:

	Current	Retired	Total
Number of persons	16	3	19
Obligations (thousand of euro)	12 033	3 895	15 928

As regards the Executive Committee in office, at 31 December 2004 the situation was as follows:

Number of persons	7
Average period of service	8.2
Obligations (thousand of euro)	4 277

At 31 December 2004, the balance on the account "provisions for pensions of Directors" included 15.9 M.€, which fully covered the present value of the past services liabilities corresponding to the complementary retirement and survivors' pension plan for the Directors of Banco BPI, Banco Português de Investimento and the Banco Fonsecas & Burnay (incorporated in Banco BPI).

7.6. 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, not 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 2004, 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 3.3 M.€.

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 (7.4.1.).

7.7. INSURANCE OF BANCO BPI'S DIRECTORS

The Executive Directors of Banco BPI in current service benefit from a range of insurance policies which cover life, illness and accident risks.

Policy	Risk covered	Capital insured (in thousands of euro)
Group life assurance	Illness	424
	Accident (involuntary cause)	848
	Traffic accident	1 272
Personal accident insurance	Accident	127
Work accident insurance	Dead or professional disability	Pension[1]
Health insurance[2]	Illness or accident	25 (per year)

1) To himself / herself (or surviving spouse) and to children (if dependents).
2) Covers the respective family.

The costs borne by the BPI Group with respect to the above policies totalled 38.3 thousand euro in 2004.

In addition, the BPI Group bears the cost of 8.4 thousand euro for contribution to the SAMS relating to four Executive Directors of Banco BPI who benefit from this medical aid scheme.

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. Shareholder control and transferability of shares

8.1. SHAREHOLDERS 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 as "poison pills[G]" or "antitakeover provisions[G]".

The BPI Group has no convertible bond issues or shares with warrants[G] or other special rights in circulation.

At 31 December 2004, 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 and members of the Audit Board stood at 49.7%. The percentage of the corresponding voting rights, taking into account own shares held by the Group and the statutory limitation, was 42.8%. Banco BPI's capital at that date was held by 19 000 shareholders.

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 12.5% 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.

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.

8.2. SHAREHOLDER AGREEMENTS RELATING TO THE EXERCISE OF COMPANY RIGHTS OR TO THE TRANSFERABILITY OF SHARES

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.

A preferential rights' agreement was entered into in 1986 between certain of BPI's most significant shareholders, which specifies that any of the contracting parties wishing to transfer all or part of the shares covered by the agreement is bound to give preference on such disposal to the other contracting parties, upon the same terms and conditions.

This agreement is presently endorsed by six of Banco BPI's shareholders who at 31 December 2004 represented 44.7% of Banco BPI's share capital. This agreement has been successively renewed for periods of three years, the last of which occurred on 21 August 2003. Any renouncement of this accord must be communicated with a minimum of six months' prior notice.

9. Exercise of voting rights and Shareholder representation

9.1. 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 blocking 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 web 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.

9.2. ATTRIBUTION OF VOTING RIGHT

A shareholder can vote provided he owns at least 1 000 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 fifth working day prior to the date set for the meeting. Every 1 000 shares correspond to one vote.

9.3. PROCEDURES RELATING TO PROXY REPRESENTATION

At its own initiative BPI pursues a policy of sending to shareholders 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). 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.

The Chairman of the Shareholders' General Meeting Committee is as a general rule available to represent shareholders, expressing in a clear manner his voting intentions where the shareholder does not stipulate any specific instructions.

1) Also available on the Internet at the website www.ir.bpi.pt.
2) To the Shareholders with the right to at least 5 votes.

9.4. 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 fifth 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.

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.

9.5. 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 e-mail address. This document must be received at the Bank's head office together with the respective declaration of share deposit and blockage, by 6 p.m. of the fifth business day before the date set for the General Meeting.

At the end of the fifth business day prior to the Meeting date, BPI sends an e-mail 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 on the fourth and third business days before that set for the Meeting.

10. 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. However, BPI could be the holder of financial interests in companies associated with these businesses through the investment in the participating units of unit trust funds managed by non-Group companies, or through other forms of indirect investment.

BPI FUNDOS

BPI Fundos exercised its voting rights during 2004 at thirteen Shareholders General Meetings, contemplating the respective orders of business, essentially, the approval of the accounts for the year and corresponding appropriation of results, as well as (if applicable) the election of the governing bodies.

All the Shareholders General Meetings attended by BPI Fundos refer to national-issuer companies (although the funds' prospectuses foresee the possibility of participation at the AGMs of foreign entities), with BPI Fundos communicating its voting intention, as well as the respective justification, to the CMVM in terms of applicable legislation. BPI Fundos voted as a rule in favour of the motions presented.

In the prospectuses of the various funds managed by BPI Fundos a text which establishes the company's "voting policy" is included. Namely:

- "BPI Fundos 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 Fundos 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 Fundos will evaluate the voting intention that best safeguards the interests of unitholders, 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 Fundos or alternatively by a representative who is bound by the written instructions issued by BPI Fundos."

BPI PENSÕES

BPI Pensões exercised its voting rights at eleven Shareholders General Meetings of local companies, having voted as a rule in favour of the motions presented. At 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 of 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[1] (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.

1) Namely articles 304 and 309 of the Securities Code (Código dos Valores Mobiliários).

11. Code of ethics and professional conduct

11.1. 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 (Portuguese Association of Banks) and the Associação Portuguesa das Sociedades Gestoras de Patrimónios e de Fundos de Investimento (Portuguese Asset Management and Investment Fund Management Companies Association);
- BPI's own codes, adapted in accordance with the type of activity carried out by each one of the banks and investee companies, and which in certain instances contain even more restrictive rules than those embodied in directives issued by the associations to which they 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 21 September 2004.

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 12.2 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.

11.2. EQUITY AND SAFEGUARDING AGAINST CONFLICT OF INTERESTS

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.

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.

11.3 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 the 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.

11.4. STOCK BROKERAGE ACTIVITY

Dealing for own account

There are strict rules governing everything that refers to the execution of operations involving securities dealing for one's own account (including family) at the companies specialising in this type of business activity, such as Banco Português de Investimento and BPI Fundos.

An example of these rules is the obligation imposed on all Directors of the Group and Employees to communicate to Management within 24 hours all the operations realised involving securities (excluding bonds issued by entities with sovereign or similar risk), 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.

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. This waiver can only be granted when it does not undermine the values underlying the duties of defending the market and preventing conflicts of interest which are contemplated in applicable legal, regulatory and deontological provisions, and when compliance with the rule whose waiver is being sought, in the light of the concrete circumstances of the case and those values, is excessively onerous for the party concerned. To the present date, no member of a governing body has ever requested the Board of Directors to waive compliance with this rule.

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 subjected, the degree of discretion granted to the broker and all the commissions and other expenses they will be charged.

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[1] between the research, equity sales and corporate finance areas;
- the decoupling of the financial analyst's remuneration[2] from the revenue generated by the transactions effected by BPI;
- the maintenance of an up-to-date register of the transactions executed by the financial analysts[3];
- 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.

11.5. COMBAT AGAINST MONEY LAUNDERING

In terms of prevailing legislation aimed at preventing the use of financial entities in operations for money-laundering purposes, as well as in the conduct of criminal activities of certain persons, the credit institutions and other financial companies making up the BPI Group are obliged to create internal control and communication mechanisms, as well as provide its directors and Employees proper training in the recognition of operations which may be related to money laundering crimes and the persons implicated in 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, SA.'s Audit and Inspection Division.

Thus and without prejudice to the investigations and control initiatives which that Divisions considers it should carry out at its own instigation, the Employees of the Banks and other financial companies which comprise the BPI Group inform the Audit and Inspection Division about the operations realised and / or to be realised which, due to their nature, amount or characteristics, may indicate the use of funds derived from illicit activities, in accordance with internal regulations in force at any moment at the Bank's various financial entities.

Banco BPI's Audit and Inspection Division is charged with 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. The Audit and Internal Control Committee is systematically informed of the evolution of occurrences and their consequences.

In 2004, the Audit and Inspection Division conducted 52 systematic control actions.

The BPI Group provides training in the prevention of money laundering to all Employees at the time of their admission.

11.6. PREVENTION OF INSIDER TRADING

Employees and Directors who, during the exercise of their functions, obtain information which has not been made public and which could influence prices on any market, are bound by a strict duty of secrecy, and must abstain from carrying out any transactions in the securities involved until such information becomes public.

In terms of Banco BPI's and Banco Português de Investimento'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;

1) The term "Chinese walls" is used in the Investment Banking business to describe a set of procedures which are designed to guarantee the independence and autonomy between Employees who work in distinct areas with potential conflicts of interest.
2) The remuneration of analysts conforms to the same principles as those applied to other Employees and which are described in 7.1.
3) The financial analysts are obliged to use a BPI Group bank in the execution of securities operations.

- 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.

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 web site the presentations made at the "BPI's Annual Conference with Analysts and Investors", the last two of which the Group's strategic objectives were analysed and reviewed.

11.7. 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 2004 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:

Allianz Group

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 2004.

Violas Group and Arsopi Group

BPI has a partnership with the Violas Group and the Arsopi Group, evidenced by:

- a 26%[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.

Viacer's most significant assets are a 56% shareholding in Unicer – one of the country's biggest drinks manufacturers and distributors – and a 68% shareholding in Petrocer – which was formed with the object of acquiring a 40.8% interest in the capital of Galp Energia.

The Violas and Arsopi Groups each had a shareholding of 2.9% in Banco BPI at 31 December 2004.

11.8. 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".

11.9. 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.

1) Information disclosed in accordance with number 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[G].
4) The Violas Group and the Arsopi Group have shareholdings of 46% and 28%, respectively.
5) The Violas Group, the Arsopi Group own direct holdings of 13.5% and 5.0%, respectively and indirect holdings – via Viacer – of 31.3% and 19.0%, respectively.

12. Communication with the market

12.1 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.

12.2. INVESTOR RELATIONS DIVISION

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 reports directly to Banco BPI's Executive Committee and 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 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” or “other communications”, 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 that 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. Exceptionally, this event was not held in 2004. The 2005 Conference is scheduled for 19 May.

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.

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 site www.ir.bpi.pt, by telephone (22 607 33 37), fax (22 600 47 38), e-mail (investor_relations@bancobpi.pt) or by letter (Rua Tenente Valadim, 284, 4100-476 Porto).

Activity in 2004

The Investor Relations Division (Portuguese initials DRI) had an intensely busy year in 2004. Besides the usual commitments stemming from legal and regulatory reporting obligations – which include responsibility for the preparation of Banco BPI's Annual and Interim Reports (including the present report) and all the documents associated with the quarterly disclosure of results – as well as handling regular requests for information – by both the market and by the BPI Group's internal personnel – the DRI was involved in:

- staging of four road shows, organised by internationally-renowned investment banks which involved the following European cities: London, Paris, Zurich, Geneva, Frankfurt, Stockholm and Copenhagen;
- participation in more than 50 individual meetings (one-on-ones) with investors and financial analysts;
- holding of four conferences with analysts and investors to discuss quarterly results, with the possibility of participation in person, via conference-call or deferred web cast.

The road shows and the one-on-one presentations / meetings were attended by the Chairman of the Board of Directors' Executive Committee, Fernando Ulrich and / or by the Executive Committee member responsible for the Investor Relations Division, Manuel Ferreira da Silva. All the members of the Executive Committee of Banco BPI's Board of Directors were present at the presentations of the quarterly results.

12.3. INTERNET SITE

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[1], the following merit special mention:

- extensive financial information that is completely 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 (deferred) of the quarterly result presentations, including the transcript of the respective conference-calls;
- complete annual report and accounts available in on-line format;
- 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 and preference shares;
- 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).

1) 1 000 pages if the English version is taken into account.

The website (available in Portuguese and English) is split into six principal sections which cover – inter alia – the following subjects:

Investor Relations web site – contents and organisation

BPI Group	Financial information	Shareholders	Banco BPI Share	Debt	News and Events	Sectorial information
History	Indicators	Shareholder structure	Indicators	Issued debt	Announcements	Market structure
Executive Management	Results	Return calculator	Charts and quotations	Rating	News	Key economic indicators
Corporate Governance	Reports and accounts	Dividends	Analysts' coverage		Calendar	Loans and deposits
Strategy		Capital	Volatility (beta)		Presentations	International comparison
Identity		General Meetings	Transaction channels			
Social investment			Weight in indexes			
Recognition						

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 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 e-mail summarising the behaviour of Banco BPI shares on the stock exchange, an alert service whenever the share attains a predetermined percentage and news or new contents published on the site. The subscribers to these "mailing lists" can cancel their subscription at any moment by simply following the links appearing at the bottom of each e-mail for this purpose.

The Investor Relations website complies fully with the CMVM's recommendations on the use of the Internet as a means of disseminating information of an institutional nature.

In 2004 the IR website recorded a monthly average of 252 thousand pages views and 12 thousand visits.

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 2004, in each process involving the disclosure of quarterly results, the Investor Relations Division sent approximately 250 e-mail messages. The Investor Relations Division has a policy of not sending unsolicited e-mail 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.

12.4. REPRESENTATIVE FOR RELATIONS WITH THE MARKET

Mr. Rui de Faria Lélis – Director of Banco Português de Investimento – is Banco BPI representative for Market Relations.

13. Banco BPI shares

13.1. SHAREHOLDER RETURN

Banco BPI shares registered a gain of 2.1% in 2004. If in addition to the share's stock market appreciation we include the income from the dividend paid, then the Banco BPI shares yielded a return on investment (ROI) of 5.1% to its Shareholders in 2004.

In the last 3 years, Banco BPI shares have outperformed the market average by an expressive margin. Indeed, in the period 2002-4, Banco BPI shares have posted an accumulated gain of 38.7%, whereas the Portuguese stock market[1] recorded a fall of 3.0% and the banking sector[2] in Europe shed 2.2%.

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. These historical series have been adjusted for events.

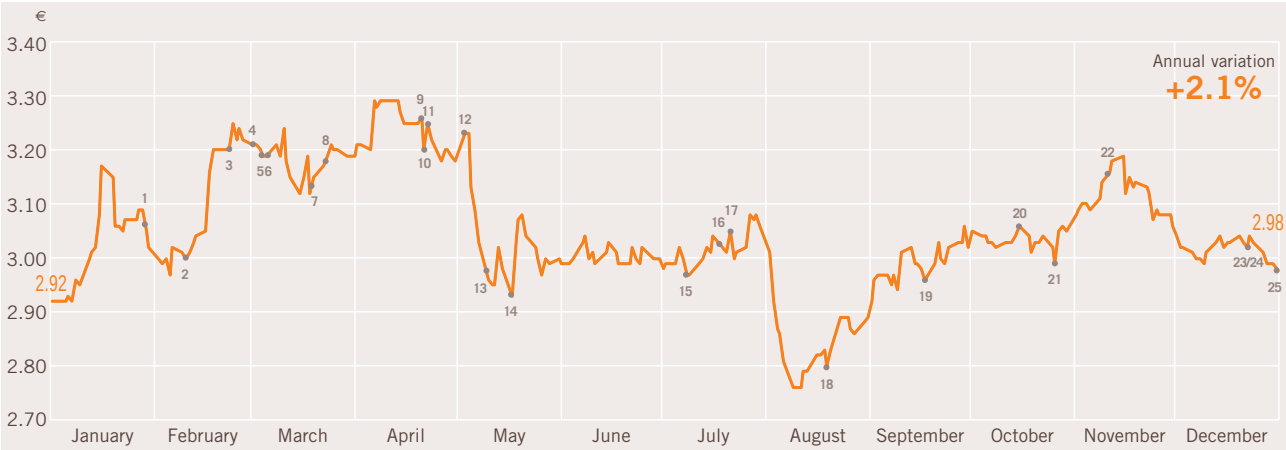
1) Considering the trend in the PSI-20 index.
2) Using as the benchmark the Dow Jones Europe STOXX Bank index.

13.2. TREND IN BANCO BPI'S SHARE AND COMMUNICATION OF IMPORTANT FACTS TO THE MARKET

The chart below presents the behaviour of Banco BPI shares in 2004 and the communication to the market of important facts and other announcements.

Trend in Banco BPI's share price in 2004

Communication of important facts to the market



Communication of important facts to the market in 2004 and trend in Banco BPI's share over the 10 stock exchange sessions before communication and over the 10 stock exchange sessions after communication

No.	Date of communication to the market (year 2004)	Type of communication	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
1	29 Jan.	OC	Announcement of Banco BPI's consolidated results in 2003	-1.0%	0.7%	-0.7%	5.1%
2	10 Feb.	QS	Banco BPI informs that CGD owns 1.97% of its capital	-2.9%	2.8%	8.3%	5.5%
3	23 Feb.	OF	Date of the attribution of shares and options under the RVA 2003 scheme	6.3%	6.2%	0.3%	4.4%
4	03 Mar.	QS	Banco BPI informs that BCP Group's Pension Fund owns 2.0% of its capital	0.0%	3.4%	-0.3%	-2.0%
5	04 Mar.	QS	Banco BPI informs that BPI Pensões sold a lot of 3 million Banco BPI shares	-0.3%	3.9%	-2.2%	-3.3%
6	05 Mar.	OC	Banco BPI informs the market about a change in the Board of Directors	-0.3%	4.2%	-1.3%	-3.0%
7	19 Mar.	OF	Notice convening SGM to be held on 20 April 2004	-1.3%	-3.0%	1.9%	0.7%
8	23 Mar.	QS	Banco BPI informs that BES controls, directly or indirectly, 2.1% of its capital	0.0%	-5.5%	3.1%	1.7%
9	20 Apr.	OC	Results of the voting at the SGM held on 20 April 2004	-0.9%	1.6%	-0.9%	-1.6%
10	21 Apr.	OC	Disclosure of the BPI Group's consolidated results for the 1st quarter of 2004	-2.4%	-0.7%	-2.2%	0.1%
11	22 Apr.	OC	Announcement of dividends payment in respect of 2003 financial year	-1.2%	-0.8%	-4.9%	-0.5%
12	03 May	OC	Banco BPI sell its shareholding in Auto-Estradas do Oeste	-0.6%	-1.9%	-9.3%	-5.5%
13	10 May	OF	Payment of dividends in respect of 2003 financial year	-6.9%	-2.6%	2.0%	-1.6%
14	17 May	OC	Banco BPI sell its 16.7% shareholding in Cosec to Euler Hermes Group	-9.3%	-5.5%	2.4%	1.3%
15	07 Jul.	QS	Banco BPI informs that FMR and Fidelity owns 2.25% of its capital	0.0%	-2.1%	1.7%	1.3%
16	19 Jul.	OC	Banco Português de Investimento became member of the Madrid Stock Exchange	1.0%	-0.5%	-0.3%	-0.7%
17	21 Jul.	OC	Disclosure of the BPI Group's consolidated results for the 1st half of 2004	1.7%	1.3%	-5.9%	-3.1%
18	19 Aug.	OC	Banco BPI receives 68 M.USD from Banco Nacional de Angola for debt repayment	-2.1%	-1.1%	5.7%	1.7%
19	17 Sep.	OC	Fitch Ratings reaffirms Banco BPI's rating notations and outlook	-0.3%	2.8%	3.0%	1.1%
20	15 Oct.	OC	Banco BPI announces outsourcing agreement with IBM	0.3%	0.1%	-0.3%	0.6%
21	26 Oct.	OC	Disclosure of the BPI Group's consolidated results for the 3rd quarter of 2004	-1.3%	-1.0%	5.0%	2.7%
22	11 Nov.	IF	Banco BPI informs about negotiations with Impresa for the sale of its stake in SIC	3.3%	1.7%	-2.2%	0.0%
23	22 Dec.	IF	Banco BPI sells the 41.366% equity interest in SIC	0.7%	1.5%	0.0%	1.1%
24	22 Dec.	QS	Banco BPI informs that Santander Group owns 5.4% of its capital	0.7%	1.5%	0.0%	1.1%
25	31 Dec.	OC	Banco BPI sells the shareholding in Aquapor	-1.7%	0.8%	1.7%	1.1%

Legend: IF = Important Fact; OC = Other Communications; QS= Qualified Shareholdings; OF = Other Facts

Notes:

1) BPI adheres to a policy of disclosing important facts after the closing of the day's stock exchange session, with the result that any possible effect on share prices is only felt in the next session.

2) The above-mentioned information does not include all information published on the CMVM's extranet. However, Banco BPI understands that all information which could have influenced Banco BPI's share price is included therein.

14. Dividend policy

The essential elements of the BPI Group's dividend policy are:

- the Group's consolidated net profit serves as the basis for calculating the dividend payment;

- maintenance of a historical pay-out of not less than 30%, while retaining earnings that guarantee the availability of the financial resources required for the Group's growth;

- fixing the dividend per share in adjusted terms by taking into account capital increases (in cash or by the incorporation of reserves[G]) and stock splits.

In the table "Principal indicators of Banco BPI shares" included in the chapter "Banco BPI Shares" of the Directors' Report, it is possible to find information relating to the amount of earnings distributed, the pay-out ratio, the dividend per share and the dividend yield of the last 5 years. On the other hand, the www.ir.bpi.pt site has a section totally devoted to dividends which contains a complete history (since BPI's creation) of information relating to this topic.

Appendices

CORPORATE GOVERNANCE REGIME 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[1]	Scope of application	Main chapters / regulations[1]	Main topics[1]	Links available on the Internet
Portuguese law	Companies Code	Companies ("PLC type")	Heading IV – Public Limited Companies – Art. 271 to 464 Heading I – Chapters VI e VII – Art. 65 to 84	▪ Information duties ▪ Public liability for constitution, management and supervision of companies ▪ Functioning of Governing Bodies ▪ Shareholders' deliberations ▪ Bonds and non-voting preference shares	www.cidadevirtual.pt/asjp/leis/csc.html
	General Regime of Credit Institutions and Financial Companies	Credit institutions and financial companies	Heading II – Chapter III – Management and Supervision Heading VI – Rules of Conduct Heading VII – Chapter III – Section I – Supervision in general	▪ Requisites and disqualifications of members of management and supervisory bodies ▪ Information duties ▪ Professional confidentiality ▪ Conflicts of interest	www.bportugal.pt/publish/legisl/RGICSF2004_p.pdf
CMVM (Securities Market Commission)	Securities Code	Persons or entities connected to the securities market	Heading I – Chapter III – Information Heading I – Chapter IV – Section II – Qualified shareholdings Heading IV – Chapter II – Section V – Information relating to Listed Securities Heading VII – Chapter II – Supervision	▪ Safeguarding the quality of information ▪ Duty to communicate qualified shareholdings ▪ Delimitation of the concepts of "voting rights" and "controlling and group relationships" ▪ Report and accounts, communication of relevant facts and other communications ▪ Exercise of the CMVM's power of supervision and inspection	www.cmvm.pt/legislacao_e_publicacoes/legislacao/codigo_dos_valores_mobiliarios/index.asp
	Regulations		N.º 04/2004 – Information duties N.º 11/2003, 07/2001 and 11/2000 – Corporate Governance	▪ Disclosure of information: objects, forms, means and deadlines ▪ Information on Corporate Governance practices (aspects dealt within the report)	www.cmvm.pt/legislacao_e_publicacoes/legislacao/regulamentos_da_cmvm/index.asp
	Recommen-dations		On corporate governance (November 2003) On trading in treasury and similar stock Relating to exercise of postal votes in public companies via the Internet	▪ Recommendations on aspects associated with "Corporate Governance" (dealt within this report) ▪ Guiding principles for a company with regard to its treasury stock ▪ Indications with a view to the equitable and efficient use of postal voting ▪ Opinions and recommendations on the use of the Internet: principles of neutrality, information to be disclosed and applicable Portuguese law	www.cmvm.pt/recomendacoes_e_orientacoes/recomendacoes.asp

1) Only from the standpoint of corporate governance and institutional communication.

OTHER MANAGEMENT OR SUPERVISORY POSITIONS OCCUPIED BY MEMBERS OF BANCO BPI'S BOARD OF DIRECTORS

Artur Santos Silva, 63 years of age, exercised executive functions up until 20 April 2004 at the BPI Group since its foundation. He is Chairman of the Board of Directors of Banco Português de Investimento, S.A., of Banco de Fomento, SARL, and of Inter-Risco – Sociedade de Capital de Risco, S.A. He is a Director of Banco BPI Cayman, Ltd. He is a non-executive member of the Board of Directors of Jerónimo Martins, SGPS, S.A. He is a Director of Viacer – Sociedade Gestora de Participações Sociais, Lda, as a representative of BPI. This company controls Unicer, S.A. He is also a non-executive directors of the Fundação Calouste Gulbenkian, and forms part of the Management of Cotec Portugal – Associação Empresarial para a Inovação, as the representative of BPI.

Carlos da Câmara Pestana, 73 years of age. In Brazil, he is a member of the Board of Directors of Banco Itaú, S.A. and Chairman of this Institution's Audit Committee. In Portugal, he is Deputy-Chairman of the Board of Directors of Banco Itaú Europa, S.A. (Portugal); he is a member of the Board of Directors of Itaúsa Portugal, SGPS, S.A.; he is a member of the Management Board of Itaúsa Madeira – Investimentos, SGPS, Lda., of IPI – Itaúsa Portugal Investimentos, SGPS, Lda, of Itaú Europa, SGPS, Lda. and of Cashedge – Consultores e Serviços, Lda.

Fernando Ulrich, 52 years of age, has been exercising executive functions at the BPI Group for 21 years. He is Deputy-Chairman of the Board of Directors of Banco Português de Investimento, S.A. He is Chairman of the Board of Directors of BPI Fundos – Gestão de Fundos de Investimento Mobiliário, S.A., of BPI Pensões – Sociedade Gestora de Fundos de Pensões, S.A., of BPI Vida – Companhia de Seguros de Vida, S.A., of BPI Madeira, SGPS, Unipessoal, S.A., of BPI Global Investment Fund Management Company, S.A. and of Solo – Investimentos em Comunicação, SGPS, S.A. He is a member of the Board of Directors of Banco de Fomento, SARL, of Inter-Risco – Sociedade de Capital de Risco, S.A., of BPI Capital Finance Limited and of Banco BPI Cayman, Ltd. He is a non-executive member of the Board of Directors of Portugal Telecom, S.A. He is a Director of Petrocer, SGPS, Lda.

Ruy Octávio Matos de Carvalho, 72 years of age. He is Deputy-Chairman of Yura Internacional and Vittoria Capital. He is a Member of the Board of Directors of João Marques Pinto – Investimentos Imobiliários, S.A.

Alfredo Rezende de Almeida, 70 years of age. He is Chairman of the Board of Directors of ARCO TÊXTEIS, S.A. and ARCO FIO – Fiação, S.A. He is Deputy-Chairman of the Board of Directors of ARCO TINTO – Tinturaria, S.A. He is a member of the Board of Directors of Fábrica do Arco – Recursos Energisticos, S.A. He is an owner-Director of Casa de Ardias – Sociedade Agrícola e Comercial, Lda.

António Domingues, 48 years of age, has been exercising executive functions at the BPI Group for 15 years. He is a member of the Board of Directors of Banco de Fomento, SARL, of BCI – Banco Comercial e de Investimentos, SARL (Mozambique), of BPI Madeira, SGPS, Unipessoal, S.A., of Companhia de Seguros Allianz Portugal, S.A., of PT Multimédia, S.A. and of SIBS – Sociedade Interbancária de Serviços, S.A.

António Farinha Morais, 53 years of age, has been exercising executive functions at the BPI Group since the acquisition of the former BFE in 1996. Previously, he worked at BFE since 1978. He is Chairman of the Board of Directors da Eurolocação – Comércio e Aluguer de Veículos e Equipamentos, S.A. He is a member of the Board of Directors of BPI Fundos – Gestão de Fundos de Investimento Mobiliário, S.A., of BPI Global Investment Fund Management Company, S.A., of BPI Madeira, SGPS, Unipessoal, S.A. and of Companhia de Seguros Allianz Portugal, S.A. He is a Director of BPI Rent – Comércio e Aluguer de Bens, Lda.

Armando Leite de Pinho, 70 years of age. He is Chairman of the Board of Directors of Arsopi – Indústrias Metalúrgicas Arlindo S. Pinho, S.A., Arsopi – Holding, SGPS, S.A., A.P. Invest, SGPS, S.A., ROE, SGPS, S.A. and Security, SGPS, S.A. He is Deputy-Chairman of the Board of Directors of Unicer – Bebidas de Portugal, SGPS, S.A. He is a member of the Board of Directors of Plurimodos – Sociedade Imobiliária, S.A., Pluricasas – Sociedade Imobiliária, S.A. and Plurimodus Turismo, S.A. He is a Director of Arsopi – Thermal, Equipamentos Téisrmicos, Lda., Tecnocon – Tecnologia e Sistemas de Controle, Lda., Equitrade – Equipamentos e Tecnologia Industrial, Lda., Acinox – Acessórios Inoxidáveis, Lda., Viacer – Sociedade Gestora de Participações Sociais, Lda., of Petrocer, SGPS, Lda and IPA – Imobiliária Pinhos & Antunes, Lda.

Caixa Holding, S.A. Sociedad Unipersonal – was represented up until 3 February 2005 by **Fernando Ramirez**, who on that date was replaced by **Marcelino Armenter Vidal**.

Fernando Ramirez, 51 years of age. He is Deputy Director-General of the Caja de Ahorros y Pensiones de Barcelona "La Caixa". He is Chairman of the Board of Directors of MEFF AIAF SENAF, Holding de Mercados Financeiros, S.A.V. He is a member of the Board of Directors of Bolsa de Barcelona, of E-la Caixa and of Bolsas y Mercados Españoles – Sociedad Holding de Mercados y Sistemas Financieros, S.A. He is a member of the Board of Directors of CaixaBank Banque Privée (Suisse). He is a member of the Executive Committee and of the Board of Directors of Gas Natural SDG, S.A.

Marcelino Armenter Vidal, 47 years of age. He is Director General of Caixa Holding, S.A. He is Assistant Director of Caja de Ahorros y Pensiones de Barcelona "La Caixa". He is Executive Chairman of Caixa Capital Desarrollo, S.C.R., S.A., He is Joint Director of Catalunya de Valores, S.G.P.S, Uniperssoal, Lda., He is a member of the Board of Directors of E-la Caixa and of Servihabitat XXI, S.A., He is a member of the Board of Directors of Caprabo, S.A. and of Panrico, S.A. as representative of Caixa Capital Desarrollo, S.C.R., S.A.

Isidro Fainé Casas, 62 years of age. He is a Director-General of the Caixa de Ahorros y Pensiones de Barcelona "la Caixa". He is Chairman of Abertis Infraestructuras, S.A. He is Deputy-Chairman of Telefónica, S.A. He is a member of the Board of Directors of Caixa Holding, S.A. and CaixaBank France and of Brisa Auto-Estradas de Portugal, S.A.

José Pena do Amaral, 49 years of age, exercises executive functions at the BPI Group for 18 years. He is a member of the Board of Directors of Banco de Fomento, S.A.R.L. and of BPI Madeira, SGPS, Unipessoal, S.A.

Klaus Dührkop, 51 years of age. He is Executive Deputy-Chairman of the European Department of Allianz, AG. He is a member of the Board of Directors of RAS (Italy), Lloyd Adriático (Italy), Allianz Subalpina (Italy), Companhia de Seguros Allianz Portugal, S.A., Allianz Greece, Assurances Federale (France) and Koc Allianz (Turkey).

Manuel Ferreira da Silva, 47 years of age, exercises executive functions at the BPI Group for 21 years. He is a member of the

Board of Directors of Banco Português de Investimento, S.A., Inter-Risco – Sociedade de Capital de Risco, S.A. and BPI Madeira, SGPS, Unipessoal, S.A.

Manuel de Oliveira Violas, 46 years of age. He is Chairman of the Board of Directors of Violas – SGPS, S.A., Cotesi – Companhia de Têxteis Sintéticos, S.A., Solverde – Sociedade de Investimentos Turísticos da Costa Verde, S.A., Sociedade Imobiliária da Praia da Rocha, S.A., I.I.I. – Investimentos Industriais e Imobiliários, S.A., Corfi – Organizações Industriais Têxteis Manuel de Oliveira Violas, S.A. and CLIP – Colégio Luso Internacional do Porto, S.A.

Maria Celeste Hagatong, 52 years of age, exercises executive functions at the BPI Group for 17 years. She is a member of the Board of Directors of BPI Madeira, SGPS, Unipessoal, S.A. She is a non-executive member of the Board of Directors of Banco Português de Investimento, S.A. and CVP – Sociedade de Gestão Hospitalar, S.A.

Pedro Barreto, 38 years of age, exercises functions at the BPI Group for 16 years. He is a member of the Board of Directors of BPI Madeira, SGPS, Unipessoal, S.A.

Riunione Adriática di Sicurtá, represented by **Herbert Walter**, 51 years of age. He is Chairman of the Board of Managing Directors of Dresdner Bank AG and member of the Board of Managing Directors of Allianz AG. Furthermore, he is member of the Supervisory Board of Deutsche Börse AG and TSV München 1860 GmbH & Co. KGaA as well as President of the Conseil d' Administration of Dresdner Bank Luxembourg S.A. and member of the Consejo de Administración of Banco Popular Español S.A.

Roberto Egydio Setúbal, 50 years of age. In Brazil: he is Deputy-Chairman of the Board of Directors, Director Chairman and member of the International Consultative Board of Banco Itaú Holding Financeira, S.A.; he is Director Chairman and Director General of Banco Itaú, S.A., of Itauinv Brasil Participações, Lda. and of ITB Holding Brasil Participações, Lda.; he is Director Executive Vice-Chairman of Itaúsa – Investimentos Itaú, S.A.; he is Chairman of the Board of Directors and Director Chairman of Banco Fiat S.A., of Cia. Itauleasing de Arrendamento Mercantil, of Investimentos Bemge, S.A., of Itaú Banco de Investimento, S.A. and of Itaú Rent Administração e Participações, S.A.; he is Chairman of the Board of Directors of Banco Itaú BBA, S.A., of BFB Leasing S.A. Arrendamento Mercantil, of Itaú Gestão de Ativos, S.A. and of Itaú Lam Asset Management, S.A.; he is Director Chairman of Banco Banerj, S.A., of Banco Banestado, S.A., of Banco Beg, S.A., of Banco Itaucred Financiamentos S.A., of Cia. Itaú de Capitalização, of Fiat Administradora de Consórcios, Lda., of Itaú Administradora de Consórcios, Lda., of Itaú Personnalité Administradora de Cartões de Crédito e Serviços, Lda., of Itaú Vida e Previdência, S.A. and of Itaucard Financeira, S.A. – Crédito, Financiamento e Investimento; he is a Director of Itaú-BBA Participações, S.A. and of Três "B" Empreendimentos e Participações, S.A. In Portugal: he is Chairman of the Board of Directors of Banco Itaú Europa, S.A.; he is a Director of Itaúsa Europa – Investimentos, SGPS, Lda., of Itaúsa Portugal, SGPS, S.A., of Itaú Europa SGPS, Lda. and of IPI – Itaúsa Portugal Investimentos, SGPS, Lda. In Argentina: he is a Director Chairman of Banco Itaú Buen Ayre, S.A. In the Cayman Islands: he is a Director of Itaú Bank, Lda., of BIE – Bank & Trust, Ltd., of Amethyst Holding, Lda., of ITB Holding, Lda. and of Topaz Holding, Lda. In Luxembourg: he is Director of Banco Itaú Europa Luxembourg, S.A. In the United States of America: he is Vice-Chairman of the Institute of International Finance; he is a member of International Advisory Committee of The Federal Reserve Bank of New York; he is member of the Board of the International Monetary Conference.

Tomaz Jervell, 61 years of age. He is Chairman of the Management Board of Auto-Sueco, Lda. He is Chairman of the Board of Directors of Norbase, SGPS, S.A., Auto-Sueco (Angola), SARL, Auto-Sueco (Minho), S.A., Soma, S.A., Biosafe, S.A. and Vellar, SGPS, S.A.

SIMILARITIES BETWEEN THE CMVM'S REGULATIONS AND RECOMMENDATIONS DEALING WITH CORPORATE GOVERNANCE AND THE BPI GROUP'S REPORT ON CORPORATE GOVERNANCE

Details	Nature		Chapter
	Regulations	Recommendation	
0. DECLARATION OF COMPLIANCE			
Detailed indication of the CMVM's recommendations on corporate governance not adopted	✓		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. and 3.7.
Description of the system of risk control implemented at the company	✓	✓	3.5. and 5.
Description of the issuer's share price behaviour	✓		13.2.
Description of the dividend distribution policy	✓		14.
Description of the main characteristics of the share and options attribution plans adopted	✓		7.4.
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	✓		11.7.
Investor Support Office – functions, type of information available and access routes	✓		12.2.
Company site on the Internet	✓	✓	12.3.
Identification of the market relations representative	✓		12.4.
Indication of the composition of the remuneration committee	✓		3.7.
Indication of the annual remuneration paid to the auditors and their network	✓		6.3.
Description of the means of safeguarding the auditor's independence	✓		6.1. and 6.4.
II. EXERCISE OF VOTING RIGHTS AND REPRESENTATION OF SHAREHOLDERS			
Existence of statutory rules on voting rights, namely, those that exclude the right to vote by correspondence	✓		9.1.
Existence of a model for the exercising of vote by correspondence	✓	✓	9.4.
Possibility of exercising voting rights be electronic means	✓		9.5.
Prior period required for the deposit or blockage of shares for participation at general meetings	✓	✓	9.2.
Requirement of a period of time elapsing between the receipt of the voting paper by correspondence and the holding of the general meeting	✓	✓	9.4.
Number of shares which correspond to one vote	✓		9.2.
III. CORPORATE RULES			
Existence of codes of conduct for the company's bodies or other internal regulations	✓		3.3., 11.4. and 11.6.
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.)	✓	✓	8.
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
Existence of an executive commission or other commissions with management responsibility, identifying 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.
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.
Description of remuneration policy, including in particular the means for aligning Directors' interest with those of the company	✓		7.1.
Indication of remuneration earned, distinguishing between executive and non-executive directors and the variable from the fixed portion	✓		7.2.
Existence of internal control committees with responsibilities in the assessment of the company's structure and governance		✓	3.8.
Directors' remuneration: ways of aligning directors' interest with those of the Shareholders and disclosure in individual terms		✓	0., 7.1. and 7.4.
Independence of the members of the remuneration committee in relation to the members of the management body		✓	3.7.
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		✓	7.4.
Institutional investors: diligent, efficient and critical use of the rights inherent in the securities of which they are the holders or whose management has been entrusted to them		✓	10.

PUBLICATIONS, COMMUNICATIONS AND INSTITUTIONAL EVENTS IN 2005

			Important dates	
			Legal / regulatory timetable	BPI 2005 calendar (expected dates)
Report and accounts: 2004	Brochure		Publication up to 30 days after the AGM[4] (CVM[5] – art. 245; CMVM – Reg. n.º 04/04)	21 Apr. 05
	PDF			20 Apr. 05
	RAO[1]		–	May 05
BPI Group Corporate Governance: 2004	Brochure		Publication up to 30 days after the AGM[4] (CMVM – Reg. n.º 11/03)	21 Apr. 05
	PDF			20 Apr. 05
	RGO[2]		–	May 05
Report and accounts: 1st half 2005	Brochure		Publication up until 30 September (CVM[5] – art. 246; CMVM – Reg. n.º 04/04)	15/30 Sep. 05
	PDF			
Disclosure of quarterly results	Announcement		1st and 3rd quarter: up to 60 days after the quarter end; (CMVM – Reg. n.º 04/04) 2nd quarter: up to 30/Sep (CVM[5] – art. 246; CMVM – Reg. n.º 04/04)	21 Apr., 21 Jul., 20 Oct.
	Presentation	Conference Call[3]	–	21/22 Apr., 21/22 Jul., 20/21 Oct.
		Webcast[3]		
Events	General Meetings	Notice	Publication up to 30 days before the SGM[4] (CSC[6] – art. 377)	18 Mar. 05
		Motions	Publication 15 or 30 days (depending on the motion) before the SGM[4] (CSC[6] – art. 289 and 377)	Between 18 Mar. and 5 Apr.
		SGM results	–	20 Apr. 05
	Dividends	Motion	15 days before the SGM[4] (CMVM – Reg. n.º 04/04)	5 Apr. 05
		Announcement	15 days before payment (CMVM – Reg. n.º 04/04)	21/30 Apr.
		Payment	30 days after the AGM[4] (CSC[6] – art. 294)	9 May 05
	Annual conference for analysts and investors		–	19 May 05
	Other institutional presentations		–	Calendar of events available on the IR site
	Announcements	Important facts	Transmitted to the market on the day they become available (CVM[5] – art. 248; CMVM – Reg. n.º 04/04)	
		Other communications		
	Calendar of institutional events		At start of each half-year (CMVM – Reg. n.º 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. n.º 04/04)	
		0.05% of capital in a single session	Immediately (CMVM – Reg. n.º 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. n.º 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				CMVM Web site
	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: ag2005@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, n.º 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

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Trading information

Board of Directors members' shareholdings in Banco BPI, S.A.

Board of Directors members	Shares						Options			
	Held on 31.12.2003	Increases	Decreases	Held on 31.12.2004	A	B	Held on 31.12.2003	Increases	Decreases	Held on 31.12.2004
Artur Santos Silva	806 462	482 497	110 049	1 178 910	84 161	271 028	663 607	347 223	432 576	578 254
Carlos da Câmara Pestana	300 000			300 000						
Fernando Ulrich[1]	342 393	638 383	129 824	850 952	77 568	647 923	590 379	333 889	590 379	333 889
Ruy Octávio Matos de Carvalho	120 092			120 092						
Alfredo Rezende de Almeida	1 680 000	20 000		1 700 000						
António Domingues[1]	48 913	454 804	79 926	423 791	53 791	370 000	422 855	222 223	422 855	222 223
António Farinha Morais[1]	45 378	92 064	16 291	121 151	26 526	36 647	225 514	133 334	67 938	290 910
Armando Leite de Pinho	0			0						
Fernando Ramirez Mazarredo	4 882			4 882						
Herbert Walter[2]	0			0						
Isidro Fainé Casas	0			0						
José Pena do Amaral[1]	41 161	246 647	171 148	116 660	39 625	70 214	214 059		214 059	
Klaus Duhrkop	0			0						
Manuel de Oliveira Violas	31 686			31 686						
Manuel Ferreira da Silva[1]	56 114	96 933	5 777	147 270	29 192	80 000	234 663	117 778	80 000	272 441
Maria Celeste Hagatong[1]	97 666	280 746		378 412	29 857	252 350	252 350	155 556	252 350	155 556
Pedro Barreto[1, 2]	8 516	100 064		108 580	13 856	94 724	90 000	70 000	90 000	70 000
Roberto Egydio Setúbal	0			0						
Tomaz Jervell	8 541			8 541						

1) Executive Committee member.

2) The initial balance corresponds to the date of the beginning of management functions of Banco BPI, S.A.

Legend:

A – Shares awarded under the RVA scheme, the free disposal of which at 31 December 2004 is subject to the confirmation of a subsequent condition.

B – Shares which at 31 December 2004 are pledged as security for a loan advanced for the purpose of acquiring those shares as a result of the exercise of options awarded under the RVA scheme, as well as for acquiring BPI shares in the capital increase operation realised in 2002.

ARTUR SANTOS SILVA – At 10 March 2004, acquired, by the exercise of share call options attributed under the 2002 RVA scheme, 432 576 shares. At 29 April 2004, acquired, under subsequent condition in the 2003 RVA scheme, 49 921 shares at a price of 3.13 euros.

Sold: at 27 February 2004, 60 000 shares at a price of 3.23 euros; at 27 February 2004, 25 000 shares at a price of 3.24 euros; at 1 March 2004, 15 049 shares at a price of 3.23 euros; and, at 1 March 2004, 10 000 shares at a price of 3.24 euros.

At 11 May 2004, he was attributed, under the 2003 RVA scheme, 347 223 share call options. The cost of each option was 0.45 euros and the price at which the shares can be eventually acquired is 3.13 euros.

CARLOS DA CÂMARA PESTANA – Made no transactions.

At 31 December 2004, IPI – Itaúsa Portugal Investimentos, SGPS, Lda., of which he is a member of the Management Board, held 122 323 944 shares.

FERNANDO ULRICH – At 5 March 2004, acquired, by the exercise of share call options attributed under the 2001 and 2002 RVA schemes, 205 530 and 384 849 shares, respectively. At 29 April 2004, acquired, under subsequent condition in the 2003 RVA scheme, 48 004 shares at a price of 3.13 euros.

Sold: at 3 February 2004, 3 500 shares at a price of 2.97 euros; at 4 February 2004, 3 500 shares at a price of 2.99 euros; at 5 February 2004, 3 500 shares at a price of 3 euros; at 6 February 2004, 3 500 shares at a price of 2.99 euros; at 9 February 2004, 3 500 shares at a price of 3.02 euros; at 10 February 2004, 3 500 shares at a price of 3.02 euros; at 11 February 2004, 3 500 shares at a price of 3.01 euros; at 26 April 2004, 12 500 shares at a price of 3.19 euros; at 27 April 2004, 12 500 shares at a price of 3.20 euros; at 28 April 2004, 2 500 shares at a price of 3.20 euros; at 19 November 2004, 30 000 shares at a price of 3.15 euros; and, at 10 December 2004, 47 824 shares at a price of 2.99 euros.

At 11 May 2004, he was attributed, under the 2003 RVA scheme, 333 889 share call options. The cost of each option was 0.45 euros and the price at which the shares can be eventually acquired is 3.13 euros.

RUY OCTÁVIO MATOS DE CARVALHO – Made no transactions.

ALFREDO COSTA REZENDE DE ALMEIDA – At 22 July 2004, acquired 20 000 shares at a price of 3 euros.

At 31 December 2004, ARCO TÊXTEIS – Empresa Industrial de Santo Tirso, S.A., ARCO FIO – Fiação, S.A., of which he is a member of the Board of Directors, and ARCO TINTO – Tinturaria, S.A., of which he is Deputy-Chairman of the Board of Directors, held 1 888 540, 743 230 and 849 750 shares, respectively.

ANTÓNIO DOMINGUES – At 19 March 2004, acquired, by the exercise of share call options, under the RVA 2001 and RVA 2002 schemes, 144 067 and 278 788 shares, respectively. At 29 April 2004, acquired, under subsequent condition in the 2003 RVA scheme, 31 949 shares at a price of 3.13 euros.

Sold: at 2 September 2004, 10 000 shares at a price of 2.95 euros; at 2 September 2004, 29 926 shares at a price of 2.91 euros; at 13 September 2004, 10 000 shares at a price of 3 euros; at 14 September 2004, 10 000 shares at a price of 3.02 euros; and, at 15 September 2004, 20 000 shares at a price of 3 euros.

At 11 May 2004, he was attributed, under the 2003 RVA scheme, 222 223 share call options. The cost of each option was 0.45 euros and the price at which the shares can be eventually acquired is 3.13.

ANTÓNIO FARINHA MORAIS – At 20, 25, 26 and 27 February 2004 and at 3 May 2004, acquired, by the exercise of share call options attributed under the 2001 RVA scheme, 15 000, 6 000, 9 850, 441 and 36 647 shares, respectively. At 22 March 2004, acquired 4 236 shares he was attributed, under condition precedent in the 2001 RVA scheme by the

price of 2.58 euros. At 22 March 2004, acquired 720 shares previously subscribed for under the RVA 2001 scheme and subject to a condition subsequent in the capital increase, at a price of 1.75 euros. At 29 April 2004, acquired, under subsequent condition in the 2003 RVA scheme, 19 170 shares at a price of 3.13 euros.

Sold: at 25 February 2004, 6 000 shares at a price of 3.24 euros; at 26 February 2004, 9 850 shares at a price of 3.24 euros; and, at 27 February 2004, 441 shares at a price of 3.24 euros.

At 11 May 2004, he was attributed, under the 2003 RVA scheme, 133 334 share call options. The cost of each option was 0.45 euros and the price at which the shares can be eventually acquired is 3.13 euros.

ARMANDO COSTA LEITE DE PINHO – Does not hold any shares.

At 31 December 2004, the companies Arsopi – Indústrias Metalúrgicas Arlindo S. Pinho, S.A., ROE, SGPS, S.A. and Security, SGPS, S.A., of which he is a member of the Board of Directors, held 2 248 271, 3 397 091 and 2 484 871 shares, respectively.

FERNANDO RAMIREZ MAZARREDO – He is Deputy Director-General of Caja de Ahorros y Pensiones de Barcelona ("la Caixa") which totally controls Caixa Holding, S.A. Sociedad Unipersonal and, through this company, controls Catalunya de Valores – SGPS, Unipessoal, Lda.

Made no transactions.

At 31 December 2004, Catalunya de Valores – SGPS, Unipessoal, Lda. held 121 556 379 shares.

HERBERT WALTER – He is Chairman of the Executive Committee of Dresdner Bank AG and member of the Executive Committee of Allianz AG.

Does not hold any shares.

At 31 December 2004, RAS Internacional, N.V., controlled by Allianz, AG, held 65 659 233 shares.

ISIDRO FAINÉ CASAS – He is Director-General of Caja de Ahorros y Pensiones de Barcelona ("la Caixa") which totally controls Caixa Holding, S.A. Sociedad Unipersonal and, through this company, controls Catalunya de Valores – SGPS, Unipessoal, Lda.

Does not hold any shares.

JOSÉ PENA DO AMARAL – At 15 and 16 March 2004, acquired, by the exercise of share call options attributed under the 2001 RVA scheme, 51 661 and 16 943 shares, respectively. At 3 May 2004, acquired, by the exercise of share call options attributed under the 2002 RVA scheme, 145 455 shares. At 29 April 2004, acquired, under subsequent condition in the 2003 RVA scheme, 32 588 shares at a price of 3.13 euros.

Sold: at 15 March 2004, 51 661 shares at a price of 3.15 euros; at 16 March 2004, 16 943 shares at a price of 3.12 euros; and, at 15 September 2004, 102 544 shares at a price of 3.12 euros.

KLAUS DÜHRKOP – Does not hold any shares.

MANUEL DE OLIVEIRA VIOLAS – Made no transactions.

At 31 December 2004, Violas – Sociedade Gestora de Participações Sociais, S.A., held 21 681 062 shares.

MANUEL FERREIRA DA SILVA – At 4 May 2004, acquired, by the exercise of share call options attributed under the 2002 RVA scheme, 80 000 shares. At 29 April 2004, acquired, under subsequent condition in the 2003 RVA scheme, 16 933 shares at a price of 3.13 euros.

Sold: at 2 February 2004, 1 114 shares at a price of 3.00 euros; and, at 20 February 2004, 4 663 shares at a price of 3.17 euros.

At 11 May 2004, he was attributed, under the 2003 RVA scheme, 117 778 share call options. The cost of each option was 0.45 euros and the price at which the shares can be eventually acquired is 3.13 euros.

At 31 December 2004, his wife Maria do Carmo Oliveira held 47 490 shares, of which she was attributed 9 785 on 29 April 2004 under the RVA 2003 scheme; and, 198 046 share call options, of which she was attributed 68 056 on 11 May 2004.

MARIA CELESTE HAGATONG – At 30 April 2004, acquired, by the exercise of share call options attributed under the 2001 and 2002 RVA schemes, 82 653 and 169 697 shares, respectively. At 22 March 2004, acquired 5 155 shares she was attributed, under condition precedent in the 2001 RVA scheme by the price of 2.58 euros. At 22 March 2004, acquired 876 shares previously subscribed for under the RVA 2001 scheme and subject to a condition subsequent in the capital increase, at a price of 1.75 euros. At 29 April 2004, acquired, under subsequent condition in the 2003 RVA scheme, 22 365 shares at a price of 3.13 euros.

At 11 May 2004, she was attributed, under the RVA 2003 scheme, 155 556 share call options. The cost of each option was 0.45 euros and the price at which the shares can be eventually acquired is 3.13 euros.

PEDRO BARRETO – At 20 April 2004, he was integrated in the Board of Directors of Banco BPI, holding, at that moment, 8 516 shares and 90 000 share call options.

At 3 May 2004, acquired, by the exercise of share call options attributed under the 2001 and 2002 RVA scheme, 30 000 and 60 000 shares, respectively. At 29 April, acquired, under subsequent condition in the 2003 RVA scheme, 10 064 shares at a price of 3.13 euros.

At 29 April 2004, he was attributed, under the 2003 RVA scheme, 70 000 share call options. The cost of each option was 0.45 euros and the price at which the shares can be eventually acquired is 3.13 euros.

ROBERTO EGYDIO SETÚBAL – He is Deputy-Chairman of the Board of Directors, Director Chairman and member of the International Consultative Board of Banco Itaú Holding Financeira, S.A.

Does not hold any shares.

TOMAZ JERVELL – Made no transactions.

At 31 December 2004, the companies Norsócia, SGPS, S.A. and Auto Maquinaria Tea Aloya, SL, of which he is a member of the Board of Directors, held 6 018 395 and 6 037 256 shares, respectively.

Audit Board members' shareholdings in Banco BPI, S.A.

Audit Board members	Shares				
	Held on 31.12.2003	Increases	Decreases	Held on 31.12.2004	A
Jorge de Figueiredo Dias	0			0	0
José Ferreira Amorim	4 980 000	205 000		5 185 000	1 075 000
Deloitte & Associados, SROC S.A.	0			0	0

Legend:

A – Shares which at 31 December 2004 are pledged as security for loans advanced by a credit institution (not belonging to the BPI Group) to companies controlled by the member of the Audit Board.

JORGE FIGUEIREDO DIAS – Does not hold any shares.

JOSÉ FERREIRA AMORIM – Acquired: at 17 May 2004, 11 770 shares at a price of 2.94 euros, 8 230 shares at a price of 2.93 euros and 25 000 shares at a price of 2.90 euros; at 3 August 2004, 30 000 shares at a price of 2.94 euros, 9 059 shares at a price of 2.93 euros and 40 941 shares at a price of 2.92 euros; at 4 August 2004, 20 000 shares at a price of 2.88 euros; at 6 August 2004, 10 000 shares at a price of 2.83 euros; at 9 August 2004, 20 000 shares at a price of 2.79 euros; and, at 11 August 2004, 30 000 shares at a price of 2.75 euros.

DELOITTE & ASSOCIADOS, SROC, S.A. – Does not hold any shares.

In relation to equity interests by proxy, it is particulary noteworthy that:

- Fernando Ramirez represents Caixa Holding, S.A., Sociedade Unipersonal which controls Catalunya de Valores, SGPS, Unipessoal, Lda., which held, at 31 December 2004, 121 556 379 shares; and,
- Herbert Walter represents Riunione Adriática di Sicurtá which controls RAS Internacional N.V., which held, at 31 December 2004, 65 659 233 shares.

Appendices

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 pages 13, 170 e 171.

"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 "**Banco de Investimento"**, 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 commercial banking business in Angola.

"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

BIS	Bank of International Settlements
BoP	Bank of Portugal (Portuguese Central bank)
CMVM	Comissão do Mercado de Valores Mobiliários (Securities Market Commission)
EC	European Commission
ECB	European Central Bank
EFTA	European Free Trade Association
EIB	European Investment Bank
EMU	Economic and Monetary Union
Fed	Federal Reserve System
SIBS	Sociedade Interbancária de Serviços (Interbank Service Society)
OECD	Organisation for Economic Co-operation and Development

Miscellaneous

ACTV	Acordo Colectivo de Trabalho Vertical (Collective Employment Agreement for the Banking Sector)
ALD	Aluguer de Longa Duração (long-term rentals)
CA	Conselho de Administração (Board of Directors)
CAC 40	Shares index (France)
CACI	Comité de Auditoria e de Controlo Interno (Audit and Internal Control Committee)
CECA	Comissão Executiva do Conselho de Administração (Board of Directors' Executive Committee)
CERC	Comissão Executiva de Riscos de Crédito (Credit Risk Executive Committee)
CERM	Comissão Executiva de Riscos de Mercado (Market Risk Executive Committee)
CRM	Customer Relationship Management
DACR	Direcção de Análise e Controlo de Riscos (Risk Analysis and Control Division)
DAX	Shares index (Germany)
DIG	Direcção Internacional do Grupo (The Group's International Division)
DORG	Direcção de Organização (Organisation Division)
Dow Jones STOXX 600	Shares index (Europe)
DRC	Direcção de Riscos de Crédito (Credit Risk Division)
DRI	Direcção de Relações com Investidores (Investor Relations Division)
EMTN	Euro Medium Term Note
FIM	Fundo de Investimento Mobiliário (Unit Trust Fund)
FRIE	Fundo de Reestruturação e Internacionalização Empresarial (fund for business restructuring and internationalisation)
FTSE 100	Shares index (United Kingdom)
GDP	Gross Domestic Product
GM	General Meeting
IAPMEI	Instituto de Apoio às Pequenas e Médias Empresas e ao Investimento (Portuguese institute for the support of small and medium-sized companies)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
Ibex-35	Shares index (Spain)
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
IRC	Corporate income tax
ISDA	International Swaps and Derivatives Association
M&A	Mergers & Aquisitions
Nasdaq	Shares index (USA)
OT	Obrigações do Tesouro (treasury bonds)
PDA	Personal Digital Assistant
PPA	Plano Poupança Acções (equities savings plan)
PPR	Plano Poupança Reforma (retirement savings plan)
PPR/E	Plano Poupança Reforma/Educação (retirement/education savings plan)
PSI Geral	Shares index (Portugal)
PSI-20	Shares index (Portugal)
RVA	Remuneração Variável em Acções (variable remuneration programme through the granting of shares and purchase options)
SA	Public held company
SARL	Limited liability privately held company
S&P	Standard & Poor's

ACRONYMS (CONT.)

Miscellaneous (cont.)

SGM	Shareholders General Meeting
SGPS	Sociedade Gestora de Participações Sociais (investment holding company)
SIME	Sistema de Incentivos à Modernização Empresarial (incentive scheme for business modernisation)
SME	Small and Medium-sized Companies
SMS	Short Message Service
SROC	Sociedade de Revisores Oficiais de Contas (Portuguese Statutory Auditing Firm)
USA	United States of America

Financial

EPS	Earnings per share
NTA	Net Total Assets
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
VaR	Value at Risk

ABBREVIATIONS

Units

€	euro
10^3	thousand
10^6	million
th.€, th. euro	thousands of euro
M.€, M. euro	millions of euro
p.p.	percentage points

Conventional signs

.	decimal point
%	percentage
n.a.	not available
-, nr	irrelevant
<	minor than
>	greater than
Δ	variation
≤	minor or equal than
≥	greater or equal than
0	nil or negligible
1/2	one half
1/4	one quarter

Currencies

AKZ	Angolan Kwanza
EUR	Euro
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

etc.	*et caetera*
Lda.	limited
m^2	square metre
no.	number
neg.	negative
Net	Internet
S.A.	Public held company
vs.	versus

GLOSSARY

American Depositary Receipts (ADR) – negotiable certificates of deposit, issued by US banks, representing the shares held in custody of non-US--based companies. These certificates entitle the holders thereof to dividends and capital gains.

Anti-takeover provisions – statutory clauses designed to impede / obstruct the mounting of takeovers considered to be hostile.

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.

Call option – an agreement between two parties in terms of which the buyer acquires, against payment of a monetary consideration (premium), the right to buy from the seller at a specified future date (or up to a specified future date) the underlying security at an agreed price. See also "Exercise price (strike)", "Premium" and "Exercise period".

Capital rotation – the relationship between the number of shares traded and the average number of shares listed on the stock exchange.

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.

Day-trade – buying and selling of negotiable securities during the course of the same stock market session so that at the end of the trading day, the investor has no open position, nor has any change taken place in the composition of his portfolio.

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.

Economic provisions – term given to the estimate of actual (or almost actual) effective losses arising from loan defaults. They are used to assess the adequacy of accounting provisions.

e-learning – training model, allowing the trainee to attend remotely via a personal computer linked to the Internet or the company intranet.

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 – method used for recognising an investment in the consolidated accounts. The investment is recorded at the amount of the investor company's direct or indirect proportional interest in the investee company's net assets and net income.

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.

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).

Hedging – the strategy adopted by a trader to minimise the potential risk of adverse changes in a given asset's market price. A perfect hedging operation eliminates any future capital loss or gain.

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.

Market-maker – the member of a stock exchange who undertakes the function of promoting liquidity by maintaining bid and asked prices for specified securities at which these securities are bought and sold (under certain conditions).

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.

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.

Placement syndicate – a group of financial entities which jointly organises and places an issue of negotiable securities.

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".

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.

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 (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.

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).

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.

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.

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

Total Customer resources:

Resources on the balance sheet + Off-balance sheet resources

On-balance sheet Customer resources:

Deposits + Structured products (guaranteed-capital and limited-risk bonds) + Other bonds placed with Customers

Off-balance sheet Customer resources:

Unit trust funds + Retirements savings and equity savings plans + + Capitalisation insurance

Assets under management[2]:

Off-balance sheet Customer resources + Pension funds under management + Financial assets under discretionary management and advisory services (Private Banking and institutional clients)

Operating income from banking:

Net interest income + Commissions and other similar operating income (net) + Recovery of loans in arrears + Profits from financial operations

Administrative overheads:

Personnel costs + Outside supplies and services

Cost-to-income:

$$\frac{\text{Administrative overheads}}{\text{Operating income from banking}}$$

Administrative overheads plus depreciation:

Personnel costs + Outside supplies and services + Depreciation

Efficiency ratio:

$$\frac{\text{Administrative overheads + depreciation}}{\text{Operating income from banking}}$$

Net profit attributable to BPI Group Shareholders:

Profits before taxation – Corporate income tax – Minority Shareholders share of profit + Equity accounted results of subsidiaries

Cash flow after taxation:

Net profit attributable to BPI Group Shareholders + Depreciation + + Provisions net of reversals

Return on average total assets (ROA):

$$\frac{\text{Net profit attributable to BPI Group shareholders}}{\text{Weighted (monthly) average total assets (net)}} \times 100$$

Return on Shareholders' equity (ROE):

$$\frac{\text{Net profit attributable to BPI Group Shareholders}}{\text{Weighted (monthly) average book value}} \times 100$$

Total loans in arrears, for more than 30/90 days, as % of Customer loans:

$$\frac{\text{Loans to Customers and interest in arrears for longer than 30/90 days}}{\text{Customer loans (gross)}} \times 100$$

Increase in loans in arrears, adjusted by write-offs, as % of the loan portfolio:

$$\frac{\text{Balance of loans in arrears}_{\text{year n}} - \text{Balance of loans in arrears}_{\text{year n-1}} + \text{Write-offs}_{\text{year n}}}{\text{Gross loan portfolio}_{\text{year n-1}} - \text{Balance of loans in arrears}_{\text{year n-1}}}$$

Increase in loans in arrears, adjusted by write-offs and deducted of recoveries of loans in arrears written-off, as % of the loan portfolio:

$$\frac{\text{Balance of loans in arrears}_{\text{year n}} - \text{Balance of loans in arrears}_{\text{year n-1}} + \text{Write-offs}_{\text{year n}} - \text{Recovery of loans in arrears previously written-off}_{\text{year n}}}{\text{Gross loan portfolio}_{\text{year n-1}} - \text{Balance of loans in arrears}_{\text{year n-1}}}$$

Provisioning cover for arrear loans:

$$\frac{\text{Provisions for loans and interest in arrears + + Provisions for general credit risk}}{\text{Loans and interest in arrears for longer than 30 days}} \times 100$$

Pension liabilities cover:

$$\frac{\text{Pension funds}}{\text{Pension liabilities with retired and past services of current employees}} \times 100$$

Data per share:

$$\frac{\text{Cash flow, net profit or dividend}}{\text{Weighted average number of shares}}$$

$$\frac{\text{Book value}}{\text{Final number of shares}^3}$$

1) Corrected for duplication of balances.

2) Adjusted for duplication of balances.

3) Adjusted by the effects of Capital increases reserved for Shareholders.

Weighted average number of shares:

Weighted average number of shares ranking for dividends[1]

Total shareholder return:

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:

$$\frac{\text{Net profit + Minority interests + Taxes}}{\text{Average total assets (net)}}$$

$$\frac{\text{Operating income from banking}[2]}{\text{Average total assets (net)}}$$

$$\frac{\text{Net profit + Minority interests + Taxes}}{\text{Average shareholders' equity + Average minority interests (in the balance sheet)}}$$

Efficiency:

$$\frac{\text{Personnel costs}}{\text{Operating income from banking}}$$

$$\frac{\text{Personnel costs + Outside supplies and services + Amortisation and depreciation}}{\text{Operating income from banking}}$$

Loan quality:

$$\text{Non-performing loans ratio} = \frac{\text{Non-performing loans}[3]}{\text{Total loan portfolio}}$$

$$\text{Ratio of non-performing loans, net of provisions} = \frac{\text{Non-performing loans}[3] - \text{Specific provisions for loans in arrears and doubtful loans}}{\text{Total loan portfolio} - \text{Specific provisions for loans in arrears and doubtful loans}}$$

Financial strength:

$$\text{Ratio of total own funds adequacy} = \frac{\text{Total own funds}[4]}{\text{Own funds requirements}[4] \times 12.5}$$

$$\text{Ratio of basis own funds adequacy} = \frac{\text{Basis own funds}[4]}{\text{Own funds requirements}[4] \times 12.5}$$

1) Adjusted by the effects of capital increases reserved for Shareholders. It's assumed that the capital increase occurs in the day the shares start ranking for dividends.

2) In the calculation of profitability and efficiency indicators according to Bank of Portugal notice, the operating income from banking is determined as follows:
Operating income from banking = Net interest income (narrow sense) + Income from securities (variable yield) + Commissions (net) and other similar operating income (net) + Recovery of loans in arrears written-off + Profits from financial operations (net) + Equity accounted results of subsidiaries.

3) Non-performing loans = Loans in arrears for more than 90 days + doubtful loans, treated as loans in arrears for provisioning purposes.

4) Calculated in accordance with Bank of Portugal Notices 12 / 92, 1 / 93 and 7 / 96.

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.

$$\sum \frac{CFj}{(1 + \text{Shareholder's annual average rate of return})^{(dj-d0)\,/\,365}} = 0$$

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].

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

	Page
REPORT	
Leading business indicators	4
Growth, profitability, strength and value (2001-2004)	5
Introduction	6
Sustained growth	6
Governing bodies	9
Historical milestones	10
Leadership, innovation and growth	10
The identity of BPI	12
Financial structure and business	13
Distribution channels	14
The BPI Brand	16
Growth	16
Efficiency	16
Quality	17
BPI Governance	19
Renovation	19
Guiding principles	19
Annual Corporate Governance Report	19
Corporate Governance rating	20
Social investment	22
Social solidarity and cooperation	22
Education and research	22
Culture and publication	23
Highlights of 2004	24
Background to operations	25
Background to operations in Portugal	25
Portuguese economy	25
Portuguese financial system	27
Currency market	28
Money market	29
Bond market	29
Equities market	31
Background to operations in Angola	32
Angolan economy	32
Angolan financial system	33
Human resources	34
Rationalization, rejuvenation and qualification	34
Banco BPI	35
Activity in Portugal	35
Banco de Fomento Angola	38
Banco Português de Investimento	38
Technology	39
Information systems in Portugal	39
Activity in 2004	40
Technological renovation	40
Renovation and augmenting the capacity of the central systems	40
Updating the operating system at the distributed platforms of the central buildings	40
Restructuring the telecommunications network	40
Evolution of application and decision-support solutions	40
Security	41
Response to regulatory requirements and risk	42
Information systems at Banco de Fomento Angola	43
Evolution of the information systems	43
Communication	43
Applications and product-support solutions	43
Internet solutions	43
Operations	44
Integrated procurement solution	44
Outsourcing	44
Commercial Banking	45
Individuals and small businesses banking – domestic activity	45
Overview	45
Customer resources	48
Unit trust funds	48
Retirement savings plans	48
Capitalisation (unit linked) insurance	49
Customer loans	50
Home mortgage loans	50
Personal loans	52
Credit cards	52
Debit cards	52
Motor car finance	53
Commercial credit guarantees and leasing	54
Corporate banking, institutional banking and project finance – domestic activity	60
Overview	60
Large corporations and companies	62
Project finance	63
Institutional banking	65
International activity	67
Banco de Fomento Angola	67
Insurance	71
Asset Management	72
Overview	72
Unit trust funds	73
Life capitalisation assurance	75
Pension funds	76
Drive to attract new Clients	76
Pension fund returns	76
Creation of a site for participants	77
Other institutional Clients	77
Investment Banking	78
Overview	78
Corporate Finance	79
Equities	80
Secondary equities market	80
Primary equities market	80
Research and sales	81
Trading	81
Private Banking	82
BPI (Suisse) S.A.	82
Financial investments	83
Private Equity	84
Financial review	85
Consolidated results	85
Overview	85
Principal indicators	86
Earnings and profitability by business areas	87
Income statement	90
Net interest income	92
Domestic activity	92
International activity	92
Consolidated analysis – spreads and volume review	92
Consolidated analysis – balance and spread effects on the trend in net interest income	94
Recovery of non-performing loans	96
Commissions	97
Domestic activity	98
International activity	98
Profits from financial operations	99
Domestic activity	99
International activity	99
Administrative overheads, depreciation and amortisation	100
Domestic activity	100
International activity	100

	Page
Personnel costs	101
Domestic activity	101
International activity	102
Outside supplies and services	103
Domestic activity	103
International activity	104
Depreciation and amortisation	105
Domestic activity	105
International activity	105
Provisions	106
Domestic activity	106
International activity	107
Net extraordinary items	108
Corporate income tax	109
Results of equity-accounted subsidiaries	110
Domestic activity	110
International activity	110
Minority shareholders' interests	110
Balance sheet	111
Loans to Customers	113
Portfolio of securities and participating interests	114
Resources taken	116
Shareholders' equity	118
Own funds	119
Own funds requirements	120
Ratio of own funds requirements	121
Pension obligations	122
Adoption of the International Accounting Standards	126
Risk management	129
Principal indicators	130
Credit risk	131
Management process	131
Evaluation of credit risk exposure	132
Companies, Institutions, specialised finance	132
Individuals and small businesses	134
Securities portfolio	135
Derivative operations	135
Default, provisioning and recovery levels	136
Country risk	145
Market risks	146
Liquidity risk	148
Operating risks	149
Legal risks	150
Rating	151
Banco BPI shares	153
Shareholder return on investment	153
Earnings per share	153
Dividends	153
Liquidity	153
Stock market capitalisation	153
Market multiples	154
Communication with the market	154
Share capital	154
Treasury stock	155
Other information	155
Shareholders	157
Structure and principal shareholders	157
Shareholders value creation	158
Return on investment (ROI)	158
Final acknowledgements	159
Proposed appropriation of net profit	160

	Page
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated balance sheets as of December 31, 2004 and 2003	162
Consolidated statements of income by nature for the years ended December 31, 2004 and 2003	164
Consolidated statements of income by functions for the years ended December 31, 2004 and 2003	166
Consolidated statements of cash flows for years ended December 31, 2004 and 2003	167
Notes to the consolidated financial statements	**169**
Notes to the consolidated financial statements as of 31 December, 2004 and 2003	170
1. The financial group	170
2. Basis of presentation, consolidation principles and principal accounting policies	172
Basis of presentation	172
Consolidation principles	172
Principal accounting policies	172
2.1. Accruals basis	172
2.2. Tangible fixed assets	173
2.3. Intangible assets	173
2.4. Equity investments	173
2.5. Bonds, shares and other fixed or variable-yield securities	174
i) Trading securities	174
ii) Investment securities	174
iii) Short-selling of securities	175
2.6. Foreign currency operations	175
i) Foreign exchange position and foreign currency swaps	175
Foreign currency bills and coins	175
Spot position	175
Forward position	175
Foreign currency swaps	175
ii) Translation to euro of balances expressed in foreign currencies	175
iii) Translation to euro of income and expenses expressed in foreign currencies	175
2.7. Provisions for specific credit risk	175
2.8. Provisions for unrealised losses on securities and other assets	176
2.9. Provisions for country risk	176
2.10. Provisions for sundry risks	176
i) General credit risks	176
ii) Other risks	176
2.11. Fund for general banking risks	177
2.12. Retirement and survivor pensions	177
2.13. Income tax	178
2.14. Financial Leasing	178
As lessee	178
As lessor	178
2.15. Factoring	178
2.16. Derivatives	178
Interest rate swaps	178
Forward rate agreements	179
Futures	179
Options	179
2.17. Third party securities received for safekeeping	179
2.18. Treasury Stock relating to the Variable Remuneration in Shares (Remuneração Variável em Acções – RVA) program	179

	Page
3. Breakdown, by business sector, of applications and portfolio of securities and financial participations	181
3.1. Breakdown of applications by business sector	181
3.2 Securities and equity investments	182
4. Notes	193
4.1. Cash and deposits at central banks	193
4.2. Loans and advances to credit institutions repayable on demand	193
4.3. Other loans and advances to credit institutions	193
4.4. Loans and advances to Customers	194
4.5. Bonds and other fixed income securities	195
4.6. Shares and other variable-yield securities	196
4.7. Investments in associated companies	197
4.8. Investments in subsidiary companies excluded from the consolidation	198
4.9. Other investments	198
4.10. Intangible assets	200
4.11. Tangible fixed assets	200
4.12. Other assets	202
4.13. Accruals, deferrals and others (assets)	202
4.14. Amounts owed to credit institutions	203
4.15. Amounts owed to Customers	204
4.16. Debt securities	204
4.17. Other liabilities	212
4.18. Accruals, deferrals and others (liabilities)	212
4.19. Provisions for sundry risks and fund for general banking risks	213
4.20. Liability for retirement and survivor pensions	213
4.21. Subordinated debt	214
4.22. Minority interests	215
4.23. Subscribed share capital	216
4.24. Share premium account	217
4.25. Reserves	217
4.26. Negative goodwill and goodwill	218
4.27. Provisions	218
4.28. Off-balance sheet items	220
4.29. Financial margin	224
4.30. Net commission	225
4.31. Net profit on financial operations	225
4.32. Personnel costs	225
4.33. Other operating income and other operating expenses	225
4.34. Extraordinary income and expenses	226
4.35. Income tax	226
4.36. Consolidated net profit	226
4.37. Breakdown by geographical market and business segment	228
4.38. Personnel	229
4.39. Loans and advances to the Directors of Banco BPI	229
4.40. Other issues	229
5. Explanation added for translation	229
Legal Certification of Accounts and Audit Report	230
Report and Opinion of the Audit Board	232

THE BPI GROUP'S CORPORATE GOVERNANCE REPORT

	Page
Declaration of compliance	235
1. Introduction	236
Refinements in the 2004 Report	236
2. Guiding principles of the BPI Group's governance policy	237
3. Structure, division of duties and functioning of the BPI Group's principal management and control bodies	238
3.1. Structure of the Group's governance and supervision	238
3.2. General Meeting	240
Composition, principal functions and manner of participation	240
Composition of the General Meeting Committee	240
Functioning rules	240
Results of the Shareholders' Meetings held in the last 5 years	241
Shareholders' General Meetings held in 2004	241
Change in the position of Chairman of the Executive Committee	241
Annual General Meeting – 20 April 2005	246
3.3. Board of Directors	247
Responsibilities of the Board of Directors	247
Chairman of the Board of Directors	247
Responsibilities	247
Composition of the Board of Directors	248
Independence of the members of the Board of Directors	249
Functioning rules	249
Information provided to the non-executive members	249
Regulations and codes of conduct	249
Exercise of the Board's functions in 2004 and in the first quarter of 2005	250
3.4. Executive Committee of the Board of Directors	252
Responsibilities of the Executive Committee	252
Chairman of the Board of Directors' Executive Committee	252
Responsibilities of the Executive Committee's Chairman	252
Composition of the Executive Committee	252
Experience and professional qualifications of the members of Banco BPI's Board of Directors Executive Committee	253
Functioning rules	255
Specialised Executive Committees	255
3.4.1. Executive Committee for Credit Risk	255
3.4.2. Executive Committee for Market Risk	255
3.5. Audit and Internal Control Committee	256
Composition of the Audit and Internal Control Committee	256
Responsibilities of the Audit and Internal Control Committee	256
The Committee's activity in 2004	257
3.6. Audit Board	259
Responsibilities of the Audit Board	259
Composition of the Audit Board	259
3.7. Remuneration Committee	260
Responsibilities of the Remuneration Committee	260
Composition of the Remuneration Committee	260
3.8. BPI Group's corporate governance monitoring committee	261
3.9. Banco Português de Investimento's management	261
3.10. Banco de Fomento Angola's management	262
Structure and functioning rules	262
Composition of the Board of Directors and the responsibilities of its members	262
4. The Group's functional organisation chart	265
Executive management, supervision and control	265
BPI Group functions	265
Central structures	265
Credit risks	265
Market risk	265
Marketing	265
Product units	265
Channels	265
Brand and quality	265
The BPI Group's functional organisation chart	266
5. Risk management	267
5.1. Risk management principles	267
5.2. Division of responsibilities in risk control and management	267

	Page
6. External auditors	268
6.1. Independence	268
Deloitte's policies and procedures	269
6.2. Liability	270
6.3. Remuneration	270
6.4. Other safeguard mechanisms	270
7. Remuneration	271
7.1. Remuneration policy	271
7.2. Remuneration of members of Banco BPI's governing bodies	272
7.2.1. Responsibility	272
7.2.2. Fixed remuneration	272
7.2.3. Attendance allowances	272
7.2.4. Variable remuneration	272
7.2.5. Exclusivity	272
7.2.6. Remuneration earned in 2004	273
7.3. Remuneration of members of Banco Português de Investimento's Board of Directors	274
7.4. Share incentive scheme (Portuguese initials "RVA")	274
7.4.1. Outline	274
Extension of the RVA Scheme	275
Attribution conditions	276
Share scheme	276
Option scheme	277
Determination of value	277
Determination of the quantity of shares and purchase options to attribute	277
Limits to the scale of the programme	277
Right to dividends, right of preference in capital increases and voting rights at General Meetings	277
Prohibition periods for the exercise of options and trading shares	278
Share trading	278
Exercise of options	278
Credit line for the exercise of options and maintenance of shares on hand	278
Trading in treasury stock	278
Approval, regulation, directives and responsibilities for the execution and modification of the RVA scheme	279
RVA scheme's executive bodies	279
Accounting treatment	280
Attribution	280
RVA scheme cover	280
7.4.2 Execution	281
2004 share incentive scheme	281
Fixing of the attribution price of shares and purchase options	281
Attribution of shares and purchase options	281
Record of the share purchase options scheme	283
7.4.3 Returns on the share incentive schemes	284
RVA 2001, RVA 2002 and RVA 2003	284
7.5. Pension plans for Directors of the Banks	285
7.6. Loans to members of Banco BPI's Board of Directors	286
7.7. Insurance of Banco BPI's Directors	286
7.8. Other benefits / compensation	286
8. Shareholder control and transferability of shares	287
8.1. Shareholders control	287
8.2. Shareholder agreements relating to the exercise of company rights or to the transferability of shares	287
9. Exercise of voting rights and Shareholder representation	288
9.1. Encouragement of the exercise of voting rights	288
9.2. Attribution of voting right	288
9.3. Procedures relating to proxy representation	288
9.4. Procedures relating to postal voting	289
9.5. Procedures relating to electronic means	289

	Page
10. Exercise of corporate rights by BPI Group entities	290
BPI Fundos	290
BPI Pensões	290
Private Banking	291
11. Code of ethics and professional conduct	292
11.1. Commitment to strict standards of ethics and professional conduct	292
11.2. Equity and safeguarding against conflict of interests	292
11.3 Violation of professional secrecy and confidentiality	292
11.4. Stock brokerage activity	293
Dealing for own account	293
Acting for the account of Customers	293
Equity research activity	293
11.5. Combat against money laundering	294
11.6. Prevention of insider trading	294
11.7. 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	295
Allianz Group	295
Violas Group and Arsopi Group	295
11.8. Accounting transparency	295
11.9. Social investment	295
12. Communication with the market	296
12.1 Principles governing the disclosure of financial information and other important facts	296
12.2. Investor relations Division	296
Concept and responsibilities	296
Activity in 2004	297
12.3. Internet site	297
Investor Relations web site – www.ir.bpi.pt	297
Electronic mail	298
12.4. Representative for relations with the market	298
13. Banco BPI shares	299
13.1. Shareholder return	299
13.2. Trend in Banco BPI's share and communication of important facts to the market	300
14. Dividend policy	301

Appendices

Corporate governance regime in Portugal	302
Other management or supervisory positions occupied by members of Banco BPI's Board of Directors	303
Similarities between the CMVM's regulations and recommendations dealing with corporate governance and the BPI Group's Report on Corporate Governance	305
Publications, communications and institutional events in 2005	306

ANNEXES

Trading information	311
Appendices	314
Definitions, acronyms and abbreviations	314
Glossary	316
Formulary	320
Methodological notes	322
General index	323
Thematic index	327
Index of figures, tables, charts and "boxes"	328
Miscellaneous information	331

THEMATIC INDEX

Basle II
42, 130, 132, 136, 149, 257

BPI Group financial and business structure
13, 87 to 89, 171, 227, 228, 265, 266

Capital ratios
118 to 121, 127, 214 to 218

Corporate income tax
109, 128, 178, 226

Customer resources
48, 49, 60, 67, 72 to 77, 82, 116, 117, 204 to 211

Distribution network
14, 15, 46, 47, 55 to 59, 61, 68, 69

Early retirements
36, 101, 108, 119, 122 a 124, 128, 177, 213 to 215

Employees pension funds and pension funds liabilities
108, 119, 122 to 125, 128, 177, 213 to 215, 285

Financial investments
83, 84, 106, 107, 114, 115, 118, 119, 127, 173, 174, 176, 191, 192, 196 to 199, 218, 219, 229

Human resources
34 to 38, 46, 47, 101, 102, 179, 180, 225, 229, 271 to 286

IAS (International Accounting Standards)
118, 121, 123, 126 to 128, 244, 251, 257

Loans to Customers
27, 50 to 54, 60, 62 to 67, 113, 181, 194

Loans to Customers in arrears
51 to 54, 67, 131 to 145, 172, 173, 175, 176, 213, 218, 219, 265 to 267

Net profit
87 to 91, 164 to 166, 226 to 228

Preference shares
110, 119, 121, 216

Provisions for Customer loans
102, 107, 126, 127, 136 to 145, 175, 176, 213, 218, 219

INDEX OF FIGURES, TABLES, CHARTS AND "BOXES"

No.	FIGURES	Page
01	Growth, profitability, strength and value (2001-2004)	5
02	Governing bodies	9
03	Historical milestones – Net total assets plus disintermediation	10
04	Main units of the BPI Group	13
05	Distribution channels	14
06	Applications overview – principal components	39
07	Star.Net – Banco BPI's new branch platform	41
08	Management tools in Individuals Banking	46
09	Banco de Fomento Angola's branches network	68
10	Banco de Fomento Angola – net total assets	70
11	Risk Analysis and Control Division	129
12	Credit Risks Division	132
13	Procedures adopted in relation to non-performing corporate loans	133
14	Minimum provisioning coefficients (Notice 8 / 2003)	143

No.	TABLES	
01	Leading business indicators	4
02	Detailed forecasts for Portugal and the Euro zone	26
03	BPI Group Employees	34
04	Banco BPI Employees – selected indicators	35
05	Banco BPI Employees – distribution by area of activity	35
06	Training	37
07	Banco de Fomento Angola Employees – selected indicators	38
08	Banco Português de Investimento Employees – selected indicators	38
09	Efficiency, availability and performance in Portugal – principal indicators	39
10	Efficiency, availability and performance of BFA information systems – principal indicators	43
11	Principal business indicators	45
12	Individuals and Small Businesses Banking – Customer resources	48
13	Individuals and Small Businesses Banking – Customer loans	50
14	Home mortgage loans – principal indicators	51
15	Home mortgage loans – new loans contracted by specialised channels in 2004	51
16	BPI Imobiliário web site – principal indicators	51
17	Personal loans – principal indicators	52
18	Credit cards – principal indicators	52
19	Debit cards – principal indicators	52
20	Motor car finance – principal indicators	53
21	Motor car finance – results of mono-brand campaigns in 2004	53
22	Commercial credit and leasing – principal indicators	54
23	Physical distribution network of individuals and small businesses banking – no. of branches	55
24	Investment centres – principal indicators	57
25	Corporate Banking, Institutional Banking and Project Finance – principal indicators	60
26	Banco de Fomento de Angola – principal indicators	67
27	Assets under management	72
28	Trend in the volume of BPI's unit trust funds	73
29	Life capitalisation assurance business written	75
30	Investiment Banking – principal indicators	78
31	BPI Private Banking Capitalisation Insurance – gross yields	82
32	Financial investments	83
33	Private Equity holdings	84
34	Financial review – selected indicators	86
35	ROE by business areas	87
36	Euro exchange rates	89
37	Income statement	91
38	Net interest income	92
39	Average interest rates on remunerated assets and liabilities	93

No.	TABLES (cont.)	Page
40	Trend in interest income and expense	95
41	Average balance sheet and factors influencing the trend in net interest income from BFA	96
42	Commissions and other similar income (net)	97
43	Profits from financial operations	99
44	Administrative overheads, depreciation and amortisation	100
45	Personnel costs	101
46	BPI Group Employees	102
47	Outside supplies and services	103
48	Depreciation and amortisation of intangible and tangible fixed assets	105
49	Provisions (income statement)	106
50	Net extraordinary items	108
51	Pension-related costs	108
52	Equity-accounted results of subsidiaries	110
53	Balance sheet	111
54	Balance sheet (consolidated) – trading and banking book activity	112
55	Customer loan portfolio	113
56	Securities and participating interests portfolio	114
57	Unrealised capital gains / losses, net of provisions, on participating interests at 31 December 2004	115
58	Total Customer resources	116
59	Shareholders' equity	118
60	Own funds – calculated according to Bank of Portugal rules	119
61	Own funds requirements – calculated according to Bank of Portugal rules	120
62	Own funds requirements ratio – calculated according to Bank of Portugal rules	121
63	Pension obligations cover	122
64	Financial instruments	127
65	Risk management – principal indicators	130
66	Loans, securities and guarantees portfolio of companies and institutionals – breakdown of exposure by classes of risk (internal rating)	134
67	Bonds and fixed-interest securities' investment portfolio – breakdown of exposure by classes of risk (external rating)	135
68	Current credit risk – substitution value of derivatives by type of counterparty	135
69	Loans in arrears for more than 90 days	138
70	Provisions for loans	138
71	Loans in arrears for more than 30 days and provisions	139
72	Increase in loans in arrears for more than 30 days by Customer segments	139
73	Loans in arrears for more than 30 days by Customer segments	140
74	Domestic activity – age analysis of Customer loans in arrears and specific provisioning cover (at 31 December 2004)	141
75	Portuguese banking system – loans to residents: non-financial companies and individuals	142
76	Country-risk exposure (at 31 December 2004)	145
77	Interest rate risk – repricing gaps (at 31 December 2004)	146
78	Foreign exchange rate risk – structural position (at 31 December 2004)	146
79	Overall market risk	147
80	Liquidity risk – gaps (at 31 December 2004)	148
81	Liquidity risk – sundry indicators	149
82	Rating classifications	151
83	Own shares transactions in 2004	155
84	Banco BPI shares – principal indicators	156
85	Distribution of Banco BPI's share capital	157
86	Shareholders owning more than 2% of Banco BPI's capital	157
87	Annual return obtained by a Banco BPI shareholder	158
88	Value creation for BPI shareholders (1981-2004)	158

No. **CHARTS**

01 Real GDP growth – year-on-year rates of change 25
02 Loans and bank deposits – year-on-year rates of change 27
03 Euro exchange rates in 2004 28
04 Six-month interest rates in 2004 29
05 Ten-year interest rates in 2004 30
06 Corporate credit risk premiums – Euro-denominated issues (2002-2004) 30
07 PSI20 and IBEX 35 indexes' evolution 31
08 Inflation rate in Angola 32
09 Real GDP growth in Angola 32
10 Kwanza / Dollar exchange rate in 2004 32
11 Central Bank of Angola securities – placement interest rates in 2004 33
12 BPI staff complement in 2004 – distribution by area of activity 34
13 Banco BPI staff complement in 2004 – distribution by functional areas 35
14 Banco BPI staff complement – university degree 36
15 Banco BPI staff complement – average age 36
16 Loans and guarantees to individuals and small businesses – domestic activity 45
17 Customer resources from individuals and small businesses – domestic activity 45
18 Service quality at the branches 47
19 PPR/E – Customers' distribution by age 49
20 PPR/E – Customers with periodic subscription plans 49
21 BPI Net and BPI Directo – subscribers with altered password 58
22 BPI Net and BPI Directo – transactions and consultations 58
23 BPI Imobiliário – properties available on the web site 59
24 Centralisation of telephone calls attendance – branch network coverage 59
25 Loans and guarantees to companies, institutionals and project finance – domestic activity 60
26 Loans to Customers – Banco de Fomento Angola 67
27 Customers deposits – Banco de Fomento Angola 67
28 Branches – Banco de Fomento Angola 69
29 Staff Complement – Banco de Fomento Angola 69
30 BPI Customer global satisfaction index 71
31 Commissions – intermediation of insurance products 71
32 Assets under management 72
33 Breakdown of assets under management – at 31 December 2004 72
34 Breakdown of unit trust funds under management – at 31 December 2004 73
35 Distribution of BPI's unit trust funds – at 31 December 2004 73
36 Assets under management 73
37 Life capitalisation assurance – new business per year 75
38 Life capitalisation assurance – assets under management 75
39 Pension funds under management 76
40 Pension funds long term returns 77
41 Net profit 85
42 Administrative overheads, depreciation and amortisation as % of operating income from banking 85
43 Contributions by business area to 2004 net profit 88
44 Capital allocation by business areas in 2004 88
45 Net profit in 2004 90
46 Net interest income 92
47 Net interest income in 2004 – breakdown by geographical area 92
48 Loan portfolio's quarterly average spread – in relation to the market average rate 93
49 Resources' quarterly average spreads – in relation to the market average rate 93
50 Net interest income generation in 2004 94
51 Commissions and other similar income (net) 98
52 Profits from financial operations 99
53 Personnel costs in 2004 101

No. **CHARTS (cont.)** **Page**

54 Depreciation and amortisation in 2004 105
55 Loan provisions and annual net additions in loans in arrears (consolidated) – as % of performing loan portfolio 107
56 Net total assets and disintermediation 111
57 Balance sheet structure 112
58 Loans to Customers and guarantees 113
59 Loan portfolio in 2004 – breakdown by Customer segment 113
60 Total Customer resources 117
61 Shareholders' equity evolution in 2004 118
62 Own funds requirements ratio – according to Bank of Portugal rules 121
63 Pension funds assets and BPI Group Employees pension liabilities 124
64 Breakdown of Banco BPI Employees pension funds assets – at 31 December 2004 125
65 BPI Group Employees pension funds – return vs. inflation and ACTV salary scale review 125
66 BPI Group Employees pension funds – return vs. market performance 125
67 Corporate and institutionals loan portfolio in 2004 – breakdown by risk class (internal rating) 134
68 Bonds investment portfolio in 2004 – breakdown by risk class (external rating) 135
69 Ratio of loans to Customers in arrears 136
70 Provisioning cover of loans to Customers in arrears 136
71 Annual net additions in loans in arrears – as % of performing loan portfolio at beginning of the year 137
72 Value at Risk (VaR) 146
73 Banco BPI shares' evolution in 2004 153
74 Banco BPI shares and key indices performance over the last 3 years 153

"BOXES"

Historical milestones (leadership, innovation and growth) 10
The identity of BPI 12
Sponsorship of Euro 2004 18
BPI Governance – recognition received in 2004 21
Highlights of 2004 24
Human resources – training 37
- Realisation of ongoing training initiatives 37
- Realisation of new projects designed for network and central services Employees 37
- Adoption of a new training model: e-learning 37

Technology – Star.Net – Banco BPI's new branch platform 41
Technology – outsourcing of central systems 42
Management tools in Individuals Banking 46
- Incentive and Motivation System (SIM) 46
- Service Quality Index (IQS) 46
  - Overall conclusions of the IQS Bank 46
  - Overall conclusions of IQS-Branch for the 4th quarter of 2004 47
- Internal Growth Potential (PIC) 47
- Comparative Sales Indicators (ICV) 47

Individuals and small businesses banking distribution channels 55
- Physical network 55
  - Reorganisation and divisional structure 55
- Growth of the physical network 55
- Optimisation of processes 56
  - Automatic decision criteria 56
  - Resolution of overdrawn accounts 56
- Network of external promoters 56
- Investment centres 57
  - Activity in 2004 57
  - Service 57
  - Attendance facilities 57

"BOXES" (cont.) **Page**

Virtual channels 58
BPI Net / BPI Directo Particulares 58
BPI Net 58
BPI Directo 58
Mobile Banking and SMS 59
Information 59
BPI Sites 59
Telephone attendance service 59
Call Centre attendance 59
Outbound activity 59
Corporate banking, institutional banking and project finance distribution channels 61
Physical network 61
Virtual channels 61
Office for Angola 61
Large Corporations and Companies – other important initiatives 62
Project Finance operations 63
Public-private partnerships and public administration 63
Structuring and mounting of financial restructurings / financial solutions in the public business sector 63
Structuring, mounting and financing of project finance operations 64
International area 64
Institutional Banking – infrastructures associated with the Euro 2004 66
Project financing 66
Financing of municipal projects 66
Straight Through Processing – Excellence Award (BFA) 69
Milestones of the banking operation in Angola 70
Insurance – increase in the level of global satisfaction 71
Asset Management – returns 74
Corporate Finance services 79
Geographical segmentation of the BPI Group's activity 89
Consolidation of Banco de Fomento Angola's activity 89
Financial review – Banco de Fomento Angola 96
Pension obligations – regulatory framework 123
Bank of Portugal Notices no. 12 / 2001 and no. 7 / 2002 123
IAS / IFRS 123
BPI Group pension funds 124
Recapitalisation of the pension funds 124
Early retirements 124
Returns 125
International Accounting Standards 126
Applicable legal framework 126
Principal alterations to the present chart of accounts 127
Impairment 127
Financial instruments 127
Hedge accounting 127
Accrual accounting for commissions 127
De-recognition of assets 127
Intangible assets 128
Tangible assets 128
Employee benefits 128
Deferred tax 128
Transition 128
Implementation of the IAS / IFRS at the BPI Group 128
Risk Analysis and Control Division 129
Trend in BPI's non-performing loans versus the banking system in Portugal 142

"BOXES" (cont.) **Page**

Regime governing loan provisioning 143
Types of provisions 143
Specific provisions for loans and interest in arrears 143
Specific provisions for doubtful loans 144
Provisions for general credit risks 144
Rating reports 152
Moody's, 2 November 2004 152
Fitch Ratings, 15 September 2004 152
Standard & Poor's, 21 February 2005 152
Other useful information about Banco BPI shares 154
Index weighting 154
Codes and tickers 154

Miscellaneous information

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BPI Group Investor Relations web site
www.ir.bpi.pt

Banco BPI web site (informative)
www.bpi.pt

Banco Português de Investimento web site
www.bpiinvestimentos.pt

Banco de Fomento Angola web site
http://www.bfa.ao

Calendar[1] of important facts to investors & analysts for 2005

Date	Time	Event
27 January	4:45 p.m. (approx.)	Release of 2004 results
27 January	4:45 p.m. (approx.)	Press conference on 2004 activity and results
28 January	11:00 a.m.	Conference-call with analysts and institutional investors regarding 2004 activity and results
20 April	11:00 a.m.	Shareholders' General Meeting
20 April	-	Publication of Banco BPI[2] 2004 Annual Report
21 April	4:45 p.m. (approx.)	Release of first quarter 2005 results
21 April	4:45 p.m. (approx.)	Press conference on first quarter 2005 activity and results
22 April	11:00 a.m.	Conference-call for analysts and institutional investors regarding first quarter 2005 activity and results
4 May	-	Ex-dividend date
9 May[3]	-	Payment of dividends
19 May	n.a.	BPI's Annual Conference for Analysts and Institutional Investors
21 July	4:45 p.m. (approx.)	Release of first half 2005 results
21 July	4:45 p.m. (approx.)	Press conference on first half 2005 activity and results
22 July	11:00 a.m.	Conference-call for analysts and institutional investors regarding first half 2005 activity and results
Until 30 September	-	Publication of Banco BPI Interim Report
20 October	4:45 p.m. (approx.)	Release of third quarter 2005 results
20 October	4:45 p.m. (approx.)	Press conference on third quarter 2005 activity and results
21 October	11:00 a.m.	Conference-call for analysts and institutional investors regarding third quarter 2005 activity and 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 2004 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.
n.a. – not available.

INFORMATION ON BANCO BPI SHARES

At 31 December 2004, 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: PTBPI0AM004
Reuters: BPIN.IN
Bloomberg: BPIN PL

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BANCO BPI, S.A.

Public held company

Tax identification number 501 214 534

Registered in Oporto C.R.C., under the number 35 619

Headquarters: Rua Tenente Valadim, n.º 284, 4100-476 Porto, PORTUGAL

Share capital: EUR 760 000 000