ANNUAL REPORT AND ACCOUNTS 2011

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Montepio

The Annual Report and Accounts were approved by the ordinary General Meeting held on 29 March 2012.

Contents

1. Governing Bodies

The members of the bodies elected for 2010-2012 are as follows:

GENERAL MEETING BOARD

Chairman	Member no. 33 151-5	VITOR JOSÉ MELÍCIAS LOPES *University professor*
1st Secretary	Member no. 31 560-9	ANTÓNIO PEDRO DE SÁ ALVES SAMEIRO *Lawyer*
2nd Secretary	Member no. 45 139-8	ANTÓNIO DIAS SEQUEIRA *Economist*
Substitute	Member no. 48 385-8	MARIA LEONOR LOUREIRO GONÇALVES DE OLIVEIRA GUIMARÃES *Lawyer*
Substitute	Member no. 45 553-0	JOSÉ LUÍS ESPARTEIRO DA SILVA LEITÃO *Economist*

BOARD OF DIRECTORS

Chairman	Member no. 38 670-6	ANTÓNIO TOMÁS CORREIA *Lawyer*
Members	Member no. 28 745-2	JOSÉ DE ALMEIDA SERRA *Economist*
	Member no. 59 784-1	RUI MANUEL SILVA GOMES DO AMARAL *Economist*
	Member no. 31 399-9	EDUARDO JOSÉ DA SILVA FARINHA *Economist*
	Member no. 467 785-1	ÁLVARO CORDEIRO DÂMASO *Lawyer*

INTERNAL AUDIT BOARD

Chairman	Member no. 26 952-2	MANUEL JACINTO NUNES *University professor*
Members	Member no. 281 904-8	GABRIEL JOSÉ DOS SANTOS FERNANDES *Economist*
	Member no. 31 269-9	JOSÉ MOREIRA VENÂNCIO *Degree in Law and Banking Accountancy*
Substitute	Member no. 51 323-6	JOSÉ GOMES HONORATO FERREIRA *Economist*
	Member no. 28 116-0	VÍTOR MANUEL DO CARMO MARTINS *Economist*

GENERAL BOARD

Members	Member no. 71 464-0	MARIA MANUELA DA SILVA *Economist*
	Member no. 29 676-0	MANUEL DA COSTA BRAZ *Retired army officer*
	Member no. 49 005-8	ANTÓNIO AUGUSTO ALMEIDA *Economist*
	Member no. 32 309-9	VIRGÍLIO MANUEL BOAVISTA LIMA *Economist*
	Member no. 32 368-8	ARMANDO AUGUSTO PINTO DA SILVA *Lawyer*
	Member no. 104 943-7	EUGÉNIO ÓSCAR GARCIA ROSA *Economist*
	Member no. 44 630-3	ALBERTO JOSÉ DOS SANTOS RAMALHEIRA *Economist*
	Member no. 37 305-2	JOSÉ CARLOS CORREIA MOTA ANDRADE *Civil engineer*
	Member no. 31 000-2	ANTÓNIO FERNANDO MENEZES RODRIGUES *Economist*
	Member no. 28 346-9	MANUEL DUARTE CARDOSO MARTINS *Retired Montepio director*
	Member no. 31 807-5	JOSÉ JOAQUIM ROSA *Degree in Bank Management*
	Member no. 37 711-3	NORBERTO DA CUNHA JUNQUEIRA FERNANDES FÉLIX PILAR *Economist*

Board of Directors

Eduardo José da Silva Farinha, Álvaro Cordeiro Dâmaso, Rui Manuel Silva Gomes do Amaral,
José de Almeida Serra, António Tomás Correia (Chairman)

2. Chairman's Statement

2011, the year to which this report refers, witnessed a deterioration of the crisis caused by sovereign debt, a retraction in the economy, financial and social difficulties experienced by companies and households and extraordinary constraints, such as those resulting from requirements and restrictions imposed on the banking sector after the Portuguese government requested foreign financial assistance in May.

This assistance, which took the form of the financial assistance programme signed with the International Monetary Fund, European Central Bank and European Commission, known colloquially as the Troika, imposed policies and measures to consolidate the country's public finances and deleverage the banking sector. Due to their restrictive nature, these policies and measures had a high impact on domestic demand, economic activity, the unemployment rate and the country's social conditions.

As a result of this difficult situation and the decelerating global economy, Portugal's main commercial partners, especially those in the Euro Area, with a sharp drop in economic vitality, investment and public and private spending went down, but this was not offset by the volume of exports, in a scenario of more restrictive finance, which resulted in a 1.6% contraction in GDP.

These difficulties were joined by a persisting crisis in the markets' confidence in the sustainability of public finances and the economic status of several European countries, particularly the most peripheral ones in the Economic and Monetary Union (which underwent downgrades in sovereign ratings that dragged down those of the financial institutions). This resulted in a complex scenario that quickly spread to the political sphere and made decision making even more difficult.

The financial sector was a particular target of the adjustment and consolidation measures imposed by the Troika, with special focus on specific limits on the leveraging of activity, reinforcement of capital and solvency and the reduction of exposure at the European Central Bank. 2011 therefore faced us with particularly tough challenges, which will last until 2015, for the duration of the Funding & Capital Plan, which is monitored by the authorities on a quarterly basis.

New yardsticks harmonised with international practices in this field were imposed on the banks for assessing credit risk and a three-phase special inspection programme began in the second half of 2011 and lasted until the end of February 2012. The first phase was to assess the quality of credit portfolios, the second to calculate capital requirement for credit risk and the third to evaluate stress test methods and models.

The SIP's conclusions on the first two phases announced at the end of December 2011 and on the third phase in early March 2012 generally showed the resilience and financial solidity of the Portuguese banking system and, regarding CEMG, proved the correctness and adequacy of its policies.

The adjustment and consolidation measures imposed on the country also resulted in the transfer of the banking sector's pension funds to Social Security for pensions already being paid. This had unfavourable impacts on the institutions' profits. For CEMG, they accounted for 14 million euros less.

While it is true that the occurrences of 2011 required the financial system to make a considerable effort to adapt and put the institutions' capacities and resilience to the test, at Montepio these capacities were subject to even greater efforts, as they coincided with the integration of the commercial, legal and operational dimensions of Finibanco, SA.

This integration, which took less than a year, made us bigger and even more unique, as there is no history in Portugal of a process completed in such a short time. It once again demonstrated the professionalism of Montepio's employees, who were able to respond to the unprecedented challenges posed by the Troika and also the need to integrate Finibanco, while still fulfilling goals and maintaining quality of service.

In this adverse scenario, growth in unemployment (reaching an average of 12.6% of the workforce and rising as high as 14% (in the fourth quarter) was the most dramatic consequence of the austerity imposed on the country. After decades that changed Portugal, full of social progress, better infrastructures and the world reputation gained by Portuguese skills in science, research or innovation, among other areas, we are now faced with new situations of poverty and exclusion that are making us (re)think, (re)create and increase social responses.

With poverty no longer «a foreign land», because it is closer and closer to people that we see every day, organisations, society and the state know that they have to draw up and implement strategies and actions that can foster economic growth.

As a result, Montepio is strongly determined to fight individual and collective discouragement and contribute to the country's sustainability by turning a more attentive eye to households and institutions, especially social organisations, offering more determined help to enterprising projects and showing an even more combative spirit in asserting Portugal's capacities and potential.

We have been fulfilling our mission of placing the economy – a factor of growth, development and progress – at the service of individuals, households, companies and society with measures to support entrepreneurship, stimulate microcredit and micro, small and medium entrepreneurs, prevent over-indebtedness and foster financial literacy.

Focusing on people, the needs of the present and ambitions for the future, we are growing as a financial group and have been furthering cooperation with organisations in the social sector of the economy. We have no doubt that this is where we will find a tradition of solidarity that will benefit the country considerably. We have intensified our social responsibility and continued to undertake projects aimed at human, economic and environmental sustainability.

The size that we have reached, which reflects the loyalty of half a million people, gives us fundamental duties and responsibilities in the difficult moments that we are facing. However, because we feel that harder times are known to be accompanied by opportunities, we will continue to respond with determination and optimism and fulfil the goal that inspires Montepio, which is to embody the values of associations and solidarity and foster intelligent, sustainable and integrating growth by pursuing innovative processes and projects and promoting synergies that ensure more and better services.

I would like to wind up with a few words of special appreciation from the Board of Directors in a separate point in this report for the commitment, dedication and professionalism of all the Montepio Group's employees. A word of thanks goes to all our members and customers who believe that only shared risk and solidarity can be recipes for success and give life to this organisation and convey the trust that motivates us to respond to the ambition of doing ever more and better.

3. Overview of Activities

MACROECONOMIC FRAMEWORK

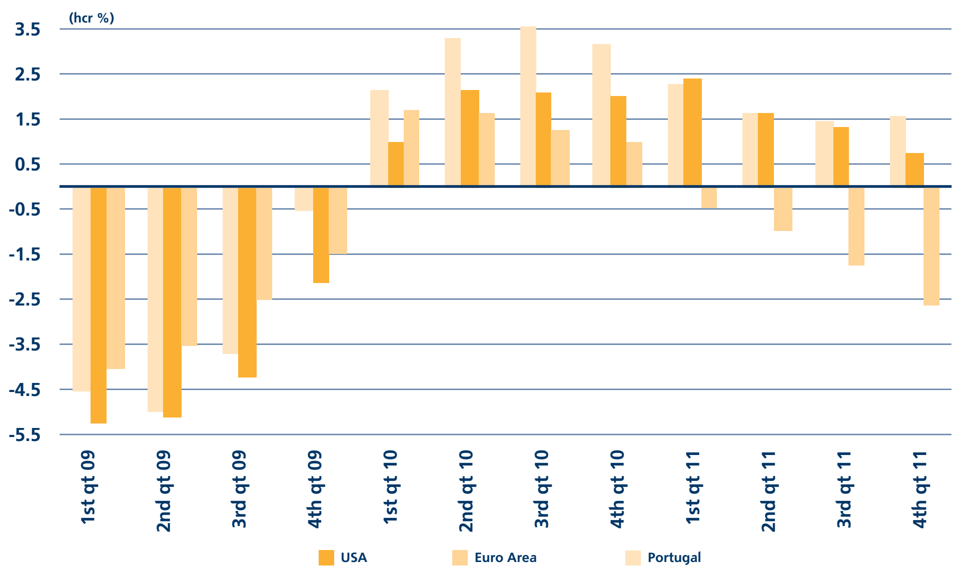
The general macroeconomic framework in 2011 was marked by a slowdown in the growth rate and a general increase in risk levels in a scenario of different successive exogenous impacts that altered the underlying context and therefore led to the revision of economic policies all over the world.

First of all, the geopolitical uncertainty resulting from the «Arab Spring» led to increases in the prices of commodities, which were supported by high growth in the emerging economies. These increases were reflected in acceleration in inflation, which adversely affected households' real income and limited the growth in private spending.

Then the earthquake in Japan not only produced social responses but also had substantial economic consequences. Although the affected area was not particularly important to the Japanese business world, the effects on the world economy were much greater than originally expected, due to delays in the supply of components for the motor and electronics industries that led to stoppages at factories all over the world. As a reflection of this situation, private spending slowed down in the months following the quake and slowed down the improvement in the labour market in the United States, which is important considering the significance of private spending in the American economy and therefore in the world economy.

The sovereign debt crisis in the Euro Area also worsened and this brought about an increase in risk premiums in the financial markets and more restrictive financial conditions for economic agents, not only in the most affected countries but also by contagion on the international financial system, with an impact on spending and investment decisions. The spread of the crisis to Spain and Italy raised it to a new level of size and impact. The effects of the austerity measures in these coun-

GROWTH IN GROSS DOMESTIC PRODUCT (GDP)



Source: *Thomson Reuters*

tries were felt in the world economy and even France saw its triple A rating threatened (it was actually lowered in early 2012 by one of the three main rating agencies), forcing the government to announce measures aimed at more timely budgetary consolidation.

These developments also affected the **emerging economies**. At the end of August, Brazil began to reverse its monetary policy with an unexpected drop in interest rates, demonstrating the monetary authority's fears of a cool-down in economic activity, which was later confirmed by the stagnation in GDP in the third quarter. China's GDP grew less than 10% in 2011, going back to its 2009 rate (9.2%), which has led the authorities to divert their attentions back to fighting an economic slowdown instead of controlling inflation.

The global economy ended the year with a growth that the International Monetary Fund (IMF) estimates at 3.8%, which was lower than in 2010 (4.3%).

Of the main developed economies, only the United States showed growth, as the Euro Area, United Kingdom and Japan contracted in the fourth quarter. In spite of the slowdown, very different growth rates were still evident in 2011. The developed economies grew 1.6%, while the *emerging and developing* economies grew 6.2%.

THE UNITED STATES

In 2011, GDP grew 1.7%, after rising 3% in 2010. Economic activity was confronted with a number of shocks: extreme weather conditions that particularly affected construction, the interruption of the supply of components for the motor industry due to the earthquake in Japan and rising fuel prices.

Even though most of the economic slowdown was of temporary origin, the effects of negative feedback on growth due to low consumer confidence and the deceleration in job creation resulted in an unfavourable dynamic for the recovery of economic activity. On the other hand, the shocks in early 2011 were compounded by fears as to the sustainability of public finances in Europe and also in the United States, whose debt lost its top rating from one of the rating agencies during the summer. These events impacted on share prices and consumer and entrepreneur confidence, especially when hiring and investing.

The American unemployment rate went down from 9.4% in December 2010 to 8.5% at the end of 2011, its lowest since February 2009. However, a more in-depth analysis of these figures shows that around 42.5% of the 13 million unemployed had not had a job for more than six months. This demonstrates that part of the unemployment is more permanent in nature, making it more difficult for them to rejoin the workforce.

Year-on-year inflation, measured by the CPI, rose from 1.5% in December 2010 to 3% in December 2011, reflecting rises in energy prices and most raw materials. However, this more than 2% growth is solely the result of basic effects, as considering annualised growth in the last three months, it remained under 2% throughout the last quarter of 2011. This most likely led to the Fed putting inflationary pressures on the back burner at its first meeting of 2012. This context of less concern about inflation and an unemployment rate below the country's «natural» rate has been regarded by the financial markets as an open door for additional measures to stimulate economic growth on the part of the Fed.

EURO AREA

After the start of 2011 marked by the consolidation of the recovery that began in the second half of 2009, the trend in the economy reversed and began a sharp slowdown in the second quarter of the year. In the initial phase, this reflected the above-mentioned commodity price rise shocks and delays in industrial supplies from Japan. In the second phase, it was the result of the intensification of the sovereign debt crisis in the region and the need to adopt restrictive policies aimed at budgetary rebalancing that were not offset by symmetrical adjustments in the countries with surpluses.

The macroeconomic effects of this consolidation were initially limited, as they were mainly restricted to the countries subject to financial assistance programmes (Greece, Ireland and Portugal). However, as of mid-year, the interest rates on public debt in Italy and Spain rose sharply on the secondary markets. Due to their size, these countries make fiscal consolidation policies recessive for the entire Euro Area. As a result of the rise in sovereign debt interest rates, the effects of the deleveraging of the banking sector on the real economy and the additional fiscal consolidation measures, the single currency's economy was contracting at the end of the last quarter in what was the start of a technical recession. Its duration will naturally be conditioned by future political developments. Even so, the region's GDP was able to grow 1.4% in 2011, which was lower than the 1.9% growth in 2010.

As a result, the slight improvement in the labour market in the second half of 2010 and in early 2011 was reversed. After the 10% recorded in December 2010, the unemployment rate recovered slightly to 9.9%, but ended 2011 at 10.6%, its highest level since December 1997.

For most of the year, the year-on-year inflation rate continued its sharp upward trend from 2010, going from 2.2% in December 2010 to 3% in September 2011. Its core component also showed an upward tendency and in the last quarter went from 1% to 1.6%, in line with its historic average, thereby justifying the European Central Bank's (ECB) fears of inflation. In the first half of the year, the ECB showed a growing concern for lower grade effects, although it continued to accept that the inflationary pressure was essentially the result of temporary factors, such as rises in commodity prices and indirect taxes introduced by some EU members. In the last quarter of the year, reflecting the economy's return to contraction, the inflation rate began its expected upward path and ended 2011 at 2.7% (core inflation stayed at 1.6%).

Due to this combination of lower growth and less inflationary pressure, in September 2011 the ECB changed its focus from risks and price stability to growth and economic activity.

In the last two months of the year, the ECB reversed its two increases of the interest rate on the Euro Area's main refinance operations, the refi rate, from July and April, and put it back down to all-time lows (1%). At the same time, in response to recent signs of deterioration in financial conditions, the ECB intensified its non-conventional monetary policy measures and gradually increased measures to support the European banking sector as a way of relieving liquidity pressure on the sector and seeking to guarantee that the financial system is in a position to increase granting of credit. These measures included granting three-year loans, extending the collateral accepted in loan operations and reducing minimum cash available from 2% to 1%.

On the other hand, in order to restore investor confidence in the European financial markets, important measures were agreed upon at the European Summit on 26 October, including a haircut of around 50% for the Greek debt held by investors and a reinforcement of the European Financial Stability Facility to 1 000 billion euros.

The peripheral sovereign debt crisis in the Euro Area

After the intervention in Greece, Ireland and Portugal, there was a risk of the unsustainability of Greek public finances and the possibility was ventilated of a new aid package (after that agreed upon in May 2010) and later some consensus as to the need to restructure the Greek debt, with the consequent participation of private agents. The Greek government's difficulty in implementing the measures in the bailout plan, due to rising social tension and its problems in achieving political consensus with the opposition parties so that new austerity measures could be passed, put Athens at risk of not receiving some of the tranches in the previous package.

Mid-year, market feeling improved after the Greek parliament managed to approve the new measures that released the funds from the previous package and paved the way for approval of the second one. At the start of the third quarter, there were positive developments at the extraordinary summit of European leaders, where new support measures for struggling member states in general and Greece in particular were approved. Nonetheless, in the following two months there was another fall in investor confidence in the resolution of the crisis, especially after the announcement of a new austerity plan for Greece as a result of fiscal slippage and growing pressure on the Italian debt, which was downgraded as a result of the country's anaemic growth, political instability and large public debt.

The last quarter began with developments involving haircuts for the Greek debt. The market first speculated on the possibility of there also being haircuts for other countries with weaker fiscal positions. The main agencies cut Spain and Italy's ratings and those of their main banks. In view of these increased difficulties, in a setting where the markets' attention had already focused finally on the situation in Spain and Italy, the different European leaders increased their coordinated efforts to find a solution to the sovereign debt crisis. The crisis suffered a new setback in November, after Athens announced its intention to hold a referendum on the austerity measures, which resulted in the replacement of the government. In Italy too, the government was replaced after successive deteriorations in sovereign debt yields in spite of the announcement of new austerity measures and aid from the ECB (very active in the market buying debt). There was also a change of government in Spain, though this was the result of elections.

The year ended with another summit of European leaders at a time when the EU members with AAA ratings were under threat. The summit enshrined an intergovernmental treaty between the Euro Area countries that was open to all those interested. The United Kingdom stood alone to prevent a revision of the European Union treaties, forcing a revision of the intergovernmental treaty. The measures set out in the letter of intent included: i) adoption of the principle that the budget balance must be close to balance or in surplus, which will mean obeying the rule of a structural annual deficit of no more than 0.5% of nominal GDP, ii) the inclusion of constitutional or equivalent provisions to limit borrowing and set up correction mechanisms in the event of deviations, iii) bringing forward to July 2012 the introduction of the European Stability Mechanism (ESM) and iv) the reinforcement of IMF resources by 200 billion euros over 10 days by means of bilateral loans. However, the days following the summit brought more scepticism to the financial markets regarding the results achieved, compounded by the rating agencies at a time when economic data were starting to suggest that the Euro Area would inevitably contract in the last quarter.

PORTUGAL

Economic activity in Portugal was in counter-cycle with the Euro Area and experienced falls in all quarters. The only exception was the last quarter of the year, when the Euro Area also contracted, though substantially less than in Portugal (chain declines of 0.3% and 1.3%, respectively). Over the year, GDP is expected to have fallen 1.6% after having grown 1.4% in 2010.

The fall in activity at the start of the year first reflected the government's austerity measures, including tax increases and pay cuts for civil servants. In a scenario of increasing liquidity and financing difficulties, at the beginning of April, Portugal made a formal request for financial assistance from the ECB, IMF and European Commission (the so-called Troika). Under the Financial Assistance Programme drawn up with these bodies, the vast series of measures announced involved a considerable cool-down in domestic demand. The sharp contraction in activity at the end of the year was closely associated with the measures announced by the government designed to fulfil the agreement and memorandum of policies. Some of the most important measures were aimed at fiscal consolidation in the public sector and deleveraging of the private sector and the banking sector in particular. The increase in VAT on energy, the surcharge on the Christmas bonus, negative expectations regarding the strict austerity measures in the 2012 State Budget and the slowdown or even contraction in activity in some of our main trading partners were some of the causes of the economic recession in 2011.

The labour market naturally suffered during the year. According to INE (Statistics Portugal), the unemployment rate for Q4 2011 was 14%, which is much higher than the 12.4% in the previous quarter. Although changes in the method used to collect information in early 2011 make it impossible to make a direct comparison with previous data, according to INE calculations at the time, the unemployment rate rose 1.9 p.p. in 2011, continuing its upward trend since 2008 and reaching a new all-time high.

Inflation, measured by the year-on-year CPI, rose considerably from 2.5% at the end of 2010 to 3.6% in December 2011, though it peaked in October (4.2%), and fell after that. In 2011, the average variation in the CPI was 3.7% (1.4% higher than in 2010). This rise reflects the increase in commodity prices and also measures associated with the fiscal consolidation measures, more precisely the impact of increases in VAT in mid-2010 and at the start and end of 2011 and a substantial rise in the prices of some regulated goods and services. The current inflationary pressures are still largely temporary, though they should remain high this year, as the VAT of some foodstuffs was reclassified. It is only expected to return to more modest levels next year, reflecting a generally favourable performance by production costs and the dissipation of the effects of the abovementioned fiscal measures.

ECONOMIC FORECASTS FOR AND THE EURO AREA

(unit: %)

			2012				2013			
	Portugal	Euro Area	Portugal		Euro Area		Portugal		Euro Area	
	Eff.	Eff.	BdP	EC	ECB	EC	BdP	EC	ECB	EC
GDP	**-1.6**	**1.4**	**-3.1**	**-3.3**	**-0.1**	**-0.3**	**0.3**	**0.7**	**1.1**	**1.3**
Private spending	**-3.9**	**0.2**	-6.0	-5.8	-0.3	0.4	-1.8	-1.1	0.8	1.0
Public spending	**-3.9**	**0.1**	-2.9	-4.1	-0.2	-0.2	-1.4	-2.4	0.6	0.2
Investment (GFCF)	**-11.4**	**1.4**	-12.8	-10.3	-1.2	0.5	-1.8	0.6	1.4	2.8
Exports	**7.4**	**6.1**	4.1	3.8	2.6	3.4	5.8	5.5	4.4	5.3
Imports	**-5.5**	**3.9**	-6.3	-5.0	1.2	3.0	0.7	1.2	4.0	5.0
Inflation	**3.6**	**2.7**	**3.2**	**3.3**	**2.4**	**2.1**	**1.0**	**1.3**	**1.6**	**1.6**
Unemployment rate	**12.6**	**10.1**	**–**	**13.8**	**–**	**10.1**	**–**	**13.6**	**–**	**10.0**

Sources: Banco de Portugal (BdP), 10 January 2012; European Commission (EC), 23 February 2012, though for 2013 they are from 10 November 2011 for the Euro Area and 21 December 2011 for; and European Central Bank (ECB), 7 March 2012.

Notes: «Eff.» means effective data published for 2011; inflation is measured by year-on-year variation in HIPC.

Financial Assistance Programme

The Financial Assistance Programme agreed upon by the Portuguese government and the Troika for 2011-2014 involves total funding of 78 billion euros and its main aim is to put the Portuguese economy back on track for sustained growth in a framework of financial stability and restore the confidence of the international financial market participants. The programme focuses on three main areas: *i*) a number of significant structural reforms aimed at increasing potential growth, creating jobs and making the economy more competitive, *ii*) a strategy for credible fiscal consolidation based on structural measures and greater budgetary control over the state's bonds and *iii*) a guarantee of an ordered deleveraging of the financial sector, using market mechanisms and based on a support fund for the recapitalisation of the banks.

ANGOLA

According to data from Banco Nacional de Angola (BNA – Angolan Central Bank) published in January 2012, Angola's economic growth rate was 3.4% in 2011. The IMF estimates its growth rate to be 10.8% in 2012, almost twice that of the 5.5% forecast for the sub-Saharan economies.

The moderate growth rate in 2011 was due to the fact that oil production was lower than expected for most of the year, due to a combination of maintenance work and technical problems. The oil sector's GDP actually fell 5.6%, having contracted for the last three years. The non-oil sector grew 9%, the fastest rate in three years. A constant increase in oil production should boost real growth in GDP in Angola in the next few years, although the IMF also says that a more inclusive growth trajectory will require more reforms and efforts to stimulate diversification in the non-oil sector, especially agriculture. The start of production in the liquefied natural gas (LPG) project should also boost growth in the country's economy. The possibility of slippage in fulfilment of oil production targets for 2012 is one of the main risks affecting the IMF's forecast.

ECONOMIC PROJECTIONS FOR ANGOLA

(unit: %)

	2009	2010	2011E	2012F
GDP	**2.4**	**3.4**	**3.4**	**10.8**
Oil sector	**-5.1**	**-3.0**	**-5.6**	**11.6**
Non-oil sector	**8.3**	**7.8**	**9.0**	**10.4**
Exports, f.o.b. (USD)	-36.1	23.9	26.3	8.6
Oil	-65.2	87.4	29.1	-7.3
Imports, f.o.b. (USD)	8.0	-19.1	18.4	9.8
CPI (annual average)	13.7	14.5	13.5	11.8
BCA (% GDP)	-10.0	8.9	12.0	7.3
Overall fiscal balance (% GDP)	-4.9	6.8	8.5	8.5
Foreign public debt (% GDP)	20.0	19.0	15.9	13.4

Notes: variation rates %, except when indicator; E – estimate; F – forecast.
Sources: Banco de Angola for GDP and inflation up to 2011. IMF, updated estimates January 2012.

The Angolan economy continued to recover from the fiscal and balance of payments crisis in 2009 and its foreign reserves recovered gradually. The balances for budget implementation and the balance of payments on current account continued to have a surplus and correction of state debts to suppliers in arrears continued. This was highlighted by the IMF, which has also referred to efforts by the authorities to control public spending to prevent further defaults.

Inflation, measured by the annual variation in the consumer price index, fell from 14.5% in 2010 to 13.5% in 2011. Year-on-year inflation in December 2011 was lower at 11.4%, not far from the 11.3% in November, an unprecedented figure in the last 20 years. Meanwhile, strong growth in domestic demand along with a more flexible monetary policy in the last 12 months should restrict the significant slowdown in inflationary pressure. For 2012, the IMF forecasts an annual average increase of 11.8% (although with year-on-year inflation of 11.2% in December 2012).

FINANCIAL MARKETS

The financial markets' performance was totally conditioned by that of the economic fundamentals described above, which were behind the increase in levels of uncertainty throughout the year. Investors' aversion to risk led to an increase in demand for refuge assets such as gold and oil (in the latter case accentuated by political turbulence in producing countries).

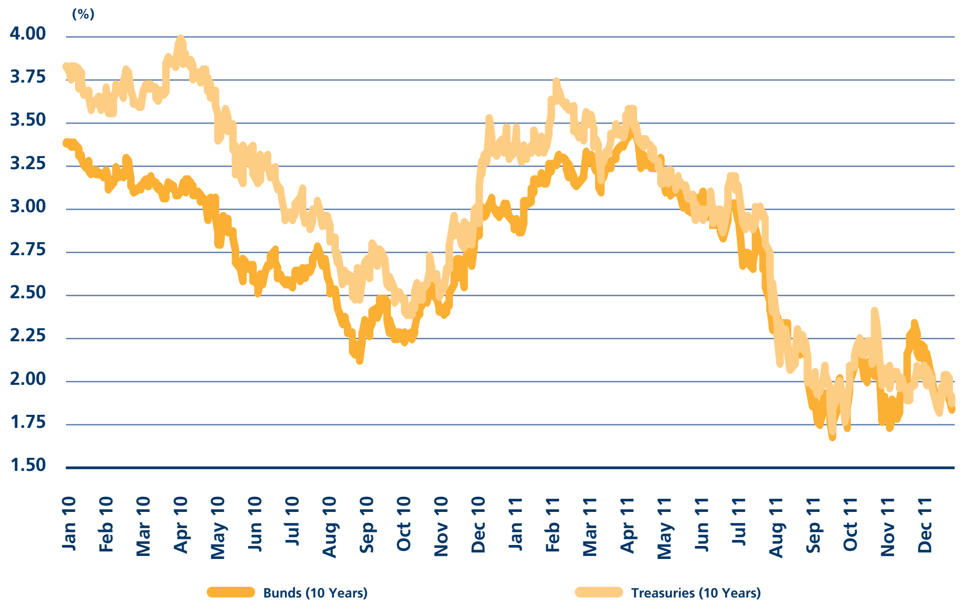
The main market driver over the year was certainly the sovereign debt crisis in the Euro Area. Its developments caused considerable fluctuations in market feeling.

In addition to this main driver, the clashes in North Africa and the Middle East and the earthquake in Japan, there were others, some of which were also associated with the sovereign debt crisis. They eventually resulted in a deterioration in the growth prospects for the global economy and included: *i*) fears of a hard landing for the emerging economies, especially China, due to the counter-cyclical measures taken; *ii*) the dissipation of stimulation of the western economies by monetary policy with quantitative easing II in the United States reaching an end and, especially the beginning of the squeeze of monetary policy by the ECB, although in both cases there was a further intensification of expansionist policies, especially in the last quarter of the year. The Fed announced the purchase by June 2012 of 400 billion dollars of six to 30 year treasury bills, which will be financed by the sale of the same amount in up to three-year treasury bills (twist operation).

As mentioned above, in the last two months of the year the ECB cancelled the two increases in the refi rate that it had made and replaced the rates at all-time minimums, showing clear concerns for the region's growth prospects in the final part of the year in a serious sovereign debt crisis, *v*) the stalemate in the negotiations on the increase in the cap on the American public debt and fears of default by the world's largest economy, *vi*) the stalemate in the negotiations on budget cuts in the United States also at the end of the year, *vii*) cuts in the rating of the US public debt in addition to those made for the countries in the Euro Area, *vii*) the interruption of the supply of parts for cars and computers because of the floods in Thailand, which was felt particularly in the countries importing them, such as Japan and the United States and *ix*) the intensification of fears as to the health of the financial system in Europe.

Where **benchmark government bonds** were concerned in a year of increased aversion to risk, there was a natural rise in demand for assets with a lower perceived risk, with US and German debt (treasuries and bunds) naturally benefitting. There were reductions in their yields, which were greater in the longer segments of the curves, though they did not always show the same trend. In the first phase, the yields rose and showed some distance from the growing pressure around peripheral debt, in which even the spread of Italy and Spain's debt went down against that of Germany. However, with the reappearance of concerns about developments in the debt crisis, especially as fears rose about Greece's default, there was a rise in demand for refuge assets causing an appreciation of debt securities from benchmark countries and the resulting fall in yields. The yield on 10-year bunds fell 113 b.p. in 2011, while that of treasuries fell 142 b.p.

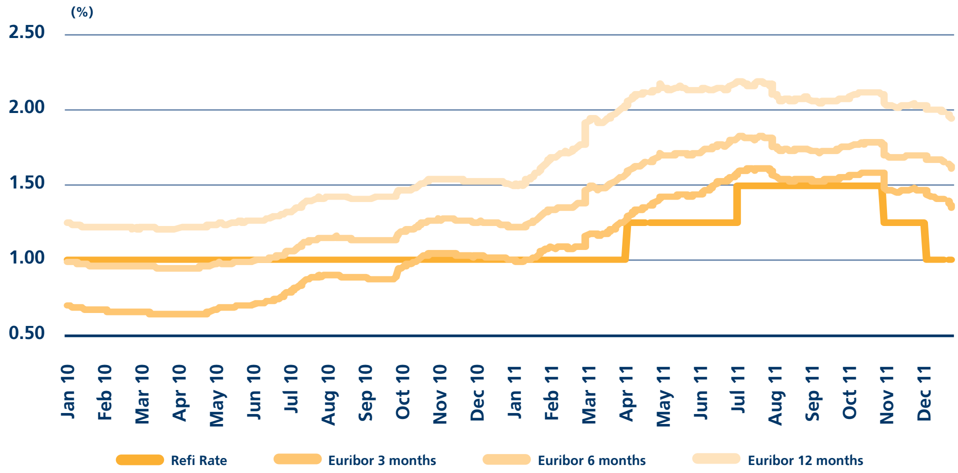
RETURN ON PUBLIC DEBT SECURITIES (BUNDS AND TREASURIES AT 10 YEARS)



Source: *Thomson Reuters*

As a result, long-term interest rates ended the year in recession or at zero growth for a long period, similar to the situation at the end of 2008.

EURIBOR INTEREST RATES – EURO AREA



Source: *Thomson Reuters*

Over shorter terms, there was a greater difference in the performance of yields between German and US debt over the year, essentially reflecting expectations as to monetary policy in the euro and dollar areas. The two-year yields on treasuries went down around 35 b.p., reflecting expectations that the Fed would keep interest rates at current levels for many months. Bund yields fell more (-72 b.p.), though with a varying performance during the year based on changes in monetary policy in the Euro Area (0.5% reductions in the refi rate). This performance was naturally also visible in the Euro Area **interbank money market** (IMM), though the balance was reflected by an increase in interest rates, due to the increased risk in the IMM, with Euribor rising between 35 b.p. and 44 b.p. on all maturities.

In the United States, dollar Libor rates also rose between 28 and 35 b.p on the different maturities resulting only in increases in risk premiums, as the Fed kept committing to maintaining the fed funds target rate at its current level (between 0% and 0.25%) in upcoming years.

The **public debt of the so-called peripheral countries** naturally suffered, though with different performances between countries. The spreads of the yields of Spain and Italy's 10-year debt rose against that of Germany in the second half of the year forcing their governments to introduce new austerity measures.

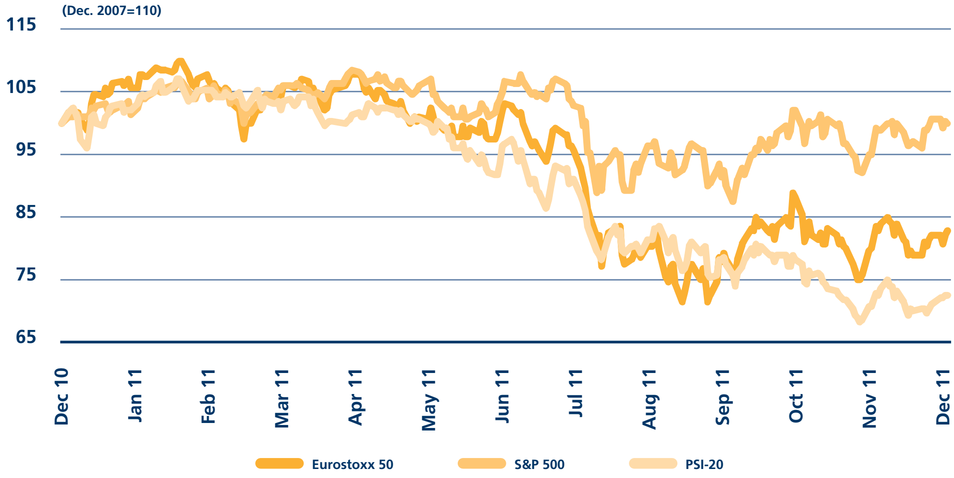
Italy suffered more, as the spread on its 10-year debt rose 343 b.p. during the year, as opposed to 77 b.p. in Spain. Ireland's spread increased the least (68 b.p.), although it was one of the first countries (immediately after Greece) to request international financial assistance. This was due to the country's main problems being related to the sustainability of the financial system and not its over-indebtedness.

The spread on the yield of the Greek debt shot up 2 363 b.p. mainly in the second half of the year, at the same time as the possibility of restructuring its debt. The markets feared that this might also happen in the other countries that had received assistance and so the spread on the 10-year Portuguese debt showed the second highest rise, though far below that of the Greek debt, rising 789 b.p. to 1 153 b.p.

Investors' aversion to risk was reflected in falls in share prices on the main markets, in spite of the recovery in the last quarter of the year, with the European markets being affected the most by the public debt crisis.

Performance of the share price indexes varied In the United States, with the Dow Jones gaining 5.5%, the S&P 500 stagnating and the Nasdaq losing 1.8%. These indexes rose considerably in Q4 2011, driven by the greater resilience of their economy in the final part of the year (contrasting with the clear global slowdown and going against a possible recession in the USA) and the profit season, which was quite favourable, with most American companies showing higher-than--expected profits.

MAIN SHARE INDEXES



Source: *Thomson Reuters*

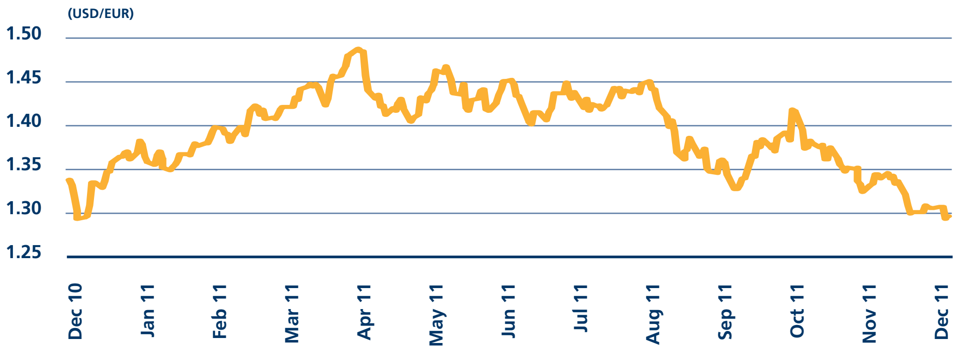
In Europe, the Eurostoxx 50 fell 17.1% and the PSI-20 27.6%. There were equally intense drops in the indexes of the region's two largest economies, as the DAX and CAC devalued 14.7% and 17%, respectively, in spite of the better performance of the German and French economies compared to the rest of the region. Outside the Euro Area, the FTSE-100 was the one that fell least (5.6%).

In the **private debt** market, there were improvements in some segments in the first half of the year though they were eventually totally reversed. Private borrowers had increased difficulty in obtaining finance, due to fears regarding the sovereign debt crisis and the economic slowdown. The Itraxx 5Y (5 years) index, the Euro Area's reference index for investment grade CDS (credit default swaps), which has a much higher liquidity than the spot market and is therefore the benchmark for the credit market, rose 69 b.p. in 2011, while the Itraxx financials 5Y went up 117 b.p. The speculative grade Itraxx Cross-over 5Y index rose a substantial 317 b.p.

On the **exchange market**, the euro fluctuated on the basis of developments in the sovereign debt crisis and the ECB's management of monetary policy. In the latter case, the effect seems to have been relatively neutral, as the ECB eventually reversed the upward trajectory of interest rates that had begun in the first half of the year.

The euro ended the year with annual losses against the three main currencies (-3% against the dollar, -2.5% against the pound and -8.1% against the yen), resulting only from the second half of the year, when uncertainty rose considerably. The euro ended the year at the lowest levels of one and 11 years against the dollar and yen respectively, reflecting the depreciation over the second half of the year (-10.7% against the dollar, -7.5% against the pound and -14.7% against the yen).

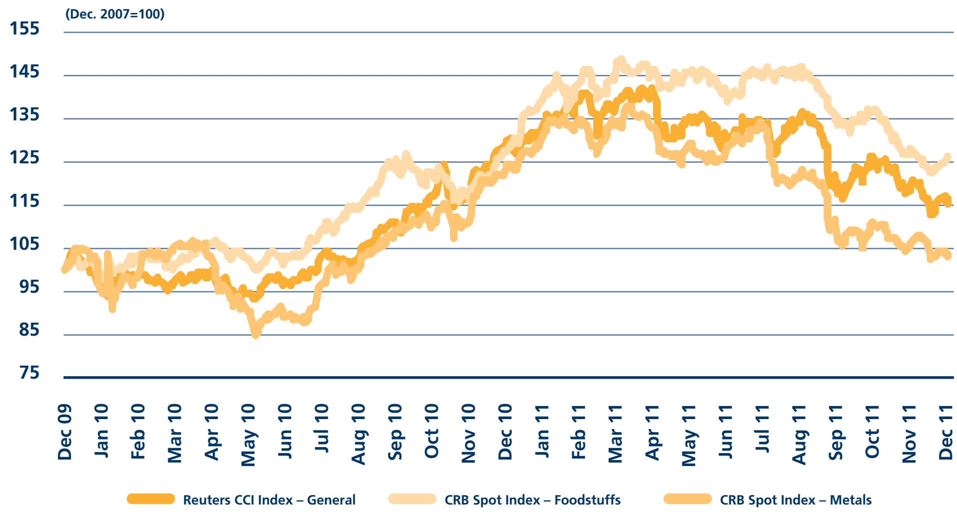
PERFORMANCE OF EURO AGAINST DOLLAR



Source: *Thomson Reuters*

Finally, **commodity prices** changed in line with market feeling and were also conditioned by advances and reversals in the public debt crisis, though with some exceptions, as mentioned above, such as oil and gold. In the year as a whole, the composite indexes **Reuters/Jefferies CRB** and **S&P GSCI** showed contrasting performances, with the former falling 8.3% and the latter rising 2.1%.

PERFORMANCE COMMODITY *INDEXES*



Source: *Thomson Reuters*

The performance of most of the commodities was also different during the year, showing an upward trend until the end of April driven by positive macroeconomic figures and lower supply of some commodities, due to the disaster in Japan and conflicts in the Middle East and North Africa.

The reversal of these gains began in early May and high losses occurred as the market discounted the effect of expectations of a slowdown in the global economy. At the end of June, fears of contagion from a default by Greece spread to the commodity markets and continued for most of the second half of the year, when apprehension also spread to the region's core economies.

Prices were also adversely affected by the deceleration in China, the world's largest consumer of commodities, touching especially on **base metals** (-20.9%).

Agricultural commodities followed (-15%), in correction of the substantial increases in the previous year. **Energy commodities** appreciated 8.8% and **WTI crude** rose 8.2% to 98.80 dollars in New York, even so less than **Brent** in London, which went up 13.3% to 107.40 dollars.

Gold appreciated 10.2% (to all-time highs and an impressive series of 11 years of gains), benefitting from its status as an international reserve asset. It was also driven by the deepening of the sovereign debt, taking the **precious metals** up 7.2%, in spite of a fall (9.8%) in **silver**.

REGULATORY FRAMEWORK

Portugal's Financial Assistance Programme included a package of measures aimed at the consolidation of the country's public finances. As a result, the 2012 State Budget contained measures increasing taxes, combating tax evasion and freezing tax benefits.

Where personal income tax was concerned, an increase in capital gains tax (21%) and property income (16.5%) was approved along with limitations on most contributions, including health insurance premiums and mortgage expenses. All deductions in the top two brackets were abolished.

The main measures increasing taxation on companies focused on proroguing the contribution on the banking sector until 2012, an additional solidarity charge on companies with high profits and restrictions on tax benefits, such as loss of exemption from corporate income tax for charities' «attached entities».

The Financial Assistance Programme sets targets for deleveraging and increasing capital and liquidity in the financial system in general and the banking sector in particular. In order to achieve these targets, the eight largest banking groups were required to draw up a Funding & Capital Plan to remain in effect until 2015. It imposed goals of reducing the leverage ratio to 120%, obtaining a stable funds to assets ratio of 100%, both by 2014, reducing recourse to refinancing from the European Central Bank and increasing the Core Tier 1 solvency rate to a minimum of 9% by the end of this year and 10% by the end of 2012 and subsequent years, as set out in Bank of Portugal Notice 3/2011.

Also as part of the Funding & Capital Plan, in order to improve the comparability and transparency of information on credit quality, in view of best international practices, Bank of Portugal published Notice 23/2011, which defines the credit risk ratio as an indicator of credit quality, which must be published by credit institutions.

In addition to funding and capital plans, the Financial Assistance Programme for Portugal imposed a special inspection programme (SIP) for banks. It is divided into three phases: assessing the quality of credit portfolios, calculating capital requirements for credit risk and establishing stress test methods and models. The conclusions on the first two phases of the SIP announced at the end of December 2011 generally showed good resilience and financial solidity on the part of the Portuguese banking system.

The package of measures aimed at the financial sector also included an increase to 35 billion euros in the amount of the state's guarantee for bond issues, and reinforcement of the banks' recapitalisation mechanism to 12 billion euros through Law 48/2011. In 2012 Law 4/2012 was published. It lays down the rules of access to the state recapitalisation plan by credit institutions explained before in Law 63-A/2008.

In Portugal, there was also an agreement between the banking sector and the government on the transfer of bank employees' pension funds to the general Social Security scheme, as enshrined in Decree-Law 127/2011, as a way of achieving the budget deficit target for 2011. They also agreed that credit institutions could defer until 30 June 2012 the prudential impact on their own funds and own fund requirements of this transfer, as set out in Bank of Portugal Notice/2012.

At European level, there was a package of measures announced by the ECB in December 2011 aimed at supporting liquidity in the Euro Area money market and the decisions of the European Summit of 26 October 2011 on the haircut of the Greek debt, reinforcing the European Financial Stability Facility and requiring the banks subject to the European Banking Authority (EBA) stress tests to reflect in their financial statements exposure to sovereign debt at market prices and achieving a ratio of 9% in June 2012. This measure in Portugal was regulated in Bank of Portugal Notice 5/2012.

4. Profile of the Montepio Group

4.1. SUMMARY OF PERFORMANCE IN 2011

After the acquisition of Grupo Finibanco Holding, SGPS by Associação Mutualista Montepio Geral (AM), in December 2010, the Montepio Group gained another seven institutions (Finibanco Vida, Finimóveis, Finisegur, Finibanco SA, Finicrédito, SA, Finivalor and Finibanco Angola), which resulted in a substantial enlargement and diversification of its activities and markets in 2011. As intended, this acquisition made it possible to expand the business of Associação Mutualista and achieve a more comprehensive, diversified profile of financial and banking activities.

In spite of an unfavourable and extremely demanding scenario, performance in 2011 proved Montepio's resilience and ability to adapt and it was able to overcome the challenges with which it was faced and meet the conditions and extraordinary requirement imposed on it.

The main performance figures are set out in the table of overall indicators. AM's main highlights in 2011 were as follows:

- **In terms of size**, there was a 4% increase in net assets to 2.869 billion euros. Equity grew by 5 million euros due to own funds and legal reserves. There was a 7.3% increase in the number of Members, reaching 497 420.
- **Profits for the year** reached an expressive 58.2 million euros, which made it possible to raise return on assets (profits for year over average net assets) to 2.06%.
- **Where solidity was concerned**, AM maintained coverage of liabilities by funds, reserves and mathematical provisions at 1.15.

The acquisition from AM by Caixa Económica Montepio Geral (CEMG) of a 100% of Finibanco Holding, SGPS, encompassing Finibanco, SA, Finicrédito, SA, Finivalor and Finibanco Angola on 31 March 2011, resulted in a considerable extension of CEMG's accounting consolidation perimeter, sphere of action and international presence.

The inclusion in CEMG of the 174 branches, assets (2.6252 billion euros of loans to customers) and liabilities (2.3152 billion euros of customers' deposits) from Finibanco, SA, following the transfer operation on 4 April 2011, increased its commercial and financial assets. This resulted in a larger number of customers, a larger balance sheet and more diverse segments and operations. The integration work began in April and was completed on schedule in November and involved practically all the institution's areas in an exemplary joint effort of great scale, complexity and intricacy.

In addition to the integration of Finibanco, SA, CEMG had to perform other extraordinary work under very demanding conditions due to the requirements imposed on the eight largest banking groups by the Financial Assistance Programme (FAP) for Portugal. This work ended in 2011 with an evaluation by independent bodies under Banco de Portugal supervision of the quality of CEMG's credit portfolio and the adequacy of its level of impairment and calculation of capital requirements. In 2012, it also involved the validation of stress test methods and parameters in the framework of the Special Inspections Programme (SIP). The results of these evaluations were satisfactory for CEMG, as the overall impairments were adequate and its solvency level was correctly calculated and higher than the requirement.

Another of the extraordinary FAP measures was the transfer of the pension fund to the Social Security scheme for pensions already being paid, which occurred on 30 December 2011. This reduced profits by 14.1 million euros.

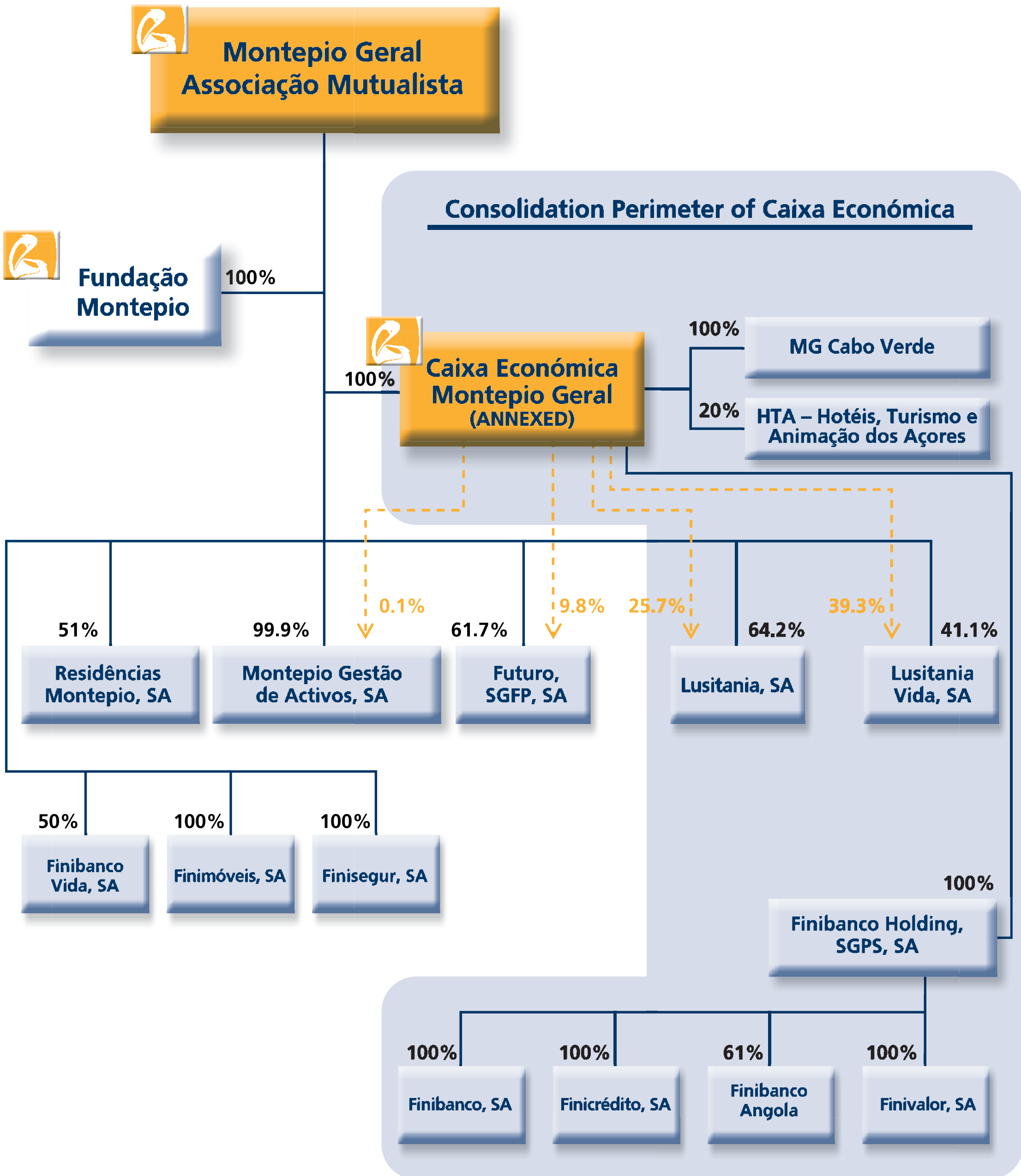
Another relevant occurrence in the year was a change in CEMG's corporate income tax status following the publication of Law 64-B/2011, the 2012 State Budget, which enshrined the loss of exemption from corporate income tax as a charities' attached entity.

The most important aspects of CEMG's consolidated performance were as follows:

- **In business activity**, net assets reached 21.495 billion euros, including a credit portfolio of 17.41 billion euros, to which the integrated amounts from Finibanco, SA and consolidated amounts from Finibanco Holding, SGPS contributed.

- **Deposits** totalled 13.609 billion euros, which, excluding the contribution of the portfolio transferred from Finibanco, increased substantially by 12.7%.
- **Structural liquidity** reflected by the leverage ratio, i.e. the proportion of credit against deposits, improved considerably from 148.12% to 124.05%, fast approaching the FAP target of 120% for 2014.
- **Own resources** reflected the corporate capital increase of 100 million euros on 29 December and reached 1.259 billion euros.
- **The ratios of credit in arrears** increased, reflecting the difficulties caused by the crisis. The ratio of loans in arrears for more than 90 days reached 3.99%. However, coverage of overdue credit by provisions increased to 111.04%.
- **The efficiency** of regular business, which excluded extraordinary costs with the integration of Finibanco, the pension funds and early retirements to a total of 48.4 million euros, was 56.8%.
- **The financial margin** increased 17.6% to 319 million euros.
- **Bank product** totalled 565 million euros, 33.7% more than in 2010.
- Consolidated **net profit** for 2011 was 45 million euros, only a 6.4 million less than in 2010 (-12.4%).
- CEMG's **financial solidity** was reinforced, in line with the demands of this time of difficulties and higher risks. Its solvency ratio went from 12.9% to 13.5% and the Core Tier 1 ratio reached 10.2%, which was higher than that required by the authorities for December 2011 and in line with future requirements.

MONTEPIO GROUP



4.2. GENERAL INDICATORS

INDICATORS	2009	2010	2011
ASSOCIAÇÃO MUTUALISTA			
• SIZE / ACTIVITY			
Net Assets (thousand euros)	2 609 777	2 759 348	**2 868 652**
Equity (own funds, reserves and profits) (thousand euros)	403 105	410 645	**415 631**
Members (units)	442 091	463 390	**497 420**
Pensioners (units)	7 039	7 287	**7 627**
• RETURN			
Profit for the year (thousand euros)	42 533	54 393	**58 157**
Cash Flow for the year (thousand euros)	50 853	60 645	**72 917**
Profit for the year / Average Net Assets	1.63%	2.04%	**2.06%**
• COVERAGE OF LIABILITIES			
Funds, Mathematical Provisions and Reserves / Provisions for Risks and Expenses	1.16	1.15	**1.15**
• EMPLOYEES (units)	86	87	**86**
CAIXA ECONÓMICA (a)			
• SIZE / ACTIVITY (thousand euros)			
Net Assets	17 244 767	18 249 290	**21 495 390**
Own Resources (Capital, Reserves and Profits)	986 214	995 478	**1 259 488**
Total Credit to Customers	15 143 916	15 040 645	**17 410 344**
Total Deposits	9 175 941	10 021 794	**13 608 555**
• RETURN			
Profit for the year (thousand euros)	44 476	51 407	**45 029**
Operating Income / Average Net Assets	2.63%	2.36%	**2.65%**
Cash-Flow / Average Net Assets	1.32%	1.10%	**1.11%**
Profit before tax / Average Net Assets (b)	0.26%	0.29%	**0.15%**
Profit before tax / Average Equity (b)	4.72%	5.18%	**2.81%**
Profit for the Year / Average Net Assets (ROA)	0.26%	0.29%	**0.21%**
Profit for the Year / Average Equity (ROE)	4.72%	5.18%	**3.87%**
• CREDIT RISK			
Ratio of Credit in arrears for more than 3 months	3.36%	3.24%	**3.99%**
Ratio of non-performing Loans (b)	3.97%	3.83%	**4.73%**
Impairment of total Credit / Credit and Interest in arrears for more than 3 months	97.20%	107.20%	**111.04%**
Credit at Risk / Total Credit (b)	5.59%	5.09%	**8.05%**
• EFFICIENCY			
Operating Costs / Average Net Assets	1.46%	1.38%	**1.73%**
Operating Costs / Operating Income (cost to income) (b)	55.02%	58.68%	**65.35%**
Operating Costs / Operating Income (cost to income) (c)	–	–	**56.77%**
• LIQUIDITY			
Leverage Ratio (d)	162.20%	148.12%	**124.05%**
Assets elegible for refinance from the ECB (thousand euros)	1 626 265	3 433 820	**2 991 055**
• SOLVENCY			
Solvency Ratio	12.8%	12.9%	**13.5%**
Tier 1	9.1%	9.1%	**10.2%**
Core Tier 1	9.2%	9.3%	**10.2%**
• DISTRIBUTION NETWORK AND EMPLOYEES (units)			
Domestic Branch network	326	329	**499**
International Branck network – Angola	–	–	**8**
Representation Offices	6	6	**6**
Employees Domestic Business	2942	2896	**3910**
Employees Intermanational Business – Angola	–	–	**119**

(a) The 2011 data include Finibanco Holding SGPS, SA, which should be taken into account for comparison purposes.
(b) In accordance with Bank of Portugal Instruction 23/2011.
(c) Without considering non-recurring costs (transfer of pension fund, early retirements, integration of Finibanco and SIP).
(d) Ratio calculated in accordance with the definition for the purpose of the objective fixed by the Bank of Portugal.

4.3. STRATEGIC PRIORITIES

In order to deal with the austerity measures and exacerbation of the economic recession, the crisis in the money and sovereign debt markets and greater, extraordinary prudential demands, the Montepio Group's strategic priorities in 2011 were:

- Measures to mitigate the impacts of the crisis and risk costs, especially credit and market risks;
- Action to increase liquidity and solvency;
- Improvements in efficiency by taking advantage of synergies.

The situation of higher risks has required the different companies' total strategic alignment with Montepio's lending activities and further implementation of defined lines of action based on sustained, diversified growth through the acquisition of the Finibanco Group.

The Montepio Group's strategic vision of being the «largest mutual financial group boosting the social economy in Portugal», based on the principles of solidarity, sustainability and high levels of professionalism, is reflected in the higher focus and priority given to Associação Mutualista (AM) and its growing importance in the social economy sector. Its values and aims are extremely apt and opportune in filling needs for additional welfare and the offer of social services and facilities. It thereby fills gaps in these areas and this contributes to its recognition as an essential agent in the development and modernisation of mutual loans.

In fulfilling its strategic guidelines, in 2011 AM continued to step up its role as the largest Portuguese association promoting and managing supplementary Social Security schemes and to devote special attention to attracting new members, strengthening relations with members and ensuring diversified growth in its revenue in contributions and capital.

The reformulation of AM's portfolio of products, the creation of new mutual loans, a supplementary benefit policy with preferential conditions in the acquisition of a number of goods and services based on a network of protocols established all over the country have made it possible to provide an appropriate, dynamic response to member's requirements, which has been reflected in the growth achieved.

MONTEPIO BRAND

In 2011, the Montepio brand was once again voted «Brand of Excellence in Portugal» by Superbrands, an independent international organisation that promotes brands of excellence in 85 countries.

Montepio achieved first place in the **European Satisfaction Index 2010** of Associação Portuguesa Para a Qualidade and Instituto Português da Qualidade (Ministry of the Economy and Employment).

The **RepTrak™ Pulse 2011** survey conducted by the **Reputation Institute** placed Montepio in 56th place in the world rankings among 208 financial institutions.

Also with regard to the reputation of its brand, Montepio is considered by private customers and non-customers to be the bank with the best standing in products and services, corporate governance and social responsibility.

The brand's good reputation and members' confidence in the institution and the group, based on the reinforcement of its sustainability policy, especially its prudent, conservative management profile, constitute strategic aspects stimulating the performance achieved.

The priorities continued to be integrated balance sheet management in order to preserve AM's solidity and improve the internal control system and ongoing modernisation and optimisation of transaction systems, particularly interfaces with Group companies, taking advantage of their customers' high potential.

At Caixa Económica Montepio Geral (CEMG) the 2011 strategic agenda was marked by the acquisition from AM of the entire share capital of Finibanco, Holding, SGPS, SA. This involved the transfer of assets and liabilities from Finibanco SA in April and subsequent integration work, including the branch network, and, especially in the second half of the year, work on the Funding & Capital Plan for the eight main Portuguese banking groups as part of the FAP.

The acquisition of Finibanco Holding, SGPS, SA enlarged the Group and particularly CEMG's balance sheet by extending its consolidation perimeter to Finibanco SA, Finicrédito, Finivalor and Finibanco Angola. This made it possible to diversify activities and markets and gain access to new geographical areas, with greater commercial reach, a larger distribution network and new operating conditions, in line with strategic guidelines.

In the second half of the year, the FAP imposed restrictions on consolidated growth in activity, reinforcement of liquidity levels, high solvency requirements to cover growing, broader risks, measures to assess the quality of assets and their assessment, methods for measuring capital requirements and an increase in on-site scrutiny and supervision. These impositions were set out in the Funding and Capital Plan which is to last from the second half of 2011 to 2015. It was submitted to the authorities in June 2011 and has been monitored and revised every quarter, as scheduled.

Although these demands did not compromise the long-term vision or sense of progress set out for CEMG, which had begun a gradual process of deleveraging and reduction of exposure to the financial markets in 2008, the targets set for commercial deleveraging, an increase in stable resources on the balance sheet and a reduction in funding from the ECB resulted in a readjustment of some of CEMG's goals and strategic guidelines.

In this setting and during the contingencies of managing the current economic and financial crisis, eight strategic guidelines were set out for CEMG. They not only focused on meeting these targets but also aimed at preserving its competitiveness and sustainable development.

Deleveraging – in order to reduce the commercial gap, i.e. the difference between our credit portfolio and the balance of customer deposits, continuing the process begun in 2008, and reduce total mortgage loans in favour of diversification operations.

Ongoing diversification – by reducing exposure to the property sector and growing credit to strategic production sectors, such as micro companies and SMEs associated with export markets that help improve the profile of external accounts and create a new of growth for the country. We also plan to diversify business risks by expanding into non-domestic markets, such as Angola, where there are opportunities for growth and creation of value, in order to reduce the impacts of reduction in domestic activity.

Reduction in funding from the ECB and financial markets – this responds not only to mandatory FAP guidelines and the current restrictions in access to external funding but also to the strategic plans mentioned above, by attracting customer deposits to take advantage of a greater inclination towards saving, enlargement of distribution channels, the brand's value and reputation and CEMG's profile as a savings bank.

Continued attraction of members – and increasing retention of their capital by converting customers into members and stepping up advertising of Montepio's uniqueness as a mutual loans and savings institution aimed at protection from risks and contingencies, especially supplementary welfare.

Ongoing recovery of loans in arrears – in a new process that now has a specialised independent structure, continuing to improve dynamic, preventive management of credit risk and carrying on the work of attracting borrowers and perfecting monitoring tools.

Increase in commissions and greater proactiveness in margin management – vitalising the provision of services and support to companies that generate commissions by adapting tariffs on the basis of commercial involvement with the customer and redefining the commission policy on the basis of customer risk. In terms of interest rate management, we will continue to devote special attention to the adjusted price risk and adjustment of interest rate resets to funding rates.

Reduction in operating costs – by rationalising and automating processes and achieving savings of synergies through greater integration and optimisation of functions for greater efficacy and generation of profit.

Increase in Core Tier 1 ratio – in order to satisfy FAP requirements to cover higher levels of risk arising from the scenario and consolidate the current comfortable situation at Caixa Económica in this prudential ratio, and so the increase in institutional capital and a reduction in capital requirements resulting from the deleveraging process will continue.

4.4. HUMAN RESOURCES

The acquisition of Finibanco Holding, SGPS, SA, the resulting integration of the Finibanco, SA employees in Caixa Económica and the dynamics of reorganising the teams dominated human resource management in 2011. In this context, the harmonisation of behaviour and attitudes with defined strategic and institutional values, the alignment of Montepio Group intra- and inter-company values, the management of change and the promotion of training were the strategic aspects of this management.

With its larger universe of institutions, as at 31 December 2011 the Montepio Group had 5,365 employees. Of these, 73% worked for Caixa Económica (3 910) or 75% if we count the 86 employees with Associação Mutualista. Lusitania – Companhia de Seguros had 12% of the Group's total (656 employees) and Residências Montepio around 7% (364 employees).

In spite of the increase in the payroll, the number of employees per branch went down from 8.8 to 7.8, as a result of the inclusion of Finibanco's branch network.

The inclusion of Finibanco, SA resulted in further reorganisation of human resources at Montepio (AM and CEMG) after the start in 2009. As part of this process in 2011, 1 336 employees were admitted, most of them from Finibanco, and 323 employees left, 142 of whom retired.

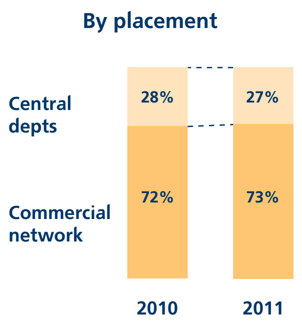
In the other Group companies, 89 new employees joined Residências Montepio and 11 joined Lusitania Companhia de Seguros.

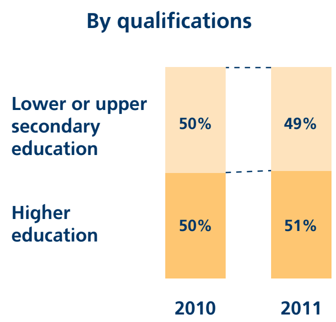
MONTEPIO GROUP EMPLOYEES (NO.)

	2010	2011	Variation		Weight
			N.º	%	
Total group payroll	**5 528**	**5 365**	**-163**	**-2.9**	**100.0%**
Associação Mutualista	87	86	-1	-1.1	1.6%
Caixa Económica	2 896	3 910	1 014	35.0	72.9%
Lusitania	645	656	11	1.7	12.2%
Lusitania Vida	30	28	-2	-6.7	0.5%
Finibanco Holding	1 551	279	-1 272	-82.0	5.2%
Montepio Gestão de Ativos	13	11	-2	-15.4	0.2%
Futuro	31	31	0	0.0	0.6%
Residências Montepio	275	364	89	32.4	6.8%
No. branches (CE)	329	499	170	51.7	
No. employees / no. branches (CE)	8.8	7.8			

The integration of Finibanco employees and an increase in internal mobility resulted in a rise in the number of employees in our commercial network (73%), while retirement on the part of older employees made it possible to gradually enlarge the population with higher education (51%). This encompasses employees with bachelor's and master's degrees, PhDs and post-grad qualifications at Associação Mutualista and Caixa Económica.

EMPLOYEE DISTRIBUTION





Training continued in 2011 in order to ensure that employees were qualified to provide an appropriate response to the demands of their jobs and to develop business and product-related skills. In addition to improving competences required by law and regulations, training included banking operations and techniques and social economy, with special focus on mutual loan issues.

Careful maximisation of existing resources and technologies made it possible to increase the number of hours and of participations, with a lower total investment in training.

INVESTMENT IN TRAINING

	2010	2011
No. hours' training	85 763	86 142
No. Participations	15 317	19 761
No. employees covered	2 821	4 216
Investment in training	310 000 euros	285 000 euros

There were 4 216 participants, meaning the involvement of 98% of the average number of employees at AM and CEMG during the year. The methods used included e-learning (84%), classroom training (9%) and on-the-job training (7%).

4.5. GEOGRAPHICAL LOCATIONS AND DISTRIBUTION NETWORK

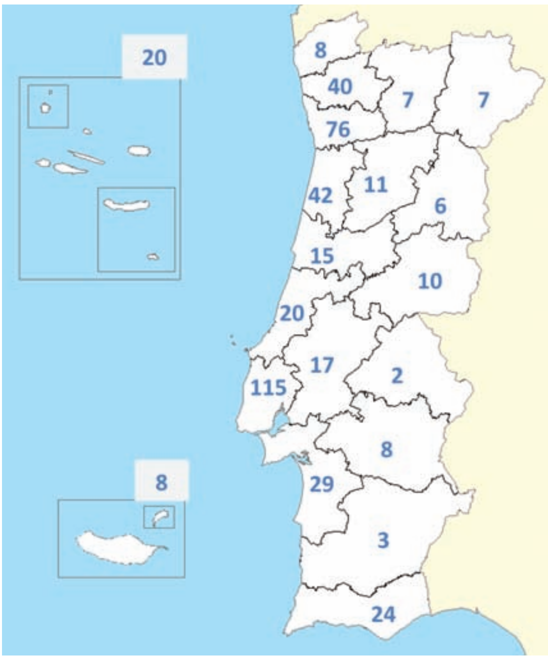
The acquisition of Finibanco Holding, SGPS enabled Montepio to enlarge its network of distribution channels in Portugal and expand its presence to international markets, especially Angola.

At domestic level, at the end of 2010 Montepio had a network of 329 branches, to which 174 more were added from Finibanco's former network. Four branches were closed by the end of 2011 during the optimisation of critically overlapping branches and rationalisation in some areas of the country. Another 31 branches were closed in January 2012, resulting in a total of 468 active branches.

Montepio's international representation was reinforced and it now has eight branches in Angola after the acquisition of Finibanco Angola. They joined the six agencies for communities of Portuguese residents abroad and the international financial institution located in Cape Verde.

There is a growing insurance dimension in the Montepio Group's distribution network. At the end of 2011, it included 4 298 Lusitania brokers and agents and 1 620 Lusitania Vida brokers.

MONTEPIO BRANCH NETWORK



Branch network in Dec. 2010	**329**
Branch network in Jan. 2012	**468**

Representation Offices	6
Germany	Frankfurt
Switzerland	Genéve
United Kingdom	London
Unite States of America	Newark
France	Paris
Canada	Toronto

Other Representations Abroad	
Finibanco Angola	8 Branches
Cabo-Verde – IFI	

In 2011 we restructured our specialised distribution networks so that we had seven relationship banking networks with customer managers specialising in commercial services in Montepio's strategic segments of activity.

For the company and institutional segment we set up three manager networks: institutional (2 managers), large companies (seven managers), SMEs (58 managers) and small businesses (118 managers). Two networks were set up for the private segment: the Top Premium Network, including the former Finibanco Private Network, with seven managers, and the Premium Network, for the affluent segment, with 175 managers. We also increased the number of managers in the third sector networks to 10.

This restructuring, along with the expansion of our physical network of branches, laid the foundations for, in 2012, pursuing a policy of diversifying activity into geographical sectors that Montepio considers strategic.

In 2011, Montepio substantially developed the activity of its promoters' channel by setting up a special area for the commercial promoter network, which absorbed 852 business promoters from Finibanco. During the year, the commercial promoter network was enlarged for broader geographical coverage and extended to the entire Montepio branch network. We also developed an IT platform to manage this channel.

We also created a special area to vitalise the network of Montepio-Lusitania assurfinance promoters, of whom there were 235 at the end of 2011, 15% more than in 2010. In terms of business attracted, our assurfinance promoters produced around 3.9 million euros, 3 million of which were credit, especially cash for companies, and about 863 000 euros were savings in term deposits.

ELECTRONIC AND REMOTE CHANNELS

The activity of our remote channels has been essential in increasing the efficiency of distribution and services to customers. Of all the operations processed, a total of 72% were transferred to additional channels.

The Montepio24 service, which encompasses the additional channels Net24, Phone24, Netmóvel24 and SMS24 for private customers, grew considerably in 2011 and reached 663 000 subscribers, 67 000 of whom were from the Finidierecto service. This represents 17% growth against 2010.

There was also substantial growth in the Montepio24 Empresas service, reflected by a significant increase in the number of subscribing companies, i.e. 52% more than in 2010, also influenced by the migration of 23 000 subscribers from the Finidirecto Empresas service.

At the end of 2011, there were 1,207 Multibanco ATMs, 365 of which came from Finibanco, which increased CEMG's market share in this business to 8.68% (+2.68 p.p.). Montepio continued to modernise its internal Chave24 ATM network with machines offering customers more features.

APTs (automatic payment terminals) continued to play an essential role in attracting and keeping customers in the small business segment and helped to increase average balances in current accounts. Thanks to commercial activity and the integration of Finibanco's APTs, Montepio supported 17 935 terminals, which represented a market share of 6.54% and a growth of 22.06% against 2010.

Accesses to Montepio's public website (www.montepio.pt) have continued to increase, with a monthly average of 3.1 million visits and 14.5 million page views.

The renewed Montepio website was launched on 19 June 2011. It boasts a new digital image, more features and services and better proximity and communication with users. The renewal project was based, right from the planning stage, on user feedback and the wish to achieve a unique positioning in the market in order to provide a rapid, intuitive, effective response to each customer's different needs while demonstrating clear progress in relation to trends in the sector. Montepio's online channel is certainly one of its most important points of contact with the brand and all it has to offer. The revamped site has a new user interface that endeavours to go beyond mere presentation of contents and discloses the unique values that distinguish Montepio as a mutual association and banking institution – Caixa Económica.

4.6. COMPLIANCE

In 2011 the compliance risk management body was repositioned at the corporate centre of Montepio Geral – Associação Mutualista. Its duties were broadened and its activities were extended to some Group companies. The boards of directors of Finicrédito – Instituição Financeira de Crédito, SA, Finivalor – Sociedade Gestora de Fundos Mobiliários, SA, Futuro – Sociedade Gestora de Fundos de Pensões, SA and Montepio Gestão de Ativos – Sociedade Gestora de Fundos de Investimento, SA decided to delegate their compliance duties to Montepio Geral – Associação Mutualista. As a result, policies and supports on internal compliance and the prevention of money laundering and funding of terrorism were reformulated and are now applied Group-wide.

Compliance has been increasingly important and dynamic, given the intense legislation and regulations to which financial institutions have been subject, particularly in 2011. This has required constant monitoring, studies and adaptation in a wide variety of areas and functions. The job of the Compliance Office is to ensure that the management bodies, organisational structure and all employees at Montepio Group companies comply in full with legislation and (external and internal) rules, codes and standards in order to avoid any financial losses and any damage to the institutions' image or reputation.

As part of this mission, the Compliance Office assisted the companies' boards of directors in defining and implementing policy on compliance and prevention of money laundering and helped to disseminate a culture of compliance by identifying and assessing situations contributing to this type of risk, particularly in transactions, activities, business deals, products and company bodies. It then defined and monitored compliance procedures and control mechanisms.

In 2011, in addition to disclosing relevant information, participating in the transposition of legislation and assisting in the evaluation of relations with correspondent banks, the Compliance Office's work was particularly important in the following areas:

- Analysing products, prices, campaigns, promotional media and their marketing;
- Drafting in-house rules after issuing prior opinions on their compliance;
- Implementing a new United Kingdom – Portugal online transfer service with TTT Moneycorp Ltd;
- Publishing an in-house document on reporting and other duties to provide information to supervisory authorities and other outside bodes applicable to Caixa Económica Montepio Geral;
- Drawing up a policy on the classification and security of information;
- Improving and developing IT solutions for the management of the compliance risk and to support the work of the compliance body (such as monitoring transactions and screening customers and transfers, the prevention of money laundering and funding of terrorism or operating with companies based in offshore territories).

5. Sustainability Policy

MISSION AND GOVERNANCE POLICY

The deterioration of the economic and social crisis in 2011 accentuated the government's budgetary difficulties in fulfilling its social duties and supporting the social economy, as a fundamental pillar for social balance and inclusion.

As the largest mutual association and one of the largest financial institutions in the country, Montepio has a dual commitment to society. As an institution in the social economy sector, its mission is to meet needs for additional welfare, provide health services and support Portuguese charities and more vulnerable members of the population. As a bank, its mission is to contribute to economic growth and assist families, companies and business projects, in line with the best social responsibility practice.

Montepio's policies and actions therefore aim to foster sustainable development in society and establish a balance between economic growth and social equality without neglecting the environment, while valuing relations with stakeholders, especially members, customers, investors and employees.

Where governance policy is concerned, Montepio is guided by principles of high ethical and deontological standards and is based on rules of transparency, equality and responsibility. These principles and rules are set out in the Code of Conduct that applies to all Montepio Group companies. Diligent, prudent, meticulous, transparent management in the protection and valuation of assets under management and the interests of members and customers has proved essential in overcoming growing challenges in the current scenario and maintaining the confidence of members and the market.

Fundamental aspects of sustainability in 2011 were the Group's growing attitude of openness to the market and society, seeking to identify opportunities and situations in which its contribution could help minimise problems and value resources and capacities, setting medium-term goals and strategic guidelines to ensure sustainable growth and the creation of value, and the improvements made to internal control systems, with emphasis on risk management and greater functional integration of management with a view to greater efficiency.

ENHANCING RELATIONS WITH MEMBERS

As a mutual association, Montepio's members are the main targets of its overall action and so the development of relations with them is of vital importance.

The Association Office has therefore been undertaking initiatives in an annual plan aimed at publicising mutual associations, increasing members' participation and involvement and contributing to their social and cultural development and cooperating with other mutual associations and social economy organisations in Portugal and abroad.

In 2011 we continued to follow the strategic guidelines set out for growth in associative activity and member loyalty. There were 61 member events involving 1 679 members and their guests throughout most of the country, with special focus on the Lisbon and Porto areas. There were open-aid activities and history outings and internet classes for beginners who, based on their age or social profile, tend to appreciate this type of initiative as part of the democratisation of knowledge and information technologies.

As in previous years, there were essay and photography competitions for members on the subject of Solidarity between Generations, as part of 2012 – European Year for Active Ageing and Solidarity between Generations. The prize-giving ceremony was held for the winning members of the Montepio 2010 essay and photography competitions on the subject Poverty and Social Exclusion, as part of «2010 – European Year Poverty and Social Exclusion».

Particularly important was the approval of the Montepio Academy project as part of the foundation of the Montepio Senior University, which are scheduled to be set up in 2012.

As part of the Montepio Financial Education Programme, which aims to prevent over-indebtedness, encourage saving and help families organise their finances, the contents of a special training project were designed and structured. A mutual association module was developed as part of training for non-members.

Montepio magazine was published as an excellent means of communication between Montepio and its members. In 2011, its editorial style and graphics were revamped and it now has a new design structure and content. The magazine's average print run in 2011 was 323 000 copies, with a readership of 4% according to Bareme Imprensa, making it the leader in the General interest – quarterly magazine category. A *Montepio Jovem* magazine, for members aged 13 to 20, is Montepio's main form of communication with young members and its editorial concept is aimed at enlightening, teaching and developing a critical spirit by means of educational, recreational communication.

In 2011, we published an e-newsletter, which was emailed to thousands of members and customers every month, in line with our communication strategy, in order to inform as many people as possible of Montepio products and activity.

As always, our relationship with members under the age of 13 also remained active in 2011, in the Pelicas Club, which has 31 000 members. We continued to publish the free quarterly children's magazine for club members and to organise «*Pelicas vai à escola*» (Pelicas goes to school) campaigns to publicise the club at schools and children's associations. There were also competitions for members and 190 prizes were awarded (tickets to children's shows, books and educational games).

The Pelicas Club once again represented Montepio at the Panda Festival in Lisbon and Porto, attended by around 2 400 children.

As the importance to the Group of member satisfaction had been demonstrated, it was measured for the third year running. The information was processed and three reports produced on:

- Quality of service and satisfaction at members' points of contact with Montepio Geral – Associação Mutualista (*Montepio* magazine; CEMG branch, telephone and complaints);
- General satisfaction with Montepio Geral – Associação Mutualista and degree of commitment (loyalty);
- Quality of response of association products and services and satisfaction with them.

Monitoring of satisfaction also involved boosting association member activities, quality control of action taken with processing and the publication of the results of surveys filled in by participants in history outings and open-air activities.

In 2011 Montepio also cooperated with Portuguese and international organisations in the social economy sector. It was a member of the Board of Directors of Mutualidades Portuguesas and therefore participated in the activities of Association Internationale de la Mutualité (AIM), and of the Steering Committee of Institut de la Protection Sociale Europeénne (IPSE). It also took part in the organisation of the 10^{th} Mutual Association Congress promoted in Lisbon by União das Mutualidades Portuguesas.

DEVELOPING HUMAN CAPITAL

In the current decrease in employability in the country due to the adverse economic scenario and difficulties in all sectors of activity, the Montepio Group stands out with its clear commitment to maintaining jobs, in spite of the acquisition and integration of Finibanco Holding, SGPS, SA.

In 2011, the Montepio Group's payroll decreased by only 163 employees against 2010, with Finibanco Holding, SGPS, SA. Most of the employees who left did so to retire and most of the personnel of working age remained.

In spite of the current crisis, on the basis of its mutual principles, Montepio defends the importance of developing human beings and draws up policies that contribute to its employees' personal and professional progress and the development of the company culture. This includes the harmonisation of attitudes and behaviour with its corporate and strategic values, alignment of the Montepio Group's intra and inter-company values and change management.

Investments in vocational and specific individual training as a significant contribution to the development of skills were also strategic aspects of developing human capital. Support was provided to employees in obtaining undergraduate, master's and doctoral degrees and attending post-graduate courses.

Considering the importance of contact with a real work context in the learning process, Montepio continued its internship policy, which allows young people to experience life at a bank in the commercial network and at the head office.

Wellbeing in the family and at work is still a fundamental goal in the institution's human capital management, which focuses on good motivation and work environment and is reflected in better quality of service. Especially important in this field once again were the area of occupational health and the creation of the right conditions for employees to achieve a work-life balance. A number of cultural and recreational initiatives were organised for employees and their families.

CORPORATE VOLUNTEER PROGRAMME

The EU declared 2011 the European Year of Volunteering to encourage efforts towards active citizenship.

In this context, Montepio and the Ministry of Solidarity and Social Security formed a partnership that participated in working groups and intensified the Montepio volunteer programme. Four meetings of volunteers were held to foster its growth and commitment.

The Board of Directors encourages employees to participate in the programme's corporate volunteering initiatives. It facilitates projects that charities wish to undertake but for which they do not always have the human or financial resources. It develops the volunteers' personal and professional skills, increases motivation and brings Montepio closer to charitable initiatives in the country.

The number of volunteers increased 27.3% to 800 employees, 688 of whom took an active part in campaigns, thereby making Montepio a key organisation in this area, with the largest number of employees interested in active citizenship. Where specialised volunteering was concerned, 23 joint Junior Achievement campaigns were held, eight more than in 2010, in partnership with 16 organisations. Hundreds of people benefitted.

As part of the European Year of Volunteering, Fundação Montepio and Lusitania – Companhia de Seguros set up the *Prémio Voluntariado Jovem Montepio* (Montepio Youth Volunteer Award) worth 25 000 euros. It went to an association combating hunger in the city by collecting food from restaurants and distributing it to disadvantaged people. The award will enable the organisation to obtain the resources it needs to expand its work.

COMMUNITY AND SOCIAL SOLIDARITY

The deterioration in economic and financial conditions in 2011, with the state experiencing particular budgetary difficulties, meant that there were more requests for community support and social solidarity, an aspect that Montepio considers strategic, given its responsibility to society and commitment to harmonious, sustainable development.

The Social Responsibility Office helps to define and implement guidelines in order to execute the Montepio Group's social responsibility mission. It answers directly to the Board of Directors and in 2011 its duties included extensive activity focusing in particular on fulfilling the mission of Fundação Montepio, developing the Montepio Group's social responsibility programme, representing it in Portuguese and international organisations and consolidating the corporate volunteer programme. As in 2010, this office collaborated on joint projects with different Group departments, especially that with young people from agencies.

Social solidarity activities have been undertaken by Fundação Montepio, which plays an essential role as an organisation forming cooperation relationships and channelling support to the community from its own annual budget, commissions from the *Mais Vida* credit card and voluntary donations from personal income tax transferred by the tax authority.

The foundation's work is done through the Social Responsibility Office. Its growing visibility and the extension of its scope of intervention required an increase in human resources and intensification of its action in analysing requests and projects, drafting proposals and monitoring sponsored initiatives. In 2011, more than 600 proposals and projects were analysed and around 300 visits and assessment meetings held, making it possible to provide technical and financial support to 175 institutions. As in previous years, agreements with a number of private and third sector organisations were assessed and renewed and their compliance was assessed in close cooperation with the commercial network.

As part of its assistance to private charities, Fundação Montepio collaborated in the choice, articulation and monitoring of the 17 organisations that used Espaço Incluarte in 2011 and in the selection of the 3 193 children and young people who were granted free admission to the Til, Arte D'Encantar and Aquashow shows.

External activities were not neglected and Montepio participated in more than 80 events during the year in order to publicise its social responsibility work and also guarantee active participation in bodies such as Grupo de Reflexão para a Cidadania Empresarial (GRACE), Junior Achievement, Centro Nacional de Fundações, the European Savings Banks Social Responsability Committee, Associação de Responsabilidade Social Portugal, Rede Local de Ação Social de Lisboa and Conselho Português para o Desenvolvimento Sustentável (BCSD).

In the fight against financial illiteracy, a number of volunteers worked on the Montepio Financial Education Programme (for children and adults) in 2011. They participated in training courses and awareness-raising campaigns on the subject of

«Saving and Investing» at schools in different parts of the country. This programme of pure social responsibility is extremely important in education in the current situation, as its combats families' over-indebtedness and appeals to them to save and plan their future finances. A total of 46 volunteers participated in the programme in 213 training courses and six awareness-raising campaigns in different parts of the country covering 74 classes and 1 775 children at 37 schools. Last year the National Committee considered the project the Measure of the European Year for Combating Poverty.

Also in the field of education, we undertook the third Montepio School Award Project, in which a 25 000 euro donation each was made to the four state schools with the best, most innovative educational projects, with a view to rewarding good school performance.

Another noteworthy project was the fourth *Frota Solidária* promoted by Fundação Montepio, which converted the amount received under the Tax Donation – Law on Freedom of Religion into 20 adapted vehicles and donated them to 20 charities, thereby fostering mobility of those in need and solving one of the problems felt most by these organisations.

Montepio also continued its *Mais Vida* social responsibility credit card project, which enables its holders to make contributions based on the amount of their purchases to charities selected periodically by Fundação Montepio. The amounts in question are part of Montepio's profit margin, not direct donations from the customer and so Montepio shares the results of the operation fairly and responsibly with charitable organisations.

In order to increase proximity to third sector organisations, Montepio undertook *Minuto Solidário* (Charity Minute), in which it publicised the causes and social projects of each of the 30 institutions supported. Using the motto «one minute makes all the difference», for a minute three times a day Montepio disseminated projects for children, the elderly and the disabled that made a difference thanks to their active role in their communities, and the solidarity and social responsibility that they show in helping people and causes. In 30 minutes, Montepio described the ambitions and mission of 30 third-sector institutions.

Where the environment was concerned, Montepio, in partnership with Yunit, helped finance medium- and long-term investments in energy efficiency solutions, electricity microgeneration or mini-generation through its renewable energy and energy efficiency line of credit, which aims to encourage the use of renewable sources and the rationalisation of energy consumption. This new finance instrument falls under the heading of Montepio's social responsibility concerns and is designed to reconcile the goals of environmental sustainability with the growth and development of production activities. We also produced a mailing with 100% recyclable materials, which received the CTT Stamp of Ecological Merit in 2011.

In view of its commitment to meet the demands and needs of all segments of society, particularly in the current circumstances, Montepio continued its partnership with *Mobilidade Positiva*, an organisation that fosters the integration into society of people with reduced mobility via the *Montepio Mais Mobilidade* line of credit, which is unique on the market and includes insurance.

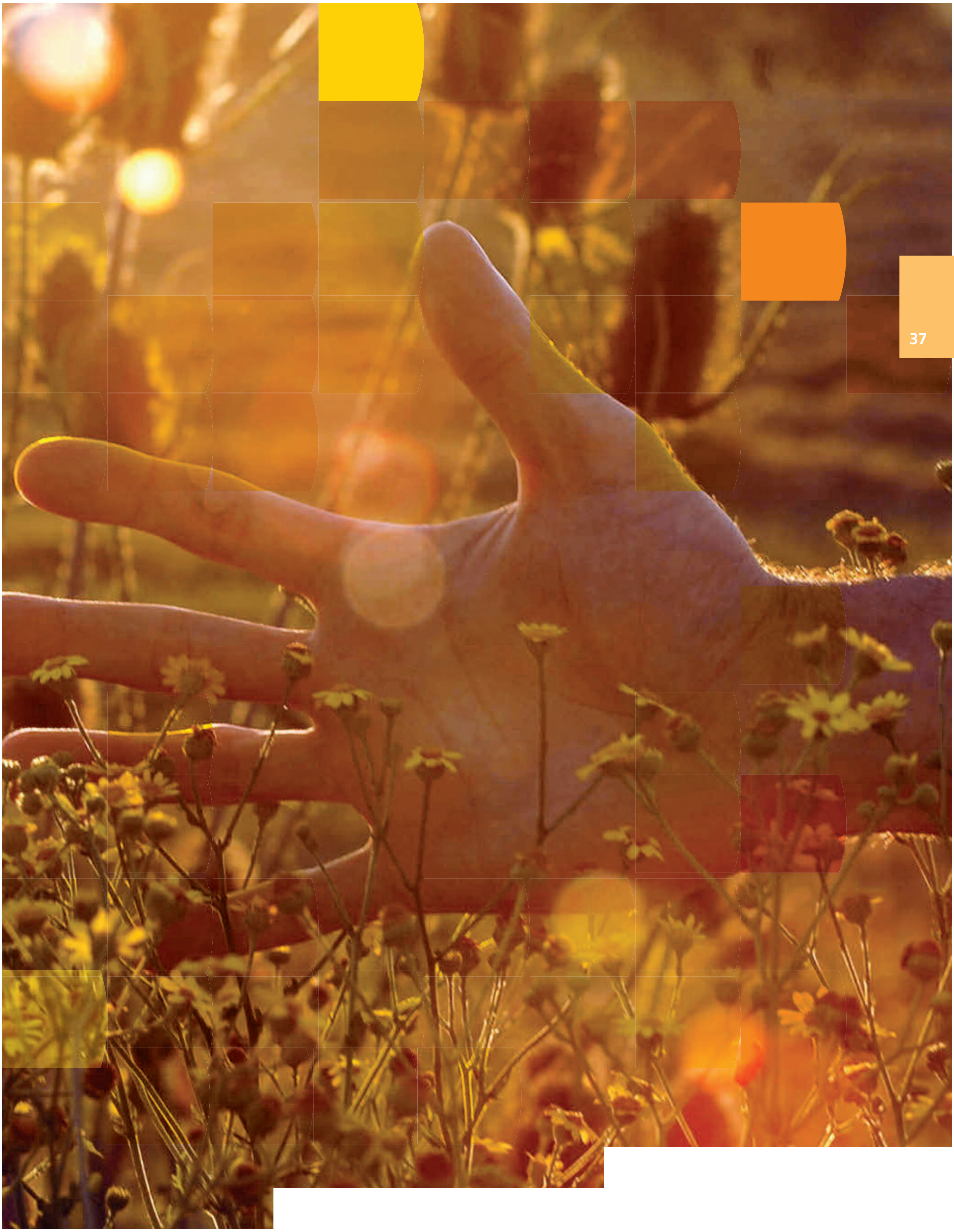
MICROCREDIT

Montepio has helped support entrepreneurship by stimulating the creation of jobs among populations with greater difficulty accessing the labour market and providing access to credit and technical support for setting up and consolidating business projects via microcredit. In 2011 Montepio stepped up its support for projects and partnerships in the area of microcredit, aimed at personalised, socially sustainable finance. Montepio employees volunteered to act as hands-on tutors to help and monitor entrepreneurs to draft business plans.

In 2011, implementation and monitoring of microcredit at Montepio underwent changes, in that it was extended to nationwide coverage with central monitoring to guarantee uniform action and procedures. A microcredit mailbox was set up for digital documents and files and the internal procedures were improved by appointing new personnel involved in the process, such as the Microcredit Manager.

Underlying our strategy in this field are partnerships with third sector bodies and agreed lines of finance that meet the needs of people with an enterprising spirit who do not have the means to put their ideas into practice.

Montepio therefore renewed its agreement with Santa Casa de Misericórdia de Lisboa, which currently has around 150 applications for this area, as reported in the press, and its partnership with the European Anti-Poverty Network Portugal (REAPN) in the north of the country. Other partnerships with different organisations are also being studied, along with ways of boosting microcredit.



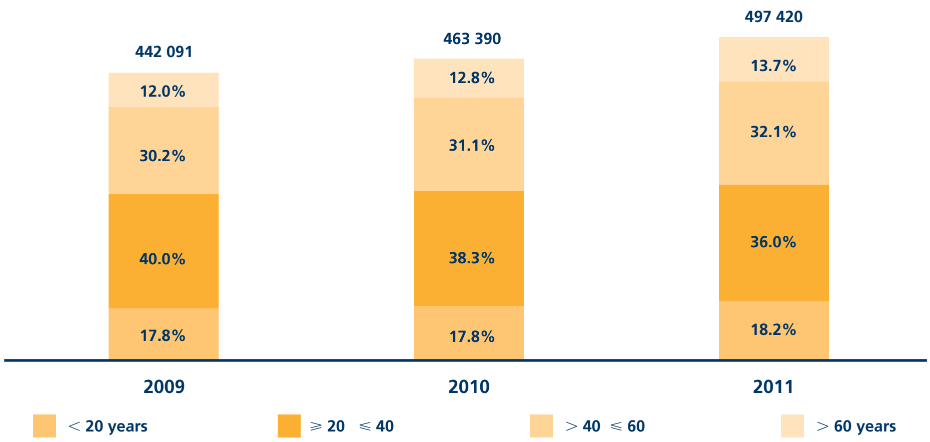
06 Montepio Geral Associação Mutualista

6.1. ASSOCIATION MOVEMENT

MEMBERS

The association movement proved quite dynamic in 2011, considering the adverse economic and social scenario that affected most of the European economies and Portugal in particular. It ended the year with a total of 497 420 members, which represents an annual growth rate of 7.3%.

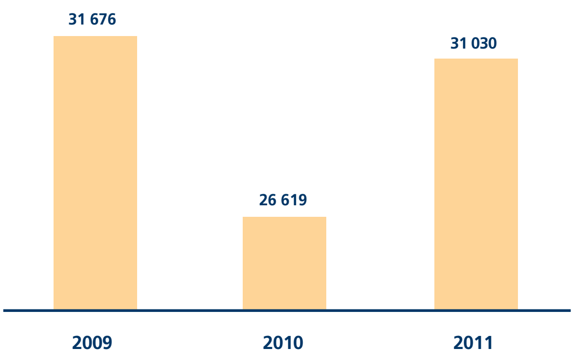
NUMBER OF MEMBERS



Compared to the growth of 4.8% in 2010, there was a significant increase in the number of members. This was due partly to the enlargement of our commercial network after the acquisition of Finibanco Holding. The admission of more members (40 866 in 2010 and 57 674 in 2011) was the main reason for the growth.

The improvement in services and the enlargement of the Caixa Económica branch network continued to play an essential role in the promotion and distribution of mutual schemes.

PELICAS CLUB MEMBERS



Considering that, after this acquisition, only 37.6% of CEMG's private customers are members, there is still great growth potential within the Montepio Group.

At the end of the year, around 50.7% of the Associação Mutualista members were female and 49.3% male. Members' average age was 38 years (37 in 2010).

Among young people, Pelicas Club caters for members aged up to 13. The club membership grew considerably against 2010 (16.6%), and ended the year with 31 030 members.

In addition to competitions and club activities at schools, the club also publishes a quarterly magazine which has achieved good levels of participation with educational and recreational contents.

DEVELOPMENT OF MUTUAL PRODUCTS AND SERVICES

In 2011, continuing the development and provision of mutual solutions in the form of schemes, services and additional benefits that, within the regulatory framework of mutual activity, are most suited to the needs and expectations of members and their families, the following were the most important events:

- Completion of the revision of the benefit regulations;
- Campaigns to promote actuarial schemes and the issue of 17 series of fixed-term retirement capital schemes (Montepio Capital Certo), which attracted 202 million euros;

- Continuation of our policy of maintaining and creating a range of additional benefits for members and their families via advantages from Montepio's products and services and through partnerships with other entities;
- Ongoing policy of member events in an ever-increasing programme of activities.

In 2011 Residências Montepio – Serviços de Saúde SA continued to provide assistance at residential centres and in home care and increased its contribution to the development of solutions meeting the growing needs of members and the general public in this area of extreme importance.

The opening of a new residential facility in Montijo in 2011 increased their number to five (Porto, Gaia, Coimbra Parede and Montijo). Three more are under construction – a second in Parede and two in Lisbon.

In addition to residential services, this Group company introduced the Vitalidade card, which provides free home medical assistance, a national network of clinics and diagnosis centres and additional advantages in services at residential facilities, and also the Tele-Vitalidade card, which provides permanent accompaniment in emergencies and free telephone medical advice.

These services are open to the general public, though Montepio members are offered special prices.

ADDITIONAL BENEFITS

Montepio's members continued to enjoy preferential conditions on the products and services sold by the commercial network. Examples are reductions in spreads on mortgages and personal loans, special interest rates on term deposits and other types of savings, discounts on credit card annuities, no maintenance fees on current accounts and discounts on partial or total property management services.

In 2011, benefits for members as CEMG customers totalled 15 507 000 euros, i.e. 12% more than in 2010 (13 830 000 euros).

TOTAL BENEFITS GRANTED TO MEMBERS BY CAIXA ECONÓMICA

(EUR thousands)

CLASS	Family of products	Amount of benefit		Var.
		2010	2011	
ASSET PRODUCTS	Mortgages	8 053	7 830	-3%
	Consumer credit	821	912	11%
LIABILITY PRODUCTS	Current accounts	3 489	5 245	50%
	Term accounts	343	340	-1%
	Structured deposits	98	65	-34%
OFF-BALANCE SHEET PRODUCTS	Credit cards	1 023	1 112	9%
	Property management	3	3	0%
TOTAL		**13 830**	**15 507**	**12%**

In addition to the above advantages, additional benefits for Montepio members also include preferential conditions at hundreds of outlets all over the country in areas as different as health, social protection, retail, culture, leisure, sports, wellness, training and tourism.

In 2011 we continued our policy of entering into partnerships and signed agreements with 113 new entities at national and local level. We continued to focus on health, as it is a sector of growing importance in members' everyday lives and is in line with Montepio's mission as a mutual association.

Provision of health care included not only local agreements but also agreements with Grupo Malo (currently the world's

AGREEMENTS SIGNED – 2011

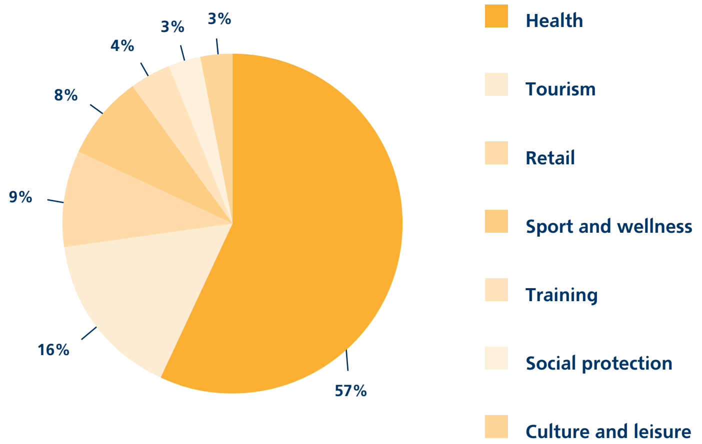
AREA	No.	%
Health	69	61
Retail	15	13
Culture and leisure	2	2
Sport and wellness	9	8
Training	3	3
Social protection	3	3
Tourism	12	10
TOTAL	**113**	**100**

largest dental implant and fixed oral rehabilitation centre), Grupo Trofa Saúde, Nova Clínica do Lambert (orthopaedics, trauma and sports medicine) and several Santas Casas de Misericórdia (social pharmacies).

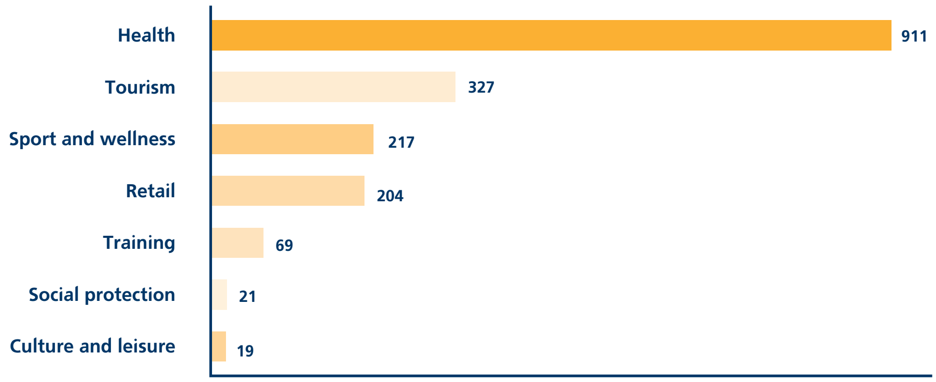
Where tourism is concerned, partnerships were formed with Grupo Solverde, Z-Mar – Eco Turismo in Zambujeira do Mar and Grupo Altis Hotels.

At the end of 2011, AM had agreements with 677 organisations representing a total of 1 768 discount points all over the country.

AGREEMENTS – 2011



NO. DISCOUNT POINTS – 2011



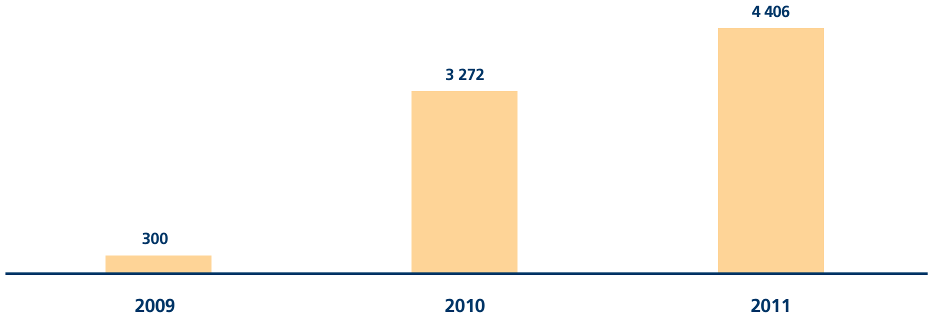
In September 2011 we renewed our strategic partnership with Repsol, thereby providing members aged over 18 years with a six-cent discount per litre of fuel at 393 service stations.

We issued 44 476 new Montepio Repsol cards in 2011 and benefits to users totalled 4.4 million euros.

Since the start of the partnership (in October 2009), members with the Montepio Repsol card have saved around 8 million euros on fuel.

REPSOL CARDS – ANUAL SAVED TO MEMBERS

(thousand euros)



MEMBER EVENTS

A number of initiatives were organised in 2011 to strengthen the relationship with members. They included open air activities, outings with history, training courses (internet for beginners and financial education) and guided visits to exhibitions. At the same time, we continued to monitor members' satisfaction and loyalty with member satisfaction surveys and quality control of member events. The Montepio Academy project was also devised and approved with a view to setting up the Montepio Senior University. It is scheduled to start in 2012.

6.2. ASSOCIATION REVENUE

At the end of 2011, subscriptions totalled 847 492, year-on-year growth of 6.1% (4.7% in 2010). The average number of subscriptions per member fell slightly from 1.72 to 1.7, from 2010 to 2011. On the other hand, around 93.8% of the 101 929 new subscriptions in 2011 (76 601 in 2010) focused on the three schemes that members have usually favoured: fixed-term retirement capital (34%), deferred welfare capital with option (31.5%) and retirement capital (28.3%).

ASSOCIATION REVENUE (fees and capital per scheme)

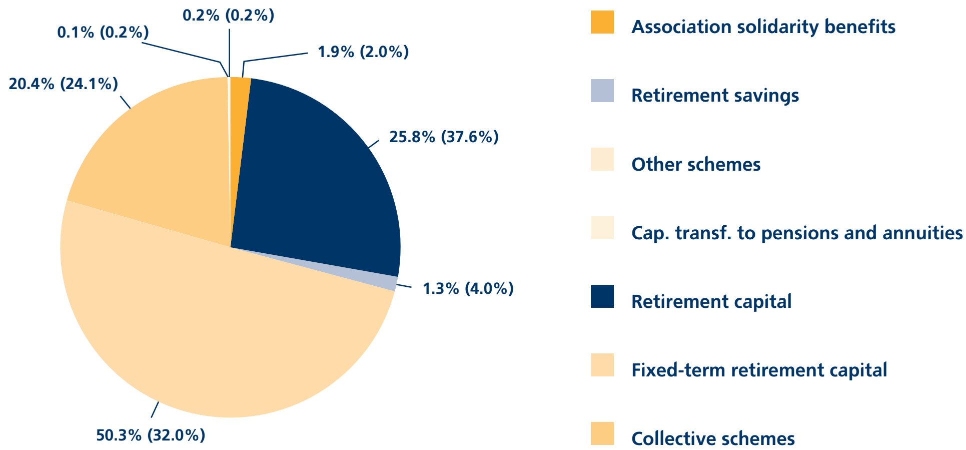
(EUR thousands)

SCHEMES	2010	2011	Variation	
	Amount	Amount	Amount	%
1. ASSOCIATION SOLIDARITY BENEFITS	**6 590**	**7 566**	**976**	**14.8**
2. INDIVIDUAL SCHEMES	**321 432**	**393 136**	**71 704**	**22.3**
2.1. Retirement capital	***123 639***	***103 928***	***-19 711***	***-15.9***
2.2. Retirement savings	***13 010***	***5 104***	***-7 906***	***-60.8***
2.3. Fixed-term retirement capital	***105 294***	***202 030***	***96 736***	***91.9***
2.4. Other schemes	***79 489***	***82 074***	***2 585***	***3.3***
Of which:				
Deferred welfare capital with option	45 540	51 464	5 924	13.0
Capital for young people	5 662	5 993	331	5.8
Retirement pensions	4 935	1 237	-3 698	-74.9
Guarantee of payment of expenses	21 104	21 707	603	2.9
3. COLLECTIVE SCHEMES	**503**	**476**	**-27**	**-5.4**
4. CAPITAL TRANSFERRED TO PENSIONS AND ANNUITIES	**693**	**867**	**174**	**25.1**
5. TOTAL (1) + (2) + (3) + (4)	**329 218**	**402 045**	**72 827**	**22.1**

Note: Capital received from lifelong annuities is not considered (1 229 000 euros in 2010 and 464 400 euros in 2011), as it is not a mutual scheme.

Association revenue totalled 402 045 000 euros, i.e. 22.1% more than in 2010, when the annual variation was 9.2%. The fixed-term retirement capital scheme was the one that contributed most to this growth, which was 91.9% up on the previous year. The most important membership fees received from other schemes were from deferred welfare capital with option (+5.9 million euros).

STRUCTURE OF ASSOCIATION REVENUE 2011 (2010)



6.3. OVERDUE BENEFITS AND REIMBURSEMENTS

The amount of overdue benefits and reimbursements rose considerably in 2011, closing the year at 403.4 million euros. The increase (185.1 million euros) represents a variation of 84.8% on 2010. This was mainly due to substantial reimbursements in capitalisation schemes (+167.5 million euros) plus a larger number of administrative processes.

OVERDUE BENEFITS AND REIMBURSEMENTS

(EUR thousands)

DESCRIPTION	2010		2011		Variation	
	Quantity	Amount	Quantity	Amount	Amount	%
PENSIONS AND ANNUITIES	**6 458**	**8 225**	**6 794**	**8 875**	**650**	**7.9**
Amounts subscribed	6 458	4 132	6 794	4 729	597	14.5
Subsidies and improvements		4 093		4 146	53	1.3
CAPITAL AND SUBSIDIES	**21 749**	**37 136**	**30 781**	**45 508**	**8 372**	**22.5**
Amounts subscribed	21 749	34 015	30 781	42 444	8 429	24.8
Subsidies and improvements		3 121		3 064	-57	-1.8
REIMBURSEMENTS	**67 952**	**160 523**	**119 785**	**328 022**	**167 499**	**104.3**
OTHER COSTS	**4 447**	**12 359**	**7 247**	**20 983**	**8 624**	**69.8**
TOTAL	**100 606**	**218 243**	**164 607**	**403 388**	**185 145**	**84.8**

Note: Annual expenses of lifelong annuities are not considered (2.64 million euros in 2010 and 2.58 million euros in 2011) as it is not a mutual scheme.

In March 2011, with reference to 2010, in accordance with Article 18 of its Articles of Association and Article 53 of the Mutual Association Code, AM allocated a benefit improvement rate of 1% to actuarial schemes with a technical rate of 3% and 0.25% to other actuarial schemes with a technical rate of 4%. Pursuant to regulations, schemes with a negative available fund or with accumulated debts to the reserve fund received no benefit improvement rate. The cost of improvements totalled 745 000 euros (1.2 million euros in 2010).

Where capitalisation schemes were concerned, an annual overall income rate of 2.5% was distributed, consisting of two components:

- Minimum annual income (0.4% to 2.25%);
- Additional annual income (0.25% to 2.1%).

6.4. FINANCIAL ANALYSIS AND PROFITS

6.4.1. INVESTMENT POLICY

2011 witnessed the deterioration of the sovereign debt crisis in the European economies. In a very complex scenario regarding intervention in the financial markets, financial management of Associação Mutualista continued to be markedly conservative. In a framework of financial autonomy of schemes, there was particular focus on selective investment management, seeking to abide by principles of prudence and aiming investments at the most secure assets. At the same time, we endeavoured to conjugate relatively favourable liquidity, return and risk factors with the performance of the schemes and especially with the profile of subscribers' liabilities.

In spite of our policy of diversifying financial investments, our portfolio of assets eventually accompanied successive reductions in ratings of debt security issuers. There was a greater preference for short-term investments and fixed-rate debt securities. The duration of our fixed-rate portfolio fell from 3.96 years in 2010 to 3.62 in 2011. Investments in high-risk assets such as shares and investment funds were negligible.

6.4.2. PERFORMANCE AND RETURN ON ASSETS

Associação Mutualista ended 2011 with net assets of around 2.869 billion euros, representing 4% growth.

NET ASSETS AND RETURN

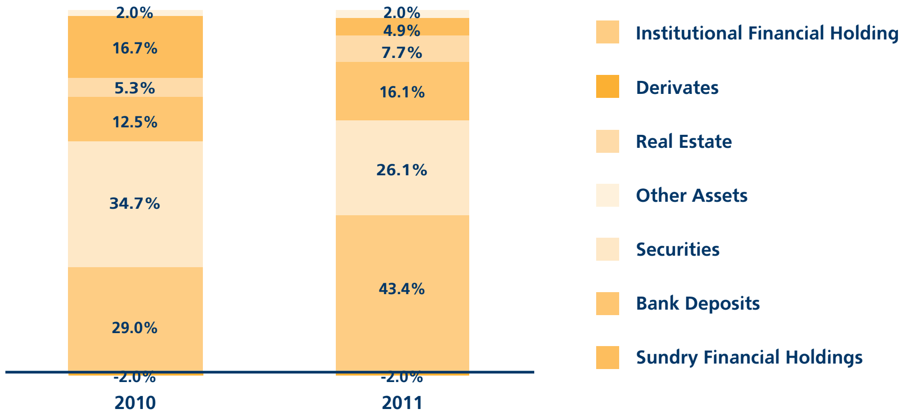
(EUR thousands)

ITEMS	2010		2011		Variation	
	Value	Rate ret. (%)	Value	Rate ret. (%)	Value	%
Financial holding	800 000	2.6	1 245 000	2.1	445 000	55.6
Securities	957 261	2.8	749 046	2.9	-208 215	-21.8
Bank deposits	344 688	1.7	462 436	2.7	117 748	34.2
Real estate	147 139	9.2	221 309	9.5	74 170	50.4
Sundry financial holdings	461 674	2.3	139 601	1.3	-322 074	-69.8
Other assets	54 029	0.2	57 260	0.2	3 231	6.0
Derivatives	-5 443	40.8	-5 999	25.9	-556	-10.2
TOTAL	**2 759 348**	**2.7**	**2 868 652**	**2.7**	**109 304**	**4.0**

In the performance of the main classes of assets, it is important to note the institutional financial investment in CEMG, which is directly related to CEMG's two increases in share capital in 2011 (345 million euros in March and 100 million euros in December), both fully paid up by Associação Mutualista. The reduction in other financial investments reflects the sale to CEMG of the shareholding in Finibanco Holding, SGPS, SA.

There was also an increase in bank deposits, which was mainly driven by the conversion into deposits of some positions held in securities. At the same time, with fall in value of securities in our portfolio, this fact caused a reduction in the value of the securities portfolio of Associação Mutualista.

ASSET STRUCTURE



In a particularly difficult year, return on assets for Associação Mutualista remained unchanged. Even so, this performance compares favourably to the medium-term interbank market reference rate (5 years) (average swap of 2.48% in 2011).

Real estate portfolio

The structure of our real estate portfolio increased significantly in 2011, essentially due to the transfer of a group of properties from Caixa Económica, including some properties from the acquisition of Finibanco, SA.

STRUCTURE AND PERFORMANCE OF REAL ESTATE PORTFOLIO

(EUR thousands)

CLASS OF ASSET	2010		2011		Variation	
	Value	%	Value	%	Value	%
Investments in real estate	179 648	89.3	274 678	98.9	95 030	52.9
Land and natural resources	3 754	1.9	3 180	1.1	-574	-15.3
Buildings and other constructions (1)	17 741	8.8	1	0.0	-17 740	–
TOTAL	**201 143**	**100.0**	**277 859**	**100.0**	**76 716**	**38.1**

Note: These figures vary from those shown in the table on the net assets of Associação Mutualista because they do not include depreciation to the amounts of 54 005 000 euros and 56 550 000 euros in 2010 and 2011, respectively.

(1) The variation in the value of buildings and other constructions is due only to an accounting alteration, as it was transferred to the item investments in real estate.

The net income associated with this asset component totalled 14.3 million euros, a 10.8% increase on 2010. This performance can be explained mainly by capital gains from the sale of some properties in the portfolio.

Although around half of the properties are located in Greater Lisbon and Greater Porto, our real estate is dispersed all over the country in almost all the mainland and island districts.

Securities portfolio

Our securities portfolio continues to account for a significant part of the assets of Associação Mutualista, although there was a reduction in this class in 2011. Its performance can be explained by the sale of some position in bonds and, as with most market securities, depreciation of the securities in the portfolio. At year end, our securities portfolio totalled 749 million euros, 21.8% less than in 2010 (957.3 million euros).

STRUCTURE AND PERFORMANCE OF SECURITIES PORTFOLIO

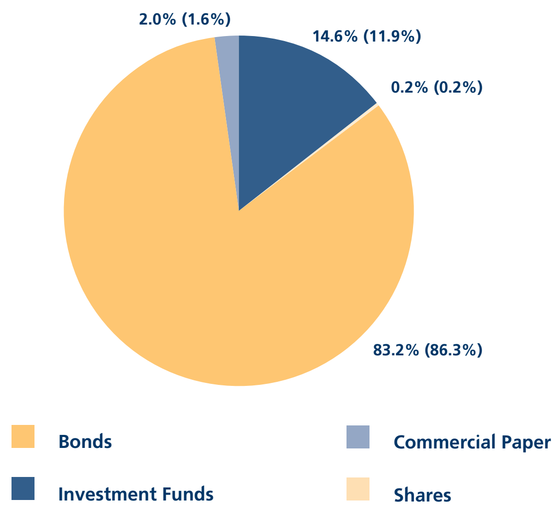
(EUR thousands)

ITEM	2010		2011		Variation	
	Value	%	Value	%	Value	%
1. Portfolio of securities and similar						
Bonds (including trading securities)	839 925	85.9	635 973	82.7	-203 952	-24.3
Commercial paper	15 005	1.5	15 091	2.0	86	0.6
Shares (including trading securities)	3 311	0.3	2 750	0.4	-561	-16.9
TOTAL 1	**858 241**	**87.8**	**653 814**	**85.0**	**-204 427**	**-23.8**
% of assets	**31.1**		**22.8**		**-8.3 p.p.**	
2. Other financial investments						
Equity investment funds	15 344	1.6	12 449	1.6	-2 895	-18.9
Real estate investment funds	31 635	3.2	29 317	3.8	-2 318	-7.3
Other investment funds	72 559	7.4	73 716	9.6	1 157	1.6
TOTAL 2	**119 538**	**12.2**	**115 482**	**15.0**	**-4 056**	**-3.4**
% of assets	**4.3**		**4.0**		**-0.3 p.p.**	
TOTAL (1+2)	**977 779**	**100.0**	**769 296**	**100.0**	**-208 483**	**-21.3**
% of assets	**35.4**		**26.8**		**-8.7 p.p.**	
3. Impairment						
Bonds	13 460	65.6	13 170	65.0	-290	-2.2
Shares	1 088	5.3	1 239	6.1	151	13.9
Equity investment funds	5 970	29.1	5 841	28.8	-129	-2.2
TOTAL 3	**20 518**	**100.0**	**20 250**	**100.0**	**-268**	**-1.3**
NET TOTAL	**957 261**		**749 046**		**-208 215**	**-21.8**
% of assets	**34.7**		**26.1**		**-8.6 p.p.**	

In a particularly adverse year for financial investments, AM focused its attention on short-term, fixed-rate investments with exposure to Portugal. Investments in commercial paper and treasury bills were very frequent.

The deterioration of the European sovereign debt crisis and reduction in ratings of most issuers naturally changed the rating structure of assets in the portfolio of Associação Mutualista.

INVESTMENT PORTFOLIO STRUCTURE BY TYPE OF ASSET 2011 (2010)



STRUCTURE OF BOND PORTFOLIO BY RATING

(EUR thousands)

RATING CLASS	2010		2011	
	Value	%	Value	%
AAA	20 997	2.5	473	0.1
AA+	3 719	0.4	285	0.0
AA	7 084	0.9	1 375	0.2
AA-	15 922	1.9	0	0.0
A+	22 185	2.7	4 408	0.7
A	100 784	12.2	15 137	2.4
A-	49 660	6.0	36 156	5.8
BBB+	31 728	3.8	12 769	2.1
BBB	433 990	52.5	12 047	1.9
BBB-	74 242	9.0	69 953	11.2
<BBB-	17 328	2.1	430 749	69.2
NR	48 826	5.9	39 452	6.3
TOTAL	**826 465**	**100.0**	**622 803**	**100.0**

Securities in the portfolio continued to be preferably allocated to the AFS (available for sale) portfolio on the basis of the profile and nature of the liabilities under management.

Divestments during the year caused an overall reduction in the securities portfolio, especially assets classified at fair value through profit or loss. The trading portfolio still represents a very small part of the securities portfolio (0.23%).

TYPE OF SECURITIES PORTFOLIO

(EUR thousands)

	Portfolio		Impairment		Variation	
DESCRIPTION	**2010**	**2011**	**2010**	**2011**	**Portfolio**	**Impairment**
	Value	**Value**	**Value**	**Value**	**Value**	**Value**
Available for sale	**947 529**	**756 908**	**20 518**	**20 250**	**-190 621**	**-268**
Treasury bonds	72 782	49 925			-22 857	
Sundry bonds	737 203	573 660	13 460	13 170	-163 543	-290
Commercial paper	15 005	15 091			86	
Shares	3 001	2 750	1 088	1 239	-251	151
Investment funds	119 538	115 482	5 970	5 841	-4 056	-129
Classified fair value through profit/loss	**13 683**	**10 658**			**-3 025**	
Bonds	13 683	10 658			-3 025	
Negotiable securities	**16 567**	**1 730**			**-14 837**	
Shares	310	0			-310	
Bonds	16 257	1 730			-14 527	
TOTAL	**977 779**	**769 296**	**20 518**	**20 250**	**-208 483**	**-268**

The amount of impairment of securities remained practically unchanged, in spite of the increase of around 8.9 million euros in Greek bonds. On the other hand, impairment was released on some debt securities sold in 2011, the provision for which had been recognised in previous years.

In terms of net income generated by management of our securities portfolio, there was an improvement of around 2.4 million euros (26.5 million in 2010 and 28.9 million in 2011). This was directly related to a rise in market rates with more active management in short-term treasury investments and with the earnings obtained from selling some securities from the portfolio.

Institutional financial investment in Caixa Económica

Implementing the decision approved at the General Meeting of Members on 21 December 2010, there was a 345 million euro increase in the institutional capital of Caixa Económica in March 2011. This operation made it possible to accommodate the integration of Finibanco Holding, SGPS, SA and create more solid conditions for continuing the Montepio Group's sustainable development strategy.

At the end of 2011, Caixa Económica performed another share capital increase to strengthen its solvency levels, in line with Banco de Portugal requirements and the Memorandum of Economic and Financial Policies underlying the Financial Assistance Programme for Portugal. Associação Mutualista once again fully paid up the CEMG share capital increase in the amount of 100 million euros. AM's institutional financial investment in CEMG is currently 1.245 billion euros, around 43.4% of its assets.

The profits transferred from Caixa Económica to AM in 2011 totalled 23.1 million euros, 13.7% more than in 2010 (20.3 million euros).

Other financial investments

The main occurrence in AM's portfolio of financial investments was the sale to CEMG of its position in Finibanco Holding, SGPS, SA. The following movements also took place in 2011:

- Acquisition of four financial companies from the takeover of Finibanco Holding, SGPS, SA to the amount of 19.2 million euros (Finibanco Vida – Companhia de Seguros, Finisegur – Sociedade Mediadora de Seguros, Finimóveis – Sociedade de Serviços Auxiliares and Lestinvest, SGPS);

- Division of shares in Futuro (change of nominal value from 30 to five euros).

The average rate of return from the financial investment portfolio was 1.3% (2.3% in 2010) and net income totalled 2.6 million euros (2.1 million in 2011).

Financial holding in Finibanco-Holding, SGPS, SA

On 31 March 2011, AM sold its shares in Finibanco – Holding, SGPS to CEMG for 341.3 million euros.

STRUCTURE AND INCOME OF PORTFOLIO OF FINANCIAL HOLDINGS

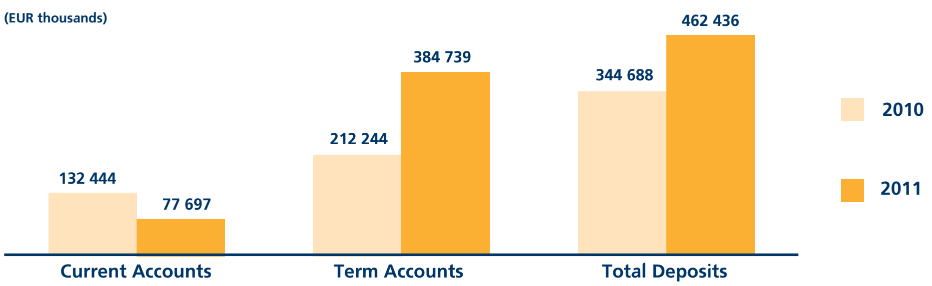
(EUR thousands)

DESCRIPTON	2010				2011				Variation			
	Investment	%	Income	%	Investment	%	Income	%	Investment	%	Income	%
Capital holdings												
Strategic	**379 489**	**82.2**	**1 851**	**88.8**	**57 416**	**41.1**	**2 276**	**79.9**	**-322 073**	**-84.9**	**425**	**23.0**
MONTEPIO GESTÃO DE ACTIVOS	1 331	0.3	495	23.7	1 331	1.0	574	22.0	0	0.0	79	16.0
FUTURO	1 963	0.4		0.0	1 963	1.4	195		0	0.0	195	
LUSITANIA – VIDA	9 647	2.1	699	33.5	9 647	6.9	839	32.2	0	0.0	140	20.0
LUSITANIA – COMPANHIA DE SEGUROS	23 769	5.1	657	31.5	23 769	17.0	668	25.6	0	0.0	11	1.6
RESIDÊNCIAS MONTEPIO. SA	1 530	0.3			1 530	1.1			0	0.0		
FINIBANCO	341 250	73.9			0	0.0			-341 250			
FINIBANCO VIDA – Companhia de Seguros					4 165	3.0			4 165			
FINISEGUR – Soc. Mediadora de Seguros					313	0.2			313			
FINIMÓVEIS – Soc. de Serviços Auxiliares					1 505	1.1			1 505			
LESTINVEST, SGPS					13 194	9.5			13 194			
Others	**17 435**	**3.8**	**233**	**11.2**	**17 435**	**12.5**	**329**	**12.6**	**0**	**0.0**	**96**	**41.1**
NEBRA ENERGIAS RENOVABLES	611	0.1	- 4	-0.2	611	0.4		0.0	0	0.0	4	
BOLSIMO	15 119	3.3			15 119	10.8			0	0.0		
GERMONT	700	0.2			700	0.5			0	0.0		
LEACOCK	242	0.1			242	0.2			0	0.0		
NOVACÂMBIOS	227	0.0	11	0.5	227	0.2	11	0.4	0	0.0	0	0.0
SAGIES	97	0.0	87	4.2	97	0.1	48	1.8	0	0.0	- 40	-45.5
SILVIP	308	0.1	138	6.6	308	0.2	270	10.4	0	0.0	132	95.0
MG INVESTIMENTOS IMOBILIÁRIOS	50	0.0			50	0.0			0	0.0		
SOCIEDADE BEM COMUM	80				80	0.1			0	0.0		
Subtotal	**396 924**	**86.0**	**2 084**	**100.0**	**74851**	**53.6**	**2 605**	**100.0**	**-322 073**	**-81.1**	**521**	**25.0**
Additional payments of capital												
LUSITANIA – COMPANHIA DE SEGUROS	29 750	6.4			29 750	21.3			0	0		
BOLSIMO	35 000	7.6			35 000	25.1			0	0		
Subtotal	**64 750**	**14.0**	**0**	**0.0**	**64 750**	**46.4**	**0**	**0.0**	**0**	**0.0**	**0**	**0.0**
TOTAL	**461 674**	**100.0**	**2 084**	**100.0**	**139 601**	**100.0**	**2 605**	**100.0**	**-322 073**	**-81.1**	**521**	**25.0**

Bank deposits

On 31 December 2011, bank deposits totalled 462.4 million euros, around 16.1% of AM's total net assets. There was an increase of 117.7 million euros, essentially due to the conversion of some bond positions into deposits.

BANK DEPOSITS



Other assets

AM's other assets represent around 2% of its total assets, with special focus, as usual, on construction in progress and loans to members.

In construction in progress, improvement work continued during the year on some properties and residential centres. Five assisted living projects are currently under way in an overall investment of 30.7 million euros.

STRUCTURE OF ASSETS UNDER CONSTRUCTION

(EUR thousands)

DESCRIPTION	2010		2011		Variation	
	Value	%	Value	%	Value	%
Residential centres	28 088	98.3	30 630	88.3	2 542	9.0
Ongoing care unit	70	0.2	92	0.3	22	31.4
Miscellaneous	3 088	1.5	3 955	11.4	867	28.1
TOTAL	**31 246**	**100.0**	**34 677**	**100.0**	**3 431**	**11.0**

Where loans to members were concerned, 1 642 new contracts were signed, 222 more than in 2012. The amount of credit granted increased in annual terms by 712 000 euros. The accumulated balance of loans remained practically unchanged from 2010 to 2011, changing from 3.2 million to 3.1 million euros.

LOANS TO MEMBERS

DESCRIPTION	2010	2011	Variation
			(units)
Number of new contracts	**1 420**	**1 642**	**222**
On mathematical reserves (1)	784	889	105
On capital	636	753	117
			(EUR thousands)
Amount of new contracts	**3 257**	**3 969**	**712**
On mathematical reserves	1 359	1 587	228
On capital	1 898	2 382	484
			(ratios)
Average amount per new contract	**2,3**	**2,4**	**0,1**
On mathematical reserves	1,7	1,8	0,1
On capital	3,0	3,2	0,2
			(EUR thousands)
Accumulated amount	**3 177**	**3 123**	**-54**
On mathematical reserves	1 135	1 110	-25
On capital	2 042	2 013	-29

(1) Includes loans on refundable fees.

6.4.3. LIABILITIES AND EQUITY

In 2011 AM's liabilities increased by 4.4%, or 104.3 million euros. This was due to an increase in liabilities to subscribers (+37.7 million euros) and capitalisation schemes (especially the series issued in the retirement capital scheme) and actuarial schemes (arising from subscriptions in the *Proteção 5 em 5* and *Proteção Sub-25* schemes and retirement pensions).

Actuarial scheme mathematical reserve adequacy tests

In 2011, the adequacy test of liabilities of actuarial schemes and perpetual annuities resulted in the release of the accumulated provisions.

LIABILITIES

(EUR thousands)

ITEM	2010 Value	2010 %	2011 Value	2011 %	Variation Value	Variation %
PROVISIONS FOR RISKS AND EXPENSES	**2 342 462**	**99.7**	**2 376 076**	**96.9**	**33 614**	**1.4**
MATHEMATICAL PROV. FOR MUTUAL SCHEMES	2 258 937	96.1	2 296 621	93.6	37 684	1.7
Statutory	2 175 579	92.6	2 219 267	90.5	43 688	2.0
Lifelong annuities	18 848	0.8	17 826	0.7	-1 022	-5.4
Actuarial	64 510	2.7	59 528	2.4	-4 982	-7.7
SUBSIDIES AND IMPROVEMENTS OF BENEFITS	83 525	3.6	79 455	3.2	-4 070	-4.9
OTHER LIABILITIES	**6 241**	**0.3**	**76 945**	**3.1**	**70 704**	**1 132.8**
TOTAL	**2 348 703**	**100.0**	**2 453 021**	**100.0**	**104 318**	**4.4**

Equity increased in the period in question. This was directly related to the performance of legal reserves and profits, in spite of the negative performance of revaluation reserves, which reflected the instability in most financial markets. An increase in the contribution from schemes and rents to the reserve fund helped to raise the legal reserve component by 9.6%.

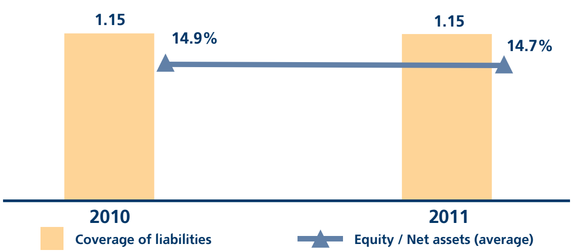
EQUITY

(EUR thousands)

DESCRIPTION	2010 Value	2010 %	2011 Value	2011 %	Variation Value	Variation %
SOCIAL FUND	**158 854**	**38.7**	**166 300**	**40.0**	**7 446**	**4.7**
OWN FUNDS	**90 013**	**21.9**	**99 498**	**24.0**	**9 485**	**10.5**
MANAGEMENT FUND	133	0.0	172	0.0	39	29.3
ASSOCIATION SOLIDARITY FUND	43 162	10.5	47 744	11.5	4 582	10.6
SCHOLARSHIP FUND	935	0.2	951	0.2	17	1.8
FUND TO GUARANTEE PAYMENT EXPENSES	45 405	11.1	50 275	12.1	4 870	10.7
FUND FOR SERV.CLÍNICOS – MONTEPIO EGITANIENSE	378	0.1	356	0.1	-22	-6.0
TECHNICAL SURPLUSES	68 841	16.8	66 802	16.1	-2 040	-3.0
RESERVES	**197 398**	**48.1**	**191 174**	**46.0**	**-6 224**	**-3.2**
REVALUATION RESERVES	-16 902	-4.1	-41 768	-10.1	-24 866	-147.1
LEGAL RESERVES	178 844	43.6	196 095	47.2	17 251	9.6
OTHER RESERVES	35 456	8.6	36 847	8.9	1 391	3.9
PROFITS	**54 393**	**13.2**	**58 157**	**13.9**	**3 764**	**6.9**
NET PROFIT	54 393	13.2	58 157	13.9	3 764	6.9
TOTAL	**410 645**	**100.0**	**415 631**	**100.0**	**4 986**	**1.2**

AM's financial solidity remained relatively stable in a financial scenario of great instability of the global economy and particularly the European economies. The slight fall in the equity to net assets ratio can be explained by the negative impact of revaluation reserves on equity.

FINANCIAL SOLIDITY



6.4.4. PROFITS

The accumulated net profit of Associação Mutualista was 58.2 million euros at the end of 2011, representing an annual growth of 6.9%.

INCOME STATEMENT OF ASSOCIAÇÃO MUTUALISTA

(EUR thousands)

ITEM	2010	2011	Variation	
	Value	Value	Value	%
1. EARNINGS AND GAINS				
Earnings associated with members	554 305	821 521	267 216	48.2
Reduction in mathematical provisions (1)	221 941	415 667	193 726	87.3
Association revenue and other earnings (2)	332 364	405 854	73 490	22.1
Additional earnings	82	30	-52	-63.4
Co-payments and operating subsidies	20 292	23 076	2 784	13.7
Financial earnings and gains	61 068	67 709	6 641	10.9
Extraordinary earnings and gains	8 024	19 369	11 345	141.4
TOTAL	**643 771**	**931 705**	**287 934**	**44.7**
2. COSTS AND LOSSES				
Costs associated with members	559 826	826 964	267 138	47.7
Increase in mathematical provisions (2)	338 945	420 998	82 053	24.2
Overdue benefits, reimbursements and other costs (1)	220 881	405 966	185 085	83.8
Suppliers	3 068	3 534	466	15.2
Personnel costs	6 715	6 675	-40	-0.6
Other operating costs	968	2 124	1 156	119.4
Financial costs and losses	8 088	7 717	-371	-4.6
Extraordinary costs and losses	4 460	11 774	7 314	164.0
TOTAL	**583 125**	**858 788**	**275 663**	**47.3**
3. CASH FLOW	**60 646**	**72 917**	**12 271**	**20.2**
4. DEPRECIATION OF FIXED ASSETS	3 325	3 403	78	2.3
5. DEPRECIATION AND PROVISIONS OF FINANCIAL INVESTMENTS	2 928	11 357	8 429	287.9
6. PROFIT FOR THE YEAR (3-4-5)	**54 393**	**58 157**	**3 764**	**6.9**

(1) Overdue benefits are offset in earnings by the reduction in mathematical provisions.
(2) Association earnings are offset in costs by the increase in mathematical reserves.

Profits in 2011 were marked by the following occurrences:

- Increase in profits transferred from CEMG, as shown under operating subsidies and grants (23.1 million euros in 2011, against 20.3 million euros in 2010);
- Increase in extraordinary earnings through the recovery of impairment recognised as costs in previous years and capital gains from the sale of some properties and securities in the portfolio;
- A rise in extraordinary costs due to losses in the sale of some securities already covered by provisions in previous years;
- Increase in provisions for securities, mainly due to the need to constitute impairment on Greek bonds;
- Good performance in management of the securities portfolio as a result of the rise in remuneration rate on investments and a more active position in short-term investments (commercial paper and treasury bills);
- Release, in net terms, of the actuarial provisions from welfare schemes (5 million euros) as a result of the annual mathematical reserve adequacy test;
- Increase in the minimum guaranteed component (15.3 million euros in 2010 and 20.2 million in 2011) in favour of subscribers of capitalisation schemes, with a negative impact on member profit margin.

6.5. PROPOSALS

6.5.1. PROPOSAL TO USE ACCOUNTING SURPLUSES AND THE GENERAL RESERVE FUND TO COVER NEGATIVE BALANCES IN AVAILABLE FUNDS

Considering that some schemes had a negative annual balance in available funds in 2011 and that, according to Article 59 of the Articles of Association of Montepio Geral Associação Mutualista) «if the annual balance of any available fund is negative, it shall be covered by any surpluses from the permanent fund or own fund and, if necessary, from general reserve funds», we propose the following adjustments:

- Coverage of the negative annual balance in available funds of some schemes using accounting surpluses to the amount of 5 036 625.16 euros;
- Coverage of the negative annual balance in available funds of some schemes using the general reserve fund if there are no or insufficient technical surpluses in the schemes to the amount of 2 715 721.23 euros.

Permanent fund of scheme

	(Euros)
– Technical surpluses	
(That in technical surpluses to fully cover the annual negative balance of the scheme's available fund)	
Retirement pension – additional for disability – 6%	5 925.50
Retirement pension – additional for disability – 4%	325.43
Welfare capital – 4%	1 089 078.28
Deferred welfare capital with option – 4%	3 713 979.14
Capital for young people – 4%	61 868.89
Capital for students – 4%	158 933.59
Lifelong annuities for named persons – 4%	6 514.33
Subtotal	**5 036 625.16**

General reserve fund

	(Euros)
(The remainder to complement total coverage of annual negative balance of the available fund)	
Fixed-term retirement capital – Series 2010-2015 – Series 1	387 661.55
Fixed-term retirement capital – Rendimento Escolar 2011-2026 Series	14.69
Fixed-term retirement capital – Series 2011-2016 – Series 12	1 745.20
Lifelong annuities – 6%	22 895.95
Retirement capital pensions – 6%	18 153.92
Retirement pensions – 4%	992 652.09
Retirement pensions – 4% TV 88/90	1 292 597.83
Subtotal	**2 715 721.23**
TOTAL	**7 752 346.39**

6.5.2. PROPOSED APPROPRIATION OF PROFIT FOR THE YEAR

Taking into account:

- The transfer of 5 036 625.16 euros from accounting surpluses to cover available funds;
- The transfer of 2 715 721.23 euros from the general reserve fund to cover available funds;
- The profit for the year of Associação Mutualista, comprising the sum of the balances of the available funds of the mutual schemes, perpetual annuities and other funds and the income from the general reserve fund to a total amount of 58 156 590.38 euros.

The amount of 65 908 936.77 euros is available for appropriation, for which we make the following proposal:

To the general reserve fund

(Euros)

– Income of fund pursuant to Article 56 (2) (a) of the Articles of Association:		5 496 950.42	
– Allocation pursuant to the combined effect of Article 60 (1) (a) and 60 (2) of the Articles of Association (67% of annual balances of available funds)			
Individual schemes			
Guarantee of payment of expenses (1988 Articles of Association)	7 047 281.60		
Guarantee of payment of expenses I	2 086 660.20		
Guarantee of payment of expenses II	4 608.94	9 138 550.74	
– Allocation pursuant to Article 60 (1) (a) of the Articles of Association (5% of annual balances of available funds of the following schemes and annuities)			
Individual schemes			
Welfare capital – 3%	2 764.81		
Deferred welfare capital with option – 3%	74 394.13		
Capital for young people – 3%	7 416.22		
Retirement pensions – 3%	1 783.98		
Retirement pensions – contribution refund – 3%	814.40		
Retirement capital pensions – 3%	2 243.32		
Retirement savings pensions – 3%	15.42		
Temporary disability capital – 3%	29.65		
Guarantee capital	4 262.68		
Disability contributions – collective schemes	33.78		
Fixed annuities / collective scheme pension – 3%	67.21		
Retirement pensions – contribution refund – 4%	7 914.29		
Retirement pensions – contribution refund – 4% (TV88/90)	3 162.21		
Retirement pensions – additional disability cover – 4% (TV 88/90)	32.78		
Retirement capital pensions – 4%	9 495.79		
Death allowance	1 356.42		
Term welfare capital	272.29		
Survivor's pensions and dowries	60 331.19		
Disabled person pensions	1 817.27		
Temporary disability capital – 4%	1 229.47		
Survivor's annuities	1 146.10		
Deferred capital with additional cover	92.49		
Welfare capital in favour of named persons	25.17		
Death allowance – Lutuosa Nacional	29.76		
Retirement pensions – 6%	386 894.33		
Retirement pensions – contribution refund – 6%	2 647.77		
Retirement savings	74 333.44		
Retirement capital	1 180 314.57		
Collective schemes			
Collective capital	9 520.58		
Lifelong annuities – 4%	4 818.93		
Lifelong annuities – 3%	8 312.53		
Miscellaneous funds			
Scholarship fund	974.83		
Serviços Clínicos Montepio Egitaniense fund	770.76		
– Allocation pursuant to Article 60 (1) (a) of the Articles of Association (10% of annual balances of available funds of the following scheme)			
Individual schemes			
Fixed-term retirement capital	513 488.62	2 362 807.19	16 998 308.35

To permanent funds of schemes and annuities

		(Euros)
– (Allocation pursuant to Article 60 (1) (c) of the Articles of Association)		
– Technical surpluses:		
Welfare capital – 3%	52 531.46	
Deferred welfare capital with option – 3%	1 413 488.44	
Capital for young people – 3%	140 908.14	
Retirement pensions – 3%	33 895.70	
Retirement pensions – contribution refund – 3%	15 473.51	
Retirement capital pensions – 3%	42 623.09	
Retirement savings pensions – 3%	292.96	
Temporary disability capital – 3%	563.42	
Fixed annuities / collective scheme pension – 3%	1 276.99	
Retirement pensions – contribution refund – 4%	150 371.50	
Retirement pensions – contribution refund – 4% (TV88/90)	60 082.01	
Retirement pensions – additional disability cover – 4% (TV 88/90)	622.80	
Retirement capital pensions – 4%	180 419.99	
Death allowance	25 772.00	
Term welfare capital	5 173.53	
Survivor's pension and dowries	1 146 292.67	
Pensions for the disabled	34 528.06	
Temporary disability capital – 4%	23 359.87	
Survivor's annuities	21 775.89	
Deferred capital with additional cover	1 757.22	
Welfare capital in favour of named persons	478.22	
Death allowance – Lutuosa Nacional	565.39	
Retirement pensions – 6%	7 350 992.22	
Retirement pensions – contribution refund – 6%	50 307.59	
Lifelong annuities – 4%	91 559.59	
Lifelong annuities – 3%	157 938.13	11 003 050.39

To own funds of schemes and other funds

			(Euros)
(Allocation pursuant to Article 60 (1) (c) of the Articles of Association)			
– Capitalisation schemes			
Individual schemes			
Retirement capital	22 425 976.83		
Guarantee capital	80 990.90		
Retirement savings	1 412 335.39		
Fixed-term retirement savings	4 621 397.40		
Disability contribution – collective schemes	641.74		
Collective schemes			
Collective capital	180 891.04	28 722 233.30	
– Association solidarity fund		4 625 909.27	
– Management fund		25 192.14	
– Serviços Clínicos Montepio Egitaniense fund		14 644.41	
– Scholarship fund		18 521.69	
– Fund to guarantee payment of expenses (1988 Articles of Association)		3 471 049.14	
– Fund to guarantee payment of expenses I		1 027 758.01	
– Fund to guarantee payment of expenses II		2 270.07	37 907 578.03
TOTAL			**65 908 936.77**

6.5.3. PROPOSAL FOR THE RESTORATION OF THE GENERAL RESERVE FUND

Pursuant to Article 56(3) of the Articles of Association of Montepio Geral – Associação Mutualista, under which «the Reserve Fund shall be restored in the amount used to top up Available Funds», the following restoration is proposed:

(Euros)

Retirement pensions – 6%	101 765.91	
Retirement capital pensions – 4%	155 922.49	
TOTAL		**257 688.40**

On the other hand, and in line with a process started in 2005, an adequacy test was conducted on actuarial scheme liabilities, based on the most realistic assumptions. The calculations show that some schemes may release mathematical reserves created the previous year. In light of this, the following restoration is proposed:

(Euros)

– To the general reserve fund			
Retirement pensions – 6%	7 249 226.31		
Lifelong annuities – 4%	91 559.59		
Retirement capital pensions – 4%	24 497.50	7 365 283.40	
– To technical surpluses			
Survivor's pensions and dowries	1 114 920.56		
Pensions for the disableds	24 994.02	1 139 914.58	
TOTAL			**8 505 197.98**

6.5.4. PROPOSED ALLOCATION OF BENEFIT IMPROVEMENTS

We propose that benefit improvements (on mathematical reserves relating to benefits in formation and in progress as at 31 December 2011) be allocated to the following schemes:

– Schemes and annuities at a technical rate of 6%	0.00%
– Schemes and annuities at a technical rate of 4%	0.00%
– Schemes and annuities at a technical rate of 3%	1.00%

All the schemes and annuities with negative annual available funds or with accumulated debts to the general reserve fund or positive annual available funds only due to the release of actuarial provisions resulting from the liabilities adequacy test are not entitled to improvements. The cost of improvements to be allocated to members is as follows:

(Euros)

(Allocation pursuant to Article 18 of the Articles of Association and 53 of the Mutual Association Code)		
– Schemes with a technical rate of **3%**		
Welfare capital	4 502.31	
Deferred welfare capital with option	440 736.65	
Capital for young people	83 441.25	
Retirement pensions	14 733.97	
Retirement capital pensions	40 695.51	
Retirement savings pensions	279.13	
Temporary disability capital	33.03	
TOTAL		**584 421.85**

6.5.5. PROPOSED APPROPRIATION OF ACCOUNTING SURPLUSES ON PERPETUAL ANNUITIES

Considering the amount of accounting surpluses in the perpetual 3% annuity fund and Article 64(6) of the Articles of Association of Montepio Geral – Associação Mutualista, we propose that the annuities set up prior to 31 December 2010 be increased by 1% (40 624.16 euros).

6.5.6. PROPOSAL TO ALLOCATE AN ADDITIONAL ANNUAL INCOME TO CAPITALISATION SCHEMES

Taking into account:

- The annual profit generated by retirement capital, retirement savings and collective capital schemes, minus their minimum guaranteed annual incomes and the contribution to the management fund;
- the allocations to the general reserve fund,

we propose that the allocation of the additional annual income be made in a differentiated fashion to ensure that each scheme has an overall rate of 3.25%:

– Retirement savings	2.601%
– Retirement capital	Between 1.00% and 2.601%
– Collective capital	2.601%

In order to allocate an overall rate of return of 3.25% to capitalisation schemes, we expect the need for an extraordinary financial resource of 19.4 million euros, which may be covered by the profit stabilisation reserve for the schemes themselves.

The details of the proposed additional annual income for the retirement capital scheme are as follows:

Subscription date	Situation as at 31 December 2011	Guaranteed annual income in 2011	Additional annual income
1 March 1990 to 31 August 1992	Annual average Refi rate -0.6% from 01/Jan/2011 to 31/Dec/2011	0.649%	2.601%
1 September 1992 de to 31 October 2003	Annual average Refi rate -0.6% from 01/Jan/2011 to 31/Dec/2011	0.649%	2.601%
1 November 2003 to 28 February 2007	Guaranteed rate of 75% of technical rate of 3% (2.25%) from 1/Jan/2011 to when they reached 5 years Annual average Refi rate -0,6% from when they reached 5 year to 31/Dec/2011	from 0.649% to 2.25%	from 2.601% to 1.00%
	Subscription older than 5 years on 31/12/2011 had a guaranteed minimum rate of 75% of the technical rate of 3% (2.25%)	2.25%	1.00%
Since 1 March 2007	Annual average Refi rate -0.6% from 01/Jan/2011 to 31/Dec/2011	0.649%	2.601%

6.5.7. PROPOSED CONTRIBUTION TO THE MANAGEMENT FUND

In order to help guarantee the commitments of the management fund with regard to the management costs borne by Associação Mutualista, we propose the approval of the following contributions from schemes and annuities in 2011:

SCHEME	(%)
Retirement capital	0.315
Retirement savings	0.315
Collective schemes	0.315
Fixed-term retirement capital	0.250
Guarantee of payment of expenses 1988, I and II	1.000
Remaining schemes and lifelong annuities	0.475

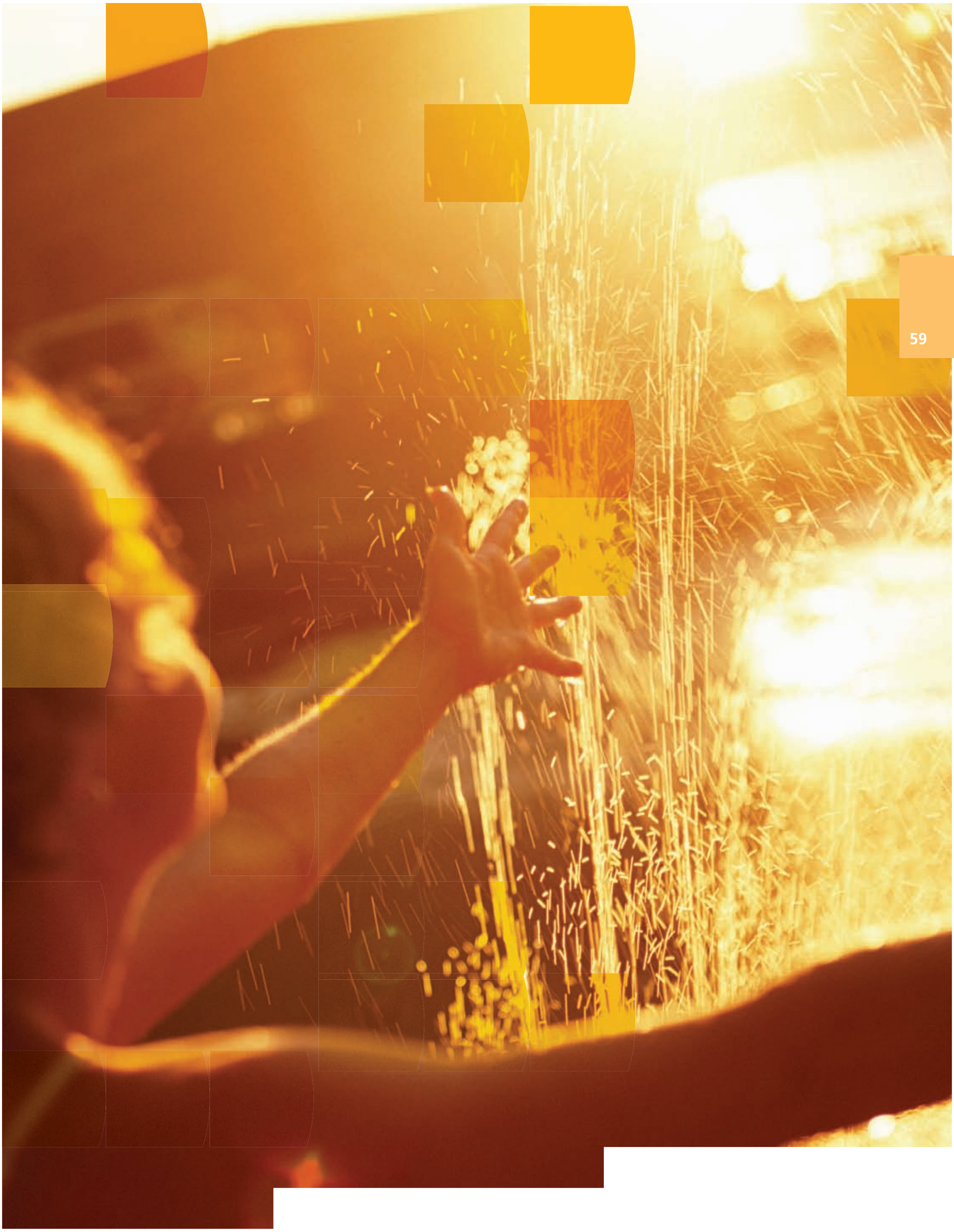
6.5.8. PROPOSED APPROPRIATION OF INCOME TO BE TRANSFERRED FROM CAIXA ECONÓMICA

Considering the amount of income to be transferred from Caixa Económica in respect of profits for 2011, we propose that, pursuant to Article 62 of the Articles of Association, it be appropriated as follows:

	(Euros)
To the association solidarity fund	495 000.00
To the scholarship fund	9 000.00
To available funds and general reserve	16 080 445.00
TOTAL	**16 584 445.00**

6.5.9. PROPOSED ALLOCATION TO FUNDAÇÃO MONTEPIO GERAL

Fundação Montepio Geral was set up by Montepio Geral – Associação Mutualista in 1995. In order for it to fulfil its statutory mission of social responsibility, which has been stepped up in recent years and warrants considerable strategic attention, the Board of Directors proposes to the General Meeting of Shareholders that 900 000 euros should be transferred to the Associative Solidarity Fund.



07 Caixa Económica Montepio Geral (Consolidated accounts)

7.1. TRENDS IN BUSINESS

PRODUCTS AND SERVICES BY SEGMENT

Based on its strategy and the market situation, Montepio continued to offer products and services aimed at increasing levels of liquidity and deleveraging.

PRIVATE CUSTOMERS

Our marketing strategy for private customers in 2011 focused on attracting deposits, thereby encouraging households to save. Our portfolio of private customers grew around 12.8% due not only to the inclusion of Finibanco, SA customers but also to the attractiveness of the brand and savings solutions offered.

In addition to offering a stable, diversified range of resources, we also gave priority in 2011 to standardising the products and services available in the Montepio network and at former Finibanco, SA branches and so several products were introduced to attract funds. They included *Montepio Poupança Hoje*, a two-year term deposit that was the first financial investment advertised and sold by both networks.

Considering the stability of resources and the low risk, we also offered financial investments in the form of term deposits that were predominantly medium term (3 years), such as the monthly series of *Montepio Aforro Prémio 2011*. For longer maturities, there were also *Montepio Super Poupança 2011* and *Montepio Capital Certo* (five to eight years), an exclusive product for Montepio members.

Montepio continues to play an important role as an agent of financial education and promoter of saving. It introduced *Depósito Montepio Poupança Ativa* which allows periodic or sporadic deposits and encourages small, regular saving. We also introduced *Montepio Super Depósito 5%* and *Montepio Super Depósito 4.5%*, for less than one year, with very competitive interest rates to attract new deposits.

Following on from our strategy of previous years, we continued to encourage the use of remote channels by constantly offering exclusive products for them, such as *Conta Montepio 24*, *Super Depósito* Net and *Super Depósito* Net Plus, whose pricing policy was constantly updated. We also introduced *Depósito* Net *Crescente* (three months) for the affluent segment.

After the success of campaigns in previous years, in which the historical Montepio money box played an important role, in 2011 attention went to a star for the kids, **Panda**.

On the World Day of the Child, we began the campaign «Tu podes ser super a poupar. O Panda ensina-te» (You can be a super saver. Panda will teach you) for children, featuring the concepts of saving, financial education and the money box.

We used the radio, street panels, the internet and branches. The average spontaneous recognition rate (Publivaga/Marktest) of the Montepio brand was 3.9% in June (2.9%in 2010).

In order to continue to retain customers and strengthen their relationship with Montepio as their main bank, we introduced *Solução Montepio Viva* for the over 55 years to add to *Soluções Consigo e Valor* in the private customer segment portfolio.

Our equity investment fund portfolio was restructured and complemented with nine new investment funds from Finibanco, which were included in the Montepio asset management portfolio.

Our range of equity investment funds now included funds managed by Sociedade Gestora Finivalor, which managed the Finipredial fund, which began to be sold in the Montepio network.

In 2011, Montepio redesigned its range of credit cards and devised the ORIGEM card to replace the Mega card. In addition to the usual advantages of a credit card, this one has a loyalty programme that allows customers to collect points that can be exchanged for rewards.

At the end of 2011, Montepio had a portfolio of 215 180 credit cards. The use rate rose 8.9% year-on-year and billing increased 4.29%. These are noteworthy results considering the current market scenario.

Montepio, in partnership with the Group's insurance companies, reformulated the Montepio Mais policy and changed its name to *Montepio Proteção Mais*. This is an eight-year policy combining protection and saving and is easy and quick to subscribe.

A new line of credit called *Montepio Mais Mobilidade* was introduced in partnership with Mobilidade Positiva. It includes insurance cover and is unique on the market. In 2011, we were more selective in granting new loans. This, together with a significant slowdown in demand due to the economic recession, resulted in fewer contracts than in 2010.

COMPANIES

In spite of the economic slowdown, Montepio continued to support companies and businesses and pursued its stake in the segment as a financial institution committed to the country's development.

It therefore added to its range of products and services for this segment and restructured its existing range in order to provide better quality of service.

Our customer portfolio grew 45%, not only thanks to the incorporation of Finibanco network customers but also to efforts to attract customers in this segment, in pursuit of our strategy of diversifying business.

The range of resources was reformulated to meet companies' growing needs for liquidity. We also reviewed products features: price and frequency of interest on the investments *Montepio Aforro Negócios* and *Montepio Mais Negócios*.

Montepio continued to assist companies on a daily basis and provide the company segments with integrated solutions encompassing products and services for their everyday management, appropriate to the different sub-segments' needs.

APTs (automatic payment terminals) continue to play an essential role in attracting and retaining customers in the small business segment.

Together with *Diário Económico* newspaper, the conference «*Ganhar com as Energias Renováveis*» (Gaining with renewables) was held in Porto. More than 220 people attended and the following goals were met:

- To present relevant themes for the company segment;
- To provide contact with the Montepio brand;
- To disseminate Montepio's product offer and present the customer support commercial structure.

Credit portfolio management and the grant of new loans required strict management of risk and margins and Montepio reviewed its prices in view of the new market conditions and the banking context in Portugal.

In 2011, public authorities continued to promote agreements with credit institutions in order to provide companies in general and smaller ones in particular with access to bank funding.

Pursuing its policy of supporting companies' growth and development, these initiatives received full support from Montepio, which subscribed and stimulated the following special lines:

- *Export Investe*: a Portuguese line of credit for export companies with long production and sales cycles;
- *Açores Investe II* and Restructuring of Azorean Companies' Bank Debt II: lines of credit financed by the Azores Regional Government to boost the financial capacity of the region's companies and make it possible to restructure bank liabilities;
- Low-interest line of credit for micro and small enterprises in Madeira II: an instrument for financing small companies in the Madeira region for new investment and an increase in permanent capital.

These lines of credit also made it possible to reinforce the partnership between Montepio and the mutual guarantee system based on shared risk, in order to boost the funding of Portuguese companies and continue to support them.

THIRD SECTOR

In the current economic and financial context, the development of the social economy is fundamental to the maintenance and survival of many institutions in the third sector.

Montepio, as a key financial institution in the third sector, is a strategic partner in meeting financial needs and developing specific products and services suited to institutions in the sector at an appropriate price.

In 2011, we continued to step up our role in the third sector in developing Montepio's business, not only because of the potential in third-sector institutions with respect to their need to construct new services and reorganise others in order to respond to growing needs in their field of action, but also because of the number of people involved in their activities.

To this end, we developed and perfected our range and introduced an exclusive one-year deposit called *Depósito Terceiro Setor*. Also important were the *Montepio IPSS* and *Montepio Misericórdias* solutions, that provide products and services at an appropriate price for institutions in this segment.

In 2011, Montepio organised initiatives in this segment, the most noteworthy of which were::

- The *Voluntariado – Que Valor Económico?* (Volunteering – What Economic Value?) conference in partnership with *Diário Económico* in Lisbon in April 2010;
- CNIS congress on *Rumo Solidário para Portugal* (Caring Route for Portugal);
- Conference *Economia*, *Demografia e Sustentabilidade* (Economics, Demography and Sustainability) organised by *OJE* in partnership with the APFN (Associação Portuguesa das Famílias Numerosas);
- Conference *Voluntariado* (Volunteering) organised by *DN/Notícias Magazine*;
- Sponsorship of 15th Meeting of Sociedade Portuguesa de Genética Humana at Pavilhão do Conhecimento in Lisbon;
- Participation in a seminar of AFID – Associação Nacional de Famílias para a Integração da Pessoa Deficiente on *Qualidade de Vida em Contextos de Intervenção Social* (Quality of Life in Contexts of Social Intervention) at Fundação Calouste Gulbenkian.

All these events provided the opportunity for contact with our brand and they debated issues of importance to the segment. Montepio's products and services were advertised, with special focus on Montepio Voluntariado insurance.

CUSTOMER RESOURCES

A reformulation of our portfolio of products to provide low-risk savings opportunities with different maturities resulted in a 32.9% increase in total customer resources (including securities placed with customers), to 14.4985 billion euros at the end of 2011. Total customer resources essentially refer to deposits to the amount of 13.6086 billion euros in 2011 (10.0218 billion euros in 2010), 35.8% growth. Excluding the business generated by the branch network from Finibanco, totalling 2.3152 billion euros, our portfolio of customer deposits varied by 12.7%.

(EUR thousands)

	2010	2011	Variation	
	Value	Value	Value	%
Deposits of private customers and small businesses	**7 785 112**	**10 848 634**	**3 063 522**	**39.4**
Private customers	7 112 017	9 949 568	2 837 551	39.9
Retailers and members of the professions	57 309	53 717	-3 592	-6.3
Non-profit institutions	615 786	845 349	229 563	37.3
Deposits of companies	**1 851 556**	**2 248 138**	**396 582**	**21.4**
Deposits from other segments	**385 126**	**511 783**	**126 657**	**32.9**
Securities placed with customers	**888 405**	**889 990**	**1 585**	**0.2**
TOTAL	**10 910 199**	**14 498 545**	**3 588 346**	**32.9**

Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.

There was a considerable increase in deposits from the retail segment, small and medium savings from private customers and small businesses, especially private customers (+39.9%), non-profit institutions (+37.3%), companies (+21.4%) and others (+32.9%). 2011 confirmed Montepio's position as a retail bank for savers with 39.9% growth in its portfolio of customer deposits. Excluding the effect of the business from Finibanco worth 1.6467 billion euros, it achieved growth of 16.7%.

CUSTOMER CREDIT

Our portfolio of credit to customers totalled 17.4 billion euros, which was 15.8% higher than the 15 billion euros in 2010. Excluding the effect of including the network from the acquisition of Finibanco, our credit portfolio fell by around 1.7%. This reduction is in line with the deleveraging goals set in the Finance and Capitalisation Plan.

Credit has been deleveraged gradually in accordance with our strategy. The operation focused on the mortgage and construction loan segments.

Our portfolio of credit to private customers totalled 10.9 billion euros, representing 7.7% growth (excluding the effect of the integration of Grupo Finibanco a -6.1%). Our mortgage portfolio fell by 0.4% (with the business from Grupo Finibanco the drop was 3.6%).

(EUR thousands)

	2010	2011	Variation	
	Value	Value	Value	%
Banking for private customers and small businesses				
Total portfolio	**10 127 908**	**10 912 153**	**784 245**	**7.7**
Private customers	**9 835 409**	**10 322 893**	**487 484**	**5.0**
of which:				
Mortgages	8 485 379	8 451 702	-33 677	-0.4
Personal	433 297	777 211	343 914	79.4
Small businesses	**292 499**	**589 260**	**296 761**	**101.5**
By memory:				
Guarantees	**19 381**	**21 528**	**2 147**	**11.1**

Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.

Our credit portfolio to the company segment increased 30.8% to 6.4 billion euros (5.7% without the business from Grupo Finibanco). Exposure to the construction segment went down by 139 million euros, as opposed to the growth in credit for investment by companies in other segments, which rose 1.4 billion euros, a 77.3% increase (46.3% without the business from Grupo Finibanco).

(EUR thousands)

	2010	2011	Variation	
	Value	Value	Value	%
Corporate banking				
Total credit portfolio	**4 860 447**	**6 358 648**	**1 498 201**	**30.8**
of which:				
Construction	1 509 342	1 370 193	-139 149	-9.2
Investment	1 814 127	3 216 781	1 402 654	77.3
By memory:				
Guarantees	339 660	432 933	93 273	27.5

Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.

In specialised credit, such as leasing, the main strategic actions included consolidation of the motor segment, with dispersal of risk and support for the real estate and equipment areas only for low-risk customers. In 2011, there was 93.2% increase to 541.4 million euros (6.2% without the effect of the integration of Finibanco).

(EUR thousands)

	2010	2011	Variation	
	Value	Value	Value	%
Leasing	**280 185**	**541 389**	**261 204**	**93.2**
Vehicles	43 676	118 134	74 458	170.5
Equipment	73 173	125 135	51 962	71.0
Real estate	163 336	298 120	134 784	82.5
Fatura Ok – discount of invoices	**111 180**	**157 058**	**45 878**	**41.3**
Renting	**3 909**	**7 511**	**3 602**	**92.1**
TOTAL	**395 274**	**705 958**	**310 684**	**78.6**

Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.

7.2. RISK MANAGEMENT

DEVELOPMENTS

In 2011 we continued to develop methods and procedures for identifying risks, quantifying potential losses and taking measures to mitigate them.

The Risk and Internal Control Committee met and policy on the delegation of credit decision powers was reviewed regularly to make it sensitive to the degree of risk of the customer and operation.

At a prudential level, we continued the reporting processes to Banco de Portugal provided for in Pillar II – supervisory review and Pillar III – market discipline of Basel II. Pursuant to Pillar II, we reported to Banco de Portugal the results of the internal capital adequacy assessment process (ICAAP), stress tests and risk concentration tests in accordance with Banco de Portugal Instruction 5/2011. These results point to solid levels of capital to face the most material risks and potential downward trends in the main macroeconomic indicators. Pursuant to Pillar III, we published our market discipline report detailing the types and degrees of risk incurred in our business and our risk management processes, structure and organisation.

CREDIT RISK

In 2011, the frequency of one-year default on loans to companies increased, especially in the higher risk classes of construction, which continues to show higher default levels.

In the private customer segment average frequency of default on mortgages and personal loans is monitored periodically. One-year levels of default for new customer operations are higher than those for existing customers. In this segment, there was an increase in non-performing loans in the total portfolio, caused by a deterioration in economic conditions and a reduction in the active portfolio. When analysed using reactive scoring, the operations in 2011 were similar to those of the previous year, with higher concentration in the low and medium risk classes.

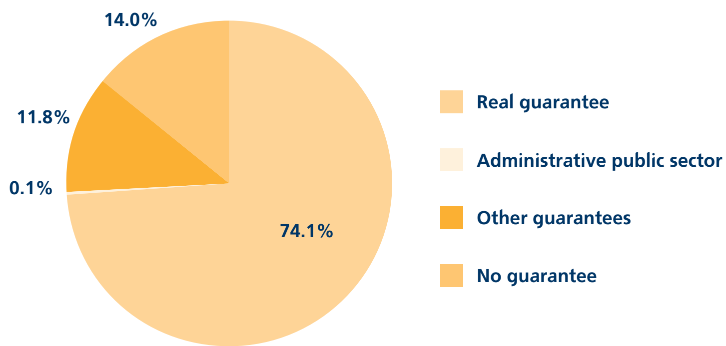
Special Inspection Programme (SIP)

The results of the FAP inspections of the quality of our credit portfolio and adequacy of capital requirements were disclosed on 16 December 2011. The inspections of CEMG's credit portfolio and calculation of capital requirements for the credit risk concluded that the levels of impairment and solvency were adequate and above the required levels at the time. The exercise involved the assessment of 17.4 billion euros and covered CEMG's entire credit portfolio on consolidated terms.

In the home loan segment the medium scoring class improved slightly against 2010 due to more restrictive lending criteria, while the medium risk class in personal loans remained the same. The LTV (loan to value) ratio remained practically unchanged. The average LTV of our credit portfolio was 68.7% in December 2011 against 68.6% in December 2010.

Although Montepio's portfolio of loans and interest in arrears totalled 822.8 million euros, it retained a low-risk profile thanks to the degrees and types of guarantee associated with it. Real guarantees represented around 74% of the total.

CREDIT PORTFOLIO BY TYPE OF GUARANTEE – 2011



Loans and interest in arrears for more than three months totalled 693.9 million euros and accounted for 84.3% of the total. The ratio of loans and interest in arrears for more than three months was 3.99%.

MAIN INDICATORS OF LOANS AND INTEREST IN ARREARS

(EUR thousands)

INDICATORS	2010	2011	Variation	
			Value	%
Gross Loans to Customers	**15 040 645**	**17 410 344**	**2 369 699**	**15.8**
Loans and Interest in Arrears	**577 490**	**822 750**	**245 260**	**42.5**
Loans in arrears for more than 3 months	486 761	693 892	207 131	42.6
Impairment for Credit Risks	**521 811**	**770 476**	**248 665**	**47.7**
Ratio of Loans in Arrears as % of Total Loans				
Ratio of Loans and Interest in Arrears for more than 3 months	3.24	3.99	0.75 p.p.	
Ratio of Defaulted Loans (a)	3.83	4.73	0.90 p.p.	
Ratio of Defaulted Loans net of provisions (a)	1.43	1.47	0.04 p.p.	
Ratio of Loans in Risk (a)				
Credit in Risk / Total Loans (%)	5.09	8.05	2.96 p.p	
Coverage of Loans in Arrears by Impairments (%)				
Loans in arrears for more than 3 months	107.20	111.04	3.84 p.p.	

Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.
(a) In accordance with Bank of Portugal Instruction 23/2011.

Impairment for credit risk amounted to 770.5 million euros. This increase in provision for credit risks made it possible to improve coverage ratios of loans and interest in arrears for than three months by impairment, going from 107.2% in 2010 to 111%, in 2011 (+3.8 p.p.).

CONCENTRATION RISK

Our strategic guidelines are designed to mitigate this risk, which has been analysed in recent years, such as in Bank of Portugal Instruction 5/2011.

There was a favourable change in the main types of concentration risk – sectoral and geographical in 2011, particularly due to the inclusion of the Finibanco, SA credit portfolio. There was therefore a decrease in the sectoral concentration rate from 21.5% to 16% between December 2010 and December 2011, with a sizeable reduction in the weight of the construction sector, although it still carries the most weight in the credit portfolio.

In terms of geographical concentration, the districts of Lisbon and Porto remained the regions most represented in our credit portfolio. Lisbon's exposure fell 2.5 percentage points to 34.4%, between December 2010 and December 2011, while that for Porto increased 0.2 percentage points against December 2010, accounting for 14.9%. However, geographical distribution is equivalent to each district's population density.

In the individual concentration risk, which measures the risk of significant exposure to an individual counterparty or a group of related counterparties, there was a slight increase in the 100 greatest exposures in our total credit portfolio from 11.9%, in December 2010 to 12.9% in December 2011. This represented a variation in the individual concentration rate from 0.2% to 0.19%.

FINANCIAL ASSET RISK

Montepio's securities portfolio increased 143.8 million euros from 2010 to 2011. The percentage of bonds in the portfolio went down from 89.5% to 76.4%) and the weight of capital securities rose from 0.6% to 13.5%.

The main changes in the bond portfolio structure by rating (excluding mortgage bonds and securitisations) were caused essentially by the reduction in ratings of Euro Area countries and Portugal in particular.

BREAKDOWN OF SECURITIES' PORTFOLIO BY ASSET TYPE

(EUR thousands)

ASSETS TYPE	2010		2011		Variation	
	Value	%	Value	%	Value	%
Bonds	2 175 016	89.5	1 965 388	76.4	-209 628	-9.6
Commercial Paper	241 637	9.9	260 998	10.1	19 361	8.0
Capital Securities	13 915	0.6	347 982	13.5	334 067	2400.8
TOTAL	**2 430 568**	**100.0**	**2 574 368**	**100.0**	**143 800**	**5.9**

Note: 2011 includes the acquisition of Finibanco Holding, SGPS, SA, which should be considered for the purpose of comparison.

BREAKDOWN OF BOND PORTFOLIO BY RATING
(Excluding Mortgage Bonds and Securitisation)

(EUR thousands)

RATING	2010		2011		Variation	
	Value	%	Value	%	Value	%
AAA	42 810	2.2	43 364	2.2	554	1.3
AA+	92 046	4.8	1 589	0.1	-90 457	-98.3
AA	55 607	2.9	24 931	1.2	-30 676	-55.2
AA-	60 700	3.1	77 578	3.9	16 878	27.8
A+	1 211 724	62.8	37 297	1.9	-1 174 427	-96.9
A	113 439	5.9	97 000	4.8	-16 439	-14.5
A-	98 213	5.1	62 737	3.1	-35 476	-36.1
BBB+	78 026	4.0	50 442	2.5	-27 584	-35.4
BBB	35 982	1.9	49 961	2.5	13 979	38.9
BBB-	34 059	1.8	27 541	1.4	-6 518	-19.1
BB+	58 668	3.0	1 247 924	62.3	1 189 256	2027.1
BB	2 725	0.1	70 790	3.5	68 065	2497.7
BB-	12 642	0.7	31 347	1.6	18 705	147.9
B+	0	0.0	28 322	1.4	28 322	–
CCC+	0	0.0	5 850	0.3	5 850	–
CCC	0	0.0	24 087	1.2	24 087	–
NR	33 017	1.7	121 940	6.1	88 923	269.3
TOTAL	**1 929 658**	**100.0**	**2 002 700**	**99.9**	**73 042**	**3.8**

Note: 2011 includes the acquisition of Finibanco Holding, SGPS, SA, which should be considered for the purpose of comparison.

LIQUIDITY RISK

The liquidity risk is monitored by finding statistical and dynamic liquidity mismatches, watching changes in deposits and conducting stress tests, the results of which are presented at the ALCO – Assets & Liabilities Committee and in a balance sheet risk report. For prudential purposes, the supervisor is sent the monthly report set out in Banco de Portugal Instruction 13/2009 and a weekly report on funding needs and available collateral to the ECB.

In order to mitigate the liquidity risk, Montepio uses diversified sources of finance, favouring stability of resources, maintains highly liquid assets that allow it to borrow from the European Central Bank (ECB), and takes measures to attract more deposits.

The value of eligible assets deposited at the ECB fell by around 443 million euros from 3.43 billion euros as at 31 December 2010 to 2.99 billion as at 31 December 2011. This reduction in its collateral pool was due to the conditioning of the price of assets given as guarantees to the ECB, which suffered considerably as a result of the successive reductions in ratings for Portugal and Portuguese issuers. There was also an increase in the use of ECB resources from 1.54 billion euros as at 31 December 2010 to 2 billion euros at the end of 2011 (considering pro-forma figures for 2010 of former Finibanco, the increase was from 1.8 billion euros to 2 billion euros). The value of our available liquidity pool fell by 902.8 million euros, due to the depreciation of public debt assets and the use of the ECB liquidity facility to amortise CEMG's debt that matured in 2011. We also took the opportunity to borrow from the ECB at the weighted refi rate at three years, which made funding more stable and took pressure off the use of weekly borrowing operations.

POOL OF ASSETS ELIGIBLE FOR REFINANCING AT THE ECB

(EUR thousands)

	2010		2011		Variation	
	Value	%	Value	%	Value	%
1 – Pool of eligible assets	3 433 820	100.0	2 991 055	100.0	-442 765	-12.9
2 – Use of pool	1 540 000	44.8	2 000 000	66.9	460 000	29.9
3 – Pool available assets (1-2)	**1 893 820**	**55.2**	**991 055**	**33.1**	**-902 765**	**-47.7**

Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.

As in previous years, the Interbank Money Market (IMM) was not very active during the year. Lending and borrowing operations were concentrated in short maturities of up to one week. Portugal's increased risk affected business with other jurisdictions. CEMG's position at the end of 2011 showed a net balance of 95 million euros of surplus investments in other credit institutions at an average rate of 1.3211%, which was higher than the refi rate and Euribor for the maturities. The continuation of exceptional liquidity support measures by the ECB, through its policy of total fixed-rate allocation, made it possible to maintain interbank market rates below the refi and close to the absorption rate. As at 31 December 2011 CEMG had no loans from the IMM.

CEMG has been performing a gradual deleveraging process, giving priority to customers' deposits, especially small and medium savings. It has also been containing its credit portfolio thereby reducing the commercial gap and consequently the conversion ratio of customers' deposits and resources (including securities placed with customers) into credit (leverage ratio). In 2011, there was a substantial 24 p.p. reduction in the ratio of net credit to customers / total customers' deposits.

CONVERSION RATIO OF DEPOSITS INTO CREDIT (%)

	2010	2011	Variation
	Value	Value	Value
Net credit to customers (1) / total customer deposits	**148.1**	**124.1**	**-24.0 p.p.**
Net credit to customers (1) / total customer resources (2)	**136.0**	**116.5**	**-19.5 p.p.**

Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.
(1) Includes commercial paper.
(2) Includes securities placed with customers.

Historically, CEMG has shown dynamic positive liquidity gaps with positive accumulated mismatches for the different time-lines up to 12 months, which reflects a balanced liquidity plan. At the end of 2011, the dynamic accumulated liquidity mismatch up to the following 12 months was 105 million euros.

DYNAMIC GAPS IN LIQUIDITY POSITION AS AT 31 DECEMBER 2011

(EUR millions)

	Timeframes				
Position on referance date	**At sight and up to 1 week**	**Over 1 week and up to 1 month**	**Over 1 month and up to 3 months**	**Over 3 months and up to 6 months**	**Over 6 months and up to 12 months**
Accumulated mismatches	**897**	**986**	**582**	**363**	**105**

INTEREST RATE RISK

When identifying, measuring and controlling the interest rate risk in its bank portfolio, Montepio follows the recommendations of the Bank for International Settlements (BIS) and regularly monitors its exposure to this risk through the Assets & Liabilities Committee and in a balance sheet risk report.

Along with the internal control mechanisms mentioned, as part of prudential reporting, we send to the Bank of Portugal the six-monthly report set out in Instruction 19/2005 with information on exposures by maturity or resetting of interest and its impact on net worth and interest rate margin.

The impact on net worth of a parallel movement of +200 base points (b.p.) in the income curve is -3% (- 5% in 2010). The sensitivity of Montepio's bank portfolio to the interest rate risk is therefore much lower than the reference limit of 20% of own funds set by the BIS in «Principles for the Management and Supervision of Interest Rate Risk».

At the end of 2011, the accumulated 12-month repricing gap was estimated at 3.1 billion euros, (1.3 billion in 2010) and we can expect an impact on net interest income of +29.6 million euros (+12 million euros in 2010) in the event of an instantaneous change in interest rates of +100 b.p. The variation in this measurement is essentially the result of the integration of Finibanco and the refinancing at the ECB to longer maturities.

OPERATING RISK

The operating risk is that of losses resulting from failures or deficiencies in internal processes, human resources or systems or external factors. The operating risk is managed with the individual intervention of all employees, who are responsible for managing the risk resulting from their duties through operating risk interlocutors. Their mission, in turn, is to ensure that this risk is properly managed in their unit and in the others through the Operating Risk Department, which is responsible for coordinating the development, implementation and monitoring of the policy and strategy for managing this risk.

There is a system for identifying, monitoring, mitigating and reporting the operating risk.

In the identification phase, the culture and management of operating risk was disseminated, charts of activities, risks and controls were reviewed and underwent annual self-assessment and the operating risk profile of new products, processes and activities was evaluated.

In the monitoring phase, the main work consisted of pinpointing losses caused by operating risk, implementing general KRI (key risk indicators) related to systems, assessng exposure to the operating risk in committee and drafting periodical reports on the institution's operating risk profile.

In the mitigation phase, action plans were suggested for the most significant risks based on the main operating risk management tools.

Events related to processes and external fraud are the most common and serious, although events related to processes have lower impact in terms of severity.

EVENTS BY TYPE OF LOSS IN 2011

FREQUENCY		SEVERITY	
Lawsuits	72.8%	Lawsuits	41.9%
External fraud	16.0%	External fraud	31.1%
Customers and business	5.2%	Customers and business	12.8%
Others	6.0%	Others	14.2%

In 2011, the work of the Business Continuity Plan continued. The plan is a risk-mitigating tool to ensure that operations continue in case of events interrupting activity.

STRESS TESTS

Every six months, CEMG conducts sensitivity analyses and stress tests for the most important risks in compliance with Bank of Portugal Instruction 04/2011. These are important tools in the planning of liquidity and internal capital as they simulate adverse conditions and the institution's response capacity.

In the first quarter of 2011 CEMG took part in new Bank of Portugal stress tests of the balance sheet and profits, which involved a long scenario of deleveraging of the banking system as of its position in December 2010. The tests also entailed an analysis of the pension fund and examined the effect of the joint movement of interest rates and changes in share prices and the real estate market.

Considering different extreme situations in terms of credit risk, interest rates, liquidity and operating risk conditions, the tests confirmed the adequacy of our own funds, as the impacts on solvency ratios ranged from 0.01 to 1.09 p.p., meaning that they were above the accepted minimums.

In October 2011, as a result of the plan for financial assistance to Portugal, CEMG participated in further stress tests (the third and last task in the SIP), with reference to June 2011, in accordance with the macroeconomic assumptions set out by the Bank of Portugal. The result achieved in this adverse setting once again showed that Montepio had adequate levels of capitalisation in the scenario of deleveraging of the banking system.

In addition to the stress tests and sensitivity analyses reported to the Bank of Portugal every six months, CEMG regularly performs its own stress tests, the results of which are presented at the ALCO. These tests are intended to give an analytical overview of CEMG's liquidity and profits when subject to adverse scenarios involving, for example, interest rates, credit spreads, ECB eligible asset assessment coefficients resulting from deterioration in the ratings of Portuguese counterparties and maximum use of approved credit limits. The results of the analyses showed the adequacy of our strategies and ensured compliance with levels of solvency, liquidity and sustainability.

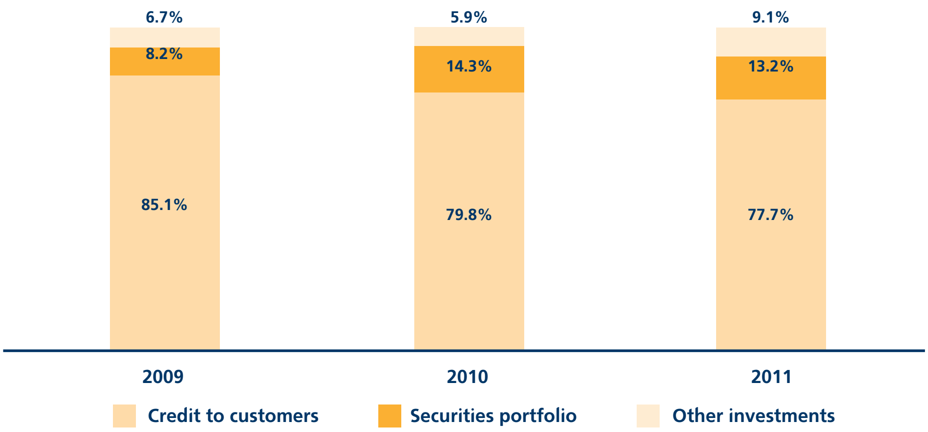
7.3. FINANCIAL ANALYSIS AND PROFITS

ANALYSIS OF BALANCE SHEET

ASSETS

En 2011, net assets grew by 17.8% (+3.2461 billion euros) to 21.4954 billion euros. Excluding the impact of the acquisition of Finibanco Holding, SGPS, SA, assets fell by 1.6%.

ASSET STRUCTURE



Note: 2011 included the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.

The acquisition of Finibanco contributed to a better asset structure by reducing concentration.

Net credit to customers was the item that made the greatest contribution to growth in assets (+15.8%), increasing 2.3697 billion euros. Combining the effect of the integration of the Grupo Finibanco credit portfolio (2.6252 billion euros) and the reduction of its weight in assets from 79.8% to 77.7%, there was a clear effort to reduce the grant of credit with the firm goal of meeting the 2014 targets of a leverage ratio of 120%.

Assets were also influenced by a 211.1 million euro increase in the portfolio of securities and similar.

2011 witnessed disinvestment in non-strategic assets with a 35.4 million euro reduction in the trading real-estate portfolio (-17.6%), in spite of a 60 million euro increase in real estate from Finibanco, SA.

LIABILITIES

Liabilities totalled 20.2359 billion euros as at 31 December 2011, as opposed to 17.2538 billion euros on that date in 2010. An increase of 3.5883 billion euros in customer resources, especially in deposits from customers and credit institutions, which grew 35.8% (+3.5868 billion euros), demonstrate the adequacy of the Montepio Group's strategy to the current circumstances with its strong policy for attracting deposits, as reflected in the leverage ratio, which went from 148.1% (December 2010) to 124.1%.

(EUR thousands)

	2010		2011		Variation	
	Value	%	Value	%	Value	%
1 – Customer resources	**10 910 199**	**59.8**	**14 498 545**	**67.4**	**3 588 346**	**32.9**
Deposits from customers and credit institutions	10 021 794	54.9	13 608 555	63.3	3 586 761	35.8
Securities placed with customers (cash bonds)	888 405	4.9	889 990	4.1	1 585	0.2
2 – Additional resources	**6 342 302**	**34.8**	**5 729 372**	**26.7**	**-612 930**	**-9.7**
Resources from credit institutions and central banks	1 964 609	10.8	2 544 299	11.9	579 690	29.5
Subordinated and non-subordinated loans, syndicates and debt cert.	3 721 753	20.4	2 253 873	10.5	-1 467 880	-39.4
Financial liabilities associated with transferred assets	387 183	2.1	453 061	2.1	65 878	17.0
Other liabilities	268 757	1.5	478 139	2.2	209 382	77.9
3 – Own resources and provisions	**996 789**	**5.4**	**1 267 473**	**5.9**	**270 684**	**27.2**
TOTAL LIABILITIES AND OWN CAPITAL	**18 249 290**	**100.0**	**21 495 390**	**100.0**	**3 246 100**	**17.8**

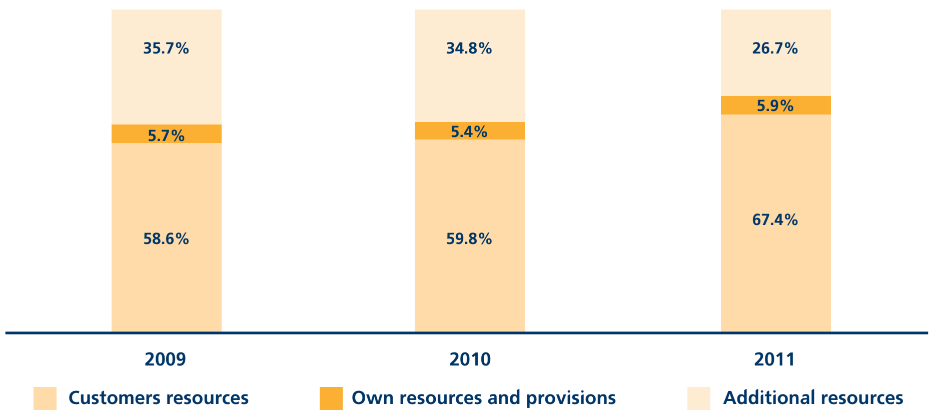
Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.

The Montepio Group's main source of funding continues to be customers' resources, which represent 67.4% of total assets, as opposed to 59.8% at the end of 2010.

In customer resources, deposits account for 63.3%, as a result of efforts to step up internal sources of finance.

Own resources and provisions were increased and totalled 1.3 billion euros at the end of December 2011, against 996.8 million euros in December 2010. This increase allows us to maintain the levels of solidity and capitalisation imposed by the FAP. During the year, institutional capital was increased 445 million euros, 345 million of which on 29 March and 100 million euros on 28 December.

LIABILITIES AND CAPITAL



Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.

NET INTEREST INCOME

In 2011, net interest income grew 17.6% to 318.7 million euros (270.9 million in 2010), due to a favourable interest rate and the volume effect.

(EUR millions)

	2010			2011		
	Average capital	Average rate	Earnings/ costs	Average capital	Average rate	Earnings/ costs
Financial assets	**17 518**	**4.29%**	**752**	**20 309**	**5.78%**	**1 174**
Credit to customers	15 018	3.01%	451	17 057	4.10%	700
Other investments	2 500	4.19%	105	3 252	6.15%	200
Swaps			196			274
Financial liabilities	**16 844**	**2.86%**	**481**	**19 734**	**4.33%**	**855**
Deposits	9 342	1.62%	152	12 274	2.83%	347
Other liabilities	7 502	2.37%	178	7 460	3.34%	250
Swaps			151			258
Profit / margin		**1.55%**	**271**		**1.57%**	**319**
Euribor 3M – average for period		**0.71%**			**1.30%**	

The interest rate effect essentially benefited credit, supported by measures to adapt the price to the risk of the customer and operation and also, though to a lesser extent, the increase from the other investments. The reverse effect came from the deposit portfolio due to higher interest paid to customers for low-risk operations in a period of turmoil in the financial markets.

The net interest income rate was 1.57%, slightly above the 1.55% in 2010, in spite of the growth in the portfolio of customer deposits and its higher remuneration. Euribor at 3 months, the average for the period, grew 0.71% to 1.3% (+0.59 p.p.).

Net interest income was also boosted by international activity to the amount of 7.8 million euros.

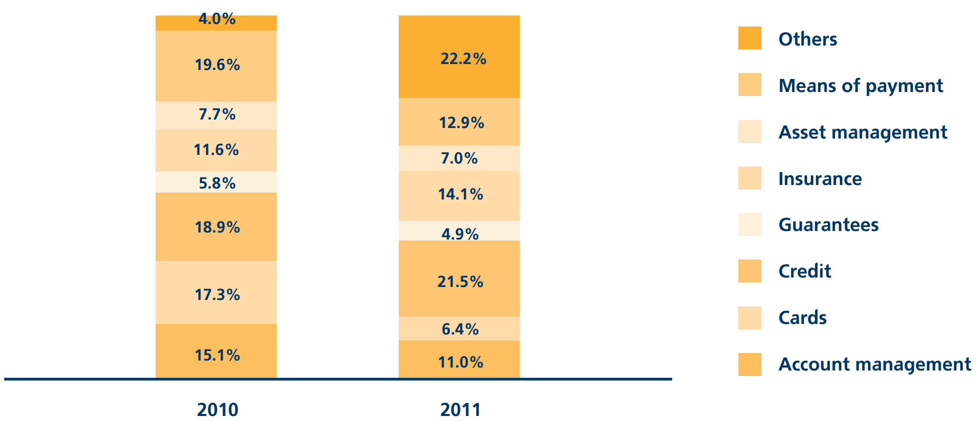
COMMISSIONS ON CUSTOMER SERVICES

Net commissions on services to customers totalled 94 million euros, which was 27.1% more than the 73.9 million euros in 2010.

The increase in net commissions was due to growth in the banking business as a result of the acquisition of Grupo Finibanco and also diversification of our range, innovation of services and ongoing improvement in quality standards.

We continued to follow our policy of increasing customer loyalty, which contributed to growth in the Montepio Group's profitability.

CUSTOMER SERVICE COMMISSIONS



Note: 2011 included the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.

The integration of the portfolio of Finibanco customers continued to result in an increase in commissions on the credit portfolio and banking services. The opposite occurred with commissions on asset management, which was influenced by the volatility of the financial markets.

MARKET PROFITS

2011 witnessed lower liquidity and high volatility in the financial markets, considerable devaluation of sovereign debt securities and lower ratings for some countries in the Euro Area.

CEMG continued to abide by the standards of caution and integrity and take a relatively conservative attitude that meant that the profits on financial market operations totalled 89.9 million euros (34.6%), influenced by assets and liabilities evaluated at fair value (+17.8 million euros) in the trading assets component. Profits on the sale of financial assets available for sale fell, however (-9 million euros).

(EUR thousands)

	2010	2011	Variation	
	Value	Value	Value	%
Results of assets and liab. evaluated at fair value through profit or loss	**45 857**	**62 138**	**16 281**	**35.5**
Financial assets and liabilities held for trading	46 665	64 458	17 793	38.1
Financial assets and liabilities at fair value through profit or loss	-240	-409	-169	70.4
Hedging derivatives	-1 996	-6 612	-4 616	231.3
Other financial operations	1 428	4 701	3 273	229.2
Profit or loss on sale of available for sale financial assets	**12 692**	**3 667**	**-9 025**	**-71.1**
Profit or loss on currency revaluation	**2 344**	**8 410**	**6 066**	**258.8**
Profit or loss on divestment of bonds	**-759**	**-676**	**83**	**10.9**
Sundry profits and losses	**6 656**	**16 266**	**9 610**	**144.4**
Income from shares	**64**	**184**	**120**	**187.5**
TOTAL	**66 854**	**89 989**	**23 135**	**34.6**

Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.

OPERATING COSTS

Operating costs, which included personnel costs, general administrative costs and depreciation for the year, totalled 369.1 million euros in 2011, as opposed to 247.8 million in 2010. Personnel costs accounted for 225.4 million euros, general administrative costs 115.4 million euros and depreciation 28.3 million euros.

Considering the restatement of operating costs for 2010 (366.2 million euros) with the amounts from the companies of Finibanco Holding that were included in the consolidation perimeter, operating costs in 2011 only increased 0.8%, much less than the average inflation rate (3.6%), which attests to great meticulousness and constraints in this area.

Operating costs were adversely affected by extraordinary factors with an impact of 48.4 million euros. They included:

Extraordinary (non-recurring) general administrative costs

- 13.7 million euros from the integration of Finibanco SA involving different stages that were completed on 18 November entailing four types of cost:
  - Training and organisation alignment – identification and elimination of job overlaps in business support units and training of teams;
  - Technological integration – costs of maintaining two IT systems in 2011, migrating systems and optimising computer processes;
  - Optimisation of commercial network – cost of superimposing 35 branches (closed in early 2012);
  - Image and consultancy – cost of standardisation of Montepio's image and consultancy services.
- Cost of evaluators in the Special Inspection Programme to the amount of 1.4 million euros.

Personnel costs (non-recurring)

- Contractual compensation – amounts paid to Grupo Finibanco employees whose contracts were rescinded, to the amount of 1.9 million euros;
- Early retirements – which cost 17.3 million euros;
- Transfer from pension funds to Social Security – transfer of liabilities for pensions being paid at a cost of 14.1 million euros.

Excluding non-recurring costs, totalling 48.4 million euros, operating costs amounted to 320.6 million euros in 2011.

Recurring operating costs therefore fell by 12.5% in 2011, totalling 320.6 million euros, as opposed to a restated amount of 366.2 million euros in 2010.

(EUR thousands)

	2010 (*)	2011	Variation	
	Value	Value	Value	%
Total operating expenditure 2011	**366 247**	**369 086**	**2 839**	**0.8%**
Costs integration FNB		13 667		
Costs of appraisers (SIP)		1 435		
General, non-recurring administrative costs		**15 102**		
Contractual compensation		1 932		
Cost of early retirements		17 308		
Transfer from pension fund to Social Sec.		14 096		
Non-recurring personnel costs		**33 336**		
Impact non-recurring costs		**48 438**		
Recurring operating costs	**366 247**	**320 648**	**-45 599**	**-12.5%**

(*) Value restated / pro-forma including costs of Grupo Finibanco for the same consolidation perimeter.

Excluding the effect of non-recurring costs, the cost to income ratio was 56.8%, down 1.9 p.p., reflecting restriction and strict control of costs in domestic activity.

In international activity, Finibanco Angola showed growth, as it is a young institution that is currently expanding and penetrating the market. Its operating costs rose more than operating income, though the cost to income ratio continued to show Finibanco Angola to be one of the most efficient banks in the market (34.9%). Operating costs were 8.1 million euros (2.2% of the total).

(EUR thousands)

	2010	2011	Variation
	Value	Value	Value
RATIOS			
Personnel costs / operating income	34.0%	39.9%	5.9 p.p.
General administrative costs / operating income	19.8%	20.4%	0.6 p.p.
Depreciation / operating income	4.9%	5.0%	0.1 p.p.
Cost-to-income ratio (operating costs / operating income)	**58.7%**	**65.3%**	**6.6 p.p.**
Efficiency ratio functioning costs / operating income)	53.7%	60.3%	6.6 p.p.

Note: 2011 includes the acquisition of Finibanco Holding SGPS. SA. which should be considered for the purpose of comparison.

PROVISIONS AND IMPAIRMENT

The deterioration of economic conditions for households and companies led to a higher degree of risk of our credit portfolio and increased impairment. The increase totalled 39 million euros, representing a 31.2% rise against 2010. Without the effect of the business from Grupo Finibanco, it would have been 7.6 million euros.

(EUR thousands)

	2010		2011		Variation	
	Value	%	Value	%	Value	%
Provisions and impairment net of credit	**112 992**	**90.4**	**149 891**	**91.3**	**36 899**	**32.7**
Constitution of provisions and impairment	525 339		593 894		68 555	13.0
Recovery of provisions and impairment	412 347		444 003		31 656	7.7
Impairment net of securities	**2 152**	**1.7**	**23 048**	**14.0**	**20 896**	**971.0**
Constitution of impairment	3 514		26 131		22 617	643.6
Recovery of impairment	1 362		3 083		1 721	126.4
Provisions and impairment net of other assets	**9 913**	**7.9**	**-8 839**	**-5.4**	**-18 752**	**-189.2**
Constitution of provisions and impairment	14 535		32 562		18 027	124.0
Recovery of provisions and impairment	4 622		41 401		36 779	795.7
Total net provisions and impairment	**125 057**	**100.0**	**164 100**	**100.0**	**39 043**	**31.2**
Constitution of provisions and impairment	543 388		652 587		109 199	20.1
Recovery of provisions and impairment	418 331		488 487		70 156	16.8

Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.

The following contributed particularly to the variation in provisions and impairment:

- Increase in credit provisions and impairment (+36.9 million euros) due to the rise in risk of some segments of activity;
- Increase to 23 million euros of net impairment of securities due to lower prices and deterioration in quality of some issuers;
- Reduction to -8.8 million euros of impairment for other assets, with a substantial contribution from the sale of a real estate portfolio.

Under the SIP CEMG did not have to make any additions to provisions or impairment, which attests to its prudent provision policy and careful selection and management of customer risk when granting credit.

NET PROFIT

In 2011, consolidated net profit totalled 45 million euros. This amount was influenced by capital gains from the sale of real estate, costs of the acquisition and integration of Finibanco Holding, SGPS, SA, restructuring costs related to early retirement of employees and allocations with the transfer of pension liabilities to Social Security.

This profit includes 5 million euros in profit from activity in Angola (11.1% of the consolidated net profit), attributable to the Montepio Group thanks to its holding in Finibanco Angola.

In 2011, CEMG was obliged to pay corporate income tax and so a taxable amount and deferred taxes to the amount of 18.4 million euros and current taxes to be recovered of 3.7 million euros were identified.

(EUR thousands)

	2010		2011		Variation	
	Value	%	Value	%	Value	%
Net interest income	270 948	64.2	318 721	56.5	47 773	17.6
Net commissions for customer services	73 970	17.5	94 014	16.6	20 044	27.1
Commercial operating income	**344 918**	**81.7**	**412 735**	**73.1**	**67 817**	**19.7**
Market profits [a]	66 854	15.8	89 989	15.9	23 135	34.6
Income from financial holdings	474	0.1	737	0.1	263	55.5
Profit/loss from sale of real estate from credit recovery	-2 411	-0.6	24 314	4.3	26 725	
Other profits	12 477	3.0	37 018	6.6	24 541	196.7
Operating income	**422 312**	**100.0**	**564 793**	**100.0**	**142 481**	**33.7**
Personnel costs	143 457	34.0	225 373	39.9	81 916	57.1
General administrative costs	83 495	19.8	115 442	20.4	31 947	38.3
Depreciation	20 850	4.9	28 270	5.0	7 420	35.6
Operating costs	**247 802**	**58.7**	**369 085**	**65.3**	**121 283**	**48.9**
Gross profit	**174 510**	**41.3**	**195 708**	**34.7**	**21 198**	**12.1**
Net provisions and impairment	**125 057**	**29.7**	**164 100**	**29.1**	**39 043**	**31.2**
Credit	112 992		149 891		36 899	32.7
Securities	2 152		23 048		20 896	971.0
Others	9 913		-8 839		-18 752	
Profit/loss from members and joint ventures	**1 954**		**999**		**-955**	**-48.9**
= Profit/loss before tax	**51 407**	**12.2**	**32 607**	**5.8**	**-18 800**	**-36.6**
Taxes						
Current			**-3 689**		**-3 689**	
Deferred			**18 381**		**18 381**	
Minority interests			**-2 270**		**-2 270**	
= Profit/loss for the year	**51 407**	**12.2**	**45 029**	**8.0**	**-6 378**	**-12.4**

Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.
(a) Includes income from shares, except financial holdings.

Return on equity (ROE) was 3.87% in 2011 and return on assets (ROA) was 0.21%.

	2010	2011	Variation	
	Value	Value	Value	%
Return ratios				
Return on assets (ROA)	0.29%	0.21%	-0.08 p.p.	
Return on equity (ROE)	5.18%	3.87%	-1.31 p.p.	
Total cash flow (EUR thousands)	**197 314**	**237 398**	**40 084**	**20.3**
Depreciation	10.6%	11.9%	1.3 p.p.	
Impairment and net provisions	63.4%	69.1%	5.7 p.p.	
Profit/loss for the year	26.0%	19.0%	-7.1 p.p.	

Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.

PENSION FUND

As at 31 December 2011, the pension fund's assets amounted to 447.8 million euros, with coverage of minimum liabilities at 116.1% and with coverage of total liabilities having improved to 104.9%.

(EUR thousands)

	2010	2011	Variation	
	Value	Value	Value	%
1. Total liabilities				
Working personnel	341 688	311 565	-30 123	-8.8
Retired personnel	255 452	115 271	-140 181	-54.9
TOTAL 1	**597 140**	**426 836**	**-170 304**	**-28.5**
2. Deferred and or unrequested liabilities				
Exemption from finance	16 040	15 578	-462	-2.9
Use of IAS	19 061	15 835	-3 226	-16.9
Impact of mortality table	17 434	9 773	-7 661	-43.9
TOTAL 2	**52 535**	**41 186**	**-11 349**	**-21.6**
3. Minimum liabilities to be financed (1-2)	**544 605**	**385 650**	**-158 955**	**-29.2**
4. Value of assets in fund	**545 097**	**447 825**	**-97 272**	**-17.8**
5. Coverage of:				
Minimum liabilities (4/3)	100.1%	116.1%		16.0 p. p.
Total liabilities (4/1)	91.3%	104.9%		13.6 p.p.
6. Movements in year with impact on value of fund:				
6.1. Contributions to fund (+)	48 750	44 075	-4 675	-9.6
6.2. Actual income on assets (+)	9 812	-22 993	-32 805	-334.3
6.3. Value of Finibanco pension fund on 1/1/2011 (+)	0	85 585	85 585	
6.4. Transfer to Social Security (-)	0	183 910	183 910	
6.5. Pension payments (-)	18 348	20 029	1 681	9.2
6.6 **TOTAL 6 (6.1+6.2-6.3-6.4-6.5)**	**40 214**	**-97 272**	**-137 486**	**-341.9**

Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.

The following assumptions were considered in the calculation of the Montepio pension fund's liabilities:

- Discount rate of 5.5%;
- Salary growth rate of 2%;
- Pension growth rate of 1%;
- continued use of TV 88/90 mortality table for men and women.

Total liabilities were 426.8 million euros, 28.5% lower due to the transfer of liabilities for pensioners to Social Security and a change in the assumptions of salary and pension growth rates.

Transfer of current pensions to Social Security

NFollowing the operation agreed upon by the Portuguesa Banking Association in representation of its member banks and the Portuguese government, a partial transfer of liabilities for current retirement and survival pensions to the amount of 90.4 million euros was made on 30 December 2011. This corresponded to 55% of the provisional amount of liabilities to be transferred from the Montepio employees' pension fund. The impacts of this operation were as follows:

- The final value of the liabilities transferred was 183.9 million euros;
- The amount paid in December 2011 was 90.4 million euros and the remainder should be paid by 30 June 2012;
- The use of the discount rate of 4% indicated by Social Security resulted in an extraordinary expense of 14.1 million euros.

SOLVENCY

The consolidated solvency rate was 13.5%, while the core capital ratio was 10.2%, higher than required by the authorities for December 2011 and in line with future requirements.

OWN FUNDS AND SOLVENCY RATIO

(EUR thousands)

RUBRICAS	2010	2011	Variation	
	Value	Value	Value	%
1. Total own funds	**1 325 928**	**1 829 375**	**503 447**	**38.0**
(+) Institutional capital	*800 000*	*1 245 000*	*445 000*	*55.6*
(+) Reserves and profits	*219 694*	*254 790*	*35 096*	*16.0*
(–) Regulatory deductions	*63 482*	*121 206*	*57 724*	*90.9*
1.1 (=) Core Tier I capital	**956 212**	**1 378 584**	**422 372**	**44.2**
(+) Other capital instruments	*0*	*15 000*	*15 000*	–
(–) Deductions basic own funds	*16 554*	*15 081*	*-1 473*	*-8.9*
1.2 (=) Basic own funds	**939 658**	**1 378 503**	**438 844**	**46.7**
(+) Additional own funds	390 832	456 671	65 839	16.8
(–) Other deductions	4 562	5 799	1 237	27.1
2. Minimum own fund requirements	**824 313**	**1 084 846**	**260 533**	**31.6**
3. Assets and equivalent weighted by risk (2x12.5)	**10 303 913**	**13 560 575**	**3 256 662**	**31.6**
4. Ratios				
Solvency (1/3)	12.9%	13.5%	0.6 p.p.	
Core Capital (1.1/3)	9.3%	10.2%	0.9 p.p.	
Tier 1 (1.2/3)	9.1%	10.2%	1.1 p.p.	

Note: 2011 includes the acquisition of Finibanco Holding SGPS, SA, which should be considered for the purpose of comparison.

In 2011, impact studies were conducted on the proposals of the Basel Committee to strengthen overall regulation and increase capital and liquidity requirements, generally referred to as Basel III.

7.4. RATINGS

On 27 June 2011, DBRS Inc. rated Caixa Económica Montepio Geral for the first time. Its medium- and long-term senior debt was rated BBB (low) and short-term senior debt R-2 (low). Its Lower Tier II subordinate debt was given a rating of BB (high).

According to DBRS, these ratings reflect the Montepio Group's important presence and expansion in Portugal, in terms of its range of products, customers and geographical coverage boosted by the recent acquisition of Finibanco Holding, SGPS, SA. The ratings also reflect the greater pressure to which Caixa Económica Montepio Geral is subject due to the current limited access to funding from the capital market and the potentially negative impact of the present economic situation on return on business. The ratings were maintained at negative trend.

On 19 October 2011, DBRS decided to lower Portugal's rating from BBB (high) to BBB with a negative trend. Nonetheless, this did not change its rating of Caixa Económica Montepio Geral or the negative prospects of this rating.

On 7 October 2011, Moody's Investors Service completed its review begun on 15 July for the possible lowering of the ratings of several Portuguese banks, including Caixa Económica Montepio Geral. The ratings of CEMG's different debt instruments were set as follows:

- Medium- and long-term senior debt: Ba3 from Ba2;
- Subordinated debt of definite maturity: B1 from Ba3;
- Subordinated debt of indefinite maturity: B2 from B1.

Moody's outlook is negative in view of the current, also negative, prospects that the agency sees for Portugal's rating.

On 22 December 2011, following the lowering of Portugal's rating from BBB- to BB+, with a negative outlook announced on 24 November 2011, Fitch Ratings decided to lower the rating of the subordinated debt of Caixa Económica Montepio Geral from BB- to B- with a negative trend.

CEMG's ratings at the end of 2011 were therefore as follows:

RATING AGENCY	Short term	Long term	Outlook
Fitch Ratings	B	BB	Negative
Moody's	NP	Ba3	Negative
DBRS	R-2 (low)	BBB (low)	Negative

7.5. PROPOSED APPROPRIATION OF PROFITS – INDIVIDUAL ACCOUNTS

In compliance with Article 23(1)(b) of the Articles of Association of Caixa Económica Montepio Geral, the Board of Directors proposes to the General Meeting the following appropriation of profits for 2011, to the amount of 32.8 million euros:

APPROPRIATION OF PROFITS

(EUR thousands)

	Value
To legal reserve	6 565
To special reserve	1 641
Transfer to retained eanrings (Bank of Portugal Notice 12/2001)	8 033
To be transferred to Montepio Geral – Associação Mutualista	16 584
INDIVIDUAL PROFIT FOR THE YEAR	**32 823**

The sum to be transferred to retained earnings is to offset the impact of the transition to the IAS/IFRS and of pension fund liabilities, in accordance with point 13-A of Bank of Portugal Notices 12/2001, as amended by Notices 4/2005 and 7/2008.

8. Montepio Group Companies

Lusitania
Grupo Montepio

LUSITANIA – COMPANHIA DE SEGUROS, SA

In difficult times for economic and financial activity in Portugal, there was a 0.9% reduction in premiums in the sector, while Lusitania achieved growth that clearly revealed the company's dynamic nature. Lusitania increased its presence in the insurance market following its acquisition of the insurance companies Real and Mutuamar in 2009.

Summary of business

In individual terms, Lusitania grew 4.8% against 2010, with premiums totalling 243.5 million euros, which corresponds to a market share of 6%.

The business areas that contributed most to this growth were transports and hulls, whose turnover, under the name Lusitania Mar, increased 63.8%, making Lusitania a leading brand (second place with more than 14.1% of the market share) in a business segment that retracted around 4,%. In motor insurance Lusitania grew 12.9% with premiums of over 110.6 million euros. It remained in ninth position in this segment, which was the same as 2010 in terms of overall activity. Health insurance increased 2.4%, in line with the market, achieving 13.4 million euros in premiums.

Growth in these branches offset reductions in premiums in the accident branches, such as personal accidents but particularly occupational accidents, which went down more than 4.4%, mostly as a result of the fall in insurable salaries, which always happens in times of crisis.

The number of valid policies in 2011 rose 4.8% against 2010 to around 825 000 contracts. The number of clients increased from around 494 500 in 2010 to 535 200 in 2011.

We maintained the innovative nature of our range of products and prepared for the introduction in 2012 of integrated solutions such as Plano E+, which offers new cover in terms of environmental civil liability, and also solutions appropriate to the different networks (Montepio Salutare health insurance, Sorriso Garantido and Saúde Dentária).

The closer relationship between Lusitania and Montepio, particularly with regard to use of their distribution networks and the complementarity of their products, is part of the company's development strategy. The assurfinance project was consolidated and bancassurance was stepped up with the formation at the end of 2011 of a team of Lusitania insurance consultants devoted exclusively to Montepio's commercial networks.

Financial indicators

In 2011, the individual net profit on fell considerably to 104 000 euros, mainly due to an increase in claims in occupational accidents and motor insurance and the high component of deferred taxes.

The substantial consolidated net loss of 2.8 million euros in 2011 reflects the negative impact of the consolidation of N Seguros, the Group's direct insurance company. Corrective measures were taken at N Seguros in 2011 in order to improve the new company's performance. The favourable performance of costs during the year, with the expense ratio falling from 30.1% to 26.4%, was the result of a policy of containing expenses and greater rationalisation of resources. However, these effects were not enough to face up to the substantial rise in claims in the insurance portfolio, which increased 3.7 p.p. against 2010 to 78.4% after indirect costs. The combination of these factors had a minimum effect on the combined ratio against 2010, going from 104.7% to 104.8%.

In the last quarter of 2011 we began a number of activities to clean up the portfolio and improve return. We hope that the results will help improve the technical ratios.

At the end of 2011, coverage of the solvency margin remained at 1.6 in individual activity and above the minimum required by Instituto de Seguros de Portugal and at 1.1 in consolidated activity.

FINANCIAL INDICATORS – individual accounts

(EUR thousands)

	2010	2011	Variation	
			Absolute	Relative (%)
Gross premiums issued	**232 373**	**243 475**	**11 102**	**4.8**
Claim rate	74.7%	78.4%	3.7 p.p.	
Expense ratio	30.1%	26.4%	-3.7 p.p.	
Profit for the year	3 034	104	-2 930	-96.6
Return on net assets	0.54%	0.02%	-0.52 p.p.	
Return on equity (ROE)	3.94%	0.15%	-3.79 p.p.	
Net assets	559 301	541 130	-18 171	-3.2
Own resources	76 963	71 585	-5 378	-7.0
Solvency margin	1.6	1.6	0.0	
No. workers on 31 December	645	656	11	

Ratios based on net direct and indirect costs of net premiums acquired.

FINANCIAL INDICATORS – consolidated accounts

(EUR thousands)

	2010	2011	Variation	
			Absolute	Relative (%)
Gross premiums issued	**242 072**	**254 222**	**12 150**	**5.0**
Claim rate	76.7%	79.9%	3.2 p.p.	
Expense ratio	29.9%	26.1%	-3.8 p.p.	
Profit for the year	581	-2. 776	-3 357	-577.8
Return on net assets	0.82%	-0.50%	-1.32 p.p.	
Return on equity (ROE)	5.84%	-4.22%	-10.06 p.p.	
Net assets	564 511	555 295	-9. 216	-1.6
Own resources	79 288	65 727	-13 561	-17.1
Solvency margin	1.1	1.1	0.0	
No. workers on 31 Decembero	679	699	20	

Ratios based on net direct and indirect costs of net premiums acquired.

LUSITANIA VIDA
Grupo Montepio

LUSITANIA VIDA – COMPANHIA DE SEGUROS, SA

Lusitania Vida is the Montepio Group's life assurance company and it completes the Group's insurance business by providing life assurance and investment products through its banking channel and broker network. Lusitania Vida complements mutual and banking activity in the area of benefit and savings solutions and also Lusitania's business by selling combined life and non-life solutions that generate important revenue for the Group.

Summary of business

The amount of premiums issued by Lusitania Vida fell 1.9% from 104 to 102 million euros. In spite of the increase in production by the banking channel against 2010 in 16.1% growth, the brokerage channel's turnover fell 29.5%. The banking channels' contribution to the company's total production was 71.6%, as opposed to 60.5% in 2010.

The life assurance market's total business suffered a 38.1% reduction and so Lusitania Vida's production was above the market average.

Financial indicators

The net profits of Lusitania Vida totalled 5.4 million euros in 2011 and return on equity was 17.2%, which represents a year-on-year improvement of 19.2% in profits and 3.9 p.p. in ROE. A reduction in operating costs and technical costs and a 5.7% increase in financial results had a positive impact on profits.

Lusitania Vida's solvency remained at a comfortable level of coverage of the solvency margin of 2.1, in spite of the negative impact of the volatility of the financial market and the sovereign debt crisis on its investment portfolio.

FINANCIAL INDICATORS

(EUR thousands)

	2010	2011	Variation	
			Absolute	Relative (%)
Production:	**104 026**	**102 022**	**-2 004**	**-1.9**
Life assurance	**35 854**	**30 227**	**-5 627**	**-15.7**
Investment contracts	**68 172**	**71 795**	**3 623**	**5.3**
Net costs of claims	26 175	29 615	3 440	13.1
Costs by nature	3 446	3 579	133	3.9
Profit for year	4 506	5 372	866	19.2
Return on net assets	0.88%	1.09%	0.21 p.p.	
Return on equity (ROE)	13.31%	17.22%	3.91 p.p.	
Net assets	513 641	493 069	-20 572	-4.0
Own resources	33 860	31 198	-2 662	-7.9
Solvency margin	2.1	2.1	0.0	
No. workers on 31 December	30	28	-2	

Montepio Gestão de Activos

MONTEPIO GESTÃO DE ACTIVOS – SGFI, SA

Summary of business

In 2011 the Portuguese market for equity investment funds depreciated considerably due to the current adverse economic scenario. According to data published by APFIPP – Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios, the market fell 23.9%, with assets under management at 10.835 billion euros.

The performance of the funds managed by Montepio Gestão de Ativos was in line with that of the market, although it increased its market share (from 2.05% in December 2010 to 2.46% in December 2011), due to the migration of the equity funds of Finivalor – Sociedade Gestora de Fundos Mobiliários, SA to Montepio Gestão de Ativos – SGFI, SA on 28 November 2011, after CMVM approval. These funds were valued by the market at around 42 million euros on the date of the migration.

By integrating financial assets previously managed by Finivalor – Sociedade Gestora de Fundos Mobiliários, SA., Montepio Gestão de Ativos increased its range of products in 2011.

After an analysis of the two management companies, some of the funds belonging to Finivalor were merged with those of Montepio Gestão de Ativos and MGA offered five new funds transferred from Finivalor.

The value of the portfolio under discretionary management rose 1.8% to 1.031 billion euros, reflecting a market share of 2.04% in December de 2011, as opposed to 1.66% in December 2010.

The Montepio Euro Healthcare sectoral share fund proved to be a star in the market in 2011 with a real annual return of 7%. It was the most profitable fund in its risk class and the third at national level.

Financial indicators

Management fees fell 25%, due to the devaluation of the units of the funds managed by the company.

Where costs were concerned, a 9% reduction was achieved in administrative costs (including personnel costs), thanks to a policy of containing costs throughout the Group.

In spite of the fall in profits (-51.6%) to 309 000 euros, return on assets and on equity remained in double figures at 10.52% and 14.08%, respectively.

FINANCIAL INDICATORS

(EUR thousands)

	2010	2011	Variation	
			Absolute	Relative (%)
Assets under management	**1 303 534**	**1 296 805**	**-6 729**	**-0.5**
Equity investment funds	**291 425**	**266 064**	**-25 361**	**-8.7**
Portfolio management	**1 012 109**	**1 030 741**	**18 632**	**1.8**
Management fees	**4 738**	**3 554**	**-1 184**	**-25.0**
Administrative costs	1 553	1 413	-140	-9.0
Profit for year	639	309	-330	-51.6
Return on net assets (ROA)	19.45%	10.52%	-8.93 p.p.	
Return on equity (ROE)	30.00%	14.08%	-15.92 p.p.	
Net assets	3 286	2 936	-350	-10.7
Own resources	2 769	2 503	-266	-9.6
No. workers on 31 December	13	11	-2	

Finivalor
Grupo Montepio

FINIVALOR – SOCIEDADE GESTORA DE FUNDOS MOBILIÁRIOS, SA

During the integration of Grupo Finibanco into the Montepio Group, in order to maximise synergies, on 28 November 2011, after CMVM approval, the equity funds of Finivalor – Sociedade Gestora de Fundos Mobiliários, SA, were migrated to Montepio Gestão de Ativos – SGFI, SA, the Montepio Group company that specialises in the management of financial assets, thereby concentrating equity fund management and discretionary portfolio management in this company.

After this, Finivalor took the role of specialised company in charge of real estate fund management in the Montepio Group.

Summary of business

According to data published by APFIPP – Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios, the equity investment fund market retracted 1.5% in 2011. Finivalor's formation of a new fund, Montepio Arrendamento – Fundo de Investimento Imobiliário de Arrendamento Habitacional, in 2011 increased its market share from 3.32% at the end of 2010 to 3.77% at the end of 2011.

The new fund went into operation on 15 June 2011 with a capital of 30 million euros. Its first capital increase, to the amount of 30 million euros, took place on 28 December 2011 and its capital is now 60 million euros.

Financial indicators

The amounts under management by Finivalor fell by 11.6%, due to the migration of its equity funds to Montepio Gestão de Ativos. There was 11.4% growth (+43.5 million euros) in real estate investment funds, the management company's current core business.

Management fees suffered considerably from the depreciation of equity funds in 2011.

The efforts to contain costs made by the entire Group were also evident at Finivalor, where there was a 5.2% reduction in administrative costs (including personnel costs).

The profit for the year was 1.7 million euros (39.7% lower than in 2010), ROA was 22.7% and ROE was 31.8%.

FINANCIAL INDICATORS

(EUR thousands)

	2010	2011	Variation	
			Absolute	Relative (%)
Assets under management	**480 647**	**424 841**	**-55 806**	**-11.6**
Equity investment funds	**95 296**	**0**	**-95 296**	**-100.0**
Real estate investment funds	**381 305**	**424 841**	**43 536**	**11.4**
Portfolio management	**4 046**	**0**	**-4 046**	**-100.0**
Management fees	**5 797**	**4 887**	**- 910**	**-15.7**
Administrative costs	2 171	2 059	- 112	-5.2
Profit for year	2 860	1 725	-1 135	-39.7
Return on net assets (ROA)	32.43%	22.70%	-9.73 p.p.	
Return on equity (ROE)	45.68%	31.83%	-13.85 p.p.	
Net assets	8 820	7 599	-1 221	-13.8
Own resources	6 261	5 420	- 841	-13.4
No. workers on 31 December	17	15	- 2	

FUTURO – SGFP, SA

Futuro is the Montepio Group company that specialises in pension fund management.

Summary of business

Instituto de Seguros de Portugal announced that on 31 December 2011, the amount of pension funds under management totalled 13.642 billion euros, which was 30.8% less than at the end of 2010. This reduction was influenced by the partial transfer to the state of ownership of the assets of pension funds whose pension payments on 31 December 2011 were provided for in the replacement of the collective employment regulations in effect in the banking sector.

In spite of the instability in the financial markets in 2011, Futuro attracted new customers during the year, which partially offset the transfer of some assets under its management to Social Security (185.4 million euros), thereby increasing its market share from 6% in December 2010 to 7.6% in December 2011.

Financial indicators

Futuro's earnings decreased 5.7% (-436 000 euros) due to the reduction of assets under management (-139 000 euros), though strict cost control (-6.3%) offset the fall in revenue and brought net profits up slightly to 322 000 euros. Return ratios remained more or less the same as in 2010: ROA 3.69% and ROE 5.81%.

FINANCIAL INDICATORS

(EUR thousands)

	2010	2011	Variation	
			Absolute	Relative (%)
Assets under management	**1 178 641**	**1 039 367**	**-139 274**	**-11.8**
Open funds	***313 935***	***262 187***	***-51 748***	***-16.5***
Closed funds	***864 706***	***777 180***	***-87 526***	***-10.1***
Total commissions	**7 685**	**7 249**	**-436**	**-5.7**
Total costs	7 246	6 788	-458	-6.3
Profit for year	319	322	3	0.9
Return on net assets (ROA)	3.76%	3.69%	-0.07 p.p.	
Return on equity (ROE)	5.78%	5.81%	0.03 p.p.	
Net assets	8 494	8 724	230	2.7
Own resources	5 518	5 541	23	0.4
No. workers on 31 December	31	31	0	

FINICRÉDITO – INSTITUIÇÃO FINANCEIRA DE CRÉDITO, SA

Finicrédito is a key company in the specialised credit sector and is a Montepio Group specialist in financing the purchase of goods and services on credit, both directly to the buyer and to the supplier.

Summary of business

According to information from ASFAC – Associação de institutions de Crédito Especializado, Finicrédito continues to play an important role in the market, where it holds a 5.31% share and seventh position in the country, out of 22 companies in the sector. The first four places in the rankings are held by multinationals, which control around 54% of the market.

The consumer credit market decreased around 19.7% in 2011. Finicrédito's production also fell, though much less, at 7.8%, to 124 million euros. Its leasing and renting products grew 97% and 65.1%, respectively.

Financial indicators

In 2011 Finicrédito recorded a loss of 4.5 million euros. This was due to non-recurring factors that had an overall negative impact of 8.3 million euros before tax.

In operational terms, therefore excluding non-recurring profits and losses, Finicrédito's gross profit for the year increased to 4.5 million euros. ROE, excluding non-recurring impacts, was 23.04%.

Structural costs grew 399 000 euros or 4.4%. This was due to tax reasons related to the transfer to Social Security of all the company's employees.

FINANCIAL INDICATORS

(EUR thousands)

	2010	2011	Variation	
			Absolute	Relative (%)
Production:	**134 821**	**124 308**	**-10 513**	**-7.8**
Classic	**66 860**	**57 169**	**-9 691**	**-14.5**
Leasing	**59 390**	**50 802**	**-8 588**	**-14.5**
Long-term rental	**6 859**	**13 511**	**6 652**	**97.0**
Renting	**1 712**	**2 826**	**1 114**	**65.1**
Structural costs 1)	8 981	9 380	399	4.4
Operating income 1)	22 193	17 367	-4 826	-21.7
Profit for year	-13 581	-4 478	9 103	67.0
Gross operating profit	441	4 542	4 101	929.9
Gross non-recurring profit	-18. 279	-8. 278	10 001	-54.7
Cost-to-income ratio	40.47%	54.01%	13.54 p.p.	
Return on net assets (ROA)	0.13%	1.34%	1.21 p.p.	
Return on equity (ROE)	1.60%	23.04%	21.44 p.p.	
Net assets	337 345	342 757	5 412	1.6
Own resources	20 430	19 002	-1 428	-7.0
No. workers on 31 December	156	145	-11	

1) includes impact of structural costs reclassified in non-financial profits.

Finibanco Angola

FINIBANCO ANGOLA, SA

At the end of 2011, Finibanco Angola, SA completed it third full year of business, which began in the second half of 2008. As in previous years, 2011 witnessed substantial growth at different levels as a result of the work done, in spite of the unfavourable international economic situation, which also affected the Angolan economy.

Summary of business

The slowdown in the economies in the United States, Europe and Japan adversely affected global demand for commodities, which impacted directly on demand for oil, which alone affects the Angolan economy.

The bank's portfolio of deposits, which totalled 131.9 million euros, continued its high growth at 41.6%. Finibanco Angola's leverage rate was 46.4% at the end of 2011.

Credit granted grew 37.1% to 61.3 million euros, 79.5% of which was for local companies' investment and liquidity support.

As Finibanco Angola is a young company, it is natural for its structural costs to grow more than operating income, though the cost to income ratio continues to show Finibanco Angola to be one of the most efficient banks in the market (34.9%).

Growth in its business combined with maintenance of good efficiency levels resulted in 16.7% growth in net profits, which totalled 8.2 million euros.

FINANCIAL INDICATORS 1)

(EUR thousands)

	2010	2011	Variation	
			Absolute	Relative (%)
Customers' resources and other loans	**93 164**	**131 942**	**38 778**	**41.6**
Credit to customers (gross)	**44 680**	**61 267**	**16 587**	**37.1**
Leverage ratio	**48.0%**	**46.4%**	**-1.6 p.p.**	
Structural costs	5 912	8 114	2 202	37.2
Operating income	21 293	23 247	1 954	9.2
Profit for year	7 039	8 215	1 176	16.7
Cost-to-income ratio	27.76%	34.90%	7.14 p.p.	
Return on net assets	5.78%	4.61%	-1.17 p.p.	
Return on equity	31.04%	26.87%	-4.17 p.p.	
Net assets	121 767	178 128	56 361	46.3
Own resources	22 674	30 578	7 904	34.9
No. workers on 31 December 2)	74	121	47	

1) the above figures are the result of the conversion to IAS/IFRS of the individual accounts of Finibanco Angola, which locally abides by the accounting standards set by Banco Nacional de Angola – CONTIF.
2) the 2010 figures include three employees on loan from Finibanco, SA, while those for 2011 include two on loan from Caixa Económica Montepio Geral.

Finibanco
Grupo Montepio

FINIBANCO, SA

As planned, and opportunely communicated to the market, on 31 March 2011 CEMG acquired from Montepio Geral – Associação Mutualista, 100% of the share capital of Finibanco Holding, SGPS, SA, following the takeover bid in 2010, in order to consolidate the activities, operations and networks of the subsidiaries of Finibanco Holding, SGPS, SA.

As a result of this acquisition, on 4 April 2011 all the assets and liabilities of Finibanco, SA were transferred to CEMG, with the exception of the real estate owned by Finibanco, SA that it had acquired by way of reimbursement of credit and leasing agreements (securities and property) in which Finibanco, SA is the lessor.

2011 was a year of reallocation of Finibanco, SA's business and redefinition of its future business strategy. It is expected to develop as a specialist in assisting companies and investment.

RESIDÊNCIAS MONTEPIO – SERVIÇOS DE SAÚDE, SA

Residências Montepio – Serviços de Saúde SA was set up with people's wellbeing in mind, especially the senior segment and fits in with the spirit, essence and nature of the Montepio Group. It focuses on the management of residential facilities, which include elderly care homes, assisted living day centres and personal home care.

At the end of 2011, it had five residences in Porto, Gaia, Coimbra, Parede and Montijo. Earnings increased 63% year on year, reflecting the opening of residential facilities in Parede in October 2010 and Montijo in March 2011.

The Porto, Gaia and Coimbra homes had close to 100% average occupancy rates in 2011, while that in Parede was 57% and Montijo 80%.

Home care, in addition to the residential facilities, continues to be promoted by the sale of *Vitalidade +* cards in the Montepio branch network. There were 2 826 active cards for service subscriber at the end of 2011.

There are plans to open three more residential facilities in 2013: Parede II and Lisbon (Rego neighbourhood): one ongoing cared unit and one private residential unit.

9. Acknowledgement

2011 witnessed a global crisis, which had begun in 2007 with subprime loans in the United States and was compounded at the beginning of 2010 by the sovereign debt risk.

There can be no doubt that the challenges are particularly complex and difficult for the Portuguese banking and financial system and it needs to organise, restructure and even downsize in a crisis setting. But the crisis is also an opportunity and Montepio, with its long, prestigious past with its eyes on its final goals of solidarity, has shown a renewed capacity for adaptation and growth.

We continued to receive recognition for our mutual project. We already have around 498 000 members and we continue to cement our position as the largest mutual association in the country. On the other hand, where banking is concerned, our strategic guidelines, the adaptation of our corporate structure to the demands of market dynamics and to new prudential rules, among other factors, enable us to say that the values we defend are just as topical as ever, in spite of the adverse conditions.

We must therefore express our appreciation not only to all our members and customers who honour us with their preference but also to all our employees, for their professionalism in performing their duties and for their efforts in participating in the dynamics of change and growth at Montepio.

The Board would also like to acknowledge all the support provided to our activities over the last year by the members of the other corporate bodies.

Our thanks also go to the government, monetary and financial authorities for their cooperation, support and trust.

Finally, on submitting this report and accounts for the scrutiny of the General Meeting, the Board of Directors moves that the meeting should accompany us in the above thanks and acknowledgements and also in a word of remembrance of the members and employees who passed away during the year.

THE BOARD OF DIRECTORS

António Tomás Correia – Chairman

José de Almeida Serra

Rui Manuel Silva Gomes do Amaral

Eduardo José da Silva Farinha

Álvaro Cordeiro Dâmaso

10. Statement of Compliance of Financial Information

This statement is made pursuant to Article 245 (1) (c) of the Securities Code.

The Board of Directors is responsible for drawing up the annual report, preparing the financial statements and ensuring they provide a true and fair view of the institution's financial position and the results of its activities, as well as for adopting suitable accounting policies and criteria and maintaining an appropriate internal control system that prevents and detects possible errors and irregularities.

We confirm to the best of our knowledge and certainty that:

- All the individual and consolidated financial information in the accounting documents as at 31 December 2010 was prepared in accordance with applicable accounting standards and gives a true, appropriate picture of the assets and liabilities, financial situation and profits of the institution and the companies included in the consolidation perimeter;
- The annual report accurately describes the business, performance and position of the institution and the companies included in the consolidation perimeter, as required by law.

THE CHARTERED ACCOUNTANT

Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS

António Tomás Correia – Chairman

José de Almeida Serra

Rui Manuel Silva Gomes do Amaral

Eduardo José da Silva Farinha

Álvaro Cordeiro Dâmaso

11. Financial Statements, Notes, Legal Certification of Accounts and Audit Reports

11.1. MONTEPIO GERAL – ASSOCIAÇÃO MUTUALISTA

BALANCE SHEET AS AT 31 DECEMBER, 2011 AND 2010

(EUR thousands)

ASSETS	NOTES	2011 TOTAL ASSETS	2011 DEPRECIATION AND PROVISIONS	2011 NET ASSETS	2010 NET ASSETS
TANGIBLE ASSETS		**38 867**	**1**	**38 866**	**45 852**
Land and natural resources	7	3 180		3 180	3 754
Buildings and other constructions	7	1	1	0	10 762
Other tangible assets	7	1009		1009	90
Work in progress	7	34 677		34 677	31 246
INVESTMENTS		**2 429 968**	**76 799**	**2 353 169**	**2 338 166**
Institutional financial investment	9	1 245 000		1 245 000	800 000
Other investments	9	139 601		139 601	461 674
Shares	8	2 750	1 239	1 511	1 913
Bonds and other fixed income securities	8	584 318	4 239	580 079	737 426
Financing loans		3 123		3 123	3 177
Investment property	7	274 678	56 549	218 129	132 622
Other securities	8	180 498	14 772	165 726	201 354
DEBTORS		**2 621**	**758**	**1 863**	**7 301**
Members		482		482	442
State and other public entities	17	55		55	752
Other debtors		2 084	758	1 326	6 107
TRADING SECURITIES		**-4 269**		**-4 269**	**11 124**
Investment Funds	8	0		0	310
Bonds	8	1 730		1 730	16 257
Derivatives	8	-5 999		-5 999	-5 443
CASH AND BANK DEPOSITS		**462 436**		**462 436**	**344 688**
Bank deposits	35	462 436		462 436	344 688
PREPAYMENTS AND ACCRUED INCOME		**16 587**		**16 587**	**12 217**
Accrued income	32	16 587		16 587	12 217
TOTAL DEPRECIATION			**56 550**		
TOTAL PROVISIONS			**21 008**		
TOTAL ASSETS		**2 946 210**	**77 558**	**2 868 652**	**2 759 348**

THE CHARTERED ACCOUNTANT
Rosa Maria Alves Mendes

See accompanying notes to the financial statements

(EUR thousands)

EQUITY AND LIABILITIES	NOTES	2010	2011
EQUITY			
Social fund			
Own funds	23	99 498	90 013
Technical surpluses	20 and 23	66 802	68 841
Revaluation reserves	11 and 23	-41 768	-16 902
Legal reserves	23	196 095	178 844
Other reserves	23	36 847	35 456
Net profit for the year		58 157	54 393
TOTAL EQUITY		**415 631**	**410 645**
LIABILITIES			
PROVISIONS FOR LIABILITIES AND CHARGES		**2 376 076**	**2 342 462**
Mathematical provisions for membership schemes	20 and 23	2 296 621	2 258 937
Surplus for subsidies and additional benefits	20 and 23	79 455	83 525
CREDITORS		**76 191**	**5 128**
Beneficiaries		2 974	2 809
State and other public entities	17	754	880
Suppliers		197	461
Other creditors	35	72 266	978
ACCRUALS AND DEFERRED INCOME		**754**	**1 113**
Accrued expense	32	754	1 113
TOTAL LIABILITIES		**2 453 021**	**2 348 703**
TOTAL EQUITY AND LIABILITIES		**2 868 652**	**2 759 348**
OBLIGATIONS AND FUTURE COMMITMENTS			
Foundations' funds management	18	1 037	997
Commitments from third parties	18	29 804	30 638
Commitments to third parties	18	17 875	19 477
Other obligations and future commitments	18	8 315	3 626

THE BOARD OF DIRECTORS
António Tomás Correia – Chairman
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Eduardo José da Silva Farinha
Álvaro Cordeiro Dâmaso

STATEMENT OF INCOME AS AT 31 DECEMBER 2011 AND 2010

(EUR thousands)

DEBIT	NOTES	2011	2010
COSTS AND LOSSES			
MEMBERSHIP COSTS		**826 964**	**559 826**
Increase in Mathematical Provisions	23	420 998	338 945
Other Membership Scheme Costs			
Instalments		4 729	4 132
Overdue Capitals	36	370 466	194 538
Grants and Benefit Improvements		7 210	7 215
Perpetual Annuities		2 578	2 637
Other Membership Costs		20 983	12 359
EXTERNAL SUPPLIES AND SERVICES		**3 534**	**3 068**
PERSONNEL COSTS	26	**6 675**	**6 715**
AMORTISATION	7	**0**	**362**
PROVISIONS		**92**	**148**
OTHER OPERATING COSTS AND LOSSES		**2 124**	**968**
AMORTISATION AND PROVISIONS FOR FINANCIAL INVESTMENTS	27	**14 668**	**5 743**
INTEREST AND SIMILAR COSTS	27	**7 717**	**8 088**
(A)		**861 774**	**584 918**
EXTRAORDINARY COSTS AND LOSSES		**11 774**	**4 460**
Donations	29	1 198	1 012
Losses on Fixed Assets	29	10 375	3 319
Prior-Year Corrections	29	124	127
Other Extraordinary Losses	29	77	2
TOTAL COSTS (C)		**873 548**	**589 378**
PROFIT FOR THE YEAR		**58 157**	**54 393**
TOTAL DEBIT		**931 705**	**643 771**

THE CHARTERED ACCOUNTANT
Rosa Maria Alves Mendes

See accompanying notes to the financial statements

(EUR thousands)

CREDIT	NOTES	2011	2010
REVENUE AND GAINS			
MEMBERSHIP REVENUE		**821 521**	**554 305**
Reduction in Mathematical Provisions	23	415 667	221 941
Other Membership Schemes Revenue			
Fees		508	357
Contributions		89 640	86 080
Incoming Capital	37	312 405	243 138
Perpetual Annuities		464	1 229
Other Membership Revenue		2 837	1 560
ADDITIONAL REVENUE		**30**	**82**
OPERATING SUBSIDIES AND GRANTS		**23 076**	**20 292**
Allocation from Caixa Económica	23	23 076	20 292
FINANCIAL REVENUE AND GAINS		**67 709**	**61 068**
Interest Income	27	38 659	33 800
Investment Property Income	27 and 28	17 464	17 975
Profits on Capital Investments	27	2 624	2 185
Other Financial Revenue and Gains	27	8 861	6 917
Revenue from Hedging Operations	27	101	191
(B)		**912 336**	**635 747**
EXTRAORDINARY REVENUE AND GAINS		**19 369**	**8 024**
Gains on Fixed Assets	29	7 766	3 956
Amortisation and Provisions Decrease	29	11 538	3 726
Prior-Year Corrections	29	1	262
Other Extraordinary Revenue and Gains	29	64	80
TOTAL CREDIT (D)		**931 705**	**643 771**
SUMMARY:			
CURRENT PROFIT (B)-(A)		50 562	50 829
NET PROFIT (D)-(C)		58 157	54 393

THE BOARD OF DIRECTORS
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Rui Manuel Silva Gomes do Amaral
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Álvaro Cordeiro Dâmaso

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

(EUR thousands)

	2011	2010
CASH FLOW ARISING FROM OPERATING ACTIVITIES		
Increase / (Decrease) in suppliers	(459)	(254)
Debtors and creditors	79 775	(607)
Membership costs	(405 967)	(220 881)
Membership profits	405 857	332 364
Members and beneficiaries	125	504
Other operating profits	30	150
Other operating costs	(12 693)	(8 978)
Own funds	(932)	(834)
Extraordinary losses and costs	(435)	(158)
Taxes	571	660
	65 872	**101 966**
CASH FLOW ARISING FROM INVESTMENT ACTIVITIES		
Proceeds from sale of other investments	319 467	304 864
Disposal/(acquisition) of investment property	(80 539)	18 611
Disposal/(acquisition) of investment securities	195 317	(71 535)
Disposal/(acquisition) of trading securities	13 276	12 741
Deposits with fixed maturity date	(165 307)	(333 223)
Commercial paper	552	263
Interest income from deposits repayable on demand	897	1 029
Acquisition of tangible assets	17 395	(90)
	301 058	**(67 340)**
CASH FLOW ARISING FROM FINANCING ACTIVITIES		
Institutional financial investment	(445 000)	(40 000)
Profits transferred from CEMG	23 076	20 292
Financing loans	247	632
	(421 677)	**(19 076)**
Net changes in cash and equivalents	(54 747)	15 550
Cash and equivalents at the beginning of the period	132 444	116 894
Cash and equivalents at the end of the period	77 697	132 444

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER, 2011 AND 2010

Introduction

Montepio Geral – Associação Mutualista («Association») is a private social welfare institution, established on 4 October, 1840.

The purpose of the Association is to develop and promote social protection, solidarity and integrity activities in benefit of the Associates and its families, as well as the beneficiaries designated by them.

3. Accounting policies

3.1. BASIS OF PRESENTATION

Montepio Geral – Associação Mutualista is a private mutual benefit institution established in Portugal in 1840. The Association has commenced its operations in 4 October, 1840, and the Financial Statements presented reflect the results of the operations for the years ended 31 December, 2011 and 2010.

The Association's financial statements are prepared in accordance with the presentation template as established in the Mutual Associations Accounting Plan, regulated by the Decree-Law No. 422/93 of 28 December. Until 31 December, 2007, the Association prepared its financial statements in accordance with the accounting principles established by the mentioned accounting plan.

As at 31 December, 2008, in accordance with the ongoing developments regarding accounting standards, especially at financial institutions and insurance companies' level, and aiming convergence with International Financial Reporting Standards, the Association changed its accounting policies adopting the recognition and measurement criteria established by International Financial Reporting Standards («IFRS»), as adopted for use in the European Union until that date.

IFRS comprise accounting standards issued by the International Accounting Standards Board («IASB»), as well as interpretations issued by the International Financial Reporting Interpretations Committee («IFRIC») and its predecessor body.

The financial statements now presented for the years ended 31 December, 2011 and 2010 have been prepared in accordance with the recognition and measurement criteria established by International Financial Reporting Standards as adopted in the European Union until 31 December, 2011.

The accounting policies applied by the Association in the preparation of its financial statements as at 31 December 2011 are consistent with the ones used in the preparation of the financial statements as at and for the year ended 31 December 2010.

The financial statements have been prepared under the historical cost convention, as modified by the application of fair value for derivative contracts, financial assets and financial liabilities at fair value through profit or loss and financial assets available for sale except those for which the fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

The preparation of the financial statements in accordance with the recognition and measurement criteria established by IFRS requires the Association to make judgments, estimates and assumptions that affects the process of applying accounting policies and the reported amounts of income, expenses, assets and liabilities. Changes in such assumptions may have impact on current estimates and judgments. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.15.

The notes to the financial statements now presented are in accordance with the order established by Mutual Associations Accounting Plan. Therefore, the notes not presented are not applicable to Association's financial statements.

The Association does not prepare consolidated financial statements. On this basis, the accompanying financial statements do not reflect the changes in equity that would result from the application of the consolidation of investments in subsidiaries and institutional financial investment.

The Association's financial statements are prepared assuming the continuity of its operations.

3.2. TANGIBLE ASSETS

Tangible assets are stated at cost less accumulated depreciation and any accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits will flow to the Association. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation is calculated using the straight-line method over their estimated useful lives, as follows:

	Number of years
Buildings and other constructions	50

The useful lives and depreciation method are reviewed at each balance sheet date and adjusted, if appropriate, according with the expected pattern of consumption of the future economic benefits embodied in the asset.

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount is estimated and impairment loss recognised when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement, for assets recorded at cost.

The recoverable amount is determined as the greater of the net selling price or value in use, which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset.

3.3. INVESTMENT PROPERTY

The Association classifies as «Investment Property» the property held to earn rentals.

Investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives.

	Number of years
Investment property	50
Interior facilities	10

When there is an indication that an investment property may be impaired, IAS 36 requires that its recoverable amount is estimated and impairment loss recognised when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is determined as the greater of the net selling price or value in use, which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the investment property.

Subsequent expenditure is capitalised only when it is probable that it will give rise to future economic benefits for Association in excess of the originally assessed standard of performance of the asset.

3.4. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

The investments in subsidiaries and associates refer to financial shares of companies in which there is an interest underlying to Association and Caixa Económica activity.

The investment in subsidiaries and associates are classified as follows:

Subsidiaries

Subsidiaries are entities over which the Association exercises control. Control is presumed to exist when the Association has the power to exercise the majority of the voting rights. Additionally, control also exists when the Association has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities, even if its shareholding is less than 50%. The investments in subsidiaries are measured at cost less impairment losses.

Associates

Associates are entities over which the Association has significant influence over the company's financial and operating policies but not its control. Generally when the Association owns more than 20% of the voting rights it is presumed that it has significant influence. However, even if the Association owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive board of directors. The investments in associates are measured at cost less impairment losses.

3.5. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement.

Fair values are obtained from quoted market prices, in active markets, if available, or are determined using valuation techniques including discounted cash flow models and options pricing models, as appropriate.

Embedded derivatives

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

3.6. FINANCIAL ASSETS AND OTHER FINANCIAL INVESTMENTS

Classification

As stated in note 3.1, the Association changed is accounting policies and adopted the recognition and measurement criteria established by IFRS. On this basis, the structure and disclosure requirements of financial statements have not been changed.

On this basis, for financial instruments measurement purposes in accordance with the requirements defined by IAS 39 – Financial instruments, the Association classifies financial assets based on the business purposes of entering into these transactions, as follows:

- *Financial assets at fair value through profit or loss*

  This category includes: (i) financial assets held for trading, which are those acquired principally for the purpose of selling in the short term and (ii) financial assets that are designated at fair value through profit or loss at inception.

  The Association classifies, at inception, certain financial assets at fair value through profit or loss when:

  - Such financial assets are managed, measured and their performance evaluated on a fair value basis;
  - Such financial assets are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
  - Such financial assets contain an embedded derivative.

- *Available-for-sale investments*

  Available-for-sale investments are non-derivative financial assets (i) intended to be held for an indefinite period of time, (ii) designated as available-for-sale at initial recognition or (iii) that are not classified in the other categories referred to above.

Initial recognition, measurement and derecognition

Purchases and sales of: (i) financial assets at fair value through profit or loss, (ii) available for sale investments are recognised on the trade-date – the date on which the Association commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, in which case transaction costs are directly recognised on the income statement.

Financial assets are derecognised when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Association has transferred the control over the assets.

Subsequent measurement

Financial assets at fair value through profit or loss are subsequently carried at fair value with the respective gains and losses arising from changes in their fair value being included in the income statement in the period in which they arise.

Available-for-sale financial assets are also subsequently carried at fair value. However, gains and losses arising from changes in fair value are recognised directly in equity, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Foreign exchange differences arising from equity investments classified as available-for-sale are also recognised in equity, while foreign exchange differences arising from debt investment securities are recognised in the income statement. Interest, calculated using the effective interest method and dividends are recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities the Association establishes fair value by using (i) valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis and option pricing models and (ii) valuation assumptions based on market information.

Financial instruments whose fair value cannot be reliably measured are carried at cost.

Reclassifications between categories

In October 2008, the IASB issued a change to the IAS 39 – Reclassification of Financial Assets (Amendments to IAS 39 Financial Investments: Recognition and Measurement and IFRS 7: Financial Investments Disclosures). This change allowed an entity to transfer financial assets from financial assets at fair value through profit and loss – trading to financial assets available for sale, to Loans and Receivables or to financial assets held-to-maturity, as long as these financial assets comply with the characteristics of an each category. The Association did not adopt this possibility.

The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables and held to maturity categories.

Impairment

The Association assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, the recoverable amount of the asset is determined and impairment losses are recognised through the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as: (i) for listed securities, a significant or prolonged decline in the fair value of the security below its cost, (ii) for unlisted securities, when that event (or events) has a significant impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred, the cumulative loss recognised in equity – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost, except in relation to equity instruments, in which case the reversal is recognised in equity.

3.7. FOREIGN CURRENCY TRANSACTIONS

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as available-for-sale, which are accounted for in equity, within the faire value reserve.

3.8. CASH AND BANK DEPOSITS

For statement of cash flows purposes, cash and cash equivalents comprise cash on hand, deposits with banks with less than three months and other financial instruments with less than three months maturity from the date of acquisition.

3.9. PROVISIONS FOR DOUBTFUL DEBTS

Provision for doubtful debts is charged based on the evolution of doubtful debts balance, and is presented as a deduction to this balance.

The provision for doubtful debts is assessed every quarter, based on the debt overdue period.

3.10. RECOGNITION OF INCOME AND EXPENSES

Income and expenses are recognised in the period to which they respect, in accordance with the accrual accounting principle. The differences between the amounts received and paid and the corresponding generated revenues and expenses are accounted for as accruals and deferred income.

Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost and available-for-sale financial assets using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Association estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Dividends received

Income from equity instruments (dividends) are recognised when received.

3.11. MATHEMATICAL PROVISIONS

Mathematical provisions cover the liabilities arising from the different forms of benefits subscribed by the Associates. These provisions are calculated on a monthly basis using actuarial bases approved by Ministério do Trabalho e da Solidariedade Social. Additionally, at each reporting date, a liability adequacy test («LAT») is performed, in order to evaluate the mathematical provisions. The liability adequacy test is based on the application of best estimates, namely those concerning the life expectation and the interest rate used in liabilities discount.

The liability adequacy test is performed separately to each scheme. Any deficiency detected will be recognised by the Association against income when determined.

3.12. PROVISIONS

Provisions are recognised when: (i) the Association has present legal or constructive obligation, (ii) it is probable that settlement will be required in the future.

3.13. EXPENSES RELATED TO CAIXA ECONÓMICA MONTEPIO GERAL

The Association supports not only the costs with the employees allocated to the *Gabinete de Desenvolvimento da Oferta Mutualista*, the *Gabinete de Comunicações e Relações Associativas* and the *Gabinete de Desenvolvimento da Associação Mutualista*, but also the costs with the *Órgãos de Gestão e Fiscalização* and employees of the *Direcção Imobiliária e de Instalações*. The amount supported corresponds to the compensation due by the Association regarding the assistance rendered by Caixa in several areas in which the Association does not have in place any organisational structure and for the selling of mutualism schemes by the commercial network (see note 26).

3.14. PROFITS RELATED TO CAIXA ECONÓMICA MONTEPIO GERAL

Net income received from Caixa was accounted between the balances «Own funds» and «Contributions and operating subsidies» in the income statement of the year in which they are received (see note 35).

3.15. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

IFRS set forth a range of accounting treatments and require management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the Association's reported results and related disclosure. A broader description of the accounting policies employed by the Association is shown in note 3 to the Financial Statements.

Because in many cases there are several alternatives to the accounting treatment chosen by management, the Association's reported results would differ if a different treatment were chosen. Management believes that the choices made are appropriate and that the financial statements present the Association's financial position and results fairly in all material respects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

a) Impairment of available-for-sale equity investments

The Association determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or when it has identified an event with impact on the estimated future cash flows of the assets. This determination requires judgement, based on all available relevant information, including the normal volatility of the financial instruments prices. Considering the high volatility and the reduced markets, the Association has considered the following parameters when assessing the existence of impairment losses:

(i) Equity securities: declines in market value above 30% in relation to the acquisition cost or market value below the acquisition cost for a period longer than twelve-months;

(ii) Debt securities: objective evidence of events that have an impact on the estimated future cash flows of these assets.

In addition, valuations are generally obtained through market quotation or valuation models that may require assumptions or judgment in making estimates of fair value.

Alternative methodologies and the use of different assumptions and estimates could result in a higher level of impairment losses recognised with a consequent impact in the income statement of the Association.

b) Fair value of derivatives

Fair values are based on listed market prices if available; otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgments in estimating fair values.

Consequently, the use of a different model or of different assumptions or judgments in applying a particular model may have produced different financial results from the ones reported.

c) Technical Provisions

The mathematical provisions represent future liabilities arising from the several schemes. These provisions have been calculated based upon mortality, morbidity, persistency and interest rate assumptions, and considering a margin arising from risk and uncertainty. The assumptions used reflect the Association experience and may be revised if it is determined that future experience will differ substantially from that previously assumed.

In determining their mathematical provisions, Association performs a review of its liabilities on a monthly basis, using actuarial techniques. The reserves are also reviewed by independent actuaries on a biennial basis.

6. Number of associates

As at 31 December, 2011, the Association had 497 420 (2010: 463 390) effective associates responsible for 847 492 subscriptions (2010: 799 053). As at 31 December, 2011 and 2010, the number of associates subscribing the different membership schemes, are analysed as follows:

	2011	2010
Individual schemes:		
Retirement capitals	253 866	243 392
Care payment guarantee	138 426	172 139
Deferred welfare capitals with option	160 429	146 864
Retirement saving	22 455	23 005
Welfare capitals for younger	13 190	12 235
Welfare capitals	7 180	7 362
Retirement capitals with fixed term	69 790	40 355
Retirement pensions	5 159	5 837
Survival pensions and dowries	1 604	1 667
Others	2 480	2 615
	674 579	655 471
Additional coverage schemes:		
Retirement pensions – quotes restitution	5 146	5 787
Disability temporary capitals	221	254
Retirement pensions – additional disability	170	220
Warrant capitals quotes	197	30
	5 734	6 291

7. Tangible assets and investment property

This balance is analysed as follows:

	2011 Euros '000	2010 Euros '000
Tangible assets:		
Land and natural resources	3 180	3 754
Buildings and other constructions	1	17 741
Other tangible assets	1 009	90
Work in progress	34 677	31 246
	38 867	52 831
Investments:		
Investment property	274 678	179 648
	313 545	232 479
Accumulated depreciation:		
Charge for the year	(3 403)	(3 326)
Accumulated charge for the previous years	(53 147)	(50 679)
	(56 550)	(54 005)
	256 995	178 474

As at 31 December, 2011, the balance Work in progress includes an amount of Euros 30 722 000 (2010: Euros 28 158 000) related to costs incurred with the construction of several assisted living residences.

The movements occurred in the balance Tangible assets and investment property during the year 2011 are analysed as follows:

	Balance as at 1 January Euros '000	Dotations/ Acquisitions Euros '000	Transfers Euros '000	Write-off Euros '000	Balance as at 31 December Euros '000
Cost:					
Tangible assets:					
Lands and natural resources	3 754	–	(574)	–	3 180
Buildings and other constructions	17 741	23	(17 763)	–	1
Other tangible assets	90	919	–	–	1 009
Work in progress	31 246	6 130	(2 699)	–	34 677
	52 831	7 072	(21 036)	–	38 867
Investments:					
Investment property	179 648	76 671	21 036	(2 677)	274 678
	232 479	83 743	–	(2 677)	313 545
Accumulated depreciation:					
Tangible assets:					
Buildings and other constructions	6 979	–	(6 978)	–	1
Investments:					
Investment property	47 026	3 403	6 978	(858)	56 549
	54 005	3 403	–	(858)	56 550

8. Securities portfolio

As mentioned in note 3.6, the other financial assets were classified in each of IAS 39 categories and measured at fair value, with the respective gains and losses being included in income statement or in equity, according to the underlying accounting policy.

As at 31 December 2011 and 2010, available-for-sale financial assets are analysed as follows:

	Euros '000				
	Amortised Cost	Revatuation reserve		Impairment	Book Value
		Positive	Negative		
Shares	3 079	100	(178)	(1 088)	1 913
Bonds and other fixed income securities	766 554	6 348	(35 699)	(13 460)	723 743
Other securities	194 797	22 719	(10 192)	(5 970)	201 354
31 December, 2010	**964 430**	**29 167**	**(46 069)**	**(20 518)**	**927 010**
Shares	2 619	144	(13)	(1 239)	1 511
Bonds and other fixed income securities	611 720	15 079	(53 139)	(4 239)	569 421
Other securities	184 337	21 815	(25 654)	(14 772)	165 726
31 December, 2011	**798 676**	**37 038**	**(78 806)**	**(20 250)**	**736 658**

As at 31 December 2011 and 2010, the financial assets that are designated at fair value through profit or loss at inception are analysed as follows:

	2011 Euros '000	2010 Euros '000
Book Value – Bonds	10 658	13 683
Acquisition cost	*14 574*	*16 931*

As at 31 December 2011 and 2010, the financial assets held for trading are analysed as follows:

	2011 Euros '000	2010 Euros '000
Book Value – Bonds	1 730	16 257
Book Value – Investment Funds	–	310
Acquisition cost	*1 771*	*16 390*

The securities portfolio with reference to 31 December, 2011, is presented in the Appendix I.

As at 31 December 2011 and 2010, derivative financial instruments are analysed as follows:

	2011 Euros '000		2010 Euros '000	
	Notional	Fair value	Notional	Fair value
Credit contracts				
Credit Default Swaps	16 500	(1 188)	16 500	(393)
Interest-rate contracts				
Interest Rate Swaps	25 000	(4 811)	25 000	(5 128)
Exchange Rates contracts				
Call Options	–	–	104	78
		(5 999)		(5 443)

The provision for shares, bonds and other securities refers to the impairment determined according to the criteria established by IAS 39 – Financial Instruments. The movements occurred in this balance during the year 2011 are analysed as follows:

	Euros '000			
	Balance as at 1 January	Charge for the year	Reversals	Balance as at 31 December
Shares, bonds and other securities	20 518	11 265	(11 533)	20 250

9. Investments in subsidiaries and associates

This balance is analysed as follows:

	2011 Euros '000	2010 Euros '000
Institutional financial investment	1 245 000	800 000
Other investments	139 601	461 674
	1 384 601	1 261 674

Investments in subsidiaries and associates can be analysed as follows:

	2011					
	Share capital	Number of shares	Percentage held	Acquisition Cost Euros '000	Shareholders Equity (*) Euros '000	Book Value Euros '000
Subsidiaries and associates						
Caixa Económica Montepio Geral	1 245 000	–	100.00%	1 245 000	1 241 573	1 245 000
Lusitania, Companhia de Seguros, S.A. *b*)	26 000	3 339 317	64.22%	53 519	42 210	53 519
Lusitania Vida, Companhia de Seguros, S.A.	20 000	328 893	41.11%	9 647	12 826	9 647
Nova Câmbios, S.A.	750	4 500	30.00%	227	578	227
Silvip, S.A.	750	3 960	26.40%	308	655	308
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	2 567	316 932	61.74%	1 963	3 320	1 963
MG Gestão de Ativos Financeiros – S.G.F.I.M., S.A.	1 200	239 655	99.86%	1 331	2 499	1 331
MG Investimentos Imobiliários, S.A.	50	10.000	100.00%	50	13	50
Bolsimo – Gestão de Ativos, S.A. *c*)	16 500	151 190	91.63%	50 119	46 223	50 119
Residências Montepio, Serviços de Saúde, S.A.	3 000	1 529 700	50.99%	1 530	511	1 530
Sagies, S.A.	500	27 000	27.00%	97	273	97
Leacock (Seguros), Lda.	300	*a*)	81.00%	242	1 942	242
Germont – Empreendimentos Imobiliários, S.A.	1 000	7 000	70.00%	700	215	700
NEBRA, Energias Renovables, SL	10	3 550	35.50%	611	242	611
Bem Comum – Sociedade Capital Risco, S.A.	250	16 000	32.00%	80	n.d.	80
Finibanco Vida – Companhia de Seguros	7 500	3 750 000	50.00%	4 165	3 507	4 165
Finisegur – Sociedade Mediadora de Seguros	50	10 000	100.00%	313	603	313
Finimóveis – Sociedade de Serviços Auxiliares	250	50 000	100.00%	1 505	n.d.	1 505
Lestinvest, SGPS	20 000	20 000 000	100.00%	13 194	11 444	13 194
						1 384 601

(*) The shareholders' equity shown is referred to the latest financial statements available.
a) Represented by quotas.
b) The acquisition cost of participation includes the amount of Euros 29 750 000 related to ancillary capital.
c) The acquisition cost of participation include the amount of Euros 35 000 000 related to ancillary capital.

During 2011, Caixa Económica – Montepio Geral increased its share capital in the amount of Euros 445 000 000. The Association fully subscribed this capital increase.

Also during 2011, the Association proceeded to the sale of 100% of the share capital of Finibanco Holding, S.G.P.S., S.A. to Caixa Económica – Montepio Geral in the amount of Euros 341 250 000.

During 2011, Montepio Geral – Associação Mutualista also proceeded to the acquisition of 50% of Finibanco Vida – Companhia de Seguros de Vida, S.A., 100% of Finisegur – Sociedade Mediadora de Seguros, S.A., 100% of Finimóveis – Sociedade Imobiliária de Serviços Auxiliares, S.A. and 100% of Lestinvest, SGPS, S.A., in the amounts of Euros 4 165 000, Euros 313 000, Euros 1 505 000 and Euros 13 194 000, respectively.

The institutional financial investment corresponds to the institutional capital (100%) in Caixa Económica – Montepio Geral. The balance sheet of Caixa, for the years ended 31 December, 2011 and 2010, can be presented as follows:

	2011 Euros '000	2010 Euros '000
		Restated
Assets		
Cash and deposits at central banks	381 540	240 024
Loans and advances to credit institutions	102 701	58 405
Other loans and advances to credit institutions	370 268	338 662
Loans and advances to customers	16 200 240	14 352 766
Financial assets held for trading	145 252	130 865
Other financial assets held for trading at fair value through profit or loss	3 606	3 952
Financial assets available for sale	5 821 780	5 256 811
Hedging derivatives	1 184	2 810
Financial assets held to maturity	48 416	58 093
Investments in associated companies	384 547	43 297
Non current assets held for sale	86 830	162 374
Property and equipment	66 183	89 188
Goodwill and intangible assets	10	–
Current income tax assets	59 221	–
Deferred income tax assets	110 843	18 254
Other assets	310 278	104 924
Total Assets	24 092 899	20 860 425
Liabilities		
Deposits from central banks	2 003 300	1 540 266
Deposits from other credit institutions	1 182 068	1 262 546
Deposits from customers	13 190 639	9 654 340
Debt securities issued	2 240 688	3 578 677
Financial liabilities relating to transferred assets	3 289 983	3 182 375
Financial liabilities held for trading	101 524	53 814
Hedging derivatives	2 444	1 408
Provisions	120 014	101 499
Other subordinated debt	477 247	380 986
Other liabilities	243 419	211 696
Total Liabilities	22 851 326	19 967 607
Shareholders' Equity		
Share capital	1 245 000	800 000
Other capital instruments	15 000	–
Fair value reserves	(316 692)	(82 973)
Reserves and retained earnings	265 442	133 254
Profit for the year	32 823	42 537
Total Equity	1 241 573	892 818
	24 092 899	20 860 425

10. Financial assets revaluation criteria

In accordance with IAS 39 – Financial Instruments, assets classified as available-for-sale are recorded at fair value and the respective gains and losses are recognised in equity, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Foreign exchange differences arising from equity investments classified as available-for-sale are also recognised in equity, while foreign exchange differences arising from debt investment securities are recognised in the income statement.

11. Revaluation

The revaluation is analysed as follows:

	Amortised cost * Euros '000	Revaluation reserve Euros '000	Book value Euros '000
Shares	1 380	131	1 511
Bonds and other fixed income securities	607 481	(38 060)	569 421
Other securities			
Government bonds	66 211	(25 216)	40 995
Investment funds	88 354	21 286	109 640
Commercial paper	15 000	91	15 091
	778 426	(41 768)	736 658

* The amortised cost is deducted of impairment losses.

17. State and other public entities

This balance is analysed as follows:

	2011 Euros '000	2010 Euros '000
Assets:		
Deductible VAT	6	–
Recoverable VAT	14	327
VAT – reimbursements claimed	35	425
	55	752
Liabilities:		
Income tax with-held at source	306	304
VAT settlement	447	575
Other taxes	1	1
	754	880

18. Obligations and future commitments

This account is analysed as follows:

	2011 Euros '000	2010 Euros '000
Commitments to third parties	17 875	19 477
Amounts received for deposit and management	1 037	997
Commitments from third parties	29 804	30 638
Other obligations and future commitments	8 315	3 626

The balance «Amounts received for deposit and management» refers to the assets of several foundations and some attributed awards, which are managed by the Association.

The balance «Commitments to third parties» includes the amount of Euros 16 500 000 (2010: Euros 16 500 000) regarding derivatives contracted with Caixa Económica Montepio Geral, as well as the amount of Euros 1 375 000 (2010: Euros 2 977 000) related to adjudicated contract jobs.

The balance «Commitments from third parties» includes the amount of Euros 25 000 000 (2010: Euros 25 104 000) referring to derivatives contracted with Caixa Económica Montepio Geral and the amount of Euros 4 804 000 (2010: Euros 5 534 000) related to bank guarantees.

20. Permanent Funds

As at 31 December, 2011 and 2010, the balance Permanent funds of the associated schemes, can be analysed as follows:

	2011 Euros '000			
	Mathematical provisions	Surplus for subsidies and additional benefits	Technical surpluses	Total
Retirement capitals	1 284 755	–	–	1 284 755
Retirement capitals with fixed term	534 389	–	4 039	538 428
Retirement saving	81 301	–	–	81 301
Welfare capitals	12 499	24 656	13 423	50 578
Deferred welfare capitals with option	158 810	5 496	29 320	193 626
Retirement pensions	126 775	25 076	4 316	156 167
Welfare capitals for younger	41 641	3 101	9 445	54 187
Survival pensions and dowries	5 580	19 064	2 245	26 889
Others	28 258	2 062	3 908	34 228
	2 274 008	79 455	66 696	2 420 159
Perpetual annuities	22 613	–	106	22 719
	2 296 621	79 455	66 802	2 442 878

	2010 Euros '000			
	Mathematical provisions	Surplus for subsidies and additional benefits	Technical surpluses	Total
Retirement capitals	1 420 918	–	2 934	1 423 852
Retirement capitals with fixed term	368 390	–	1 827	370 217
Retirement saving	79 869	–	–	79 869
Welfare capitals	11 917	24 877	13 397	50 191
Deferred welfare capitals with option	142 358	6 765	29 037	178 160
Retirement pensions	134 531	25 836	11	160 378
Welfare capitals for younger	38 801	3 972	10 663	53 436
Survival pensions and dowries	6 712	19 904	2 688	29 304
Others	31 372	2 171	8 178	41 721
	2 234 868	83 525	68 735	2 387 128
Perpetual annuities	24 069	–	106	24 175
	2 258 937	83 525	68 841	2 411 303

As at 31 December, 2011, the level of coverage of the net assets by the mathematical provisions corresponds to 115% (2010: 115%). The mathematical provisions include the amount of Euros 59 528 000 (2010: Euros 64 510 000), related to the schemes liabilities increase due to the application of the liability adequacy test, as referred in note 3.11. As at 31 December, 2011, the discount interest rate used in the application of liability adequacy test was determined for each scheme in accordance with its duration, falling in the range of 2.72% to 4.36% (2010: from 2.58% to 3.75%).

23. Own and permanent funds, reserves and provisions for liabilities and charges

The balances included in Own funds and permanent funds, reserves and mathematical provisions, are analysed as follows:

		Dividends paid					
	Balance as at 1 January Euros '000	From Association Euros '000	From Caixa Euros '000	Net changes on mathematical provisions Euros '000	Transfers and charges Euros '000	Others Euros '000	Balance as at 31 December Euros '000
Own and permanent funds:							
Own funds	90 013	9 508	9	–	–	(32)	99 498
Technical surpluses	68 841	3 180	–	–	(4 474)	(745)	66 802
	158 854	12 688	9	–	(4 474)	(777)	166 300
Reserves and retained earnings:							
Revaluation Reserves	(16 902)	–	–	–	–	(24 866)	(41 768)
Legal Reserves	178 844	13 500	–	–	3 751	–	196 095
Other reserves	35 456	–	–	–	2 934	(1 543)	36 847
	197 398	13 500	–	–	6 685	(26 409)	191 174
Provisions for liabilities and charges:							
Mathematical provisions	2 258 937	28 205	–	10 112	(2 211)	1 578	2 296 621
Surplus for subsidies and additional benefits	83 525	–	–	(4 781)	–	711	79 455
	2 342 462	28 205	–	5 331	(2 211)	2 289	2 376 076
	2 698 714	54 393	9	5 331	–	(24 897)	2 733 550

As at 31 December, 2011, the amount referred on «Others» regarding «Technical surpluses» includes the annual benefits attribution to actuarial schemes and the cost with annuities actualization.

During the years 2011 and 2010, the Association dividends received from Caixa (note 35), were accounted for in the following balances:

	2011 Euros '000	2010 Euros '000
Contributions and operating subsidies	23 076	20 292
Own funds	9	8
	23 085	20 300

As established on the Association by-laws, the purpose of Permanent funds is to ensure the pensions' payment, capitals or other costs related to the different schemes to the Associates and its beneficiaries and include the responsibilities expressed in the following liability items:

***a)* Mathematical provisions** – These provisions are recorded at the balance Provisions for liabilities and charges and its purpose is to cover the future liabilities with membership schemes. These provisions were calculated according to the actuarial technical basis approved by Ministério do Trabalho e da Solidariedade Social. Additionally, as at 31 December, 2011 and 2010, these provisions were subjected to a liability adequacy test, as described in note 3.11.

***b)* Subventions and benefits improvement** – These provisions are recorded at the balance Provisions for liabilities and charges and are meant to cover the improvement in actual and future benefits. The benefits are calculated on an actuarial basis and its purpose is to meet the benefits improvements distribution approved by the General Assembly, which were already attributed but not due.

The Permanent funds also comprehend the liabilities assumed by the Association, as follows:

***a)* Technical surpluses** – part of the permanent funds, not covering the liabilities granted to the beneficiaries of the associative schemes. Technical surpluses can be used for covering the annual deficit of any available funds.

***b)* Legal reserves** – A legal reserve comprising at least 5% of the balances of the funds at the end of each year, after the mathematical provisions calculation, must be established in accordance with the Association by-laws. The legal reserve can be used to cover costs resulting from contingencies, to complement the Available Funds when their income is insufficient to cover the respective costs and to cover potential losses of the Association.

26. Personnel expense

The Association supports not only the costs with the employees allocated to the *Gabinete de Desenvolvimento da Oferta Mutualista*, the *Gabinete de Comunicações e Relações Associativas* and the *Gabinete de Desenvolvimento da Associação Mutualista*, but also the costs with the *Órgãos de Gestão e Fiscalização* and employees of the *Direcção Imobiliária e de Instalações*. The amount supported corresponds to the compensation due by the Association regarding the assistance rendered by Caixa in several areas in which the Association does not have in place any organisational structure and for the selling of mutualism schemes by the commercial network. As at 31 December, 2011, the personnel expense supported by Association amounts to Euros 6 675 000 (2010: Euros 6 715 000).

27. Statement of financial results

The amount of the accounts included in the statement of financial results is analysed as follows:

	2011 Euros '000	2010 Euros '000
Revenue:		
Interest income	38 659	33 800
Investment property income	17 464	17 975
Profits arising from investments	2 624	2 185
Other financial profits and gains	8 861	6 917
Hedging operations	101	191
	67 709	61 068
Expenses:		
Interest expenses	992	1 881
Buildings improvement	1 500	1 988
Other financial differences	5 225	4 198
Hedging operations	–	21
Interest and similar expenses	7 717	8 088
Depreciation for investment property	3 403	2 963
Provisions for financial investments	11 265	2 780
Depreciation and provisions for financial investments	14 668	5 743
	22 385	13 831
Net financial income	45 324	47 237

28. Investment property income

The amount of this account is analysed as follows:

	Euros' 000		
	Book value	**Repairs and maintenance**	**Investment property income**
Buildings	277 859	1 500	17 464

29. Statement of extraordinary results

The amount of the accounts included in the Statement of extraordinary results is analysed as follows:

	2011 Euros '000	2010 Euros '000
Revenue:		
Gains arising from fixed assets	7 766	3 956
Depreciation and provisions decrease	11 538	3 726
Other gains attributable to previous years	1	262
Other extraordinary gains	64	80
	19 369	8 024
Expenses:		
Donations	1 198	1 012
Losses arising from fixed assets	10 375	3 319
Losses attributable to previous years	124	127
Other extraordinary losses	77	2
	11 774	4 460
Extraordinary income	7 595	3 564

32. Prepayments and accrued income

This balance is analysed as follows:

	2011 Euros '000	2010 Euros '000
Accrued income:		
Interest receivable		
Securities	12 778	9 555
Deposits	3 800	2 652
Other accrued income		
Others	9	10
	16 587	12 217
Accrued expense	754	1 113

As at 31 December, 2011, the balance Accrued expense includes the amount of Euros 754 000 (2010: Euros 949 000), related to obligations with the holiday pay (including subsidies).

34. Income tax

The Association is a private social welfare institution (reciprocal aid association), benefiting from income tax exemption (Imposto sobre o Rendimento das Pessoas Colectivas – IRC) in accordance with the Article 10.º, No. 1 *b*) of IRC Legislation. This exemption was confirmed by Law No. 10-B/96 of 23 March, which approved the Public Budget for the year of 1996.

35. Transactions with Caixa Económica Montepio Geral

The balances and main transactions between the Association and Caixa during the years ended 31 December, 2011 and 2010, were the following:

	2011 Euros '000	2010 Euros '000
Deposits repayable on demand	77 697	132 444
Deposits with fixed maturity date	384 739	212 244
Income received from investment property	11 408	11 600
Dividends received (note 23)	23 085	20 300
Caixa institutional share capital increase (note 9)	445 000	40 000
Investment property acquisition	76 671	–
Amounts payable to CEMG (included in Other creditors)	72 052	–

Additionally, Montepio Geral – Associação Mutualista owns several securities issued by Caixa Económica Montepio Geral, further detailed in Appendix I.

36. Overdue capitals

This balance is analysed as follows:

	2011 Euros '000	2010 Euros '000
Retirement capitals	274 706	136 934
Deferred welfare capitals with option	37 565	29 534
Retirement capitals with fixed maturity	46 884	20 058
Welfare capitals for younger	4 269	3 801
Others	7 042	4 211
	370 466	194 538

The balance Overdue capitals refers to capital reimbursements of schemes for which the benefits are processed by partial or total amortisation of the amounts paid by the Associates. These reimbursements are deducted from the Association liabilities on the calculation of the mathematical provisions.

37. Capital received

This balance is analysed as follows:

	2011 Euros '000	2010 Euros '000
Retirement capitals	103 928	123 639
Retirement capitals with fixed term	202 030	105 294
Retirement saving	5 104	13 010
Others	1 343	1 195
	312 405	243 138

The balance Capital received refers to capital deposits delivered by the Associates. This capital is added to Association's obligations when determining mathematical provisions.

SECURITIES PORTFOLIO
AS AT 31 DECEMBER, 2011

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost		Amortised Cost		Impairment	Book Value	
		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
AVAILABLE-FOR-SALE FINANCIAL ASSETS			**9793 248**		**798 676**	**(20 250)**		**736 658**
SHARES			***2 619***		***2 619***	***(1 239)***		***1 511***
Banco Bpi		1.71	226	1.71	226	(165)	0.48	63
Banco Comercial Português		0.67	51	0.67	51	(41)	0.14	10
Clínica Santa Maria de Belém		7.45	493	7.45	493	(80)	6.24	413
E.I.A.		4.99	349	4.99	349	(236)	1.75	123
Edp		2.72	136	2.72	136	(3)	2.39	120
Edp Renováveis		6.83	785	6.83	785	(358)	4.72	543
Moçambique – Companhia de Seguros		6.39	379	6.39	379	(230)	2.54	151
Nebra Renovables, Sl		172.11	164	172.11	164	(120)	45.80	44
Soficatra		24.23	36	24.23	36	(6)	29.16	44
BONDS			**606 950**		**611 720**	**(4 239)**		**569 421**
ABB INTL FINANCE LTD	1 000	1.01	1 012	1.01	1 007	–	1.05	1 045
ABN AMRO BANK NV	2 000	0.96	1 917	0.98	1 960	–	0.73	1 460
ABS BANCO POPULAR	100	1.00	100	1.00	100	–	0.40	40
AEGON N V	125	1.00	125	1.00	125	–	1.01	127
ANGLO IRISH BANK CORP	2 000	1.00	1 999	1.00	1 999	(49)	0.98	1 950
AYT DEUDA SUBORDINADA (Fundo Titularização)	1 500	1.00	1 500	1.00	1 500	–	0.75	1 118
AZOR 1 A	680	0.93	635	0.94	637	–	0.83	563
BANBRA 4 1/2 01/20/2016	1 000	0.99	995	1.00	996	–	0.99	986
BANCA DELLE MARCHE 2017	1 500	1.00	1 499	1.00	1 499	–	0.76	1 141
BANCA ITALEASE	2 000	1.00	1 995	1.00	1 998	–	0.75	1 500
BANCA SELLA LT2	1 500	1.00	1 499	1.00	1 500	–	0.90	1 345
BANCO COMERCIAL PORTUGUÊS – 3.625% 01/19/12	9 000	0.98	8 781	1.00	9 000	–	0.99	8 948
BANCO DE VALENCIA SA	2 000	1.00	1 998	1.00	2 000	–	0.94	1 871
BANCO POPOLARE DI MILANO	2 000	1.00	1 994	1.00	1 998	–	0.86	1 716
BANK OF AMERICA CORP	2 000	1.00	1 995	1.00	1 999	–	0.91	1 830
BBVA BANCOMER AS	2 000	1.00	2 000	1.00	2 000	–	0.91	1 826
BBVA SUB CAPITAL UNIPERS	2 000	1.00	1 997	1.00	1 999	–	0.87	1 748
BBVASM 4 05/13/2013	2 000	1.00	1 997	1.00	1 998	–	1.00	1 999
BCP FINANCE BANK LTD	3 000	0.99	2 968	1.00	2 999	–	0.96	2 880
BCPPL 0 05/09/14	2 000	1.00	1 998	1.00	1 999	–	0.61	1 216
BCPPL 2 375 01/18/12	3 500	0.97	3 407	1.00	3 499	–	0.99	3 480
BCPPL 4 75 10/29/2014	1 000	0.99	990	0.99	993	–	0.78	780
BCPPL 5 625 04/23/14	1 000	0.96	963	0.98	978	–	0.71	707
BCPPL 9 25 10/13/14	750	1.00	750	1.00	750	–	0.77	575
BEI/96 – 16	379	1.00	381	1.00	380	–	1	473
BES FINANCE LTD	1 000	0.98	983	0.98	984	–	0.43	434
BES FLOAT 05/13	3 000	0.95	2 850	0.98	2 930	–	0.81	2 430
BESPL 3 7/8 01/21/15	5 950	0.97	5 786	0.98	5 844	–	0.70	4 195
BESPL 3 75 01/19/12	3 300	0.97	3 208	1.00	3 294	–	1.00	3 291
BESPL 5 89 05/14/12	1 500	1.00	1 501	1.00	1 500	–	1.01	1 511
BESPL 6 08/27/13	2 000	1.00	1 990	1.00	1 995	–	0.85	1 703
BESPL FLOAT 02/13	2 200	0.95	2 081	0.98	2 155	–	0.85	1 863
BOLSIMO – GESTÃO DE ATIVOS, SA	25 000	1.00	25 000	1.00	25 000	–	0.87	21 693

See accompanying notes to the financial statements

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost		Amortised Cost		Impairment	Book Value	
		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
BPIM 3 7/8 03/14	300	1.00	300	1.00	300	–	0.95	285
BPIPL 3 1/4 01/15/15	2 000	0.88	1 753	0.91	1 816	–	0.79	1 578
BPIPL FLOAT 01/25/12	4 000	0.99	3 959	1.00	3 986	–	0.98	3 936
BRISA 4 5 05/12/2016	1 300	0.97	1 258	0.98	1 273	–	0.65	845
BRISA CONCESSAO RODOV SA	2 000	0.99	1 988	1.00	1 998	–	0.85	1 700
CAIXA ESTALVIS TERRASSA	1 000	1.00	999	1.00	1 000	–	0.99	990
CAIXA GERAL DE DEPÓSITOS	1 000	0.99	989	0.99	995	–	0.71	709
CAJA CANTABRIA (Ahorros De Santander)	2 000	1.00	2 000	1.00	2 000	–	0.98	1 956
CAJA DE AHORROS DEL MEDITERRANEO (Global Finance)	1 750	1.00	1 748	1.00	1 750	–	0.88	1 531
CAJA SEVILLA MONPIS	5 000	1.00	5 000	1.00	5 000	–	0.50	2 500
CAJA ZARAGOZA ARAGON & R	2 000	1.00	2 000	1.00	2 000	–	0.64	1 273
CARNIVAL PLC	1 000	1.00	995	1.00	999	–	1.02	1 023
CASSA RISPARMIO FIRENZE	1 000	1.00	997	1.00	999	–	0.88	876
CEMG 2016 (Callable)	11 300	0.76	8 621	0.79	8 882	–	0.45	5 085
CEMG ABR/2012 (Obrig. de Caixa – Subscrição Privada)	6 000	1.00	6 000	1.00	6 000	–	1.01	6 041
CEMG INFLAÇÃO 2008-2016 (Obrigações de Caixa)	4 700	1.00	4 700	1.00	4 700	–	1.12	5 246
CGDCOVERED	1 000	1.00	998	1.00	999	–	0.80	804
CIE FINANCIERE DU CRED	1 000	1.00	999	1.00	1 000	–	0.94	940
CITIGROUP 7 3/8 06/16/14	900	1.11	995	1.06	953	–	1.06	957
CITIGROUP GLOBAL MARKETS	1 000	0.68	678	0.81	806	–	0.92	916
CITIGROUP INC	1 000	1.00	999	1.00	999	–	0.88	876
COMMERZBANK AG	4 000	0.99	3 967	1.00	3 984	–	0.61	2 456
CREDICO FUNDING SRL	1 000	1.00	1 000	1.00	1 000	–	0.78	780
CRPC 2009/2014 – 8 SERIE	3 800	1.00	3 800	1.00	3 800	–	1.05	3 989
CRPC 2010/2018 2S	1 600	1.00	1 600	1.00	1 600	–	1.05	1 686
CRPC 2011/2016 3S	20 000	1.00	20 000	1.00	20 000	–	1.06	21 121
CRPC 2011/2016 4S	25 000	1.00	25 000	1.00	25 000	–	1.05	26 262
CRPC 2011/2016 5.ª SÉRIE	20 000	1.00	20 000	1.00	20 000	–	1.06	21 250
CRPC 2011/2019 1S	20 000	1.00	20 000	1.00	20 000	–	1.08	21 551
CRPC 2011/2019 2.ª SÉRIE	5 000	1.00	5 000	1.00	5 000	–	1.09	5 443
CRPC SETEMBRO 2008/13 – 2.ª EMISSÃO	750	1.00	750	1.00	750	–	1.00	748
CRPC SETEMBRO 2009/2014 – 7S	4 250	1.00	4 250	1.00	4 250	–	1.05	4 455
CRPC SETEMBRO 2009/2017 – 1S	1 500	1.00	1 500	1.00	1 500	–	1.08	1 618
CXGD 4 3/8 05/13/13	1 000	0.94	940	0.97	967	–	0.92	917
CXGD 5 1/8 02/19/14	6 250	0.99	6 201	0.99	6 209	–	0.89	5 556
DEUTSCHE BANK AG	1 000	0.96	956	0.98	978	–	0.85	854
DEUTSCHE POSRBANK	2 000	1.00	1 994	1.00	1 997	–	0.78	1 560
DOURM 3 A	1 643	0.81	1 332	0.83	1 366	–	0.46	760
DOURO 2 A1 (Sagres)	21	1.00	21	1.00	21	–	0.50	10
EDP FINANCE	1 000	1.01	1 008	1.00	1 001	–	1.00	995
ELEPOR 5 7/8 02/01/16	1 000	1.00	998	1.00	998	–	0.88	884
ERSTE BANK	2 000	1.00	1 999	1.00	2 000	–	0.68	1 360
ESF 6 7/8 10/21/19	1 000	1.04	1 041	1.03	1 033	–	0.53	530
ESFG INTERNATIONAL LTD	500	1.00	500	1.00	500	–	0.33	164
FIDINT 6 7/8 02/24/17	100	1.00	100	1.00	100	–	1.03	103
FINANTIA	2 500	1.00	2 500	1.00	2 500	–	0.50	1 250
FINIBANCO VAR 02/49	146	0.50	73	0.50	73	–	0.50	73
FORTIS BANK	3 000	1.00	3 005	1.00	3 002	–	0.87	2 610

Cdt.

Cont.

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost		Amortised Cost		Impairment	Book Value	
		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
GE CAPITAL EURO FUNDING	1 500	1.00	1 497	1.00	1 499	–	0.92	1 375
GOLDMAN SACHS GROUP INC	1 000	1.00	999	1.00	1 000	–	0.96	959
HEAT MEZZANINE (Classe AAA)	440	1.00	440	1.00	440	(206)	0.53	234
HSBC FINANCE CORP	1 000	1.00	998	1.00	999	–	0.97	966
ING GROEP NV FIXED RATE	1 000	0.99	990	0.99	990	–	0.88	883
ING VERZEKERINGEN NV	2 000	1.00	1 997	1.00	1 999	–	0.96	1 910
INTESA SANPAOLO SPA	2 000	1.00	1 998	1.00	1 999	–	0.88	1 754
ITAUEU 0 12/22/15	2 000	1.00	2 000	1.00	2 000	–	0.88	1 755
KBC IFIMA NV	1 000	1.00	999	1.00	1 000	–	0.60	600
LANDSBANKI ISLANDS	500	0.99	494	0.99	494	(494)	0.00	–
LHB INTERNATIONAL HANDEL	250	1.00	250	1.00	250	–	0.67	168
LLOYDS 3 1/4 11/12	500	1.01	507	1.00	502	–	1.00	499
LLOYDS 6 1/4 TSB BANK PLC	600	1.07	643	1.04	626	–	1.03	617
LUSITANIA VIDA/2007	5 000	1.00	5 000	1.00	5 000	–	0.88	4 397
LUSITANO SME OLC	558	1.00	558	1.00	558	–	0.83	464
MAGEL 3 A	3 036	0.90	2 737	0.93	2 818	–	0.53	1 598
MAGEL 4 A	1 759	0.82	1 450	0.83	1 459	–	0.52	918
MALACHITE SENIOR MEZZANINE	840	1.00	840	1.00	840	(781)	0.07	59
MERRIL LYNCH & CO INC	1 500	1.00	1 499	1.00	1 500	–	1.00	1 493
MERRILL LYNCH & CO	1 000	1.00	999	1.00	1 000	–	0.91	913
MERRILL LYNCH 2014	1 500	1.00	1 495	1.00	1 498	–	0.86	1 283
MONTEPIO CAPITAL CERTO 2011/2016 7S	10 000	1.00	10 000	1.00	10 000	–	1.04	10 389
MONTEPIO CAPITAL CERTO 2011/2019 3S	5 000	1.00	5 000	1.00	5 000	–	1.06	5 278
MONTEPIO RENDIMENTO TOP 1.ª SÉRIE	24 266	0.98	23 704	0.98	23 794	–	0.80	19 412
MONTEPIO RENDIMENTO TOP 2. ª SÉRIE	22 474	0.97	21 712	0.97	21 828	–	0.80	17 979
MONTEPIO TAXA CRESCENTE ABRIL 2016	10 000	1.01	10 054	1.01	10 051	–	1.06	10 643
MONTEPIO TAXA CRESCENTE FEVEREIRO 2016	15 000	1.00	15 034	1.00	15 032	–	1.05	15 781
MONTEPIO TAXA FIXA 2010/2012 – 1.ª SÉRIE	41	0.98	40	0.99	40	–	1.00	40
MONTEPIO TAXA FIXA 2010/2013 – 1.ª SÉRIE	111	0.96	107	0.97	107	–	0.96	107
MONTEPIO TAXA FIXA 2010/2014 – 1.ª SÉRIE	143	0.97	138	0.97	139	–	0.97	138
MONTEPIO TAXA FIXA 2010/2014 – 2.ª SÉRIE	165	0.98	161	0.98	162	–	0.97	159
MONTEPIO TAXA FIXA AGOSTO 2010/2014	103	0.93	96	0.95	98	–	0.96	99
MONTEPIO TAXA FIXA JANEIRO 2011/2015	115	0.94	108	0.95	109	–	0.97	111
MONTEPIO TAXA FIXA MARÇO 2011/2013	23	0.97	23	0.98	23	–	0.97	23
MONTEPIO TAXA FIXA SETEMBRO 2010/2014	48	0.96	46	0.96	46	–	0.96	46
MONTEPIO TAXA FIXA JULHO 2010/2014	95	0.94	89	0.95	90	–	0.97	91
MONTPI 5 02/08/17	2 500	0.89	2 236	0.92	2 290	–	0.61	1 534
MONTPI FLOAT 05/03/12	7 178	0.91	6 510	0.97	6 995	–	0.92	6 640
MONTPI FLOAT 05/29/13	16 750	0.82	13 738	0.94	15 705	–	0.72	12 091
MONTPI STRNT 01/30/17	2 000	0.75	1 500	0.80	1 594	–	0.65	1 300
MONTPI STRNT 02/25/15	14 650	0.88	12 866	0.92	13 419	–	0.83	12 207
MUFG CAPITAL FIN 4 LTD (Tier 1)	750	1.00	750	1.00	750	–	0.94	706
NATIONAL GRID PLC	150	0.99	149	1.00	150	–	1.10	165
NATIXIS	1 750	1.00	1 749	1.00	1 750	–	0.89	1 561
NOMURA EUROPE FINANCE NV	1 000	1.00	1 000	1.00	1 000	–	0.99	990
NOSTRUM MORTGAGES PLC	2 528	0.98	2 487	0.99	2 491	–	0.66	1 658
OB. CX. TX. VAR. CEMG 2009/13	500	1.00	500	1.00	500	–	1.00	500
OBR. CX. CRPC 2011/2016 – 1.ª SÉRIE	25 000	1.00	25 000	1.00	25 000	–	1.07	26 642

See accompanying notes to the financial statements

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost		Amortised Cost		Impairment	Book Value	
		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
OBRIG. MONTEPIO CAPITAL CERTO 2011/2016 – 2.ª SÉRIE	25 000	1.00	25 005	1.00	25 005	–	1.06	26 391
OBRIG. CX. MONT. TX. FIXA CRESCENTE FEVEREIRO 2011/2016	5 000	1.01	5 028	1.01	5 028	–	1.06	5 285
OBRIGAÇÕES MONTEPIO 1780 DIAS 2011/2016	1 500	1.03	1 551	1.03	1 547	–	1.06	1 589
OBRIGAÇÕES MONTEPIO CAPITAL CERTO 1795 DIAS 2011/2016	10 000	1.00	10 000	1.00	10 000	–	1.05	10 461
OBRIGAÇÕES MONTEPIO CAPITAL CERTO 2011/2016 – 6.ª SÉRIE	20 000	1.00	20 000	1.00	20 000	–	1.05	21 065
OBRIGAÇÕES MONTEPIO TAXA CRESCENTE JUN2011 – ABR2016	15 000	1.00	15 000	1.00	15 000	–	1.05	15 751
OTP BANK PLC	1 000	1.00	1 002	1.00	1 001	–	0.51	509
PARPUB 4 191 10/14	6 500	1.00	6 472	1.00	6 498	–	0.64	4 160
PARPUBLICA 3 1/2	500	0.97	485	0.98	492	–	0.74	370
PELICAN 1A	3 461	0.92	3 194	0.93	3 204	–	0.78	2 700
PEUGEOT 5 10/28/16	1 000	1.01	1 008	1.01	1 007	–	0.96	961
PORCHE INTL FINANCE	2 000	1.00	2 000	1.00	2 000	–	1.03	2 065
PORTB 0 01/20/12	3 000	0.99	2 963	0.99	2 963	–	1.00	2 994
PORTB 0 02/17/12	2 398	0.99	2 367	0.99	2 367	–	0.99	2 383
PORTEL 5 5/8 02/08/16	3 000	0.99	2 981	0.99	2 985	–	0.82	2 459
PORTUGAL TELECOM 2012	1 000	0.95	949	1.00	998	–	0.99	994
PORTUGAL TELECOM 2013	150	1.00	150	1.00	150	–	0.99	148
PROMS XXS6 – 1 C	858	1.00	858	1.00	858	(61)	0.93	798
PTIPL 0 10/27/12	4 500	1.00	4 500	1.00	4 500	–	1.00	4 501
PYME BANCO POPULAR (POPY 2006 – 1 B)	1 500	1.00	1 500	1.00	1 500	–	0.75	1 120
RBS 3,625 05/17/13	1 301	0.99	1 291	1.00	1 297	–	0.97	1 267
RBS 4,875 07/15/15	1 500	1.00	1 500	1.00	1 500	–	0.96	1 444
RBS 5 1/4 05/15/13	500	1.05	523	1.02	510	–	0.99	497
REN REDES ENERGÉTICAS	1 100	1.00	1 096	1.00	1 098	–	0.87	958
REPSOL INTL FINANCE	1 000	1.03	1 035	1.01	1 008	–	1.03	1 029
SANTAN 3 3/4 06/12	1 000	1.03	1 030	1.01	1 006	–	0.98	979
SEB 0 09/28/17	1 000	1.00	999	1.00	1 000	–	0.96	960
SEDNA FINANCE	2 500	1.00	2 500	1.00	2 500	(2 500)	0.00	–
SLM CORP	2 000	1.00	1 994	1.00	1 999	–	0.94	1 880
SOCIETÉ GENERALE 2017	1 500	1.00	1 499	1.00	1 499	–	0.86	1 290
SOMEC/94	150	0.99	149	0.99	149	(149)	0.00	–
STANDARD CHARTERES BANK	1 000	1.00	997	1.00	998	–	0.89	888
TELEFONICA 7Y 2009/16	250	1.00	250	1.00	250	–	1.02	254
TELEFONICA 5Y	400	1.00	400	1.00	400	–	1.02	408
UBI BANCA SPCA	1 000	1.00	998	1.00	999	–	0.82	819
UBS CAPITAL SECS LTD	500	1.00	500	1.00	500	–	0.99	494
VEOLIA ENVIRONNEMENT	1 000	0.99	990	1.00	995	–	1.04	1 045
VOTORA 5,25 04/28/17	150	1.00	149	1.00	150	–	1.00	149
CEMG JUN08 – 2018 (Obrigações de Caixa – Subscrição Privada)	28 000	1.00	27 930	1.00	27 935	–	1.00	28 078
BANIF FINANCE LTD 12/16	1 000	1.00	1 000	1.00	1 000	–	0.35	347
BANIF FINANCE LTD 05/12	2 000	1.00	1 995	1.00	2 000	–	0.91	1 827
TELECOM ITALIA SPA FLOAT 12/12	500	1.00	500	1.00	500	–	0.96	479

Cdt.

Cont.

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost		Amortised Cost		Impairment	Book Value	
		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
TELECOM ITALIA SPA 4 3/4 05/14	500	0.99	495	1.00	498	–	0.99	493
TELECOM ITALIA SPA 6 1/4 02/12	500	1.06	531	1.00	500	–	1.00	501
OTHER INVESTMENT SECURITIES			***183 679***		***184 337***	***(14 772)***		***165 726***
Government bonds			*74 484*		*75 142*	*(8 931)*		*40 994*
BUONI POLIENNALI DEL TES	1 000	0.98	980	0.99	990	–	0.91	912
CONSOLIDADO 1942	279	0.94	262	0.95	264	–	0.31	85
CONSOLIDADO – CENTENÁRIOS 1940	410	1.00	409	1.00	409	–	0.40	165
GGB 4 1 08/20/12	1 000	0.94	944	0.98	984	(680)	0.30	304
GGB 4 7 03/20/24	1 000	0.73	733	0.76	763	(568)	0.20	196
GGB 5 1/2 08/20/14	3 000	0.99	2 985	1.00	2 992	(2 306)	0.23	686
GGB 6 1 08/20/15	4 000	1.01	4 020	1.00	4 014	(3 097)	0.23	917
HELLENIC REPUBLIC / JUL 2015	3 000	0.98	2 933	0.99	2 968	(2 280)	0.23	688
IRISH 5 10/18/20	2 000	0.84	1 675	0.86	1 713	–	0.79	1 576
PGB 3 35 10/15/15	5 000	0.95	4 735	0.97	4 839	–	0.69	3 453
PGB 3 6 10/15/14	6 000	0.99	5 946	0.99	5 964	–	0.72	4 317
PGB 3 85 04/15/21	32 000	0.94	30 013	0.95	30 268	–	0.50	16 114
PGB 4 3/4 06/14/19	1 240	0.93	1 155	0.95	1 174	–	0.53	663
PGB 4,35 10/16/17	6 500	1.01	6 572	1.01	6 551	–	0.57	3 676
PGB 4,45 06/15/18	1 000	0.96	959	0.97	967	–	0.55	550
PGB 4,95 10/25/23	2 000	0.82	1 638	0.83	1 663	–	0.49	975
PGB 4 2 10/15/16	1 000	1.01	1 013	1.01	1 009	–	0.62	622
PGB 4 375 06/16/14	1 000	0.96	962	0.98	977	–	0.75	754
PGB 4 8 06/15/20	4 490	0.92	4 114	0.93	4 164	–	0.51	2 309
PGB 6 4 02/15/16	1 500	1.00	1 496	1.00	1 497	–	0.70	1 055
SPGB 3 15 01/31/16	1 000	0.94	940	0.97	969	–	0.98	977
Investment funds			94 195		94 195	(5 841)		109 641
FUNDO CRITICAL – CATEGORIA B		5 000.00	225	5 000.00	225	–	4 781.80	215
FUNDO EXPLORER III		3 757.46	301	3 757.46	301	(98)	2 536.00	203
FUNDO ARIS DEFENSIVE		156.64	22	156.64	22	–	132.03	19
FUNDO BEM COMUM		5 000.00	38	5 000.00	38	–	5 000.00	38
FUNDO CAPITAL ONGOING – ONGOING INTERNATIONAL PRIVATE EQUITY – CLASS G		1 000.00	30 000	1 000.00	30 000	–	1 292.57	38 777
FUNDO CAPITAL PVCI – CLASSE B		1.00	1 199	1.00	1 199	–	0.71	856
FUNDO IBÉRIA 5,24		524	5.24	524	(420)	1.04	104	
FUNDO LOGISTICA DISTRIBUIÇÃO		6.12	2 447	6.12	2 447	–	5.94	2 375
FUNDO NOVENERGIA II		52 656.56	22 850	52 656.56	22 850	–	77 492.02	33 627
FUNDO VIP		9.28	22 075	9.28	22 075	–	9.52	22 641
FUNDO VISION ESCRITÓRIOS		4.76	4 759	4.76	4 759	(562)	4.20	4 197
MG MULTI GESTÃO DINÂMICA		46.27	1 388	46.27	1 388	(727)	27.96	839
MG – AÇÕES EUROPA		48.58	1 966	48.58	1 966	(1 000)	30.10	1 218
MONTEPIO EURO ENERGY		50.00	2 150	50.00	2 150	(840)	38.31	1 647
MONTEPIO FINANCE SERVICE		50.00	2 000	50.00	2 000	(1 479)	15.34	614
MONTEPIO HEALTHCARE		50.00	2 250	50.00	2 250	(715)	50.47	2 271
Commercial paper			15 000		15 000	–		15 005
PAPEL COMERCIAL BOLSIMO – 9.ª EMISSÃO	15 000	1.00	15 000	1.00	15 000	–	1.01	15 091

See accompanying notes to the financial statements

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost Unit Value	Acquisition Cost Total Euros '000	Amortised Cost Unit Value	Amortised Cost Total Euros '000	Impairment Euros '000	Book Value Unit Value	Book Value Total Euros '000
FINANCIAL ASSETS THAT ARE DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS AT INCEPTION			**14 574**		**14 574**	**–**		**10 658**
BONDS			***14 574***		***14 574***	**–**		***10 658***
ATLANTEO 2019	1 000	1.00	1 000	1.00	1 000	–	1.17	1 167
BOIRO FINANCE BV	3 000	1.00	3 000	1.00	3 000	–	0.55	1 635
CLARIS LIMITED	1 000	1.00	1 000	1.00	1 000	–	0.16	162
DRESDNER BANK AG	1 000	0.99	985	0.99	985	–	0.96	965
KBC IFIMA	750	1.00	749	1.00	749	–	0.75	561
LB BADEN – WUERTTEMBERG	1 000	0.98	981	0.98	981	–	0.75	746
MALACHITE JUNIOR MEZZANINE	160	1.00	160	1.00	160	–	0.00	0
MONTEPIO CABAZ OURO E PETROLEO	70	0.99	69	0.99	69	–	1.00	69
MONTEPIO CEMG CABAZ 14	56	0.97	54	0.97	54	–	1.00	56
MONTEPIO EURODÓLAR – SET 2010/2012	17	0.97	16	0.97	16	–	1.00	17
MONTEPIO TELECOMUNICAÇÕES	6	0.86	5	0.86	5	–	0.89	5
MONTEPIO TÍTULOS EUROPA 2009/2013	66	0.98	64	0.98	64	–	0.95	63
MONTEPIO TOP EUROPA – MARÇO 2011/2015	27	0.92	25	0.92	25	–	0.93	25
NOMURA VAR 09/19	2 000	1.00	1 990	1.00	1 990	–	1.03	2 056
NOMURA VAR 10/14	1 500	0.99	1 485	0.99	1 485	–	1.00	1 502
STARLING FINANCE	1 000	1.00	1 000	1.00	1 000	–	0.76	758
UBS FLOAT (GBP – EUR 10NC3M RA)	1 000	0.99	990	0.99	990	–	0.87	871
ZELA FINANCE CORPORATION	1 000	1.00	1 000	1.00	1 000	–	0.00	–
FINANCIAL ASSETS HELD FOR TRADING			**1 771**		**1 771**	**–**		**1 730**
BONDS			***1 771***		***1 771***	**–**		***1 730***
AFORRO MONTEPIO 2007 (5 ANOS) – 1.ª SÉRIE	49	1.02	50	1.02	50	–	1.00	49
AFORRO MONTEPIO 2007 (5 ANOS) – 2.ª SÉRIE	62	1.02	62	1.02	62	–	1.00	62
AFORRO MONTEPIO ASSOCIADOS 2007 (5 ANOS) – 1.ª SÉRIE	295	1.02	301	1.02	301	–	1.00	295
AFORRO MONTEPIO ASSOCIADOS 2007 (5 ANOS) – 2.ª SÉRIE	325	1.02	332	1.02	332	–	1.00	326
TELECOM ITALIA 7% – 20/01/17	1 000	1.03	1 025	1.03	1 025	–	1.00	998
TOTAL			**809 593**		**815 021**	**(20 250)**		**749 046**

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
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AUDITORS' REPORT

(This report is a free translation to English from the original Portuguese version)

Introduction

1. We have audited the financial statements of Montepio Geral – Associação Mutualista ("Association"), which comprise the balance sheet as at 31 December, 2011 (which shows total assets of Euro 2,868,652 thousand and total equity of Euro 415,631 thousand, including a net profit of Euro 58,157 thousand), the Income statement and the Cash flows statement for the year then ended and the corresponding Notes.

Responsibilities

2. The Board of Directors is responsible for the preparation of financial statements, that give a true and fair view of the financial position of the Association, the results of its operations and its cash flows, as well as for the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system.

3. Our responsibility is to express a professional and independent opinion on those financial statements based on our audit.

Scope

4. We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. For this purpose our audit included:

- verification on a test basis, of the information underlying the figures and disclosures contained in the financial statements, and an assessment of the estimates, based on judgments and criteria defined by the Board of Directors, used in their preparation;

- the assessment of the adequacy of the accounting principles used and their disclosure, considering the circumstances;

- the appropriateness of the going concern basis of accounting; and

- the assessment of the adequacy of the overall presentation of the financial statements.

5. Our audit also included the verification that the financial information included in the Report of the Board of Directors is consistent with the financial statements.

6. We believe that our audit provides a reasonable basis for our opinion.

Opinion

7. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montepio Geral – Associação Mutualista, as at 31 December, 2011, the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles referred in Note 3.

Emphasis of matter

8. Without affecting the opinion referred in paragraph nr. 7, we draw your attention to the fact that during 2008, Montepio Geral – Associação Mutualista, in accordance with the ongoing developments regarding accounting standards, specially at financial institutions and insurance companies level, and aiming convergence with International Financial Reporting Standards, changed its accounting policies adopting the recognition and measurement criteria established by International Financial Reporting Standards, as adopted for use in the European Union until 31 December, 2008. Without undermining this change, we also highlight the fact that Montepio Geral – Associação Mutualista had maintained the disclosures requirements established by Mutual Associations Accounting Plan.

Report on other legal requirements

9. It is also our opinion that the financial information included in the Management Report is consistent with the financial statements for the year.

Lisbon, 13 March, 2012

KPMG & Associados –
Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)
represented by
Ana Cristina Soares Valente Dourado
(Statutory Auditor nr.1011)

11.2. CAIXA ECONÓMICA MONTEPIO GERAL – CONSOLIDATED ACCOUNTS

CONSOLIDATED BALANCE SHEET OF CAIXA ECONÓMICA AS AT 31 DECEMBER 2011 AND 2010

(EUR thousands)

	2011			2010
	GROSS ASSETS	IMPAIRMENT AND AMORTISATION	NET ASSETS	NET ASSETS
ASSETS				
Cash and deposits at central banks	461 483		461 483	240 024
Loans and advances to credit institutions	223 834		223 834	74 353
Financial Assets held for trading	173 445		173 445	124 589
Other Financial Assets at fair value through profit or loss	3 606		3 606	3 952
Financial assets available for sale	2 604 482	30 114	2 574 368	2 430 568
Investments in credit institutions	284 578	345	284 233	338 662
Loans and advances to customers	17 477 102	770 476	16 706 626	14 554 133
Financial assets held to maturity	76 994		76 994	58 144
Hedging derivatives	8 072		8 072	7 734
Non-current assets held for sale	168 102	31 091	137 011	162 374
Other Tangible Assets	273 310	164 653	108 657	89 287
Intangible Assets	135 978	45 773	90 205	18 254
Investments in associated companies and others excluded from consolidation	58 197	341	57 856	37 060
Current income tax assets	2 768		2 768	–
Deferred income tax assets	80 693		80 693	–
Other assets	506 578	1 039	505 539	110 156
TOTAL ASSETS	**22 539 222**	**1 043 832**	**21 495 390**	**18 249 290**
LIABILITIES				
Deposits from central banks			2 003 300	1 540 266
Financial Liabilities held for trading			71 790	47 615
Deposits from other credit institutions			743 797	901 742
Deposits from customers and other loans			13 701 919	10 007 563
Debts securities issued			2 473 112	3 836 243
Financial liabilities associated with transferred assets			453 061	387 183
Hedging derivatives			19 428	6 894
Provisions			7 985	1 311
Current income tax liabilities			10	–
Deferred income tax liabilities			36	–
Other subordinated liabilities			477 843	380 986
Other Liabilities			283 621	144 009
TOTAL LIABILITIES			**20 235 902**	**17 253 812**
EQUITY				
Capital			1 245 000	800 000
Other capital instruments			15 000	–
Revaluation reserves			–311 711	–75 623
Other reserves and retained earnings			254 789	219 694
Profit for the year			45 029	51 407
Minority interests			11 381	–
TOTAL EQUITY			**1 259 488**	**995 478**
TOTAL LIABILITIES AND EQUITY			**21 495 390**	**18 249 290**

THE CHARTERED ACCOUNTANT
Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS
António Tomás Correia – Chairman
José de Almeida Serra
Rui Manuel Silva Gomes do Amaral
Eduardo José da Silva Farinha
Álvaro Cordeiro Dâmaso

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2011 AND 2010

(EUR thousands)

	2011	2010
Interest and similar income	1 182 911	761 188
Interest and similar costs	864 190	490 240
NET INTEREST INCOME	**318 721**	**270 948**
Dividends on equity instruments	921	538
Income on services and fees	115 627	89 175
Costs of services and fees	21 613	15 205
Profit on assets and liabilities at fair value through profit or loss	62 138	45 857
Profit on financial assets available for sale	3 667	12 692
Profit on currency revaluations	8 410	2 344
Profit on sale of other assets	44 001	-3 363
Other operating profits	32 921	19 326
BANKING INCOME	**564 793**	**422 312**
Personnel costs	225 373	143 457
General administrative overheads	115 442	83 495
Depreciation and amortisation	28 270	20 850
Provisions net of adjustments	4 282	-84
Impairment on credit net of reversals and recoveries	150 070	112 975
Impairment on other financial assets net of reversals and recoveries	24 047	2 152
Impairment on other assets net of reversals and recoveries	-14 299	10 014
Profit from associated companies and joint ventures (equity equivalence)	999	1 954
PROFIT BEFORE INCOME TAX AND MINORITY INTERESTS	**32 607**	**51 407**
Taxes		
Current	-3 689	0
Deferred	18 381	0
Minority interests	-2 270	0
CONSOLIDATED PROFIT FOR FINANCIAL YEAR	**45 029**	**51 407**

THE CHARTERED ACCOUNTANT
Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS
António Tomás Correia – Chairman
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Eduardo José da Silva Farinha
Álvaro Cordeiro Dâmaso

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AT 31 DECEMBER, 2011 AND 2010

(EUR thousands)

	2011	2010
Cash flows arising from operating activities		
Interest income received	1 111 303	731 013
Commissions income received	108 994	89 255
Interest expense paid	(737 432)	(474 362)
Commissions expense paid	(27 448)	(15 073)
Payments to employees and suppliers	(345 545)	(264 939)
Recoveries on loans previously written off	6 163	2 376
Other payments and receivables	171 424	45 436
Taxes	(43 341)	–
	244 118	**113 706**
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions and customers	(2 167 480)	(25 984)
Other assets	(381 917)	25 291)
	(2 549 397)	**(693)**
(Increase) / decrease in operating liabilities:		
Deposits from clients	3 578 617	811 458
Deposits from credit institutions	(600 514)	404 346
Deposits from central banks	900 000	900 000
	3 878 103	2 115 804
	1 572 824	**2 228 817**
Cash flows arising from investing activities		
Dividends received	921	538
(Acquisition) / sale of trading financial assets	5 534	(116)
(Acquisition) / sale of other financial assets at fair value through profit or loss	346	240
(Acquisition) / sale of available for sale financial assets	(399 530)	(1 207 407)
(Acquisition) / sale of hedging derivatives	12 196	1 996
(Acquisition) / sale of held to maturity investments	(18 744)	(24 037)
(Acquisition) / sale of shares in associated companies	(80 199)	931
Deposits owned with the purpose of monetary control	(110 378)	61 507
Proceeds from sale of fixed assets	129 538	3 116
Acquisition of fixed assets	(231 139)	(24 105)
	(691 455)	**(1 187 337)**
Cash flows arising from financing activities		
Dividends paid	(23 085)	(20 300)
Capital increase	460 000	40 000
Proceeds from issuance of bonds and subordinated debt	291 538	(218 169)
Reimbursement of bonds and subordinated debt	(1 411 249)	(860 459)
Increase / (decrease) in other sundry liabilities	17 505	18 444
	(665 291)	**(1 040 484)**
Net changes in cash and equivalents	216 078	996
Cash and equivalents balance at the beginning of the year	169 994	168 998
Cash (note 18)	95 641	99 128
Loans and advances to credit institutions repayable on demand (note 19)	74 353	69 870
Cash and equivalents balance at the end of the year	**386 072**	**169 994**

See accompanying notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER, 2011 AND 2010

(EUR thousands)

	Total equity	Share capital	Other capital instruments	General and special reserves	Fair value reserves	Reserves and retained earnings	Non-controlling interests
Balance on 31 December, 2009	**986 214**	**760 000**	**–**	**225 876**	**(28 600)**	**28 938**	**–**
Changes in the accounting policy for recognition of actuarial gains/losses (note 58)	(86 316)	–	–	–	–	(86 316)	–
Balance on 1 January, 2010	**899 898**	**760 000**	**–**	**225 876**	**(28 600)**	**(57 378)**	**–**
Other movements recognized directly in Equity:							
Actuarial losses for the year (note 58)	(15 393)	–	–	–	–	(15 393)	–
Changes in fair value	(57 106)	–	–	–	(57 106)	–	–
Profit for the year	53 087	–	–	–	–	53 087	–
Total gains and losses recognized in the year	(19 412)	–	–	–	(57 106)	37 694	–
Increase in share capital (note 40)	40 000	40 000	–	–	–	–	–
Dividends paid (note 44)	(20 300)	–	–	–	–	(20 300)	–
Equity method	(4 737)	–	–	–	–	(4 737)	–
Transfers of reserves:							
General reserve	–	–	–	7 635	–	(7 635)	–
Special reserve	–	–	–	1 889	–	(1 889)	–
Balance on 31 December, 2010	**895 449**	**800 000**	**–**	**235 400**	**(85 706)**	**(54 245)**	**–**
Other movements recognised directly in Equity:							
Changes in fair value (note 43)	(233 845)	–	–	–	(233 845)	–	–
Actuarial losses for the year (note 48)	65 391	–	–	–	–	65 391	–
Deferred taxes related to balance sheet changes (note 31)	48 152	–	–	–	–	48 152	–
Profit for the year	45 029	–	–	–	–	45 029	–
Total gains and losses recognized in the year	(75 273)	–	–	–	(233 845)	158 572	–
Increase in share capital (note 40)	445 000	445 000	–	–	–	–	–
Other capital instruments (note 41)	15 000	–	15 000	–	–	–	–
Non-controlling interests	11 381	–	–	–	–	–	11 381
Dividends paid (note 46)	(23 085)	–	–	–	–	(23 085)	–
Other reserves	(4 865)	–	–	–	–	(4 865)	–
Equity method	(3 594)	–	–	–	–	(3 594)	–
Costs related to the issue of perpetual subordinated Instruments	(525)	–	–	–	–	(525)	–
Transfers of reserves:							
General reserve	–	–	–	8 345	–	(8 345)	–
Special reserve	–	–	–	2 075	–	(2 075)	–
Balance on 31 December, 2011	**1 259 488**	**1 245 000**	**15 000**	**245 820**	**(319 551)**	**61 838**	**11 381**

See accompanying notes to the Consolidated Financial Statements

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER, 2011 AND 2010

(EUR thousands)

	Notes	2011	2010
			Restated
Other Comprehensive income for the year			
Fair value reserves			
Financial assets available for sale	43	(233 845)	(57 106)
Actuarial losses for the year	48 and 58	65 391	(15 393)
Deferred taxes	31	48 152	–
Comprehensive income recognised directly in Equity after taxes		**(120 302)**	**(72 499)**
Profit for the year		45 029	53 087
Total Comprehensive income for the year		**(75 273)**	**(19 412)**

See accompanying notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER, 2011

1. Accounting policies

a) Basis of presentation

Caixa Económica Montepio Geral («CEMG») is a credit institution held by Montepio Geral – Associação Mutualista, established on 24 March, 1844, and authorised to operate in accordance with Decree-Laws no. 298/92 of 31 December, and no. 136/79 of 18 May, which regulate the activity of savings banks and establish some restrictions to their activities. However, CEMG is authorised to carry out banking operations in addition to those mentioned in its by-laws, if previously authorised by the Bank of Portugal. This fact conducts to the practice of banking operations in general.

As described in note 54, in 2010, Montepio Geral – Associação Mutualista, CEMG sole shareholder, has made an aquisition of 100% of Finibanco Holding, S.G.P.S., S.A. share capital through an Initial Public Offering (IPO) in the amount of Euro 341 250 000.

As at 31 March, 2011, Montepio Geral – Associação Mutualista sold its participation in Finibanco Holding, S.G.P.S., S.A. to CEMG. Under the change in the structure of the Group arising from this acquisition, as at 4 April, 2011, CEMG acquired a set of assets and liabilities of Finibanco, S.A. (excluding properties owned by Finibanco, SA and acquired as a result of loans and advances to customers and a leasing portfolio (securities and real estate) in which Finibanco, S.A. is lessor and the fixed assets that materially support the operating leasing activities), and all associated liabilities and provisions. Thus, the financial statements of the CEMG with reference to December 31, 2011 include the effect of this acquisition, so this should be considered for comparison purposes.

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and the Counsel, of 19 July, 2002, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February and Regulation no. 1/2005 from the Bank of Portugal, Group consolidated financial statements are required to be prepared in accordance with International Financial Reporting Standards («IFRS») as endorsed by the European Union («EU»). IFRS comprise accounting standards issued by the International Accounting Standards Board («IASB») and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee («IFRIC») and its predecessor body. The consolidated financial statements presented herein were approved by the Board of CEMG on 8 March, 2012. The financial statements are presented in Euro rounded to the nearest thousand.

All the references in this document relate to any normative always report to current version.

The Group adopted the IFRS standards and interpretations for which application is mandatory for accounting periods beginning on 1 January 2011.

The financial statements for the year ended 31 December, 2011 have been prepared in terms of recognition and measurement in accordance with the IFRS, established by the Bank of Portugal and in use in the period.

According to one of the options allowed by IAS 19 Employee Benefits, CEMG decided in 2011 for a change in the accounting policy for recognition of actuarial gains and losses, starting to recognize the actuarial gains and losses of the year against reserves. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes from 1 January 2010, recognizing in all the deferred actuarial gains and losses determined at that date in equity. Thus, as described in notes 43, 48 and 58 the balance Reserves and retained earnings includes, with effective date 1 January 2010, the restatement resulted from the referred change in the accounting policy.

Previously, the Group proceeded to the deferral of actuarial gains and losses determined in accordance with the corridor method. Under the corridor method, actuarial gains and losses not recognized that exceed 10% of the greater of the present value of the liabilities and the fair value of the Fund's assets are recorded in the income statement for the period corresponding to the estimated remaining useful life of the employees in service.

In 2011, the Group adopted the IFRS 7 – Financial Instruments: Disclosures – Transfers of financial assets and the «Annual Improvement Project» issued in May 2010. These standards whose application is mandatory, with reference to 1 January, 2011, have an impact in terms of additional disclosures relating to the Group assets and liabilities.

The accounting standards and interpretations recently issued but not yet effective and that the Group has not yet adopted in the preparation of its financial statements can be analysed in note 56.

The financial statements are prepared under the historical cost convention, as modified by the application of fair value for derivative financial instruments, financial assets and liabilities at fair value through profit or loss (trading and fair value option) and available for sale assets, except those for which a reliable measure of fair value is not available. Financial assets and liabilities that are hedged under hedge accounting are stated at fair value in respect of the risk that is being hedged, if applicable. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount or fair value less costs to sell. The liability for defined benefit obligations is recognised as the present value of the defined benefit obligation net of the value of the fund.

The accounting policies set out below have been applied consistently for all the entities of the Group, for all periods presented in these consolidated financial statements.

The preparation of the financial statements in accordance with IFRS's requires the Executive Board of Directors to make judgments, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The issues involving a higher degree of judgment or complexity or where assumptions and estimates are considered to be significant are presented in note 1 *z*).

b) Basis of Consolidation

These consolidated financial statements comprise the financial statements of the Group and its subsidiaries, and the results attributable to CEMG from its associates.

These accounting policies have been consistently applied by the Group companies, during all the periods covered by the consolidated financial statements.

Investment in subsidiaries

Investments in subsidiaries where the Group exercises control are fully consolidated from the date that the Group assumes control over its activities and until the control ceases to exist. Control is presumed to exist when the Group owns more than half of the voting rights. Additionally, control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities, even if the percentage of shareholding is less than 50%.

As from 1 January, 2010, accumulated losses are attributed to non-controlling interests in the respective proportion, implying that the Group can recognize negative non-controlling interests. Previously, when the accumulated losses of a subsidiary attributable to the non-controlling interest exceed the equity of the subsidiary attributable to the non-controlling interest, the excess is attributed to the Group and charged to the income statement as it occurs. Profits subsequently reported by the subsidiary are recognised as profits of the Group until the prior losses attributable to non-controlling interest previously recognised by the Group have been recovered.

As from 1 January, 2010, on a step acquisition process resulting in the acquisition of control the revaluation of any participation previously acquired is booked against the profit and loss account, when goodwill is calculated. On a parcial disposal resulting in loss of control over a subsidiary, any participation retained is revalued at market value on the sale date and the gain or loss resulting from this revaluation is booked against the income statement.

Investments in associates

Investments in associated companies are consolidated by the equity method between the beginning date that the Group acquires significant influence and the ending date it ceases. Associates are those entities, in which the Group has significant influence, but not control, over the financial and operating policy decisions of the investee. It is assumed that the Group has significant influence when it holds, directly or indirectly, 20% or more of the voting rights of the investee. If the Group holds, directly or indirectly less than 20% of the voting rights of the investee, it is presumed that the Group does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence by the Group is usually evidenced in one or more of the following ways:

– representation on the Executive Board of Directors or equivalent governing body of the investee;

– participation in policy-making processes, including participation in decisions about dividends or other distributions;

– material transactions between the Group and the investee;

– interchange of the management team;

– provision of essential technical information.

The consolidated financial statements include the part that is attributable to the Group of the total reserves and results of associated companies accounted on an equity basis. When the Group's share of losses exceeds its interest in an associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred in a legal or constructive obligation to assume those losses on behalf of an associate.

Goodwill

The record of the costs directly related with a subsidiary acquisition is recognized directly in the income statement.

All the positive goodwill that results of the acquisitions, is recognized as an asset and booked at its acquisition cost, not being amortized.

Goodwill arising on the acquisition of subsidiaries and associates is defined as the difference between the cost of acquisition and the total or corresponding share of the fair value of the net assets acquired, depending on the option taken.

Negative goodwill arising on an acquisition is recognized directly in the income statement in the year the business combination occurs.

The recoverable amount of the goodwill in subsidiaries is assessed annually, regardless of the existence of any impairment triggers. Impairment losses are recognized in the income statement. The recoverable amount is determined based on the value in use of the assets, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

Goodwill is no longer adjusted due to changes in the initial estimate of the contingent purchase price and the difference is booked in the income statement, or reserves, if applicable.

Purchases and diluition of non-controlling interests

The acquisition of the non-controlling interests that does not impact the control position of a subsidiary is accounted as a transaction with shareholders and, therefore, is not recognized additional goodwill resulting from this transaction. The difference between the acquisition cost and the book value or fair value of non-controlling interests acquired is recognized directly in reserves. On this basis, the gains and losses resulting from the sale of non-controlling interests, that does not impact the control position of a subsidiary, are always recognized against reserves.

The gains and losses resulting from the dilution or sale of a financial position in a subsidiary, with loss of control, are recognized by the Group in results for the year.

The acquisitions of non-controlling interests through written put options related with investments in subsidiaries held by non-controlling interests, are recorded as a financial liability for the present value of the best estimate of the amount payable, against non-controlling interests. The fair value of the liability is determined based on the contractual price which may be fixed or variable. In case of a variable price, the changes in the liability are recognized against the income statement as well as the effect of the financial discount of the liability (unwinding). In an acquisition (dilution) of noncontrolling interests not resulting in a loss of control, the difference between the fair value of the noncontrolling interests acquired and the consideration paid, is accounted against reserves.

Special Purpose Entities («SPEs»)

The Group fully consolidates SPEs resulting from securitization operation with assets from Group entities (as referred in note 22), when the substance of the relation with those entities indicates that the Group exercises control over its activities, independently of the percentage of the equity held. Besides these SPEs resulting from securitization operations, no additional SPEs have been consolidated considering that they do not meet the criteria established on SIC 12 as described below.

The evaluation of the existence of control is determined based on the criteria established by SIC 12, which can be analysed as follows:

- The activities of the SPE, in substance, are being conducted on behalf of the Group, in accordance with the specific needs of the Group's business, in order to obtain benefits from these activities;
- The Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an «autopilot» mechanism, the Group has delegated these decision-making powers;
- The Group has the rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks inherent to the activities of the SPE;
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Investment fund management

The Group manages the assets held by investment funds for which the participation units are held by third parties. The financial statements of these entities are not consolidated by the Group, except when the Group has the control over these investment funds, namely when it holds more than 50% of the participation units.

Investments in foreign subsidiaries and associates

The financial statements of the foreign subsidiaries and associates of the Group are prepared in their functional currency, defined as the currency of the primary economic environment in which they operate or the currency in which the subsidiaries obtain their income or finance their activity. In the consolidation process, assets and liabilities, including goodwill, of foreign subsidiaries are converted into euro at the official exchange rate at the balance sheet date. The goodwill existing on these investments is valued against reserves.

Regarding the investments in foreign operations that are consolidated in the Group accounts under the full consolidation, proportional consolidation or equity methods, for exchange differences between the conversion to Euros of the opening net assets at the beginning of the year and their value in Euros at the exchange rate ruling at the balance sheet date for consolidated accounts are charged against consolidated reserves. The exchange differences from hedging instruments related with foreign operations are eliminated from profit and loss in the consolidation process against the exchange differences booked in reserves resulting from those investments. Whenever the hedge is not fully effective, the ineffective portion is accounted against profit and loss of the year.

The income and expenses of these subsidiaries are converted to Euros at an aproximate rate of the rates ruling at the dates of the transactions. Exchange differences from the conversion to Euro of the profits and losses for the reporting period, arising from the difference between the exchange rate used in the income statement and the exchange rate prevailing at the balance sheet date, are recognised in reserves – exchange differences.

On disposal of investments in foreign subsidiaries for which there is loss of control, exchange differences related to the investment in the foreign operation and to the associated hedge transaction previously recognised in reserves, are transferred to profit and loss as part of the gains or loss arising from the disposal.

Transactions eliminated on consolidation

Intragroup balances and any unrealized gains and losses arising from intragroup transactions, are eliminated in the preparation of the consolidated financial statements. Unrealized gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

c) Loans and advances to customers

Loans and advances to customers includes loans and advances originated by the Group which are not intended to be sold in the short term and are recognised when cash is advanced to borrowers.

The derecognition of these assets occurs in the following situations: (i) the contractual rights of the Group have expired; or (ii) CEMG transferred substantially all the associated risks and rewards.

Loans and advances to customers are initially recognised at fair value plus any directly attributable transaction costs and fees and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

Impairment

The Group's policy consists in a regular assessment of the existence of objective evide nce of impairment in the loan portfolios. Impairment losses identified are charged against results and subsequently the charge is reversed, if there is a reduction of the estimated impairment loss, in a subsequent period.

After initial recognition, a loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, may be classified as impaired when there is objective evidence of impairment as a result of one or more events and when the loss event has an impact on the estimated future cash flows of the loan or of the loan portfolio that can be reliably estimated.

According to IAS 39, there are two basic methods of calculating impairment losses: (i) individually assessed loans; and (ii) collective assessment.

(i) Individually assessed loans

Impairment losses on individually assessed loans are determined by an evaluation of the exposures on a case-by-case basis. For each loan considered individually significant, the Group assesses, at each balance sheet date, the existence of any objective evidence of impairment. In determining such impairment losses on individually assessed loans, the following factors are considered:

– Group's aggregate exposure to the customer and the existence of overdue loans;

– Ahe viability of the customer's business and capability to generate sufficient cash flow to service their debt obligations in the future;

– The existence, nature and estimated value of the collaterals;

– A significant downgrading in the client rating;

– The assets available on liquidation or insolvency;

– The ranking of all creditor claims;

– The amount and timing of expected receipts and recoveries.

Impairment losses are calculated by comparing the present value of the expected future cash flows, discounted at the original effective interest rate of the loan, with its current carrying value and the amount of any loss is charged in the income statement. The carrying amount of impaired loans is reduced through the use of an allowance account. For loans with a variable interest rate, the discount rate used corresponds to the effective annual interest rate, which was applicable in the period that the impairment was determined.

Individual loans that are not identified as having an objective evidence of impairment are grouped on the basis of similar credit risk characteristics, and assessed collectively.

(ii) Collective assessment

Impairment losses are calculated on a collective basis under two different scenarios:

– for homogeneous groups of loans that are not considered individually significant; or

– in respect of losses which have been incurred but have not yet been reported («IBNR») on loans for which no objective evidence of impairment is identified (see section (*i*)).

The collective impairment loss is determined considering the following factors:

– historical loss experience in portfolios of similar risk characteristics;

– knowledge of the current economic and credit conditions and its impact on the historical losses level; and

– the estimated period between a loss occurring and a loss being identified.

The methodology and assumptions used to estimate the future cash flows are reviewed regularly by the Group in order to monitor the differences between estimated and real losses.

Loans which have been individually assessed and for which no evidence of impairment has been identified, are grouped together based on similar credit risk characteristics for calculating a collective impairment loss. This loss covers loans that are impaired at the balance sheet date but which will not be individually identified as such until some time in the future.

In accordance with «Carta-Circular» no. 15/2009 of the Bank of Portugal, loans and advances to customers are charged-off when there are no realistic expectation, from an economic perspective, of recovering the loan amount. For collateralized loans, the charge-off occurs for the unrecoverable amount when the funds arising from the execution of the respective collaterals for the part of the loans which is collateralized is effectively received. This charge-off is carried out only for loans that are considered not to be recoverable and fully provided.

d) Financial instruments

(i) Classification, initial recognition and subsequent measurement

1) Financial assets and liabilities at fair value through profit and loss

1a) Financial assets held for trading

The financial assets and liabilities acquired or issued with the purpose of sale or re-acquisition on the short term, namely bonds, treasury bills or shares or that are part of a financial instruments portfolio and for which there is evidence of a recent pattern of short-term profit taking or that can be included in the definition of derivative (except in the case of a derivative classified as hedging) are classified as trading. The dividends associated to these portfolios are accounted in gains arising on trading and hedging activities.

The interest from debt instruments are recognized as interest margin.

Trading derivatives with a positive fair value are included in the Financial assets held for trading and the trading derivatives with negative fair value are included in the Financial liabilities held for trading.

1b) Other financial assets and liabilities at fair value through profit and loss («Fair Value Option»)

The Group has adopted the Fair Value Option for certain own bond issues, loans and time deposits that contain embedded derivatives or with related hedging derivatives. The variations of the Bank's credit risk related with financial liabilities accounted under the Fair Value Option are disclosed in «Net gains / (losses) arising from trading and hedging activities».

The designation of the financial assets and liabilities at fair value through profit and loss by decision of the entity is performed whenever at least one of the requirements is fulfilled:

– the assets and liabilities are managed, evaluated and reported internally at its fair value;

– the designation eliminates or significantly reduces the accounting mismatch of the transactions;

– the assets and liabilities include derivatives that significantly change the cash-flows of the original contracts (host contracts).

The financial assets and liabilities at Fair Value Option are initially accounted at their fair value, with the expenses or income related to the transactions being recognised in profit and loss and subsequently measured at fair value through profit and loss. The accrual of interest and premium/discount (when applicable) is recognised in Net interest income according with the effective interest rate of each transaction, as well as for the derivatives associated to financial instruments classified as Fair Value Option.

2) Financial assets available for sale

Financial assets available for sale held with the purpose of being maintained by the Group, namely bonds, treasury bills or shares, are classified as available for sale, except if they are classified in another category of financial assets. The financial assets available for sale are initially accounted at fair value, including all expenses or income associated with the transactions. The financial assets available for sale are subsequently measured at fair value. The changes in fair value are accounted for against fair value reserves until they are sold or an impairment loss exists. In the sale of the financial assets available for sale, the accumulated gains or losses recognised as fair value reserves are recognised under Net gains / (losses) arising from available for sale financial assets. Interest income from debt instruments is recognised in Net interest income based on the effective interest rate, including a premium or discount when applicable. Dividends are recognised in the income statement when the right to receive the dividends is attributed.

Thus, as a consequence of the low liquidity and significant volatility in financial markets were taken into account in determining the existence of impairment, the following factors:

– Equity instruments: (i) above 30% devaluation against the purchase price or (ii) the market value below the acquisition cost for a period exceeding 12 months;

– Debt instruments: where there is objective evidence of events that impact on the recoverable value of future cash flows of these assets.

In the sale of the financial assets available for sale, the accumulated gains or losses recognized as fair value reserves are recognized under Net gains / (losses) arising from available for sale financial assets. Interest income from debt instruments is recognized in Net interest income based on the effective interest rate, including a premium or discount when applicable. Dividends are recognized in the income statement when the right to receive the dividends is attributed.

3) Financial assets held-to-maturity

Financial assets held-to-maturity include non-derivative financial assets with fixed or determinable payments and fixed maturity, that the Group has the intention and capacity to maintain until the maturity of the assets and that were not included in the category of financial assets at fair value through profit and loss or financial assets available for sale. These financial assets are initially recognized at fair value and subsequently measured at amortized cost. The interest is calculated using the effective interest rate method and recognized in Net interest income. The impairment losses are recognized in profit and loss when identified.

Any reclassification or sale of financial assets included in this category that does not occur close to the maturity of the assets will require CEMG to reclassify the entire portfolio as Financial assets available for sale and the Group will not be allowed to classify any assets under this category for the following two years.

4) Other financial liabilities

Other financial liabilities are all financial liabilities that are not recognized as financial liabilities at fair value through profit and loss. This category includes money market transactions, deposits from customers and from other financial institutions, issued debt, and other transactions.

These financial liabilities are initially recognized at fair value and subsequently at amortised cost. The related transaction costs are included in the effective interest rate. The interest calculated at the effective interest rate is recognized in net interest income.

The financial gains or losses calculated at the time of the repurchase of other financial liabilities are recognized as Net gains/(losses) arising from trading and hedging activities when occurred.

(ii) Transfers between categories

The Group transfers financial assets not derivates with fixed or determinable payments and defined maturities, from financial assets available for sale to the category of financial assets held to maturity, as long as the intention and ability to hold these financial assets to maturity were considered.

These transfers are performed by based on the fair value of transferred assets, determined on the date of transfer. The difference between this fair value and nominal value is recognized in the income statement until maturity, based on the effective interest rate method. The fair value reserve existing on the date of transfer is also recognized in the results based on the effective interest rate method.

Transfers to (i) financial assets held to maturity category can only be performed provided as long as the intention and ability to hold these financial assets to maturity were considered and to (ii) category of loans and advances to customers, where it is intention and ability to hold these financial assets in the foreseeable future and are not traded in an active market.

There were no transfers between portfolios in 2010 and 2011.

(iii) Impairment

An assessment is made at each balance sheet date as to whether there is any objective evidence of impairment, namely circumstances where an adverse impact on estimated future cash flows of the financial asset or group of financial assets can be reliably estimated or based on a significant or prolonged decrease in the fair value, below the acquisition cost.

If an available for sale asset is determined to be impaired, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss) is removed from fair value reserves and recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurred after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the income statement. The impairment losses recognized in equity instruments classified as available for sale, when reversed, are recognized against fair value reserves.

(iv) Embedded derivatives

Embedded derivatives should be accounted for separately as derivatives if the economic risks and benefits of the embedded derivative are not closely related to the host contract, unless the hybrid (combined) instrument is not initially measured at fair value with changes through profit and loss. Embedded derivatives are classified as trading and recognized at fair value with changes through profit and loss.

e) Derivatives hedge accounting

(i) Hedge accounting

The Group designates derivatives and non-financial instruments to hedge its exposure to interest rate and foreign exchange risk, resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative hedging instruments are stated at fair value and gains and losses on re-measurement are recognized in accordance with the hedge accounting model adopted by the Group. A hedge relationship exists when:

– at the inception of the hedge there is formal documentation of the hedge;

– the hedge is expected to be highly effective;

– the effectiveness of the hedge can be reliably measured;

– the hedge is valuable in a continuous basis and highly effective throughout the reporting period; and

– for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge foreign exchange arising from monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated to the derivative and to changes in foreign exchange risk related with the monetary items are recognized through profit and loss.

(ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments are recognized in profit and loss, together with changes in the fair value attributable to the hedged risk of the asset or liability or group of assets and liabilities. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative gains and losses recognized until the discontinuance of the hedge accounting are amortized through profit and loss over the residual period of the hedged item.

(iii) Cash flow hedge

In a hedge relationship, the effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity – cash flow hedge reserves. Any gain or loss relating to the ineffective portion of the hedge is immediately recognized in profit and loss when occurred.

Amounts accumulated in equity are reclassified to profit and loss in the periods in which the hedged item will affect profit or loss.

In case of hedging variability of cash-flows, when the hedge instrument expires or is disposed or when the hedging relationship no longer meets the criteria for hedge accounting, or when the hedge relation is revoked, the hedge relationship is discontinued on a prospective basis.

Therefore, the fair value changes of the derivative accumulated in equity until the date of the discontinued hedge accounting can be:

- Deferred over the residual period of the hedged instrument; or
- Recognized immediately in results, if the hedged instrument is extinguished.

In the case of a discontinued hedge of a forecast transaction, the change in fair value of the derivative recognized in equity at that time remains in equity until the forecasted transaction is ultimately recognized in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit and loss.

(iv) Hedge effectiveness

For a hedge relationship to be classified as such according to IAS 39, effectiveness has to be demonstrated. As such, the Bank performs prospective tests at the beginning date of the initial hedge, if applicable and retrospective tests in order to demonstrate at each reporting period the effectiveness of the hedging relationships, showing that the changes in the fair value of the hedging instrument are hedged by the changes in the hedged item for the risk being covered. Any ineffectiveness is recognized immediately in profit and loss when incurred.

(v) Hedge of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity. The gain or loss relating to the ineffective portion is immediately recognized in the income statement. Gains and losses accumulated in equity related to the investment in a foreign operation and to the associated hedge operation are included in the income statement on the disposal of the foreign operation as part of the gain or loss from the disposal.

f) Reclassifications between financial instruments categories

In October 2008, the IASB issued a change to IAS 39 – Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments Disclosures). This change allowed an entity to transfer Financial assets from Financial assets at fair value through profit and loss – trading to Financial assets available for sale, to Loans and Receivables – Loans represented by securities or to financial assets held-to-maturity, as long as the requirements described in the Standard are met, namely:

- If a financial asset, at the date of reclassification present the characteristics of a debt instrument for which there is no active market; or
- When there is some event that is uncommon and highly improbable that will occur again in the short term, that is, the event can be classified as a rare circumstance.

In 2011 and 2010, CEMG did not performe any reclassifications between financial instruments categories.

Transfer of financial assets recognized in the category of Financial assets available-for-sale to Loans and receivables – Loans represented by securities and Financial assets held-to-maturity are permitted.

Transfers from and to Financial assets and financial liabilities at fair value through profit and loss by decision of the entity («Fair value option») are prohibited.

g) Derecognition

The Group derecognizes financial assets when all rights to future cash flows have expired. In a transfer of assets, derecognition can only occur either when risks and rewards have been substantially transferred or the Group does not maintain control over the assets.

The Group derecognizes financial liabilities when these are discharged, cancelled or extinguished.

h) Equity instruments

An instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently from its legal form, showing a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instruments issuance are recognized in equity as a deduction to the amount issued. Amounts paid or received related to sales or acquisitions of equity instruments are recognized in equity, net of transaction costs.

Income from equity instruments (dividends) are recognized when the right to receive this income is established and are deducted to equity.

i) Securities borrowing and repurchase agreement transactions

(i) Securities borrowing

Securities lent under securities lending arrangements continue to be recognized in the balance sheet and are measured in accordance with the applicable accounting policy. Cash collateral received in respect of securities lent is recognized as a financial liability. Securities borrowed under securities borrowing agreements are not recognized. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognized on an accrual basis over the period of the transactions and are included in interest income or expense (net interest income).

(ii) Repurchase agreements

The Group performs acquisition/sale of securities under reselling/repurchase agreements of securities substantially equivalent in a future date at a predetermined price («repos»/«reverse repos»). The securities related to reselling agreements in a future date have not been recognized on the balance sheet. The amounts paid are recognized in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralized by the related securities. Securities sold through repurchase agreements continue to be recognized in the balance sheet and are revaluated in accordance with the applicable accounting policy. The amounts received from the proceeds of these securities are considered as deposits from customers and deposits from credit institutions.

The difference between the acquisition/sale and reselling/repurchase conditions is recognized on an accrual basis over the period of the transaction and is included in interest income or expenses.

J) Non-current assets held for sale and discontinued operations

Non-current assets, groups of non-current assets held for sale (groups of assets together and related liabilities that include at least a non current asset) and discontinued operations are classified as held for sale when it is intention to sell the referred assets and liabilities, the referred assets are available for immediate sale and its sale is highly probable.

The Group also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to its subsequent disposal, that are available for immediate sale and its sale is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and fair value less costs to sell.

Discontinued operations and the subsidiaries acquired exclusively with the purpose to sell in the short term, are consolidated until the disposal.

The Group also classifies as non-current assets held for sale the investments arising from recovered loans that are measured initially by the lower of its fair value net of expenses and the loan's carrying amount on the date that the recovery occurs or the judicial decision is formalized.

The fair value is determined based on the expected selling price estimated through periodic valuations performed by the Group.

The subsequent accounting of these assets is determined based on the lower of the carrying amount and the corresponding fair value net of expenses. In case of unrealized losses, these should be recognized as impairment losses against results.

k) Finance and operational lease

The Group classifies its lease agreements as capital lease or operating leases taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases

– As lessee

Payments made by the Group under operating leases are charged to the income statement in the period to which they relate.

– As lessor

Assets leased out are recorded in the balance sheet, according to the nature of the asset.

Lease income from operating leases is recognized in the income statement on a straight-line basis over the lease term.

Costs, including the depreciation, incurred in earning the lease income are recognized on a straight-line basis over the lease term as interest income. The initial direct costs incurred by the lessor, such as negotiating and securing leasing arrangements Initial direct costs incurred by lessor in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, as described in note 1 *q*).

The Group performs impairment testing whenever events or circumstances show that the book value exceeds the recoverable amount and the difference between the book value and recoverable amount is charged in the income statement.

Finance leases

– As lessee

Finance lease contracts are recorded at inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of outstanding lease installments. Installments comprise (i) an interest charge, which is recognized in the income statement and (ii) the amortisation of principal, which is deducted from liabilities. Financial charges are recognized as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of liability for each period.

– As lessor

Assets leased out are recorded in the balance sheet as loans granted, for an amount equal to the net investment made in the leased assets.

Interest included in installments charged to customers is recorded as interest income, while amortisation of principal, also included in the installments, is deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

l) Interest income and expense

Interest income and expense for financial instruments measured at amortised cost are recognized in the interest income or expenses (net interest income) through the effective interest rate method. The interest related to financial assets available for sale calculated at the effective interest rate method are also recognized on the net interest income as well as those from assets and liabilities at fair value through profit and loss.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, for a shorter period), to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument (example: early payment options) but without considering future impairment losses. The calculation includes all fees paid or received considered as included in the effective interest rate, transaction costs and all other premiums or discounts directly related with the transaction except for assets and liabilities at fair value through profit and loss.

If a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Specifically regarding the accounting policy for interest on overdue loans portfolio the following aspects are considered:

– Interest income for overdue loans with collaterals are accounted for as income up to the limit of the valuation of the collateral valued on a prudent basis. This income is registered against results in accordance with IAS 18, assuming that there is a reasonable probability of recoverability; and

– The interests accrued and not paid for overdue loans for more than 90 days that are not covered by collaterals are writen-off and are recognized only when they are received, in accordance with IAS 18, on the basis that its recoverability is considered to be remote.

For derivative financial instruments, except those classified as hedging instruments of interest rate risk, the interest component is not separated from the changes in the fair value and is classified under Net gains / (losses) from trading and hedging activities. For hedging derivatives of interest rate risk and those related to financial assets or financial liabilities recognized in the Fair Value Option category, the interest component of the changes in their fair value is recognized under interest income or expense (Net interest income).

m) Fee and commission income

Fees and commissions are recognized according to the following criteria:

– Fees and commissions which are earned as services are provided are recognized in income over the period in which the service is being provided;

– Fees and commissions that are earned on the execution of a significant act, are recognized as income when the service is completed.

– Fees and commissions that are an integral part of the effective interest rate of a financial instrument, are recognized in Net interest income.

n) Insurance and reinsurance brokerage services

CEMG is duly authorized by the Portuguese Insurance Institute (Instituto de Seguros de Portugal) to provide insurance brokerage services, in the Insurance Brokerage Services area, in accordance with the article 8, paragraph *a*), subparagraph *i*) of Decree-Law 144/2006 of July 31, operating in the life and non life insurance brokerage areas.

In the insurance brokerage services area, CEMG sells insurance contracts. As remuneration for the insurance brokerage services rendered, CEMG receives commission for brokering insurance contracts, which is defined in agreements/protocols established between CEMG and the Insurers.

Commission received for insurance brokerage services refer to:

– Commission that includes a fixed and a variable component. The fixed component is calculated by applying a predetermined rate over the amounts of subscriptions made through CEMG and a variable component calculated based on predetermined criteria, total annual fees being the sum of the fees calculated monthly;

– Commission for participation in the results of insurance, which are calculated annually and paid by the insurer in the beginning of the year following that to which they refer (up to January 31).

– Commission received for insurance brokerage services are recognized in an accruals basis. Fees paid in a different period from that to which it relates is recorded as a receivable in the caption «Other assets» by corresponding entry to «Commissions received – for insurance brokerage services».

CEMG does not collect insurance premiums on behalf of Insurers, or receive or pay funds relating to insurance contracts. Thus, there are no other assets, liabilities, income or expenses to be recognized relating to the insurance brokerage services rendered by CEMG, other than those already disclosed.

o) Financial results (Results arising from trading and hedging activities and available for sale financial assets)

Financial results includes gains and losses arising from financial assets and financial liabilities at fair value through profit and loss, that is, fair value changes and interest on trading derivatives and embedded derivatives), as well as the corresponding dividends received. This caption also includes gains and losses arising from the sale of available for sale financial assets. The changes in fair value of hedging derivatives and hedged items, when fair value hedge is applicable, are also recognized in this caption.

p) Fiduciary activities

Assets held in the scope of fiduciary activities are not recognized in the Group financial statements. Fees and commissions arising from this activity are recognized in the income statement in the year to which they relate.

q) Property and equipment

Property and equipment are stated at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognized as a separate asset only when it is probable that future economic benefits will result for the Group. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

The Group performs impairment testing whenever events or circumstances indicate that the book value exceeds the highest between the value in use and the fair value less costs to sell, being the difference charged to the profit and loss.

Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Premises	50
Expenditure on freehold and leasehold buildings	10
Other fixed assets	4 a 10

Whenever there is an indication that a fixed tangible asset might be impaired, its recoverable amount is estimated and an impairment loss shall be recognized if the net value of the asset exceeds its recoverable amount.

The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use calculated based on the present value of future cash-flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life.

The impairment losses of the fixed tangible assets are recognized in profit and loss.

r) Intangible Assets

Software

The costs incurred with the acquisition, production and development of software are capitalised, as well as the costs incurred by the Group to acquire and bring to use the specific software. These costs are amortised on the basis of their expected useful lives, which is usually of three years.

Costs that are directly associated with the development of identifiable specific software applications by the Group, and that will probably generate economic benefits beyond one year, are recognized as intangible assets.

All remaining costs associated with IT services are recognized as an expense when incurred.

Other intangible assets

The recoverable amount of intangible assets without finite useful life as an asset is reviewed annually, regardless of the existence of signs of impairment. Any impairment losses are recognized in certain income statement.

s) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the balance sheet date, including cash and deposits with banks.

Cash and cash equivalents exclude restricted balances with central banks.

t) *Offsetting*

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to offset the recognized amounts and the transactions are intended to be settled on a net basis.

u) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, are translated into the respective functional currency of the operation at the foreign exchange rate at the reporting date. Foreign exchange differences arising on translation are recognized in the profit and loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Non--monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the respective functional currency of the operation at the foreign exchange rate at the date that the fair value was determined against profit and loss, except for financial assets available-for-sale, for which the difference is recognized against equity.

v) Employee benefits

Defined benefit plans

O The Group assumed the responsibility to pay to their employees, pensions on retirement or disabilities. These responsibilities also comply with the terms of the «Acordo Coletivo de Trabalho do Setor Bancário» (ACT), for employees engaged until 1 March, 2009. The new admissions, since that date, are covered by the social security general scheme.

To cover its responsibilities, the Group makes annual contributions to the pension fund, managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

The Group net obligation in respect of pension plans (defined benefit pensions plan) is calculated on an annual basis at 31 December of each year.

From 1 January 2011, the Group employees were integrated in the General Social Security Scheme which now covers their maternity, paternity, adoption and pension benefits. However, the Group remain liable for those benefits as concern illness, disability and life insurance (Decree-Law no. 1- A/2011, of 3 January).

The contributive rate is 26.6% divided between 23.6% supported by the employer and 3% supported by the employees, replacing the Banking Social Healthcare System («Caixa de Abono de Família dos Empregados Bancários») which was extinguished by the decree law referred above. As a consequence of this amendment the capability to receive pensions by the actual employees are covered by the General Social Security Scheme regime, considering the service period between 1 January 2011 and the retirement age. CEMG supports the remaining difference for the total pension assured in «Acordo Coletivo de Trabalho».

Following the approval by the Government of the DL 127/2011, which was published on 31 December, an agreement between the Government, the Portuguese Banking Association and the Banking Labour Unions was established that regulated the transfer of the liabilities related with pensions currently being paid to pensioners and retirees, to the Social Security.

This agreement established that the responsibilities to be transferred relate to the pensions in payment as at 31 December, 2011 at fixed amounts (discount rate 0%) in the component established in the «Instrumento de Regulação Coletiva de Trabalho (IRCT)» of the retirees and pensioners. The responsibilities related with the increase in pensions as well as any other complements, namely, contributions to the Health System (SAMS), death benefit and death before retirement benefit continue to be under the responsibility of the Financial Institutions and being financed through the corresponding Pensions funds. The Decree-Law also establishes the terms and conditions under which the transfer was made by setting a discount rate of 4% to determine the liabilities to be transferred.

The Group opted at the IFRS transition date, as at 1 January, 2004, for the retrospective application of IAS 19, performing the recalculation of the pension obligations and the corresponding actuarial gains and losses which will be deferred under the corridor method as defined in IAS 19.

According to one of the options allowed by IAS 19 Employee Benefits, the Bank decided in 2011 to change the accounting policy for recognition of actuarial gains and losses, starting to recognize the actuarial gains and losses of the year against reserves. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes from 1 January 2010, recognizing in that date all the deferred actuarial gains and losses in equity.

The calculation is made using the projected unit credit method and following actuarial and financial assumptions in line with the parameters required by IAS 19.

Previously, CEMG proceeded to the deferral of actuarial gains and losses determined in accordance with the corridor method. Under the corridor method, actuarial gains and losses not recognized that exceed 10% of the greater of the present value of the liabilities and the fair value of the Fund's assets are recorded in the income statement for the period corresponding to the estimated remaining useful life of the employees in service.

The current services cost plus the interest cost on the unwinding of the Pension liabilities less the expected return on the Plan assets are recorded in operational costs.

The Group net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates of high-quality corporate bonds that have maturity dates approximating the terms of the Group obligations. The net obligations are determined after the deduction of the fair value of the assets of the Pension Plan.

Employee benefits, other than pension plans, namely post retirement health care benefits and benefits for the spouse and sons for death before retirement are also included in the benefit plan calculation.

Costs arising from early retirements are recognized in the income statement on the year in which the early retirement is approved and announced.

Gains and losses for the year are recognized against reserves in the year they occur.

The funding policy of the Plan is to make annual contributions by the Group so as to cover the projected benefits obligations, including the non-contractual projected benefits. The minimum level required for the funding is 100% regarding the liability with pensioners and 95% regarding the employees in service.

Health Benefits

For the banking employees it is ensured by the Group medical care by the Health System (SAMS), autonomous entity that is managed by the respective Union.

SAMS provides to its beneficiaries, services and / or reimbursement of expenses of medical care, diagnostic tests, medications, hospitalizations and surgeries, according to their financial resources and internal regulation.

They are compulsory contributions to SAMS made by the Group, the amount corresponding to 6.50% of total actual remuneration of the employees, including, among others, the holiday pay and Christmas bonus.

The measurement and recognition of obligations of the Group with health benefits attributable to employees at retirement age are carried out similarly to pension liabilities.

Variable staff and board of directors remunerations

In accordance with IAS 19 – Employee benefits, variable remuneration (bonus) when assigned to employees and management bodies are accounted for in the period to which they relate.

w) Income taxes

Until 31 December, 2011, CEMG was a entity free from Income Tax Code (IRC), in accordance with subparagraph *a*) n. 1 of Article 10 of the IRC. This exemption been recognized by Order of 3 December 1993, the Secretary of State for Fiscal Issues and confirmed by Law no. 10-B/96 of March 23, approving the State Budget for 1996.

With effect from 1 January 2012, CEMG is subject to the regime established by the Income Tax Code («IRC»). Additionally, deferred taxes resulting from the temporary differences between the accounting net income and the net income accepted by the Tax Authorities for Income Taxes calculation, are accounted for, whenever there is a reasonable probability that those taxes will be paid or recovered in the future.

Income tax on the income for the year comprises current and deferred tax effects. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly to reserves in which case it is recognized in reserves. Deferred taxes arising from the revaluation of financial assets available for sale and cash flow hedging derivatives are recognized in shareholders' equity and are recognized in the profit and loss in the year the results that originated the deferred taxes are recognized.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with the liability method based on the balance sheet, considering temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the tax rates approved or substantially approved at balance sheet date and that is expected to be applied when the temporary difference is reversed.

Deferred taxes assets are recognized to the extent when it is probable that future taxable profits, will be available to absorb deductible temporary differences for taxation purposes (including reportable taxable losses).

The Group as established in IAS 12, paragraph 74, compensates the deferred tax assets and liabilities if, and only if: (i) has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

x*)* Segmental reporting

Since 1 January 2009, the Group adopted the IFRS 8 – Operational Segments for purposes of disclosure of financial information by operating segments (see note 51).

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

The results of the operating segments are periodically reviewed by Management, for decisions taking purposes. The Group prepares on a regular basis, financial information regarding the operating segments, which is reported to the Management.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

y) Provisions

Provisions are recognized when (i) the Group has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain responsibilities), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and (iii) a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are not probable.

The provisions are derecognized through their use for the obligations for which they were initially accounted or for the cases that the situations were not already observed.

z) Accounting estimates and judgments in applying accounting policies

IFRS set forth a range of accounting treatments and require the Executive Board of Directors and management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects CEMG reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by management, the Group reported results would differ if a different treatment was chosen. Management believes that the choices made are appropriate and that the financial statements present the Group's financial position and results fairly in all material aspects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

Impairment of available-for-sale financial assets

The Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decrease in the fair value below its acquisition cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the volatility in the prices of the financial assets.

In addition, valuations are generally obtained trough market quotation or valuation models that may require assumptions or judgment in making estimates of fair value.

Alternative methodologies and the use of different assumptions and estimates could result in a higher level of impairment losses recognized with a consequent impact in the income statement of the Group.

Impairment losses on loans and advances to customers

The Group reviews its loan portfolios to assess impairment losses on a regularly basis, as described in note 1 *c*).

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgments. The probability of default, risk ratings, value of associated collaterals recovery rates and the estimation of both the amount and timing of future cash flows, among other things, are considered in making this evaluation.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses with a consequent impact in the income statement of the Group.

Fair value of derivatives

Fair values are based on listed market prices if available, otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgments in estimating their values.

Consequently, the use of a different model or of different assumptions or judgments in applying a particular model could result in different financial results for a particular period.

Securitizations and special purpose entities (SPE)

CEMG sponsors the formation of SPE primarily for asset securitization transactions for liquidity purposes and/or capital management.

Therefore, the securitization operations Pelican Mortgages No. 3, Aqua SME No. 1, Pelican Mortgages No. 4, Aqua Mortgage No. 1, Pelican Mortgages No. 5 e Pelican SME were not derecognized in the Groups financial statements.

The Group derecognized the following SPE which also resulted from operations of securitization: Pelican Mortgages No. 1 e 2. For these SPE, the Group concluded that the main risks and the benefits were transferred, as CEMG does not hold detain any security issued by the SPE, that are exposed to the majority of the residual risks, neither is exposed to the performance of the credit portfolios.

Income taxes

Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognized in the year.

The Portuguese Tax Authorities are entitled to review the Group and its subsidiaries determination of its annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law which for its probability, the Executive Board of Directors considers that there is no relevant material effect at the level of the Financial Statements.

Pension and other employees benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED AT 31 DECEMBER, 2011 AND 2010

(Thousands of Euro)

	NOTES	2011	2010
			Restated
Interest and similar income	3	1 182 911	761 188
Interest and similar expense	3	864 190	490 240
NET INTEREST INCOME		**318 721**	**270 948**
Dividends from equity instruments	4	921	538
Fee and comission income	5	115 627	89 175
Fee and comission expense	5	(21 613)	(15 205)
Net losses arising from assets and liabilities at fair value through profit or loss	6	62 138	45 857
Net gains/(losses) arising from available-for-sale financial assets	7	3 667	12 692
Net gains arising from foreign exchange differences	8	8 410	2 344
Net gains from sale of other financial assets	9	44 001	(3 363)
Other operating income	10	26 758	16 950
TOTAL OPERATING INCOME		**558 630**	**419 936**
Staff costs	11	225 373	141 777
General and administrative expenses	12	115 443	83 495
Depreciation and amortisation	13	28 270	20 850
TOTAL OPERATING COSTS		**369 086**	**246 122**
Loans impairment	14	143 907	110 599
Other assets impairment	15	9 748	12 166
Other provisions	16	4 282	(84)
OPERATING PROFIT		**31 607**	**51 133**
Share of profit of associates under the equity method	17	999	1 954
PROFIT BEFORE INCOME TAX		**32 606**	**53 087**
Current	31	(3 689)	–
Deferred	31	18 381	–
PROFIT AFTER INCOME TAX		**47 298**	**53 087**
Profit for the year attributable to Montepio Geral – Associação Mutualista		47 298	53 087
Non-controlling interests		(2 269)	–
PROFIT FOR THE YEAR		**45 029**	**53 087**

See accompanying notes to the Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER, 2011, 2010 AND 1 JANUARY, 2010

(Thousands of Euro)

	NOTES	2011	2010	1 JAN 2010
ASSETS			Restated	Restated
Cash and deposits at central banks	18	461 483	240 024	305 018
Loans and advances to credit institutions	19	223 834	74 353	69 870
Other loans and advances to credit institutions	20	284 232	338 662	370 938
Loans and advances to customers	21	16 706 626	14 554 133	14 682 382
Financial assets held for trading	22	180 776	130 865	103 195
Other financial assets held for trading at fair value through profit or loss	23	3 606	3 952	4 192
Financial assets available for sale	24	2 574 368	2 430 568	1 282 417
Hedging derivatives	25	1 311	2 810	5 109
Financial assets held to maturity	26	76 994	58 144	33 523
Investments in associated companies	27	57 856	37 060	40 775
Non current assets held for sale	28	137 011	162 374	128 599
Property and equipment	29	108 657	89 287	91 275
Goodwill and intangible assets	30	90 205	18 254	16 151
Current income tax assets		2 768	–	–
Deferred income tax assets	31	80 693	–	–
Other assets	32	504 970	62 498	65 017
TOTAL ASSETS		**21 495 390**	**18 202 984**	**17 198 461**
LIABILITIES				
Deposits from central banks	33	2 003 300	1 540 266	502 353
Deposits from other credit institutions	34	743 797	901 742	637 770
Deposits from customers	35	13 701 919	10 007 563	9 180 858
Debt securities issued	36	2 473 112	3 836 243	4 914 915
Financial liabilities relating to transferred assets		453 061	387 183	–
Financial liabilities held for trading	22	79 121	53 891	41 724
Hedging derivates	25	13 041	1 408	598
Provisions	37	7 985	1 311	1 490
Current income tax liabilities		10	–	–
Deferred income tax liabilities	31	36	–	–
Other subordinated debt	38	477 843	380 986	381 043
Other liabilities	39	282 677	196 942	637 812
TOTAL LIABILITIES		**20 235 902**	**17 307 535**	**16 298 563**
EQUITY				
Share capital	40	1 245 000	800 000	760 000
Other capital instruments	41	15 000	–	–
Fair value reserves	43	(319 551)	(85 706)	(28 600)
Reserves and retained earnings	42 and 43	262 629	128 068	168 498
Consolidated profit for the year attributable to MGAM		45 029	53 087	–
Total equity attributable to MGAM		1 248 107	895 449	899 898
Non-controlling interests	44	11 381	–	–
TOTAL EQUITY		**1 259 488**	**895 449**	**899 898**
TOTAL		**21 495 390**	**18 202 984**	**17 198 461**

See accompanying notes to the Consolidated Financial Statements

2. Net interest income and net gains arising from available-for-sale financial assets and financial liabilities at fair value through profit or loss

IFRS requires separate disclosure of net interest income and net gains arising from financial assets and financial liabilities at fair value through profit or loss and available-for-sale financial assets activities, as presented in notes 3, 6 and 7. A particular business activity can generate impact in net interest income and net gains arising from trading, hedging and available-for-sale activities. This required disclosure, however, does not take into account that net gains arising from assets and liabilities at fair value through profit or loss, available-for-sale financial assets and interest and similar income activities are generated by a range of different business activities. In many cases, a particular business activity can generate both net interest and trading income.

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Net interest income	318 721	270 948
Net gains arising from assests and liabilities at fair value through profit and loss and available-for-sale financial assets	65 805	58 549
	384 526	329 497

3. Net interest income

The amount of this account is comprised of:

	2011			2010		
	Assets / liabilities at amortized cost and available-for -sale Euro '000	Assets / liabilities at fair value through profit or loss Euro '000	Total Euro '000	Assets / liabilities at amortized ost and available-for -sale Euro '000	Assets / liabilities at fair value through profit or loss Euro '000	Total Euro '000
Interest and similar income:						
Interest from loans and advances	565 289	–	565 289	450 222	–	450 222
Interest from other assets	8 313	–	8 313	11 509	–	11 509
Interest from deposits with banks	2 459	–	2 459	1 499	–	1 499
Interest from available-for-sale finacial assets	312 445	–	312 445	87 607	–	87 607
Interest from held-to-maturity financial assets	2 191	–	2 191	2 432	–	2 432
Interest from hedging derivates	2 804	–	2 804	3 799	–	3 799
Interest from available for trading financial assets	–	271 093	271 093	–	194 034	194 034
Other interest and similar income	18 317	–	18 317	10 086	–	10 086
	911 818	271 093	1 182 911	567 154	194 034	761 188
Interest and similar expense:						
Interest from deposits	347 446	–	347 446	141 416	–	141 416
Interest from securities issued	87 654	–	87 654	91 192	–	91 192
Interest from loans	5 110	–	5 110	4 736	–	4 736
Interest from other funding	50 600	–	50 600	36 056	–	36 056
Interest from hedging derivates	2 333	–	2 333	2 311	–	2 311
Interest from available for trading financial assets	–	255 936	255 936	–	149 285	149 285
Other interest and similar expense	115 111	–	115 111	65 244	–	65 244
	608 254	255 936	864 190	340 955	149 285	490 240
Net interest income	303 564	15 157	318 721	226 199	44 749	270 948

The balance Interest on loans and advances includes the amount of Euro 23 223 000 (2010: Euro 9 753 000) related to commissions and other gains / losses which are accounted for under the effective interest method, as referred in the accounting policy, note 1 *c*).

4. Dividends from equity instruments

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Dividends from available-for-sale financial assets	594	538
Other	327	–
	921	538

The balance Dividends from available for sale financial assets includes dividends and income from investment fund units received during the year.

5. Net fees and commissions income

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Fee and commission income:		
From banking services	81 027	64 845
From transactions order by third parties	9 040	8 957
From insurance activity	8 257	9 508
From commitments to third parties	7 615	5 786
Other fee and commission income	9 688	79
	115 627	89 175
Fee and commission expense:		
From banking services rendered by third parties	17 934	14 358
From transactions with securities	530	373
Other fee and commission expense	3 149	474
	21 613	15 205
Net fee and commission income	94 014	73 970

At December 31, 2011 and 2010, commissions received on insurance brokerage services or reinsurance is made up as follows:

	2011 Euro '000	2010 Euro '000
Life insurance:		
Mortgage	2 063	2 104
Consumer	142	202
Other	812	855
	3 017	3 161
Non-life insurance:		
Mortgage	1 841	1 870
Consumer	940	2 210
Other	2 459	2 267
	5 240	6 347
	8 257	9 508

6. Net gains/(losses) arising from financial assets at fair value through profit or loss

The amount of this account is comprised of:

	2011			2010		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by public entities	151	–	151	686	1 140	(454)
Issued by public entities	476	1 396	(920)	349	1 012	(663)
Shares	92	25	67	235	160	75
	719	1 421	(702)	1 270	2 312	(1 042)
Derivative financial instruments						
Exchange rate contracts	209 958	209 474	484	331 042	332 833	(1 791)
Interest rate contracts	1 642 537	1 655 713	(13 176)	465 065	436 808	28 257
Credit default contracts	3 941	5 578	(1 637)	6 036	6 569	(533)
Others	178 107	98 618	79 489	120 227	98 453	21 774
	2 034 543	1 969 383	65 160	922 370	874 663	47 707
	2 035 262	1 970 804	64 458	923 640	876 975	46 665
Other financial assets at fair value through profit or loss						
Bonds and other fixed income securities issued by other entities	–	409	(409)	–	240	(240)
	–	409	(409)	–	240	(240)
Financial liabilities						
Deposits from other credit institutions	627	284	343	1 247	382	865
Deposits from customers	4 777	434	4 343	677	356	321)
Debt securities issued	15	–	15	242	–	242
Other Subordinated debt	41 033	47 645	(6 612)	34 974	36 970	(1 996)
	46 452	48 363	(1 911)	37 140	37 708	(568)
	2 081 714	2 019 576	62 138	960 780	914 923	45 857

The balance Assets and liabilities held for trading – financial instruments, includes for financial liabilities instruments arising at fair value, gains in the amount of Euro 88 664 000 (2010: Euro 49 185 000 from fair value changes related with changes own credit risk (spread) changes from operations.

In accordance with the accounting policies followed by the Group, financial instruments are initially recognized at fair value. The best evidence of the fair value of the instrument at inception is deemed to be the transaction price. However, in particular circumstances, the fair value of a financial instrument at inception, determined based on a valuation techniques, may differ from the transaction price, namely due to the existence of a built-in fee, originating a day one profit.

The Group recognizes in the income statement the gains arising from the built-in fee (day one profit), generated, namely, on the trading of derivative and foreign exchange financial products, considering that the fair value of these instruments at inception and on subsequent measurements is determined only based on observable market data and reflects the Group access to the wholesale market.

7. Net gains/(losses) arising from available-for-sale financial assets

The amount of this account is comprised of:

	2011			2010		
	Gains Euro '000	**Losses Euro '000**	**Total Euro '000**	**Gains Euro '000**	**Losses Euro '000**	**Total Euro '000**
Bonds and other fixed income securities						
Issued by public entities	3 415	1 008	2 407	5 094	3 290	1 804
Issued by other entities	14 099	13 112	987	8 636	1 479	7 157
Shares	111	18	93	2 673	15	2 658
Other variable income securities	187	7	180	2 918	1 845	1 073
	17 812	14 145	3 667	19 321	6 629	12 692

8. Net gains/(losses) from foreign exchange differences

O valor desta rubrica é composto por:

	2011			2010		
	Gains Euro '000	**Losses Euro '000**	**Total Euro '000**	**Gains Euro '000**	**Losses Euro '000**	**Total Euro '000**
Foreign exchange differences	157 728	149 318	8 410	17 154	14 810	2 344

This account is comprised of the results from foreign exchange differences of monetary assets and liabilities in foreign currency in accordance with the accounting policy presented in note 1*u*).

9. Net gains / (losses) arising from sale of other assets

The amount of this account is comprised of:

	2011 Euro '000	**2010 Euro '000**
Sale of properties	48 421	(2 410)
Sale of other assets	(4 420)	(953)
	44 001	(3 363)

The balance Sale of properties includes the amount of Euro 50 895 000 related with gains on the sale of non-current assets available for sale and Land and building for own use, as referred in notes 28, 29 and 57.

10. Other operating income

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Other operating income:		
Income from services	6 880	5 374
Reimbursement of expenses	7 277	2 144
Profits arising from deposits on demand management	7 551	7 821
Gains on repurchase of own securities	33 217	6 646
Others	8 099	2 605
	63 024	24 590
Other operating expense:		
Indirect taxes	4 998	153
Donations and membership	532	462
Contributions to the Deposit Guarantee Fund	2 286	1 662
Contributions to the Investors Claims System	2 405	–
Other operating expenses	26 045	5 363
	36 266	7 640
Other net operating income	26 758	16 950

The balance Repurchase debt is calculated in accordance with accounting policy presented in note 1 *d*) and refer to the re-acquisition of Mortgage Bonds.

The caption Specific contribution for the Banking Sector is estimated according to the terms of the Decree-Law 55-A/2010, that is not eligible as a tax cost. At 31 December 2011, CEMG recognized as cost expense for the year the amount of Euro 3 515 000, included in balance Other operating expenses – taxes.

11. Staff costs

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Remunerations	138 856	105 143
SAMS contributions	10 412	5 833
Mandatory social security charges	27 291	8 148
Other charges with the pensions fund	43 302	19 350
Other staff costs	5 512	3 303
	225 373	141 777

The caption Other charges with the pensions fund includes the amount of Euro 14 096 000 related to the impact in the income statement of the responsibilities with retirees and pensioners transferred to the General Social Security Scheme («GSSS»), as referred in note 48. The referred impact corresponds to the effect of the recalculation of the liabilities based on the actuarial assumptions set by the Portuguese State, in the scope of the transfer.

As referred in note 48, the caption Other charges with pensions fund also includes, the amount of Euro 13 462 000 (2010: Euro 18 468 000) related to the pension cost for the year, excluding the effect of the transfer of the responsibilities to the «GSSS». The referred balance also includes the amount of Euro 17 640 000 related to costs with early retirements during the year.

During 2011, the costs with Social Security and the contributions to the Pension Fund for members of the Executive Board of Directors amounted to Euro 420 000 (2010: Euro 304 000).

The health-care benefits – SAMS include the amount of Euro 971 000 (2010: Euro 985 000) related to the health care net periodic benefit cost, which was determined based on the actuarial valuation performed (see note 48).

The costs with salaries and other benefits attributed to CEMG key management personnel in 2011 are presented as follows:

	Board of director's Euro '000	Other management key personnel Euro '000	Total Euro '000
Salaries and other short-term benefits	1 791	4 955	6 746
Pension costs and health-care benefits (SAMS)	21	190	211
Bonus	178	240	418
Total	1 990	5 385	7 375

The costs with salaries and other benefits attributed to CEMG key management personnel in 2010 are presented as follows:

	Board of director's Euro '000	Other management key personnel Euro '000	Total Euro '000
Salaries and other short-term benefits	1 230	4 253	5 483
Pension costs and health-care benefits (SAMS)	6	159	165
Bonus	–	234	234
Total	1 236	4 646	5 882

It is our understanding that the Other key management personnel are the top directors of CEMG.

As at 31 December, 2011 and 2010, loans granted by CEMG to its key management personnel, amounted to Euro 4 200 000 and Euro 5 046 000, respectively.

The average number of employees by professional category at service in CEMG during 2011 and 2010 is analysed as follows:

	2011	2010
Management	212	127
Managerial staff	779	494
Techcnical staff	1 120	654
Specific categories	161	139
Administrative staff	1 841	1 362
Staff	75	66
	4 188	2 842

12. General and administrative expenses

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Rental costs	28 118	20 307
Specialised services:		
IT services	14 449	10 506
Independent work	6 832	3 523
Other specialised services	19 772	12 880
Advertising costs	7 512	6 600
Communication costs	11 438	8 605
Water, energy and fuel	5 788	4 261
Maintenance and related services	5 989	5 462
Transportation	4 007	3 327
Insurance	2 751	1 894
Travel, hotel and representation costs	2 030	1 112
Consumables	2 222	1 481
Training costs	295	572
Other supplies and services	4 240	2 965
	115 443	83 495

The balance Rents, includes the amount of Euro 18 029 000 (2010: Euro 15 621 000) related to rents paid regarding buildings used by CEMG as leaser.

13. Depreciation and amortisation

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Intagible assets:		
Software	9 830	7 776
	9 830	7 776
Other tangible assets:		
Land and buildings	4 910	3 352
Equipment:		
Furniture	1 042	573
Office equipment	121	57
Computer equipment	7 953	6 307
Interior installations	1 618	1 585
Motor vehicles	227	9
Security equipment	1 147	434
Operational lease	1 276	757
Other tangible assets	146	–
	18 440	13 074
	28 270	20 850

14. Loans impairment

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Overdue loans and advances to customers:		
Charge for the year	593 894	525 338
Write-back for the year	(444 002)	(412 347)
Recovery of loans and interest charged-off	(6 163)	(2 376)
	143 729	110 615
Other loans and advances to credit instituitions:		
Charge for the year	311	104
Write-back for the year	(133)	(120)
	178	(16)
	143 907	110 599

15. Other assets impairment

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Impairment for investments arising from recovered loans:		
Charge for the year	25 197	13 845
Write-back for the year	(39 498)	(3 831)
	(14 301)	10 014
Impairment for securities:		
Charge for the year	26 133	3 515
Write-back for the year	(3 083)	(1 363)
	23 050	2 152
Impairment for other assets:		
Charge for the year	1 001	–
Write-back for the year	(2)	–
	999	–
	9 748	12 166

The balance Impairment for investments arising from recovered loans – Write-back for the year includes the effect of the sale of property recorded in the portfolio of non-current assets held for sale, as described in note 28.

The caption Impairment for securities – Charge of the year, includes the amount of Euro 19 309 000, that corresponds to the impairment recognized during 2011, the sovereign debt of Greece, as referred in notes 24 and 53. Such impairment corresponds to 65% of the nominal value of Greece's sovereign debt held by the Group.

16. Other provisions

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Provision for liabilities and charges:		
Charge for the year	6 050	586
Write-back for the year	(1 768)	(670)
	4 282	(84)

17. Share of profit of associates under the equity method

The contribution of the associated companies accounted for under the equity method is as follows:

	2011 Euro '000	2010 Euro '000
Lusitania, Companhia de Seguros, S.A.	(626)	230
Lusitania Vida, Companhia de Seguros, S.A.	2 114	1 773
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	(179)	(49)
Iberpartners Cafés – S.G.P.S., S.A.	23	–
Prio Foods SGPS, S.A.	(1 138)	–
Prio Energie SGPS, S.A.	805	–
	999	1 954

18. Cash and deposits at central banks

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Cash	162 238	95 641
Bank of Portugal	299 245	144 383
	461 483	240 024

A The balance Bank of Portugal includes mandatory deposits intended to satisfy legal minimum cash requirements. According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements.

As at 31 December 2011 and 2010, these deposits have earned interest at an average rate of 1%.

19. Loans and advances to credit institutions repayable on demand

Esta rubrica é analisada como segue:

	2011 Euro '000	2010 Euro '000
Credit institutions in Portugal	129 806	16 372
Credit institutions abroad	24 671	12 209
Amounts due for collection	69 357	45 772
	223 834	74 353

The balance Amounts due for collection represents essentially cheques receivable from other credit institutions due for collection.

20. Other loans and advances to credit institutions

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Loans and advances to credit institutions in Portugal		
Deposits	1 135	205
Loans	19 836	–
Short term deposits	65 002	260 003
Other loans and advances	–	10 000
	85 973	270 208
Loans and advances to credit institutions abroad		
Deposits	39 054	112
Short term deposits	30 001	–
Other loans and advances	129 549	68 392
	198 604	68 504
	284 577	338 712
Impairment for credit risk over credit institutions	(345)	(50)
	284 232	338 662

The main loans and advances to credit institutions in Portugal, as at 31 December 2011, bear interest at an average annual interest rate of 1,35% (2010: 1,37%).

Loans and advances to credit institutions abroad bear interest at international market rates where CEMG operates.

The balance Other loans and advances to credit institutions, by the period to maturity, is analysed as follows

	2011 Euro '000	2010 Euro '000
Due within 3 month	247 345	301 495
3 months to 6 months	4 900	–
6 months to 1 year	–	34 900
Over 5 years	2 218	2 205
Undetermined	114	112
	284 577	338 712

The changes in impairment for credit risks over credit institutions in the year are analysed as follows:

	2011 Euro '000	2010 Euro '000
Impairment for credit risks over credit institutions:		
Balance on 1 January	50	66
Charge for the year	311	104
Write-back for the year	(133)	(120)
Transfers	117	–
Balance on 31 December	345	50

The balance Transfers corresponds of amounts transferred from Finibanco Holding, S.G.P.S., S.A. and its subsidiaries in the acquisition by CEMG on 31 March, 2011.

21. Loans and advances to customers

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Domestic loans:		
Corporate:		
Loans	1 789 310	1 388 583
Commercial lines of credits	1 953 428	2 106 934
Finance leases	418 396	229 348
Discounted bills	163 129	87 087
Factoring	146 496	109 683
Overdrafts	61 844	9 134
Other loans	1 718 592	756 961
Retail:		
Mortgage loans	8 978 144	8 937 169
Finance leases	95 486	45 001
Consumer and other loans	1 262 037	828 554
	16 586 862	14 498 454
Foreign loans:		
Corporate	50 817	–
Retail	11 498	–
	16 649 177	14 498 454
Correction value of assets subject to the hedge	5 175	–
Overdue loans and interest:		
Less than 90 days	128 858	90 729
More than 90 days	693 892	486 761
	822 750	577 490
	17 477 102	15 075 944
Impairment for credit risks	(770 476)	(521 811)
	16 706 626	14 554 133

As at 31 December 2011, the balance Loans and advances to customers (net of impairments losses) includes the amount of Euro 264 298 000 (2010: Euro 292 135 000) related to securitised loans following the consolidation of securitisation vehicles (see note 50), according to note 1 *b*). The liabilities related to these securitisations are booked under debt securities issued (see note 36).

The CEMG realized operations conducted under the Programme for the Issuance of CEMG Mortgage Bonds:

– November 2011: Issue of Euro 300 000 000, term: 5 years, an interest rate; 2.28%;

– October 2011: Cancellation of 291.7 million Euro, with a score of 17.75 million Euro, according to note 10;

– November 2010: Issue of Euro 500 000 000, term: 5 years; an interest rate; 4.08%;

– December 2009: Issue of Euro 1 000 000 000; term: 7 years, an interest rate; 2.17%; and

– July 2009: Issue of Euro 708 300 000; term: 3 years, an interest rate; 3.25%.

As at 31 de December 2011, the balance Mortgage includes the amount of Euro 453 061 000 (2010: Euro 387 183 000) related with loans objected of securitization and, in accordance with accounting policy 1 *g*), related to loans subject of securitization, which according to note 1 *e*), were not subject to derecognition. This amount is also recorded under the item Financial liabilities associated to transferred assets.

The fair value of the portfolio of loans to customers is presented in note 47.

The balance Overdue loans for more than 90 days includes at 31 December 2011 and 2010, loans and advances to customers from which the responsibility with the former debtor has been extinguished, in the amount of Euro 1 532 000 and Euro 1 533 000, respectively. These amounts correspond to loans overdue for more than three years for which the contractual obligation with the former debtor has been extinguished due to the acquisition in court auction bankruptcy or acquisition through foresale but for which there are still pending legal actions.

Loans and advances to customers include mostly variable interest rate contracts.

The analysis of Loans and advances to customers, by maturity date and type of credit as at 31 December 2011, is as follows:

	Loans and advances to customers				
	Due within 1 year Euro '000	**1 year to 5 years Euro '000**	**Over 5 years Euro '000**	**Undetermined Euro '000**	**Total Euro '000**
Asset – backed loans	61 404	2 618 510	10 294 201	550 424	13 524 539
Other guarantee loans	118 734	1 142 802	314 377	100 565	1 676 478
Unsecured loans	386 316	657 856	432 695	148 622	1 625 489
Public sector loans	1 607	11 004	42 331	539	55 481
Foreign loans	21 738	36 270	625	2 602	61 235
Finance leases loans	21 231	174 478	318 173	19 998	533 880
	611 030	4 640 920	11 402 402	822 750	17 477 102

The analysis of Loans and advances to customers, by maturity date and type of credit as at 31 December 2010, is as follows:

	Loans and advances to customers				
	Due within 1 year Euro '000	**1 year to 5 years Euro '000**	**Over 5 years Euro '000**	**Undetermined Euro '000**	**Total Euro '000**
Asset – backed loans	440 557	1 951 681	9 855 180	466 714	12 714 132
Other guarantee loans	617 575	183 750	198 000	44 373	1 043 698
Unsecured loans	539 821	123 202	252 793	60 327	976 143
Public sector loans	18 164	56	43 326	211	61 757
Foreign loans	–	–	–	–	–
Finance lease loans	2 850	116 347	155 152	5 865	280 214
	1 618 967	2 375 036	10 504 451	577 490	15 075 944

The balance Financial leases, by the period to maturity as at 31 December 2011, is analysed as follows:

	Finance leases			
	Due within 1 year Euro '000	**1 year to 5 years Euro '000**	**Over 5 years Euro '000**	**Total Euro '000**
Outstanding rents	67 252	269 609	209 930	546 791
Outstanding interest	(13 793)	(35 764)	(44 962)	(94 519)
Residual Values	14 090	26 244	21 276	61 610
	67 549	260 089	186 244	513 882

The balance Financial leases, by the period to maturity as at 31 December 2010, is analysed as follows:

	Finance leases			
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Outstanding rents	57 430	109 276	137 829	304 535
Outstanding interest	(10 104)	(20 613)	(30 269)	(60 986)
Residual Values	3 906	9 029	17 865	30 800
	51 232	97 692	125 425	274 349

The analysis of Overdue loans and interest, by type of credit, is as follows:

	2011 Euro '000	2010 Euro '000
Asset-backed loans	550 424	466 714
Other guarantee loans	100 565	44 373
Unsecured loans	148 822	60 327
Public sector loans	539	211
Foreign loans	2 402	–
Finance leases loans	19 998	5 865
	822 750	577 490

The analysis of Overdue loans and interest, by type of client, is as follows:

	2011 Euro '000	2010 Euro '000
Corporate:		
Construction / Production	158 884	146 973
Investment	111 284	54 383
Treasury	121 709	44 031
Other loans	8 749	2 472
Retail:		
Mortgage loans	271 197	268 443
Consumer credit	59 136	7 179
Other loans	52 817	32 586
Public sector	6 490	211
Other segments	32 484	21 212
	822 750	577 490

The impairment for credit risks is analysed as follows:

	2011 Euro '000	2010 Euro '000
Impairment for credit risk:		
Balance on 1 January	521 811	493 913
Impairment for the year	593 894	525 338
Write-back for the year	(444 002)	(412 347)
Loans charged-off	(43 065)	(85 093)
Transfers	141 838	–
Others	(20 000)	–
Balance on 31 December	770 476	521 811

The balance Transfers corresponde to values transferred from Finibanco, S.A. in the scope of the acquisition of assets and liabilities held on April 4, 2011.

In accordance with CEMG's policy, interest on overdue loans for a period over 90 days not covered by asset-backed guarantees, is only recorded as income when received.

If the impairment loss decreases on a subsequent period to its initial accounting and this decrease can be objectively associated to an event that occurred after the recognition of the loss, the impairment in excess is reversed through profit and loss.

In compliance with the accounting policy described in note 1 *c*), loans and advances to customers are charged-off when there are no feasable expectations, from an economic perspective, of recovering the loan amount. For collateralized loans, the charge-off occurs for the unrecoverable amount when the funds arising from the execution of the respective collaterals are effectively received. This charge-off is carried out only for loans that are considered not to be recoverable and fully provided.

The impairment for credit risks, by type of credit, is as follows:

	2011 **Euro '000**	**2010** **Euro '000**
Asset-backed loans	621 351	409 894
Other guaranteed loans	48 818	43 103
Unsecured loans	100 307	68 814
	770 476	521 811

The analysis of the loans charged-off, by type of credit, is as follows:

	2011 **Euro '000**	**2010** **Euro '000**
Asset-backed loans	38 024	51 907
Other guarateed loans	1 142	13 615
Unsecured loans	3 899	19 571
	43 065	85 093

In accordance with «Carta-circular» no. 15/2009, of January, 28 from Bank of Portugal, CEMG only writes-off overdue loans fully provided that after an economic analysis, are considered uncollectable since there are no perspectives of recovery.

The analysis of recovered loans and overdue interest, performed during 1 January and 31 December 2011, and 2010, amounts to Euro 6 163 000 and Euro 2 376 000, respectively, related with assetbacked loans recovered, as referred in note 14.

As at 31 December 2011 and 2010, the impairment detail, according to note 1 c), is as follows:

	2011						
	Impairment in an individual basis		Impairment in a portfolio basis		Total		
	Loan Value Euro '000	Impairment Euro '000	Loan Value Euro '000	Impairment Euro '000	Loan Value Euro '000	Impairment Euro '000	Loans net from impairment Euro '000
Loans to companies	1 774 825	322 250	5 407 324	232 856	7 182 149	555 106	6 627 043
Loans to customers – Housing	949	118	9 142 629	135 784	9 143 578	135 902	9 007 676
Loans to customers – Others	50 174	8 900	1 101 201	70 568	1 151 375	79 468	1 071 907
	1 825 948	331 268	15 651 154	439 208	17 477 102	770 476	16 706 626

	2010						
	Impairment in an individual basis		Impairment in a portfolio basis		Total		
	Loan Value Euro '000	Impairment Euro '000	Loan Value Euro '000	Impairment Euro '000	Loan Value Euro '000	Impairment Euro '000	Loans net from impairment Euro '000
Loans to companies	925 863	176 451	4 031 149	209 744	4 957 012	386 195	4 570 817
Loans to customers – Housing	–	–	9 205 612	116 888	9 205 612	116 888	9 088 724
Loans to customers – Others	–	–	913 320	18 728	913 320	18 728	894 592
	925 863	176 451	14 150 081	345 360	15 075 944	521 811	14 554 133

The Group's credit portfolio, which includes loans to customers, also have the guarantees granted and commitments to third parties, is splitted between impaired credit and credit not impaired is analysed as follows:

	2011 Euro '000	2010 Euro '000
Total of loans	17 981 937	15 500 305
Loans and advances to customers with impairment		
Individually significant		
Gross amount	1 955 040	1 007 382
Impairment	(331 269)	(192 898)
Net book amount	1 623 771	814 484
Parametric analysis		
Gross amount	2 910 094	2 173 468
Impairment	(385 741)	(247 199)
Net book amount	2 524 353	1 926 269
Loans and advances to customers without impairment	13 116 803	12 319 455
Impairment (IBNR)	(53 466)	(81 714)
	17 211 461	14 978 494

Fair value of the collaterals associated to the loans portfolio is analyzed as follows:

	2011 Euro '000	2010 Euro '000
Loans with impairment:		
Individually significant:		
Securities and other financial assets	64 250	62 233
Residential real estate (Housing Loans)	19 449	4 802
Other real estate (Civil Construction)	1 612 072	1 157 645
Other guarantees	52 443	19 003
	1 748 214	1 243 683
Parametric analysis:		
Securities and other financial assets	78 295	39 486
Residential real estate (Housing Loans)	2 249 833	2 056 510
Other real estate (Civil Construction)	1 117 611	850 227
Other guarantees	133 583	63 130
	3 579 322	3 009 353
Loans without impairment:		
Securities and other financial assets	710 375	590 373
Residential real estate (Housing Loans)	14 290 398	14 326 035
Other real estate (Civil Construction)	3 389 833	3 666 409
Other guarantees	535 391	94 675
	18 925 997	18 677 492
	24 253 533	22 930 528

The Group is applying physical collaterals and financial guarantees as instruments to mitigate the credit risk. The physical collaterals are mainly mortgages on residential buildings for the mortgage portfolio and other mortgages on other types of buildings related to other types of loans. In order to reflect the market value, these collaterals are regularly reviewed based on independent and certified valuation entities or through the application of evaluation coefficients that reflect the market trends for each specific type of building and geographical area. The financial guarantees are reviewed based on the market value of the respective assets, when available, with the subsequent application of haircuts that reflect the volatility of their prices.

22. Financial assets and liabilities held for trading

The balance financial assets and liabilities held for trading is analysed as follows:

	2011 Euro '000	2010 Euro '000
Financial assets held for trading:		
Securities		
Shares	5 415	2 805
Bonds	–	3 192
	5 415	5 997
Derivatives		
Derivatives financial instruments with positive fair value	130 115	124 868
Loans and other receivables	45 246	–
	175 361	124 868
	180 776	130 865
Financial liabilities held for trading:		
Derivatives	79 121	53 891
	79 121	53 891

The trading portfolio is recorded at fair value trough profit or loss, in accordance with the accounting policy 1 *d*) As referred in the accounting policy, the securities held for trading are those who are acquired with the purpose of short-term transactions, independently from its maturity.

As referred in IFRS 7, financial assets held for trading and available for sale are valued in accordance with the following fair value measurement levels:

- Level 1: financial instruments measured in accordance with quoted market prices or providers.
- Level 2: financial instruments measured in accordance with internal valuation techniques based on observable market inputs.
- Level 3: financial instruments measured in accordance with valuation techniques based on inputs not based on observable data that have significant impact in the instruments valuation.

The financial assets and liabilities held for trading are valued in accordance with market prices or providers and with internal valuation techniques based on observable market inputs. Therefore, accordingly with the hierarchy of the valuation sources, as referred in IFRS 7 these instruments are classified in the levels 1 and 2.

The analysis of the securities portfolio held for trading by maturity as at 31 December 2011 is as follows:

	2011				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	Total Euro '000
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	804	804
Foreign	–	–	–	4 611	4 611
	–	–	–	5 415	5 415
Quoted	–	–	–	5 415	5 415

The analysis of the securities portfolio held for trading by maturity as at 31 December 2010 is as follows:

	2010				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	Total Euro '000
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	464	464
Foreign	–	–	–	2 341	2 341
	–	–	–	2 805	2 805
Fixed income securities:					
Bonds issued by					
Other entities	–	–	3 192	–	3 192
	–	–	3 192		3 192
Quoted	–	–	3 192	2 805	5 997

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2011, is as follows:

2011

		Derivative			Related asset/liability			
Derivative	**Related financial asset / liability**	**Notional Euro '000**	**Fair value Euro '000**	**Changes in the fair value in the year Euro '000**	**Fair value Euro '000**	**Changes in the fair value in the year Euro '000**	**Book value Euro '000**	**Reimbursement amount at maturity date Euro '000**
Interest rate swap	Secutities issued	1 061 937	10 173	(15 206)	(89 648)	(53 425)	315 750	315 750
Interest rate swap	Deposits	1 872 000	22 250	3 673	15 906	1 952	753 397	753 397
Interest rate swap	Deposits from customers	348 767	13 671	1 408	(19 592)	(16 835)	247 368	247 368
Interest rate swap	Titularization	10 070 419	(7 748)	(5 528)	–	–	–	–
Interest rate swap	Covered bonds	9 242 912	5 875	(12 148)	6 509	14 126	708 300	708 300
Interest rate swap	Debt issued	322 515	(2 006)	(814)	–	–	–	–
CIRS	–	9 072	194	62	–	–	–	–
Forwards	–	84 752	(22)	(21)	–	–	–	–
Options	Time deposits and other deposits	87 762	(2)	(755)	–	–	–	–
Credit Default Swaps	–	81 093	(3 071)	(2 334)	–	–	–	–
Others	–	–	56 926	56 926	–	–	–	–
		23 181 229	96 240	25 263	(86 825)	(54 182)	2 024 815	2 024 815

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2010, is as follows:

2010

		Derivative			Related asset/liability			
Derivative	**Related financial asset / liability**	**Notional Euro '000**	**Fair value Euro '000**	**Changes in the fair value in the year Euro '000**	**Fair value Euro '000**	**Changes in the fair value in the year Euro '000**	**Book value Euro '000**	**Reimbursement amount at maturity date Euro '000**
Interest rate swap	Securities issued	605 000	25 379	2 617	(36 223)	(48 475)	302 500	
Interest rate swap	Deposits	3 609 775	17 386	13 230	12 954	11 593	2 013 304	2 013 304
Interest rate swap	Deposits due to customers	490 052	12 263	(3 102)	(2 757)	(13 319)	247 113	247 113
Interest rate swap	Titularization	10 717 877	(1 834)	(2 168)	–	–	–	–
Interest rate swap	Covered bonds	11 890 474	18 023	7 891	(7 617)	(8 061)	1 000 000	1 000 000
Currency interest rate swap	Debt issued	538 428	(255)	(1 672)	–	–	–	–
Forwards	–	14 298	(1)	(1)	–	–	–	–
Options	Time deposits and other deposits	70 586	753	169	–	–	–	–
Credit Default Swaps	–	89 710	(737)	(306)	–	–	–	–
		28 026 200	70 977	16 658	(33 643)	(58 262)	3 562 917	3 260 417

The analysis of financial instruments held for trading, by maturity date as at 31 December 2011, is as follows:

	2011					
	Notional with remaining term				Fair value	
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Positive Euro '000	Negative Euro '000
Interest rate contracts:						
Interest rate swaps	22 945	1 982 770	20 714 234	22 719 949	119 906	77 781
Options	–	2 800	84 961	87 761	8 482	8 484
Exchange rate contracts:						
Interest rate swaps	207 203	471	–	207 674	454	169
Index contracts:						
Index futures	84 752	–	–	84 752	–	22
Credit default contracts:						
Credit default swaps	–	–	81 093	81 093	1 273	4 343
Others	–	–	–	–	45 246	(11 678)
	314 900	1 986 041	20 880 288	23 181 229	175 361	79 121

The analysis of financial instruments held for trading, by maturity date as at 31 December 2010, is as follows:

	2010					
	Notional with remaining term				Fair value	
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Positive Euro '000	Negative Euro '000
Interest rate contracts:						
Interest rate swaps	31 000	201 184	27 080 994	27 313 178	119 941	48 724
Options	10 500	–	60 086	70 586	2 011	1 258
Exchange rate contracts:						
Interest rate swaps	529 439	–	8 989	538 428	1 975	2 230
Index contracts:						
Index futures	14 298	–	–	14 298	–	1
Credit default contracts:						
Credit default swaps	–	–	89 710	89 710	941	1 678
	585 237	201 184	27 239 779	28 026 200	124 868	53 891

The fair value of the derivatives financial instruments includes, the valuation of the embedded derivatives separated from the host contract in accordance with note 1 *d*) in the amount of Euro 7 331 000 (2010: Euro 6 276 000).

23. Other financial assets and liabilities at fair value through profit or loss

The balance Other financial assets and liabilities held for trading at fair value through profit or loss amounts in Euro 3 606 000 (2010: Euro 3 952 000), which is fully composed by fixed income bonds and other securities of other issuers.

The Group's choice of naming these assets at fair value through profit and loss, according to IAS 39 and note 1 *d*), can be observed in the planed strategy of CEMG's management, considering that (i) these financial assets are managed and evaluated in a fair value basis and/or (ii) that these assets are holding embedded derivative instruments.

Other financial assets and liabilities held for trading at fair value through profit or loss are measured in accordance with internal valuation techniques considering mainly observable market inputs. In accordance with the hierarchy of the valuation sources, as referred in IFRS 7, these instruments are classified in level 1.

As at 31 December 2011 and 2010, securities portfolio included in the balance Other financial assets and liabilities held for trading at fair value through profit or loss is found quoted with a maturity greater than 1 year.

24. Available-for-sale financial assets

This balance is analysed as follows:

	2011				
		Fair value reserve			
	Cost (1) Euro '000	**Positive Euro '000**	**Negative Euro '000**	**Impairment losses Euro '000**	**Book value Euro '000**
Fixed income securities:					
Issued by public entities:					
Portuguese	1 392 089	1 935	(243 498)	–	1 150 526
Foreign	147 206	2 164	(2 848)	(19 309)	127 213
Issued by other entities:					
Portuguese	279 251	756	(22 366)	–	257 641
Foreign	486 842	896	(55 681)	(2 049)	430 008
Commercial paper	261 996	–	–	(998)	260 998
Variable income securities:					
Shares in companies:					
Portuguese	12 700	70	(74)	(6 195)	6 501
Foreign	8 047	313	(381)	(1 416)	6 563
Investment fund units	335 903	830	(1 667)	(148)	334 918
	2 924 034	6 964	(326 515)	(30 115)	2 574 368

(1) Acquisition cost relating to shares and amortised cost relating to debt securities.

	2010				
		Fair value reserve			
	Cost (1) Euro '000	Positive Euro '000	Negative Euro '000	Impairment losses Euro '000	Book value Euro '000
Fixed income securities:					
Issued by public entities:					
Portuguese	1 075 466	2 155	(30 457)	–	1 047 164
Foreign	114 501	365	(4 468)	–	110 398
Issued by other entities:					
Portuguese	465 122	487	(13 342)	(1 284)	450 983
Foreign	622 608	1 336	(41 865)	(15 608)	566 471
Commercial paper	242 634	–	–	(997)	241 637
Variable income securities:					
Shares in companies:					
Portuguese	3 865	190	(31)	(279)	3 745
Foreign	4 123	78	(124)	(947)	3 130
Investment fund units	7 127	270	(300)	(57)	7 040
	2 535 446	4 881	(90 587)	(19 172)	2 430 568

(1) Acquisition cost relating to shares and amortised cost relating to debt securities.

As referred in note 1 *d*), the portfolio of assets available-for-sale are presented at market value with fair value changes accounted for against fair value reserves, as referred in note 43. CEMG assesses periodically whether there is objective evidence of impairment losses on the available-for-sale financial assets, following the judgment criteria's described in note 1 *z*).

As described in note 57, balance Investment funds includes 24 913 185 units of «CA Imobiliário – Fundo Especial de Investimento Imobiliário Aberto (FEII)».

The movements of the impairment of the available-for-sale financial assets are analyzed as follows:

	2011 Euro '000	2010 Euro '000
Impairment for securities:		
Balance on 1 January	19 172	23 658
Charge for the year	26 133	3 515
Write-back for the year	(3 083)	(1 363)
Charged-off	(12 107)	(6 638)
Balance on 31 December	30 115	19 172

As described in note 1 *d*), the portfolio of financial assets available for sale are presented net of the total fair value reserve and impairment. The total fair value reserve for financial assets available for sale is negative and amounts to Euro 319 551 000 (2010: Euro 85 706 000) and impairment amounts to Euro 30 115 000 (2010: Euro 19 172 000).

The Group recognizes impairment on financial assets available for sale when there is a prolonged or significant drop in its fair value or when there is an expected impact on future cash flows of the assets. This assessment involves judgment, in which the Group takes into account among other factors, the volatility of stock prices.

Thus, as a consequence of the low liquidity and significant volatility in financial markets were taken into account in determining the existence of impairment, the following factors:

– Equity instruments: (i) above 30% devaluation against the purchase price or (ii) the market value below the acquisition cost for a period exceeding 12 months;

– Debt instruments: where there is objective evidence of events that impact on the recoverable value of future cash flows of these assets.

The evolution of the debt crisis of the Euro zone countries associated with the macro economic developments in Greece, which has contributed to a deterioration of economic and financial situation of the Greek State and the inability to access markets which implies that the solvency of the country immediately remains dependent on continued support from the EU and the IMF.

Given this situation, the item includes securities for impairment losses recognized in the sovereign debt of Greece during the year 2011, as referred in note 53.

On 31 December 2011, Impairment corresponds to the effect of the recognition results of the reservation in fair value of such securities and were determined based on observable market prices. Based on this analysis, the CEMG recognized in 2011, an impairment of Euro 19 039 000.

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2011, is as follows:

	2011				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	Total Euro '000
Fixed income securities:					
Issued by public entities:					
Portuguese	–	417 254	733 271	–	1 150 525
Foreign	–	10 668	116 545	–	127 213
Issued by other entities:					
Portuguese	–	76 996	178 155	2 490	257 641
Foreign	–	29 832	391 044	9 132	430 008
Commercial paper	–	54 469	206 529	–	260 998
	–	589 219	1 625 544	11 622	2 226 385
Variable income securities:					
Shares in companies:					
Portuguese	–	–	–	6 501	6 501
Foreign	–	–	–	6 563	6 563
Investment fund units	–	203	–	334 716	334 919
	–	203	–	347 780	347 983
	–	589 422	1 625 544	359 402	2 574 368

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2010, is as follows:

	2010				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	Total Euro '000
Fixed income securities:					
Issued by public entities:					
Portuguese	19 881	133 310	893 973	–	1 047 164
Foreign	25 250	3 007	82 141	–	110 398
Issued by other entities:					
Portuguese	2 347	16 247	432 389	–	450 983
Foreign	9 419	21 325	535 183	544	566 471
Commercial paper	211 324	30 313	–	–	241 637
	268 221	204 202	1 943 686	544	2 416 653
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	3 745	3 745
Foreign	–	–	–	3 130	3 130
Investment fund units	–	–	–	7 040	7 040
	–	–	–	13 915	13 915
	268 221	204 202	1 943 686	14 459	2 430 568

This balance, regarding quoted and unquoted securities, is departed as follows:

	2011			2010		
	Quoted Euro '000	Unquoted Euro '000	Total Euro '000	Quoted Euro '000	Unquoted Euro '000	Total Euro '000
Fixed income securities:						
Issued by public entities:						
Portuguese	1 150 525	–	1 150 525	1 047 164	–	1 047 164
Foreign	127 213	–	127 213	110 398	–	110 398
Issued by other entities:						
Portuguese	257 641	–	257 641	423 667	27 316	450 983
Foreign	430 008	–	430 008	562 081	4 390	566 471
Commercial paper	–	260 998	260 998	–	241 637	241 637
Variable income securities:						
Shares in companies:						
Portuguese	1 087	5 414	6 501	861	2 884	3 745
Foreign	6 245	318	6 563	2 972	158	3 130
Investment fund units	334 919	–	334 919	7 040	–	7 040
	2 307 638	266 730	2 574 368	2 154 183	276 385	2 430 568

25. Hedging derivates

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Asset		
Interest rate swap	1 311	2 810
Liability		
Interest rate swap	13 041	1 408

Hedging derivatives are measured in accordance with internal valuation techniques considering mainly observable market inputs. In accordance with the hierarchy of the valuation sources, as referred in IFRS 7 these derivatives are classified in level 2.

The Group uses derivatives to hedge interest rate risks. The accounting method depends on the nature of the hedged risk, namely if CEMG is exposed to fair value changes, variability in cash-flows or highly probable forecast transactions.

The Group performs periodical effectiveness tests of the hedging relationships.

The adjustment performed to the assets and liabilities that includes hedged items is analysed as follows:

	2011 Euro '000	2010 Euro '000
Deposits from other credit institutions	343	864
Debt securities issued	15	242
Deposits from customers	371	271
	729	1 377

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2011 is as follows:

	2011							
	Notional with remaining term				Fair value			
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	–	–	515 000	515 000	–	–	(11 730)	(11 730)

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2010 is as follows:

	2010							
	Notional with remaining term				Fair value			
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	20 000	80 000	115 000	215 000	147	1 394	(139)	1 402

As at 31 December 2011, the fair value hedge relationships present the following features:

2011							
Derivative	**Hedged item**	**Heged risk**	**Notional Euro '000**	**Fair value of derivative (2) Euro '000**	**Changes in the fair value of the derivative in the year Euro '000**	**Hedged item fair value (1) Euro '000**	**Changes in the fair value of the hedged item in the year (1) Euro '000**
Interest rate swap	Deposits from customers	Interest rate	–	–	(1 834)	–	(371)
Interest rate swap	Deposits	Interest rate	20 000	257	(396)	–	(1 097)
Interest rate swap	EMTN	Interest rate	495 000	(11 987)	(10 902)	389	687
Interest rate swap	Debt issued	Interest rate	–	–	–	–	–
			515 000	(11 730)	(13 132)	389	(781)

(1) Attributable to the hedged risk.
(2) Includes accrued interest

As at 31 December 2001, the fair value hedge relationships present the following features:

2010							
Derivative	**Hedged item**	**Heged risk**	**Notional Euro '000**	**Fair value of derivative (2) Euro '000**	**Changes in the fair value of the derivative in the year Euro '000**	**Hedged item fair value (1) Euro '000**	**Changes in the fair value of the hedged item in the year (1) Euro '000**
Interest rate swap	Deposits from customers	Interest rate	44 000	396	(302)	371	(271)
Interest rate swap	Deposits	Interest rate	80 000	2 091	(1 995)	1 097	(1 106)
Interest rate swap	EMTN	Interest rate	95 000	(1 085)	(812)	(298)	(212)
Interest rate swap	Debt issued	Interest rate	–	–	–	–	–
			215 000	1 402	(3 109)	(1 170)	(1 589)

(1) Attributable to the hedged risk.
(2) Includes accrued interest

26. Held-to-maturity investments

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Fixed income securities:		
Bonds issued by Portuguese public entities	37 419	44 111
Bonds issued by foreign public entities	39 575	14 033
	76 994	58 144

The Group assessed, with reference to 31 December 2011, the existence of objective evidence of impairment on its held-to-maturity investments portfolio and no events with impact on the recoverable amount of the future cash flows associated with those investments were identified.

The held-to-maturity investments, as at 31 December 2011 are analysed as follows:

Issue	Issue date	Maturity Date	Interest Rate	Euro '000
OT – setembro 98/23-09-2013	May, 1998	Sep., 2013	Fixed rate of 5.450%	96
OT – junho 02/15-06-2012	Feb., 2002	Jun., 2012	Fixed rate of 5.000%	31 292
OT – outubro 05/15-10-2015	Jul.,2005	Oct., 2015	Fixed rate of 3.350%	6 032
Netherlands Government 05/2015	Jun., 2005	Jul., 2015	Fixed rate of 3.250%	5 004
Republic of Austria 04/15-07-2015	Mar., 2005	Sep., 2015	Fixed rate of 3.750%	2 016
Belgium Kingdom 05/28-09-2015	Mar., 2005	Sep., 2015	Fixed rate of 3.750%	1 985
Buoni Poliennali Del Tes. 05/2015	May, 2005	Aug, 2015	Fixed rate of 3.750%	1 991
BT AOTNBT507L11	Jul., 2011	Jan., 2012	Fixed rate of 7.150%	206
BT AOTNBT423D10	Jul., 2011	Jul., 2012	Fixed rate of 7.350%	4 143
TBC AOBCTB324N11	Nov., 2011	Jan., 2012	Fixed rate of 7.251%	8 074
TBC AOBCTB309D11	Dec., 2011	Feb., 2012	Fixed rate of 6.899%	8 052
TBC AOBCTB309D11	Dec., 2011	Feb., 2012	Fixed rate of 7.100%	8 052
OT – Cabo Verde – março 10/2013	Mar., 2010	Mar., 2013	Fixed rate of 5.740%	51
				76 994

The held-to-maturity investments are stated in accordance with the established in note 1 *d*).

During 2011 and 2010, CEMG did not transfer to or from this assets category.

As at 31 December 2011 the analysis of held-to-maturity investments by the period of maturity is as follows:

	2011				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Bonds issued by Portuguese public issuers	–	31 292	6 127	–	37 419
Bonds issued by foreign public issuers	–	24 385	15 190	–	39 575
	–	55 677	21 317	–	76 994
Quoted	–	55 677	21 317	–	76 994

As at 31 December 2010 the analysis of held-to-maturity investments by the period of maturity is as follows:

	2010				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Bonds issued by Portuguese public issuers	–	5 962	38 149	–	44 111
Bonds issued by foreign public issuers	3 026	–	11 007	–	14 033
	3 026	5 962	49 156	–	58 144
Quoted	3 026	5 962	49 156	–	58 144

27. Investments in associated companies and others

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Investments in associated companies and others		
Prio Foods S.G.P.S., S.A.	18 320	–
Lusitania, Companhia de Seguros, S.A.	17 745	19 786
Lusitania Vida, Companhia de Seguros, S.A.	12 274	13 321
Prio Energy S.G.P.S., S.A.	4 790	–
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 686	3 953
Iberpartners Cafés S.G.P.S., S.A.	1 041	–
	57 856	37 060
Unquoted	57 856	37 060

The financial information concerning associated companies is presented in the following table:

	Assets Euro '000	Liabilities Euro '000	Equity Euro '000	Income Euro '000	Profit/ (Loss) for the year Euro '000	Acquisition cost Euro '000
31 December 2011						
Lusitania, Companhia de Seguros, S.A	555 295	486 117	69 178	252 503	(2 438)	23 566
Lusitania Vida, Companhia de Seguros, S.A.	493 069	461 871	31 198	47 459	5 372	9 530
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	47 709	29 277	18 432	7 991	(895)	3 200
Iberpartners Cafés S.G.P.S., S.A.	4 969	1 430	3 461	121	77	1 000
Prio Foods S.G.P.S., S.A.	284 936	240 066	50 556	68 073	(5 687)	21 018
Prio Energy S.G.P.S., S.A.	147 769	123 821	19 922	304 595	4 025	4 300
31 December 2010						
Lusitania, Companhia de Seguros, S.A	573 023	495 884	77 139	218 277	897	23 566
Lusitania Vida, Companhia de Seguros, S.A.	513 640	479 780	33 860	51 492	4 506	9 530
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	50 361	30 598	19 763	8 106	(246)	3 200

	Percentage held		Book value		Share of associates of profit	
	2011 %	2010 %	2011 Euro '000	2010 Euro '000	2011 Euro '000	2010 Euro '000
Lusitania, Companhia de Seguros, S.A.	25.65	25.65	17 745	19 786	(626)	230
Lusitania Vida, Companhia de Seguros, S.A.	39.34	39.34	12 274	13 321	2 114	1 773
HTA – Hóteis, Turismo e Animação dos Açores, S.A.	20	20	3 686	3 953	(179)	(49)
Iberpartners Cafés S.G.P.S., S.A.	29.41	–	1 041	–	23	–
Prio Foods S.G.P.S., S.A.	20	–	18 320	–	(1 138)	–
Prio Energy S.G.P.S., S.A.	20	–	4 790	–	805	–

The movements for this balance are analysed as follows:

	2011 Euro '000	2010 Euro '000
Balance on 1 January	37 060	40 775
Acquisitions	24 461	–
Share of profit of associates	999	1 954
Fair value reserve from associates	(3 595)	(4 738)
Dividends received	(1 069)	(931)
Balance on 31 December	57 856	37 060

28. Non-current assets held for sale

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Investments arising from recovered loans	168 102	201 710
Impairment for non-current assets held for sale	(31 091)	(39 336)
	137 011	162 374

The assets included in this balance are accounted for in accordance with the note 1 *j*).

The balance Investments arising from recovered loans includes buildings and other assets resulting from the foreclosure of contracts of loans to customers, originated by (i) delivery of the assets, with option to repurchase or leasing, accounted with the celebration of the contract or the promise to deliver the asset and the respective irrevocable power of attorney issued by the customer in the name of CEMG; or (ii) the adjudication of the assets as a result of a judicial process of guarantees execution, accounted with the title of adjudication or following the adjudication request after the record of the first (payment prosolvency).

In November and December 2011, CEMG sold a set of assets referred above to CA Imobiliário – Fundo Especial de Investimento Imobiliário Aberto (FEII). Considering the nature of the transaction the assets were derecognized. These assets were accounted by Euro 148 557 000, net from impairment, originating a gain of Euro 22 741 000 and a write back of impairment of Euro 39 498 000.

These assets are available for sale in a period less than 2 year and CEMG as a strategy for its sale. This balance includes buildings and other assets for which CEMG has already established contracts for the sale in the amount of Euro 22 591 000 (2010: Euro 13 996 000).

The movements for impairment for non-current assets held for sale are analysed as follows:

	2011 Euro '000	2010 Euro '000
Non-current assets held for sale		
Balance on 1 January	201 710	157 935
Acquisitions	153 705	66 715
Sales	(187 568)	(24 740)
Other movements	255	1 800
Balance on 31 December	168 102	201 710

The movement in non-current assets held for sale balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Impairment for non-current assets held for sale		
Balance on 1 January	39 336	29 336
Impairment for the year	25 197	13 845
Write-back for the year	(39 498)	(3 831)
Loans charged-off	(3 944)	(14)
Transfers	10 000	–
Balance on 31 December	31 091	39 336

The balance Write-back for the year is related to the operation of sale of Non-current assets held for sale previously described.

The balance Transfers corresponds of amounts transferred from Finibanco Holding, S.G.P.S., S.A. and its subsidiaries in the acquisition by CEMG on 31 March, 2011.

29. Property and equipment

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Cost:		
Land and buildings:		
For own use	36 699	62 353
Leasehold improvements in rented buildings	67 688	24 225
Equipment:		
Furniture	20 921	11 070
Office equipment	3 364	1 869
Computer equipment	85 661	58 367
Interior installations	23 382	15 837
Motor vehicles	5 126	436
Security equipment	9 846	4 972
Other equipment	5	–
Works of art	2 755	1 050
Assets in operacional lease	9 561	4 965
Assets in finance lease	38	–
Other tangible assets	2 406	31
Work in progress	5 858	3 375
	273 310	188 550
Accumulated depreciation:		
Charge for the year	(18 440)	(13 074)
Accumulated charge for the previous years	(146 213)	(86 189)
	(164 653)	(99 263)
	108 657	89 287

The Property and equipment movements, during the year of 2011, are analysed as follows:

	Balance on 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Land and buildings:					
For own service	62 353	42 119	(68 135)	362	36 699
Leasehold improvements in rented buildings	24 225	42 342	–	1 121	67 688
Equipment:					
Furniture	11 070	10 144	(293)	–	20 921
Office equipment	1 869	1 561	(66)	–	3 364
Computer equipment	58 367	28 847	(1 600)	47	85 661
Interior installations	15 837	6 608	937	–	23 382
Motor vehicles	436	4 951	(261)	–	5 126
Security equipment	4 972	4 831	(10)	53	9 846
Other equipment	–	19	(14)	–	5
Works of art	1 050	1 655	–	50	2 755
Assets in operational lease	4 965	5 428	(832)	–	9 561
Assets in finance lease	–	38	–	–	38
Other tangible assets	31	2 375	–	–	2 406
Work in progress	3 375	5 067	–	(2 584)	5 858
	188 550	155 985	(70 274)	(951)	273 310
Accumulated depreciation:					
Land and buildings:					
For own service	16 055	1 784	(19 618)	9 700	7 921
Leasehold improvements in rented buildings	15 984	3 891	–	17 995	37 870
Equipment:					
Furniture	8 014	1 192	(292)	6 955	15 869
Office e quipment	1 771	156	(65)	1 031	2 893
Computer equipment	43 937	7 149	(1 598)	21 077	70 565
Interior installations	8 698	1 545	(13)	4 272	14 502
Motor vehicles	376	448	(238)	3 859	4 445
Security equipment	3 244	853	(6)	2 514	6 605
Other equipment	–	1	(14)	18	5
Assets in operational lease	1 184	1 276	(390)	232	2 302
Assets in finance lease	–	–	–	38	38
Other tangible assets	–	145	–	1 493	1 638
	99 263	18 440	(22 234)	69 184	164 653

The balance Acquisitions/Charge for the year referrers to the cost and the balance Regularizations/Transfers referrers to the accumulated depreciation, that corresponds to the amounts transferred from Finibanco S.A., in the scope of the acquisition of the assets and liabilities acquisition occurred in 4 April, 2011.

In December 2011, CEMG sold part of Property for own use to «Montepio Geral Associação Mutualista», as described in notes 9, 31 and 57. Those properties were recorded at the amount of Euro 48 517 000, net of depreciation, resulting in a gain of Euro 28 154 000.

The Property and equipment movements, during the year of 2010, are analysed as follows:

	Balance on 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Land and buildings:					
For own use	65 808	–	(3 455)	–	62 353
Lease hold improvements in rented buildings	32 208	332	(8 373)	58	24 225
Equipment:					
Furniture	10 507	988	(425)	–	11 070
Office equipment	1 971	10	(113)	1	1 869
Computer equipment	51 773	6 839	(244)	(1)	58 367
Interior installations	28 416	337	(13 010)	94	15 837
Motor vehicles	676	58	(298)	–	436
Security equipment	3 978	1 009	(15)	–	4 972
Works of art	986	64	–	–	1 050
Assets in operational leases	4 084	1 632	(751)	–	4 965
Other tangible assets	31	–	–	–	31
Work in progress	593	2 957	–	(175)	3 342
	201 031	14 226	(26 684)	(23)	188 550
Accumulated depreciation:					
Land and buildings:					
For own use	15 837	1 042	(824)	–	16 055
Lease hold improvements in rented buildings	22 047	2 310	(8 373)	–	15 984
Equipment:					
Furniture	7 807	573	(366)	–	8 014
Office equipment	1 825	57	(112)	1	1 771
Computer equipment	37 874	6 307	(244)	–	43 937
Interior installations	20 125	1 585	(13 012)	–	8 698
Motor vehicles	670	9	(303)	–	376
Security equipment	2 823	434	(13)	–	3 244
Assets in operational leases	748	757	(321)	–	1 184
	109 756	13 074	(23 568)	1	99 263

30. Intangible assets

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Cost:		
Software	68 961	31 798
Revaluation and consolidation differences (Goodwill)	53 024	–
Other intangible assets	13 286	–
Assets advances	707	6 106
	135 978	37 904
Accumulated depreciation:		
Charge for the year	(9 830)	(7 776)
Accumulated charge for the previous years	(35 943)	(11 874)
	(45 773)	(19 650)
	90 205	18 254

The balance Revaluation and consolidation differences (Goodwill), representing the difference between assets and liabilities of Finibanco, S.A. acquired by CEMG in 4 April, 2011 and its book value and consider the fair value of that assets and liabilities and the potential for business generating associated with the network Finibanco, S.A. acquired.

This intangible asset does not have finite useful life, so that, as referred in accounting policy described in note 1 *b*), its recoverable amount is annually reviewed, regardless of the existence of impairment signs. Any impairment losses are recognized in income statement.

In accordance with IAS 36 the recoverable amount of goodwill should be the greater between its value on use (the present value of the future cash flows expected from its use) and its fair value less costs to sell. Based on this criteria, CEMG made valuations to their investments for which there is goodwill recorded which considered among other factors:

(i) an estimate of future cash flows generated by each entity;

(ii) an expectation of potential changes in the amounts and timing of cash flows;

(iii) the time value of money;

(iv) a risk premium associated with the uncertainty by holding the asset;

(v) other factors associated with the current situation of financial markets.

The valuations were based on reasonable and sustainable assumptions representing the best estimate of the Board of Directors on the economic conditions that affect each entity, the budgets and the latest projections approved by the Board of Directors for those entities and their extrapolation to future periods.

The assumptions made for these assessments may vary with the change in economic conditions and in the market.

On this basis, as at 31 December 2011, and considering the review made on the Purchase Price Allocation (PPA), in the second semester of 2011, it has not been identified any impairment related to the recognized Goodwill.

The Intangible assets movements, during the year of 2011, are analysed as follows:

	Balance on 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Software	31 798	27 625	(188)	9 726	68 961
Revaluation and consolidation differences (Goodwill)	–	53 024	–	–	53 024
Other intangible assets	–	13 286	–	–	13 286
Assets advanced	6 106	2 043	–	(7 442)	707
	37 904	95 978	(188)	2 284	135 978
Accumulated depreciation:					
Software	19 650	9 830	(179)	16 472	45 773
	19 650	9 830	(179)	16 472	45 773

The balance Acquisitions/Charge for the year referrers to the cost and the balance Regularizations/Transfers referrers to the accumulated depreciation, that corresponds to the amounts transferred from Finibanco Holding, S.G.P.S., S.A., in the scope of the acquisition of the assets and liabilities acquisition by CEMG, that occurred in 31 March, 2011.

The Intangible assets movements, during the year of 2010, are analysed as follows:

	Balance on 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Software	52 375	8 430	(29 007)	-	31 798
Assets advanced	4 657	1 449	–	–	6 106
	57 032	9 879	(29 007)	–	37 904
Accumulated depreciation:					
Software	40 881	7 776	(29 007)	–	19 650

31. Other assets

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Recoverable subsidies from Portuguese Government	9 724	11 949
Other debtors	185 852	29 071
Other accrued income	11 903	4 873
Prepayments and deferred costs	8 000	1 740
Sundry debtors	290 528	18 338
	506 007	65 971
Impairment from recoverable subsidies	(1 037)	(3 473)
	504 970	62 498

The balance Recoverable subsidies from the Portuguese Government, in the amount of Euro 9 724 000 (2010: Euro 11 949 000), corresponds to mortgage credit interest subsidies, in accordance with the regulations applicable to mortgage loans benefits. The referred amounts do not bear interest and are claimed monthly.

As at 31 December 2011 and 31 December 2010, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

	2011 Euro '000	2010 Euro '000
Recoverable subsidies from the Portuguese Government unliquidated	2 111	7 120
Subsidies unclaimed	3 157	1 716
Overdue subsidies unclaimed	4 456	3 113
	9 724	11 949

As at 31 December 2010, the balance Recoverable subsidies from the Portuguese Government include an amount of Euro 3 473 000 not recognized by the treasury authorities. This amount is totally provided for in the balance Impairment from recoverable subsidies.

The balance Other debtors includes the amount of Euro 51 000 000 related to the issue of commercial paper, pending settlement, and the amount of Euro 69 004 000 that referrers to the amount owed by Montepio Geral – Associação Mutualista, related to the operation of sale of property for own use, as described in note 29.

As at 31 December 2011, the balance Sundry debtors includes the amount of Euro 70 788 000 refer to transactions with securities recorded on trade date and pending settlement, in accordance with note 1 *d*), pending settlement.

The other assets impairment movements, during the years of 2011 and 2010, are analysed as follows:

	2011 Euro '000	2010 Euro '000
Impairment for non-current assets held for sale		
Balance on 1 January	3 473	3 473
Impairment for the year	1 001	–
Write-back for the year	2	–
Loans charged-off	(3 473)	–
Transfers	34	–
Balance on 31 December	1 037	3 473

The balance Transfers corresponds of amounts transferred from Finibanco Holding S.G.P.S., S.A., in the scope of the acquisition of the assets and liabilities acquisition occurred in 31 March, 2011.

32. Taxes

With effect from 1 January 2012,CEMG is subject to the regime established by the Income Tax Code («IRC»). Therefore, and based on the applicable law, the temporary differences between accounting income and the results accepted for tax purposes of IRC, whenever there is a reasonable that such taxes will be paid or recovered in the future, according to the accounting policy 1 *v*) are eligible for the recognition of deferred taxes.

Deferred income tax assets and liabilities as at 31 December, 2011 and 2010 are analysed as follows:

	Assets		Liabilities		Net	
	2011 Euro '000	2010 Euro '000	2011 Euro '000	2010 Euro '000	2011 Euro '000	2010 Euro '000
Financial instruments	18 630	–	(1)	–	18 629	–
Other tangible assets	961	–	–	–	961	–
Provisions	36 089	–	13	–	36 102	–
Benefits to employees	8 460	–	(48)	–	8 412	–
Tax losses carried forward	16 553	–	–	–	16 553	–
Deferred tax assets/(liabilities)	80 693	–	(36)	–	80 657	–
Offset deferred taxes assets and liabilities	–	–	–	–	–	–
Net deferred tax assets/(liabilities)	80 693	–	(36)	–	80 657	–

CEMG evaluated the recoverability of its deferred tax assets on the balance sheet based on the expectations of future taxable profits.

Deferred tax balance movements were recognized as follows:

	2011 Euro '000
Balance on 1 January	
Charged to profit	18 381
Charged to reserves and retained earnings	48 152
Transfers	14 124
Balance on 31 December	80 657

The balance Transfers corresponds of amounts transferred from Finibanco Holding S.G.P.S., S.A., in the scope of the acquisition of the assets and liabilities acquisition occurred in 31 March, 2011.

The deferred tax recognized in the balance Reserves – Other comprehensive income, includes the actuarial gains and losses also recognized in this balance, as described in note 48 – Employees benefit.

Tax recognized in the income and reserves for the periods ended 31 December, 2011 and 2010 is analyzed as follows:

	2011	
	Charged to results Euro '000	**Charged to reserves Euro '000**
Financial instruments	91	18 627
Other tangible assets	1 902	(11)
Provisions	18 438	23 606
Pension Fund	(3 076)	5 930
Post-employment benefits	2 084	–
Tax losses carried forward	(1 058)	–
Deferred taxes	18 381	48 152
Current taxes	(3 689)	–
Total recognized tax	14 692	48 152

Net deferred tax assets changes includes the deferred tax expenses for the year recognized in the profit and loss account, as well as the changes recognized in reserves and retained earnings, namely the impact resulting from the changes, in accordance with the IAS 19, of the accounting policy for the recognition of actuarial gains and losses related with pension and post employment benefits, for the year and for previous years and unrealized gains and losses resulting from the revaluation of financial assets available for sale recognized in Equity.

As at 31 December 2011, the amount of unrecognized temporary differences that resulted in a deferred tax asset in the amount of Euro 236 883 000.

Deferred tax assets and liabilities are presented on a net basis where, pursuant to applicable regulation, the Goup can offset current tax assets to current tax liabilities and when the assets and deferred tax liabilities relate to taxes on income released by the same taxation authority.

33. Deposits from central banks

As at 31 December 2011, this balance in amount of Euro 2 003 300 000 is related to deposits obtained in the European System of Central Banks and is covered by securities from the available-for-sale portfolio pledged as collaterals portfolio of financial assets available-for-sale.

As at 31 December 2010, this balance in amount of Euro 1 540 266 000 is related to deposits obtained in the European System of Central Banks and is covered by securities from the available-for-sale portfolio pledged as collaterals portfolio of financial assets available-for-sale.

The analysis of deposits from Central Banks by the period to maturity, is as follows:

	2011 Euro '000	**2010 Euro '000**
Up to 3 months	702 975	460 026
3 to 6 months	–	1 080 240
More than 6 months	1 300 325	–
	2 003 300	1 540 266

34. Deposits from other financial institutions

This balance is analysed as follows:

	2011			2010		
	Non-interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000	Non-interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000
Deposits from credit institutions in Portugal	12 804	83 586	96 390	247 969	4 163	252 132
Deposits from credit institutions abroad	37 954	609 453	647 407	639 773	9 837	649 610
	50 758	693 039	743 797	887 742	14 000	901 742

The balance Deposits from other credit institutions, analysed by the period of maturity, is as follows:

	2011 Euro '000	2010 Euro '000
Up to 3 months	108 461	165 328
3 to 6 months	55 517	153 594
6 months to 1 year	467	255 553
1 year to 5 years	362 434	59 025
More than 5 years	245 164	274 830
	772 043	908 330
Adjustments arising from hedging operations	(28 246)	(6 588)
	743 797	901 742

35. Deposits from customers

This balance is analysed as follows:

	2011			2010		
	Non-interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000	Non-interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000
Deposits repayable on demand	101 500	2 512 744	2 614 244	16 157	2 001 904	2 018 061
Time deposits (*)	–	10 815 437	10 815 437	0	7 583 150	7 583 150
Saving accounts (*)	–	248 293	248 293	0	391 530	391 530
Other items	8 039	–	8 039	496	0	496
Adjustments arising from hedging operations	15 906	–	15 906	14 326	0	14 326
	125 445	13 576 474	13 701 919	30 979	9 976 584	10 007 563

Observations: (*) Deposits for which the embedded derivate was separate from the host contract, in accordance with 20 and note 1.3.

In the terms of the law «*Portaria*» no. 180/94, of 15 December, the deposit guarantee fund was established to guarantee the reimbursement of funds deposited in credit institutions. The criteria to calculate the annual contributions to the referred fund are defined annually by instruction of the Bank of Portugal.

As at 31 December 2011, this balance includes the amount of Euro 794 197 000 (2010: Euro 1 772 500 000) related to deposits recognised on the balance sheet at fair value through profit or loss.

The balance Deposits from customers, analysed by the period of maturity, is as follows:

	2011 Euro '000	2010 Euro '000
Deposits repayable on demand	2 614 244	2 018 061
Time deposits and saving accounts		
Due within 3 months	1 798 835	1 299 637
3 months to 6 months	4 477 693	2 702 705
6 months to 1 year	2 173 828	1 182 228
1 year to 5 years	2 602 082	–
Over 5 years	11 292	2 790 110
	13 677 974	9 992 741
Adjustments arising from hedging operations	15 906	14 326
	13 693 880	10 007 067
Other items		
Due within 3 months	8 039	496
	13 701 919	10 007 563

36. Debt securities issued

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Euro Medium Term Notes	1 314 250	2 437 249
Bonds	452 505	566 304
Covered bonds	706 357	832 690
	2 473 112	3 836 243

The fair value of the debts securities issued is presented in note 47.

As at 31 December 2011, this balance includes the amount of Euro 1 100 266 000 (2010: Euro 1 510 171 000) related to debt securities issued recognized at the balance sheet at fair value through profit or loss.

As at 31 December 2011 and 2010, the analysis of debt securities issued outstanding by period to maturity is as follows:

	2011 Euro '000	2010 Euro '000
Due within 6 months	803 514	858 289
6 months to 1 year	758 726	631 766
1 year to 5 years	572 502	1 930 906
Over 5 years	419 533	441 057
	2 554 275	3 862 018
Adjustments arising from hedging operations	(81 163)	(25 775)
	2 473 112	3 836 243

Under the Issuance of covered bonds program, which maximum amount is 5 000 million Euro, CEMG proceed to the emissions which totalized Euro 1 650 million. The main characteristics of these issues are as follows:

Description	Nominal value Euro '000	Book value Euro '000	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody's/Fitch/Dbrs)
Covered bonds	1 000 000	1 000 000	Dec. 2009	Dec. 2016	Quarterly	2.17%	Baa3/BBB-
Covered bonds	708 300	708 300	Jul. 2009	Jul. 2012	Annual	3.25%	Baa3/BBB-
Covered bonds	500 000	500 000	Nov. 2010	Nov. 2015	Quarterly	4.08%	Baa3/BBB-
	2 208 300	2 208 300					

The covered bonds are guaranteed by a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, that the issuer of mortgage covered bonds shall maintain segregated and over which the holders of the relevant covered bonds have a statutory special creditor privilege. These conditions are set up in Decree-Law no. 59/2006, Regulations no. 5/2006, no. 6/2006, no. 7/2006 and no. 8/2006 of the Bank of Portugal and Instruction no.13/2006 of the Bank of Portugal.

The amount of credits that collateralize these emissions is higher than Euro 2 208 300 000 (2010: EUR 1 000 000 000), in 31 December, 2011, according with note 21.

The change occurred in debt securities issued during the year ended 31 December 2011 is analyzed as follows:

	Balance on 1 January Euro '000	Issues Euro '000	Repayments Euro '000	Net repurchase Euro '000	Other movements (a) Euro '000	Balance on 31 December Euro '000
Euro Medium Term Notes (EMTN)	2 437 249	–	(874 777)	(171 531)	(76 691)	1 314 250
Bonds	566 304	263 011	(416 047)	29 551	9 686	452 505
Covered bonds	832 690	–	(120 425)	(17 750)	11 842	706 357
	3 836 243	263 011	(1 411 249)	(159 730)	(55 163)	2 473 112

(a) Other movements include accrued interest, fair value hedge, fair value adjustments and foreign translation exchanges adjustments.

The change occurred in debt securities issued during the year ended 31 December 2010 is analyzed as follows:

	Balance on 1 January Euro '000	Issues Euro '000	Repayments Euro '000	Net repurchase Euro '000	Other movements (a) Euro '000	Balance on 31 December Euro '000
Euro Medium Term Notes (EMTN)	3 142 351	–	(578 950)	(46 050)	(80 102)	2 437 249
Bonds	611 517	241 799	(281 509)	–	(5 503)	566 304
Covered bonds	1 161 047	–	–	(177 350)	(151 007)	832 690
	4 914 915	241 799	(860 459)	(223 400)	(236 612)	3 836 243

(a) Other movements include accrued interest, fair value hedge, fair value adjustments and foreign translation exchanges adjustments.

In accordance with the note 1 *d*), debt issued repurchased by CEMG is derecognized from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognized in the income statement.

As at 31 December 2011, the balance Debt securities issued is comprise of the following issues:

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
OBRIGS.CX-AFORRO MONTEPIO/07-5 ANOS – 1 SER.	Feb. 2007	Feb. 2012	Fixed rate of 7%	1 000
OBRIGS.CX-AFOR. MONT.ASSOC/07-5 ANOS-1 SER.	Feb. 2007	Feb. 2012	Semi annual fixed rate of 7.25%	4 000
OBRIGS.CX-AFORRO MONTEPIO/07-5 ANOS – 2 SER.	Feb. 2007	Feb. 2012	Semi annual fixed rate of 7%	2 000
OBRIGS.CX-AFOR. MONT.ASSOC/07-5 ANOS-2 SER.	Feb. 2007	Feb. 2012	Semi annual fixed rate of 7,25%	3 000
OBRIGS.CX-AM EUR 6M 5Y – 2012	Apr. 2007	Apr. 2012	Annual fixed rate of 4.455%	6 000
OBRIGS.CX-MONTEPIO SELECT 5 ANOS	Jan. 2008	Jan.2013	Fixed rate of 2.5% in the first 4 years and at maturity a variable remuneration between 2.5% and 60% of the annual average performance of a mix composed of the Dow Jones Eurostoxx Select Dividend 30 Index and the IBOXX Euro Eurozone Performance Sovereigns 5 to 7 years Index	1 000
OBRIGS.CX-MONTEPIO TAXA FIXA 5 ANOS JAN2008	Jan.2008	Jan.2013	Annual fixed rate of 2.5%	2 500
OBRIGS CX-MONTEPIO INFLACCAO-2008-2016-1 SER.	Jun.2008	Jun.2016	Annual fixed rate of 4.52826% + annual European inflation rate	4 700
OBRIGS CX MONTEPIO TX FIXA 3 ANOS-25-05-2012	May.2009	May.2012	Annual fixed rate of 4.00% (3rd and 4th year with a fixed rate of 3%)	650
OBRIGS CAIXA-CRPC-STEMBRO-2009-2014	Sep.2009	Sep.2014	Annual fixed rate of 3% (4th year fixed rate of 3% and 5th year fixed rate of 6%)	4 250
OBRIGS CAIXA-CRPC-SETEMBRO-2009-2017	Sep.2009	Sep.2017	Annual fixed rate of 3.75% (4th to 7th year fixed rate of 3.75% and 8th year fixed rate of 6.75%)	1 500
OBRIGS CAIXA-CRPC-SETEMBRO-2008-2013-2 SER.	Sep.2009	Sep.2013	Variable rate indexed to the Average Euribor 3 months + 1% (Average rate calculated at the end of each quarter based on three observations of Eur3M cleared the last working day of each month)	750
OBRIGS CAIXA-CRPC-2009-2014-8.SERIE	Nov.2009	Nov.2014	Annual fixed rate of 3.25% (4th year fixed rate of Taxa 3.25% and 5th year fixed rate of 5.75%)	3 800
OBRIGS CAIXA-TAXA VARIAVEL-CEMG-2009-2013	Nov.2009	Nov.2013	Quarterly variable rate indexed to the average Euribor 3 months + 1%	500
OBRIGS CAIXA-MONTEPIO TITULOS EUROPA-2009-2013	Dec.2009	Dec.2013	At maturity the rate is 28% to Euro STOXX50 Index performance over the initial level is positive, otherwise receive only the initial capital	2 711
MONTEPIO STANDARD POOR's BRIC 40	Oct.2007	Oct.2012	From 1st to 9th semester fixed rate of 0.90% (On the date of repayment rate corresponds to between 0% and maximum 50% of the average performance Annual Index Standard & Poor's BRIC40	2 319
OBRIG.CX-MONTEPIO TX FIXA CRESCENTE 2010/13 1SER.	Jan.2010	Jan.2013	Interest is paid quarterly on fixed annual rate of 2.5% (starting 4th year rate 3%, starting 7th year rate 3.5%)	1 000
OBRIG.CX-MONTEPIO TX FIXA 2010/14 1SER.	Jan.2010	Jan.2014	Interest is paid semiannually with annual fixed rate of 3% (starting 3rd year rate 3.125%, 5th year rate 3.25%, the 7th year rate 3.5%)	9 806
OBRIGS CAIXA-MONTEPIO CABAZ OURO E PETROLEO	Mar.2010	Mar.2014	At maturity the investor receives the maximum between 4% and the average annual performance of Gold and Oil subject to a maximum of 28%.	3 705
OBRIG.CX-MONTEPIO TX FIXA 2010/14 2SER.	Mar.2010	Mar.2014	Annual fixed rate of 3.2% (3rd year rate 3.3%, 4th year rate 3.5%)	20 000
OBRIGS CAIXA-MG TAXA FIXA CRESCENTE ABRIL-2010-2015	Apr.2011	Apr.2015	Annual fixed rate of 2.7%, (4th year rate 2.7%, 5th year rate 2.8%, the 7th year rate 3% and 9 year rate 3.5%)	500

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
OBRIGS CAIXA-MG TAXA FIXA-2010-2013-1. SERIE	May.2010	May.2013	Annual fixed rate of 2.5% (3rd year rate 2.5%)	10 553
OBRIGS CAIXA-MG TOP-2010-2014-1. SERIE	May.2010	May.2015	Annual Fixed Rate 2.75% (3rd year rate 3%, 4th year rate 3.25%)	520
OBRIGS CAIXA-CABAZ ENERGIA-2010-2014	May.2010	May.2015	At maturity the investor will receive a maximum between 4% and the performance of the underlying asset (basket of shares in the energy sector) compared to the initial level	2 201
OBRIGS CAIXA-MG TAXA FIXA –2010-2012-1. SERIE	Jun.2010	Jun.2012	Annual fixed rate of 2% (8th year 2% rate)	3 118
OBRIGS CAIXA-MG CAPITAL CERTO-2010-2018-2. SERIE	Jul.2010	Jul.2018	Annual Fixed Rate 3.15% (3rd year to 5th year rate 3.4%, 6th year rate 3.65%, 7th year rate 4.15% and 8 year rate 5.90)	1 600
OBRIGS CAIXA-MG TAXA FIXA JULHO 2010/2014	Jul.2010	Jul.2014	Annual fixed rate of 3.5% (3rd year to 4th year rate 3.5%)	22 747
OBRIGS CAIXA-MG TAXA FIXA AGOSTO-2010-2014	Aug.2010	Aug.2014	Annual fixed rate of 3.5%	15 914
OBRIGS CAIXA-MG TAXA FIXA SETEMBRRO 2010-2020	Sep.2010	Sep.2020	Annual fixed rate of 4.0%	200
OBRIGS CAIXA-MG TAXA FIXA SETEMBRRO 2010-2014	Sep.2010	Sep.2014	Annual fixed rate of 3.5%	9 967
OBRIGS CAIXA-MG EURODOLAR SETEMBRO 2010-2012	Oct.2010	Oct.2012	Interest rate indexed to the changing exchange rate of reference of the Euro/USD.	1 493
OBRIGS CAIXA-MG TAXA FIXA NOVEMBRO 2010-2012	Nov.2010	Nov.2012	Annual fixed rate of 3.25%	5 818
OBRIGS CAIXA-MG TELECOMUNICACOES DEZEMBRO 2010-2014	Dec.2010	Dec.2014	Compensation = Max [2%, Min (performance, 40%)]	558
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016-1. SERIE	Jan.2011	Jan.2016	Annual Fixed Rate 3.53% (2nd year rate , 3.53% 3rd year rate 4.03%, 4th year rate 4.28% and 5% year rate 5.28%)	25 000
OBRIGS CAIXA-MG TAXA FIXA JANEIRO 2011-2015	Feb.2011	Feb.2015	Annual Fixed Rate 4.0%	19 918
OBRIGS CAIXA-MG TAXA FIXA CRESCENTE FEVER-2011-2016	Feb.2011	Feb.2016	Annual fixed rate 3.5% (2nd year rate 3.9%, 3rd year rate 4.2%, 4th year rate 4.3% and 5 year rate 5.6%)	5 000
OBRIGS CAIXA-MONTEPIO 1780 DIAS-2011-2016	Feb.2011	Jan.2016	Annual fixed rate 3.7% (2nd year rate 3.9%, 3rd year rate 4.25%, 4th year rate 4.5% and 5th year rate 5.5%)	1 500
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016-2. SERIE	Feb.2011	Jan.2016	Annual fixed rate 3.5% (2nd year rate 3.9%, 3rd year rate 4.2%, 4th year rate 4.3% and 5 year rate 5.6%)	25 000
OBRIGS CAIXA-MG TAXA CRESCENTE FEVEREIRO 2016	Mar.2011	Feb.2016	Annual fixed rate 3.5% (2nd year rate 3.9%, 3rd year rate 4.2%, 4th year rate 4.35% and 5 year rate 5.6%)	15 000
OBRIGS CAIXA-MONTEPIO TOP EUROPA – MARCO 2011/2015	Mar.2011	Mar.2015	At maturity the investor receives the Tx-indexed bonds to the evolution of performance index STOXX50 Euro and the price of gold.	5 000
OBRIGS CAIXA-MG TAXA FIXA MARCO 2011-2013	Mar.2011	Mar.2013	Annual Fixed Rate 3.25%	6 593
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016-3.SERIE	Mar.2011	Apr.2016	Annual Fixed Rate 3.75% (2nd year rate 4%, 3rd year rate 4.25%, 4th year rate 4.5% and 5th year rate 5.5%)	20 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2019-1.SERIE	Mar.2011	Apr.2019	Annual fixed rate of 4.4% (2nd year rate 4.4%, 3rd and 4th year rate 4.65%, 5th and 6th year rate 5%, 7th and 8th year rate 6.5%)	20 000
OBRIGS CAIXA-MG TAXA CRESCENTE ABRIL 2016	Apr.2011	Apr.2016	Annual 4% fixed rate (2nd year rate 4.25%, 3rd year rate 4.5%, 4th year rate 4.75% and 5th year rate 5.75%)	10 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016-4.SERIE	Apr.2011	Apr.2016	Annual Fixed Rate 3.75% (2nd year rate 4%, 3rd year rate 4.25%, 4th year rate 4.5% and 5th year rate 5.5%)	25 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016-5.SERIE	May.2011	May.2016	Annual fixed rate 4.1% (2nd year rate 4.3%, 3rd year rate 4.6%, 4th year rate 4.8% and 5th year rate 5.75%)	20 000

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2019-2.SERIE	May.2011	May.2019	Fixed Annual Rate of 4.9% (2nd year rate 4.9%, 3rd and 4th year rate 5.15%, 5 and 6 year rate 5.5%, 7th year rate 6% and 8th year 7% rate)	5 000
OBRIGS CAIXA-MG TAXA CRESCENTE JUN2011-ABR2016	Jun.2011	Apr.2016	Annual Fixed Rate 4.25% (2nd and 3rd year rate 4.5%, 4th year rate 4.75% and 5th year rate 5%)	15 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016-6.SERIE	Jun.2011	Jul.2016	Annual fixed rate 4.1% (2nd year rate 4.3%, 3rd year rate 4.6%, 4th year rate 4.8% and 5th year rate 5.75%)	20 000
OBRIGS CAIXA-MG CAPITAL CERTO 1795 DIAS 2011/2016	Aug.2011	Jul.2016	Annual fixed rate 4.1% (2nd year rate 4.3%, 3rd year rate 4.6%, 4th year rate 4.8% and 5th year rate 5.75%)	10 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2019-3 SERIE	Sep.2011	Jul.2019	Annual fixed rate 4.9% (2nd year rate 4.9%, 3rd and 4th year rate 5.15%, 5th and 6th year rate 5.5%, 7th year rate 6.00% and 8th year rate 7.00%)	5 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016-7 SERIE	Sep.2011	Sep.2016	4.25% fixed annual fee, (2nd year rate 4.30%, 3rd year rate 4.60%, 4th year rate 4.8% and 5th year rate 5.75%)	10 000
OBRIGS CAIXA-FNB REMUNERAÇÃO GARANTIDA 2006	Apr.2008	Sep.2016	Annual fixed rate of 3%	2 680
OBRIGS CAIXA-FNB DEZEMBRO 07/17	Dec.2010	Dec.2017	Min [15 * (30 Yr Swap Rate – 10 Yr Swap Rate) + 0.75%; 15 * (10 Yr Swap Rate – 2 Yr Swap + 0.75%, Rate) + 1.25%]	26 871
Obrig. CEMG/04	Sep.2004	Sep.2014	Euribor 3 months + 0.25%	15 000
Obrig. CEMG/05	Feb.2005	Feb.2015	Annual rate of 2,99862%	110 250
Obrig. CEMG/05	May.2005	May.2012	Euribor 3 months + 0.25%	449 969
Obrig. CEMG/07	Jan.2007	Jan.2017	Annual fixed rate of 3.429%	93 500
Obrig. CEMG/07	Feb.2007	Feb.2017	Fixed rate of 5%	87 000
Obrig. CEMG/07	May.2007	May.2013	Euribor 3 months + 0.25%	402 750
Covered bonds	Jul.2009	Jul.2012	Fixed rate of 3.25%	540 550
Pelican Mortgages no. 1	Dec.2002	Dec.2037	W.A.I. – 1.33%	88 385
Pelican Mortgages no. 2	Sep.2003	Sep.2037	W.A.I. – 1.53%	144 086
				2 374 432
Adjustments arising from hedging operation				(81 163)
Accruals, deferred costs and income				179 843
Total				2 473 112

As at 31 December 2011, for the bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.5% and 7.25%.

37. Provisions

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Other provisions for liabilities and charges	7 985	1 311

The balance Other provisions for liabilities and charges includes the amount of Euro 3 800 000 for legal contingency related with a court process, in the scope of the disposal of the subsidiary Finibanco Vida – Companhia de Seguros de Vida, S.A. to Mapfre Seguros Gerais, S.A.

The provisions movements for other provisions for liabilities and charges are analysed as follows:

	2011 Euro '000	2010 Euro '000
Other provisions for liabilities and charges		
Balance on 1 January	1 311	1 490
Charge for the year	6 050	586
Write-back for the year	(1 768)	(670)
Charged off	–	(95)
Transfers	2 392	–
Balance on 31 December	7 985	1 311

The balance Transfers corresponds to values transferred from Finibanco Holding S.G.P.S., S.A. and its associates in the scope of the acquisition of assets and liabilities held on March 31, 2011.

38. Other subordinated debt

As at 31 December 2011, this balance in the amount of Euro 477 843 000 (2010: Euro 380 986 000) refers to Bonds with fixed maturity date, and with a residual reimbursement over 5 years.

As at 31 December 2011 the mainly characteristics of the Other subordinated debt, are analysed as follows:

Issue	Issue date	Maturity date	Issue amount Euro '000	Interest rate	Book Value Euro '000
CEMG/06	Apr.2006	Apr.2016	50 000	Euribor 3 months + 0.45%	50 214
CEMG/08	Feb.2008	Feb.2018	150 000	Euribor 6 months + 0.13%	151 430
CEMG/08	Jun.2008	Jun.2018	28 000	Euribor 12 months + 0.10%	28 496
CEMG/08	Jul.2008	Jul.2018	150 000	Euribor 6 months + 0.13%	151 878
FNB 08/18 1.ª/2.ª Série	Dec.2008	Dec.2018	10 057	Euribor 6 months + 0.15% (v)	10 078
FNB Rendimento Garantido 05/13	May.2005	May.2013	410	Range (1.90%;4.50%) (iii)	410
FNB Rendimento Seguro 05/15	Jun.2005	Jun.2015	238	6.25%*VN Min.(quotation) (iv)	251
FNB Grandes empresas 07/16 – 1.ª	May.2007	May.2016	6 450	Max.(0;6.0%*(1-n/5)) (i)	4 960
FNB Grandes empresas 07/16	Jun.2011	Jun.2016	30 250	Max.(0;6.0%*(1-n/5)) (i)	26 707
FNB Indices estratégicos07/17 1.ª	May.2007	Jun.2015	14 947	6.25%*VN Min.(quotation) (ii)	10 919
FNB Indices estratégicos07/17 2.ª/3.ª	Jun.2011	Jun.2015	39 000	Euribor 6 months+0.5%	33 391
Ob. Caixa Subordinadas Finicredito	Nov.2007	Nov.2017	17 413	Base rate + 0.90%(barrier level)	17 393
					486 127
				Corr. Liability value	(8 284)
					477 843

Other subordinated debt portfolio is recorded at fair value and is presented in note 47.

As at 31 December 2011, the effective interest rate range of the subordinated debt bears postponed interest every three and six months is set between 1% and 5%.

References::

(i) – The following cupons will be paid, on the year end of each year (May 9, to the 1st série and Junho 20, to the 2nd and 3rd series):

Coupon	Interest rate / range
1st Coupon	5.50%
2nd Coupon	5.50%
3rd Coupon	Max [0; 6.0% * (1-n/3)]
4th Coupon	Max [0; 6.0% * (1-n/4)]
5th Coupon	Max [0; 6.0% * (1-n/5)]
6th Coupon	Max [0; 6.0% * (1-n/6)]
7th Coupon	Max [0; 6.0% * (1-n/7)]
8th Coupon	Max [0; 6.0% * (1-n/8)]
9th Coupon	Max [0; 6.0% * (1-n/9)]

Notes:
where, *n* is the accumulated number of reference entities in which a credit event has occurred.
If a merge between two or more reference entities had occur and if a credit event occur in the merged entity, it will be accounted many credit events as the number of merged companies.

(ii) – The payment will be annually and it will be equal:

Coupon	Interest rate / range
1st year	5.5% * notional
2nd year	5.5% * notional
3rd and following	6.25% * notional if Min (SDk/SD0-SXk/SX0; HSk/HS0- SXk/SX0) > Barrier k ***

*** if not = 0%, where:

Barrier 3 = Barrier to be applied on 3rd coupon = 0%;
Barrier 4 = Barrier to be applied on 4th coupon = 1%;
Barrier 5 = Barrier to be applied on 5th coupon = 2%;
Barrier 6 = Barrier to be applied on 6th coupon = 3%;
Barrier 7 = Barrier to be applied on 7th coupon = 4%;
Barrier 8 = Barrier to be applied on 8th coupon = 5%;
Barrier k = Barrier to be applied on kth coupon:
SDk – Closing of Eurostoxx Select Dividend Index (Bloomberg: SD3E) on the observation date K (K=1 to 6)
SD0 – Closing of Eurostoxx Select Dividend Index (Bloomberg: SD3E) on the starting date
SXk – Closing of Eurostoxx50 Total Return Index (Bloomberg: SX5T) on the observation date K (K=1 to 6)
SX0 – Closing of Eurostoxx50 Total Return Index (Bloomberg: SX5T) on the starting date
HSk – Closing of HS60 Europe Index (Bloomberg: HS60EU) on the observation date K (K=1 to 6)
HS0 – Closing of HS60 Europe Index (Bloomberg: HS60EU) on the starting date

(iii) – The payment will be semiannual, with a minimum of 1% and a maximum of 5%, and it will be calculated according with the following formula (annual rate):
n/N * 5% + m/N * 1%

where:
n is the number of working days of the respective period in which Euribor 6 months will be in the fixed range;
m is the number of working days of the respective period in which Euribor 6 months will be outside the fixed range;
N is the number of working days of the respective period.

Note:
Range is defined on the following table for each coupon:

Period	Coupon date	Range
1st semester	09-Nov-05	[0; 2.75%]
2nd semester	09-May-06	[0; 3.00%]
3rd semester	09-Nov-06	[0; 3.25%]
4th semester	09-May-07	[0; 3.50%]
5th semester	09-Nov-07	[0; 3.50%]
6th semester	09-May-08	[0; 3.75%]
7th semester	09-Nov-08	[0; 3.75%]
8th semester	09-May-09	[0; 4.00%]
9th semester	09-Nov-09	[0; 4.00%]
10th semester	09-May-10	[0; 4.25%]
11th semester	09-Nov-10	[0; 4.25%]
12th semester	09-May-11	[0; 4.50%]
13th semester	09-Nov-11	[0; 4.50%]
14th semester	09-May-12	[0; 4.50%]
15th semester	09-Nov-12	[0; 4.50%]
16th semester	09-May-13	[0; 4.50%]

(iv) – The payment will be semiannual, with a minimum of 1% and a maximum of 5%, and it will be calculated according with the following formula (annual rate):
n/N * 5% +m/N * 1%

where:
n is the number of working days of the respective period in which Euribor 6 months will be in the fixed range;
m is the number of working days of the respective period in which Euribor 6 months will be outside the fixed range;
N is the number of working days of the respective period.

Note: Range is defined on the following table for each coupon.

Period	Coupon date	Range
1st semester	09-Dec-05	[1.60; 2.75%]
2nd semester	09-Jun-06	[1.60; 3.00%]
3rd semester	09-Dec-06	[1.60; 3.25%]
4th semester	09-Jun-07	[1.60; 3.50%]
5th semester	09-Dec-07	[1.60; 3.50%]
6th semester	09-Jun-08	[1.70; 3.75%]
7th semester	09-Dec-08	[1.70; 3.75%]
8th semester	09-Jun-09	[1.70; 4.00%]
9th semester	09-Dec-09	[1.80; 4.00%]
10th semester	09-Jun-10	[1.80; 4.25%]
11th semester	09-Dec-10	[1.80; 4.25%]
12th semester	09-Jun-11	[1.80; 4.50%]
13th semester	09-Dec-11	[1.90; 4.50%]
14th semester	09-Jun-12	[1.90; 4.50%]
15th semester	09-Dec-12	[1.90; 4.50%]
16th semester	09-Jun-13	[1.90; 4.50%]
17th semester	09-Dec-13	[2.00; 4.50%]
18th semester	09-Jun-14	[2.00; 4.50%]
19th semester	09-Dec-14	[2.00; 4.50%]
20th semester	09-Jun-15	[2.00; 4.50%]

(v) – The payment will be semiannual and the first coupon will be fixed:

Coupon	Interest rate / Range
1st coupon	6.50% (annual rate)
between 2nd and 10th coupon	Euribor 6M + 1.50% (annual rate)
11th and following	Euribor 6M + 1.75% (annual rate)

38. Other liabilities

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Creditors:		
Suppliers	13 880	7 356
Other creditors	95 213	32 300
Public sector	18 032	7 944
Holiday pay and subsidies	38 672	25 825
Other administrative costs payable	269	375
Deferred income	759	546
Securities transactions pending settlement	752	–
Other sundry liabilities	115 100	122 596
	282 677	196 942

The caption Other sundry liabilities corresponds to balances of banking and financial transactions.

40. Share Capital

On 29 de March 2011, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 345 000 000, by cash transfer.

On 28 de December 2011, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 100 000 000, by cash transfer.

After the referred operation, the share capital of CEMG, amounts to Euro 1 245 000 000 (2010: Euro 800 000 000), totally subscribed by «Montepio Geral – Associação Mutualista», and is fully paid.

On 29 de September 2010, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 40 000 000, by cash transfer.

41. Other capital instruments

This caption includes the issuance of Euro 15 000 000 occurred in the first quarter of 2010 Perpetual Subordinated Securities Interest conditioners made by Finibanco, SA, and in connection with the acquisition of Finibanco Holding, S.G.P.S., S.A. and its subsidiaries spent to integrate the responsibilities CEMG.

Payment

Subject to the payment of interest limitations described below, the payment will be paid semiannually on 2 February and 2 August of each year, beginning on 2 August, 2010 and will be equal to:

- 1st ao 4th coupon: 7.00%;
- 5th coupon and following: Euribor 6M + 2.75%, with a minimum of 5%.

Payment interest limitations

The Issuer will be prevented from making interest payment:

- And even the extent of competition in which the sum of the amount payable by the interest this issue with the amount of dividends paid or deliberate and guaranteed payments relating to any preference shares that are likely to be issued, exceed Distributable Funds of the Issuer, or

– Is in compliance with the Regulatory capital requirements regulamentation or the extent and up to competition in its payment implies that is in default with that Regulamentation.

The Issuer is also prevented from proceeding to the interest payment if, in the Board of Directors or the Bank of Portugal opinion, this payment endanger the comply of Regulatory capital requirements regulamentation.

The impediment to proceed to the Interest Payment may be total or partial.

Interest non-payment on any date exclude the issuer of the interest payment related to this date in a future time.

It is considered distributable funds in a determinated year the algebraic sum, with reference to the previous year, the retained earnings with any other amount which may be distributable and profit or loss, net of reserve requirements, statutory and legal, but before the deduction of the amount of any dividends on ordinary shares or other securities subject to these, for that exercise.

Reimbursement

These values are perpetual securities and are only refundable under the terms of early repayment provided below.

By agreement of the Bank of Portugal, the issuer may reimburse, in whole or in part, from the 10th date of payment of interest, including (5th year).

In case of continued occurrence of an Event of Disqualification as Core Capital, even before the expiration of five years from its issuance, and in agreement with the Bank of Portugal, these Securities are redeemable at the option of the Issuer, at any time.

In the disqualification event as Core Capital is defined as a change in any legal document or its official interpretation implies these securities values may no longer be classified as Core Capital of the Issuer.

42. General and special reserves

The general and special reserves are charged under the scope of Decree-Law no. 136/79, of 18 May. The general reserve is charged to cover any risk and extraordinary losses or depreciation.

Under the Portuguese regulations, the general reserve should be charged, at least, in a minimum of 20% of the profit for the year. The limit of general reserve is 25% of total deposits. This reserve is not available for distribution and it can be used to improve future income performances or to increase capital.

The special reserve is charged to cover losses from current operations. Under the Portuguese regulations, the special reserve should be charged, at least, in a minimum of 5% of the profit for the year. This reserve is not available for distribution and it can be used to improve income performances or to increase capital.

The variation of the general and special reserves balance is analysed in note 43.

43. Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Other comprehensive Income:		
Fair value reserves		
Available-for-sale financial assets	(319 551)	(85 706)
	(319 551)	(85 706)
Reserves and retained earnings:		
General reserve	179 301	170 956
Special reserve	66 519	64 444
Other reserves	7 840	10 083
Retained earnings	8 969	(117 415)
	262 629	128 068

As described in notes 1, 48 and 58, the caption Retained earnings includes, with effect from 1 January 2010, the effect of correction of Euro 86 316 000 arising from the Board decision to change the accounting policy relating to recognition of actuarial deviations.

The fair value reserves represents the potential gains and losses on financial assets available for sale net of impairment losses recognized in the income statement and / or in prior years in accordance with accounting policy 1 *d*).

The movements of this balance during 2011 are analysed as follows:

	Balance on 1 January Euro '000	Reavaluation Euro '000	Aquisitions Euro '000	Sales Euro '000	Impairment in profit and loss Euro '000	Balance on 31 December Euro '000
Fixed income securities:						
Bonds issued by Portuguese entities	(28 302)	(157 628)	(55 976)	343	–	(241 563)
Bonds issued by Foreign entities	(4 103)	21 674	558	496	(19 309)	(684)
Bonds issued by other entities:						
Portuguese	(12 855)	(12 699)	(116)	472	3 588	(21 610)
Foreign	(40 529)	(33 819)	(3 367)	3 131	19 799	(54 785)
	(85 789)	(182 472)	(58 901)	4 442	4 078	(318 642)
Variable income securities:						
Shares in companies						
Portuguese	159	5 818	(48)	(17)	(5 916)	(4)
Foreign	(46)	440	(11)	18	(469)	(68)
Investment fund units	(30)	(416)	(236)	(64)	(91)	(837)
	83	5 842	(295)	(63)	(6 476)	(909)
	(85 706)	(176 630)	(59 196)	4 379	(2 398)	(319 551)

The movements of this balance during 2010 are analysed as follows:

	Balance on 1 January Euro '000	Reavaluation Euro '000	Sales Euro '000	Impairment recognized in the year Euro '000	Balance on 31 December Euro '000
Fixed income securities:					
Bonds issued by Portuguese entities	–	(28 302)	–	–	(28 302)
Bonds issued by Foreign entities	106	(4 199)	(10)	–	(4 103)
Bonds issued by other entities:					
Portuguese	1 471	(13 121)	(760)	(445)	(12 855)
Foreign	(31 441)	(11 953)	1 355	1 510	(40 529)
	(29 864)	(57 575)	585	1 065	(85 789)
Variable income securities:					
Shares in companies					
Portuguese	89	71	(42)	41	159
Foreign	523	(239)	(129)	(201)	(46)
Investment fund units	652	(2 564)	(898)	2 780	(30)
	1 264	(2 732)	(1 069)	2 620	83
	(28 600)	(60 307)	(484)	3 685	(85 706)

The fair value reserve can be analysed as follows:

	2011 Euro '000	2010 Euro '000
Amortised cost of available-for-sale financial assets	2 924 034	2 535 446
Accumulated impairment recognised	(30 115)	(19 172)
Amortised cost of available-for-sale financial assets, net impairment	2 893 919	2 516 274
Fair value of available-for-sale financial assets	2 574 368	2 430 568
Net/unrealised gains/(losses) recognised in the fair value reserve	(319 551)	(85 706)

44. Non-controlling interests

This balance is analysed as follows:

	Balance		Income Statement	
	2011 Euro '000	**2010 Euro '000**	**2011 Euro '000**	**2010 Euro '000**
Finibanco Angola S.A.	11 381	–	2 269	–
	11 381	–	2 269	–

The movements of the non-controlling interests are analysed as follows:

	2011 Euro '000	**2010 Euro '000**
Balance on 1 January	–	–
Exchange differences	1 463	
Dividends	(2 044)	–
Other	8 781	–
	8 200	
Goodwill arising on consolidation	912	
Net income attributable to non-controlling interests	2 269	–
Balance on 31 December	11 381	–

45. Obligations and future commitments

Obligations and future commitments are analysed as follows:

	2011 Euro '000	**2010 Euro '000**
Guarantees granted	504 835	424 361
Guarantees received	32 544 520	29 158 640
Commitments to third parties	1 565 408	1 298 867
Commitments from third parties	44 545	38 510
Securitised loans	264 299	292 135
Securities and other items held for safekeeping on behalf of customers	5 367 132	5 152 178
	40 290 739	36 364 691

The amounts of Guarantees granted and Commitments to third parties are analysed as follows:

	2011 Euro '000	2010 Euro '000
Guarantees granted:		
Guarantee	501 475	420 181
Open documentary credits	3 360	4 180
	504 835	424 361

	2011 Euro '000	2010 Euro '000
Commitments to third parties:		
Irrevocable commitments		
Irrevocable credit lines	218 033	252 535
Securities subscription	330 950	185 150
Annual contribution to the Guarantee Deposits Fund	25 314	20 013
Potencial obligation with the Investors' Indemnity System	2 316	1 699
Revocable commitments		
Revocable credit lines	988 795	839 470
	1 565 408	1 298 867

Guarantees granted are financial operations that are not consisted by mobilization on Funds by CEMG.

Revocable and irrevocable commitments represent contractual agreements to extend credit to CEMG's customers (for example unused credit lines). These agreements are generally, contracted for fixed periods of time or with other expiration requisites, and usually require the payment of a commission. Substantially, all credit commitments require that clients maintain certain conditions verified at the time when the credit was granted.

The commitments, revocable and irrevocable, represent contractual agreements for credit concession with CEMG clients which, in general, are contracted by fixed periods or with other expiring requisites and, normally, apply for the payment of a commission. Substantially, all commitments of credit concession in force require clients to maintain certain requisites which are verified at the time of the respective formalization.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any one another commercial operation, namely the solvency of the underlying client and business, being that CEMG requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having being used, the indicated amounts do not represent necessarily future cash-flow needs.

As at 31 December 2011 and 31 December 2010, the balance Annual contribution to the obligations of Guarantee Deposits Fund is related with the irrevocable commitment assumed by CEMG and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

The balance Potential obligation with the Investors' Indemnity System, as at 31 December 2011 and 2010, is related with the irrevocable commitment assumed by CEMG and required by law, to deliver to that System the necessary amounts for CEMG's obligation with the investors' indemnities to be paid.

46. Distribution of profit

On 28 March, 2011, following the General Assembly deliberation, CEMG distributed to Montepio Geral – Associação Mutualista in the amount of Euro 23 085 000 (2010: Euro 20 300 000).

47. Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as it happens regarding many products sold to clients, fair value is estimated through internal models based on cash-flow discounting techniques.

Cash flows for the different instruments sold are calculated according with its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the pricing policy in CEMG.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model that, necessarily have some degree of judgement and reflect exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, like the future business evolution.

Under these conditions, the values presented cannot be understood as an estimate of the economic value of CEMG.

CEMG determines the fair value of its financial assets and liabilities in accordance with the following hierarchy:

1. Quoted market prices – this category includes financial assets with available quoted market prices in official markets and with dealer prices, quotations provided by entities that usually provide transaction prices for these assets/liabilities traded in active markets.
2. Valuation models based on observable market information – consists on the use of internal valuation techniques, namely discounted cash flow models and option pricing models that imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instrument. Notwithstanding, CEMG uses observable market data such as interest rate curves, credit spreads, volatility and market indexes. Includes also instruments with dealer price quotations but which are not traded in active markets.
3. Valuation models based on non-observable market information – consists on the use of internal valuation models or quotations provided by third parties but which imply the use of non-observable market information.

The main methods and assumptions used in estimating the fair value for the assets and liabilities are presented as follows:

– **Cash and deposits at central banks, Loans and advances to credit institutions repayable on demand and Deposits from other credit institutions**

  Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

– **Other loans and advances to credit institutions, Amounts owed to other credit institutions from Interbank Money Market transactions and Assets with repurchase agreements**

  The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the installments occur in the contractually defined dates.

  The discount rate used reflects the current conditions applied by CEMG in identical instruments for each of the different maturities. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market, at the end of the year).

– **Financial assets held for trading (except derivatives), Financial liabilities held for trading (except derivatives) and Available-for-sale financial assets**

  These financial instruments are accounted at fair value. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

  Interest rates are determined based on information disseminated by the suppliers of content financial – Reuters and Bloomberg – more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate shortterm futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are used in the projection of the nondeterministic cash flows such as indexes.

  When optionality is involved, the standard templates (Black-Scholes, Black, Ho and others) considering the volatility areas applicable are used. Whenever there are no references in the market of sufficient quality or that the available models do not fully apply to meet the characteristics of the financial instrument, it is applied specific quotations supplied by an external entity, typically a counterparty of the business.

In case of shares not listed, they are recognized at historical cost when there is no available market value and it is not possible to determine reliably its fair value.

– **Financial assets held to maturity**

These financial instruments are accounted at amortized cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

– **Hedging and trading derivatives**

All derivatives are recorded at fair value.

In the case of those who are quoted in organized markets is used its market price. As for derivatives traded «over the counter», apply the numerical methods based on techniques of discounted cash flow valuation models and considering options including changing market interest rates applicable to the instruments concerned, and where necessary, their volatility.

Interest rates are determined based on information disseminated by the suppliers of content financial – Reuters and Bloomberg – more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate shortterm futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods.

The interest rate curves are used in the projection of the non-deterministic cash flows such as indexes.

– **Loans and advances to customers with defined maturity date**

The fair value of these instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the installments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by CEMG in similar instruments for each of the homogeneous classes of this type of instrument and with similar maturity. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market, at the end of the year) and the spread used at the date of the report, which was calculated from the average production of the last three months of the year.

As at 31 December 2011, the average discount rate was 6.26% (2010: 5.73%), assuming the projection of variable rates according to the evolution of the forward rates implicit in the interest rate curves. The calculations also include the credit risk spread.

– **Loans and advances to customers without defined maturity date**

Considering the short maturity of these financial instruments, the conditions of the existing portfolio are similar to current conditions used by CEMG. Therefore, the amount in the balance sheet is a reasonable estimate of its fair value.

– **Deposits from customers**

The fair value of these financial instruments is calculated by discounting the expected principal and interest future cash flows, considering that payments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by CEMG in identical instruments with a similar maturity.

The discount rate includes the market rates of the residual maturity date (rates of monetary market or the interest rate swap market, at the end of the year) and the spread of CEMG at the date of the report, which was calculated from the average production of the last three months of the year.

As at 31 December 2011, the average discount rate was of 4.1% (2010: 3.9%).

– **Debt securities issued and Subordinated debt**

For these financial instruments, fair value was calculated for the components that are not yet reflected on CEMG's balance sheet. For the fixed interest rate instruments for which CEMG applies a hedge-note, the fair value regarding the interest rate risk is already accounted for.

In fair value calculation, the other risk components were also considered, apart from the interest rate risk. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted by associated factors, predominantly the credit risk and trading margin, the latter only in the case of issues placed for non institutional customers of CEMG.

As original reference, CEMG applies the curves resulting from the interest rate swaps markets for each specific currency. The credit risk (credit spread) is represented by an excess from the curve of interest rate swaps established specifically for each term and class of instruments based on the market prices on equivalent instruments.

For own emissions placed among non institutional customers of CEMG, it was added one more differential (trade spread), which represents the margin between the financing cost in the institutional market and the cost obtained by distributing the respective instrument in the commercial network owned.

As at 31 December 2011, the following table presents the values of the interest rates used in the clearance of the curves interest rate of major currencies, including Euro, United States Dollar and Sterling Pound used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies		
	Euro	**United States Dollar**	**Sterling Pound**
1 day	0.250%	0.355%	0.555%
7 days	0.620%	0.250%	0.555%
1 month	0.980%	0.575%	0.725%
2 months	1.120%	0.725%	0.840%
3 months	1.300%	0.850%	1.060%
6 months	1.560%	0.950%	1.440%
9 months	1.740%	1.075%	1.710%
1 year	1.890%	1.225%	1.950%
2 years	1.310%	0.712%	1.324%
3 years	1.360%	0.815%	1.363%
5 years	1.725%	1.214%	1.567%
7 years	2.068%	1.601%	1.867%
10 years	2.390%	2.020%	2.295%
15 years	2.685%	2.370%	2.295%
20 years	2.697%	2.493%	2.295%
30 years	2.555%	2.589%	2.295%

As at 31 December 2010, the following table presents the values of the interest rates used in the clearance of the curves interest rate of major currencies, including Euro, United States Dollar and Sterling Pound used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies		
	Euro	**United States Dollar**	**Sterling Pound**
1 day	0.400%	0.300%	0.550%
7 days	0.350%	0.300%	0.550%
1 month	0.810%	0.300%	0.680%
2 months	0.910%	0.310%	0.720%
3 months	1.010%	0.430%	0.820%
6 months	1.230%	0.530%	1.260%
9 months	1.370%	0.720%	1.415%
1 year	1.510%	0.880%	1.520%
2 years	1.561%	0.797%	1.505%
3 years	1.945%	1.282%	1.945%
5 years	2.481%	2.179%	2.630%
7 years	2.893%	2.838%	3.103%
10 years	3.305%	3.386%	3.535%
15 years	3.638%	3.844%	3.535%
20 years	3.697%	4.020%	3.535%
30 years	3.496%	4.130%	3.535%

Exchange rates and volatility

We present below the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the money) for the main currencies used on the derivatives valuation:

			Volatility (%)				
Exchange rates	**2011**	**2010**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.2939	1.3362	13.35	14.85	15.30	15.45	15.50
EUR/GBP	0.8353	0.8608	8.45	9.90	10.70	11.15	11.45
EUR/CHF	1.2156	1.2504	7.00	8.25	9.35	9.95	10.30
EUR/JPY	100.20	108.85	13.35	14.40	15.20	15.90	16.55

Concerning the exchange rates, the Group uses in the valuation models the spot rate observed in the market at the time of the valuation.

Next table shows the decomposition of main adjustments to the financial assets and liabilities of the Group, which are recognized at book value and fair value as at 31 December 2011 and 2010:

	2011								
	Held for trading Euro '000	**Designated at fair value trough profit or loss Euro '000**	**Held-to maturity Euro '000**	**Loans and advances Euro '000**	**Available--for-sale Euro '000**	**Others at amortised cost Euro '000**	**Others Euro '000**	**Book value Euro '000**	**Fair value Euro '000**
Financial assets:									
Cash and deposits at central banks	–	–	–	461 483	–	–	–	461 483	461 483
Loans and advances to credit institutions repayable on demand	–	–	–	223 834	–	–	–	223 834	223 834
Loans and advances to credit institutions	–	–	–	284 232	–	–	–	284 232	284 232
Loans and advances to customers	–	–	–	16 706 626	–	–	–	16 706 626	15 295 141
Financial assets held for trading	180 766	–	–	–	–	–	–	180 766	180 766
Other financial assets at fair value trough profit or loss	–	3 606	–	–	–	–	–	3 606	3 606
Available-for-sale financial assets	–	–	–	–	2 574 368	–	–	2 574 368	2 574 368
Hedging derivates	1 311	–	–	–	–	–	–	1 311	
Held-to-maturity investments	–	–	76 994	–	–	–	–	76 994	74 488
Investments in associated companies	–	–	–	–	–	–	57 856	57 856	57 856
	182 077	3 606	76 994	17 676 175	2 574 368	–	57 856	20 571 076	19 155 774
Financial liabilities:									
Deposits from central banks	–	–	–	–	–	2 003 300	–	2 003 300	2 003 300
Deposits from other credit institutions	–	–	–	–	–	743 797	–	743 797	743 797
Deposits from customers	–	–	–	–	–	13 701 919	–	13 701 919	13 720 350
Debt securities issued	–	–	–	–	–	2 473 112	–	2 473 112	2 473 113
Financial liabilities associated to transferred assets	–	–	–	–	–	453.061	–	453.061	453.061
Financial liabilities held for trading	79 121	–	–	–	–	–	–	79 121	79 121
Hedging derivates	13 041	–	–	–	–	–	–	13 041	13 041
Other subordinated debt	–	–	–	–	–	477 843	–	477 843	477 843
	92 162	–	–	–	–	19 853 032	–	19 945 194	19 963 626

	2010								
	Held for trading Euro '000	Designated at fair value trough profit or loss Euro '000	Held-to maturity Euro '000	Loans and advances Euro '000	Available--for-sale Euro '000	Others at amortised cost Euro '000	Others Euro '000	Book value Euro '000	Fair value Euro '000
Financial assets:									
Cash and deposits at central bank	–	–	–	240 024	–	–	–	240 024	240 024
Loans and advances to credit institutions repayable on demand	–	–	–	74 353	–	–	–	74 353	74 353
Loans and advances to credit institutions	–	–	–	338 662	–	–	–	338 662	338 662
Loans and advances to customers	–	–	–	14 554 133	–	–	–	14 554 133	13 528 145
Financial assets held for trading	130 865	–	–	–	–	–	–	130 865	130 865
Other financial assets at fair value trough profit or loss	–	3 952	–	–	–	–	–	3 952	3 952
Available-for-sale financial assets	–	–	–	–	2 430 568	–	–	2 430 568	2 430 568
Hedging derivates	2 810	–	–	–	–	–	–	2 810	2 810
Held-to-maturity investments	–	–	58 144	–	–	–	–	58 144	57 590
Investments in associated companies	–	–	–	–	–	–	37 060	37 060	37 060
	133 675	3 952	58 144	15 207 172	2 430 568	–	37 060	17 870 571	16 844 029
Financial liabilities:									
Deposits from central banks	–	–	–	–	–	1 540 266	–	1 540 266	1 540 266
Deposits from other credit institutions	–	–	–	–	–	901 742	–	901 742	901 823
Deposits from customers	–	–	–	–	–	10 007 563	–	10 007 563	9 970 687
Debt securities issued	–	–	–	–	–	3 836 243	–	3 836 243	4 735 077
Financial liabilities associated to transferred assets	–	–	–	–	–	387 183	–	387 183	387 183
Financial liabilities held for trading	53 891	–	–	–	–	–	–	53 891	53 891
Hedging derivates	1 408	–	–	–	–	–	–	1 408	1 408
Other liabilities	–	–	–	–	–	380 986	–	380 986	369 748
	55 299	–	–	–	–	17 053 983	–	17 109 282	17 960 083

48. Employee benefits

CEMG assumed the liability to pay to their employees pensions on retirement or disability and other obligations. These liabilities comply with the terms of the «Acordo Coletivo de Trabalho» (ACT). The CEMG pension obligations and other liabilities are mainly covered through the Banco Comercial Português Pension Fund managed by PensõesGere – Sociedade Gestora de Fundo de Pensões, S.A.

Following the approval by the Government of the Decree-Law no. 127/2011, which was published on 31 December, an agreement between the Government, the Portuguese Banking Association and the Banking Labour Union was established that regulated the transfer of the liabilities related with pensions currently being paid to pensioners and retirees, to the Social Security.

This agreement established that the responsibilities to be transfer relates to the pensions in payment as at 31 December 2011 at fixed amounts (discount rate 0%) in the component established in the «Instrumento de Regulação Coletiva de Trabalho (IRCT)» of the retirees and pensioners. The responsibilities related with the increase in pensions as well as any other complements namely, contributions to the Health System (SAMS), death benefit and death before retirement benefit continue to be under the responsibility of the Financial Institutions and being financed through the corresponding Pensions funds. The Decree-Law also establishes the terms and conditions under which the transfer was made by setting a discount rate of 4% to determine the liabilities to be transferred.

As at 31 December 2011 and 2010, the number of participants covered by this pension plan is analysed as follows

	2011	2010
Number of participants		
Pensioners	953	742
Employees	4 099	2 885
	5 052	3 627

The responsibilities transferred were determined based on different actuarial assumptions from the assumptions used by the Group, namely the discount rate (4%). These assumptions were determined on a liquidation perspective of the responsibilities (exit value) considering that relates to a definitive and not reversible transfer, implying differences regarding the assumptions used in determining the responsibilities recognized in the financial statements prepared in accordance with the requirements defined in IAS 19 – Employee benefits.

As a consequence, the Projected benefit liabilities and the Value of the Pension Fund, as at 31 December 2011, are presented net of the amounts transferred or to be transferred. As at 31 December 2011, was made partial financial settlement of the operation in the amount of Euro 90 420 000 and the remaining will be settled during the first semester of 2012.

Additionally, and considering that IAS 19 – Employee benefits allows for recognition of the actuarial gains and losses directly in Equity, the Group decided to change the accounting policy related to the recognition of the actuarial gains and losses in Other Comprehensive Income. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes since 1 January 2010, recognizing at that date the total amount of the deferred actuarial gains and losses in equity. Therefore, all the actuarial gains and losses deferred were charged against Other Comprehensive Income.

In accordance with the accounting policy, described in note 1 *u*), the pension and other benefits obligation and the respective funding for CEMG as at 31 December, 2011 and 2010 based on the projected unit credit method are analysed as follows:

	2011				2010			
	Pension plans Euro '000	**Death Subsidy Euro '000**	**Healthcare benefits Euro '000**	**Total Euro '000**	**Pension plans Euro '000**	**Death Subsidy Euro '000**	**Healthcare benefits Euro '000**	**Total Euro '000**
Assets/(liabilities) recognised in the balance sheet								
Defined benefit obligation								
Pensioners	97 199	716	17 356	115 271	239 208	695	15 549	255 452
Employees	289 875	7 545	14 145	311 565	319 395	7 120	15 173	341 688
	387 074	8 261	31 501	426 836	558 603	7 815	30 722	597 140
Value of the fund	(404 143)	(10 266)	(33 417)	(447 826)	(513 907)	(6 328)	(24 862)	(545 097)
Net Assets/(liabilities) recognized in the balance sheet	(17 069)	(2 005)	(1 916)	(20 990)	44 696	1 487	5 860	52 043

The balance Employees responsibility projected and the Pension Fund value, at 31 de December 2011, reflect the effect of transferring the assets and liabilities Funds associated with employees and pensioners, to the General Social Security Scheme in the amount of Euro 169 815 000 and Euro 183 910 000, respectively.

In accordance with the accounting policy 1 *u*), CEMG does the calculation of pension liabilities and pension actuarial gains and losses twice a year. The net assets related to pensions, are recognized in the balance Other assets (see note 31).

According to this policy and as described in IAS 19 – Employee Benefits, CEMG evaluates the balance sheet date, and separately for each plan, the recoverability of the excess coverage of the Fund meet their pension liabilities.

The change in the present value of obligations during 2011 and 2010 is analysed as follows:

	2011				2010			
	Pension plans Euro '000	Death Subsidy Euro '000	Healthcare benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death Subsidy Euro '000	Healthcare benefits Euro '000	Total Euro '000
Balance on 1 January	558 603	7 815	30 722	597 140	532 994	7 527	29 301	569 822
Finibanco Integration	67 806	2 216	4 469	74 491	–	–	–	–
Service cost	11 212	787	969	12 968	15 241	440	714	16 395
Interest cost	34 453	552	1 935	36 940	29 314	414	1 612	31 340
Actuarial gains and losses								
– Not arising from changes in actuarial assumptions	(5 737)	(1 097)	333	(6 501)	(2 772)	(566)	(905)	(4 243)
– Arising from changes in actuarial assumptions	(108 263)	(2 012)	(5 724)	(115 999)	–	–	–	–
– Arising from the recalculation of the liabilities transferred to RGSS	14 096	–	–	14 096	–	–	–	–
Payments	(18 826)	–	(1 203)	(20 029)	(18 348)	–	–	(18 348)
Transfer to the general social healthcare system («RGSS»)	(183 910)	–	–	(183 910)	–	–	–	–
Early retirements	17 640	–	–	17 640	2 174	–	–	2 174
Balance on 31 December	387 074	8 261	31 501	426 836	558 603	7 815	30 722	597 140

The evolution of the amounts related to non-financial projected benefit obligations during 2011 and 2010, are analysed as follows:

	2011				2010			
	Pension plans Euro '000	Death Subsidy Euro '000	Healthcare benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death Subsidy Euro '000	Healthcare benefits Euro '000	Total Euro '000
Balance on 1 January	44 696	1 487	5 860	52 043	58 707	1 319	4 913	64 939
Finibanco Integration	(10 062)	(340)	(692)	(11 094)	–	–	–	–
Service cost	11 212	787	969	12 968	15 241	440	714	16 395
Interest cost	34 453	552	1 935	36 940	29 314	414	1 612	31 340
Expected return on plan assets	(32 548)	(489)	(1 651)	(34 688)	(26 087)	(341)	(1 341)	(27 769)
Early retirements	17 640	–	–	17 640	2 174	–	–	2 174
Actuarial gains and losses								
– Not arising from changes in actuarial assumptions	54 474	(1 418)	(1 876)	51 180	14 097	(345)	(38)	13 714
– Arising from changes in actuarial	(108 263)	(2 012)	(5 724)	(115 999)	–	–	–	–
– Arising from the recalculation of the liabilities transferred to RGSS	14 096	–	–	14 096	–	–	–	–
Contributions to the fund	(42 767)	(572)	(737)	(44 076)	(48 750)	–	–	(48 750)
Balance on 31 December	(17 069)	(2 005)	(1 916)	(20 990)	44 696	1 487	5 860	52 043

The elements of the assets of the Pension Fund and which also cover the death benefit and health benefits are analysed as follows:

	2011 Euro '000	2010 Euro '000
Shares	11 085	44 703
Other variable income securities	26 548	102 088
Bonds	210 461	339 418
Properties	19 567	–
Loans and advances to credit institutions and others	180 165	58 888
	447 826	545 097

The balance above are deducted of the transferred to the General Social Security Scheme to be delivered in the first semester of 2012 in the amount of Euro 93 490 000.

Securities issued by CEMG accounted in the portfolio of the Fund are analysed as follows:

	2011 Euro '000	2010 Euro '000
Fixed income securities	5 868	9 461
Variable income securities	25 932	5 120
	31 800	14 581

The change in the amounts of the assets of the Pension Fund related at 2011 and 2010 is analysed as follows:

	2011				2010			
	Pension plans Euro '000	Death Subsidy Euro '000	Healthcare benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death Subsidy Euro '000	Healthcare benefits Euro '000	Total Euro '000
Balance on 1 January	513 907	6 328	24 862	545 097	474 287	6 208	24 388	504 883
Finibanco Integration	77 867	2 556	5 161	85 584	–	–	–	–
Expected return on plan assets	32 548	489	1 651	34 688	26 087	341	1 341	27 769
Actuarial gains / (losses)	(60 210)	321	2 209	(57 680)	(16 869)	(221)	(867)	(17 957)
Contributions to the Fund of CEMG	40 816	572	737	42 125	47 097	–	–	47 097
Transfer to the general social healthcare system («RGSS»)	(183 910)	–	–	(183 910)	–	–	–	–
Contributions to the Fund of the employers	1 951	–	–	1 951	1 653	–	–	1 653
Payments	(18 826)	–	(1 203)	(20 029)	(18 348)	–	–	(18 348)
Balance on 31 December	404 143	10 266	33 417	447 826	513 907	6 328	24 862	545 097

The contributions to the Fund made by CEMG in 2011were fully paid in cash.

During 2011, CEMG recognized as pension costs the amount of Euro 46 957 000 (2010: Euro 23 820 000).

The analysis of the cost is as follows:

	2011				2010			
	Pension plans Euro '000	Death Subsidy Euro '000	Healthcare benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death Subsidy Euro '000	Healthcare benefits Euro '000	Total Euro '000
Service cost	11 212	787	969	12 968	15 241	440	714	16 395
Interest cost	34 453	552	1 935	36 940	29 314	414	1 612	31 340
Expected return on plan assets	(32 203)	(551)	(1 933)	(34 687)	(26 087)	(341)	(1 341)	(27 769)
Early retirements	17 640	–	–	17 640	2 174	–	–	2 174
Resulting from the transfer to the general social healthcare system («RGSS»)	14 096	–	–	14 096	–	–	–	–
Cost of the year	45 198	788	971	46 957	20 642	513	985	22 140

The balance Costs resulting from the transfer to the General Social Security Scheme at 31 December 2011 corresponds to the impact of the transfer of the responsibilities to retired employees/ pensioners to the General Social Security Scheme. That impact is the effect of liabilities recalculation with the preconditions defined Portugal State in the transfer situation.

Health benifits is completely covered by the Pension Fund in the amount of Euro 31 501 000 at 2011 (2010: Euro 30 722 000).

The estimate value of contributions to be performed in 2012 under Pension Plan is Euro 8 585 000 (2010: Euro 42 125 000).

After market indicators analyzing, and particularly the prospects for inflation and the rate of long-term interest for the Euro Zone, as well as the demographic characteristics of its employees, CEMG used the following actuarial assumptions used to calculate pension responsibilities with retirement pension at 31 December 2011 and 2010:

	2011	2010
Salaries increase rate	2.00%	3.00%
Pensions increase rate	1.00%	2.00%
Projected rate of return of Fund assets	5.50%	5.50%
Discount rate	5.50%	5.50%
Mortality table	TV 88/90	TV 88/90
Disability table	EVK 80	EVK 80

The assumptions used in actuarial responsibilities value are in accordance with IAS 19 requirements. There are not considered disability decreases to calculate pension responsibilities.

The return rate on the Pension Fund was established consistent with current market conditions and the nature and profitability of the assets that comprise the Pension Fund.

Net Gains / (losses) at 2011 in the amount of Euro 50 723 000 (2010: Euro 13 714 000), are related to the difference between the assumptions used to calculate pension liabilities and the values actually recorded, as well as the impact of change assumptions and are analyzed as follows:

	Actuarial (gains) / losses	
	2011 Euro '000	2010 Euro '000
Salaries increase rate	(359)	(1 629)
Pensions increase rate	(6 141)	(2 614)
Changes on the assumptions	(115 999)	–
Return on Plan assets	57 680	17 957
Recalculation of the liabilities transferred to RGSS	14 096	–
	(50 723)	13 714

Health benefits costs of health has a significant impact on pension expense. Considering this impact proceeded to an analysis of sensitivity to a positive change (from 6.5% and 7.5% in fiscal year 2011) and a negative change (from 6.5% to 5.5% in fiscal year 2011) of a percentage point in the value of health benefits costs whose impact is analyzed as follows:

	Positive variation of 1% (6.5% to 7.5%)		**Negative variation of 1% (6.5% to 5.5%)**	
	2011 Euro '000	**2010 Euro '000**	**2011 Euro '000**	**2010 Euro '000**
Pension cost impact	(2 670)	(2 392)	2 670	2 392
Liability impact	(2 176)	(2 335)	2 176	2 335

The responsibilities and balance of funds changes, as well as gains and losses experienced in the last five years is as follows:

	2011			**2010**			**2009**			**2008**			**2007**		
	Pension plans Euro '000	**Death subsidy Euro '000**	**Healthcare benefits Euro '000**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Healthcare benefits Euro '000**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Healthcare benefits Euro '000**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Healthcare benefits Euro '000**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Healthcare benefits Euro '000**
Defined benefit obligation	(387 074)	(8 261)	(31 501)	(558 603)	(7 815)	(30 722)	(532 994)	(7 527)	(29 301)	(481 168)	(6 705)	(26 339)	(509 771)	(8 336)	(30 158)
Fair value of plan asset	404 143	10 266	33 417	513 907	6 328	24 862	474 287	6 208	24 388	408 120	5 687	22 341	411 805	6 734	24 362
(Un)/over funded liabilities	17 069	2 005	1 916	(44 696)	(1 487)	(5 860)	(58 707)	(1 319)	(4 913)	(73 048)	(1 018)	(3 998)	(97 966)	(1 602)	(5 796)
Experience adjustments arising on plan liabilities (gains)/losses	(113 999)	3 109	(5 391)	(2 772)	(566)	(905)	(1 412)	(299)	(486)	2 419	(2 003)	(1 638)	11 490	1 359	(3 266)
Experience adjustments arising on plan assets (gains)/losses	60 210	(321)	(2 209)	16 869	221	867	(13 936)	(194)	(763)	47 769	1 401	3 300	2 372	(6 734)	(207)

49. Related parties transactions

As at 31 December 2011, CEMG's liabilities with subsidiaries, represented or not by securities, included in the balances Deposits from customers, Other subordinated debt and Loans and advances to customers, are analysed as follows:

	2011			
Companies	Deposits from customers Euro '000	Other subordinated debt Euro '000	Loans and advances to customers Euro '000	Total Euro '000
Lusitania, Companhia de Seguros, S.A.	30 112	13 350	10 078	53 540
Lusitania Vida, Companhia de Seguros, S.A.	20 896	3 250	1	24 147
Nova Câmbios, S.A.	231	–	530	761
Silvip, S.A.	1 927	–	–	1 927
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	2 532	–	–	2 532
Montepio Gestão de Ativos – S.G.F.I.M., S.A.	1 096	–	–	1 096
MG Investimentos Imobiliários, S.A.	3	–	120	123
Bolsimo – Gestão de Ativos, S.A.	2 749	–	–	2 749
Residências Montepio, Serviços de Saúde, S.A.	141	–	2 463	2 604
Germont – Empreendimentos Imobiliários, S.A.	308	–	23 119	23 427
NEBRA, Energias Renovables, SL	5	–	1 570	1 575
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	109	–	13	122
Banco Montepio Geral – Cabo Verde, Soc. Unipessoal, S.A. (IFI)	29 526	–	–	29 526
Civilcentro – Construções do Centro S.A.	–	–	2 402	2 402
Finibanco Vida – Companhia de Seguros Vida, S.A.	284	–	–	284
Finimóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	300	–	–	300
Finisegur – Sociedade Mediadora de Seguros, S.A.	699	–	–	699
Iberpartners Cafés – S.G.P.S., S.A.	–	–	1 379	1 379
Prio Energy S.G.P.S., S.A.	8 235	–	5 287	13 522
Fundo de Pensões CEMG – Gerido pela Futuro	224 224	–	–	224 224
Conselho de Administração	1 578	–	302	1 880
Montepio Geral – Associação Mutualista	464 900	–	–	464 900
Fundação Montepio Geral	839	–	–	839
N Seguros, S.A.	7 226	–	–	7 226
Montepio Arrendamento – FIIAH	16 543	–	–	16 543
CA Imobiliário – Fundo Especial Investimento Imobiliário Aberto	10 532	–	–	10 532
	824 995	16 600	47 264	888 859

As at 31 December 2010, CEMG's liabilities with subsidiaries, represented or not by securities, included in the balances Deposits from customers and Other subordinated debt, are analysed as follows:

	2010		
Companies	Deposits from customers Euro '000	Other subordinated debt Euro '000	Total Euro '000
Lusitania Companhia de Seguros, S.A.	3 902	13 350	17 252
Lusitania Vida Companhia de Seguros, S.A.	18 979	3 250	22 229
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	455	–	455
SIBS – Sociedade Interbancária de Serviços, S.A.	3 006	–	3 006
MG Gestão de Ativos Financeiros – S.G.F.I.M., S.A.	58 654	–	58 654
Futuro – Sociedade Gestora de Fundo de Pensões, S.A.	80 707	–	80 707
	165 703	16 600	182 303

As at 31 December 2011, CEMG's income with subsidiaries, included in the balances Interest and similar income and Fee and commission income, are analysed as follows:

Companies	Interest and similar expense Euro '000	Interest and similar income Euro '000	Fee and comission income Euro '000	Total Euro '000
Lusitania, Companhia de Seguros, S.A.	164	325	178	667
Lusitania Vida, Companhia de Seguros, S.A.	1 302	12	69	1 383
Nova Câmbios, S.A.	–	23	4	27
Silvip, S.A.	59	–	1	60
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	96	1	7	104
Montepio Gestão de Ativos – S.G.F.I.M., S.A.	33	–	1	34
MG Investimentos Imobiliários, S.A.	–	2	–	2
Bolsimo – Gestão de Ativos, S.A.	–	1	–	1
Residências Montepio, Serviços de Saúde, S.A.	–	83	28	111
Germont – Empreendimentos Imobiliários, S.A.	–	425	–	425
NEBRA, Energias Renovables, SL	–	3	8	11
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3	1	–	4
Civilcentro – Construções do Centro S.A.	–	15	1	16
Finisegur – Sociedade Mediadora de Seguros, S.A.	1	–	–	1
Iberpartners Cafés – S.G.P.S., S.A.	–	22	–	22
Prio Energy S.G.P.S., S.A.	–	387	197	584
Fundo de Pensões CEMG – Gerido pela Futuro	2 508	24	60	2 592
Conselho de Administração	25	1	1	27
Montepio Geral – Associação Mutualista	6 487	224	39	6 750
	10 678	1 549	594	12 821

As at 31 December 2010, CEMG's income with subsidiaries, included in the balances Interest and similar income and Fee and commission income, are analysed as follows:

	2010		
Companies	Deposits from customers Euro '000	Other subordinated debt Euro '000	Total Euro '000
Lusitania Companhia de Seguros, S.A.	3 902	13 350	17 252
Lusitania Vida Companhia de Seguros, S.A.	18 979	3 250	22 229
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	455	–	455
SIBS – Sociedade Interbancária de Serviços, S.A.	3 006	–	3 006
MG Gestão de Ativos Financeiros – S.G.F.I.M., S.A.	58 654	–	58 654
Futuro – Sociedade Gestora de Fundo de Pensões, S.A.	80 707	–	80 707
	165 703	16 600	182 303

The costs with salaries and other benefits attributed to CEMG key management personnel, as well as its transactions, are presented in note 11.

According to the principle of fair value, every transaction concerning related parties is at market prices.

During 2011 and 2010, there were no transactions with the pension's fund of CEMG.

50. Securitisation transactions

As at 31 December 2011, there are eight securitization transactions, six of which originated in CEMG and two in Finibanco S.A., currently integrated into CEMG following the success of General and Voluntary Initial Public Offering on the equity representative shares of Finibanco – Holding, SGPS, S.A. and transmission of almost all assets and liabilities for CEMG.

In the following paragraphs present some additional details of these securitization transactions.

As at 19 December, 2002, Caixa Económica Montepio Geral had settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages no. 1 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 35 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 650 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.016% of the referred nominal value.

As at 29 September, 2003, Caixa Económica Montepio Geral had settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages no. 2 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 33 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 700 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0286% of the referred nominal value.

As at 30 March, 2007, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 3. The referred agreement consists in a mortgage credit transfer for a period of 47 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 750 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0165% of the referred nominal value.

As at 14 June 2007, Finibanco had settled a current account portfolio to small and medium enterprises to Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, S.A., in the amount of Euro 250 000 000 (Aqua SME no. 1). The total period of this operation is 10 years, with a revolving period of three years.

As at 20 May, 2008, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 4. The referred agreement consists in a mortgage credit transfer for a period of 48 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1 000 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.083% of the referred nominal value.

A at 9 December 2008, Finibanco had settled a mortgage credit portfolio to «Tagus – Sociedade de Titularização de Créditos, S.A.» in the amount of Euro 233 000 000 (Aqua Mortage No. 1). The total period of this operation is 55 years, with a revolving period of 2 years.

As at 25 March 2009, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 5. The referred agreement consists in a mortgage credit transfer for a period of 52 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1 000 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0564% of the referred nominal value.

As at 22 June 2010, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage SME. The referred agreement consists in a mortgage credit transfer for a period of 26 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of 1 167 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.15% of the Asset Backed Notes.

The entity that guarantees the debt service (servicer) of this operations is «Caixa Económica Montepio Geral» assuming the collection and distribution of credits assigned amounts received by deposits, to Sociedades Gestoras de Fundos de Titularização de Créditos (Pelican Mortgages No. 1 PLC, Pelican Mortgages No. 2 PLC e Aqua SME No. 1) and to Sociedades de Titularização de Créditos (Pelican Mortgages No. 3, Pelican Mortgages No. 4, Pelican Mortgages No. 5 and Aqua Mortgages No. 1).

As at 31 December 2004, in accordance with accounting principles, as established by the Bank of Portugal, the assets, loans and securities transfer under above transactions were derecognized. The acquired securities under these transactions were classified as financial assets held-to-maturity and provision in accordance with Regulation no. 27/2000 of the Bank of Portugal.

In accordance with IFRS 1, CEMG follows derecognized criteria to individual statements to all transactions occur until 1 January 2004. For the all transactions after this date, CEMG follows de guidance of IAS 39 concerning derecognize, which refers that recognition have to occur either when risks and rewards have substantially been transferred or has not retained control of the assets.

As at 31 December 2011, the securitisation operations are presented as follows:

Issue	Settlement date	Currency	Asset transferred	Amount Euro '000
Pelican Mortgages No. 1	December 2002	Euro	Mortgage credit	650 000
Pelican Mortgages No. 2	September 2003	Euro	Mortgage credit	700 000
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	750 000
Aqua SME No. 1	June 2007	Euro	Small companies	250 000
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1 000 000
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	233 000
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1 000 000
Pelican SME	June 2010	Euro	Small companies	1 167 000
				5 750 000

The impact of loans transferred under the securitisation programs in the Loans and advances to customers, is analysed as follows:

	2011 Euro '000	2010 Euro '000
Pelican Mortgages No.1	91 754	103 883
Pelican Mortgages No. 2	172 544	188 252
	264 298	292 135

As at 31 December 2011, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bond issued	Issue amount Euro	Currents amount Euro	CEMG's interest retention Euro	Maturity date	Rating (Initial)			Rating (Current)		
						Fitch	Moody's	S&P	Fitch	Moody's	S&P
Pelican Mortgages No. 1	Class A	611 000 000	46 996 606	211 525	2037	AAA	Aaa	n.a.	n.a.	A	Baa1
	Class B	16 250 000	16 250 000	–	2037	AAA	A2	n.a.	n.a.	A	Baa1
	Class C	22 750 000	22 750 000	–	2037	BBB+	Baa2	n.a.	n.a.	BBB+	Baa2
	Class D	3 250 000	3 250 000	3 250 000	2037	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 2	Class A	659 750 000	130 122 794	26 255 318	2036	AAA	Aaa	AAA	n.a.	A	Baa1
	Class B	117 500 000	17 500 000	–	2036	AA+	A1	AA-	n.a.	A	Baa1
	Class C	22 750 000	22 750 000	–	2036	A-	Baa2	BBB	n.a.	BBB	Baa3
	Class D	5 600 000	5 600 000	5 600 000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 3	Class A	717 375 000	350 243 819	15 525 714	2054	AAA	Aaa	AAA	n.a.	A	Baa3
	Class B	14 250 000	9 042 799	–	2054	AA-	Aa2	AA-	n.a.	A	B1
	Class C	12 000 000	7 614 989	–	2054	A	A3	A	n.a.	BB	B3
	Class D	6 375 000	4 045 463	–	2054	BBB	Baa3	BBB	n.a.	B	Caa2
	Class E	8 250 000	–	–	2054	BBB-	n.a.	BBB-	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 4	Class A	832 000 000	669 300 333	669 300 333	2056	AAA	n.a.	n.a.	AA	A	n.a.
	Class B	55 500 000	55 500 000	55 500 000	2056	AA	n.a.	n.a.	n.a.	A	n.a.
	Class C	60 000 000	60 000 000	60 000 000	2056	A-	n.a.	n.a.	n.a.	A-	n.a.
	Class D	25 000 000	25 000 000	25 000 000	2056	BBB	n.a.	n.a.	n.a.	BBB	n.a.
	Class E	27 500 000	27 500 000	27 500 000	2056	BB	n.a.	n.a.	n.a.	BB	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 5	Class A	750 000 000	619 123 025	619 123 025	2061	AAA	n.a.	n.a.	AAA	A	n.a.
	Class B	195 000 000	195 000 000	195 000 000	2061	BBB-	n.a.	n.a.	n.a.	BBB-	n.a.
	Class C	27 500 000	27 500 000	27 500 000	2061	B	n.a.	n.a.	n.a.	B	n.a.
	Class D	27 500 000	27 500 000	27 500 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	2 068 636	2 068 636	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican SME	Class A	577 500 000	495 110 236	495 110 236	2036	AAA	n.a.	n.a.	AAA	A+	n.a.
	Class B	472 500 000	472 500 000	472 500 000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Vertical	117 000 000	109 584 221	109 584 221	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	7 294 000	–	–	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Residual	31 500 000	31 500 000	31 500 000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua SME No. 1	Class A	235 000 000	67 548 361		2017	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class B	15 000 000	15 000 000		2017	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	8 750 000	8 750 000	8 750 000	2017	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No. 1	Class A	203 176 000	183 302 527	183 302 527	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.
	Class B	29 824 000	29 824 000	29 824 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

51. Segmental Reporting

During 2011, CEMG adopted IFRS 8 – Operating Segments, for the disclosure of the financial information by operating segments, using new criteria in the preparation of this information.

CEMG's consolidated activity is essentially developed in the financial sector, aiming for companies, institutions and private clients. Has its core decision centre in Portugal, which gives its privileged target market.

Products and services include the entire offer implicit to financial activity, such as deposit capitation, credit concession and financial services to companies and private and also the custody, and also the managing investment funds and life insurances through its associates of the insurance sector. Additionally, CEMG executes short and long-term investments in the capital or monetary market as a way of taking advantage of the price variations or restabilising its available financial resources.

CEMG has a network of 499 branches in Portugal and with one branch in Cabo verde, one financial institution in Angola with 8 branches, and 6 representation offices.

When evaluating the performance by business area, CEMG considers the following Operating Segments:

(1) Retail Bank, which includes the sub segments of Private, Individual Managers, Micro business and Social Charity Private Institutions;

(2) Corporate and Institutional, which includes big sized companies, medium and small companies, Financial Institutions and The Public Sector and

(3) Other Segments, which includes all the entities that are not included in the other segments, namely the operations and management referring to Securities' own Portfolio and Applications in Credit Institutions. Each segment comprises CEMG's structures that are directly or indirectly dedicated, as well as autonomous units of CEMG which activity is connected to one of the above segments.

Despite the fact that CEMG has its activity in Portugal, geographically it has some international role, developed by: (i) Finibanco Angola, S.A. and (ii) Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, SA (IFI), which by geographical criteria, results can be distinguished in Portugal (Domestic Area) from Cabo verde (International Area).

Segments description

In a consolidated basis, each of the segments includes income and costs related to the following activities, products, clients and structures of CEMG:

Retail Bank

This segment corresponds to all activity developed by CEMG in Portugal with private customers and small business, fundamentally originated by the branches network, agent network and electronic channels. The financial information of the segment relates to, among other products and services, mortgage loans, consumer credit, financing the clients' activity, deposits repayable on demand and term deposits, retirement plans and other insurance products to private customers, commissions over account management and electronic payments, the investment funds cross-selling and brokerage and custodian services.

Corporate and Institutional

This segment includes the activity with small, medium and big companies, through offices network and commercial structure dedicated to this segment. It also includes the institutional clients business, mostly from the financial sector and public administration. Among the products, it is emphasized cash and investments loans, commercial discount, leasing, factoring, renting, foreign operations, documentaries loans, checks, deposits, received or paid services, credit and debit cards, as well as custodian services.

Other segments

This segment includes all the activity developed supporting the main activities that are the core business of the two segments mentioned above, highlighting the CEMG's global financial management activity, the investments in instruments of capital markets (stocks and bonds), be them integrated in the negotiation portfolio, of fair value through profit and loss, available for sale or held to maturity. In this segment it is also included the impacts of the strategic decisions, the investments in minority strategic participations, the activity related to interest and exchange rate risk management, management of short and long positions of financial investments which favorites the changes in market prices, and the public or private preparation and availability of the issue of stocks, bonds and other debt instruments.

Allocation criteria of the activity and results to the operating segments

The consolidated financial information presented for each segment was prepared in accordance with the criteria followed for the preparation of internal information analyzed by the decision makers of CEMG, as required by IFRS 8 – Operating Segments.

The accounting policies applied in the preparation of the financial information related with the operating segments are consistent with the ones used in the preparation of these consolidated financial statements, which are described in note 1. The following principles were also adopted:

Measurement of profit or loss from operating segments

A CEMG uses net income before taxes as the measure of profit or loss for evaluating the performance of each operating segment.

Autonomous Operating Segments

As mentioned above, each operating unit (branches MG Cabo verde and associated entities) is evaluated separately, as these units are considered investment centers. Additionally, considering the characteristics of the business developed by these units, they are fully included in one of the operating segments, assets, liabilities, equity, income and expenses.

CEMG structures dedicated to the segment

CEMG activity comprises most of its operating segments and therefore its activity is disaggregated.

For the purpose of allocating the financial information, the following principles are used:

(i) The origin of the operation, i.e., the operation is allocated to the same segment as the commercial structure that originated it, even though, in a subsequent phase, CEMG makes a strategic decision in order to securitize some of these originated assets;

(ii) The allocation of a commercial margin to mass-products, established in a high level when the products are launched;

(iii) The allocation of a margin directly negotiated by the commercial structures with the clients for non-mass-products;

(iv) The allocation of direct costs from commercial and central structures dedicated to the segment;

(v) The allocation of indirect cost (central support and IT services) determined in accordance with specific drivers and with the Cost Based Approach (CBA) model; and;

(vi) The allocation of credit risk determined in accordance with the Regulation no. 3/95 of the Bank of Portugal and with the impairment model.

The transactions between the independent and autonomous units of CEMG are made at market prices; the price of the services between the structures of each unit, namely the price established for funding between units, is determined by the margins process referred above (which vary in accordance with the strategic relevance of the product and the balance between funding and lending); the remaining internal transactions are allocated to the segments in accordance with CBA without any margin from the supplier.

The interest rate risk, exchange risk, liquidity risk and others, except for credit risk, are included in the segment Others Segments.

Interest and similar income/expense

Since CEMG activities are exclusively related to the financial sector, the major income results from the difference between interest received on assets and interest paid from liabilities. This situation and the fact that the segments evaluation is based on negotiated margins or determined previously to each product, leads to the results on the intermediation activity being presented, as permitted by IFRS 8 paragraph 23, as the net value of interest under the designation of Financial Income.

Consolidated Investments under the Equity Method

Investments in associated companies consolidated under the equity method are included in Operations between Segments.

Non-current assets

Non-current assets, according to IFRS 8, include Other Tangible Assets and Intangible Assets. CEMG includes these assets on the segment in which these subsidiaries develop their business.

Post Employment Benefits

The factors that influence the amount of responsibilities and the amount of the funds' assets correspond, mainly, to external elements; it is CEMG policy not to include these factors on the performance evaluation of the operating segments, which activities relate to customers.

Domestic and International Areas

In the disclosure of financial information by geographical areas, the operating units that integrate the International Area are: (i) Finibanco Angola S.A. and Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI).

The patrimonial and financial elements related to the international area are presented in the financial statements of that unit with the respective consolidation and elimination adjustments.

Retrospective information

After 2009, including, CEMG adopted the rules of IFRS 8 / Segmental Reporting, which differ from the ones used until then in the financial statements. Consequently, the information from the year of 2008 has been reorganized and prepared for presentation, to make it consistent and comparable with the demands of IFRS 8.

The report by operating segments as at 31 December 2011, is as follows:

Income statement indicators	Retail Euro '000	Corporate and Institutional Euro '000	Operations between segments Euro '000	Total Euro '000
Interest and similar income	890 067	227 993	64 851	1 182 911
Interest and similar expense	650 557	149 968	63 665	864 190
Net interest income	239 510	78 025	1 186	318 721
Dividends from equity instruments	–	–	921	921
Fees and commissions income	92 114	14 452	9 061	115 627
Fees and commissions expense	(17 917)	(3 437)	(259)	(21 613)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	–	–	62 138	62 138
Net gains/(losses) arising from available-for-sale financial assets	–	–	3 667	3 667
Net gains arising from foreign exchange differences	–	–	8 410	8 410
Net gains from sale of other financial assets	–	–	44 001	44 001
Other operating income	8 518	10 680	7 560	26 758
Total operating income	322 225	99 720	136 685	558 630
Staff costs	141 782	33 218	50 373	225 373
General and administrative expenses	69 419	22 070	23 954	115 443
Depreciation and amortisation	6 479	1 077	20 714	28 270
Total operating costs	217 680	56 365	95 041	369 086
Total of Provisions and Impairment	97 948	42 156	17 833	157 937
Operating profit	6 597	1 199	23 811	31 607
Share of profit of associates under the equity method	–	–	999	999
Income before taxes and non-controlling interests	6 597	1 199	24 810	32 606
Current taxes	–	–	(3 689)	(3 689)
Deferred taxes	–	–	18 381	18 381
Non-controlling interests	–	–	(2 269)	(2 269)
Consolidated profit for the year	6 597	1 199	37 233	45 029
Net Assets	10 055 122	5 482 041	5 958 227	21 495 390
Liabilities	9 885 763	2 789 769	7 560 370	20 235 902
Investments in Associates	–	–	57 856	57 856

The report by operating segments as at 31 December 2010, is as follows:

Income statement indicators	Retail Euro '000	Corporate and Institutional Euro '000	Operations between segments Euro '000	Total Euro '000
Interest and similar income	627 432	104 296	29 460	761 188
Interest and similar expense	418 716	43 848	27 676	490 240
Net interest income	208 716	60 448	1 784	270 948
Dividends from equity instruments	–	–	538	538
Fees and commissions income	66 746	14 354	8 075	89 175
Fees and commissions expense	(10 297)	(2 426)	(2 482)	(15 205)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	–	–	45 857	45 857
Net gains/(losses) arising from available-for-sale financial assets	–	–	12 692	12 692
Net gains arising from foreign exchange	–	–	2 344	2 344
Net gains from sale of other financial assets	2 943	275	(6 581)	(3 363)
Other operating income	7 998	2 311	6 641	16 950
Total operating income	276 106	74 962	68 868	419 936
Staff costs	94 700	22 201	25 508	141 777
General and administrative expenses	55 671	13 259	14 565	83 495
Depreciation and amortisation	13 961	3 319	3 570	20 850
Total operating costs	164 332	38 779	43 643	246 122
Total of Provisions and Impairment	85 337	27 553	9 791	122 681
Operating profit	26 437	8 630	15 434	51 133
Share of profit of associates under the equity method	–	–	1 954	1 954
Profit for the year	26 437	8 630	17 388	53 087
Net Assets	8 967 018	3 062 231	6 173 735	18 202 984
Liabilities	8 575 380	2 895 190	5 836 965	17 307 535
Investments in Associates	–	–	37 060	37 060

CEMG develops bank activities as well as financial services in Portugal, Angola and in Cabo Verde.

Geographical Segments

CEMG operates with special emphasis in markets such as Portugal, Angola and Cabo Verde. Considering this, the geographical segments information includes Portugal and Cabo Verde, being that the segment Portugal reflects, essentially, the activities carried out by Caixa Económica Montepio Geral. The segment Cabo Verde includes the operations developed by Finibanco Angola, S.A. and by Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI).

As at 31 December 2011, the net contribution of the main geographical segments is as follows:

Income statement indicators	Domestic Euro '000	International Euro '000	Adjustments Euro '000	Consolidated Euro '000
Interest and similar income	1 171 127	28 233	(16 449)	1 182 911
Interest and similar expense	860 963	19 676	(16 449)	864 190
Net interest income	310 164	8 557	–	318 721
Dividends from equity instruments	1 343	–	(422)	921
Fees and commissions income	110 319	5 367	(59)	115 627
Fees and commissions expense	(21 367)	(305)	59	(21 613)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	62 138	–	–	62 138
Net gains/(losses) arising from available-for-sale financial assets	3 667	–	–	3 667
Net gains arising from foreign exchange differences	(1 124)	9 534	–	8 410
Net gains from sale of other financial assets	44 001	–	–	44 001
Other operating income	26 142	851	(235)	26 758
Total operational income	535 283	24 004	(657)	558 630
Staff costs	222 039	3 334	–	225 373
General and administrative expenses	111 441	4 237	(235)	115 443
Depreciation and amortisation	27 659	611	–	28 270
Total operating costs	361 139	8 182	(235)	369 086
Loans impairment	141 659	2 248	–	143 907
Other assets impairment	9 748	–	–	9 748
Other provisions	4 013	269	–	4 282
Operating profit	18 724	13 305	(422)	31 607
Share of profit of associates under the equity method	999	–	–	999
Income before taxes and non-controlling interests	19 723	13 305	(422)	32 606
Current taxes	712	(4 401)	–	(3 689)
Deferred taxes	18 381	–	–	18 381
Non-controlling interests	(2 269)	–	–	(2 269)
Consolidated profit for the year	36 547	8 904	(422)	45 029

Balance sheet indicators	Domestic Euro '000	International Euro '000	Adjustments Euro '000	Consolidated Euro '000
Cash and deposits at central banks	397 695	63 788	–	461 483
Loans and advances to credit institutions repayable on demand	222 462	13 891	(12 519)	223 834
Other loans and advances to credit institutions	286 245	431 458	(433 471)	284 232
Loans and advances to customers	16 651 907	57 852	(3 133)	16 706 626
Financial assets held for trading	180 776	–	–	180 776
Other financial assets at fair value through profit or loss	3 606	–	–	3 606
Financial assets available-for-sale	2 545 967	28 401	–	2 574 368
Hedging derivatives	1 311	–	–	1 311
Held-to-maturity investments	76 943	51	–	76 994
Investments in associated companies and others	64 857	–	(7 001)	57 856
Current tax assets	94	2 674	–	2 768
Deferred tax assets	80 693	–	–	80 693
Non-current assets held for sale	136 242	769	–	137 011
Other tangible assets	99 765	8 892	–	108 657
Intangible assets	89 428	777	–	90 205
Other assets	504 002	1 751	(783)	504 970
Total Assets	21 341 993	610 304	(456 907)	21 495 390
Deposits from central banks	2 003 300	–	–	2 003 300
Deposits from other credit institutions	1 185 661	5 627	(447 491)	743 797
Deposits from customers	13 145 057	558 494	(1 632)	13 701 919
Debt securities issued	2 473 112	–	–	2 473 112
Financial liabilities associated to transferred assets	453 061	–	–	453 061
Financial liabilities held for trading	79 121	–	–	79 121
Hedging derivatives	13 041	–	–	13 041
Provisions	7 697	288	–	7 985
Current tax liabilities	10	–	–	10
Deferred tax liabilities	36	–	–	36
Other subordinated debt	477 843	–	–	477 843
Other liabilities	274 959	8 501	(783)	282 677
Total Liabilities	20 112 898	572 910	(449 906)	20 235 902
Share capital	1 234 194	17 807	(7 001)	1 245 000
Other equity instruments	15 000	–	–	15 000
Fair value reserves	(319 551)	–	–	(319 551)
Other reserves and retained earnings	251 524	10 683	422	262 629
Profit for the period	36 547	8 904	(422)	45 029
Non-controlling interests	11 381	–	–	11 381
Total Equity	1 229 095	37 394	(7 001)	1 259 488
Total Liabilities and Equity	21 341 993	610 304	(456 907)	21 495 390

As at 31 December 2010, the net contribution of the main geographical segments is as follows:

Income statement indicators	Domestic Euro '000	International Euro '000	Adjustments Euro '000	Consolidated Euro '000
Interest and similar income	761 185	8 459	(8 456)	761 188
Interest expense and similar charges	490 764	7 932	(8 456)	490 240
Net interest income	270 421	527	–	270 948
Dividends from equity instruments	1 244	–	(706)	538
Fees and commissions income	89 175	–	–	89 175
Fees and commissions expense	(15 205)	–	–	(15 205)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	45 857	–	–	45 857
Net gains/(losses) arising from available-for-sale financial assets	12 692	–	–	12 692
Net gains arising from foreign exchange differences	2 320	24	–	2 344
Net gains from sale of other financial assets	(3 363)	–	–	(3 363)
Other operating income	16 975	(25)	–	16 950
Total operating income	420 116	526	(706)	419 936
Staff costs	142 409	–	–	141 777
General and administrative expenses	83 442	53	–	83 495
Depreciation and amortisation	20 846	4	–	20 850
Total operating costs	246 697	57	–	246 122
Loans impairment	110 599	–	–	110 599
Other assets impairment	12 166	–	–	12 166
Other provisions	(84)	–	–	(84)
Operating profit	50 738	469	(706)	51 133
Share of profit of associates under the equity method	1 954	–	–	1 954
Consolidated profit for the year	52 692	469	(706)	53 087

Balance sheet indicators	Domestic Euro '000	International Euro '000	Adjustments Euro '000	Consolidated Euro '000
Cash and deposits at central banks	240 024	–	–	240 024
Loans and advances to credit institutions repayable on demand	74 344	249	(240)	74 353
Other loans and advances to credit institutions	338 662	362 564	(362 564)	338 662
Loans and advances to customers	14 554 133	–	–	14 554 133
Financial assets held for trading	130 865	–	–	130 865
Other financial assets at fair value through profit or loss	3 952	–	–	3 952
Financial assets available-for-sale	2 430 568	–	–	2 430 568
Hedging instruments	2 810	–	–	2 810
Held-to-maturity investments	58 093	51	–	58 144
Investments in associated companies and others	44 061	–	(7 001)	37 060
Non-current assets held for sale	162 374	–	–	162 374
Other tangible assets	89 188	99	–	89 287
Intangible assets	18 254	–	–	18 254
Other assets	62 498	–	–	62 498
Total Assets	18 209 826	362 963	(369 805)	18 202 984
Deposits from central banks	1 540 266	–	–	1 540 266
Deposits from other credit institutions	899 742	2 000	–	901 742
Deposits from customers	10 017 143	353 224	(362 804)	10 007 563
Debt securities issued	3 836 243	–	–	3 836 243
Financial liabilities associated to transferred assets	387 183	–	–	387 183
Financial liabilities held for trading	53 891	–	–	53 891
Hedging derivatives	1 408	–	–	1 408
Provisions	1 311	–	–	1 311
Other subordinated debt	380 986	–	–	380 986
Other liabilities	196 942	–	–	196 942
Total Liabilities	17 261 392	355 224	(362 804)	17 307 535
Share capital	800 000	7 001	(7 001)	800 000
Fair value reserves	(85 706)	–	–	(85 706)
Other reserves and retained earnings	127 093	269	706	128 068
Consolidated profit for the period	53 324	469	(706)	53 087
Total Equity	894 711	7 739	(7 001)	895 449
Total Liabilities and Equity	18 209 826	362 963	(369 805)	18 202 984

52. Risk management

CEMG is subject to several risks during the course of its business.

CEMG's risk management policy is designed to ensure adequate relationship at all times between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line.

In this connection, monitoring and control of the main types of financial risk – credit, market, liquidity and operational – to which the CEMG's business is subject are of particular importance.

The analysis and risk control are carried out in an integrated mode, through the Direção de Risco («DRI»), which includes three departments:

- Credit Risk Department: responsible for development and integration in decision-making of internal models of credit risk analysis, and reporting on Prudential Equity and internal reports on credit risk;
- Market Risk Department: ensure the examination and supervisory reporting and internal market risk, interest rate, foreign exchange and liquidity, as well as their integration into decision-making processes of the dealing room;
- Operacional Risk Department: operational risk management responsible.

«DRI» also ensures coordination with the Bank of Portugal, in the field of prudential reports, including the level of capital requirements, liquidity risk and interest rate risk.

Under the credit risk management and control have been developed several activities, including most importantly the regular realization of Committee of the Risk and Internal Control and policy delegation review of credit decision, in order to make it sensitive to the level expected risk of the client / transaction.

Additionally, was created the «Direção de Análise de Crédito», which ensures the assessment of credit proposals from companies and individuals, as well as the assignment of internal ratings in the corporate segment.

On the regulatory and Basel II, were developed reports referred in Pillar II – Capital adequacy, and Pillar III – Market Discipline. Under Pillar II were reported to Bank of Portugal reports Process Self-Evaluation of the Capital Market («ICAAP»), Stress Testing and Risk Concentration as Instruction no. 2/2010, Bank of Portugal . The results of the reports point to the soundness of capital levels commensurate with the risks with greater materiality and the potential adverse developments in key macroeconomic indicators. At the level of risk concentration there is a positive development in the main types of concentration – Sectorial, Geographic and Individual. Under Pillar III, was made public the report of Market Discipline, detailing the types and levels of risk incurred in the activity, as well as the processes, structure and organization of risk management.

It also ensured the participation in the work of «Programa Especial de Inspeções», under the Memorandum signed between the Portuguese State and European Central Bank, European Commission and International Monetary Fund.

This program focused on three areas of work –credit impairment calculation, capital requirements for credit risk calculation and stress testing procedures. The results were very satisfactory, confirming the adequacy of procedures adopted by CEMG.

CEMG has also been following the recommendations of the Basel Committee and follows closely the developments in the Basel III framework of liquidity management and capital assessment, having been carried out analyzes of their impact. The CEMG has also regularly participated in Quantitative Impact Studies (QIS) Basel III, developed by the Bank of Portugal in accordance with the guidelines of the European Bank Association (EBA). The documents published by the Basel Committee in late 2009, are now published in their final versions and is expected to be transposed into European directives soon.

Main types of risk

Credit – Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfil their obligations.

Market – Market risk reflects the potential loss inherent in a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the various financial instruments that make up the portfolio, considering both the correlations that exist between them and the respective volatility.

Liquidity – Liquidity risk reflects CEMG's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

Operational – Operational risk is the potential loss resulting from failures or inadequacies in internal procedures, persons or systems, and also the potential losses resulting from external events.

Internal organization

The Board of Directors is responsible for risk management strategy and policies, and it is advised by the Risk Analysis and Management Division in these fields, that undertake the analysis and the risk management from the standpoint of CEMG, includes the coordination of the Risk Committee and Internal Control and reporting the level of the Asset and Liability Committee («ALCO») and the Committee on Information Technology.

The Internal Auditing Management, as support to the Board of Directors, has the main duties to assessing reports on the internal control system to be sent annually to the Bank of Portugal, to check compliance with the applicable legislation on the part of the various departments, and to identify major risk areas and submitting its conclusions to the Board of Directors.

Depending on the nature and severity of the risk, plans, programs or actions shall be drawn up, supported by information systems, and procedures shall be devised that provide a high degree or reliably as to the risk management measures defined whenever necessary.

The Dealing Room shall cooperate with the Risk Analysis and Management in order to measure and control operations and portfolio risks, as well as suitably monitor CEMG's overall risk positions.

In terms of compliance risk, the Head of Compliance in the dependence of the Board of Directors, shall control, identify and assess the various situations that contribute to this risk, namely in terms of transactions/activities, business, products and departments.

In this context, the Internal Auditing Management shall also assess the internal control system, identifying the areas of major importance/risk, to ensure efficient governance.

Risk evaluation

Credit Risk – Retail

Credit risk models play a significant role in credit decision process. Indeed, the decision process concerning the credit portfolio depends on a group of policies based on scoring models developed to individual and business clients and the rating for the corporate sector.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behaviour. In order to support commercial strategies reactive scoring models are also used, namely in the main individual credit portfolios, such as mortgage and individual loans, distinguishing between customers and non-customers (or new customers). In the case of credit card the correspondent reactive scoring model is being reviewed. Additionally, in the individual credit portfolios, commercial performance and credit risk analysis are supported by behaviour scorings.

To corporate credit are used internal rating models to medium and large companies, distinguishing construction from the other activity sectors, while for customers «Empresários em nome individual» and micro business is applied the scoring model business.

CEMG's credit risk exposure can be analysed as follows:

	2011 Euro '000	2010 Euro '000
Deposits with Other credit institutions	223 834	74 353
Deposits with banks	284 232	338 662
Loans and advances to customers	16 706 626	14 554 133
Financial assets held for trading	180 776	130 865
Financial assets at fair value through profit or loss	3 606	3 952
Available-for-sale financial assets	2 226 385	2 416 653
Hedging derivatives	1 311	2 810
Held-to-maturity investments	76 994	58 144
Investments in associated companies and others	57 856	37 060
Other assets	504 970	83 953
Guarantees granted	510 686	424 361
Irrevocable commitments	230 860	252 535
Credit default swaps (notionals)	81 093	96 000
	21 089 229	18 473 481

The analysis of the risk exposure by sector of activity, as at 31 December 2011, can be analysed as follows:

	2011							
Sector of activity	**Loans and advances to customers**		**Financial assets held for trading**	**Other financial assets at fair value trough profit or loss**	**Available-for-sale financial assets**		**Held-to maturity investments**	**Guarantees granted**
	Gross amount Euro '000	**Impairment Euro '000**	**Gross amount Euro '000**	**Gross amount Euro '000**	**Gross amount Euro '000**	**Impairment Euro '000**	**Gross amount Euro '000**	**Euro '000**
Agriculture	54 402	(4 185)	60	–	442	(91)	–	1 198
Mining	46 470	(1 258)	57	–	–	–	–	1 434
Food, beverage and tobacco	136 864	(5 866)	901	–	13 899	(187)	–	3 182
Textiles	65 649	(5 510)	–	–	–	–	–	805
Shoes	20 257	(1 552)	–	–	–	–	–	125
Wood and cork	52 644	(2 161)	–	–	82 829	–	–	1 406
Printing and publishing	52 637	(3 422)	–	–	–	–	–	748
Petroleum refining	441	(16)	537	–	34 798	–	–	–
Chemicals and rubber	90 487	(6 036)	155	–	1 042	–	–	2 661
Non-metallic minerals	50 656	(2 562)	–	–	–	–	–	2 916
Basis metallurgic industries and metallic products	138 508	(11 352)	–	–	–	–	–	9 037
Production of machinery	44 705	(2 481)	36	–	540	(121)	–	1 875
Production of transport material	19 447	(1 189)	42	–	–	–	–	298
Other transforming material	40 348	(3 408)	32	–	79 056	(5 158)	–	1 906
Electricity, gas and water	104 285	(3 245)	752	2 677	23 238	(976)	–	4 620
Construction	2 368 694	(240 536)	153	–	10 968	(998)	–	237 365
Wholesale and retail	1 046 368	(62 584)	294	–	14 146	–	–	62 648
Tourism	319 492	(12 679)	–	–	7 427	(90)	–	13 878
Transports	167 131	(8 847)	154	–	2 322	–	–	8 689
Communications and information activities	50 325	(2 552)	356	–	28 011	–	–	1 287
Financial activities	742 207	(16 441)	176 046	929	829 639	(2 254)	–	47 024
Real estates activities	985 357	(82 549)	53	–	7 692	(691)	–	28 444
Services provided to companies	332 310	(19 200)	–	–	14 520	–	–	11 937
Public services	118 627	(1 164)	–	–	1 302 154	(19 310)	76 994	583
Other activities of collective services	309 369	(8 817)	–	–	–	–	–	4 582
Mortgage loans	9 249 341	(233 698)	–	–	18 051	–	–	–
Others	870 081	(27 166)	1 148	–	133 709	(239)	–	62 038
Total	17 477 102	(770 476)	180 776	3 606	2 604 483	(30 115)	76 994	510 686

The analysis of the risk exposure by sector of activity, as at 31 December 2010, can be analysed as follows:

2010

Sector of activity	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value trough profit or loss	Available-for-sale financial assets		Held-to maturity investments	Guarantees granted
	Gross amount Euro '000	Impairment Euro '000	Gross amount Euro '000	Gross amount Euro '000	Gross amount Euro '000	Impairment Euro '000	Gross amount Euro '000	Euro '000
Agriculture	34 237	(1 443)	–	–	187	(56)	–	2 844
Mining	10 258	(108)	–	–	525	–	–	–
Food, beverage and tobacco	64 697	(5 887)	148	–	474	–	–	2 486
Textiles	32 339	(8 494)	–	–	–	–	–	1 277
Shoes	9 013	(1 116)	–	–	–	–	–	61
Wood and cork	24 123	(4 537)	–	–	–	–	–	801
Printing and publishing	18 925	(2 359)	–	–	–	–	–	1 356
Petroleum refining	178	(129)	127	–	34 011	–	–	–
Chemicals and rubber	36 914	(2 836)	54	–	1 137	–	–	1 277
Non-metallic minerals	16 547	(1 444)	–	–	–	–	–	2 751
Basis metallurgic industries and metallic products	47 997	(2 619)	–	–	–	–	–	4 722
Production of machinery	12 592	(1 877)	–	–	271	–	–	1 976
Production of transport material	9 875	(432)	–	–	–	–	–	134
Other transforming material	27 896	(4 008)	34	–	67 648	–	–	891
Electricity, gas and water	71 140	(881)	1 029	2 929	64 385	(899)	–	961
Construction	1 847 666	(154 295)	181	–	10 981	(998)	–	238 734
Wholesale and retail	611 751	(64 671)	116	–	10 554	–	–	40 275
Tourism	222 901	(12 662)	–	–	7 486	(90)	–	12 151
Transports	127 289	(3 053)	127	–	33 045	–	–	9 971
Communications and information activities	34 071	(2 561)	390	–	58 497	–	–	604
Financial activities	243 982	(3 177)	128 479	1 023	642 891	(15 656)	–	29 981
Real estates activities	674 449	(37 051)	–	–	15 478	–	–	31 398
Services provided to companies	388 172	(16 408)	–	–	–	–	–	11 294
Public services	195 851	(4 168)	–	–	1 164 590	–	58 144	2 588
Other activities of collective services	60 423	(4 295)	–	–	–	–	–	5 788
Mortgage loans	9 205 612	(177 655)	–	–	283 350	(1 283)	–	19 210
Others	1 047 046	(3 643)	180	–	54 230	(190)	–	830
Total	15 075 944	(521 811)	130 865	3 952	2 449 740	(19 172)	58 144	424 361

In terms of risk credit, the financial assets portfolio continued to be concentrated in investment grade bonds issued by financial institutions.

During 2011, CEMG entered into a number of credit default swaps relating to investment grade issuers, where the notional value of the purchase and protective sales positions at the year-end were Euro 27 500 000 and Euro 53 600 000, respectively.

Overall Risks and Financial Assets

Efficient balance sheet management also involves the Assets and Liabilities Committee («ALCO»), which examines interest rate, liquidity and exchange rate risks, namely as regards compliance with the limits set for the static and dynamic gaps calculated.

Normally the static interest rate and liquidity gaps are positive and moderate in size, with exception of those months when payments are made relating to bond issue debt service. As for exchange rate risk, the resources obtained in different currencies are hedged as assets in the respective monetary market and for periods not exceeding those of the resources, which mean any exchange rate gaps result mainly from possible unadjustments between the hedge and resource deadlines.

Concerning risk information and analysis, regular reports are provided on the credit and market risks on the company's financial assets and those of the other members of the Group. For the company's own portfolio, the various risk limits are defined using the Value-at-Risk («VaR») method. There are different exposure limits such as global «VaR» limits, by issuer, by asset type/class and rating. There are also limits of Stop Loss. Investment portfolio is mainly concentrated in bonds which as at the end of 2011 represented 77% of the total's portfolio, including 66% of sovereign debt.

CEMG continuously calculates its own portfolios «VaR», given a 10-day horizon and a 99% confidence interval, by the method of historical simulation.

Regarding the nature of the retail activity, the institution normally presents interest rate positive gaps, which by the end of 2011, would reach, in static terms, about Euro 703 718 000 (2010: Euro 461 488 000) (considering the total of the refixing terms of the interest rate).

The following table presents the mainly indicators of these measures, as at 31 December 2011 and 2010:

	2011				2010			
	December Euro '000	Annual average Euro '000	Maximum Euro '000	Minimum Euro '000	December Euro '000	Annual average Euro '000	Maximum Euro '000	Minimum Euro '000
Interest rate GAP	703 718	366 125	703 718	28 532	461 488	388 650	461 488	315 813

Following the recommendations of Basel II (Pillar II) and Instruction no. 19/2005, of the Bank of Portugal, CEMG calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlements («BIS») which requires the classification of non-trading balances and offbalance positions by repricing intervals.

	Within 3 months Euro '000	3 to 6 months Euro '000	6 months to 1 year Euro '000	1 to 5 years Euro '000	Over 5 years Euro '000
31 December 2011					
Assets	12 049 591	4 714 690	458 482	1 611 503	868 944
Off balance sheet	11 650 184	161 029	971 660	2 053 911	–
Total	23 699 775	4 875 719	1 430 142	3 665 414	868 944
Liabilities	8 092 104	2 403 548	2 928 512	5 404 218	171 200
Off balance sheet	12 916 395	562 418	8 970	1 348 910	–
Total	21 008 499	2 965 966	2 937 482	6 753 128	171 200
GAP (Assets – Liabilities)	2 691 276	1 909 753	(1 507 340)	(3 087 714)	697 744
31 December 2010					
Assets	10 459 200	3 879 121	413 379	1 344 393	646 080
Off balance sheet	5 789 405	172 577	122 450	3 009 066	–
Total	16 248 605	4 051 698	535 829	4 353 459	646 080
Liabilities	7 899 866	1 370 302	1 263 605	5 601 314	158 200
Off balance sheet	8 284 868	734 669	2 200	71 754	–
Total	16 184 734	2 104 971	1 265 805	5 673 068	158 200
GAP (Assets – Liabilities)	63 871	1 946 727	(729 976)	(1 319 609)	487 880

Sensibility analysis

As at December, 2011, based on the interest rate gaps observed, an instantaneous positive variation in the interest rates by 100 bp would cause an increase in the income statement in Euro 29 605 277 (2010: Euro 12 070 000).

The following table presents the average interests, in relation to the CEMG major assets and liabilities categories for the years ended 31 December 2011 and 2010, as well as the average balances and the income and expense for the year:

	2011			2010		
Products	**Average balance for the year Euro '000**	**Average interest rate (%)**	**Income / Expense Euro '000**	**Average balance for the year Euro '000**	**Average interest rate (%)**	**Income / Expense Euro '000**
Assets						
Loans and advances to customers	17 056 740	4.10	700 116	14 714 941	3.07	451 424
Deposits	171 786	1.42	2 439	159 355	0.93	1 488
Securities portfolio	2 803 016	6.75	189 293	4 502 962	2.04	91 795
Inter-bank loans and advances	277 228	3.01	8 332	188 578	0.68	1 278
Swaps	–		237 760	–		196 071
Total Assets	20 308 770		1 137 940	19 565 836		742 056
Liabilities						
Deposits from customers	12 273 680	2.83	347 445	9 352 816	1.52	141 937
Securities deposits	4 838 611	4.19	202 528	8 132 786	2.02	164 662
Interbank deposits	2 621 733	1.79	46 975	1 299 157	1.03	13 440
Other liabilities	334	0.60	2	480	0.83	4
Swaps	–		258 269	–		151 591
Total liabilities	19 734 358		855 219	18 785 239		471 634

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2011 is analysed as follows:

	2011							
	Euro Euro '000	United States Dollar Euro '000	Sterling Pound Euro '000	Canadian Dollars Euro '000	Suisse Frank Euro '000	Japanese Yen Euro '000	Other foreign currencies Euro '000	Total amount Euro '000
Assets by currency								
Cash and deposits at central banks	391 008	17 515	755	401	1 278	25	50 501	461 483
Loans and advances to credit institutions repayable on demand	196 475	22 687	1 737	1 282	581	42	1 030	223 834
Loans and advances to credit institutions	276 118	8 114	–	–	–	–	–	284 232
Loans and advances to customers	16 634 939	37 520	1	–	222	434	33 510	16 706 626
Financial assets held for trading	178 365	1 823	530	58	–	–	–	180 776
Other financial assets at fair value trough profit or loss	3 606	–	–	–	–	–	–	3 606
Available-for-sale financial assets	2 543 175	2 188	31	–	573	–	28 401	2 574 368
Hedging derivatives	1 311	–	–	–	–	–	–	1 311
Held-to-maturity investments	76 994	–	–	–	–	–	–	76 994
Investments in associated companies and otherss	57 856	–	–	–	–	–	–	57 856
Non-current assets held for sale	134 337	–	–	–	–	–	2 674	137 011
Property and equipment	108 657	–	–	–	–	–	–	108 657
Intangible assets	88 978	–	–	–	–	–	1 227	90 205
Current tax assets	2 000	108	–	–	–	–	660	2 768
Deferred tax assets	71 895	–	–	–	–	–	8 798	80 693
Other assets	400 006	71 126	5 681	21 335	3 257	84	3 481	504 970
Total Assets	21 165 720	161 081	8 735	23 076	5 911	585	130 282	21 495 390
Liabilities by currency								
Deposits from central banks	2 003 300	–	–	–	–	–	–	2 003 300
Deposits from other credit institutions	717 140	26 448	102	44	9	–	54	743 797
Deposits from customers	13 452 212	127 710	8 446	22 430	2 570	6	88 545	13 701 919
Debt securities issued s	2 470 793	2 319	–	–	–	–	–	2 473 112
Financial liabilities associated to transferred assets	453 061	–	–	–	–	–	–	453 061
Financial liabilities held for trading	78 854	267	–	–	–	–	–	79 121
Hedging derivatives	13 041	–	–	–	–	–	–	13 041
Provisions	7 697	–	–	–	–	–	288	7 985
Current tax liabilities	10	–	–	–	–	–	–	10
Deferred tax liabilities	36	–	–	–	–	–	–	36
Other subordinated debt	477 843	–	–	–	–	–	–	477 843
Other liabilities	261 702	4 749	187	603	3 298	580	11 558	282 677
Total Liabilities	19 935 689	161 493	8 735	23 077	5 877	586	100 445	20 235 902
Net asset / liability by currency	1 230 031	(412)	–	(1)	34	(1)	29 837	1 259 488
Equity	(1 259 488)	–	–	–	–	–	–	(1 259 488)
Net exposure	(29 457,0)	(412,0)	–	(1,0)	34,0	(1,0)	29 837,0	–

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2011 is analysed as follows:

	2010							
	Euro Euro '000	United States Dollar Euro '000	Sterling Pound Euro '000	Canadian Dollars Euro '000	Suisse Frank Euro '000	Japanese Yen Euro '000	Other foreign currencies Euro '000	Total amount Euro '000
Assets by currency								
Cash and deposits at central banks	235 090	3 263	367	297	651	81	275	240 024
Loans and advances to credit institutions repayable on demand	65 351	5 943	808	1 057	893	4	297	74 353
Loans and advances to credit institutions	338 559	103	–	–	–	–	–	338 662
Loans and advances to customers	14 551 759	2 374	–	–	–	–	–	14 554 133
Financial assets held for trading	130 755	110	–	–	–	–	–	130 865
Other financial assets at fair value trough profit or loss	3 885	29	–	38	–	–	–	3 952
Available-for-sale financial assets	2 427 984	2 248	–	–	336	–	–	2 430 568
Hedging derivatives	2 810	–	–	–	–	–	–	2 810
Held-to-maturity investments	58 144	–	–	–	–	–	–	58 144
Investments in associated companies and others	37 060	–	–	–	–	–	–	37 060
Non-current assets held for sale	162 374	–	–	–	–	–	–	162 374
Property and equipment	89 287	–	–	–	–	–	–	89 287
Intangible assets	18 254	–	–	–	–	–	–	18 254
Other assets	20 499	20 240	2 905	18 850	4	–	–	62 498
Total Assets	18 141 811	34 310	4 080	20 242	1 884	85	572	18 202 984
Liabilities by currency								
Deposits from central banks	1 540 266	–	–	–	–	–	–	1 540 266
Deposits from other credit institutions	899 844	2 015	7	74	(252)	–	54	901 742
Deposits from customers	9 931 912	51 916	3 422	19 987	129	15	182	10 007 563
Debt securities issued	3 833 988	2 245	–	–	–	–	–	3 836 233
Financial liabilities associated to transferred assets	387 183	–	–	–	–	–	–	387 183
Financial liabilities held for trading	53 739	152	–	–	–	–	–	53 891
Hedging derivatives	1 408	–	–	–	–	–	–	1 408
Provisions	1 311	–	–	–	–	–	–	1 311
Other subordinated debt	380 986	–	–	–	–	–	–	380 986
Other liabilities	192 581	1 274	651	–	2 030	70	336	196 942
Total Liabilities	17 223 228	57 602	4 080	20 061	1 907	85	572	17 307 535
Net asset / liability by currency	918 583	(23 292)	–	181	(23)	–	–	895 449
Equity	(895 449)	–	–	–	–	–	–	(895 449)
Net exposure	23 134	(23 292)	–	181	(23)	–	–	–

Liquidity risk

The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. Liquidity risk is monitored carefully, and prepared several reports for the purpose of prudential regulation and monitoring in place of ALCO Committee.

In addition, it is also carried out a follow-up of liquidity positions of a prudential point of view, calculated in the manner required by the Bank of Portugal (Instruction no. No. 13/2009).

Operational Risk

CEMG has implanted an Integrated Continuing Business Plan, which allows to ensure the continuity of the operations in a case of a rupture in the activity. This system is held by an organizational structure, included in the DRI and exclusively dedicated to this assignment, delegates designated by each department.

Capital Management and Solvency Ratio

In prudential matters, CEMG is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the rules to be attended by the institutions under its supervision. These rules determine a minimum solvency ratio in relation to the requirements of the assumed risks that institutions have to fulfill.

The capital elements of CEMG are divided into: Basic Own Funds, Complementary Own Funds and Deductions, as follows:

– Basic Own Funds («BOF»): This category includes the share capital, the eligible reserves (excluding positive fair value reserves), the retained earnings, minority interest and preferential stocks. It is deducted the negative fair value reserves associated to stocks or other capital instruments, by the book value related to the Goodwill, intangible assets, deferred costs, actuarial losses and negative fair value reserves that come from responsibilities with benefits of post employment to employees above the corridor limit of 10% of maximum between those responsibilities and assets of the pension fund. They are also deducted 50% of its value the shares above 10% in financial institutions, as well as stakes in insurers. In November 2011 came into force on Instruction 28/2011 of Bank of Portugal, which includes as a negative element of a capital base of the balance of deposits whose rate of return is 3% above the reference rate for the deposit effective on the date of renewal or establishment of such deposit. This instruction applies to deposits made or renewed after November 1, 2011.

– Complementary Own Funds («COF»): Essentially incorporates the subordinated eligible debt, the revaluation reserves of tangible assets and 45% of the positive fair value reserve and is deducted by 50% of the book value of equity investments in banking and insurance entities, in participations higher than 10%, as well as in participations in insurance entities.

– It is deducted to the total Own Funds the non-current assets held for sale acquired in exchange for loans at more than 4 years. This value is calculated in accordance with a progressiveness method that leads that in 9 to 12 years in portfolio (considering the date of the operation), the net value of the asset, are totally deducted in the own funds.

Additionally there are several rules limiting the capital basis of CEMG. The prudential rules determine that the COF cannot exceed the BOF. In addition, some components of the COF (Lower Tier II) cannot exceed 50% of the BOF.

In 2008, the Bank of Portugal issued Regulation no. 6/2008, which changed the rules to determine capital requirements. This notice along with the treatment given to credits and other values to receive, excluded the potential in debt securities classified as available for sale of Own Funds, in what exceeds the impact of eventual hedged operations, maintaining, however, the obligation of not consider in basis Own Funds positive re-evaluation reserves, in what exceeds the impairment which eventually had been registered, related to non realized gains in capital available for sale securities (net from taxes).

In 2011, CEMG adapted the accounting policy of Pension Fund to the changes in International Accounting Standards. Previously, it was used to rule the designated corridor rule and in December 2011 came to recognize that the whole of actuarial reserves. Despite this change to accounting, in regulatory terms there were no changes since the Instruction no. 2/2012 sets prudential treatment for this new accounting procedure, similar to that designated by rule of the corridor. Also in December 2011 was performed a partial transfer of post-employment plans from defined benefit to the control of General Social Security Scheme, whose effects on equity have been deferred to June 2012, according to Instruction no. 1/2012 of the Bank Portugal.

The confirmation that an entity has an amount of own funds not below of its capital requirements assures the adequacy of its capital, reflected on a solvency ratio – represented by the percentage of total own funds to the result of 12.5 times the capital requirements. Instruction no. 3/2001 of the Bank of Portugal released a recommendation in order to the financial groups submitted to its supervision, as well as the respective mother-companies, strengthen their Core Tier 1 ratio to a figure not below 9% until 31 December 2011 and 10% until 31 December 2012.

The capital adequacy of CEMG as at 31 December 2011 and 2010 is presented as follows:

	2011 Euro '000	2010 Euro '000
Core Tier 1		
Paid-up capital	1 245 000	800 000
Net profit, General reserves, Special reserves	254 790	219 694
Other regulatory adjustments	(121 206)	(63 482)
	1 378 584	956 212
Basic own funds		
Other equity instruments	5 000	–
Deduction to basic own funds	(15 081)	(16 554)
	1 378 503	939 658
Complementary own funds		
Upper Tier 2	8 950	27 506
Lower Tier 2	462 802	378 000
Deductions to complementary own funds	(15 081)	(14 674)
	456 671	390 832
Deductions to total own funds	(5 799)	(4 562)
Total owned funds	1 829 375	1 325 928
Own funds requirements		
Credit risk	1 004 835	767 097
Market risk	4 219	1 721
Operational risk	75 792	55 495
	1 084 846	824 313
Prudential ratios		
Ratio core Tier 1	10,17%	9,28%
Ratio Tier 1	10,17%	9,12%
Solvency ratio	13,49%	12,87%

53. Sovereign debt of European Union countries subject to bailout

As at 31 December 2011, the exposure of the Bank to sovereign debt of European Union countries subject to bailout is as follows:

Issuer / Portfolio	Book value Euro '000	Fair value Euro '000	Fair value reserves Euro '000	Impairment Euro '000	Average maturity rate %	Average maturity Years	Fair value measurement levels
Portugal							
Financial assets held for trading	1 150 482	1 150 482	(241 563)	–	4.35%	2.21	1
Held to maturity financial assets	37 419	34 299	–	–	4.72%	1.03	n.a.
	1 187 901	1 184 781	(241 563)	–			
Greece							
Financial assets held for disponíveis para venda	33 507	33 507	–	(19 309)	4.22%	0.37	1
Ireland							
Financial assets held for trading	11 032	11 032	1 051	–	4.60%	4.30	1
	1 232 440	1 229 320	(240 512)	(19 309)			

As at 31 December 2010, the exposure of the Bank to sovereign debt of European Union countries subject to bailout is as follows:

Issuer / Portfolio	Book value Euro '000	Fair value Euro '000	Fair value reserves Euro '000	Average maturity rate %	Average maturity Years	Fair value measurement levels
Portugal						
Financial assets held for trading	1 047 164	1 047 164	(28 302)	4.10	2.95	1
Held to maturity financial assets	44 112	42 900	–	4.56	1.79	n.a.
	1 091 276	1 090 064	(28 302)	–		
Greece						
Financial assets held for trading	44 470	44 470	(2 523)	3.96	0.79	1
	1 135 746	1 134 534	(30 825)			

For the public debt of Portugal, Greece and Ireland do not have occurred in the year ended December 31, 2011 no reclassifications between portfolios.

For exposure to sovereign debt of Greece, and following the several conversations that were held at EU level, because of the current international economic situation, the position of Greece in the European context and even the current sovereign debt crisis in the European Union, the European Council agreed on last 21st July, a set of conditions applicable to the restructuring of sovereign debt of Greece.

According with the available information, the conditions of restructuring establish a voluntary exchange of securities of the current public debt of Greece by a set of new bonds to be issued with maturities between 15 and 30 years, partially collateralized, and a rate adjustment applicable interest.

Given these conditions and the restructuring option of voluntary adherence to the defined conversion scheme, the Executive Board of Directors has evaluated its effects at the level of the financial statements as at 31 December, 2011, taking into account different scenarios of accession the restructuring program and the terms and conditions approved.

After the evaluation, and considering the options, the Board of CEMG decided not to proceed to the conversion option taking into account different aspects, namely:

(i) the adherence to the restructuring program is voluntary and the expectation of the European Council to have a membership to 90% of the holders of sovereign debt of Greece;

(ii) after the new aid package to Greece not be expected that can be a default in relation to nonparticipating banks because that would amount to a breach that could have severe consequences for the debt of Greece as a whole;

(iii) the fact of Portugal is a country in bailout; and

(iv) privation of a regulatory decision for accession by a Portuguese banks to the restructuring program approved by the European Council.

Thus the sovereign debt of Greece is valued with reference to 31 December, 2011 in accordance with the valuation criteria set out in accounting policy note 1 *d*) in accordance with paragraph 84 of IAS 39 AG, and to this date been recognized impairment.

Relatively with exposure to other countries at the bailout CEMG Board also believes that this date there is no objective evidence of impairment.

54. Subsidiaries acquisition

During 2010, Montepio Geral – Associação Mutualista, CEMG sole shareholder, has made an aquisition of 100% of Finibanco Holding, SGPS, SA share capital through an Initial Public Offering (IPO) in the amount of Euro 341 250 000.

As at March 31, 2011, Montepio Geral – Associação Mutualista disposed the participation held on Finibanco Holding, S.G.P.S, S.A. to CEMG, for the amount of Euro 341 250 000. From that date, CEMG owns a participation of 100% on Finibanco Holding S.G.P.S., S.A.

The acquisition of Finibanco Holding by CEMG allowed complete the level of services provided in the financial sector through the acquisition of a participation in Finibanco, S.A. (universal bank), Finicrédito, S.A. (specialized credit financial institution), Finibanco Angola (universal bank in Angola) and Finivalor (Asset management – Investment Funds).

That acquisition also allows the complementarily of commercial networks and entry into markets which CEMG was not present.

The acquisition value by CEMG to Montepio Geral – Associação Mutualista was totally made by cash transfer.

The fair value of the assets and liabilities acquired is analysed as follows:

	2011 **Euro '000**
Cash and deposits at central banks	129 508
Loans and advances to credit institutions repayable on demand	46 380
Financial assets held for trading	30 650
Other financial assets at fair value through profit or loss	9 848
Financial assets available-for-sale	425 136
Other loans and advances to credit institutions	108 035
Loans and advances to customers	2 605 954
Non-current assets held for sale	41 368
Investment property	20 186
Other tangible assets	81 867
Intangible assets	6 130
Investments in associated companies and others	24 876
Current tax assets	2 572
Deferred tax assets	35 486
Other assets	97 525
Deposits from central banks	(410 016)
Financial liabilities held for trading	(20 337)
Other financial liabilities at fair value through profit or loss	(117 345)
Deposits from other credit institutions	(286 279)
Deposits from customers	(2 327 514)
Debt securities issued	(1 840)
Financial liabilities associated to transferred assets	(115 095)
Provisions	(2 506)
Current income tax liabilities	(269)
Deferred income tax liabilities	(19 937)
Other subordinated debt	(11 108)
Other liabilities	(45 995)
Other capital instruments	(15 000)
Other reserves and retained earnings	(4 054)
	288 226

The goodwill recognized in intangible assets and submitted to annual impairment tests, as described in accounting police 1 *b*) is analysed as follows:

	2011 Euro '000
Total amount paid by CEMG	341 250
air value of assets and liabilities acquired	288 226
	53 024

The loans advances to customers acquired, corresponds to a gross amount of Euro 2 835 838 000, with impairment losses in the amount of Euro 191 338 000, and a net increase in the fair value, which includes the effect on the fixed rate component of a part of the portfolio, and the level of statutory provisions associated with an asset backed portfolio that rises to Euro 86 790 000.

The presented goodwill results essentially of the complementarily of commercial networks and the presence of the Finibanco Group in markets which CEMG was not present, such as in Portugal, or in Angola.

CEMG incurred in associated costs with the transaction in the amount of Euro 564 000, which corresponds essentially to costs related with consulting in legal matters, tax, and accountability in the scope of the transaction.

55. Subsidiary companies

As at 31 December 2011, the companies under full consolidation in the Group are presented as follows:

Subsidiary Company	Head of office	Share Capital	Activity	% Held
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, SA (IFI)	Praia	Euro 7 000 000	Banking	100.00%
Finibanco Holding, SGPS, S.A.	Porto	Euro 175 000 000	Holding company	100.00%
Finibanco S.A.	Porto	Euro 180 000 000	Banking	100.00%
Finicrédito, S.A.	Porto	Euro 30 000 000	Finance lease	100.00%
Finivalor, S.A.	Porto	Euro 1 550 000	Investment fund management	100.00%
Montepio Recuperação de crédito ACE	Lisboa	–	Services	93.00%
Finibanco Angola, S.A.	Luanda	AOA 1 332 000 000	Banking	61.04%

As at 31 December 2011, the companies included in the consolidated accounts under the equity method are as follows:

Subsidiary Company	Head of office	Share Capital	Activity	% Held
Lusitania Vida, Companhia de Seguros, S.A.	Lisboa	Eur 20 000 000	Insurance	39.34%
Iberpartners Cafés S.G.P.S., S.A.	Lisboa	Eur 3 400 000	Holding company	29.41%
Lusitania, Companhia de Seguros, S.A.	Lisboa	Eur 26 000 000	Insurance	25.65%
HTA – Hóteis, Turismo e Animação dos Açores, S.A.	Ilha de São Miguel	Eur 10 000 000	Hotels with restaurants	20.00%
Prio Foods S.G.P.S., S.A.	Oliveira de Frades	Eur 5 000 000	Holding company	20.00%
Prio Energy S.G.P.S., S.A.	Oliveira de Frades	Eur 13 700 000	Holding company	20.00%

The presented percentage reflects the economic interest of the Group.

In addition, and in accordance with SIC 12, the consolidation perimeter of the Group includes the following special purpose entities and investment funds:

Subsidiary Company	Establishment year	Acquisition year	Head of office	% of controlling interest	Consolidation method
Pelican Mortgages No. 1 PLC	2002	2002	Dublin	100%	Integral
Pelican Mortgages No. 2 PLC	2003	2003	Dublin	100%	Integral
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisbon	100%	Integral

56. Accounting standards recently issued

Standards, changes and interpretations effective since 1 January, 2011

The new standards and interpretations that have been issued that are already effective and that CEMG has applied on its Financial Statements can be analysed as follows:

- ***IFRS 7 – Financial Instruments: Disclosures – Transfers of financial assets***

  The International Accounting Standards Board (IASB) has issued in October 2010, IFRS 7 – Disclosures – Transfer of financial assets, with mandatory application for financial years beginning after 1 July 2011, although early adoption is permitted.

  The changes required related with the disclosures of transactions involving transfer of financial assets, namely financial assets securitization, intent to allow financial statements users to assess the risk and the impacts in the financial statements arising from those transactions.

  Annual Improvement Project

  In May, 2010, IASB published the Annual Improvement Project that implied 11 changes to 7 standards. The changes effective date, the early adoption possibility and the transitional requirements are defined in each standard. The majority of the changes were mandatorily applicable as of 1 January, 2011.

  The adoption of these changes did not cause any major impact for the Group.

Standards, amendments and interpretations issued but not effective for the Group

- ***IFRS 9 – Financial Instruments***

  The International Accounting Standards Board (IASB) has issued in November 2009, IFRS 9 – Financial instruments part I: Classification and measurement, which is mandatorily applicable for the financial years starting on 1 January 2015, although early adoption is permitted. In October, 2010, this standard was changed. This standard has not yet been adopted by European Union.

  This standard is part of phase I of the IASB's comprehensive project to replace IAS 39 and relates to matters of classification and measurement of financial assets. The main issues considered are as follows:

  – The financial assets can be classified in two categories: at amortised cost or at fair value. This decision should be determined at initial recognition of the financial assets. The classification depends on the entity, business model for managing the financial instruments and the contractual cash flows associated to each financial asset;

  – Only debt instruments for which the contractual cash-flows represent only payments of principal and interest, which means that they contain only the basic loan features, and for which an entity holds the asset to collect the contractual cash flows, can be measured at amortised cost. All the other debt instruments are recognized at fair value;

– Equity instruments issued by third parties are recognized at fair value with subsequent changes recognized in the profit and loss. However, for equity instruments an entity could make an irrevocable option at initial recognition for fair value changes to be recognized in fair value reserves. This is a discretionary decision, not implying that all the equity instruments should be treated on this basis. Gains and losses recognized on fair value reserves cannot be recycled to profit and loss. The dividends received are recognized as income for the year;

– The exception to stop investments in equity instruments whose fair value can not be reliably determined and related derivatives, under IAS 39, IFRS is not allowed in 9;

– Changes in fair value attributable to own credit risk of financial liabilities classified as fair value through profit or loss (Fair Value Option), shall be recognized in Other comprehensive income (OIC). The remaining fair value changes related to these financial liabilities shall be recognized through profit or loss. The amounts recognized in Other comprehensive income shall not be reclassified/transferred to profit and loss.

The Group is currently evaluating the impact of the adoption of this interpretation.

• ***IFRS 10 – Consolidated Financial Statements***

The International Accounting Standards Board (IASB) has issued in May 2011, IFRS 10 – Consolidated Financial statements, with mandatory application for financial years beginning after 1 January 2013, although early adoption is permitted.

This IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements, and supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purposes Entities.

An investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. «De facto» control is explicitly included by this standard.

The major changes introduced by this standard are as follows:

– a single control model is applied whether an investee should be consolidated;

– Introduction of enhance disclosures about involvement with unconsolidated entities.

The Group is currently evaluating the impact of the adoption of this interpretation.

• ***IFRS 11 –Joint Agreements***

The International Accounting Standards Board (IASB) has issued in May 2011, IFRS 11 – Joint Arrangements, with mandatory application for financial years beginning after 1 January 2013, although early adoption is permitted.

This standard supersedes IAS 31 Interest in Joint Ventures, maintaining the same definition of joint arrangements. However, two types of joint arrangements were introduced: (i) joint operations and (ii) joint ventures.

The major changes introduced by this standard are as follows:

– an entity shall determine the type of joint arrangements in which it is involved by considering its rights and obligations. An entity shall assess its rights and obligations by considering the structure and legal form of the arrangement, the contractual terms agreed to by the parties to the arrangement and, when relevant, other facts and circumstances;

– mandatory application of the equity method to a joint venture, eliminating the option of the proportionate consolidation method.

The Group is currently evaluating the impact of the adoption of this interpretation.

• ***IFRS 12 – Disclosures of Interests in Other Entities***

The International Accounting Standards Board (IASB) has issued in May 2011, IFRS 12 – Disclosures of Interests in Other Entities, with mandatory application for financial years beginning after 1 January 2013, although early adoption is permitted.

The objective of this standard is to require an entity to disclose information regarding its involvement with consolidated entities (subsidiaries) and those that are not consolidated, namely:

– the nature of, and risks associated with, its interest in other entities, and

– the effects of those interests on its financial position, financial performance and cash flows.

The Group is evaluating the impact from the application of this standard.

- ***IFRS 13 – Fair Value Measurement***

The International Accounting Standards Board (IASB) has issued in May 2011, IFRS 13 – Fair Value Measurement, with mandatory application for financial years beginning after 1 January 2013, although early adoption is permitted.

This standard presents a revised concept of fair value and determines new disclosures requirements. The main aspects considered are as follows:

– Principles of fair value;

– Appropriate valuations techniques and fair value hierarchy, and

– additional disclosure requirements.

The Group is evaluating the impact from the application of this standard.

- ***IAS 27 (2011) – Separate Financial Statements***

The International Accounting Standards Board (IASB) has issued in May 2011, IAS 27 – Separate Financial Statements, with mandatory application for financial years beginning after 1 January 2013, although early adoption is permitted.

IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications, as follows: (i) an entity that prepares separate financial statements shall follow all relevant IFRS standards, and (ii) disclosure requirements.

The Group is evaluating the impact from the application of this standard.

- ***IAS 28 – Investments in Associates and Joint Ventures***

The International Accounting Standards Board (IASB) has issued in May 2011, IAS 28 – Investments in Associates and Joint Ventures, with mandatory application for financial years beginning after 1 January 2013, although early adoption is permitted.

This standard replaced IAS 28 (2003) and describes the accounting treatment to be adopted by the investor in associates and joint ventures, defining the accounting requirements for applying the equity method for both associates and joint ventures.

IFRS 11 determines in which type of joint arrangements an entity is involved, and if an interest in a joint arrangement exists, an entity shall apply the equity method in the consolidated financial statements, in accordance with IAS 28 (revised in 2011), except if any exemptions are applicable, such as defined.

IFRS 12 describes the disclosure requirements.

The Group is evaluating the impact from the application of this standard.

- ***IFRS 7 (changed) – Disclosures – Offsetting of financial assets and liabilities***

The International Accounting Standards Board (IASB) has issued in May 2011, IFRS 7 – Disclosures – Offsetting of financial assets and liabilities, with mandatory application for financial years beginning after 1 January 2013, although early adoption is permitted.

This standard changed the disclosure requirements for the users of financial statements to be able to assess the effect/potential effect of the net presentation of the financial assets and liabilities in the financial position of an entity.

The Group is evaluating the impact from the application of this standard.

- ***IAS 32 (changed) – Offsetting of financial assets and liabilities***

  The International Accounting Standards Board (IASB) has issued in May 2011, an amendment to IAS 32 – Offsetting of financial assets and liabilities, with mandatory application for financial years beginning after 1 January 2014, although early adoption is permitted.

  This change replaced the AG38 paragraph of IAS 32 by the new AG38A-AG38F paragraphs, regarding the required conditions to be met in order to present the net position of the financial assets and liabilities in the financial position of an entity, as follows:

  – the entity currently has a legally enforceable right to set off the recognized amounts, and

  – the entity has the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

  The Group is evaluating the impact from the application of this standard.

57. Relevant facts

In November and December 2011, CEMG conducted a significant sale of Buildings and land classified as non-current assets held for sale, according to note 28 and Buildings for own use, according to note 29.

The sale of non-current assets held for sale were made to two investment funds: CA Imobiliário – Fundo Especial de Investimento Imobiliário Aberto (FEII) and Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH). Relatively to the sale of properties for own use the counterparty was Montepio Geral Associação Mutualista.

These operations generated a net gain of Euro 50 895 000, as described in note 9 and a impairment write-back associated of Euro 39 498 000, as mentioned in note 15.

For these transactions with investment funds referred above, the transfer prices that were determined, are in line with the valuation rules set by the CMVM for Investment Funds, through two evaluation reports for each property, conducted by independent evaluators accredited by the CMVM. For each property was assigned the lowest amount between two reports or the average of both, according to the CMVM regulations for this type of operation.

In addition, CEMG acquired units of the investment funds referred above by an amount equal to the value of the sale to investment funds (note 23):

– 24 913 185 participation units in the CA Imobiliário – Fundo Especial de Investimento Imobiliário Aberto (FEII); and

– 59 663 participation units in the Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH).

Operations mentioned above were accounted as sales of to investment funds. So, there was a transfer of rights and obligations associated with these assets. The units of these funds are included in the portfolio of financial assets available for sale, accounted at fair value, as described in IAS 39. The determination of the fair value of these units is done based on market value.

As the counterparty of these operations are investment funds, they are subject to regulation and supervision of the CMVM, complying with the obligations, of which it can be emphasized the evaluation of the fund assets by two independent evaluators. FIIAH, and since CEMG has 100% of its units, the fund is consolidated using the full method.

58. Impact of change in accounting policy for recognition of actuarial gains and losses related to defined benefit plans

Previously, CEMG proceeded to the deferral of actuarial gains and losses determined in accordance with the corridor method. Under the corridor method, actuarial gains and losses not recognized that exceed 10% of the greater of the present value of the liabilities and the fair value of the Fund's assets were recorded in the income statement for the period corresponding to the remaining estimated useful life of the employees.

According to one of the options allowed by IAS 19 Employee Benefits, the Bank decided in 2011 for a change in accounting policy starting to recognize the actuarial gains and losses against reserves. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes from 1 January 2010, recognizing in that date all the deferred actuarial gains and losses in equity.

Thus, as described in notes 11, 32, 42 and 48 the balance Reserves and retained earnings includes, with effect from 1 January 2010, the restatement resulted from the referred changing in the accounting policy. The restatement is analysed as follows:

	Equity 31.12.2010 Euro '000	**Net income 31.12.2010 Euro '000**	**Equity 1.1.2010 Euro '000**
Previously reported	995 478	51 407	986 214
Adjustments			
Actuarial deferred gains and losses	(101 709)	–	(86 316)
Amortization of deferred actuarial losses	1 680	1 680	–
	(100 029)	1 680	(86 316)
Restated	895 449	53 087	899 898

59. Subsequent events

Following discussions between the Greek State and the private sector related to the restructuring of sovereign debt of Greece («GGB's») on February 21, 2012, the Ministry of Finance of Greece announced the key aspects of the sector's involvement private («PSI») in that restructuring. According to available information, the terms of the PSI currently agreed are as follows:

Holders of the GGB's should replace the current titles by:

- New GGB's with face value equal to 31.5% of face value of old GGB's , and
- Notes issued by the Financial Stabilization Fund («EFSF»), with a face value equal to 15% of old GGB's. The notes will have a market interest rate and a maturity of 24 months.

The new GGB's will have the following terms:

- Initial coupon of 2% with an increase to 3% and then 4.3%;
- Equity payment in 20 annual installments beginning on the 11th anniversary of the date of issue and maturity in 2042;
- Aggregated collective action clauses;
- Listing on the Athens Stock Exchange;
- Emissions governed by English law, and
- Including of indexed bonds to «PIB», which will entitle the holder to an additional 1% coupon if they hit certain targets in terms of «PIB».

The PSI is part of the bailout package in the amount of Euro 130 billion from the European Union to Greece and is subject to approval of the parliaments of Eurozone countries.

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CONSOLIDATED AUDITORS' REPORT

(ISSUED BY THE STATUTORY AUDITOR, A CMVM REGISTERED AUDITOR)

(This Report is a free translation to English from the Portuguese version)

Introduction

1 In accordance with the applicable legislation, we present our Auditors' Report, on the consolidated financial information included in the Annual Report of the Board of Directors and in the accompanying consolidated financial statements as at and for the year ended 31 December, 2011 of **Caixa Económica Montepio Geral** which comprise the consolidated balance sheet as at 31 December, 2011 (showing total assets of 21,495,390 thousand Euro and Shareholders' Equity of 1,259,488 thousand Euro, including a net profit of 45,029 thousand Euro), the consolidated statements of income, the cash flows, the changes in equity and the comprehensive income for the year then ended and the corresponding notes to the financial statements.

Responsibilities

2 The Board of Directors is responsible for:

a) the preparation of consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union which presents fairly, in all material respects, the financial position of the group of companies included in the consolidation, the consolidated results of its operations, the consolidated cash flows, the changes in equity and the comprehensive income;

b) the preparation of historical financial information in accordance with the IFRS that is complete, true, current, clear, objective and lawful as established by the Stock Exchange Code ("CVM");

c) the adoption of adequate accounting policies and criteria;

d) the maintenance of an appropriate internal control system; and

e) the communication of any relevant matter that may have influenced the activity of the companies included in the consolidation, their financial position or results.

3 Our responsibility is to verify the consolidated financial information included in the documents referred above, namely if the information is complete, true, current, clear, objective and lawful as required by the CVM in order to issue a professional and independent opinion based on our audit.

KPMG

Scope

4 We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Accordingly, our audit included:

- verification that the financial statements of the companies included in the consolidation have been properly audited and verification, on a sample basis, of the documents underlying the figures and disclosures contained therein, and an assessment of the estimates made, based on judgments and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;

- verification of the consolidation procedures and of the application of the equity method;

- evaluation of the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;

- assessing the applicability of the going concern principle;

- assessing the overall adequacy of the consolidated financial statements' presentation; and

- the assessment of whether the consolidated financial information is complete, true, current, clear, objective and lawful.

5 Our audit also included the verification that the consolidated financial information included in the Annual Report of the Board of Directors is consistent with the consolidated financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451.º, of the Portuguese Companies Code ("Código das Sociedades Comerciais").

6 We believe that our audit provides a reasonable basis for our opinion.

Opinion

7 In our opinion, the referred consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Caixa Económica Montepio Geral**, as at 31 December, 2011, the consolidated results of its operations, the consolidated cash flows, the changes in equity and the comprehensive income for the year then ended, in accordance with IFRS as adopted by the European Union and the information contained therein is complete, true, current, clear, objective and lawful.

Report on Other Legal Requirements

8 It is also our opinion that the consolidated financial information included in the Board of Directors report is consistent with the consolidated financial statements and that the Report on Institutional Governance includes the information required by the article 245.º-A of the Portuguese Securities Market Code ("CVM").

Lisbon, 15 March, 2012

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
representada por
Vitor Manuel da Cunha Ribeirinho (ROC N.º 1081)

11.3. CAIXA ECONÓMICA MONTEPIO GERAL – INDIVIDUAL ACCOUNTS

INDIVIDUAL BALANCE SHEET AS AT 31 DECEMBER, 2011 AND 2010

(thousands euros)

	2011			2010
	GROSS ASSETS	IMPAIRMENT AND DEPRECIATION	NET ASSETS	NET ASSETS
ASSETS				
Cash and deposits at central banks	381 540		381 540	240 024
Loans and advances to credit institutions repayable on demand	102 701		102 701	58 405
Financial assets held for trading	137 922		137 922	124 589
Other financial assets at fair value through profit or loss	3 606		3 606	3 952
Available-for-sale financial assets	5 871 427	49 647	5 821 780	5 256 811
Other loans and advances to credit institutions	370 613	345	370 268	338 662
Loans and advances to customers	16 894 465	694 225	16 200 240	14 352 766
Held-to-maturity investments	48 416		48 416	58 093
Hedging derivatives	8 072		8 072	7 734
Non-current assets held for sale	107 236	20 406	86 830	162 374
Other tangible assets	221 520	155 336	66 184	89 188
Intangible assets	153 721	42 878	110 843	18 254
Investments in associated companies and others	384 547		384 547	43 297
Current tax assets	10		10	
Deferred tax assets	59 221		59 221	
Other Assets	310 721		310 721	129 871
TOTAL ASSETS	**25 055 738**	**962 837**	**24 092 901**	**20 884 020**
LIABILITIES				
Deposits from central banks			2 003 300	1 540 266
Financial liabilities held for trading			94 194	47 538
Deposits from other credit institutions			1 182 068	1 262 546
Deposits from customers and other loans			13 190 639	9 654 340
Debts securities issued			2 240 688	3 578 677
Financial liabilities associated with transferred assets			3 289 983	3 182 375
Hedging derivatives			9 084	6 894
Provisions			120 014	101 499
Other subordinated liabilities			477 247	380 986
Other liabilities			244 112	134 880
TOTAL LIABILITIES			**22 851 329**	**19 890 001**
EQUITY				
Equity			1 245 000	800 000
Other capital instruments			15 000	
Revaluation Reserves			- 308 288	- 74 569
Other Reserves and Retained Earning			257 037	227 097
Profit for the year			32 823	41 491
TOTAL EQUITY			**1 241 572**	**994 019**
TOTAL LIABILITIES AND EQUITY			**24 092 901**	**20 884 020**

THE CHARTERED ACCOUNTANT
Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS
António Tomás Correia – Chairman
José de Almeida Serra
Rui Manuel Silva Gomes do Amaral
Eduardo José da Silva Farinha
Álvaro Cordeiro Dâmaso

INDIVIDUAL INCOME STATEMENT AT 31 DE DECEMBER, 2011 AND 2010

(thousands euros)

	2011	2010
Interest and similar income	1 161 027	750 941
Interest and similar costs	857 554	480 519
NET INTEREST INCOME	**303 473**	**270 422**
Income on equity instruments	2 112	2 175
Income on services and fees	108 128	89 175
Costs of services and fees	19 199	15 205
Profit on assets and liabilities at fair value through profit or loss	68 399	45 555
Profit on financial assets available for sale	3 216	9 959
Profit on currency revaluations	2 520	2 320
Profit on sale of other assets	57 988	- 3 363
Other operating profits	32 929	19 351
OPERATING INCOME	**559 566**	**420 389**
Personnel costs	217 319	142 823
General administrative overheads	105 628	83 442
Amortisation	26 854	20 846
Provisions net of adjustments	- 2 805	- 1 207
Adjustments for customer credit and receivables from other debtors (net of recovery of undue payments and write-offs)	174 939	120 828
Impairment of other financial assets net of reversals and recoveries	34 632	2 152
Impairment of other assets net of reversals and recoveries	- 18 456	10 014
PROFIT BEFORE TAX	**21 455**	**41 491**
Taxes	- 11 368	
PROFIT AFTER TAX	**32 823**	**41 491**

THE CHARTERED ACCOUNTANT
Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS
António Tomás Correia – Chairman
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STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AT 31 DECEMBER, 2011 AND 2010

(thousands euros)

	2011	2010
Cash flows arising from operating activities		
Interest income received	1 066 203	737 401
Commissions income received	109 898	85 013
Interest expense paid	(856 237)	(465 520)
Commissions expense paid	(17 945)	(5 418)
Payments to employees and suppliers	(379 632)	(249 182)
Recoveries on loans previously written off	–	2 376
Other payments and receivables	256 622	41 656
	178 909	**146 326**
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions and customers	(1 947 110)	882 313
Other assets	3 242	(24 885)
	(1 943 868)	**857 428**
(Increase) / decrease in operating liabilities:		
Deposits from clients	3 422 117	758 954
Deposits from credit institutions	(1 623 501)	(182 479)
Deposits from central banks	2 000 000	1 540 000
	3 798 616	2 116 475
	2 033 657	**3 120 229**
Cash flows arising from investing activities		
Dividends received	2 112	2 175
(Acquisition) / sale of trading financial assets	(20 944)	(16 779)
(Acquisition) / sale of other financial assets at fair value through profit or loss	346	240
(Acquisition) / sale of available for sale financial assets	(836 522)	(2 148 825)
(Acquisition) / sale of hedging derivatives	1 852	1 996
(Acquisition) / sale of held to maturity investments	9 506	(23 987)
(Acquisition) / sale of shares in associated companies	(429 522)	–
Deposits owned with the purpose of monetary control	(104 094)	61 507
Proceeds from sale of fixed assets	60 195	3 135
Acquisition of fixed assets	(24 101)	(24 101)
	(1 341 172)	**(2 144 639)**
Cash flows arising from financing activities		
Dividends paid	(23 085)	(20 300)
Capital increase	460 000	40 000
Proceeds from issuance of bonds and subordinated debt	302 011	(98 078)
Reimbursement of bonds and subordinated debt	(1 390 073)	(906 509)
Increase / (decrease) in other sundry liabilities	40 380	12 470
	(610 767)	**(972 417)**
Net changes in cash and equivalents	81 718	3 173
Cash and equivalents balance at the beginning of the year	154 046	150 873
Cash (note 17)	95 641	99 128
Loans and advances to credit institutions repayable on demand (note 18)	58 405	51 745
Cash and equivalents balance at the end of the year	**235 764**	**154 046**

See accompanying notes to the Individual Financial Statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED AT 31 DECEMBER, 2011 AND 2010

(thousands euros)

	Total equity	Share capital	Other capital instruments	General and special reserves	Other reserves	Fair value reserves	Retained earnings
Balance on 31 December, 2009	**995 234**	**760 000**	**–**	**225 685**	**8 404**	**(28 600)**	**29 745**
Changes in the accounting policy for recognition of actuarial gains/losses (nota 55)	(88 533)	–	–	–	–	–	(88 533)
Balance on 1 January, 2010	**906 701**	**760 000**	**–**	**225 685**	**8 404**	**(28 600)**	**(58 788)**
Other movements recognized directly in Equity:							
IAS 19 adjustments	(8 033)	–	–	–	–	–	(8 033)
Actuarial losses for the year (nota 55)	(13 714)	–	–	–	–	–	(13 714)
Changes in fair value	(54 373)	–	–	–	–	(54 373)	–
Profit for the period	42 537	–	–	–	–	–	42 537
Total gains and losses recognized in the period	(33 583)	–	–	–	–	(54 373)	20 790
Dividends paid (nota 44)	(20 300)	–	–	–	–	–	(20 300)
Increase in share capital (nota 39)	40 000	40 000	–	–	–	–	–
Transfers of reserves:							
General reserve	–	–	–	7 556	–	–	(7 556)
Special reserve	–	–	–	1 889	–	–	(1 889)
Balance on 31 December, 2010	**892 818**	**800 000**	**–**	**235 130**	**8 404**	**(82 973)**	**(67 743)**
Other movements recognized directly in Equity:							
IAS 19 adjustments	(8 033)	–	–	–	–	–	(8 033)
Actuarial losses for the year (nota 55)	73 441	–	–	–	–	–	73 441
Deferred taxes related to balance sheet changes (nota 31)	47 853	–	–	–	–	–	47 853
Changes in fair value	(233 719)	–	–	–	–	(233 719)	–
Profit for the period	32 823	–	–	–	–	–	32 823
Total gains and losses recognized in the period	(87 635)	–	–	–	–	(233 719)	146 084
Dividends paid (nota 44)	(23 085)	–	–	–	–	–	(23 085)
Increase in share capital (nota 39)	445 000	445 000	–	–	–	–	–
Other capital instruments (nota 40)	15 000	–	15 000	–	–	–	–
Costs related to the issue of perpetual subordinated Instruments	(525)	–	–	–	–	–	(525)
Transfers of reserves:							
General reserve	–	–	–	8 298	–	–	(8 298)
Special reserve	–	–	–	2 076	–	–	(2 076)
Balance on 31 December, 2011	**1 241 573**	**1 245 000**	**15 000**	**245 504**	**8 404**	**(316 692)**	**44 357**

See accompanying notes to the Individual Financial Statements

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED AT 31 DECEMBER, 2011 AND 2010

(thousands euros)

	Notes	2011	2010
			Restated
Other Comprehensive income for the year			
Fair value reserves			
Financial assets available for sale	42	(233 719)	(54 373)
Actuarial losses for the year	54	73 441	(13 714)
Deferred taxes	31	47 853	–
IAS 19 adjustments		(8 033)	(8 033)
Comprehensive income recognized directly in Equity after taxes		**(120 458)**	**(76 120)**
Profit for the year		32 823	42 537
Total Comprehensive income for the year		**(87 635)**	**(33 583)**

See accompanying notes to the Individual Financial Statements

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
31 DECEMBER, 2011

1. Accounting Policies

a) Basis of presentation

Caixa Económica Montepio Geral («CEMG») is a credit institution held by Montepio Geral – Associação Mutualista, established on 24 March, 1844, and authorised to operate in accordance with Decree-Laws no. 298/92 of 31 December, and no. 136/79 of 18 May, which regulate the activity of savings banks and establish some restrictions to their activities. However, CEMG is authorised to carry out banking operations in addition to those mentioned in its by-laws, if previously authorised by the Bank of Portugal. This fact conducts to the practice of banking operations in general.

As described in note 54, in 2010, Montepio Geral – Associação Mutualista, CEMG sole shareholder, has made an aquisition of 100% of Finibanco Holding, SGPS, SA share capital through an Initial Public Offering (IPO) in the amount of Euro 341 250 000.

As at 31 March, 2011, Montepio Geral – Associação Mutualista sold its participation in Finibanco Holding, SGPS, SA to CEMG. Under the change in the structure of the Group arising from this acquisition, as at 4 April, 2011, CEMG acquired a set of assets and liabilities of Finibanco, SA (excluding properties owned by Finibanco, SA and acquired as a result of loans and advances to customers and a leasing portfolio (securities and real estate) in which Finibanco, SA is lessor and the fixed assets that materially support the operating leasing activities), and all associated liabilities and provisions. Thus, the financial statements of the CEMG with reference to December 31, 2011 include the effect of this acquisition, so this should be considered for comparison purposes.

In accordance with Regulation (EC) no. 1606/2002 of the European Parliament and the Council, of 19 July 2002, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February and Regulation no. 1/2005 from Bank of Portugal, CEMG's financial statements are required to be prepared in accordance with Adjusted Accounting Standards («NCA's»), as established by the Bank of Portugal. NCA's are composed by all the standards included in the International Financial Reporting Standards («IFRS») as adopted for use in the European Union, with the exception of issues regulated in the Regulation no. 4/2005 of the Bank of Portugal. IFRS comprise accounting standards issued by the International Accounting Standards Board («IASB») and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee («IFRIC») and its predecessor body with the exception of issues regulated in the Regulations no. 1/2005 and 4/2005of the Bank of Portugal: *i*) valuation and provisioning of loans, for which it will be kept the current system, *ii*) benefits to employees through the establishment of a deferral period for the accounting impact resulting from the transition to the criteria of IAS 19 and *iii*) restriction of application some options in the IAS / IFRS. The financial statements presented herein were approved by the Board of CEMG on 8 March, 2012. The financial statements are presented in Euro rounded to the nearest thousand.

All the references in this document relate to any normative always report to current version.

CEMG adopted the IFRS standards and interpretations for which application is mandatory for accounting periods beginning on 1 January 2011.

CEMG financial statements for the year ended 31 December, 2011 have been prepared in terms of recognition and measurement in accordance with the NCA's, established by the Bank of Portugal and in use in the period.

According to one of the options allowed by IAS 19 Employee Benefits, CEMG decided in 2011 for a change in the accounting policy for recognition of actuarial gains and losses, starting to recognize the actuarial gains and losses of the year against reserves. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes from 1 January 2010, recognizing in all the deferred actuarial gains and losses determined at that date in equity. Thus, as described in notes 42, 46 and 54 the balance Reserves and retained earnings includes, with effective date 1 January 2010, the restatement resulted from the referred change in the accounting policy.

Previously, CEMG proceeded to the deferral of actuarial gains and losses determined in accordance with the corridor method. Under the corridor method, actuarial gains and losses not recognized that exceed 10% of the greater of the present value of the liabilities and the fair value of the Fund's assets are recorded in the income statement for the period corresponding to the estimated remaining useful life of the employees in service.

In 2011, CEMG adopted the IFRS 7 – Financial Instruments: Disclosures – Transfers of financial assets and the «Annual Improvement Project» issued in May 2010. These standards whose application is mandatory, with reference to 1 January, 2011, have an impact in terms of additional disclosures relating to CEMG assets and liabilities.

The financial statements are prepared under the historical cost convention, as modified by the application of fair value for derivative financial instruments, financial assets and liabilities at fair value through profit or loss (trading and fair value option) and available for sale assets, except those for which a reliable measure of fair value is not available. Financial assets and liabilities that are hedged under hedge accounting are stated at fair value in respect of the risk that is being hedged, if applicable. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount or fair value less costs to sell. The liability for defined benefit obligations is recognized as the present value of the defined benefit obligation net of the value of the fund.

The accounting policies set out below have been applied consistently for all periods presented in these financial statements.

The preparation of the financial statements in accordance with NCA's requires the Executive Board of Directors to make judgments, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The issues involving a higher degree of judgment or complexity or where assumptions and estimates are considered to be significant are presented in note 1 *y*).

b) Loans and advances to customers

Loans and advances to customers includes loans and advances originated by CEMG which are not intended to be sold in the short term and are recognized when cash is advanced to borrowers.

The derecognition of these assets occurs in the following situations: (i) the contractual rights of the CEMG have expired; or (ii) CEMG transferred substantially all the associated risks and rewards.

Loans and advances to customers are initially recognized at fair value plus any directly attributable transaction costs and fees and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

Impairment

As referred in the accounting policy described in note 1 *a*), the CEMG has prepared its financial statements in accordance with NCA's therefore, in accordance with no. 2 and 3 of Regulation no. 1/2005 from the Bank of Portugal, the Bank adopted the same requirements for measurement and provision of loans and advances to customers used in the previous years, described as follows:

Specific provision for loan losses

The specific provision for loan losses is based on the appraisal of overdue loans including the related non overdue amounts and loans subject to restructuring, to cover specific credit risks. This provision is shown as a deduction against loans and advances to customers. The adequacy of this provision is reviewed regularly by CEMG, taking into consideration the existence of asset-backed guarantees, the overdue period and the current financial situation of the client.

The provision calculated under these terms, complies with the requirements established by the Bank of Portugal, in accordance with Regulations no. 3/95, of 30 June, no. 7/00, of 27 October and no. 8/03, of 30 January.

General provision for loan losses

This provision is established to cover latent bad and doubtful debts which are present in any loan portfolio, including guarantees or signature credits, but which have not been specifically identified as such. This provision is recorded under provision for liabilities and charges.

The general provision for loan losses is in accordance with Regulation no. 3/95, of 30 June, Regulation no. 2/99, of 15 January and Regulation no. 8/03, of 30 January of the Bank of Portugal.

Provision for country risk

The provision for country risk is in accordance with Regulation no. 3/95, of 30 June from the Bank of Portugal, and is based on the Instruction no. 94/96, of 17 June, of the Bank of Portugal, including the adoption of changes made to paragraph 2.4 of the referred Instruction published in October 1998.

Write-off of loans

In accordance with «Carta-Circular» no. 15/2009 from the Bank of Portugal, loans and advances to customers are charged-off when there is no realistic expectation, from an economic perspective, of recovering the loan amount. For collateralised loans, the charge-off occurs for the unrecoverable amount when the funds arising from the execution of the respective collaterals for the part of the loans which is collateralised is effectively received. This charge-off is carried out only for loans that are considered not to be recoverable and fully provided.

c) Financial instruments

(i) Classification, initial recognition and subsequent measurement

1) Financial assets and liabilities at fair value through profit and loss

1a) Financial assets held for trading

The financial assets and liabilities acquired or issued with the purpose of sale or re-acquisition on the short term, namely bonds, treasury bills or shares or that are part of a financial instruments portfolio and for which there is evidence of a recent pattern of short-term profit taking or that can be included in the definition of derivative (except in the case of a derivative classified as hedging) are classified as trading. The dividends associated to these portfolios are accounted in gains arising on trading and hedging activities.

The interest from debt instruments are recognized as interest margin.

Trading derivatives with a positive fair value are included in the Financial assets held for trading and the trading derivatives with negative fair value are included in the Financial liabilities held for trading.

1b) Other financial assets and liabilities at fair vaue through profit and loss («Fair Value Option»)

CEMG has adopted the Fair Value Option for certain own bond issues, loans and time deposits that contain embedded derivatives or with related hedging derivatives. The variations of the Bank's credit risk related with financial liabilities accounted under the Fair Value Option are disclosed in «Net gains / (losses) arising from trading and hedging activities».

The designation of the financial assets and liabilities at fair value through profit and loss by decision of the entity is performed whenever at least one of the requirements is fulfilled:

– the assets and liabilities are managed, evaluated and reported internally at its fair value;

– the designation eliminates or significantly reduces the accounting mismatch of the transactions;

– the assets and liabilities include derivatives that significantly change the cash-flows of the original contracts (host contracts).

The financial assets and liabilities at Fair Value Option are initially accounted at their fair value, with the expenses or income related to the transactions being recognized in profit and loss and subsequently measured at fair value through profit and loss. The accrual of interest and premium/discount (when applicable) is recognized in Net interest income according with the effective interest rate of each transaction, as well as for the derivatives associated to financial instruments classified as Fair Value Option.

2) Financial assets available for sale

Financial assets available for sale held with the purpose of being maintained by CEMG, namely bonds, treasury bills or shares, are classified as available for sale, except if they are classified in another category of financial assets. The financial assets available for sale are initially accounted at fair value, including all expenses or income associated with the transactions. The financial assets available for sale are subsequently measured at fair value. The changes in fair value are accounted for against fair value reserves until they are sold or an impairment loss exists. In the sale of the financial assets available for sale, the accumulated gains or losses recognized as fair value reserves are recognized under Net gains / (losses) arising from available for sale financial assets. Interest income from debt instruments is recognized in Net interest income based on the effective interest rate, including a premium or discount when applicable. Dividends are recognized in the income statement when the right to receive the dividends is attributed.

3) Financial assets held-to-maturity

Financial assets held-to-maturity include non-derivative financial assets with fixed or determinable payments and fixed maturity, that CEMG has the intention and capacity to maintain until the maturity of the assets and that were not included in the category of financial assets at fair value through profit and loss or financial assets available for sale. These financial assets are initially recognized at fair value and subsequently measured at amortised cost. The interest is calculated using the effective interest rate method and recognized in Net interest income. The impairment losses are recognized in profit and loss when identified.

Any reclassification or sale of financial assets included in this category that does not occur close to the maturity of the assets will require CEMG to reclassify the entire portfolio as Financial assets available for sale and the CEMG will not be allowed to classify any assets under this category for the following two years.

4) Other financial liabilities

Other financial liabilities are all financial liabilities that are not recognized as financial liabilities at fair value through profit and loss. This category includes money market transactions, deposits from customers and from other financial institutions, issued debt, and other transactions.

These financial liabilities are initially recognized at fair value and subsequently at amortised cost. The related transaction costs are included in the effective interest rate. The interest calculated at the effective interest rate is recognized in Net interest income.

The financial gains or losses calculated at the time of the repurchase of other financial liabilities are recognized as Net gains/(losses) arising from trading and hedging activities when occurred.

ii) Transfers between categories

CEMG transfers financial assets not derivates with fixed or determinable payments and defined maturities, from financial assets available for sale to the category of financial assets held to maturity, as long as the intention and ability to hold these financial assets to maturity were considered.

These transfers are performed by based on the fair value of transferred assets, determined on the date of transfer. The difference between this fair value and nominal value is recognized in the income statement until maturity, based on the effective interest rate method. The fair value reserve existing on the date of transfer is also recognized in the results based on the effective interest rate method.

Transfers to (i) financial assets held to maturity category can only be perfomed provided as long as the the intention and ability to hold these financial assets to maturity were considered and to (ii) category of loans and advances to customers, where it is intention and ability to hold these financial assets in the foreseeable future and are not traded in an active market.

There were no transfers between portfolios in 2010 and 2011.

(iii) Impairment

An assessment is made at each balance sheet date as to whether there is any objective evidence of impairment, namely circumstances where an adverse impact on estimated future cash flows of the financial asset or group of financial assets can be reliably estimated or based on a significant or prolonged decrease in the fair value, below the acquisition cost.

If an available for sale asset is determined to be impaired, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss) is removed from fair value reserves and recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurred after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the income statement. The impairment losses recognized in equity instruments classified as available for sale, when reversed, are recognized against fair value reserves.

(iii) Embedded derivatives

Embedded derivatives should be accounted for separately as derivatives if the economic risks and benefits of the embedded derivative are not closely related to the host contract, unless the hybrid (combined) instrument is not initially measured at fair value with changes through profit and loss. Embedded derivatives are classified as trading and recognized at fair value with changes through profit and loss.

***d*) Derivatives hedge accounting**

(i) Hedge accounting

CEMG designates derivatives and non-financial instruments to hedge its exposure to interest rate and foreign exchange risk, resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative hedging instruments are stated at fair value and gains and losses on re-measurement are recognized in accordance with the hedge accounting model adopted by CEMG. A hedge relationship exists when:

– at the inception of the hedge there is formal documentation of the hedge;

– the hedge is expected to be highly effective;

– the effectiveness of the hedge can be reliably measured;

– the hedge is valuable in a continuous basis and highly effective throughout the reporting period; and

– for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge foreign exchange arising from monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated to the derivative and to changes in foreign exchange risk related with the monetary items are recognized through profit and loss.

(ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments are recognized in profit and loss, together with changes in the fair value attributable to the hedged risk of the asset or liability or group of assets and liabilities. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative gains and losses recognized until the discontinuance of the hedge accounting are amortised through profit and loss over the residual period of the hedged item.

(iii) Cash flow hedge

In a hedge relationship, the effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity – cash flow hedge reserves. Any gain or loss relating to the ineffective portion of the hedge is immediately recognized in profit and loss when occurred.

Amounts accumulated in equity are reclassified to profit and loss in the periods in which the hedged item will affect profit or loss.

In case of hedging variability of cash-flows, when the hedge instrument expires or is disposed or when the hedging relationship no longer meets the criteria for hedge accounting, or when the hedge relation is revoked, the hedge relationship is discontinued on a prospective basis.

Therefore, the fair value changes of the derivative accumulated in equity until the date of the discontinued hedge accounting can be:

– Deferred over the residual period of the hedged instrument; or

– Recognized immediately in results, if the hedged instrument is extinguished.

In the case of a discontinued hedge of a forecast transaction, the change in fair value of the derivative recognized in equity at that time remains in equity until the forecasted transaction is ultimately recognized in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit and loss.

(iv) Hedge effectiveness

For a hedge relationship to be classified as such according to IAS 39, effectiveness has to be demonstrated. As such, the Bank performs prospective tests at the beginning date of the initial hedge, if applicable and retrospective tests in order to demonstrate at each reporting period the effectiveness of the hedging relationships, showing that the changes in the fair value of the hedging instrument are hedged by the changes in the hedged item for the risk being covered. Any ineffectiveness is recognized immediately in profit and loss when incurred.

e) Reclassifications between financial instruments categories

In October 2008, the IASB issued a change to IAS 39 – Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments Disclosures). This change allowed an entity to transfer Financial assets from Financial assets at fair value through profit and loss – trading to Financial assets available for sale, to Loans and Receivables – Loans represented by securities or to financial assets held-to-maturity, as long as the requirements described in the Standard are met, namely:

– If a financial asset, at the date of reclassification present the characteristics of a debt instrument for which there is no active market; or

– When there is some event that is uncommon and higly improbable that will occur again in the short term, that is, the event can be classified as a rare circumstance.

In 2011 and 2010, CEMG did not perfome any reclassifications between financial instruments categories.

Transfer of financial assets recognized in the category of Financial assets available-for-sale to Loans and receivables – Loans represented by securities and Financial assets held-to-maturity are permitted.

Transfers from and to Financial assets and financial liabilities at fair value through profit and loss by decision of the entity («Fair value option») are prohibited.

f) Derecognition

CEMG derecognizes financial assets when all rights to future cash flows have expired. In a transfer of assets, derecognition can only occur either when risks and rewards have been substantially transferred or CEMG does not maintain control over the assets.

The evaluation of the existence of control is determined based on the criteria established by SIC 12, which can be analised as follows:

- The activities of the SPE, in substance, are being conducted on behalf of the CEMG, in accordance with the specific needs of the CEMG business, so as to obtain benefits from these activities;
- CEMG has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an «autopilot» mechanism, the Bank has delegated these decision-making powers;
- CEMG retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities; or
- CEMG has the rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks inherent to the activities of the SPE.

CEMG derecognizes financial liabilities when these are discharged, cancelled or extinguished.

g) Equity instruments

An instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently from its legal form, showing a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instruments issuance are recognized in equity as a deduction to the amount issued. Amounts paid or received related to sales or acquisitions of equity instruments are recognized in equity, net of transaction costs.

Income from equity instruments (dividends) are recognized when the right to receive this income is established and are deducted to equity.

h) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, are translated into the respective functional currency of the operation at the foreign exchange rate at the reporting date. Foreign exchange differences arising on translation are recognized in the profit and loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the respective functional currency of the operation at the foreign exchange rate at the date that the fair value was determined against profit and loss, except for financial assets available-for-sale, for which the difference is recognized against equity.

i) Securities borrowing and repurchase agreement transactions

(i) Securities borrowing

Securities lent under securities lending arrangements continue to be recognized in the balance sheet and are measured in accordance with the applicable accounting policy. Cash collateral received in respect of securities lent is recognized as a financial liability. Securities borrowed under securities borrowing agreements are not recognized. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognized on an accrual basis over the period of the transactions and are included in interest income or expense (net interest income).

(ii) Repurchase agreements

CEMG performs acquisition/sale of securities under reselling/repurchase agreements of securities substantially equivalent in a future date at a predetermined price («repos»/«reverse repos»). The securities related to reselling agreements in a future date are not be recognized on the balance sheet. The amounts paid are recognized in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralised by the related securities. Securities sold through repurchase agreements continue to be recognized in the balance sheet and are revaluated in accordance with the applicable accounting policy. The amounts received from the proceeds of these securities are considered as deposits from customers and deposits from credit institutions.

The difference between the acquisition/sale and reselling/repurchase conditions is recognized on an accrual basis over the period of the transaction and is included in interest income or expenses.

j) Non-current assets held for sale and discontinued operations

Non current assets, groups of non-current assets held for sale (groups of assets together and related liabilities that include at least a non current asset) and discontinued operations are classified as held for sale when it is intention to sell the referred assets and liabilities, the referred assets are available for immediate sale and its sale is highly probable.

CEMG also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to its subsequent disposal, that are available for immediate sale and its sale is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and fair value less costs to sell.

Discontinued operations and the subsidiaries acquired exclusively with the purpose to sell in the short term, are consolidated until the disposal.

CEMG also classifies as non-current assets held for sale the investments arising from recovered loans that are measured initially by the lower of its fair value net of expenses and the loan's carrying amount on the date that the recovery occurs or the judicial decision is formalised.

The fair value is determined based on the expected selling price estimated through periodic valuations performed by CEMG.

The subsequent accounting of these assets is determined based on the lower of the carrying amount and the corresponding fair value net of expenses. In case of unrealized losses, these should be recognized as impairment losses against results.

k) Finance and operacional lease

CEMG classifies its lease agreements as capital lease or operating leases taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases

– As lessee

Payments made by CEMG under operating leases are charged to the income statement in the period to which they relate.

– As lessor

Assets leased out are recorded in the balance sheet, according to the nature of the asset.

Lease income from operating leases is recognized in the income statement on a straight-line basis over the lease term.

Costs, including the depreciation, incurred in earning the lease income are recognized on a straight-line basis over the lease term as interest income. The initial direct costs incurred by the lessor, such as negotiating and securing leasing arrangements Initial direct costs incurred by lessor in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

The depreciation policy for depreciable leased assets shall be consistent with the lessor’s normal depreciation policy for similar assets, as described in note 1 *q*).

CEMG performs impairment testing whenever events or circumstances show that the book value exceeds the recoverable amount and the difference between the book value and recoverable amount is charged in the income statement.

Finance leases

– As lessee

Finance lease contracts are recorded at inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognized in the income statement and (ii) the amortisation of principal, which is deducted from liabilities. Financial charges are recognized as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of liability for each period.

– As lessor

Assets leased out are recorded in the balance sheet as loans granted, for an amount equal to the net investment made in the leased assets.

Interest included in instalments charged to customers is recorded as interest income, while amortisation of principal, also included in the instalments, is deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

***l*) Interest income and expense**

Interest income and expense for financial instruments measured at amortised cost are recognized in the interest income or expenses (net interest income) through the effective interest rate method. The interest related to financial assets available for sale calculated at the effective interest rate method are also recognized on the net interest income as well as those from assets and liabilities at fair value through profit and loss.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, for a shorter period), to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, CEMG estimates future cash flows considering all contractual terms of the financial instrument (example: early payment options) but without considering future impairment losses. The calculation includes all fees paid or received considered as included in the effective interest rate, transaction costs and all other premiums or discounts directly related with the transaction except for assets and liabilities at fair value through profit and loss.

If a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Specifically regarding the accounting policy for interest on overdue loans portfolio the following aspects are considered:

- Interest income for overdue loans with collaterals are accounted for as income up to the limit of the valuation of the collateral valued on a prudent basis. This income is registered against results in accordance with IAS 18, assuming that there is a reasonable probability of recoverability; and
- The interests accrued and not paid for overdue loans for more than 90 days that are not covered by collaterals are writen-off and are recognized only when they are received, in accordance with IAS 18, on the basis that its recoverability is considered to be remote.

For derivative financial instruments, except those classified as hedging instruments of interest rate risk, the interest component is not separated from the changes in the fair value and is classified under Net gains / (losses) from trading and hedging activities. For hedging derivatives of interest rate risk and those related to financial assets or financial liabilities recognized in the Fair Value Option category, the interest component of the changes in their fair value is recognized under interest income or expense (Net interest income).

***m*) Fee and commission income**

Fees and commissions are recognized according to the following criteria:

- Fees and commissions which are earned as services are provided are recognized in income over the period in which the service is being provided;
- Fees and commissions that are earned on the execution of a significant act, are recognized as income when the service is completed;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument, are recognized in Net interest income.

n) Insurance and reinsurance brokerage services

CEMG is duly authorized by the Portuguese Insurance Institute (Instituto de Seguros de Portugal) to provide insurance brokerage services, in the Insurance Brokerage Services area, in accordance with the article 8, paragraph *a*), subparagraph *i*) of Decree-Law 144/2006 of July 31, operating in the life and non life insurance brokerage areas.

In the insurance brokerage services area, CEMG sells insurance contracts. As remuneration for the insurance brokerage services rendered, CEMG receives commission for brokering insurance contracts, which is defined in agreements/protocols established between CEMG and the Insurers.

Commission received for insurance brokerage services refer to:

- Commission that includes a fixed and a variable component. The fixed component is calculated by applying a predetermined rate over the amounts of subscriptions made through CEMG and a variable component calculated based on predetermined criteria, total annual fees being the sum of the fees calculated monthly;
- Commission for participation in the results of insurance, which are calculated annually and paid by the insurer in the beginning of the year following that to which they refer (up to January 31);
- Commission received for insurance brokerage services are recognized in an accruals basis. Fees paid in a different period from that to which it relates is recorded as a receivable in the caption «Other assets» by corresponding entry to «Commissions received – for insurance brokerage services».

CEMG does not collect insurance premiums on behalf of Insurers, or receive or pay funds relating to insurance contracts. Thus, there are no other assets, liabilities, income or expenses to be recognized relating to the insurance brokerage services rendered by CEMG, other than those already disclosed.

o) Financial results (Results arising from trading and hedging activities and available for sale financial assets)

Financial results includes gains and losses arising from financial assets and financial liabilities at fair value through profit and loss, that is, fair value changes and interest on trading derivatives and embedded derivatives), as well as the corresponding dividends received. This caption also includes gains and losses arising from the sale of available for sale financial assets. The changes in fair value of hedging derivatives and hedged items, when fair value hedge is applicable, are also recognized in this caption.

p) Fiduciary activities

Assets held in the scope of fiduciary activities are not recognized in the CEMG financial statements. Fees and commissions arising from this activity are recognized in the income statement in the year to which they relate.

q) Property and equipment

Property and equipment are stated at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognized as a separate asset only when it is probable that future economic benefits will result for CEMG. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

CEMG performs impairment testing whenever events or circumstances indicate that the book value exceeds the highest between the value in use and the fair value less costs to sell, being the difference charged to the profit and loss.

Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Premises	50
Expenditure on freehold and leasehold buildings	10
Other fixed assets	4 to 10

Whenever there is an indication that a fixed tangible asset might be impaired, its recoverable amount is estimated and an impairment loss shall be recognized if the net value of the asset exceeds its recoverable amount.

The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use calculated based on the present value of future cash-flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life.

The impairment losses of the fixed tangible assets are recognized in profit and loss.

r) Intangible Assets

Software

The costs incurred with the acquisition, production and development of software are capitalised, as well as the costs incurred by CEMG to acquire and bring to use the specific software. These costs are amortised on the basis of their expected useful lives, which is usually of three years.

Costs that are directly associated with the development of identifiable specific software applications by CEMG, and that will probably generate economic benefits beyond one year, are recognized as intangible assets.

All remaining costs associated with IT services are recognized as an expense when incurred.

Other intangible assets

The recoverable amount of intangible assets without finite useful life as an asset is reviewed annually, regardless of the existence of signs of impairment. Any impairment losses are recognized in certain income statement.

s) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the balance sheet date, including cash and deposits with banks.

Cash and cash equivalents exclude restricted balances with central banks.

t) *Offsetting*

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when CEMG has a legally enforceable right to offset the recognized amounts and the transactions are intended to be settled on a net basis.

u) Employee benefits

Defined benefit plans

CEMG assumed the responsibility to pay its employees pensions on retirement or disabilities, as established in the terms of «Acordo Coletivo de Trabalho do Setor Bancário (ACT)», for employees engaged until 1 March 2009. The new admissions, since that date, are covered by the social security general scheme.

To cover its responsibilities, CEMG makes annual contributions to the pension fund, managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

The CEMG net obligation in respect of pension plans (defined benefit pensions plan) is calculated on an annual basis at 31 December of each year.

From 1 January 2011, CEMG employees were integrated in the General Social Security Scheme which now covers their maternity, paternity, adoption and pension benefits. However, CEMG remain liable for those benefits as concern illness, disability and life inurance (Decree-Law no. 1-A/2011, of 3 January).

The contributive rate is 26.6% divided between 23.6% supported by the employer and 3% supported by the employees, replacing the Banking Social Healthcare System («Caixa de Abono de Família dos Empregados Bancários») which was extinguished by the decree law referred above. As a consequence of this amendment the capability to receive pensions by the actual employees are covered by the General Social Security Scheme regime, considering the service period between 1 January 2011 and the retirement age. CEMG supports the remaining difference for the total pension assured in «Acordo Coletivo de Trabalho».

Following the approval by the Government of the DL 127/2011, which was published on 31 December, an agreement between the Government, the Portuguese Banking Association and the Banking Labour Unions was established that regulated the transfer of the liabilities related with pensions currently being paid to pensioners and retirees, to the Social Security.

This agreement established that the responsibilities to be transferred relate to the pensions in payment as at 31 December 2011 at fixed amounts (discount rate 0%) in the component established in the «Instrumento de Regulação Coletiva de Trabalho (IRCT)» of the retirees and pensioners. The responsibilities related with the increase in pensions as well as any other complements, namely, contributions to the Health System (SAMS), death benefit and death before retirement benefit continue to be under the responsibility of the Financial Institutions and being financed through the corresponding Pensions funds. The Decree-Law also establishes the terms and conditions under which the transfer was made by setting a discount rate of 4% to determine the liabilities to be transferred.

CEMG opted at the IFRS transition date, as at 1 January 2004, for the retrospective application of IAS 19, performing the recalculation of the pension obligations and the corresponding actuarial gains and losses which will be deferred under the corridor method as defined in IAS 19.

According to one of the options allowed by IAS 19 Employee Benefits, the Bank decided in 2011 to change the accounting policy for recognition of actuarial gains and losses, starting to recognize the actuarial gains and losses of the year against reserves. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes from 1 January 2010, recognizing in that date all the deferred actuarial gains and losses in equity.

The calculation is made using the projected unit credit method and following actuarial and financial assumptions in line with the parameters required by IAS 19. In accordance with no. 2 of Regulation no. 4/2005 from the Bank of Portugal was established a deferral period for the transition impact to IAS 19 as at 1 January 2005 analysed as follows:

Description	**Deferred period**
Obligations with healthcare benefits and other liabilities	10 years
Liabilities for death before retirement	8 years
Early retirement	8 years
Actuarial losses charged-off related with early retirement	8 years
Increase of deferred actuarial losses	8 years
Reversal of amortization of actuarial losses in accordance with local GAAP	8 years

On this basis, for the Health Benefits, it was missing 42 months to 30 June 2008 plus 36 months were with a repayment period of 78 months (6 years and 6 months). For Other liabilities the period of deferral changed to 54 months (4 years 6 months).

In accordance with Regulation no. 7/2008 from the Bank of Portugal concerning the balances listed in the table above, an additional period of three years was authorised considering the inittially defined deferral period.

Previously, CEMG proceeded to the deferral of actuarial gains and losses determined in accordance with the corridor method. Under the corridor method, actuarial gains and losses not recognized that exceed 10% of the greater of the present value of the liabilities and the fair value of the Fund's assets are recorded in the income statement for the period corresponding to the estimated remaining useful life of the employees in service.

The current services cost plus the interest cost on the unwinding of the Pension liabilities less the expected return on the Plan assets are recorded in operational costs.

CEMG net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates of high-quality corporate bonds that have maturity dates approximating the terms of the CEMG obligations. The net obligations are determined after the deduction of the fair value of the assets of the Pension Plan.

Employee benefits, other than pension plans, namely post retirement health care benefits and benefits for the spouse and sons for death before retirement are also included in the benefit plan calculation.

Costs arising from early retirements are recognized in the income statement on the year in which the early retirement is approved and announced.

Gains and losses for the year are recognized against reserves in the year they occur.

The funding policy of the Plan is to make annual contributions by CEMG so as to cover the projected benefits obligations, including the non-contractual projected benefits. The minimum level required for the funding is 100% regarding the liability with pensioners and 95% regarding the employees in service.

Health Benefits

For the banking employees it is ensured by CEMG medical care by the Health System (SAMS), autonomous entity that is managed by the respective Union.

SAMS provides to its beneficiaries, services and / or reimbursement of expenses of medical care, diagnostic tests, medications, hospitalizations and surgeries, according to their financial resources and internal regulation.

They are compulsory contributions to SAMS made by CEMG, the amount corresponding to 6.50% of total actual remuneration of the employees, including, among others, the holiday pay and Christmas bonus.

The measurement and recognition of obligations of CEMG with health benefits attributable to employees at retirement age are carried out similarly to pension liabilities.

Variable staff and board of directors remunerations

In accordance with IAS 19 – Employee benefits, variable remuneration (bonus) when assigned to employees and management bodies are accounted for in the period to which they relate.

v) Income taxes

Until 31 December, 2011, CEMG was a entity free from Income Tax Code (IRC), in accordance with subparagraph *a*) n. 1 of Article 10 of the IRC. This exemption been recognized by Order of 3 December 1993, the Secretary of State for Fiscal Issues and confirmed by Law no. 10-B/96 of March 23, approving the State Budget for 1996.

With effect from 1 January 2012, CEMG is subject to the regime established by the Income Tax Code («IRC»). Additionally, deferred taxes resulting from the temporary differences between the accounting net income and the net income accepted by the Tax Authorities for Income Taxes calculation, are accounted for, whenever there is a reasonable probability that those taxes will be paid or recovered in the future.

Income tax on the income for the year comprises current and deferred tax effects. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly to reserves in which case it is recognized in reserves. Deferred taxes arising from the revaluation of financial assets available for sale and cash flow hedging derivatives are recognized in shareholders' equity and are recognized in the profit and loss in the year the results that originated the deferred taxes are recognized.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with the liability method based on the balance sheet, considering temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the tax rates approved or substantially approved at balance sheet date and that is expected to be applied when the temporary difference is reversed.

Deferred taxes assets are recognized to the extent when it is probable that future taxable profits, will be available to absorb deductible temporary differences for taxation purposes (including reportable taxable losses).

CEMG as established in IAS 12, paragraph 74, compensates the deferred tax assets and liabilities if, and only if: (i) has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

w) Segmental reporting

A geographical segment is a distinguishable component of CEMG that is engaged in providing an individual product or service or a group of related products or services, in a specific economic environment and that is subject to risks and returns that are different from those of other business segments, which operates in different economic environments.

Taking into consideration that the individual financial statements are present with the Group's report, in accordance with the paragraph 4 of IFRS 8, CEMG is dismissed to present individual information regarding Segmental Reporting.

x) Provisions

Provisions are recognized when (i) CEMG has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain responsibilities), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and (iii) a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are not probable.

The provisions are derecognized through their use for the obligations for which they were initially accounted or for the cases that the situations were not already observed.

y) Accounting estimates and judgements in applying accounting policies

IFRS set forth a range of accounting treatments and require the Executive Board of Directors and management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects CEMG reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by management, CEMG reported results would differ if a different treatment was chosen. Management believes that the choices made are appropriate and that the financial statements present the CEMG's financial position and results fairly in all material aspects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

Impairment of available-for-sale financial assets

CEMG determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decrease in the fair value below its acquisition cost. This determination of what is significant or prolonged requires judgment. In making this judgment, CEMG evaluates among other factors, the volatility in the prices of the financial assets.

In addition, valuations are generally obtained trough market quotation or valuation models that may require assumptions or judgement in making estimates of fair value.

Alternative methodologies and the use of different assumptions and estimates could result in a higher level of impairment losses recognized with a consequent impact in the income statement of CEMG.

Impairment losses on loans and advances to customers

CEMG reviews its loan portfolios to assess impairment losses on a regularly basis, as described in note 1 *b*).

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgments. The probability of default, risk ratings, value of associated collaterals recovery rates and the estimation of both the amount and timing of future cash flows, among other things, are considered in making this evaluation.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses with a consequent impact in the income statement of CEMG.

Fair value of derivatives

Fair values are based on listed market prices if available, otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgments in estimating their values.

Consequently, the use of a different model or of different assumptions or judgments in applying a particular model could result in different financial results for a particular period.

Securitizations and special purpose entities (SPE)

CEMG sponsors the formation of SPE primarily for asset securitization transactions for liquidity purposes and/or capital management.

Therefore, the securitization operations Pelican Mortgages No. 3, Aqua SME No. 1, Pelican Mortgages No. 4, Aqua Mortgage No. 1, Pelican Mortgages No. 5 e Pelican SME were not derecognized in the CEMG financial statements.

CEMG derecognized the following SPE which also resulted from operations of securitization: Pelican Mortgages No. 1 e 2. For these SPE, CEMG concluded that the main risks and the benefits were transferred, as CEMG does not hold detain any security issued by the SPE, that are exposed to the majority of the residual risks, neither is exposed to the performance of the credit portfolios.

Income taxes

Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognized in the year.

The Portuguese Tax Authorities are entitled to review CEMG and its subsidiaries determination of its annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law which for its probability, the Executive Board of Directors considers that there is no relevant material effect at the level of the Financial Statements.

Pension and other employees benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

INCOME STATEMENT FOR THE YEARS ENDED AT 31 DECEMBER, 2011 AND 2010

(thousands euros)

	NOTES	2011	2010
			Restated
Interest and similar income	3	1 161 027	750 941
Interest and similar expense	3	857 554	480 519
NET INTEREST INCOME		**303 473**	**270 422**
Dividends from equity instruments	4	2 112	2 175
Fee and comission income	5	108 128	89 175
Fee and comission expense	5	(19 199)	(15 205)
Net losses arising from assets and liabilities at fair value through profit or loss	6	68 399	45 555
Net gains/(losses) arising from available-for-sale financial assets	7	3 216	9 959
Net gains arising from foreign exchange differences	8	2 520	2 320
Net gains from sale of other financial assets	9	57 988	(3 363)
Other operating income	10	29 451	16 976
TOTAL OPERATING INCOME		**556 088**	**418 014**
Staff costs	11	217 319	141 777
General and administrative expenses	12	105 628	83 442
Depreciation and amortisation	13	26 854	20 846
TOTAL OPERATING COSTS		**349 801**	**246 065**
Loans impairment	14	171 448	118 452
Other assets impairment	15	16 176	12 166
Other provisions	16	(2 792)	(1 206)
OPERATING PROFIT		**21 455**	**42 537**
Taxes			
Deferred	31	(11 368)	–
PROFIT FOR THE YEAR		**32 823**	**42 537**

See accompanying notes to the Individual Financial Statements

BALANCE SHEET AS AT 31 DECEMBER, 2011, 2010 AND 1 JANUARY 2010

(thousands euros)

	NOTES	2011	2010	1 JAN 2010
ASSETS			Restated	Restated
Cash and deposits at central banks	17	381 540	240 024	305 018
Loans and advances to credit institutions	18	102 701	58 405	51 745
Other loans and advances to credit institutions	19	370 268	338 662	370 884
Loans and advances to customers	20	16 200 240	14 352 766	14 448 162
Financial assets held for trading	21	145 252	130 865	103 195
Other financial assets held for trading at fair value through profit or loss	22	3 606	3 952	4 192
Financial assets available for sale	23	5 821 780	5 256 811	3 164 510
Hedging derivatives	24	1 184	2 810	5 109
Financial assets held to maturity	25	48 416	58 093	33 523
Investments in associated companies	26	384 547	43 297	43 297
Non current assets held for sale	27	86 830	162 374	128 599
Property and equipment	28	66 183	89 188	91 173
Goodwill and intangible assets	29	110 843	18 254	16 151
Current income tax assets		10	–	–
Deferred income tax assets	31	59 221	–	–
Other assets	30	310 278	104 924	106 631
TOTAL ASSETS		**24 092 899**	**20 860 425**	**18 872 189**
LIABILITIES				
Deposits from central banks	32	2 003 300	1 540 266	502 353
Deposits from other credit institutions	33	1 182 068	1 262 546	945 400
Deposits from customers	34	13 190 639	9 654 340	8 881 046
Debt securities issued	35	2 240 688	3 578 677	4 583 307
Financial liabilities relating to transferred assets		3 289 983	3 182 375	1 450 122
Financial liabilities held for trading	21	101 524	53 814	41 345
Hedging derivates	24	2 444	1 408	598
Provisions	36	120 014	101 499	102 800
Other subordinated debt	37	477 247	380 986	381 043
Other liabilities	38	243 419	211 696	1 077 474
TOTAL LIABILITIES		**22 851 326**	**19 967 607**	**17 965 488**
EQUITY				
Share capital	39	1 245 000	800 000	760 000
Other capital instruments	40	15 000	–	–
Fair value reserves	42	(316 692)	(82 973)	(28 600)
Reserves and retained earnings	41 and 42	265 442	133 254	175 301
Profit for the year		32 823	42 537	–
TOTAL EQUITY		**1 241 573**	**892 818**	**906 701**
TOTAL		**24 092 899**	**20 860 425**	**18 872 189**

See accompanying notes to the Individual Financial Statements

2. Net interest income and net gains arising from available-for-sale financial assets and financial liabilities at fair value through profit or loss

IFRS requires separate disclosure of net interest income and net gains from trading, hedging and available for sale (AFS) activities, as presented in notes 3, 6 and 7. A particular business activity can generate impact in net interest income and net gains arising from trading, hedging and available-for-sale activities. This disclosure requirement demonstrates the contribution of the different business activities for the net interest margin and net gains from trading, hedging and available-for-sale activities.

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Net interest income	303 473	270 422
Net gains arising from assets and liabilities at fair value through profit and loss and available-for-sale financial assets	71 615	55 514
	375 088	325 936

3. Net interest income

The amount of this account is comprised of:

	2011			2010		
	Assets/ liabilities at amortized cost and available-for-sale Euro '000	Assets/ liabilities at fair value through profit or loss Euro '000	Total Euro '000	Assets/ liabilities at amortized cost and available-for-sale Euro '000	Assets/ liabilities at fair value through profit or loss Euro '000	Total Euro '000
Interest and similar income:						
Interest from loans and advances	528 616	–	528 616	366 394	–	366 394
Interest from other assets	8 385	–	8 385	1 267	–	1 267
Interest from deposits with banks	2 459	–	2 459	1 499	–	1 499
Interest from available-for-sale financial assets	297 956	–	297 956	152 796	–	152 796
Interest from held-to-maturity financial assets	2 188	–	2 188	2 429	–	2 429
Derivates	2 804	–	2 804	3 799	–	3 799
Interest from available for trading financial assets	–	275 031	275 031	–	194 031	194 031
Other interest and similar income	43 588	–	43 588	28 726	–	28 726
	885 996	275 031	1 161 027	556 910	194 031	750 941
Interest and similar expense:						
Interest from deposits	328 781	–	328 781	133 485	–	133 485
Interest from securities issued	87 341	–	87 341	91 192	–	91 192
Interest from loans	4 960	–	4 960	4 736	–	4 736
Interest from other funding	62 523	–	62 523	25 441	–	25 441
Interest from hedging derivates	2 333	–	2 333	2 311	–	2 311
Interest from available for trading financial assets	–	258 642	258 642	–	149 281	149 281
Other interest and similar expenses	112 974	–	112 974	74 073	–	74 073
	598 912	258 642	857 554	331 238	149 281	480 519
Net interest income	287 084	16 389	303 473	225 672	44 750	270 422

The balance Interest on loans and advances includes the amount of Euro 22 123 000 (2010: Euro 9 753 000) related to commissions and other gains / losses which are accounted for under the effective interest method, as referred in the accounting policy, note 1 *b*).

4. Dividends from equity instruments

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Dividends from available for sale financial assets	594	487
Dividends from subsidiaries and associated companies	1 518	1 688
	2 112	2 175

Balance Dividends from available for sale financial assets includes dividends and income from investment fund units received during the year.

5. Net fees and commissions income

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Fees and commissions income:		
From banking services	74 617	64 845
From transactions order by third parties	9 040	8 957
From insurance brokerage services	8 257	9 508
From commitments to third parties	7 107	5 786
Other fee and commission income	9 107	79
	108 128	89 175
Fees and commissions expenses:		
From banking services rendered by third parties	17 635	14 358
From transactions with securities	530	373
Other fee and commission expense	1 034	474
	19 199	15 205
Net fees and commission income	88 929	73 970

At December 31, 2011 and 2010, commissions received on insurance brokerage services or reinsurance is made up as follows:

	2011 Euro '000	2010 Euro '000
Life insurance:		
Mortgage	2 063	2 104
Consumer	142	202
Other	812	855
	3 017	3 161
Non-life insurance:		
Mortgage	1 841	1 870
Consumer	940	2 210
Other	2 459	2 267
	5 240	6 347
	8 257	9 508

6. Net gains/(losses) arising from financial assets at fair value through profit or loss

The amount of this account is comprised of:

	2011			2010		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by public entities	151	–	151	686	1 140	(454)
Issued by other entities	476	1 396	(920)	349	1 012	(663)
Shares	92	88	4	235	160	75
	719	1 484	(765)	1 270	2 312	(1 042)
Derivative financial instruments						
Exchange rate contracts	209 958	209 474	484	331 042	332 833	(1 791)
Interest rate contracts	1 634 876	1 656 105	(21 229)	451 918	433 733	18 185
Credit default contracts (CDS)	3 941	5 578	(1 637)	6 036	6 569	(533)
Others	193 658	100 956	92 702	132 775	101 231	31 544
	2 042 433	1 972 113	70 320	921 771	874 366	47 405
	2 043 152	1 973 597	69 555	923 041	876 678	46 363
Other financial assets at fair value through profit or loss						
Bonds and other fixed income securities						
Issued by other entities	–	346	(346)	–	240	(240)
	–	346	(346)	–	240	(240)
Financial liabilities						
Other loans and advances to credit institutions	627	284	343	1 247	382	865
Deposits from customers	1 118	434	684	677	356	321
Debt securities issued	15	–	15	242	–	242
Other subordinated debt	40 330	42 182	(1 852)	34 974	36 970	(1 996)
	42 090	42 900	(810)	37 140	37 708	(568)
	2 085 242	2 016 843	68 399	960 181	914 626	45 555

The balance Assets and liabilities held for trading – financial instruments, includes for financial liabilities instruments arising at fair value, gains in the amount of Euro 88 664 000 (2010: Euro 49 185 000 from fair value changes related with changes own credit risk (spread) changes from operations.

In accordance with the accounting policies followed by CEMG, financial instruments are initially recognized at fair value. The best evidence of the fair value of the instrument at inception is deemed to be the transaction price. However, in particular circumstances, the fair value of a financial instrument at inception, determined based on a valuation techniques, may differ from the transaction price, namely due to the existence of a built-in fee, originating a day one profit.

CEMG recognizes in the income statement the gains arising from the built-in fee (day one profit), generated, namely, on the trading of derivative and foreign exchange financial products, considering that the fair value of these instruments at inception and on subsequent measurements is determined only based on observable market data and reflects CEMG access to the wholesale market.

7. Net gains/(losses) arising from available-for-sale financial assets

The amount of this account is comprised of:

	2011			2010		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Bonds and other fixed income securities						
Issued by public entities	2 670	1 008	1 662	5 093	3 290	1 803
Issued by other entities	14 094	12 813	1 281	5 904	1 479	4 425
Shares	111	18	93	2 673	15	2 658
Other variable income securities	187	7	180	2 918	1 845	1 073
	17 062	13 846	3 216	16 588	6 629	9 959

8. Net gains/(losses) from foreign exchange differences

The amount of this account is comprised of:

	2011			2010		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Foreign exchange differences	146 380	143 860	2 520	11 709	9 389	2 320

This account is comprised of the results from foreign exchange differences of monetary assets and liabilities in foreign currency in accordance with the accounting policy presented in note 1 *g*).

9. Net gains/(losses) arising from sale of other assets

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Sale of properties	58 604	(2 410)
Sale of other assets	(616)	(953)
	57 988	(3 363)

The balance Sale of properties includes the amount of Euro 63 993 000 related with gains on the sale of non-current assets available for sale and Land and building for own use, as referred in notes 27 and 28.

10. Other operating income

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Operating income:		
Income from services	14 654	5 374
Expenses reimbursement	2 547	2 144
Profits arising from deposits on demand	7 552	7 821
Repurchase debt	33 217	6 646
Other operating income	5 484	2 604
	63 454	24 589
Operating costs:		
Indirect taxes	3 747	128
Donations and quotizations	482	462
Contributions to the Deposit Guarantee Fund	2 286	1 662
Contributions to Investors Claims System	1 684	–
Other operating expenses	25 804	5 361
	34 003	7 613
Other net operating income	29 451	16 976

The balance Income from services includes the amount of Euro 8 154 000 to the assignment of staff made by CEMG to Finibanco S.A.

The balance Repurchase debt is calculated in accordance with accounting policy presented in note 1 *c*) and refer to the re-acquisition of Mortgage Bonds.

The caption Specific contribution for the Banking Sector is estimated according to the terms of the Decree-Law 55-A/2010, that is not eligible as a tax cost. At 31 December 2011, CEMG recognized as cost expense for the year the amount of Euro 3 515 000, included in balance Other operating expenses – taxes.

11. Staff costs

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Remunerations	132 068	105 143
SAMS contributions	6 459	5 833
Mandatory social security charges	29 877	8 148
Other charges with the pensions fund	43 480	19 350
Other staff costs	5 435	3 303
	217 319	141 777

The caption Other charges with the pensions fund includes the amount of Euro 14 096 000 related to the impact in the income statement of the responsibilities with retirees and pensioners transferred to the General Social Security Scheme («GSSS»), as referred in note 46. The referred impact corresponds to the effect of the recalculation of the liabilities based on the actuarial assumptions set by the Portuguese State, in the scope of the transfer.

As referred in note 46, the caption Other charges with pensions fund also includes, the amount of Euro 13 022 000 (2010: Euro 18 468 000) related to the pension cost for the year, excluding the effect of the transfer of the responsibilities to the «GSSS». The referred balance also includes the amount of Euro 17 640 000 related to costs with early retirements during the year.

During 2011, the costs with Social Security and the contributions to the Pension Fund for members of the Executive Board of Directors amounted to Euro 359 000 (2010: Euro 304 000).

The health-care benefits – SAMS include the amount of Euro 942 000 (2010: Euro 714 000) related to the health care net periodic benefit cost, which was determined based on the actuarial valuation performed (see note 46).

The costs with salaries and other benefits attributed to CEMG key management personnel in 2011 are presented as follows:

	Board of Directors Euro '000	Other key management personnel Euro '000	Total Euro '000
Salaries and other short-term benefits	1 238	4 053	5 291
Pension costs and health-care benefits (SAMS)	6	147	153
Variable remunerations	–	240	240
Total	1 244	4 440	5 684

The costs with salaries and other benefits attributed to CEMG key management personnel in 2010 are presented as follows:

	Board of Directors Euro '000	Other key management personnel Euro '000	Total Euro '000
Salaries and other short-term benefits	1 230	4 253	5 483
Pension costs and health-care benefits (SAMS)	6	159	165
Variable remunerations	0	234	234
Total	1 236	4 646	5 882

It is our understanding that the Other key management personnel are the top directors of CEMG.

As at 31 December 2011 and 2010, loans granted by CEMG to its key management personnel, amounted to Euro 4 200 000 and Euro 5 046 000, respectively.

The average number of employees by professional category at service in CEMG during 2011 and 2010 is analysed as follows:

	2011	2010
Management	198	127
Managerial staff	753	494
Technical staff	1 053	654
Specific categories	158	139
Administrative	1 682	1 362
Staff	66	66
	3 910	2 842

12. General and administrative expenses

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Rents	27 666	20 307
Specialised services		
Information technology services	13 936	10 506
Independent work	4 410	3 498
Other specialised services	18 134	12 871
Advertising	6 839	6 600
Communications	10 529	8 601
Water, electricity and fuel	5 186	4 261
Maintenance and related services	5 698	5 462
Transportation	3 903	3 327
Insurance	2 380	1 894
Travel, hotel and representation costs	1 555	1 104
Consumables	2 064	1 479
Training costs	281	572
Other supplies and services	3 047	2 960
	105 628	83 442

The balance Rents, includes the amount of Euro 18 029 000 (2010: Euro 15 621 000) related to rents paid regarding buildings used by CEMG as leaser.

13. Depreciation and amortisation

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Intangible assets:		
Software	9 449	7 776
	9 449	7 776
Other tangible assets:		
Land and buildings	4 601	3 349
Equipment:		
Furniture	1 042	572
Office equipment	120	57
Computer equipment	7 953	6 307
Interior installations	1 618	1 585
Motor vehicles	227	9
Security equipment	842	434
Operacional lease – Renting	863	757
Other tangible assets	139	–
	12 804	9 721
	22 253	17 497

14. Loans and impairment

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Overdue loans and advances to customers:		
Charge for the year	508 266	475 786
Write-back for the year	(333 518)	(354 942)
Recovery of loans and interest charged-off	(3 478)	(2 376)
	171 270	118 468
Other loans and advances to credit institutions:		
Charge for the year	311	104
Write-back for the year	(133)	(120)
	178	(16)
	171 448	118 452

In accordance with the accounting policy presented in note 1 *a*), CEMG applies in its financial statements the NCA's, and therefore the balance Loans impairment accounts the estimate of the incurred losses at the end of the year in accordance with the provision law defined by the rules of the Bank of Portugal, as described in the accounting policy presented in note 1 *b*).

15. Other assets impairment

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Impairment for investments arising from recovered loans:		
Charge for the year	10 912	13 845
Write-back for the year	(29 368)	(3 831)
	(18 456)	10 014
Impairment for securities:		
Charge for the year	37 715	3 515
Write-back for the year	(3 083)	(1 363)
	34 632	2 152
	16 176	12 166

The caption Impairment for securities – Charge of the year corresponds to the impairment recognized during 2011, the sovereign debt of Greece, as referred in notes 22 and 52. Such impairment corresponds to 65% of the nominal value of Greece's sovereign debt held by CEMG.

The balance Impairment for investments arising from recovered loans – Write-back for the year includes the effect of the sale of property recorded in the portfolio of non-current assets held for sale, as described in note 27.

16. Other provisions

The amount of this account is comprised of:

	2011 Euro '000	2010 Euro '000
Provision for credit risks:		
Charge for the year	53 801	49 552
Write-back for the year	(56 917)	(50 674)
	(3 116)	(1 122)
Other provisions for liabilities and charges:		
Charge for the year	776	586
Write-back for the year	(452)	(670)
	324	(84)
	(2 792)	(1 206)

17. Cash and deposits at central banks

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Cash	133 063	95 641
Bank of Portugal	248 477	144 383
	381 540	240 024

The balance Bank of Portugal includes mandatory deposits intended to satisfy legal minimum cash requirements. According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements.

As at 31 December 2011, these deposits have earned interest at an average rate of 1% (2010: 1%).

18. Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Credit institutions in Portugal	304	424
Credit institutions abroad	33 040	12 209
Amounts due for collection	69 357	45 772
	102 701	58 405

The balance Amounts due for collection represents essentially cheques receivable from other credit institutions due for collection.

19. Other loans and advances to credit institutions

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Loans and advances to credit institutions in Portugal:		
Deposits	1 135	205
Loans	103 859	–
Short term deposits	65 002	260 003
Other loans and advances	–	10 000
	169 996	270 208
Loans and advances to credit institutions abroad:		
Deposits	39 054	112
Short term deposits	32 014	–
Other loans and advances	129 549	68 392
	200 617	68 504
	370 613	338 712
Impairment for credit risks over credit institutions	(345)	(50)
	370 268	338 662

The main loans and advances to credit institutions in Portugal, as at 31 December 2011, bear interest at an average annual interest rate of 1.35% (2010: 1.37%).

Loans and advances to credit institutions abroad bear interest at international market rates where CEMG operates.

The balance Other loans and advances to credit institutions, by the period to maturity, is analysed as follows:

	2011 Euro '000	2010 Euro '000
Due within 3 months	249 359	301 495
3 months to 6 months	34 900	–
6 months to 1 year	80 022	34 900
More than 5 years	6 218	2 205
Undetermined	114	112
	370 613	338 712

The changes in impairment for credit risks over credit institutions in the year are analysed as follows:

	2011 Euro '000	2010 Euro '000
Impairment for credit risks over credit institutions:		
Balance on 1 January	50	66
Charge for the year	311	104
Write-back for the year	(121)	(120)
Transfers	105	–
Balance on 31 December	345	50

The balance Transfers corresponds of amounts transferred from Finibanco Holding, S.G.P.S., S.A. and its subsidiaries in the acquisition by CEMG on 31 March 2011.

20. Loans and advances to customers

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Domestic loans:		
Corporate:		
Loans	2 004 094	1 388 583
Commercial lines of credits	1 946 800	2 106 934
Finance leases	242 412	229 348
Discounted bills	163 129	87 087
Factoring	146 496	109 683
Overdrafts	99 807	9 134
Other loans	1 684 350	756 961
Retail:		
Mortgage loans	8 702 991	8 651 320
Finance leases	46 466	45 001
Consumer and other loans	1 066 442	828 554
	16 102 987	14 212 605
Foreign loans:		
Corporate:		
Overdrafts	5 072	–
	16 108 059	14 212 605
Correction value of assets subject to the hedge	1 515	–
Overdue loans and interest:		
Less than 90 days	124 690	90 729
More than 90 days	660 201	486 761
	784 891	577.490
	16 894 465	14 790 095
Impairment for credit risks	(694 225)	(437 329)
	16 200 240	14 352 766

As at 31 December 2011, this balance includes Euro 2 208 300 000 (2010: Euro 1 000 000 000) regarding mortgage loans that collateralise the issue of covered bonds issued by CEMG.

The CEMG realized operations conducted under the Programme for the Issuance of CEMG Mortgage Bonds:

– November 2011: Issue of Euro 300 000 000, term: 5 years, an interest rate; 2.28%;

– October 2011: Cancellation of 291.7 million Euro, with a score of 17.75 million Euro, according to note 10;

– November 2010: Issue of Euro 500 000 000, term: 5 years; an interest rate; 4.08%;

– December 2009: Issue of Euro 1 000 000 000; term: 7 years, an interest rate; 2.17%; and

– July 2009: Issue of Euro 708 300 000; term: 3 years, an interest rate; 3.25%.

In accordance with «Carta-circular» no. 15/2009, of January, 28 from Bank of Portugal, CEMG only writes-off overdue loans fully provided that after an economic analysis, are considered uncollectable since there are no perspectives of recovery.

As at 31 de December 2011, the balance Mortgage includes the amount of Euro 3 289 983 000 (2010: Euro 3 182 375 000) related with loans objected of securitization and, in accordance with accounting policy 1 *b*), related to loans subject of securitization, which according to note 1 *b*), were not subject to derecognition. This amount is also recorded under the item Financial liabilities associated to transferred assets.

The fair value of the portfolio of loans to customers is presented in note 45.

The balance Overdue loans for more than 90 days includes at 31 December 2011 and 2010, loans and advances to customers from which the responsibility with the former debtor has been extinguished, in the amount of Euro 1 532 000 and Euro 1 533 000, respectively. These amounts correspond to loans overdue for more than three years for which the contractual obligation with the former debtor has been extinguished due to the acquisition in court auction bankruptcy or acquisition through foresale but for which there are still pending legal actions.

Loans and advances to customers include mostly variable interest rate contracts.

The analysis of Loans and advances to customers, by maturity date and type of credit as at 31 December 2011, is as follows:

	Loans and advances to customers				
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Undetermined Euro '000	Total Euro '000
Asset-backed loans	55 844	2 606 296	10 029 330	528 670	13 220 140
Other guarantee loans	115 412	1 108 745	245 881	101 602	1 571 640
Unsecured loans	418 890	792 141	388 143	146 536	1 745 710
Public sector loans	1 607	11 004	42 331	539	55 481
Foreign loans	5 072	–	–	–	5 072
Financial leases	8 028	94 872	185 978	7 544	296 422
	604 853	4 613 058	10 891 663	784 891	16 894 465

The analysis of Loans and advances to customers, by maturity date and type of credit as at 31 December 2010, is as follows:

	Loans and advances to customers				
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Undetermined Euro '000	Total Euro '000
Asset-backed loans	440 557	1 951 681	9 569 396	466 714	12 428 348
Other guarantee loans	617 575	183 750	198 000	44 373	1 043 698
Unsecured loans	539 821	123 202	252 728	60 327	976 078
Public sector loans	18 164	56	43 326	211	61 757
Financial leases	2 850	116 347	155 152	5 865	280 214
	1 618 967	2 375 036	10 218 602	577 490	14 790 095

The balance Financial leases, by the period to maturity as at 31 December 2011, is analysed as follows:

	Finance leases			
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Outstanding rents	63 773	133 086	138 046	334 905
Outstanding interest	(13 591)	(33 452)	(32 236)	(79 279)
Residual values	4 164	12 344	16 744	33 252
	54 346	111 978	122 554	288 878

The balance Financial leases, by the period to maturity as at 31 December 2010, is analysed as follows:

	Finance leases			
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Outstanding rents	57 430	109 276	137 829	304 535
Outstanding interest	(10 104)	(20 613)	(30 269)	(60 986)
Residual values	3 906	9 029	17 865	30 800
	51 232	97 692	125 425	274 349

The analysis of Overdue loans and interest, by type of credit, is as follows:

	2011 Euro '000	2010 Euro '000
Asset-backed loans	528 670	466 714
Other guaranteed loans	101 602	44 373
Unsecured loans	146 536	60 327
Public sector loans	539	211
Financial lease	7 544	5 865
	784 891	577 490

The analysis of Overdue loans and interest, by type of client, is as follows:

	2011 Euro '000	2010 Euro '000
Corporate:		
Construction/Production	164 844	146 973
Investment	108 568	54 383
Other short term loans	126 213	44 031
Other loans	4 611	2 472
Retail:		
Mortgage loans	272 969	268 443
Consumer credit	18 905	7 179
Other loans	55 858	32 586
Public Sector	530	211
Other segments	32 393	21 212
	784 891	577 490

The impairment for credit risks is analysed as follows:

	2011 Euro '000	2010 Euro '000
Impairment for credit risks:		
Balance on 1 January	437 329	401 579
Charge for the year	508 266	475 786
Write-back for the year	(333 518)	(354 942)
Loans charged-off	(44 643)	(85 094)
Transfer	126 791	–
Balance on 31 December	694 225	437 329

The balance Transfers corresponde to values transferred from Finibanco, S.A. in the scope of the acquisition of assets and liabilities held on April 4, 2011, as described in accounting policy 1 *a*).

Additionally, as at 31 December 2011, CEMG has a provision for general banking risks in the amount of Euro 117 066 000 (2010: Euro 100 188 000), which in accordance to NCA's is presented as a liability, as referred in note 36.

In accordance with CEMG's policy, interest on overdue loans for a period over 90 days not covered by asset-backed guarantees, is only recorded as income when received.

The table below shows the analysis of the overdue loans and advances and the impairment for credit risk as at 31 December 2011:

	Default classes					
	Due within 3 months Euro '000	3 to 6 months Euro '000	6 months to 1 year Euro '000	1 to 3 years Euro '000	Over 3 years Euro '000	Total Euro '000
Overdue loans with collaterals	81 396	31 769	71 499	185 060	277 714	647 438
Impairment for overdue loans with collaterals	635	3 109	17 516	120 715	329 746	471 721
Overdue loans without collaterals	26 801	16 356	21 927	29 544	42 825	137 453
Impairment for overdue loans without collaterals	290	4 196	14 632	32 514	45 273	96 905
Total overdue loans	108 197	48 125	93 426	214 604	320 539	784 891
Total impairment for overdue loans	925	7 305	32 148	153 229	375 019	568 626
Total impairment for due loans, overdue loans and others	432	853	12 788	72 585	38 941	125 599
Total impairment for credit risk	1 357	8 158	44 936	225 814	413 960	694 225

The impairment for credit risks, by type of credit, is as follows:

	2011 Euro '000	2010 Euro '000
Asset-backed loans	498 823	351 129
Other guareteed loans	77 440	29 748
Unsecured loans	117 962	56 452
	694 225	437 329

In compliance with the accounting policy described in note 1 *b*), loans and advances to customers are charged-off when there are no expectations, from an economic point of view, of recovering the loan amount and for collateralized loans, when the funds arising from the execution of the respective collaterals was already received. This charge-off is carried out for loans that are fully provided.

The analysis of the loans charged-off, by type of credit, is as follows:

	2011 Euro '000	2010 Euro '000
Asset-backed loans	39 602	51 907
Other guaranteed loans	1 142	13 615
Unsecured loans	3 899	19 572
	44 643	85 094

The recovered loans and overdue interest, performed during the period of 1 January to 31 December 2011 and during 2010, related with asset-backed loans recovered, amounts to Euro 3 478 000 and Euro 2 376 000, as referred in note 14.

CEMG uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect the market value of them, these effects are reviewed regularly based on evaluations conducted by certified independent testing organizations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the area their geographical. The financial collateral are revalued based on market values of their assets, when available, and certain coefficients applied depreciation to reflect its volatility.

21. Financial assets and liabilities held for trading

The balance financial assets and liabilities held for trading is analysed as follows:

	2011 Euro '000	2010 Euro '000
Financial assets held for trading:		
Securities		
Shares	5 414	2 805
Bonds	–	3 192
	5 414	5 997
Derivates		
Derivates financial instruments with positive fair value	139 838	124 868
	145 252	130 865
Financial liabilities held for trading:		
Derivates		
Derivates financial instruments with negative fair value	101 524	53 814

The trading portfolio is recorded at fair value trough profit or loss, in accordance with the accounting policy 1 *c*). As referred in the accounting policy, the securities held for trading are those who are acquired with the purpose of short-term transactions, independently from its maturity.

As referred in IFRS 7, financial assets held for trading and available for sale are valued in accordance with the following fair value measurement levels:

– Level 1: financial instruments measured in accordance with quoted market prices or providers.

– Level 2: financial instruments measured in accordance with internal valuation techniques based on observable market inputs.

– Level 3: financial instruments measured in accordance with valuation techniques based on inputs not based on observable data that have significant impact in the instruments valuation.

The financial assets and liabilities held for trading are valued in accordance with market prices or providers and with internal valuation techniques based on observable market inputs. Therefore, accordingly with the hierarchy of the valuation sources, as referred in IFRS 7 these instruments are classified in the levels 1 and 2.

The analysis of the securities portfolio held for trading by maturity as at 31 December 2011 is as follows:

	2011				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	Total Euro '000
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	804	804
Foreign	–	–	–	4 610	4 610
	–	–	–	5 414	5 414
Quoted	–	–	–	5 414	5 414

The analysis of the securities portfolio held for trading by maturity as at 31 December 2010 is as follows:

	2010				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	Total Euro '000
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	464	464
Foreign	–	–	–	2 341	2 341
	–	–	–	2 805	2 805
Fixed income securities:					
Bonds issued by					
Other entities	–	–	3 192	–	3 192
	–	–	3 192	–	5 997
Quoted	–	–	3 192	2 805	5 997

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2011, is as follows:

2011

Derivate	Related financial asset / liability	Derivative			Related asset / liability			
		Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Book value Euro '000	Reimburse-ment amount at maturity date Euro '000
Interest rate swap	Securities issued	1 061 936	10 172	(15 207)	(89 648)	(53 425)	315 750	315 750
Interest rate swap	Deposits	1 872 000	22 250	3 673	15 906	1 952	753 397	753 397
Interest rate swap	Deposits from customers	348 767	13 671	1 408	(19 592)	(16 835)	247 368	247 368
Interest rate swap	Titularization	10 070 419	(10 734)	(8 591)	–	–	–	–
Interest rate swap	Covered bonds	9 242 912	5 875	(12 148)	6 509	14 126	708 300	708 300
CIRS	–	1 158 319	(19)	1 173	–	–	–	–
Currency swap	Debt issued	9 072	194	62	–	–	–	–
Future options	–	84 752	(22)	(21	–	–	–	–
Options	Time deposits and other deposits	87 762	(2)	(755)	–	–	–	–
Credit Default Swaps	–	81 093	(3 071)	(2 334)	–	–	–	–
		24 017 032	38 314	(32 740)	(86 825)	(54 182)	2 024 815	2 024 815

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2010, is as follows:

2010

Derivate	Related financial asset / liability	Derivative			Related asset / liability			
		Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Book value Euro '000	Reimburse-ment amount at maturity date Euro '000
Interest rate swap	Security issued	605 000	25 379	2 617	(36 223)	(48 475)	302 500	302 500
Interest rate swap	Deposits	3 609 775	18 577	13 298	12 954	10 593	2 013 304	2 013 304
Interest rate swap	Deposits from customers	490 052	12 263	(3 102)	(2 757)	(13 319)	247 113	247 113
Interest rate swap	Titularization	10 717 877	(2 143)	(2 596)	–	–	–	–
Interest rate swap	Covered bonds	11 890 474	18 023	7 891	(7 617)	(8 061)	1 000 000	1 000 000
Currency swap	Debt issued	529 439	(1 192)	(1 749)	–	–	–	–
CIRS	–	8 989	132	132	–	–	–	–
Futures options	–	14 298	(1)	(1)	–	–	–	–
Options	Time deposits and other deposits	70 586	753	169	–	–	–	–
Credit Default Swaps	–	89 710	(737)	(306)	–	–	–	–
		28 017 211	70 922	16 356	(33 643)	(59 262)	3 562 917	3 562 917

The analysis of financial instruments held for trading, by maturity date as at 31 December 2011, is as follows:

	2011					
	Notional with remaining term				Fair value	
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Positive Euro '000	Negative Euro '000
Interest rate contracts:						
Interest rate swaps	22 945	1 982 770	21 550 036	23 555 751	129 629	88 505
Options	–	2 800	84 961	87 761	1 152	1 154
Exchange rate contracts:						
Currency swaps	207 203	471	–	207 674	455	169
Index contracts:						
Index futures	84 752	–	–	84 752	–	22
Credit default contracts:						
Credit default swaps	–	–	81 093	81 093	1 273	4 343
	314 900	1 986 041	21 716 090	24 017 031	132 509	94 193

The analysis of financial instruments held for trading, by maturity date as at 31 December 2010, is as follows:

	2010					
	Notional with remaining term				Fair value	
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Positive Euro '000	Negative Euro '000
Interest rate contracts:						
Interest rate swaps	31 000	201 184	27 080 994	27 313 178	119 941	48 647
Options	10 500	–	60 086	70 586	2 011	1 258
Exchange rate contracts:						
Currency swaps	529 439	–	8 989	538 428	1 975	2 230
Index contracts:						
Index futures	14 298	–	–	14 298	–	1
Credit default contracts:						
Credit default swaps	–	–	89 710	89 710	941	1 678
	585 237	201 184	27 239 779	28 026 200	124 868	53 814

The fair value of the derivatives financial instruments includes, the valuation of the embedded derivatives separated from the host contract in accordance with note 1 *c)* in the amount of Euro 7 331 000 (2010: Euro 6 276 000).

22. Other financial assets and liabilities at fair value through profit or loss

The balance Other financial assets and liabilities held for trading at fair value through profit or loss amounts in Euro 3 606 000 (2010: Euro 3 952 000), which is fully composed by fixed income bonds and other securities of other issuers.

CEMG's choice of naming these assets at fair value through profit and loss, according to IAS 39 and note 1.6, can be observed in the planed strategy of CEMG's management, considering that (i) these financial assets are managed and evaluated in a fair value basis and/or (ii) that these assets are holding embedded derivative instruments.

Other financial assets and liabilities held for trading at fair value through profit or loss are measured in accordance with internal valuation techniques considering mainly observable market inputs. In accordance with the hierarchy of the valuation sources, as referred in IFRS 7, these instruments are classified in level 1.

As at 31 December 2011 and 2010, securities portfolio included in the balance Other financial assets and liabilities held for trading at fair value through profit or loss is found quoted with a maturity greater than 1 year.

23. Available-for-sale financial assets

This balance is analysed as follows:

	2011				
		Fair value reserve			
	Cost (1) Euro '000	Positive Euro '000	Negative Euro '000	Impairment losses Euro '000	Book value Euro '000
Fixed income securities:					
Issued by public entities:					
Portuguese	1 392 045	1 935	(243 498)	–	1 150 482
Foreign	147 206	2 164	(2 848)	(19 309)	127 213
Issued by other entities:					
Portuguese	3 445 227	1 733	(22 367)	(15 980)	3 408 613
Foreign	520 067	3 010	(55 681)	(8 289)	459 107
Commercial papper	312 067	–	–	(998)	311 069
Variable income securities:					
Portuguese	9 602	70	(74)	(3 507)	6 091
Foreign	7 896	313	(382)	(1 416)	6 411
Investment fund units	354 009	850	(1 917)	(148)	352 794
	6 188 119	10 075	(326 767)	(49 647)	5 821 780

(1) Acquisition cost relating to shares and amortised cost relating to debt securities.

	2010				
		Fair value reserve			
	Cost (1) Euro '000	Positive Euro '000	Negative Euro '000	Impairment losses Euro '000	Book value Euro '000
Fixed income securities:					
Issued by public entities:					
Portuguese	1 075 466	2 155	(30 457)	–	1 047 164
Foreign	114 501	365	(4 468)	–	110 398
Issued by other entities:					
Portuguese	3 261 069	751	(13 342)	(3 588)	3 244 890
Foreign	658 715	3 805	(41 865)	(21 848)	598 807
Commercial papper	242 634	–	–	(998)	241 636
Fixed income securities:					
Portuguese	3 866	190	(31)	(279)	3 746
Foreign	4 123	78	(124)	(947)	3 130
Investment fund units	7 127	270	(300)	(57)	7 040
	5 367 501	7 614	(90 587)	(27 717)	5 256 811

(1) Acquisition cost relating to shares and amortised cost relating to debt securities.

As referred in note 1 *c*), the portfolio of assets available-for-sale are presented at market value with fair value changes accounted for against fair value reserves, as referred in note 42. CEMG assesses periodically whether there is objective evidence of impairment losses on the available-for-sale financial assets, following the judgment criteria's described in note 1 *y*).

As described in note 54, balance Investment funds includes:

– 20 195 716 units of «CA Imobiliário – Fundo Especial de Investimento Imobiliário Aberto (FEII)»; and

– 59 663 units of «Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)».

The movements of the impairment of the available-for-sale financial assets are analyzed as follows:

	2011 Euro '000	2010 Euro '000
Impairment for securities:		
Balance on 1 January	27 717	29 899
Charge for the year	37 715	3 515
Write-back for the year	(3 083)	(1 363))
Charged-off	(12 702)	(4 334)
Balance on 31 December	49 647	27 717

As described in note 1 *c*), the portfolio of financial assets available for sale are presented net of the total fair value reserve and impairment. The total fair value reserve for financial assets available for sale is negative and amounts to Euro 316 692 000 (2010: Euro 85 706 000) and impairment amounts to Euro 49 647 000 (2010: Euro 27 717 000).

The Group recognizes impairment on financial assets available for sale when there is a prolonged or significant drop in its fair value or when there is an expected impact on future cash flows of the assets. This assessment involves judgment, in which the Group takes into account among other factors, the volatility of stock prices.

Thus, as a consequence of the low liquidity and significant volatility in financial markets were taken into account in determining the existence of impairment, the following factors:

– Equity instruments: (i) above 30% devaluation against the purchase price or (ii) the market value below the acquisition cost for a period exceeding 12 months;

– Debt instruments: where there is objective evidence of events that impact on the recoverable value of future cash flows of these assets.

The evolution of the debt crisis of the Euro zone countries associated with the macro economic developments in Greece, which has contributed to a deterioration of economic and financial situation of the Greek State and the inability to access markets which implies that the solvency of the country immediately remains dependent on continued support from the EU and the IMF.

Given this situation, the item includes securities for impairment losses recognized in the sovereign debt of Greece during the year 2011, as referred in note 53.

On 31 December 2011, Impairment corresponds to the effect of the recognition results of the reservation in fair value of such securities and were determined based on observable market prices. Based on this analysis, the CEMG recognized in 2011, an impairment of Euro 19 039 000.

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2011, is as follows:

	2011				
	Due within 3 months Euro '000	**3 months to 1 year Euro '000**	**Over 1 year Euro '000**	**Undetermined Euro '000**	**Total Euro '000**
Fixed income securities:					
Issued by public entities:					
Portuguese	178 507	238 747	733 228	–	1 150 482
Foreign	10 668	3 190	113 355	–	127 213
Issued by other entities:					
Portuguese	61 739	16 832	3 327 552	2 490	3 408 613
Foreign	22 336	19 123	408 515	9 133	459 107
Commercial paper	34 159	273 561	3 349	–	311 069
	307 409	551 453	4 585 999	11 623	5 456 484
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	6 091	6 091
Foreign	–	–	–	6 411	6 411
Investment fund units	–	203	–	352 591	352 794
	–	203	–	365 093	365 296
	307 409	551 656	4 585 999	376 716	5 821 780

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2010, is as follows:

	2010				
	Due within 3 months Euro '000	**3 months to 1 year Euro '000**	**Over 1 year Euro '000**	**Undetermined Euro '000**	**Total Euro '000**
Fixed income securities:					
Issued by public entities:					
Portuguese	19 881	133 310	893 973	–	1 047 164
Foreign	25 250	3 007	82 141	–	110 398
Issued by other entities:					
Portuguese	2 347	16 248	3 226 295	–	3 244 890
Foreign	9 419	53 661	535 183	544	598 807
Commercial paper	211 324	30 312	–	–	241 636
	268 221	236 538	4 737 592	544	5 242 895
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	3 746	3 746
Foreign	–	–	–	3 130	3 130
Investment fund units	–	–	–	7 040	7 040
	–	–	–	13 916	13 196
	268 221	236 538	4 737 592	14 460	5 256 811

CEMG recognizes impairment on available-for-sale financial assets when there is a significant or prolonged decrease in its fair value or when there is an impact on expected future cash flows of the assets. This valuation involves judgment, in which CEMG takes into consideration among other factors, the volatility of the prices of securities.

Thus, as a consequence of the low liquidity and significant volatility in financial markets, the following factors were taken into consideration in determining the existence of impairment:

- Equity instruments: (i) decreases more than 30% against the purchase price; or (ii) the market value below the purchase price for a period exceeding 12 months;
- Debt instruments: when there is objective evidence of events with impact on recoverable value of future cash flows of these assets.

As referred in note 1 *c*), the available-for-sale securities portfolio is presented net of fair value reserve and impairment losses in the amount of Euro 316 692 000 and Euro 49 647 000 (2010: Euro 82 973 000 and Euro 27 717 000), respectively.

This balance, regarding quoted and unquoted securities, is departed as follows:

	2011			2010		
	Quoted Euro '000	Unquoted Euro '000	Total Euro '000	Quoted Euro '000	Unquoted Euro '000	Total Euro '000
Fixed income securities:						
Issued by public entities:						
Portuguese	1 150 482	–	1 150 482	1 047 164	–	1 047 164
Foreign	127 213	–	127 213	110 398	–	110 398
Issued by other entities:						
Portuguese	318 514	3 090 099	3 408 613	3 218 614	26 276	3 244 890
Foreign	456 497	2 610	459 107	591 807	7 000	598 807
Commercial paper	–	311 069	311 069	–	241 636	241 636
Variable income securities:						
Shares in companies						
Portuguese	1 088	5 003	6 091	862	2 884	3 746
Foreign	6 245	166	6 411	2 972	158	3 130
Investment fund units	352 794	–	352 794	7 040	–	7 040
	2 412 833	3 408 947	5 821 780	4 978 857	277 954	5 256 811

24. Hedging derivates

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Assets:		
Interest rate swap	1 184	2 810
Liabilities:		
Interest rate swap	2 444	1 408

Hedging derivatives are measured in accordance with internal valuation techniques considering mainly observable market inputs. In accordance with the hierarchy of the valuation sources, as referred in IFRS 7 these derivatives are classified in level 2.

CEMG uses derivatives to hedge interest rate risks. The accounting method depends on the nature of the hedged risk, namely if CEMG is exposed to fair value changes, variability in cash-flows or highly probable forecast transactions.

CEMG performs periodical effectiveness tests of the hedging relationships.

The adjustment performed to the assets and liabilities that includes hedged items is analysed as follows:

	2011 Euro '000	2010 Euro '000
Deposits from other credit institutions	343	864
Debt securities issued	15	242
Deposits from customers	371	271
	729	1 377

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2011 is as follows:

	2011							
	Notional with remaining term				Fair value			
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000
Fair value hedge derivates with interest rate risk:								
Interest rate swap	–	–	115 000	115 000	–	–	(1 260)	(1 260)
	–	–	115 000	115 000	–	–	(1 260)	(1 260)

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2010 is as follows:

	2010							
	Notional with remaining term				Fair value			
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000
Fair value hedge derivates with interest rate risk:								
Interest rate swap	20 000	80 000	115 000	215 000	147	1 394	(139)	1 402
	20 000	80 000	115 000	215 000	147	1 394	(139)	1 402

As at 31 December 2011, the fair value hedge relationships present the following features:

2011							
Derivate	Hedge item	Hedge risk	Notional Euro '000	Fair value (2) Euro '000	Changes in the fair value of the derivate in the year Euro '000	Hedge item fair value (1) Euro '000	Changes in the fair value of the hedge item in the year (1) Euro '000
Interest rate swaps	Deposits from customers	Interest rate	–	–	(396)	–	(371)
Interest rate swaps	Deposits	Interest rate	20 000	257	(1 834)	–	(1 097
Interest rate swaps	EMTN	Interest rate	95 000	(1 517)	(432)	389	687
Interest rate swaps	Debt issued	Interest rate	–	–	–	–	–
			115 000	(1 260)	(2 662)	389	(781)

(1) Attributable to the hedged risk.

(2) Includes accrued interst.

As at 31 December 2010, the fair value hedge relationships present the following features:

2010							
Derivate	Hedge item	Hedge risk	Notional Euro '000	Fair value (2) Euro '000	Changes in the fair value of the derivate in the year Euro '000	Hedge item fair value (1) Euro '000	Changes in the fair value of the hedge item in the year (1) Euro '000
Interest rate swaps	Deposits from customers	Interest rate	40 000	396	(302)	371	(271)
Interest rate swaps	Deposits	Interest rate	80 000	2 091	(1 995)	1 097	(1 106)
Interest rate swaps	EMTN	Interest rate	95 000	(1 085)	(812)	(298)	(212)
Interest rate swaps	Debt issued	Interest rate	–	–	–	–	–
			215 000	1 402	(3 109)	(1 170)	(1 589)

(1) Attributable to the hedged risk.

(2) Includes accrued interst.

25. Held-to-maturity investments

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Fixed income securities:		
Bonds issued by Portuguese public entities	37 420	44 111
Bonds issued by foreign public entities	10 996	13 982
	48 416	58 093

The fair value of the held to maturity investment portfolio is presented in note 45.

CEMG assessed, with reference to 31 December 2011, the existence of objective evidence of impairment on its held-to-maturity investments portfolio and no events with impact on the recoverable amount of the future cash flows associated with those investments were identified.

The held-to-maturity investments, as at 31 December 2011 are analysed as follows:

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
OT – setembro 98/23-09-2013	May, 1998	September, 2013	Fixed rate 5.450%	96
OT – junho 02/15-06-2012	February, 2002	June, 2012	Fixed rate 5.000%	31 292
OT – outubro 05/15-10-2015	July, 2005	October, 2015	Fixed rate 3.350%	6 032
Netherlands Government 05/2015	June, 2005	July, 2015	Fixed rate 3.250%	5 004
Republic of Austria 04/15-07-2015	May, 2004	July, 2015	Fixed rate 3.500%	2 016
Belgium Kingdom 05/28-09-2015	March, 2005	September, 2015	Fixed rate 3.750%	1 985
Buoni Poliennali Del Tes. 05/2015	March, 2005	August, 2015	Fixed rate 3.750%	1 991
				48 416

The held-to-maturity investments are stated in accordance with the established in note 1 *c*).

During 2011 and 2010, CEMG did not transfer to or from this assets category.

As at 31 December 2011 the analysis of held-to-maturity investments by the period of maturity is as follows:

	2011				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Bonds issued by Portuguese public issuers	–	31 292	6 128	–	37 420
Bonds issued by foreign public issuers	–	–	10 996	–	10 996
	–	31 292	17 124	–	48 416
Quoted	–	31 292	17 124	–	48 416

As at 31 December 2010 the analysis of held-to-maturity investments by the period of maturity is as follows:

	2010				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Bonds issued by Portuguese public issuers	–	5 962	38 149	–	44 111
Bonds issued by foreign public issuers	3 026	–	10 956	–	13 982
	3 026	5 962	49 105	–	58 093
Quoted	3 026	5 962	49 105	–	58 093

26. Investments in associated companies and others

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Investments in associeted companies and others		
Finibanco Holding, SGPS, S.A.	341 250	–
Lusitania, Companhia de Seguros, S.A.	23 566	23 566
Lusitania Vida, Companhia de Seguros, S.A.	9 530	9 530
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI)	7 001	7 001
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 200	3 200
Unquoted	384 547	43 297

The financial information concerning associated companies is presented in the following table:

	Number of shares	Percentage of direct shares	Unit value Euro	Acquisition cost Euro '000
31 December 2011				
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI)	77 200	100.00%	90.69	7 001
Finibanco Holding, SPGS, S.A.	175 000 000	100%	1	341 250
Lusitania, Companhia de Seguros, S.A	1 333 928	26.25%	5.00	23 566
Lusitania Vida, Companhia de Seguros, S.A.	314 736	39.34%	25.00	9 530
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 000	20.00%	5.00	3 200
.				384 547
31 Decembere 2010				
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI)	77 200	100.00%	90.69	7 001
Lusitania, Companhia de Seguros, S.A	1 333 928	26.25%	5.00	23 566
Lusitania Vida, Companhia de Seguros, S.A.	314 736	39.34%	25.00	9 530
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 000	20.00%	5.00	3 200
.				43 297

In the year 2010, «Montepio Geral – Associação Mutualista», sole shareholder CEMG, proceeded to acquire 100% of the capital of Finibanco Holding, SGPS, S.A. through an Initial Public Offering in the amount of 341 250 000 Euro.

As at 31 March, 2011, Montepio Geral – Associação Mutualista sold its participation in Finibanco Holding, SGPS, S.A. to CEMG. Under the change in the structure of the Group arising from this acquisition, as at 4 April, 2011, CEMG acquired a set of assets and liabilities of Finibanco, S.A. (excluding properties owned by Finibanco, S.A. and acquired as a result of loans and advances to customers and a leasing portfolio (securities and real estate) in which Finibanco, S.A. is lessor and the fixed assets that materially support the operating leasing activities), and all associated liabilities and provisions, by the amount of Euro 216 484 000.

The acquisition of Finibanco Holding by CEMG allowed complete the level of services provided in the financial sector through the acquisition of a participation in Finibanco, S.A. (universal bank), Finicrédito, S.A. (specialized credit financial institution), Finibanco Angola (universal bank in Angola) and Finivalor (Asset management – Investment Funds).

That acquisition also allows the complementarity of commercial networks and entry into markets which CEMG was not present.

27. Non-current assets held for sale

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Investments arising from recovered loans	107 236	201 710
Impairment for non-current assets held for sale	(20 406)	(39 336)
	86 830	162 374

The assets included in this balance are accounted for in accordance with the note 1 *j*).

The balance Investments arising from recovered loans includes buildings and other assets resulting from the foreclosure of contracts of loans to customers, originated by (i) delivery of the assets, with option to repurchase or leasing, accounted with the celebration of the contract or the promise to deliver the asset and the respective irrevocable power of attorney issued by the customer in the name of CEMG; or (ii) the adjudication of the assets as a result of a judicial process of guarantees execution, accounted with the title of adjudication or following the adjudication request after the record of the first (payment prosolvency).

In November and December 2011, CEMG sold a set of assets referred above to CA Imobiliário – Fundo Especial de Investimento Imobiliário Aberto (FEII) and Fundo Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH), both investment funds. Considering the nature of the transaction the assets were derecognized. These assets were accounted by Euro 147 956 000, net from impairment, originating a gain of Euro 35 839 000 and a write back of impairment of Euro 24 356 000.

These assets are available for sale in a period less than 2 year and CEMG as a strategy for its sale. This balance includes buildings and other assets for which CEMG has already established contracts for the sale in the amount of Euro 22 591 000 (2010: Euro 13 996 000).

The movements for impairment for non-current assets held for sale are analysed as follows:

	2011 Euro '000	2010 Euro '000
Non-current assets held for sale:		
Balance on 1 January	201 710	157 935
Acquisitions	115 735	66 715
Sales	(217 218)	(24 740)
Other movements	7 009	1 800
Balance on 31 December	107 236	201 710

The movement in non-current assets held for sale balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Impairment for non-current assets held for sale:		
Balance on 1 January	39 336	29 336
Impaiment for the year	10 912	13 845
Write-back for the year	(29 368)	(3.831)
Loans charged-off	(474)	(14)
Balance on 31 December	20 406	39 336

The balance Write-back for the year includes the amount of Euro 24 356 000 related to the operation of sale of Non-current assets held for sale previously described.

The balance Transfers corresponds of amounts transferred from Finibanco Holding, S.G.P.S., S.A. and its subsidiaries in the acquisition by CEMG on 31 March 2011.

28. Property and equipment

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Cost:		
Land and buildings:		
For own use	9 664	62 250
Leasehold improvements in rented buildings	55 733	24 225
Work in progress	35	33
Equipment:		
Forniture	19 979	11 065
Office equipment	3 055	1 869
Computer equipment	83 219	58 365
Interior instalations	22 440	15 832
Motor vehicles	4 057	436
Security equipment	9 415	4 972
Other equipment	1	–
Works of art	2 755	1 050
Assets in operacional lease – rending	4 825	4 965
Other tangible assets	1 954	31
Work in progress	4 387	3 342
	221 519	188 435
Accumulated depreciation:		
Charge for the year	(17 405)	(13 070)
Accumulated charge for the previous years	(137 931)	(86 177)
	(155 336)	(99 247)
	66 183	89 188

The Property and equipment movements, during the year of 2011, are analysed as follows:

	2011				
	Balance on 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Land and buildings:					
For own service	62 250	15 550	(68 136)	–	9 664
Leasehold improvements in rented buildings	24 225	30 570	–	938	55 733
Work in progress	33	2	–	–	35
Equipment:					
Forniture	11 065	9 190	(276)	–	19 979
Office equipment	1 869	1 210	(24)	–	3 055
Computer equipment	58 365	26 176	(1 322)	–	83 219
Interior instalations	15 832	5 656	–	952	22 440
Motor vehicles	436	3 652	(31)	–	4 057
Security equipment	4 972	4 445	(2)	–	9 415
Other equipment	–	1	–	–	1
Works of art	1 050	1 705	–	–	2 755
Assets in operacional lease – rending	4 965	610	(801)	51	4 825
Other tangible assets	31	1 923	–	–	1 954
Work in progress	3 342	2 968	–	(1 923)	4 387
	188 435	103 658	(70 592)	18	221 519
Accumulated depreciations:					
Land and building:					
For own service	16 042	1 362	(19 617)	5 164	2 951
Leasehold improvements in rented buildings	15 984	3 239	–	18 404	37 627
Equipment:					
Forniture	8 010	1 042	(275)	6 649	15 426
Office equipment	1 771	120	(24)	862	2 729
Computer equipment	43 935	8 133	(1 320)	18 101	68 849
Interior instalations	8 700	1 618	–	3 886	14 204
Motor vehicles	379	227	(30)	3 330	3 906
Security equipment	3 244	842	(2)	2 466	6 550
Assets in operacional lease – rending	1 182	863	(382)	25	1 688
Other equipment	–	–	–	1	1
Other tangible assets	–	140	–	1 265	1 405
	99 247	17 586	(21 650)	60 153	155 336

In December 2011, CEMG sold part of Property for own use to «Montepio Geral Associação Mutualista», as described in note 54. Those properties were recorded at the amount of Euro 48 517 000, net of depreciation, resulting in a gain of Euro 28 154 000.

The balance Regularizations/Transfers corresponds of amounts transferred from Finibanco S.A., in the scope of the acquisition of the assets and liabilities acquisition ocorred in 4 April 2011.

The Property and equipment movements, during the year of 2010, are analysed as follows:

	2010				
	Balance on 1 January Euro '000	**Acquisitions/ Charges Euro '000**	**Disposals Euro '000**	**Adjustment/ Transfers Euro '000**	**Balance on 31 December Euro '000**
Cost:					
Land and building:					
For own use	65 706	–	(3 456)	–	62 250
Leasehold improvements in rented buildings	32 208	332	(8 373)	58	24 225
Work in progress	43	10	–	(20)	33
Equipment:					
Forniture	10 502	988	(425)	–	11 065
Office equipment	1 971	10	(113)	1	1 869
Computer equipment	51 772	6 838	(244)	(1)	58 365
Interior instalations	28 414	334	(13 010)	94	15 832
Motor vehicles	676	58	(298)	–	436
Security equipment	3 978	1 009	(15)	–	4 972
Works of art	986	64	–	–	1 050
Assets in operacional leases – rending	4 084	1 632	(751)	–	4 965
Other tangible assets	31	–	–	–	31
Work in progress	550	2 947	–	(155)	3 342
	200 921	14 222	(26 685)	(23)	188 435
Accumulated depreciation:					
Land and building:					
For own use	15 831	1 039	(828)	–	16 042
Leasehold improvements in rented buildings	22 047	2 310	(8 373)	–	15 984
Equipment:					
Forniture	7 804	572	(366)	–	8 010
Office equipment	1 825	57	(112)	1	1 771
Computer equipment	37 871	6 307	(243)	–	43 935
Interior instalations	20 126	1 585	(13 011)	–	8 700
Motor vehicles	673	9	(303)	–	379
Security equipment	2 823	434	(13)	–	3 244
Assets in operacional leases – rending	748	757	(323)	–	1 182
	109 748	13 070	(23 572)	1	99 247

29. Intangible assets

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Cost:		
Software	64 836	31 798
Other intangible assets	88 365	–
Assets advances	520	6 106
	37 904	57 032
Accumulated depreciation:		
Charge for the year	(9 449)	(7 776)
Accumulated charge for the previous years	(33 429)	(11 874)
	(42 878)	(19 650)
	110 843	18 254

The balance Other intangible assets, representing the difference between assets and liabilities of Finibanco, S.A. acquired by CEMG in 4 April 2011 and its book value and consider the fair value of that assets and liabilities and the potential for business generating associated with the network Finibanco, S.A. acquired.

This intangible asset does not have finite useful life, so that, as referred in accounting policy described in note 1 *r*), its recoverable amount is annually reviewed, regardless of the existence of impairment signs. Any impairment losses are recognized in income statement.

The Intangible assets movements, during the year of 2011, are analysed as follows:

	Balance in 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Software	31 798	26 512	–	6 526	64 836
Other intangible assets	–	88 365	–	–	88 365
Assets advances	6 106	940	–	(6 526)	520
	37 904	115 817	–	–	153 721
Accumulated depreciation:					
Software	19 650	9 268	–	13 960	42 878
	19 650	9 268	–	13 960	42 878

The balance Regularizations/Transfers corresponds of amounts transferred from Finibanco S.A., in the scope of the acquisition of the assets and liabilities acquisition occurred in 4 April 2011.

The Intangible assets movements, during the year of 2010, are analysed as follows:

	Balance in 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Software	52 375	8 430	(29 007)	–	31 798
Assets advances	4 657	1 449	–	–	6 106
	57 032	9 879	(29 007)	–	37 904
Accumulated depreciation:					
Software	40 881	7 776	(29 007)	–	19 650
	40 881	7 776	(29 007)	–	19 650

30. Other assets

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Recoverable subsidies from Portuguese Government	9 728	11 949
Other debtors	163 739	29 071
Other accrued income	4 615	4 873
Prepayments and deferred costs	17 138	20 801
Sundry debtors	115 058	41 703
	310 278	108 397
Impairment from recoverable subsidies	–	(3 473)
	310 278	104 924

The balance Recoverable subsidies from the Portuguese Government, in the amount of Euro 9 728 000 (2010: Euro 11 949 000), corresponds to mortgage credit interest subsidies, in accordance with the regulations applicable to mortgage loans benefits. The referred amounts do not bear interest and are claimed monthly.

As at 31 December 2011 and 31 December 2010, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

	2011 Euro '000	2010 Euro '000
Recoverable subsidies from the Portuguese Government unliquidated	2 111	7 120
Subsidies unclaimed	3 157	1 716
Overdue subsidies unclaimed	4 460	3 113
	9 728	11 949

As at 31 December 2010, the balance Recoverable subsidies from the Portuguese Government include an amount of Euro 3 473 000 not recognized by the treasury authorities. This amount is totally provided for in the balance Impairment from recoverable subsidies.

As at 31 December 2010, the balance Prepayments and deferred costs includes an amount of Euro 15 441 000 (2010: Euro 19 061 000) referring to the impacts of the application of IAS 19 requirements not yet deferred, related to actuarial gains and losses of pension fund at 1 January, 2005. This amount will be charge for ten or eight years period depending on whether it relates to obligations with health or employees benefits, respectively, as referred in the note 1 *u*).

As at 31 December 2011, the balance Sundry debtors includes the amount of Euro 70 788 000 refer to transactions with securities recorded on trade date and pending settlement, in accordance with note 1 *c*), pending settlement.

The other assets impairment movements, during the years of 2011 and 2010, are analysed as follows:

	2011 Euro '000	2010 Euro '000
Impairment for non-current assets held for sale		
Balance on 1 January	3 473	3 473
Loans charged-off	(3 473)	–
Balance on 31 December	–	3 473

31. Taxes

With effect from 1 January 2012,CEMG is subject to the regime established by the Income Tax Code («IRC»). Therefore, and based on the applicable law, the temporary differences between accounting income and the results accepted for tax purposes of IRC, whenever there is a reasonable that such taxes will be paid or recovered in the future, according to the accounting policy 1 *v*) are eligible for the recognition of deferred taxes.

Deferred income tax assets and liabilities as at 31 December, 2011 and 2010 are analysed as follows:

	Assets		Liabilities		Net	
	2011 Euro '000	**2010 Euro '000**	**2011 Euro '000**	**2010 Euro '000**	**2011 Euro '000**	**2010 Euro '000**
Financial instruments	18 328	–	–	–	18 328	–
Other tangible assets	(10)	–	–	–	(10)	–
Provisions	32 071	–	–	–	32 071	–
Pension Fund	6 747	–	–	–	6 747	–
Death allowance	472	–	–	–	472	–
Early retirement	1 231	–	–	–	1 231	–
Seniority bonus	382	–	–	–	382	–
Deferred tax assets/(liabilities)	59 221	–	–	–	59 221	–

CEMG evaluated the recoverability of its deferred tax assets on the balance sheet based on the expectations of future taxable profits.

Deferred taxes related to the losses carried forward are recognized only if the existence of future taxable profits is probable. The uncertainty of the recoverability of the tax losses carried forward is considered in the deferred tax assets calculation. Should be note that in 31 December, 2011, due to the exemption CEMG, there are no tax losses carried forward.

Deferred tax balance movements were recognized as follows:

	2011 Euro '000	**2010 Euro '000**
Initial balance:		
Charged to profit	11 368	–
Charged to fair value reserves	18 328	–
Charged to reserves and retained earnigs	29 525	–
Final balance (Asset / (Liability))	59 221	–

As referred in accounting policy in note 1 *v*), CEMG only be subject to taxation effective from 1 January, 2012. Because of rules in 31 December, 2011 were recognized in the income and reserves, according to their nature, temporary differences resulting from the realities that will be recognized for tax purposes in future years.

Tax recognized in the income and reserves for the periods ended 31 December, 2011 and 31 December, 2010 is analyzed as follows:

	2011	
	Charged to results Euro '000	**Charged to reserves Euro '000**
Financial instruments	–	18 328
Other tangible assets	–	(10)
Provisions	8 466	23 605
Pension Fund	817	5 930
Death allowance	472	–
Early retirement	1 231	–
Seniority bonus	382	–
Deferred taxes / recognized (profit) / loss	11 368	47 853

Net deferred tax assets changes includes the deferred tax expenses for the year recognized in the profit and loss account, as well as the changes recognized in reserves and retained earnings, namely the impact resulting from the changes, in accordance with the IAS 19, of the accounting policy for the recognition of actuarial gains and losses related with pension and post employment benefits, for the year and for previous years and unrealised gains and losses resulting from the revaluation of financial assets available for sale recognized in Equity.

As at 31 December 2011, the amount of unrecognized temporary differences that resulted in a deferred tax asset in the amount of Euro 236 883 000. That differences recognized is dependent of the CEMG generate future taxable income ability.

Deferred tax assets and liabilities are presented on a net basis where, pursuant to applicable regulation, CEMG can offset current tax assets to current tax liabilities and when the assets and deferred tax liabilities relate to taxes on income released by the same taxation authority.

32. Deposits from central banks

As at 31 December 2011, this balance in amount of Euro 2 003 300 000 is related to deposits obtained in the European System of Central Banks and is covered by securities from the available-for-sale portfolio pledged as collaterals portfolio of financial assets available-for-sale.

As at 31 December 2010, this balance in amount of Euro 1 540 266 000 is related to deposits obtained in the European System of Central Banks and is covered by securities from the available-for-sale portfolio pledged as collaterals portfolio of financial assets available-for-sale.

As at 31 December 2011 and 2010, the analysis of deposits from Central Banks by the period to maturity is as follows:

	2011 Euro '000	**2010 Euro '000**
Up to 3 months	702 975	460 026
3 to 6 months	–	1 080 240
More than 6 months	1 300 325	–
	2 003 300	1 540 266

33. Deposits from other financial institutions

This balance is analysed as follows:

	2011			2010		
	Non-interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000	Non-interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000
Deposits from credit institution in Portugal	12 337	79 978	92 315	247 969	4 163	252 132
Deposits from credit institutions abroad	48 841	1 040 912	1 089 753	1 000 337	10 077	1 010 414
	61 178	1 120 890	1 182 068	1 248 306	14 240	1 262 546

The balance Deposits from other credit institutions, analysed by the period of maturity, is as follows:

	2011 Euro '000	2010 Euro '000
Up to 3 months	545 197	526 133
3 to 6 months	57 517	155 594
6 months to 1 year	–	255 553
1 year to 5 years	362 434	59 025
More than 5 years	245 167	272 830
	1 210 315	1 269 135
Adjustments arising from hedging operations	(28 247)	(6 589)
	1 182 068	1 262 546

34. Deposits from customers

This balance is analysed as follows:

	2011			2010		
	Non-interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000	Non-interest bearing Euro '000	Interest bearing Euro '000	Tota Euro '000
Deposits repayable on demand	34 621	2 532 341	2 566 962	16 157	2 001 904	2 018 061
Time deposits (*)	–	10 354 116	10 354 116	–	7 229 927	7 229 927
Saving accounts (*)	–	248 293	248 293	–	391 530	391 530
Other resources	5 362	–	5 362	496	–	496
Adjustments arising from hedging operations	15 906	–	15 906	14 326	–	14 326
	55 889	13 134 750	13 190 639	30 979	9 623 361	9 654 340

Observations: (*) Deposits for which the embedded derivate was separate from the host contract, in accordance with note 21 e na nota contabilística 1 c).

In the terms of the law «Portaria» no. 180/94, of 15 December, the deposit guarantee fund was established to guarantee the reimbursement of funds deposited in credit institutions. The criteria to calculate the annual contributions to the referred fund are defined annually by instruction of the Bank of Portugal.

As at 31 December 2010, this balance includes the amount of Euro 794 197 000 (2010: Euro 1 772 500 000) related to deposits recognized on the balance sheet at fair value through profit or loss.

The balance Deposits from customers, analysed by the period of maturity, is as follows:

	2011 Euro '000	2010 Euro '000
Deposits repayable on demand	2 566 961	2 018 061
Time deposits and saving accounts:		
Due within 3 months	1 678 201	1 271 892
3 months to 6 months	4 314 994	2 637 009
6 months to 1 year	2 043 906	1 029 173
1 year to 5 years	2 554 017	–
Over 5 years	11 292	2 683 383
	13 169 371	9 639 518
Adjustments arising from hedging operations	15 906	14 326
	13 185 277	9 653 844
Other items:		
Due within 3 months	5 362	496
	13 190 639	9 654 340

35. Debt securities issued

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Euro Medium Term Notes	1 081 778	2 179 683
Bonds	452 553	566 304
Covered bonds	706 357	832 690
	2 240 688	3 578 677

The fair value of the debts securities issued is presented in note 45.

This balance includes the amount of Euro 1 100 366 000 (2010: Euro 1 510 171 000) related to debt securities issued recognized at the balance sheet at fair value through profit or loss.

During 2011, CEMG proceeded to the issue of 263 011 000 Euro (2010: Euro 241 799 000) of bonds, and repaid Euro 1 390 073 000 (2010: Euro 860 459 000).

As at 31 December 2011 and 2010, the analysis of debt securities issued outstanding by period to maturity is as follows:

	2011 Euro '000	2010 Euro '000
Due within 6 months	803 538	858 289
6 months to 1 year	758 726	631 766
1 year to 5 years	572 279	1 930 906
Over 5 years	187 308	183 491
	2 321 851	3 604 452
Adjustments arising from hedging operations	(81 163)	(25 775)
	2 240 688	3 578 677

Under the Issuance of covered bonds program, which maximum amount is 5 000 million Euro, CEMG proceed to the emissions which totalized Euro 1 650 million.The main characteristics of these issues are as follows:

Description	Nominal value Euro '000	Book value Euro '000	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody's/Fitch/Dbrs)
Covered bonds	1 000 000	1 000 000	December 2009	December 2016	Quaterly	2.17%	Baa3/BBB-
Covered bonds	708 300	708 300	July 2009	July 2012	Annual	3.25%	Baa3/BBB-
Covered bonds	500 000	500 000	November 2010	November 2015	Quaterly	4.08%	Baa3/BBB-
	2 208 300	2 208 300					

The covered bonds are guaranteed by a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, that the issuer of mortgage covered bonds shall maintain segregated and over which the holders of the relevant covered bonds have a statutory special creditor privilege. These conditions are set up in Decree-Law no. 59/2006, Regulations no. 5/2006, no. 6/2006, no. 7/2006 and no. 8/2006 of the Bank of Portugal and Instruction no. 13/2006 of the Bank of Portugal.

The amount of credits that collateralize these emissions is higher than Euro 2 208 300 000 (2010: EUR 1 000 000 000), in 31 December, 2011, according with note 21.

The change occurred in debt securities issued during the year ended 31 December 2011 is analyzed as follows:

	Balance on 1 January Euro '000	Issues Euro '000	Repayments Euro '000	Net Repurchase Euro '000	Other movements (a) Euro '000	Balance on 31 December Euro '000
Euro Medium Term Notes (EMTN)	2 179 683	–	(849 683)	(171 531)	(76 691)	1 081 778
Bonds	566 304	263 011	(415 999)	29 551	9 686	452 553
Covered bonds	832 690	–	(124 391)	(17 750)	15 808	706 357
	3 578 677	263 011	(1 390 073)	(159 730)	(51 197)	2 240 688

(a) Other movements include accrued interest, fair value hedge, fair value adjustments and foreign translation exchanges adjustments.

In accordance with the note 1 *c*), debt issued repurchased by CEMG is derecognized from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognized in the income statement.

The change occurred in debt securities issued during the year ended 31 December 2010 is analyzed as follows:

	Balance on 1 January Euro '000	Issues Euro '000	Repayments Euro '000	Net Repurchase Euro '000	Other movements (a) Euro '000	Balance on 31 December Euro '000
Euro Medium Term Notes (EMTN)	2 810 743	–	(578 950)	(46 050)	(6 060)	2 179 683
Bonds	611 517	241 799	(281 509)	–	(5 503)	566 304
Covered bonds	1 161 047	–	–	(177 350)	(151 007)	832 690
	4 583 307	241 799	(860 459)	(223 400)	(162 570)	3 578 677

(a) Other movements include accrued interest, fair value hedge, fair value adjustments and foreign translation exchanges adjustments.

As at 31 December 2011, the balance Debt securities issued is comprise of the following issues:

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
OBRIGS.CX-AFORRO MONTEPIO/07-5 ANOS – 1 SER.	Feb.2007	Feb.2012	Fixed rate of 7%	1 000
OBRIGS.CX-AFOR. MONT.ASSOC/07-5 ANOS-1 SER.	Feb.2007	Feb.2012	Semi fixed rate of 7.25%	4 000
OBRIGS.CX-AFORRO MONTEPIO/07-5 ANOS – 2 SER.	Feb.2007	Feb.2012	Semi fixed rate of 7%	2 000
OBRIGS.CX-AFOR. MONT.ASSOC/07-5 ANOS-2 SER.	Feb.2007	Feb.2012	Semi fixed rate of 7.25%	3 000
OBRIGS.CX-AM EUR 6M 5Y – 2012	Apr.2007	Apr.2012	Fixed annual rate of 4.455%	6 000
OBRIGS.CX-MONTEPIO SELECT 5 ANOS	Jan.2008	Jan.2013	Fixed rate of 2.5% in the first four years, and, in the reimbursement, variable rate between 2.5% and 60% of the annual average performance of a portfolio composed by: – Dow Jones Eurostoxx Select Dividend 30 Index; and – IBOXXEuro Eurozone Performance Sovereingns 5 to 7 years Index.	1 000
OBRIGS.CX-MONTEPIO TAXA FIXA 5 ANOS JAN2008	Jan.2008	Jan.2013	Fixed annual rate of 2.5%	2 500
OBRIGS CX-MONTEPIO INFLACCAO-2008-2016-1 SER.	Jun.2008	Jun.2016	Annual interesr – Fixed rate of 4.52826% + annual rate of european inflation	4 700
OBRIGS CX MONTEPIO TX FIXA 3 ANOS-25-05-2012	May.2009	May.2012	Fixed annual rate of 4% (3rd year a fixed rate of 4%)	650
OBRIGS CAIXA-CRPC-STEMBRO-2009-2014	Sep.2009	Sep.2014	Fixed annual rate of 3% (4th year a fixed rate of 3%, 5th year a fixed rate of 6%)	4 250
OBRIGS CAIXA-CRPC-SETEMBRO-2009-2017	Sep.2009	Sep.2017	Fixed annual rate of 3.75% (4th to 7th year a fixed rate of 3.75% and 8th year a fixed rate of 6.75%)	1 500
OBRIGS CAIXA-CRPC-SETEMBRO-2008-2013-2 SER.	Sep.2009	Sep.2013	1st to 4th year Average quarterly rate Eur3M+1% (Average rate calculated at the end od each quarter based on 3 observations of Eur3M at the last working day of each month)	750
OBRIGS CAIXA-CRPC-2009-2014-8.SERIE	Nov.2009	Nov.2014	Fixed annual rate of 3.25% (4th year a fixed rate of 3.25%, 5th year a fixed rate of 5.75%)	3 800
OBRIGS CAIXA-TAXA VARIAVEL-CEMG-2009-2013	Nov.2009	Nov.2013	Quarterly rate Eur3M+1% (10th to 17th quarter, Rate Eur3M+1%)	500
OBRIGS CAIXA-MONTEPIO TITULOS EUROPA-2009-2013	Dec.2009	Dec.2013	At the maturity the interest rate is 28% if the performance of Euro Stoxx50 Index, compared to the inicial face, is positive, case not, only capital will be paid.	2 711
MONTEPIO STANDARD POOR's BRIC 40	Oct.2007	Oct.2012	On the 1st and 9th semesters Fxed rate of 0.90% (At the reimbursement the intererest rate is the maximum between 0% and 50% of the annual performance of Standard&Poor's BRIC40 index)	2 319
OBRIG.CX-MONTEPIO TX FIXA CRESCENTE 2010/13 1SER.	Jan.2010	Jan.2013	Interests are paid quartery with a fixed annual rate of 2.5% (from 4th year 3%, from 7th year a fixed rate of 3.5%)	1 000
OBRIG.CX-MONTEPIO TX FIXA 2010/14 1SER.	Jan.2010	Jan.2014	Interests are paid on a semiannual base with a fixed rate of 3% (from 3rd year a fixed rate of 3.125%, from 5th year a fixed rate of 3.25% and, from 7th year a fixed rate of 3.5%)	9 806
OBRIGS CAIXA-MONTEPIO CABAZ OURO E PETROLEO	Mar.2010	Mar.2014	On the maturity, the investor receives the maximum between 4% and the annual average of Gold and Oil, with a maximum of 28%.	3 705
OBRIG.CX-MONTEPIO TX FIXA 2010/14 2SER.	Mar.2010	Mar.2014	Fixed annual rate of 3.2% (3rd year a fixed rate of 3.3%, 4th year a fixed rate of 3.5%)	20 000
OBRIGS CAIXA-MG TAXA FIXA CRESCENTE ABRIL-2010-2015	Apr.2011	Apr.2015	Fixed annual rate of 2.7% (4th year a fixed rate of 2.7%, from 5th year a fixed rate of 2.8%, from 7th year a fixed rate of 3% and from 9th year a fixed rate of 3.5%)	500

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
OBRIGS CAIXA-MG TAXA FIXA-2010-2013-1. SERIE	May.2010	May.2013	Fixed annual rate of 2.5% (3rd year a fixed rate of 2.5%)	10 553
OBRIGS CAIXA-MG TOP-2010-2014-1. SERIE	May.2010	May.2015	Fixed annual rate of 2.75% (3rd year a fixed rate of 3%, 4th year a fixed rate of 3.25%)	520
OBRIGS CAIXA-CABAZ ENERGIA-2010-2014	May.2010	May.2015	At the maturity, the investor will receive the maximum between 4% and the performance of the underlying (Equity portfolio of energy)	2 201
OBRIGS CAIXA-MG TAXA FIXA –2010-2012-1. SERIE	Jun.2010	Jun.2012	Fixed annual rate of 2% (8th year 2%)	3 118
OBRIGS CAIXA-MG CAPITAL CERTO-2010-2018-2. SERIE	Jul.2010	Jul.2018	Fixed annual rate of 3.15% (from 3rd year to 5th year 3.4%, 6th year 3.65%, 7th year 4.15% and 8th year 5.90%)	1 600
OBRIGS CAIXA-MG TAXA FIXA JULHO 2010/2014	Jul.2010	Jul.2014	Fixed annual rate of 3.5% (from 3rd to 4th year 3.5%)	22 747
OBRIGS CAIXA-MG TAXA FIXA AGOSTO-2010-2014	Aug.2010	Aug.2014	Fixed annual rate of 3.5%	15 914
OBRIGS CAIXA-MG TAXA FIXA SETEMBRRO 2010-2020	Sep.2010	Sep.2020	Fixed annual rate of 4.0%	200
OBRIGS CAIXA-MG TAXA FIXA SETEMBRRO 2010-2014	Sep.2010	Sep.2014	Fixed annual rate of 3.5%	9 967
OBRIGS CAIXA-MG EURODOLAR SETEMBRO 2010-2012	Oct.2010	Oct.2012	Interest rate indexed to the performance of the exchange rate EUR/USD	1 493
OBRIGS CAIXA-MG TAXA FIXA NOVEMBRO 2010-2012	Nov.2010	Nov.2012	Fixed annual rate of 3.25%	5 818
OBRIGS CAIXA-MG TELECOMUNICACOES DEZEMBRO 2010-2014	Dec.2010	Dec.2014	Interets = Max [2%;Min(performance,40%)]	558
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016-1. SERIE	Jan.2011	Jan.2016	Fixed annual rate 3.53% (2nd year 3.53%, 3rd year 4.03%, 4th year 4.28% and 5th year of 5.28%)	25 000
OBRIGS CAIXA-MG TAXA FIXA JANEIRO 2011-2015	Feb.2011	Feb.2015	Fixed annual rate of 4%	19 918
OBRIGS CAIXA-MG TAXA FIXA CRESCENTE FEVER-2011-2016	Feb.2011	Feb.2016	Fixed annual rate 3.5% (2nd year 3.9%, 3rd year 4.2%, 4th year 4.3% and 5th year 5.6%)	5 000
OBRIGS CAIXA-MONTEPIO 1780 DIAS-2011-2016	Feb.2011	Jan.2016	Fixed annual rate 3.7% (2nd year 3.9%, 3rd year 4.25%, 4th year 4.5% and 5th year 5.5%)	1 500
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016-2. SERIE	Feb.2011	Jan.2016	Fixed annual rate 3.5% (2nd year 3.9%, 3rd year 4.2%, 4th year 4.3% and 5th year 5.6%)	25 000
OBRIGS CAIXA-MG TAXA CRESCENTE FEVEREIRO 2016	Mar.2011	Feb.2016	Fixed annual rate 3.5% (2nd year 3.9%, 3rd year 4.2%, 4th year 4.35% and 5th year 5.6%)	15 000
OBRIGS CAIXA-MONTEPIO TOP EUROPA – MARCO 2011/2015	Mar.2011	Mar.2015	At the maturity, the investor will receive the interest indexed to the performance of the Euro Stoxx50 index and Gold price.	5 000
OBRIGS CAIXA-MG TAXA FIXA MARCO 2011-2013	Mar.2011	Mar.2013	Fixed annual rate of 3.25%	6 593
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016-3.SERIE	Mar.2011	Apr.2016	Fixed annual rate 3.75% (2nd year 4%, 3rd year 4.25%, 4th year 4.5% and 5th year 5.5%)	20 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2019-1.SERIE	Mar.2011	Apr.2019	Fixed annual rate de 4.4% (2nd year 4.4%,, 3º and 4th year 4.65%, 5th and 6th year 5%,7º and 8th year 6.5%)	20 000
OBRIGS CAIXA-MG TAXA CRESCENTE ABRIL 2016	Apr.2011	Apr.2016	Fixed annual rate 4% (2nd year 4.25%, 3rd year 4.5%, 4th year 4.75% and 5th year 5.75%)	10 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016-4.SERIE	Apr.2011	Apr.2016	Fixed annual rate 3.75% (2nd year 4%, 3rd year 4.25%, 4th year 4.5% and 5th year 5.5%)	25 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016-5.SERIE	May.2011	May.2016	Fixed annual rate 4.1% (2nd year 4.3%, 3rd year 4.6%, 4th year 4.8% and 5th year 5.75%)	20 000

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2019-2.SERIE	May.2011	May.2019	Fixed annual rate de 4.9% (2nd year 4.9%, 3rd and 4th year 5.15%, 5th and 6th year 5.5%,7th year 6% and 8th year 7%)	5 000
OBRIGS CAIXA-MG TAXA CRESCENTE JUN2011-ABR2016	Jun.2011	Apr.2016	Fixed annual rate 4.25% (2nd and 3rd year 4.5%, 4th year 4.75% and 5th year 5%)	15 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016-6.SERIE	Jun.2011	Jul.2016	Fixed annual rate 4.1% (2nd year 4.3%, 3rd year 4.6%, 4th year 4.8% and 5th year 5.75%)	20 000
OBRIGS CAIXA-MG CAPITAL CERTO 1795 DIAS 2011/2016	Aug.2011	Jul.2016	Fixed annual rate 4.1% (2nd year 4.3%, 3rd year 4.6%, 4th year 4.8% and 5th year 5.75%)	10 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2019-3 SERIE	Sep.2011	Jul.2019	Fixed annual rate 4.9% (2nd year 4.9%, 3º and 4th year 5.15%, 5th and 6th year 5.5%, 7th year 6.00% and 8th year 7.00%)	5 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016-7 SERIE	Sep.2011	Sep.2016	Fixed annual rate 4.25% (2nd year 4.30%, 3rd year 4.60%, 4th year 4.8% and 5th year 5.75%)	10 000
OBRIGS CAIXA-FNB REMUNERAÇÃO GARANTIDA 2006	Apr.2008	Sep.2016	Fixed annual rate 3%	2 680
OBRIGS CAIXA-FNB DEZEMBRO 07/17	Dec.2010	Dec.2017	Mínimum [15 * (30 Yr Swap Rate – 10 Yr Swap Rate) + 0.75%; 15 * (10 Yr swap Rate – 2 Yr Swap Rate) + 1.25%]	26 871
Obrig. CEMG/04	Sep.2004	Sep.2014	Euribor 3 months + 0.25%	15 000
Obrig. CEMG/05	Feb.2005	Feb.2015	Fixed annual rate of 2.99862%	110 250
Obrig. CEMG/05	May.2005	May.2012	Euribor 3 months + 0.25%	449 969
Obrig. CEMG/07	Jan.2007	Jan.2017	Fixed annual rate of 3.429%	93 500
Obrig. CEMG/07	Feb.2007	Feb.2017	Fixed annual rate of 5%	87 000
Obrig. CEMG/07	May.2007	May.2013	Euribor 3 months + 0.25%	402 750
Obrigações Hipotecárias	Jul.2009	Jul.2012	Fixed annual rate of 3.25%	540 550
				2 141 962
Adjustments arising from hedging operations				(81 163)
Accruals, deferred costs and income				179 889
Total				2 240 688

As at 31 December 2011, for the bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.5% and 7.25%.

36. Provisions

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Provisions for general banking risks	117 066	100 188
Provisions for liabilities and charges	2 948	1 311
	120 014	101 499

The provisions movements for general banking risks are analysed as follows:

	2011 Euro '000	2010 Euro '000
Provisions for general banking risks:		
Balance on 1 January	100 188	101 310
Charge for the year	53 801	49 552
Write-back for the year	(56 917)	(50 674)
Transfers	19 994	–
Balance on 31 December	117 066	100 188

The General provision for loan losses, was calculated in accordance with Regulation no. 3/95, no. 2/99 and no. 8/03 of the Bank of Portugal, as referred in accounting policy 1 *b*).

The balance Transfers corresponds to values transferred from Finibanco S.A. in the scope of the acquisition of assets and liabilities held on April 4, 2011, as described in accounting policy 1 *a*).

The movements of the provisions for liabilities and charges are analysed as follows:

	2011 Euro '000	2010 Euro '000
Provisions for liabilities and charges:		
Balance on 1 January	1 311	1 490
Charge for the year	776	586
Write-back for the year	(452)	(670)
Charged off	–	(95)
Transfers	1 313	–
Balance on 31 December	2 948	1 311

The provisions were accounted in accordance with the probability of occurrence of certain contingencies related with CEMG's activity, which is revised in each reporting date in order to reflect the best estimate of the amount and probability of payment.

The balance Transfers corresponde to values transferred from Finibanco S.A. in the scope of the acquisition of assets and liabilities held on April 4, 2011, as described in accounting policy 1 *a*).

37. Other subordinated debt

As at 31 December 2011, this balance in the amount of Euro 477 247 000 (2010: Euro 380 986 000) refers to Bonds with fixed maturity date, and with a residual reimbursement over 5 years.

As at 31 December 2011 the mainly characteristics of the Other subordinated debt, are analysed as follows:

Issue	Issue date	Maturity date	Issue amount Euro '000	Interest rate	Book value Euro '000
CEMG/06	Apr.2006	Apr.2016	50 000	Euribor 3 months+0.45%	50 214
CEMG/08	Feb.2008	Feb.2018	150 000	Euribor 6 months+0.13%	151 430
CEMG/08	Jun.2008	Jun.2018	28 000	Euribor 12 months+0.10%	28 496
CEMG/08	Jul.2008	Jul.2018	150 000	Euribor 6 months+0.13%	151 878
FNB 08/18 1.ª/2.ª Série	Dec.2008	Dec.2018	10 363	Euribor 6 months+0.15% (v)	10 383
FNB Rendimento Garantido 05/13	May.2005	May.2013	410	Range (1.90%;4.50%) (iii)	410
FNB Rendimento Seguro 05/15	Jun.2005	Jun.2015	238	6.25%*VN Min.(quotation) (iv)	251
FNB Grandes empresas 07/16 – 1.ª	May.2007	May.2016	6 450	Max.(0;6,0%*(1-n/5)) (i)	6 450
FNB Grandes empresas 07/16	Jun.2011	Jun.2016	30 250	Max.(0;6,0%*(1-n/5)) (i)	30 250
FNB Índices estratégicos07/17 1.ª	May.2007	Jun.2015	14 947	6.25%*VN Min.(quotation) (ii)	14 947
FNB Índices estratégicos07/17 2.ª/3.ª	Jun.2011	Jun.2015	39 000	Euribor 6 months+0.5%	39 000
					483 709
				Corr. Liability value	(6 462)
					477 247

Other subordinated debt portfolio is recorded at fair value, in accordance with the accounting policy described in note 45.

As at 31 December 2011, the effective interest rate range of the subordinated debt bears postponed interest every three and six months is set between 1% and 5%.

References:

(i) – The following cupons will be paid, on the year end of each year (May 9, to the 1st série and Junho 20, to the 2nd and 3rd series):

Coupon	Interest rate/range
1st Coupon	5.50%
2nd Coupon	5.50%
3rd Coupon	Max [0; 6.0% * (1-n/3)]
4th Coupon	Max [0; 6.0% * (1-n/4)]
5th Coupon	Max [0; 6.0% * (1-n/5)]
6th Coupon	Max [0; 6.0% * (1-n/6)]
7th Coupon	Max [0; 6.0% * (1-n/7)]
8th Coupon	Max [0; 6.0% * (1-n/8)]
9th Coupon	Max [0; 6.0% * (1-n/9)]

Notes:
where, *n* is the accumulated number of reference entities in which a credit event has occurred.
If a merge between two or more reference entities had occur and if a credit event occur in the merged entity, it will be accounted many credit events as the number of merged companies.

(ii) – The payment will be annually and it will be equal:

Coupon	Interest rate/range
1st year	5.5% * notional
2nd year	5.5% * notional
3rd and following	6.25% * notional if Min (SDk/SD0-SXk/SX0; HSk/HS0- SXk/SX0) > Barrier k ***

*** if not = 0%, where:

Barrier 3 = Barrier to be applied on 3rd coupon = 0%;
Barrier 4 = Barrier to be applied on 4th coupon = 1%;
Barrier 5 = Barrier to be applied on 5th coupon = 2%;
Barrier 6 = Barrier to be applied on 6th coupon = 3%;
Barrier 7 = Barrier to be applied on 7th coupon = 4%;
Barrier 8 = Barrier to be applied on 8th coupon = 5%;
Barrier k = Barrier to be applied on kth coupon:
SDk – Closing of Eurostoxx Select Dividend Index (Bloomberg: SD3E) on the observation date K (K=1 to 6)
SD0 – Closing of Eurostoxx Select Dividend Index (Bloomberg: SD3E) on the starting date
SXk – Closing of Eurostoxx50 Total Return Index (Bloomberg: SX5T) on the observation date K (K=1 to 6)
SX0 – Closing of Eurostoxx50 Total Return Index (Bloomberg: SX5T) on the starting date
HSk – Closing of HS60 Europe Index (Bloomberg: HS60EU) on the observation date K (K=1 to 6)
HS0 – Closing of HS60 Europe Index (Bloomberg: HS60EU) on the starting date

(iii) – The payment will be semiannual, with a minimum of 1% and a maximum of 5%, and it will be calculated according with the following formula (annual rate): n/N * 5% + m/N * 1%

where:
n is the number of working days of the respective period in which Euribor 6 months will be in the fixed range;
m is the number of working days of the respective period in which Euribor 6 months will be outside the fixed range;
N is the number of working days of the respective period.

Note – Range is defined on the following table for each coupon:

Period	Coupon date	Range
1st semester	09-Nov-2005	[0; 2,75%]
2nd semester	09-May-2006	[0; 3.00%]
3rd semester	09-Nov-2006	[0; 3.25%]
4th semester	09-May-2007	[0; 3.50%]
5th semester	09-Nov-2007	[0; 3.50%]
6th semester	09-May-2008	[0; 3.75%]
7th semester	09-Nov-2008	[0; 3.75%]
8th semester	09-May-2009	[0; 4.00%]
9th semester	09-Nov-2009	[0; 4.00%]
10th semester	09-May-2010	[0; 4.25%]
11th semester	09-Nov-2010	[0; 4.25%]
12th semester	09-May-2011	[0; 4.50%]
13th semester	09-Nov-2011	[0; 4.50%]
14th semester	09-Nov-2012	[0; 4.50%]
15th semester	09-Nov-2012	[0; 4.50%]
16th semester	09-May-2013	[0; 4.50%]

(iv) – The payment will be semiannual, with a minimum of 1% and a maximum of 5%, and it will be calculated according with the following formula (annual rate): n/N * 5% +m/N * 1%

where:
n is the number of working days of the respective period in which Euribor 6 months will be in the fixed range;
m is the number of working days of the respective period in which Euribor 6 months will be outside the fixed range;
N is the number of working days of the respective period.

Note – Range is defined on the following table for each coupon:

Period	Coupon date	Range
1st semester	09-Dec-2005	[1.60; 2.75%]
2nd semester	09-Jun-2006	[1.60; 3.00%]
3rd semester	09-Dec-2006	[1.60; 3.25%]
4th semester	09-Jun-2007	[1.60; 3.50%]
5th semester	09-Dec-2007	[1.60; 3.50%]
6th semester	09-Jun-2008	[1.70; 3.75%]
7th semester	09-Dec-2008	[1.70; 3.75%]
8th semester	09-Jun-2009	[1.70; 4.00%]
9th semester	09-Dec-2009	[1.80; 4.00%]
10th semester	09-Jun-2010	[1.80; 4.25%]
11th semester	09-Dec-2010	[1.80; 4.25%]
12th semester	09-Jun-2011	[1.80; 4.50%]
13th semester	09-Dec-2011	[1.90; 4.50%]
14th semester	09-Jun-2012	[1.90; 4.50%]
15th semester	09-Dec-2012	[1.90; 4.50%]
16th semester	09-Jun-2013	[1.90; 4.50%]
17th semester	09-Dec-2013	[2.00; 4.50%]
18th semester	09-Jun-2014	[2.00; 4.50%]
19th semester	09-Dec-2014	[2.00; 4.50%]
20th semester	09-Jun-2015	[2.00; 4.50%]

(v) – The payment will be semiannual and the first coupon will be fixed:

Coupon	Interest rate/Range
1st coupon	6.50% (annual rate)
between 2nd and 10th coupon	Euribor 6M + 1.50% (annual rate)
11th and following	Euribor 6M + 1.75% (annual rate)

38. Other liabilities

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Creditors:		
Suppliers	10 576	7 356
Other creditors	76 146	24 195
Public sector	12 977	7 944
Holiday pay and subsidies	32 992	25 824
Other administrative costs payable	2 572	375
Deferred income	759	546
Securities transactions pending settlement	752	–
Other sundry liabilities	106 645	145 456
	243 419	211 696

The caption Other sundry liabilities corresponds to balances of banking and financial transactions pending settlement.

39. Share Capital

On 29 de March 2011, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 345 000 000, by cash transfer.

On 28 de December 2011, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 100 000 000, by cash transfer.

After the referred operation, the share capital of CEMG, amounts to Euro 1 245 000 000 (2010: Euro 800 000 000), totally subscribed by «Montepio Geral – Associação Mutualista», and is fully paid.

On 29 de September 2010, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 40 000 000, by cash transfer.

40. Other capital instruments

This caption includes the issuance of Euro 15 000 000 occurred in the first quarter of 2010 Perpetual Subordinated Securities Interest conditioners made by Finibanco, SA, and in connection with the acquisition of Finibanco Holding, SGPS, SA and its subsidiaries spent to integrate the responsibilities CEMG.

Payment

Subject to the payment of interest limitations described below, the payment will be paid semiannually on 2 February and 2 August of each year, beginning on 2 August, 2010 and will be equal to:

- 1st ao 4th coupon: 7.00%;
- 5th coupon and following: Euribor 6M + 2.75%, with a minimum of 5%.

Payment interest limitations

The Issuer will be prevented from making interest payment:

- And even the extent of competition in which the sum of the amount payable by the interest this issue with the amount of dividends paid or deliberate and guaranteed payments relating to any preference shares that are likely to be issued, exceed Distributable Funds of the Issuer; or
- Is in compliance with the Regulatory capital requirements regulamentation or the extent and up to competition in its payment implies that is in default with that Regulamentation.

The Issuer is also prevented from proceeding to the interest payment if, in the Board of Directors or the Bank of Portugal opinion, this payment endanger the comply of Regulatory capital requirements regulamentation.

The impediment to proceed to the Interest Payment may be total or partial.

Interest non-payment on any date exclude the issuer of the interest payment related to this date in a future time.

It is considered distributable funds in a determinated year the algebraic sum, with reference to the previous year, the retained earnings with any other amount which may be distributable and profit or loss, net of reserve requirements, statutory and legal, but before the deduction of the amount of any dividends on ordinary shares or other securities subject to these, for that exercise.

Reimbursement

These values are perpetual securities and are only refundable under the terms of early repayment provided below.

By agreement of the Bank of Portugal, the issuer may reimburse, in whole or in part, from the 10th date of payment of interest, including (5^{th} year).

In case of continued occurrence of an Event of Disqualification as Core Capital, even before the expiration of five years from its issuance, and in agreement with the Bank of Portugal, these Securities are redeemable at the option of the Issuer, at any time.

In the disqualification event as Core Capital is defined as a change in any legal document or its official interpretation implies these securities values may no longer be classified as Core Capital of the Issuer.

41. General and special reserves

The general and special reserves are charged under the scope of Decree-Law no. 136/79, of 18 May. The general reserve is charged to cover any risk and extraordinary losses or depreciation.

Under the Portuguese regulations, the general reserve should be charged, at least, in a minimum of 20% of the profit for the year. The limit of general reserve is 25% of total deposits. This reserve is not available for distribution and it can be used to improve future income performances or to increase capital.

The special reserve is charged to cover losses from current operations. Under the Portuguese regulations, the special reserve should be charged, at least, in a minimum of 5% of the profit for the year. This reserve is not available for distribution and it can be used to improve income performances or to increase capital.

The variation of the general and special reserves balance is analysed in note 42.

42. Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

	2011 Euro '000	2010 Euro '000
Other comprehensive Income:		
Fair value reserves		
Available-for-sale financial assets	(316 692)	(82 973)
Reserves and retained earnings:		
General reserve	178 985	170 686
Special reserve	66 519	64 444
Other reserves	8 404	8 404
Retained earnings	11 534	(110 280)
	265 442	133 254

The fair value reserves represents the potential gains and losses on financial assets available for sale net of impairment losses recognized in the income statement and/or in prior years in accordance with accounting policy 1 *c*).

As described in notes 1, 46 and 55, the caption Retained earnings includes, with effect from 1 January 2010, the effect of correction of Euro 88 533 000 arising from the Board decision to change the accounting policy relating to recognition of actuarial deviations.

The balance Retained earnings includes on December 31, 2011 and 2010, the amount of Euro 11 534 000 and Euro 8 033 000, respectively, related to the amortization of the transition adjustments resulting from adoption of IAS 19, as defined in accounting policy 1 *u*).

The movements of this balance during 2011 are analysed as follows:

	Balance on 1 January Euro '000	Reavaluation Euro '000	Acquisition Euro '000	Sales Euro '000	Impairment recognized in the year Euro '000	Balance on 31 December Euro '000
Fixed income securities:						
Bonds issued by Portuguese entities	(28 302)	(157 628)	(55 976)	343	–	(241 563)
Bonds issued by foreign entities	(4 103)	21 674	558	496	(19 309)	(684)
Bonds issued by other entities:						
Portuguese	(12 591)	3 259	619	471	(12 392)	(20 634)
Foreign	(38 060)	(27 895)	(3 367)	3 092	13 559	(52 671)
	(83 056)	(160 590)	(58 166)	4 402	(18 142)	(315 552)
Variable income securities:						
Shares in companies						
Portuguese	159	3 130	(48)	(17)	(3 228)	(4)
Foreign	(46)	439	(11)	19	(470)	(69)
Investments fund units	(30)	(415)	(466)	(65)	(91)	(1 067)
	83	3 154	(525)	(63)	(3 789)	(1 140)
	(82 973)	(157 436)	(58 691)	4 339	(21 931)	(316 692)

The movements of this balance during 2010 are analysed as follows:

	Balance on 1 January Euro '000	Reavaluation Euro '000	Sales Euro '000	Impairment recognized in the year Euro '000	Balance on 31 December Euro '000
Fixed income securities:					
Bonds issued by Portuguese entities	–	(28 302)	–	–	(28 302)
Bonds issued by Foreign entities	106	(4 199)	(10)	–	(4 103)
Bonds issued by other entities:					
Portuguese	1 471	(11 354)	(760)	(1 948)	(12 591)
Foreign	(31 441)	(9 483)	1 355	1 509	(38 060)
	(29 864)	(53 338)	585	(439)	(83 056)
Variable income securities:					
Shares in companies					
Portuguese	89	71	(42)	41	159
Foreign	523	(239)	(129)	(201)	(46)
Investment fund units	652	(2 564)	(898)	2 780	(30)
	1 264	(2 732)	(1 069)	2 620	83
	(28 600)	(56 070)	(484)	2 181	(82 973)

The fair value reserve can be analysed as follows:

	2011 Euro '000	2010 Euro '000
Amortised cost of available-for-sale financial assets	6 188 119	5 367 501
Accumulated impairment recognized	(49 647)	(27 717)
Amortised cost of available-for-sale financial assets, net impairment	6 138 472	5 339 784
Fair value of available-for-sale financial assets	5 821 780	5 256 811
Net/unrealised gains/(losses) recognized in the fair value reserve	(316 692)	(82 973)

43. Obligations and future commitments

Obligations and future commitments are analysed as follows:

	2011 Euro '000	2010 Euro '000
Guarantees granted	510 686	424 361
Guarantees received	32 544 520	29 158 640
Commitments to third parties	1 578 234	1 298 867
Commitments from third parties	44 545	38 510
Securitised loans	264 299	292 135
Securities and other items held for safekeeping on behalf of customers	5 367 132	5 152 178
	40 309 416	36 364 691

The amounts of Guarantees granted and Commitments to third parties are analysed as follows:

	2011 Euro '000	2010 Euro '000
Guaranteed granted:		
Guaranteed	504 155	420 181
Open documentary credits	6 531	4 180
	510 686	424 361

	2011 Euro '000	2010 Euro '000
Commitments to third parties:		
Irrevocable commitments		
Irrevocable credit lines	230 860	252 535
Securities subscription	330 950	185 150
Annual contribution to the Guarantee Deposits Fund	25 314	20 013
Potencial obligation with the Investors' Indemnity System	2 316	1 699
Revocable commitments		
Revocable credit lines	988 794	839 470
	1 578 234	1 298 867

Guarantees granted are financial operations that are not consisted by mobilization on Funds by CEMG.

Revocable and irrevocable commitments represent contractual agreements to extend credit to CEMG's customers (for example unused credit lines). These agreements are generally, contracted for fixed periods of time or with other expiration requisites, and usually require the payment of a commission. Substantially, all credit commitments require that clients maintain certain conditions verified at the time when the credit was granted.

The commitments, revocable and irrevocable, represent contractual agreements for credit concession with CEMG clients which, in general, are contracted by fixed periods or with other expiring requisites and, normally, apply for the payment of a commission. Substantially, all commitments of credit concession in force require clients to maintain certain requisites which are verified at the time of the respective formalization.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any one another commercial operation, namely the solvency of the underlying client and business, being that CEMG requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having being used, the indicated amounts do not represent necessarily future cash-flow needs.

As at 31 December 2011 and 31 December 2010, the balance Annual contribution to the obligations of Guarantee Deposits Fund is related with the irrevocable commitment assumed by CEMG and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

The balance Potential obligation with the Investors' Indemnity System, as at 31 December 2011 and 2010, is related with the irrevocable commitment assumed by CEMG and required by law, to deliver to that System the necessary amounts for CEMG's obligation with the investors' indemnities to be paid.

The financial instruments recorded as Obligations and future commitments are subject to the same control and approval procedures required for the credit portfolio, namely to the evaluation of the adequacy of provisions as referred in note 1 *b*), the maximum credit exposition is represented by the nominal value that could been lost related to the liabilities associated and other commitments of CEMG in the matter of the overdue by counterparties, without being in consideration potential recoveries of credit or collaterals.

44. Distribution of profit

On 28 March, 2011, following the General Assembly deliberation, CEMG distributed to Montepio Geral – Associação Mutualista in the amount of Euro 23 085 000 (2010: Euro 20 300 000).

45. Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as it happens regarding many products sold to clients, fair value is estimated through internal models based on cash-flow discounting techniques.

Cash flows for the different instruments sold are calculated according with its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the pricing policy in CEMG.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model that, necessarily have some degree of judgement and reflect exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, like the future business evolution.

Under these conditions, the values presented cannot be understood as an estimate of the economic value of CEMG.

CEMG determines the fair value of its financial assets and liabilities in accordance with the following hierarchy:

1. Quoted market prices – this category includes financial assets with available quoted market prices in official markets and with dealer prices, quotations provided by entities that usually provide transaction prices for these assets/liabilities traded in active markets.
2. Valuation models based on observable market information – consists on the use of internal valuation techniques, namely discounted cash flow models and option pricing models that imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instrument. Notwithstanding, CEMG uses observable market data such as interest rate curves, credit spreads, volatility and market indexes. Includes also instruments with dealer price quotations but which are not traded in active markets.
3. Valuation models based on non-observable market information – consists on the use of internal valuation models or quotations provided by third parties but which imply the use of non-observable market information.

The main methods and assumptions used in estimating the fair value for the assets and liabilities of CEMG are presented as follows:

– **Cash and deposits at central banks, Loans and advances to credit institutions repayable on demand and Deposits from other credit institutions**

  Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

– **Other loans and advances to credit institutions, Amounts owed to other credit institutions from Interbank Money Market transactions and Assets with repurchase agreements**

  The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the installments occur in the contractually defined dates.

The discount rate used reflects the current conditions applied by CEMG in identical instruments for each of the different maturities. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market, at the end of the year).

– **Financial assets held for trading (except derivatives), Financial liabilities held for trading (except derivatives) and Available-for-sale financial assets**

These financial instruments are accounted at fair value. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

Interest rates are determined based on information disseminated by the suppliers of content financial – Reuters and Bloomberg – more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are used in the projection of the nondeterministic cash flows such as indexes.

When optionality is involved, the standard templates (Black-Scholes, Black, Ho and others) considering the volatility areas applicable are used. Whenever there are no references in the market of sufficient quality or that the available models do not fully apply to meet the characteristics of the financial instrument, it is applied specific quotations supplied by an external entity, typically a counterparty of the business.

In case of shares not listed, they are recognized at historical cost when there is no available market value and it is not possible to determine reliably its fair value.

– **Financial assets held to maturity**

These financial instruments are accounted at amortized cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

– **Hedging and trading derivatives**

All derivatives are recorded at fair value.

In the case of those who are quoted in organized markets is used its market price. As for derivatives traded «over the counter», apply the numerical methods based on techniques of discounted cash flow valuation models and considering options including changing market interest rates applicable to the instruments concerned, and where necessary, their volatility.

Interest rates are determined based on information disseminated by the suppliers of content financial – Reuters and Bloomberg – more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods.

The interest rate curves are used in the projection of the non-deterministic cash flows such as indexes.

– **Loans and advances to customers with defined maturity date**

The fair value of these instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the installments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by CEMG in similar instruments for each of the homogeneous classes of this type of instrument and with similar maturity. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market, at the end of the year) and the spread used at the date of the report, which was calculated from the average production of the last three months of the year.

As at 31 December 2011, the average discount rate was 6.26% (2010: 5.73%), assuming the projection of variable rates according to the evolution of the forward rates implicit in the interest rate curves. The calculations also include the credit risk spread.

– **Loans and advances to customers without defined maturity date**

Considering the short maturity of these financial instruments, the conditions of the existing portfolio are similar to current conditions used by CEMG. Therefore, the amount in the balance sheet is a reasonable estimate of its fair value.

– **Deposits from customers**

The fair value of these financial instruments is calculated by discounting the expected principal and interest future cash flows, considering that payments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by CEMG in identical instruments with a similar maturity.

The discount rate includes the market rates of the residual maturity date (rates of monetary market or the interest rate swap market, at the end of the year) and the spread of CEMG at the date of the report, which was calculated from the average production of the last three months of the year.

As at 31 December 2011, the average discount rate was of 4.1% (2010: 3.9%).

– **Debt securities issued and Subordinated debt**

For these financial instruments, fair value was calculated for the components that are not yet reflected on CEMG's balance sheet. For the fixed interest rate instruments for which CEMG applies a hedge-note, the fair value regarding the interest rate risk is already accounted for.

In fair value calculation, the other risk components were also considered, apart from the interest rate risk. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted by associated factors, predominantly the credit risk and trading margin, the latter only in the case of issues placed for non institutional customers of CEMG.

As original reference, CEMG applies the curves resulting from the interest rate swaps markets for each specific currency. The credit risk (credit spread) is represented by an excess from the curve of interest rate swaps established specifically for each term and class of instruments based on the market prices on equivalent instruments.

For own emissions placed among non institutional customers of CEMG, it was added one more differential (trade spread), which represents the margin between the financing cost in the institutional market and the cost obtained by distributing the respective instrument in the commercial network owned.

As at 31 December 2010, the following table presents the values of the interest rates used in the clearance of the curves interest rate of major currencies, including Euro, United States Dollar and Sterling Pound used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies		
	Euro	**United States Dollar**	**Sterling Pound**
1 day	0.250%	0.355%	0.555%
7 days	0.620%	0.250%	0.555%
1 month	0.980%	0.575%	0.725%
2 months	1.120%	0.725%	0.840%
3 months	1.300%	0.850%	1.060%
6 months	1.560%	0.950%	1.440%
9 months	1.740%	1.075%	1.710%
1 year	1.890%	1.225%	1.950%
2 years	1.310%	0.712%	1.324%
3 years	1.360%	0.815%	1.363%
5 years	1.725%	1.214%	1.567%
7 years	2.068%	1.601%	1.867%
10 years	2.390%	2.020%	2.295%
15 years	2.685%	2,370%	2,295%
20 years	2,697%	2,493%	2,295%
30 years	2,555%	2,589%	2.295%

As at 31 December 2010, the following table presents the values of the interest rates used in the clearance of the curves interest rate of major currencies, including Euro, United States Dollar and Sterling Pound used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies		
	Euro	**United States Dollar**	**Sterling Pound**
1 day	0.400%	0.300%	0.550%
7 days	0.350%	0.300%	0.550%
1 month	0.810%	0.300%	0.680%
2 months	0.910%	0.310%	0.720%
3 months	1.010%	0.430%	0.820%
6 months	1.230%	0.530%	1.260%
9 months	1.370%	0.720%	1.415%
1 year	1.510%	0.880%	1.520%
2 years	1.561%	0.797%	1.505%
3 years	1.945%	1.282%	1.945%
5 years	2.481%	2.179%	2.630%
7 years	2.893%	2.838%	3.103%
10 years	3.305%	3.386%	3.535%
15 years	3.638%	3.844%	3.535%
20 years	3.697%	4.020%	3.535%
30 years	3.496%	4.130%	3.535%

Exchange rates and volatility

We present below the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the money) for the main currencies used on the derivatives valuation:

			Volatility (%)				
Exchange rates	**2011**	**2010**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.2939	1.3362	13.35	14.85	15.30	15.45	15.50
EUR/GBP	0.8353	0.8608	8.45	9.90	10.70	11.15	11.45
EUR/CHF	1.2156	1.2504	7.00	8.25	9.35	9.95	10.30
EUR/JPY	100.20	108.85	13.35	14.40	15.20	15.90	16.55

Concerning the exchange rates, CEMG uses in the valuation models the spot rate observed in the market at the time of the valuation.

Next table shows the decomposition of main adjustments to the financial assets and liabilities of CEMG, which are recognized at book value and fair value:

	2011								
	Held for trading Euro '000	Designated at fair value trough profit or loss Euro '000	Held-to maturity Euro '000	Loans and advances Euro '000	Available--for--sale Euro '000	Others at amortised cost Euro '000	Others Euro '000	Book value Euro '000	Fair value Euro '000
Financial assets:									
Cash and deposits at central bank	–	–	–	381 540	–	–	–	381 540	381 540
Loans and advances to credit institutions repayable on demand	–	–	–	102 701	–	–	–	102 701	102 701
Loans and advances to credit institutions	–	–	–	370 268	–	–	–	370 268	370 268
Loans and advances to customers	–	–	–	16 200 240	–	–	–	16 200 240	14 788 755
Financial assets held for trading	145 252	–	–	–	–	–	–	145 252	145 252
Other financial assets at fair value through profit or loss	–	3 606	–	–	–	–	–	3 606	3 606
Available-for-sale financial assets	–	–	–	–	5 821 780	–	–	5 821 780	5 821 780
Hedging derivates	1 184	–	–	–	–	–	–	1 184	1 184
Held-to maturity investments	–	–	48 416	–	–	–	–	48 416	45 909
Investments in associated companies and others	–	–	–	–	–	–	384 547	384 547	384 547
	146 436	3 606	48 416	17 054 749	5 821 780	–	384 547	23 459 534	22 045 542
Financial liabilities:									
Deposits from central banks	–	–	–	–	–	–	2 003 300	2 003 300	2 003 300
Deposits from other credit institutions	–	–	–	–	–	–	1 182 068	1 182 068	1 182 068
Deposits from customers	–	–	–	–	–	–	13 190 639	13 190 639	13 209 073
Debt securities issued	–	–	–	–	–	–	2 240 688	2 240 688	2 240 689
Financial liabilities relating to transferred assets	–	–	–	–	–	–	3 289 983	3 289 983	3 289 983
Financial liabilities held for trading	101 524	–	–	–	–	–	–	101 524	101 524
Hedging derivates	2 444	–	–	–	–	–	–	2 444	2 444
Other subordinated debt	–	–	–	–	–	–	477 247	477 247	477 247
	103 968	–	–	–	–	–	22 383 925	22 487 893	22 506 328

	2010								
	Held for trading Euro '000	Designated at fair value trough profit or loss Euro '000	Held-to maturity Euro '000	Loans and advances Euro '000	Available-for-sale Euro '000	Others at amortised cost Euro '000	Others Euro '000	Book value Euro '000	Fair value Euro '000
Financial assets:									
Cash and deposits at central bank	–	–	–	240 024	–	–	–	240 024	240 024
Loans and advances to credit institutions repayable on demand	–	–	–	58 405	–	–	–	58 405	58 405
Loans and advances to credit institutions	–	–	–	338 662	–	–	–	338 662	338 662
Loans and advances to customers	–	–	–	14 352 766	–	–	–	14 352 766	13 340 521
Financial assets held for trading	130 865	–	–	–	–	–	–	130 865	130 865
Other financial assets at fair value trough profit or loss	–	3 952	–	–	–	–	–	3 952	3 952
Available-for-sale financial assets	–	–	–	–	5 256 811	–	–	5 256 811	5 256 811
Hedging derivates	2 810	–	–	–	–	–	–	2 810	2 810
Held-to-maturity investments	–	–	58 093	–	–	–	–	58 093	57 539
Investments in associated companies and others	–	–	–	–	–	–	43 297	43 297	43 297
	133 675	3 952	58 093	14 989 857	5 256 811	–	43 297	20 485 685	19 472 886
Financial liabilities:									
Deposits from central banks	–	–	–	–	–	1 540 266	–	1 540 266	1 540 266
Deposits from other credit institutions	–	–	–	–	–	1 262 546	–	1 262 546	1 262 627
Deposits from customers	–	–	–	–	–	9 654 340	–	9 654 340	9 618 614
Debt securities issued	–	–	–	–	–	3 578 677	–	3 578 677	3 554 679
Financial liabilities relating to transferred assets	–	–	–	–	–	3 182 375	–	3 182 375	3 182 375
Financial liabilities held for trading	53 814	–	–	–	–	–	–	53 814	53 814
Hedging derivates	1 408	–	–	–	–	–	–	1 408	1 408
Other subordinated debt	–	–	–	–	–	380 986	–	380 986	369 748
	55 222	–	–	–	–	19 599 190	–	19 654 412	19 583 531

46. Employee benefits

CEMG assumed the liability to pay to their employees pensions on retirement or disability and other obligations. These liabilities comply with the terms of the «Acordo Coletivo de Trabalho» (ACT). The CEMG pension obligations and other liabilities are mainly covered through the Banco Comercial Português Pension Fund managed by PensõesGere – Sociedade Gestora de Fundo de Pensões, S.A.

Following the approval by the Government of the Decree-Law no. 127/2011, which was published on 31 December, an agreement between the Government, the Portuguese Banking Association and the Banking Labour Union was established that regulated the transfer of the liabilities related with pensions currently being paid to pensioners and retirees, to the Social Security.

This agreement established that the responsibilities to be transfer relates to the pensions in payment as at 31 December 2011 at fixed amounts (discount rate 0%) in the component established in the «Instrumento de Regulação Coletiva de Trabalho (IRCT)» of the retirees and pensioners. The responsibilities related with the increase in pensions as well as any other complements namely, contributions to the Health System (SAMS), death benefit and death before retirement benefit continue to be under the responsibility of the Financial Institutions and being financed through the corresponding Pensions funds. The Decree-Law also establishes the terms and conditions under which the transfer was made by setting a discount rate of 4% to determine the liabilities to be transferred.

As at 31 December 2011 and 2010, the number of participants covered by this pension plan is analysed as follows:

	2011	2010
Number of participants		
Pensioners	953	742
Employees	3 904	2 885
	4 857	3 627

The responsibilities transferred were determined based on different actuarial assumptions from the assumptions used by the Group, namely the discount rate (4%). These assumptions were determined on a liquidation perspective of the responsibilities (exit value) considering that relates to a definitive and not reversible transfer, implying differences regarding the assumptions used in determining the responsibilities recognized in the financial statements prepared in accordance with the requirements defined in IAS 19 – Employee benefits.

As a consequence, the Projected benefit liabilities and the Value of the Pension Fund, as at 31 December 2011, are presented net of the amounts transferred or to be transferred. As at 31 December 2011, was made partial financial settlement of the operation in the amount of Euro 90 420 000 and the remaining will be settled during the first semester of 2012.

Additionally, and considering that IAS 19 – Employee benefits allows for recognition of the actuarial gains and losses directly in Equity, the Group decided to change the accounting policy related to the recognition of the actuarial gains and losses in Other Comprehensive Income. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes since 1 January 2010, recognizing at that date the total amount of the deferred actuarial gains and losses in equity. Therefore and as presented in notes 1 and 56 all the actuarial gains and losses deferred were charged against Other Comprehensive Income.

In accordance with the accounting policy, described in note 1 *u*), the pension and other benefits obligation and the respective funding for the CEMG as at 31 December, 2011 and 2010 based on the projected unit credit method are analysed as follows:

	2011				2010			
	Pension plans Euro '000	**Death Subsidy Euro '000**	**Healthcare benefits Euro '000**	**Total Euro '000**	**Pension plans Euro '000**	**Death Subsidy Euro '000**	**Healthcare benefits Euro '000**	**Total Euro '000**
Assets/(Liabilities) recognized in the balance sheet								
Defined benefit obligation								
Pensioners	97 199	716	17 356	115 271	239 208	695	15 549	255 452
Employees	285 972	7 417	13 956	307 345	319 395	7 120	15 173	341 688
	383 171	8 133	31 312	422 616	558 603	7 815	30 722	597 140
Value of the fund	(397 440)	(10 098)	(32 960)	(440 498)	(513 907)	(6 328)	(24 862)	(545 097)
Assets/(Liabilities) recognized in the balance sheet	(14 269)	(1 965)	(1 648)	(17 882)	44 696	1 487	5 860	52 043

The balance Employees responsibility projected and the Pension Fund value, at 31 de December 2011, reflect the effect of transferring the assets and liabilities Funds associated with employees and pensioners, to the General Social Security Scheme in the amount of Euro 169 815 000 and Euro 183 910 000, respectively.

In accordance with the accounting policy 1 *u*), CEMG does the calculation of pension liabilities and pension actuarial gains and losses twice a year.

According to this policy and as described in IAS 19 – Employee Benefits, CEMG evaluates the balance sheet date, and separately for each plan, the recoverability of the excess coverage of the Fund meet their pension liabilities.

The change in the present value of obligations during 2011 and 2010 is analysed as follows:

	2011				2010			
	Pension plans Euro '000	**Death Subsidy Euro '000**	**Healthcare benefits Euro '000**	**Total Euro '000**	**Pension plans Euro '000**	**Death Subsidy Euro '000**	**Healthcare benefits Euro '000**	**Total Euro '000**
Balance on 1 January	558 603	7 815	30 722	597 140	532 994	7 527	29 301	569 822
Finibanco integration	61 998	2 071	4 081	68 150	–	–	–	–
Service cost	11 067	764	942	12 773	15 241	440	714	16 395
Interest cost	34 133	544	1 914	36 591	29 314	414	1 612	31 340
Actuarial gains and losses								
– Not arising from changes in actuarial assumptions	(4 743)	(1 088)	516	(5 315)	(2 772)	(566)	(905)	(4 243)
– Arising from changes in actuarial assumption	(106 887)	(1 973)	(5 660)	(114 520)	–	–	–	–
– Arising from the recalculation of the liabilities transferred to RGSS	14 096	–	–	14 096	–	–	–	–
Contributions to the fund	(18 826)	–	(1 203)	(20 029)	(18 348)	–	–	(18 348)
Transfers to RGSS	(183 910)	–	–	(183 910)	–	–	–	–
Early retirement	17 640	–	–	17 640	2 174	–	–	2 174
Balance on 31 December	383 171	8 133	31 312	422 616	558 603	7 815	30 722	597 140

The evolution of the amounts related to non-financial projected benefit obligations during 2011 and 2010, are analysed as follows:

	2011				2010			
	Pension plans Euro '000	Death Subsidy Euro '000	Healthcare benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death Subsidy Euro '000	Healthcare benefits Euro '000	Totall Euro '000
Balance on 1 January	44 696	1 486	5 861	52 043	58 707	1 319	4 913	64 939
Finibanco integration	(9 154)	(315)	(619)	(10 088)	–	–	–	–
Service cost	11 067	764	942	12 773	15 241	440	714	16 395
Interest cost	34 133	544	1 914	36 591	29 314	414	1 612	31 340
Expected return on plan assets	(32 178)	(479)	(1 626)	(34 283)	(26 087)	(341)	(1 341)	(27 769)
Early retirements	17 640	–	–	17 640	2 174	–	–	2 174
Actuarial gains and losses								
– Not arising from changes in actuarial assumptions	55 036	(1 420)	(1 723)	51 893	14 097	(345)	(38)	13 714
– Arising from changes in actuarial assumption	(106 887)	(1 973)	(5 660)	(114 520)	–	–	–	–
– Arising from the recalculation of the liabilities transferred to RGSS	14 096	–	–	14 096	–	–	–	–
Contributions to the fund	(42 718)	(572)	(737)	(44 027)	(48 750)	–	–	(48 750)
Balance on 31 December	(14 269)	(1 965)	(1 648)	(17 882)	44 696	1 487	5 860	52 043

The elements of the assets of the Pension Fund and which also cover the death benefit and health benefits are analysed as follows:

	2011 Euro '000	2010 Euro '000
Shares	10 896	44 703
Other variable income securities	26 532	102 088
Bonds	207 469	339 418
Properties	17 765	–
Loans and advances to credit institution and others	177 836	58 888
	440 498	545 097

The balance above are deducted of the transfered to the General Social Security Scheme to be delivered in the first semester of 2012 in the amount of Euro 93 490 000.

Securities issued by CEMG accounted in the portfolio of the Fund are analysed as follows:

	2011 Euro '000	2010 Euro '000
Fixed income securities	5 868	9 461
Variable income securities	25 932	5 120
	31 800	14 581

The change in the amounts of the assets of the Pension Fund related at 2011 and 2010 is analysed as follows:

	2011				2010			
	Pension plans Euro '000	**Death Subsidy Euro '000**	**Healthcare benefits Euro '000**	**Total Euro '000**	**Pension plans Euro '000**	**Death Subsidy Euro '000**	**Healthcare benefits Euro '000**	**Total Euro '000**
Balance on 1 January	513 907	6 329	24 861	545 097	474 287	6 208	24 388	504 883
Finibanco integration	71 152	2 386	4 700	78 238	–	–	–	–
Expected return on plan assets	32 178	479	1 626	34 283	26 087	341	1 341	27 769
Actuarial gains/(losses)	(59 779)	332	2 239	(57 208)	(16 869)	(221)	(867)	(17 957)
Contrubutions to the Fund of CEMG	40 816	572	737	42 125	47 097	–	–	47 097
Transfer to the general social healthcare system («RGSS»)	(183 910)	–	–	(183 910)	–	–	–	–
Contributions to the Fund of the employers	1 902	–	–	1 902	1 653	–	–	1 653
Payments	(18 826)	–	(1 203)	(20 029)	(18 348)	–	–	(18 348)
Balance on 31 December	397 440	10 098	32 960	440 498	513 907	6 328	24 862	545 097

The contributions to the Fund made by CEMG in 2011were fully paid in cash.

During 2011, CEMG recognized as pension costs the amount of Euro 46 817 000 (2010: Euro 23 188 000). The analysis of the cost is as follows:

	2011				2010			
	Pension plans Euro '000	**Death Subsidy Euro '000**	**Healthcare benefits Euro '000**	**Total Euro '000**	**Pension plans Euro '000**	**Death Subsidy Euro '000**	**Healthcare benefits Euro '000**	**Total Euro '000**
Service cost	11 067	764	942	12 773	15 241	440	714	16 395
Interest cost	34 133	544	1 914	36 591	29 314	414	1 612	31 340
Expected return on plan assets	(32 178)	(479)	(1 626)	(34 283)	(26 087)	(341)	(1 341)	(27 769)
Early retirements	17 640	–	–	17 640	2 174	–	–	2 174
Resulting from the transfer under DL 127/2011	14 096	–	–	14 096	–	–	–	–
Cost of the year	44 758	829	1 230	46 817	20 642	513	985	22 140

The balance Costs resulting from the transfer to the General Social Security Scheme at 31 December 2011 corresponds to the impact of the transfer of the responsibilities to retired employees/pensioners to the General Social Security Scheme. That impact is the effect of liabilities recalculation with the preconditions defined Portugal State in the transfer situation.

Health benifts is completely covered by the Pension Fund in the amount of Euro 31 312 000 at 2011 (2010: Euro 30 722 000).

The estimate value of contributions to be performed n 2012 under Pension Plan is Euro 8 585 000 (2010: Euro 42 125 000).

After market indicators analyzing, and particularly the prospects for inflation and the rate of long-term interest for the Euro Zone, as well as the demographic characteristics of its employees, CEMG used the following actuarial assumptions used to calculate pension responsibilities with retirement pension at 31 December 2011 and 2010:

	2011	2010
Salaries increase rate	2.00%	3.00%
Pensions increase rate	1.00%	2.00%
Projected rate of return of Fund assets	5.50%	5.,50%
Discount rate	5.50%	5.50%
Mortality table	TV 88/90	TV 88/90
Disability table	EVK 80	EVK 80

The assumptions used in actuarial responsibilities value are in accordance with IAS 19 requirements. There are not considered disability decreases to calculate pension responsibilities.

The return rate on the Pension Fund was established consistent with current market conditions and the nature and profitability of the assets that comprise the Pension Fund.

Net Gains/(losses) at 2011 in the amount of Euro 48 531 000 (2010: Euro 13 714 000), are related to the difference between the assumptions used to calculate pension liabilities and the values actually recorded, as well as the impact of change assumptions and are analyzed as follows:

	Actuarial (gains)/losses	
	2011 Euro '000	2010 Euro '000
Discount rate	–	–
Salaries increase rate	826	(1 629)
Pensions increase rate	(6 141)	(2 614)
Changes on the assumptions	(114 520)	–
Return on Plan assets	57 208	17 957
Recalculation of the liabilities transferred to RGSS	14 096	–
	(48 531)	13 714

Health benefits costs of health has a significant impact on pension expense. Considering this impact, proceeded to an analysis of sensitivity to a positive change (from 6.5% and 7.5% in fiscal year 2011) and a negative change (from 6.5% to 5.5% in fiscal year 2011) of a percentage point in the value of health benefits costs whose impact is analyzed as follows:

	Positive variation of 1% (6.5% to 7.5%)		**Negative variation of 1% (6.5% to 5.5%)**	
	2011 Euro '000	**2010 Euro '000**	**2011 Euro '000**	**2010 Euro '000**
Pension cost impact	(2 670)	(2 392)	2 670	2 392
Liability impact	(2 147)	(2 335)	2 147	2 335

The responsibilities and balance of funds changes, as well as gains and losses experienced in the last five years is as follows:

	31.12.2011			**31.12.2010**			**31.12.2009**			**31.12.2008**			**31.12.2007**		
	Pension plans Euro '000	**Death subsidy Euro '000**	**Healthcare benefits Euro '000**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Healthcare benefits Euro '000**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Healthcare benefits Euro '000**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Healthcare benefits Euro '000**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Healthcare benefits Euro '000**
Defined benefit obligation	(383 171)	(8 133)	(31 312)	(558 603)	(7 815)	(30 722)	(532 994)	(7 526)	(29 302)	(481 168)	(6 705)	(26 339)	(509 771)	(8 336)	(30 158)
Fair value of plan assets	397 440	10 098	32 960	513 907	6 328	24 862	474 287	6 208	24 388	408 121	5 687	22 340	411 805	6 734	24 362
(Un) / over funded liabilities	**14 269**	**1 965**	**1 648**	**(44 696)**	**(1 487)**	**(5 860)**	**(58 707)**	**(1 318)**	**(4 914)**	**(73 047)**	**(1 018)**	**(3 999)**	**(97 966)**	**(1 602)**	**(5 796)**
Experience adjustments arising on plan liabilities (gains)/losses	(97 534)	(3 061)	(5 144)	(2 772)	(566)	(905)	(1 412)	(299)	(486)	2 419	(2 003)	(1 638)	11 490	1 359	(3 266)
Experience adjustments arising on plan assets (gains)/losses	59 779	(332)	(2 239)	16 869	221	867	(13 936)	(194)	(763)	47 769	1 401	3 300	2 372	(6 734)	(207)

47. Related parties transactions

As at 31 December 2011, CEMG's liabilities with subsidiaries, represented or not by securities, included in the balances Deposits from customers, Other subordinated debt and Loans and advances to customers, are analysed as follows:

	2011			
Company	Deposits from customers Euro '000	Other subordinated debt Euro '000	Loans and advances to customers Euro '000	Total Euro '000
Lusitania, Companhia de Seguros, S.A.	30 112	13 350	10 078	53 540
Lusitania Vida, Companhia de Seguros, S.A.	20 896	3 250	1	24 147
Nova Câmbios, S.A.	231	–	530	761
Silvip, S.A.	1 927	–	–	1 927
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	2 532	–	–	2 532
Montepio Gestão de Ativos – S.G.F.I.M., S.A.	1 096	–	–	1 096
MG Investimentos Imobiliários, S.A.	3	–	120	123
Bolsimo – Gestão de Ativos, S.A.	2 749	–	–	2 749
Residências Montepio, Serviços de Saúde, S.A.	141	–	2 463	2 604
Germont – Empreendimentos Imobiliários, S.A.	308	–	23 119	23 427
NEBRA, Energias Renovables, SL	5	–	1 570	1 575
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	109	–	13	122
Banco Montepio Geral – Cabo Verde, Soc. Unipessoal, S.A. (IFI)	29 526	–	–	29 526
Civilcentro – Construções do Centro S.A.	–	–	2 402	2 402
Finibanco Vida – Companhia de Seguros Vida, S.A.	284	–	–	284
Finimóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	300	–	–	300
Finisegur – Sociedade Mediadora de Seguros, S.A.	699	–	–	699
Iberpartners Cafés – S.G.P.S., S.A.	–	–	1 379	1 379
Prio Energy S.G.P.S., S.A.	8 235	–	5 287	13 522
Fundo de Pensões CEMG – Gerido pela Futuro	224 224	–	–	224 224
Conselho de Administração	1 578	–	302	1 880
Montepio Geral – Associação Mutualista	464 900	–	–	464 900
Finibanco Holding, S.G.P.S., S.A.	19 176	–	27 264	46 440
Finicrédito – Instituição Financeira de Crédito, S.A.	130	–	189 171	189 301
Fundação Montepio Geral	839	–	–	839
Finibanco, S.A	3 403	–	39 309	42 712
N Seguros, S.A.	7 226	–	–	7 226
Montepio Recuperação de Crédito, ACE	–	–	2	2
Montepio Arrendamento – FIIAH	16 543	–	–	16 543
Finibanco Angola, S.A.	14 912	–	16	14 928
CA Imobiliário – Fundo Especial Investimento Imobiliário Aberto	10 532	–	–	10 532
	862 616	16 600	303 026	1 182 242

As at 31 December 2010, CEMG's liabilities with subsidiaries, represented or not by securities, included in the balances Deposits from customers and Other subordinated debt, are analysed as follows:

	2010		
Company	Deposits from customers Euro '000	Other subordinated debt Euro '000	Total Euro '000
Lusitania Companhia de Seguros, S.A.	3 902	13 350	17 252
Lusitania Vida Companhia de Seguros, S.A.	18 979	3 250	22 229
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	455	–	455
SIBS – Sociedade Interbancária de Serviços, S.A.	3 006	–	3 006
MG Gestão de Ativos Financeiros – S.G.F.I.M., S.A.	58 654	–	58 654
Futuro – Sociedade Gestora de Fundo de Pensões, S.A.	80 707	–	80 707
	165 703	16 600	182 303

As at 31 December 2011, CEMG's income with subsidiaries, included in the balances Interest and similar income and expense and Fee and commission income, are analysed as follows:

Company	Interest and similar expense Euro '000	Interest and similar income Euro '000	Fee and commission Euro '000	Total Euro '000
Lusitania, Companhia de Seguros, S.A.	164	325	178	667
Lusitania Vida, Companhia de Seguros, S.A.	1 302	12	69	1 383
Nova Câmbios, S.A.	–	23	4	27
Silvip, S.A.	59	–	1	60
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	96	1	7	104
Montepio Gestão de Ativos – S.G.F.I.M., S.A.	33	–	1	34
MG Investimentos Imobiliários, S.A.	–	2	–	2
Bolsimo – Gestão de Ativos, S.A.	–	1	–	1
Residências Montepio, Serviços de Saúde, S.A.	–	83	28	111
Germont – Empreendimentos Imobiliários, S.A.	–	425	–	425
NEBRA, Energias Renovables, SL	–	3	8	11
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3	1	–	4
Civilcentro – Construções do Centro S.A.	–	15	1	16
Finisegur – Sociedade Mediadora de Seguros, S.A.	1	–	–	1
Iberpartners Cafés – S.G.P.S., S.A.	–	22	–	22
Prio Energy S.G.P.S., S.A.	–	387	197	584
Fundo de Pensões CEMG – Gerido pela Futuro	2 508	24	60	2 592
Conselho de Administração	25	1	1	27
Montepio Geral – Associação Mutualista	6 487	224	39	6 750
Finibanco Holding, S.G.P.S., S.A.	–	2 011	–	2 011
Finicrédito – Instituição Financeira de Crédito, S.A.	45	3 850	27	3 922
Finibanco, S.A.	–	4 908	15	4 923
	10 723	12 318	636	23 677

As at 31 December 2010, CEMG's income with subsidiaries, included in the balances Interest and similar income and Fee and commission income, are analysed as follows:

	2010		
Company	Interest and similar income Euro '000	Fee and commission Euro '000	Total Euro '000
Lusitania Companhia de Seguros, S.A.	47	6 890	6 937
Lusitania Vida Companhia de Seguros, S.A.	4	3 213	3 217
SIBS – Sociedade Interbancária de Serviços, S.A.	–	28 158	28 158
MG Gestão de Ativos Financeiros – S.G.F.I.M., S.A.	–	3 017	3 017
Futuro – Sociedade Gestora de Fundo de Pensões, S.A.	1	12	13
	52	41 290	41 342

The costs with salaries and other benefits attributed to CEMG key management personnel, as well as its transactions, are presented in note 11.

According to the principle of fair value, every transaction concerning related parties is at market prices.

During 2011 and 2010, there were no transactions with the pension's fund of CEMG.

48. Securitisation transactions

As at 31 December 2011, there are eight securitization transactions, six of which originated in CEMG and two in Finibanco S.A., currently integrated into CEMG following the success of General and Voluntary Initial Public Offering on the equity representative shares of Finibanco – Holding, SGPS, S.A. and transmission of almost all assets and liabilities for CEMG.

In the following paragraphs present some additional details of these securitization transactions.

As at 19 December, 2002, Caixa Económica Montepio Geral had settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages no. 1 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 35 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 650 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.016% of the referred nominal value.

As at 29 September, 2003, Caixa Económica Montepio Geral had settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages no. 2 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 33 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 700 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0286% of the referred nominal value.

As at 30 March, 2007, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 3. The referred agreement consists in a mortgage credit transfer for a period of 47 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 750 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0165% of the referred nominal value.

As at 14 June 2007, Finibanco had settled a current account portfolio to small and medium enterprises to Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, S.A., in the amount of Euro 250 000 000 (Aqua SME no. 1). The total period of this operation is 10 years, with a revolving period of three years.

As at 20 May, 2008, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 4. The referred agreement consists in a mortgage credit transfer for a period of 48 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1 000 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.083% of the referred nominal value.

As at 9 December 2008, Finibanco had settled a mortgage credit portfolio to «Tagus – Sociedade de Titularização de Créditos, S.A.» in the amount of Euro 233 000 000 (Aqua Mortage No. 1). The total period of this operation is 55 years, with a revolving period of 2 years.

As at 25 March 2009, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 5. The referred agreement consists in a mortgage credit transfer for a period of 52 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1 000 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0564% of the referred nominal value.

As at 22 June 2010, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage SME. The referred agreement consists in a mortgage credit transfer for a period of 26 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of 1 167 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.15% of the Asset Backed Notes.

The entity that guarantees the debt service (servicer) of this operations is «Caixa Económica Montepio Geral» assuming the collection and distribution of credits assigned amounts received by deposits, to Sociedades Gestoras de Fundos de Titularização de Créditos (Pelican Mortgages No. 1 PLC, Pelican Mortgages No. 2 PLC e Aqua SME No. 1) and to Sociedades de Titularização de Créditos (Pelican Mortgages No. 3, Pelican Mortgages No. 4, Pelican Mortgages No. 5 and Aqua Mortgages No. 1).

As at 31 December 2004, in accordance with accounting principles, as established by the Bank of Portugal, the assets, loans and securities transfer under above transactions were derecognized. The acquired securities under these transactions were classified as financial assets held-to-maturity and provision in accordance with Regulation no. 27/2000 of the Bank of Portugal.

In accordance with IFRS 1, CEMG follows derecognized criteria to individual statements to all transactions occur until 1 January 2004. For the all transactions after this date, CEMG follows de guidance of IAS 39 concerning derecognize, which refers that recognition have to occur either when risks and rewards have substantially been transferred or has not retained control of the assets.

As at 31 December 2011, the securitisation operations are presented as follows:

Issue	Settlement date	Currency	Asset transferred	Amount Euro '000
Pelican Mortgages No. 1	December, 2002	Euro	Mortgage credit	650 000
Pelican Mortgages No. 2	September, 2003	Euro	Mortgage credit	700 000
Pelican Mortgages No. 3	March, 2007	Euro	Mortgage credit	750 000
Aqua SME No. 1	June, 2007	Euro	Small companies	250 000
Pelican Mortgages No. 4	May, 2008	Euro	Mortgage credit	1 000 000
Aqua Mortgage No. 1	December, 2008	Euro	Mortgage credit	233 000
Pelican Mortgages No. 5	March, 2009	Euro	Mortgage credit	1 000 000
Pelican SME	June, 2010	Euro	Small companies	1 167 000
				5 750 000

The impact of loans transferred under the securitisation programmes in the Loans and advances to customers, is analysed as follows:

	2011 Euro '000	2010 Euro '000
Pelican Mortgages No.1	91 754	103 883
Pelican Mortgages No. 2	172 544	188 252
	264 298	292 135

As at 31 December 2011, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bond issued	Issue amount Euro	Currents amount Euro	CEMG´s interest retention Euro	Maturity year	Rating (Initial)			Rating (Current)		
						Fitch	Moody's	S&P	Fitch	Moody's	S&P
Pelican Mortgages No. 1	Class A	611 000 000	46 996 606	211 525	2037	AAA	Aaa	n.a.	n.a.	A	Baa1
	Class B	16 250 000	16 250 000	–	2037	AAA	A2	n.a.	n.a.	A	Baa1
	Class C	22 750 000	22 750 000	–	2037	BBB+	Baa2	n.a.	n.a.	BBB+	Baa2
	Class D	3 250 000	3 250 000	3 250 000	2037	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 2	Class A	659 750 000	130 122 794	26 255 318	2036	AAA	Aaa	AAA	n.a.	A	Baa1
	Class B	117 500 000	17 500 000	–	2036	AA+	A1	AA–	n.a.	A	Baa1
	Class C	22 750 000	22 750 000	–	2036	A–	Baa2	BBB	n.a.	BBB	Baa3
	Class D	5 600 000	5 600 000	5 600 000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 3	Class A	717 375 000	350 243 819	15 525 714	2054	AAA	Aaa	AAA	n.a.	A	Baa3
	Class B	14 250 000	9 042 799	–	2054	AA–	Aa2	AA–	n.a.	A	B1
	Class C	12 000 000	7 614 989	–	2054	A	A3	A	n.a.	BB	B3
	Class D	6 375 000	4 045 463	–	2054	BBB	Baa3	BBB	n.a.	B	Caa2
	Class E	8 250 000	–	–	2054	BBB–	n.a.	BBB–	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 4	Class A	832 000 000	669 300 333	669 300 333	2056	AAA	n.a.	n.a.	AA	A	n.a.
	Class B	55 500 000	55 500 000	55 500 000	2056	AA	n.a.	n.a.	n.a.	A	n.a.
	Class C	60 000 000	60 000 000	60 000 000	2056	A–	n.a.	n.a.	n.a.	A–	n.a.
	Class D	25 000 000	25 000 000	25 000 000	2056	BBB	n.a.	n.a.	n.a.	BBB	n.a.
	Class E	27 500 000	27 500 000	27 500 000	2056	BB	n.a.	n.a.	n.a.	BB	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 5	Class A	750 000 000	619 123 025	619 123 025	2061	AAA	n.a.	n.a.	AAA	A	n.a.
	Class B	195 000 000	195 000 000	195 000 000	2061	BBB–	n.a.	n.a.	n.a.	BBB–	n.a.
	Class C	27 500 000	27 500 000	27 500 000	2061	B	n.a.	n.a.	n.a.	B	n.a.
	Class D	27 500 000	27 500 000	27 500 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	2 068 636	2 068 636	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican SME	Class A	577 500 000	495 110 236	495 110 236	2036	AAA	n.a.	n.a.	AAA	A+	n.a.
	Class B	472 500 000	472 500 000	472 500 000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Vertical	117 000 000	109 584 221	109 584 221	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	7 294 000	–	–	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Residual	31 500 000	31 500 000	31 500 000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua SME No. 1	Class A	235 000 000	67 548 361		2017	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class B	15 000 000	15 000 000		2017	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	8 750 000	8 750 000	8 750 000	2017	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No. 1	Class A	203 176 000	183 302 527	183 302 527	2063	n.a.	n.a.	AAA	AAA	n.a.	n.a.
	Class B	29 824 000	29 824 000	29 824 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

49. Amounts owed by CEMG to subsidiary companies

As at 31 December 2010 the Amounts owed by CEMG to subsidiary companies, represented or not by securities, included in the balance Amounts owed to credit institutions, are analysed as follows:

	Deposits from other credit institutions Euro '000
Banco MG – Cabo Verde, Sociedade Unipessoal, S.A (IFI)	408 489
Finibanco Angola, S.A.	10 538
	419 027

50. Transactions with Group companies

The most significant balances and transactions with Group companies are detailed in the corresponding notes.

51. Risk management

CEMG is subject to several risks during the course of its business.

CEMG's risk management policy is designed to ensure adequate relationship at all times between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line.

In this connection, monitoring and control of the main types of financial risk – credit, market, liquidity and operational – to which the CEMG's business is subject are of particular importance.

The analysis and risk control are carried out in an integrated mode, through the Direção de Risco («DRI»), which includes three departments:

- Credit Risk Department: responsible for development and integration in decision-making of internal models of credit risk analysis, and reporting on Prudential Equity and internal reports on credit risk;
- Market Risk Department: ensure the examination and supervisory reporting and internal market risk, interest rate, foreign exchange and liquidity, as well as their integration into decision-making processes of the dealing room;
- Operacional Risk Department: operational risk management responsible.

«DRI» also ensures coordination with the Bank of Portugal, in the field of prudential reports, including the level of capital requirements, liquidity risk and interest rate risk.

Under the credit risk management and control have been developed several activities, including most importantly the regular realization of Committee of the Risk and Internal Control and policy delegation review of credit decision, in order to make it sensitive to the level expected risk of the client / transaction.

Additionally, was created the «Direção de Análise de Crédito», which ensures the assessment of credit proposals from companies and individuals, as well as the assignment of internal ratings in the corporate segment.

On the regulatory and Basel II, were developed reports referred in Pillar II – Capital adequacy, and Pillar III – Market Discipline. Under Pillar II were reported to Bank of Portugal reports Process Self-Evaluation of the Capital Market («ICAAP»), Stress Testing and Risk Concentration as Instruction no. 2/2010, Bank of Portugal . The results of the reports point to the soundness of capital levels commensurate with the risks with greater materiality and the potential adverse developments in key macroeconomic indicators. At the level of risk concentration there is a positive development in the main types of concentration – Sectoral, Geographic and Individual. Under Pillar III, was made public the report of Market Discipline, detailing the types and levels of risk incurred in the activity, as well as the processes, structure and organization of risk management.

It also ensured the participation in the work of «Programa Especial de Inspeções», under the Memorandum signed between the Portuguese State and European Central Bank, European Commission and International Monetary Fund.

This program focused on three areas of work – credit impairment calculation, capital requirements for credit risk calculation and stress testing procedures. The results were very satisfactory, confirming the adequacy of procedures adopted by CEMG.

CEMG has also been following the recommendations of the Basel Committee and follows closely the developments in the Basel III framework of liquidity management and capital assessment, having been carried out analyzes of their impact. The CEMG has also regularly participated in Quantitative Impact Studies (QIS) Basel III, developed by the Bank of Portugal in accordance with the guidelines of the European Bank Association (EBA). The documents published by the Basel Committee in late 2009, are now published in their final versions and is expected to be transposed into European directives soon.

Main types of risk

Credit – Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfil their obligations.

Market – Market risk reflects the potential loss inherent in a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the various financial instruments that make up the portfolio, considering both the correlations that exist between them and the respective volatility.

Liquidity – Liquidity risk reflects CEMG's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

Operational – Operational risk is the potential loss resulting from failures or inadequacies in internal procedures, persons or systems, and also the potential losses resulting from external events.

Internal organization

The Board of Directors is responsible for risk management strategy and policies, and it is advised by the Risk Analysis and Management Division in these fields, that undertake the analysis and the risk management from the standpoint of CEMG, includes the coordination of the Risk Committee and Internal Control and reporting the level of the Asset and Liability Committee («ALCO») and the Committee on Information Technology.

The Internal Auditing Management, as support to the Board of Directors, has the main duties to assessing reports on the internal control system to be sent annually to the Bank of Portugal, to check compliance with the applicable legislation on the part of the various departments, and to identify major risk areas and submitting its conclusions to the Board of Directors.

Depending on the nature and severity of the risk, plans, programs or actions shall be drawn up, supported by information systems, and procedures shall be devised that provide a high degree or reliably as to the risk management measures defined whenever necessary.

The Dealing Room shall cooperate with the Risk Analysis and Management in order to measure and control operations and portfolio risks, as well as suitably monitor CEMG’s overall risk positions.

In terms of compliance risk, the Head of Compliance in the dependence of the Board of Directors, shall control, identify and assess the various situations that contribute to this risk, namely in terms of transactions/activities, business, products and departments.

In this context, the Internal Auditing Management shall also assess the internal control system, identifying the areas of major importance/risk, to ensure efficient governance.

Risk evaluation

Credit Risk – Retail

Credit risk models play a significant role in credit decision process. Indeed, the decision process concerning the credit portfolio depends on a group of policies based on scoring models developed to individual and business clients and the rating for the corporate sector.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behaviour. In order to support commercial strategies reactive scoring models are also used, namely in the main individual credit portfolios, such as mortgage and individual loans, distinguishing between customers and non-customers (or new customers). In the case of credit card the correspondent reactive scoring model is being reviewed. Additionally, in the individual credit portfolios, commercial performance and credit risk analysis are supported by behaviour scorings.

To corporate credit are used internal rating models to medium and large companies, distinguishing construction from the other activity sectors, while for customers «Empresários em nome individual» and micro business is applied the scoring model business.

CEMG's credit risk exposure can be analysed as follows:

	2011 Euro '000	2010 Euro '000
Loans and advances to credit institutions	102 701	58 405
Other loans and advances to credit institutions	370 268	338 662
Loans and advances to customers	16 200 240	14 352 766
Financial assets held for trading	139 838	128 060
Other financial assets held for trading at fair value through profit or loss	3 606	3 952
Financial assets available for sale	5 456 484	5 242 895
Hedging derivates	1 184	2 810
Financial assets held to maturity	48 416	58 093
Investments in associated companies	384 547	43 297
Other assets	267 772	107 718
Guarantees granted	510 686	424 361
Irrevocable commitments	230 860	252 535
Credit default swaps (notionals)	81 093	96 000
	23 797 695	21 109 554

The analysis of the risk exposure by sector of activity, as at 31 December 2011, can be analysed as follows:

	2011							
Sector of activity	**Loans and advances to customers**		**Financial assets held for trading**	**Other financial assets at fair value through profit or loss**	**Available-for-sale financial assets**		**Held-to-maturity investments**	**Guarantees granted**
	Gross amount Euro '000	**Impairment (a) Euro '000**	**Gross amount Euro '000**	**Gross amount Euro '000**	**Gross amount Euro '000**	**Impairment (a) Euro '000**	**Gross amount Euro '000**	**Euro '000**
Agriculture	51 384	(3 869)	59	–	442	(91)	–	3 356
Mining	40 265	(1 165)	57	–	–	–	–	1 617
Food, beverage and tobacco	132 141	(10 656)	901	–	13 900	(187)	–	3 182
Textiles	62 521	(13 143)	–	–	–	–	–	805
Shoes	19 917	(1 477)	–	–	–	–	–	125
Wood and cork	51 510	(10 114)	–	–	82 716	–	–	1 406
Priting and publishing	49 388	(13 261)	–	–	–	–	–	748
Petroleum refining	441	(135)	537	–	34 854	–	–	–
Chemicals and rubber	84 251	(5 242)	155	–	1 042	–	–	2 661
Non-metallic minerals	48 452	(2 416)	–	–	–	–	–	2 916
Basis metallurgic industries and metallic production	129 638	(10 640)	–	–	–	–	–	9 037
Production of machinery	41 302	(2 442	36	–	539	(121)	–	1 875
Production of transport material	18 797	(1 074)	42	–	–	–	–	298
Other transforming material	36 237	(3 219)	32	–	75 967	(2 471)	–	1 906
Electricity, gas and water	104 266	(3 240)	751	2 593	23 238	(976)	–	4 620
Construction	2 343 408	(243 892)	153	–	10 968	(998)	–	228 211
Wholesale and retail	1 006 997	(78 857)	294	–	14 145	–	–	63 125
Tourism	315 542	(12 438)	–	–	7 427	(90)	–	13 878
Transports	163 265	(8 432)	154	–	2 333	–	–	8 689
Communications and information activities	49 286	(2 540)	356	–	28 011	–	–	1 287
Financial activities	741 721	(16 279)	140 524	1 013	2 283 565	(13 410)	–	47 024
Real estates activities	962 598	(80 747)	53	–	7 692	(691)	–	28 444
Services provided to companies	323 802	(18 687)	–	–	14 520	–	–	11 937
Public services	116 238	(1 164)	–	–	1 301 933	(19 309)	48 416	583
Other activities of collective services	287 826	(7 873)	–	–	–	–	–	7 676
Mortgage loans	8 975 960	(233 698)	–	–	1 834 521	(11 063)	–	–
Others	737 312	(24 591)	1 148	–	133 614	(240)	–	65 280
TOTAL	16 894 465	(811 291)	145 252	3 606	5 871 427	(49 647)	48 416	510 686

(a) includes a impairment provision in the amount of 694 225 million of euros as presented in note 20 and provisions for general banking risk in the amount of 117 066 million of euro as presented in note 36.

The analysis of the risk exposure by sector of activity, as at 31 December 2010, can be analysed as follows:

2010								
Sector of activity	**Loans and advances to customers**		**Financial assets held for trading**	**Other financial assets at fair value through profit or loss**	**Available-for-sale financial assets**		**Held-to-maturity investments**	**Guarantees granted**
	Gross amount Euro '000	**Impairment ([a]) Euro '000**	**Gross amount Euro '000**	**Gross amount Euro '000**	**Gross amount Euro '000**	**Impairment ([a]) Euro '000**	**Gross amount Euro '000**	**Euro '000**
Agriculture	29 022	(1 138)	–	–	187	(57)	–	2 844
Mining	11 318	(114)	–	–	526	–	–	–
Food, beverage and tobacco	82 306	(6 003)	148	–	474	–	–	2 486
Textiles	36 119	(8 356)	–	–	–	–	–	1 277
Shoes	10 809	(1 130)	–	–	–	–	–	61
Wood and cork	29 366	(4 574)	–	–	–	–	–	801
Priting and publishing	23 917	(2 262)	–	–	–	–	–	1 356
Petroleum refining	219	(130)	127	–	34 012	–	–	–
Chemicals and rubber	47 332	(2 902)	54	–	1 137	–	–	1 277
Non-metallic minerals	23 604	(1 468)	–	–	–	–	–	2 751
Basis metallurgic industries and metallic production	75 867	(2 738)	–	–	–	–	–	4 722
Production of machinery	19 860	(1 911)	–	–	–	–	–	1 976
Production of transport material	11 594	(445)	–	–	271	–	–	134
Other transforming material	26 378	(3 864)	34	–	67 648	–	–	891
Electricity, gas and water	56 183	(671)	1 029	2 929	64 385	(899)	–	961
Construction	2 233 965	(154 965)	181	–	10 981	(998)	–	238 734
Wholesale and retail	711 962	(64 284)	116	–	10 554	–	–	40 275
Tourism	246 835	(12 378)	–	–	7 486	(90)	–	12 151
Transports	113 767	(2 601)	127	–	33 044	–	–	9 971
Communications and information activities	34 412	(2 539)	390	–	58 497	–	–	604
Financial activities	264 858	(2 990)	128 479	1 023	642 892	(15 655)	–	29 981
Real estates activities	797 916	(37 932)	–	–	15 478	–	–	31 398
Services provided to companies	278 953	(12 727)	–	–	–	–	–	11 294
Public services	103 684	(922)	–	–	1 164 590	–	58 093	2 588
Other activities of collective services	215 673	(9 576)	–	–	–	–	–	5 788
Mortgage loans	8 919 763	(194 210)	–	–	3 118 136	(9 828)	–	19 210
Others	384 413	(4 687)	180	–	54 230	(190)	–	830
TOTAL	14 790 095	(537 517)	130 865	3 952	5 284 528	(27 717)	58 093	424 361

(a) includes a impairment provision in the amount of 437 329 million of euros as presented in note 20 and provisions for general banking risk in the amount of 100 188 million of euro as presented in note 36.

In terms of risk credit, the financial assets portfolio continued to be concentrated in investment grade bonds issued by financial institutions.

During 2011, CEMG entered into a number of credit default swaps relating to investment grade issuers, where the notional value of the purchase and protective sales positions at the year-end were Euro 27 500 000 and Euro 53 600 000, respectively.

Overall Risks and Financial Assets

Efficient balance sheet management also involves the Assets and Liabilities Committee («ALCO»), which examines interest rate, liquidity and exchange rate risks, namely as regards compliance with the limits set for the static and dynamic gaps calculated.

Normally the static interest rate and liquidity gaps are positive and moderate in size, with exception of those months when payments are made relating to bond issue debt service. As for exchange rate risk, the resources obtained in different currencies are hedged as assets in the respective monetary market and for periods not exceeding those of the resources, which mean any exchange rate gaps result mainly from possible unadjustments between the hedge and resource deadlines.

Concerning risk information and analysis, regular reports are provided on the credit and market risks on the company's financial assets and those of the other members of CEMG. For the company's own portfolio, the various risk limits are defined using the Value-at-Risk («VaR») method. There are different exposure limits such as global «VaR» limits, by issuer, by asset type/class and rating. There are also limits of Stop Loss. Investment portfolio is mainly concentrated in bonds which as at the end of 2010 represented 91% of the total's portfolio,

CEMG continuously calculates its own portfolios «VaR», given a 10-day horizon and a 99% confidence interval, by the method of historical simulation.

Regarding the nature of the retail activity, the institution normally presents interest rate positive gaps, which by the end of 2011, would reach, in static terms, about Euro 604 897 000 (2010: Euro 448 894 000) (considering the total of the refixing terms of the interest rate).

The following table presents the mainly indicators of these measures, as at 31 December 2011 and 2010:

	2011				2010			
	December Euro '000	Annual average Euro '000	Maximum Euro '000	Minimum Euro '000	December Euro '000	Annual average Euro '000	Maximum Euro '000	Minimum Euro '000
Interest rate Gap	604 896	327 435	604 896	49 973	448 894	377 076	448 894	305 259

Following the recommendations of Basel II (Pillar II) and Instruction no. 19/2005, of the Bank of Portugal, CEMG calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlements («BIS») which requires the classification of non-trading balances and off-balance positions by repricing intervals.

	Within 3 months Euro '000	3 to 6 months Euro '000	6 months to 1 year Euro '000	1 to 5 years Euro '000	Over 5 years Euro '000
31 December 2011					
Assets	12 060 231	4 723 593	443 280	1 481 436	813 517
Off balance sheet	11 650 184	178 931	971 660	2 253 911	–
Total	23 710 415	4 902 524	1 414 940	3 735 347	813 517
Liabilities	8 302 384	2 353 259	2 789 954	5 300 452	171 200
Off balance sheet	13 116 395	562 418	8 970	1 366 812	–
Total	21 418 779	2 915 677	2 798 924	6 667 264	171 200
GAP (Assets – Liabilities)	2 291 636	1 986 847	(1 383 984)	(2 931 917)	642 317
31 December 2010					
Assets	10 459 200	3 879 121	413 379	1 344 393	646 080
Off balance sheet	5 789 405	172 577	122 450	3 009 066	–
Total	16 248 605	4 051 698	535 829	4 353 459	646 080
Liabilities	7 899 866	1 370 302	1 263 605	5 601 314	158 200
Off balance sheet	8 284 868	734 669	2 200	71 754	–
Total	16 184 734	2 104 971	1 265 805	5 673 068	158 200
GAP (Assets – Liabilities)	63 871	1 946 727	(729 976)	(1 319 609)	487 880

Sensibility analysis

As at December, 2011, based on the interest rate gaps observed, an instantaneous positive variation in the interest rates by 100 bp would cause an increase in the income statement in Euro 26 734 000 (2010: Euro 12 806 000).

The following table presents the average interests, in relation to the CEMG major assets and liabilities categories for the years ended 31 December 2011 and 2010, as well as the average balances and the income and expense for the year:

	2011			2010		
Products	**Balance for the period Euro '000**	**Average interest rate (%)**	**Income/ Expense Euro '000**	**Balance for the period Euro '000**	**Average interest rate (%)**	**Income/ Expense Euro '000**
Assets						
Loans to customers	16 167 253	4,18	676 363	14 714 941	3,07	451 424
Deposits	196 012	1,24	2 439	159 355	0,93	1 488
Securities portfolio	6 363 143	2,98	189 472	4 502 962	2,04	91 795
Inter-bank loans and advances	453 286	1,85	8 404	188 578	0,68	1 278
Swaps	–	–	277 653	–	–	196 071
Total Assets	23 179 694		1 154 331	19 565 836		742 056
Liabilities						
Deposits from customers	11 857 822	2,91	344 719	9 352 816	1,52	141 937
Securities deposits	8 180 018	2,47	202 352	8 132 786	2,02	164 662
Interbank deposits	2 656 595	1,61	42 810	1 299 157	1,03	13 440
Other liabilities	336	0,69	2	480	0,83	4
Swaps	–	–	260 975	–	–	151 591
Total liabilities	22 694 771		850 858	18 785 239		471 634

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2011 is analysed as follows:

	2011							
	Euro Euro '000	United States Dollar Euro '000	Sterling Pound Euro '000	Canadian Dollar Euro '000	Suisse Frank Euro '000	Japanese Yen Euro '000	Other foreign currencies Euro '000	Total amount Euro '000
Assets by currency								
Cash and deposits at central banks	376 447	3 369	378	299	669	88	290	381 540
Loans and advances to credit institutions repayable on demand	93 440	6 138	833	1 066	918	5	301	102 701
Loans and advances to credit institutions	370 161	107	–	–	–	–	–	370 268
Loans and advances to customers	16 197 440	2 452	–	–	348	–	–	16 200 240
Financial assets held for trading	145 068	145	–	39	–	–	–	145 252
Other financial assets at fair value trought profit or loss	3 606	–	–	–	–	–	–	3 606
Available-for-sale financial assets	5 819 192	2 322	–	–	266	–	–	5 821 780
Hedging derivates	1 184	–	–	–	–	–	–	1 184
Held-to-maturity investments	48 416	–	–	–	–	–	–	48 416
Investments in associated companies and others	384 547	–	–	–	–	–	–	384 547
Non-current assets held for sale	86 830	–	–	–	–	–	–	86 830
Property and equipment	66 183	–	–	–	–	–	–	66 183
Current income tax assets	10	–	–	–	–	–	–	10
Deferred income tax assets	59 221	–	–	–	–	–	–	59 221
Intangible assets	110 843	–	–	–	–	–	–	110 843
Other assets	89 353	179 000	5 986	35 571	49	130	189	310 278
Total assets	23 851 941	193 533	7 197	36 975	2 250	223	780	24 092 899
Liabilities by currency								
Deposits from central banks	2 003 300	–	–	–	–	–	–	2 003 300
Deposits from other credit institutions	1 141 161	19 301	2 471	18 737	343	–	55	1 182 068
Deposits from customers	13 150 817	36 684	1 122	1 669	142	17	188	13 190 639
Debt securities issued	2 238 369	2 319	–	–	–	–	–	2 240 688
Financial liabilities relating to transferred assets	3 289 983	–	–	–	–	–	–	3 289 983
Financial liabilities held for trading	101 366	158	–	–	–	–	–	101 524
Hedging derivates	2 444	–	–	–	–	–	–	2 444
Provisions	120 014	–	–	–	–	–	–	120 014
Other subordinated debt	477 247	–	–	–	–	–	–	477 247
Other liabilities	85 605	135 133	3 604	16 569	1 765	206	537	243 419
Total Liabilities	22 610 306	193 595	7 197	36 975	2 250	223	780	22 851 326
Net asset / liability by currency	1 241 635	(62)	–	–	–	–	–	1 241 573
Equity	1 241 635	(62)	–	–	–	–	–	1 241 573
Net exposure	–	–	–	–	–	–	–	–

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2010 is analysed as follows:

	2010							
	Euro Euro '000	United States Dollar Euro '000	Sterling Pound Euro '000	Canadian Dollar Euro '000	Suisse Frank Euro '000	Japanese Yen Euro '000	Other foreign currencies Euro '000	Total amount Euro '000
Assets by currency								
Cash and deposits at central banks	235 090	3 263	367	297	651	81	275	240 024
Loans and advances to credit institutions repayable on demand	49 403	5 943	808	1 057	893	4	297	58 405
Loans and advances to credit institutions	338 559	103	–	–	–	–	–	338 662
Loans and advances to customers	14 350 055	2 375	–	–	336	–	–	14 352 766
Financial assets held for trading	130 755	110	–	–	–	–	–	130 865
Other financial assets at fair value through profit or loss	3 885	29	–	38	–	–	–	3 952
Available-for-sale financial assets	5 254 304	2 248	–	–	259	–	–	5 256 811
Hedging derivates	2 810	–	–	–	–	–	–	2 810
Held-to-maturity investments	58 093	–	–	–	–	–	–	58 093
Investments in associated companies and others	43 297	–	–	–	–	–	–	43 297
Non-current assets held for sale	162 374	–	–	–	–	–	–	162 374
Property and equipment	89 188	–	–	–	–	–	–	89 188
Intangible assets	18 254	–	–	–	–	–	–	18 254
Other assets	39 692	43 473	2 905	18 850	4	–	–	104 924
Total Assets	20 775 759	57 544	4 080	20 242	2 143	85	572	20 860 425
Liabilities by currency								
Deposits from central banks	1 540 266	–	–	–	–	–	–	1 540 266
Deposits from other credit institutions	1 222 484	18 691	2 398	18 586	333	–	54	1 262 546
Deposits from customers	9 615 736	35 523	1 089	1 656	139	15	182	9 654 340
Debt securities issued	3 576 432	2 245	–	–	–	–	–	3 578 677
Financial liabilities relating to transferred assets	3 182 375	–	–	–	–	–	–	3 182 375
Financial liabilities held for trading	53 662	152	–	–	–	–	–	53 814
Hedging derivates	1 408	–	–	–	–	–	–	1 408
Provisions	101 499	–	–	–	–	–	–	101 499
Other subordinated debt	380 986	–	–	–	–	–	–	380 986
Other liabilities	208 028	993	593	–	1 676	70	336	211 696
Total Liabilities	19 882 876	57 604	4 080	20 242	2 148	85	572	19 967 607
Net asset / liability by currency	892 883	(60)	–	–	(5)	–	–	892 818
Equity	892 753	60	–	–	5	–	–	892 818
Net exposure	130	(120)	–	–	(10)	–	–	–

Liquidity risk

The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. Liquidity risk is monitored carefully, and prepared several reports for the purpose of prudential regulation and monitoring in place of ALCO Committee.

In addition, it is also carried out a follow-up of liquidity positions of a prudential point of view, calculated in the manner required by the Bank of Portugal (Instruction no. No. 13/2009).

Operational Risk

CEMG has implanted an Integrated Continuing Business Plan, which allows to ensure the continuity of the operations in a case of a rupture in the activity. This system is held by an organizational structure, included in the DRI and exclusively dedicated to this assignment, delegates designated by each department.

Capital Management and Solvency Ratio

In prudential matters, CEMG is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the rules to be attended by the institutions under its supervision. These rules determine a minimum solvency ratio in relation to the requirements of the assumed risks that institutions have to fulfil.

The capital elements of CEMG are divided into: Basic Own Funds, Complementary Own Funds and Deductions, as follows:

– Basic Own Funds («BOF»): This category includes the share capital, the eligible reserves (excluding positive fair value reserves), the retained earnings, minority interest and preferential stocks. It is deducted the negative fair value reserves associated to stocks or other capital instruments, by the book value related to the Goodwill, intangible assets, deferred costs, actuarial losses and negative fair value reserves that come from responsibilities with benefits of post employment to employees above the corridor limit of 10% of maximum between those responsibilities and assets of the pension fund. They are also deducted 50% of its value the shares above 10% in financial institutions, as well as stakes in insurers. In November 2011 came into force on Instruction 28/2011 of Bank of Portugal, which includes as a negative element of a capital base of the balance of deposits whose rate of return is 3% above the reference rate for the deposit effective on the date of renewal or establishment of such deposit. This instruction applies to deposits made or renewed after November 1, 2011.

– Complementary Own Funds (COF): Essentially incorporates the subordinated eligible debt, the revaluation reserves of tangible assets and 45% of the positive fair value reserve and is deducted by 50% of the book value of equity investments in banking and insurance entities, in participations higher than 10%, as well as in participations in insurance entities.

– It is deducted to the total Own Funds the non-current assets held for sale acquired in exchange for loans at more than 4 years. This value is calculated in accordance with a progressiveness method that leads that in 9 to 12 years in portfolio (considering the date of the operation), the net value of the asset, are totally deducted in the own funds.

Additionally there are several rules limiting the capital basis of CEMG. The prudential rules determine that the COF cannot exceed the BOF. In addition, some components of the COF (Lower Tier II) cannot exceed 50% of the BOF.

In 2008, the Bank of Portugal issued Regulation no. 6/2008, which changed the rules to determine capital requirements. This notice along with the treatment given to credits and other values to receive, excluded the potential in debt securities classified as available for sale of Own Funds, in what exceeds the impact of eventual hedged operations, maintaining, however, the obligation of not consider in basis Own Funds positive re-evaluation reserves, in what exceeds the impairment which eventually had been registered, related to non realized gains in capital available for sale securities (net from taxes).

In 2011, CEMG adapted the accounting policy of Pension Fund to the changes in International Accounting Standards. Previously, it was used to rule the designated corridor rule and in December 2011 came to recognize that the whole of actuarial reserves. Despite this change to accounting, in regulatory terms there were no changes since the Instruction no. 2/2012 sets prudential treatment for this new accounting procedure, similar to that designated by rule of the corridor. Also in December 2011 was performed a partial transfer of post-employment plans from defined benefit to the control of General Social Security Scheme, whose effects on equity have been deferred to June 2012, according to Instruction no. 1/2012 of the Bank of Portugal.

The confirmation that an entity has an amount of own funds not below of its capital requirements assures the adequacy of its capital, reflected on a solvency ratio – represented by the percentage of total own funds to the result of 12.5 times the capital requirements. Instruction no. 3/2001 of the Bank of Portugal released a recommendation in order to the financial groups submitted to its supervision, as well as the respective mother-companies, strengthen their Core Tier 1 ratio to a figure not below 9% until 31 December 2011 and 10% until 31 December 2012.

The capital adequacy of CEMG as at 31 December 2011 and 2010 is presented as follows:

	2011 Euro '000	2010 Euro '000
Core Tier I		
Share capital	1 245 000	800 000
Net profit, General reserves, Special reserves and Retained earnings	257 038	227 097
Other regulatory adjustments	(165 806)	(69 639)
	1 336 232	957 458
Base own funds		
Other capital instruments	15 000	–
Deduction to basic own funds	(191 745)	(21 049)
	1 159 487	936 409
Complementary own funds		
Upper Tier 2	47 867	27 506
Lower Tier 2	456 362	378 000
Deduction to complementary own funds	(191 745)	(21 049)
	312 484	384 457
Deduction to total own funds	(2 532)	(4 562)
Total owned funds	1 469 439	1 316 304
Own funds requirements		
Credit risk	933 748	760 346
Market risk	4 219	1 721
Operational risk	69 466	55 441
	1 007 433	817 508
Ratios		
Core Tier 1	10,61%	9,37%
Tier 1	9,21%	9,16%
Solvency	11,67%	12,88%

52. Sovereign debt of European Union countries subject to bailout

As at 31 December 2011, the exposure of the Bank to sovereign debt of European Union countries subject to bailout is as follows:

Issuer / Portfolio	Book value Euro '000	Fair value Euro '000	Fair value reserves Euro '000	Impairment Euro '000	Interest rate Average %	Maturity average Years	Fair value measurement levels
Portugal							
Financial assets held for trading	1 150 482	1 150 482	(241 563)	–	4.35%	2.21	1
Held to maturity financial assets	37 419	34 299	–	–	4.72%	1.03	n.a.
	1 187 901	1 184 781	(241 563)	–			
Greece							
Financial assets held for trading	33 507	33 507	–	(19 309)	4.22%	0.37	1
Ireland							
Financial assets held for trading	11 032	11 032	1 051	–	4.60%	4.30	1
	1 232 440	1 229 320	(240 512)	(19 309)			

As at 31 December 2010, the exposure of the Bank to sovereign debt of European Union countries subject to bailout is as follows:

Issuer / Portfolio	Book value Euro '000	Fair value Euro '000	Fair value reserves Euro '000	Interest rate Average %	Maturity average Years	Fair value measurement levels
Portugal						
Financial assets held for trading	1 047 164	1 047 164	(28 302)	4,10	2,95	1
Held to maturity financial assets	44 112	42 900	–	4,56	1,79	n.a.
	1 091 276	1 090 064	(28 302)	–		
Greece						
Financial assets held for trading	44 470	44 470	(2 523)	3,96	0,79	1
	1 135 746	1 134 534	(30 825)			

For the public debt of Portugal, Greece and Ireland do not have occurred in the year ended December 31, 2011 no reclassifications between portfolios.

For exposure to sovereign debt of Greece, and following the several conversations that were held at EU level, because of the current international economic situation, the position of Greece in the European context and even the current sovereign debt crisis in the European Union, the European Council agreed on last 21st July, a set of conditions applicable to the restructuring of sovereign debt of Greece.

According with the available information, the conditions of restructuring establish a voluntary exchange of securities of the current public debt of Greece by a set of new bonds to be issued with maturities between 15 and 30 years, partially collateralized, and a rate adjustment applicable interest.

Given these conditions and the restructuring option of voluntary adherence to the defined conversion scheme, the Executive Board of Directors has evaluated its effects at the level of the financial statements as at 31 December, 2011, taking into account different scenarios of accession the restructuring program and the terms and conditions approved.

After the evaluation, and considering the options, the Board of CEMG decided not to proceed to the conversion option taking into account different aspects, namely:

(i) the adherence to the restructuring program is voluntary and the expectation of the European Council to have a membership to 90% of the holders of sovereign debt of Greece;

(ii) after the new aid package to Greece not be expected that can be a default in relation to nonparticipating banks because that would amount to a breach that could have severe consequences for the debt of Greece as a whole;

(iii) the fact of Portugal is a country in bailout; and

(iv) privation of a regulatory decision for accession by a Portuguese banks to the restructuring program approved by the European Council.

Thus the sovereign debt of Greece is valued with reference to 31 December, 2011 in accordance with the valuation criteria set out in accounting policy note 1 *d*) in accordance with paragraph 84 of IAS 39 AG, and to this date been recognized impairment.

Relatively with exposure to other countries at the bailout CEMG Board also believes that this date there is no objective evidence of impairment.

53. Accounting standards recently issued

Standards, changes and interpretations effective since 1 January, 2011

The new standards and interpretations that have been issued that are already effective and that CEMG has applied on its Financial Statements can be analysed as follows:

- ***IFRS 7 – Financial Instruments: Disclosures – Transfers of financial assets***

  The International Accounting Standards Board (IASB) has issued in October 2010, IFRS 7 – Disclosures – Transfer of financial assets, with mandatory application for financial years beginning after 1 July 2011, although early adoption is permitted.

  The changes required related with the disclosures of transactions involving transfer of financial assets, namely financial assets securitization, intent to allow financial statements users to assess the risk and the impacts in the financial statements arising from those transactions.

  Annual Improvement Project

  In May, 2010, IASB published the Annual Improvement Project that implied 11 changes to 7 standards. The changes effective date, the early adoption possibility and the transitional requirements are defined in each standard. The majority of the changes were mandatorily applicable as of 1 January, 2011.

  The adoption of these changes did not cause any major impact for CEMG.

Standards, amendments and interpretations issued but not effective for CEMG

- ***IFRS 9 – Financial Instruments***

  The International Accounting Standards Board (IASB) has issued in November 2009, IFRS 9 – Financial instruments part I: Classification and measurement, which is mandatorily applicable for the financial years starting on 1 January 2015, although early adoption is permitted. In October, 2010, this standard was changed. This standard has not yet been adopted by European Union.

  This standard is part of phase I of the IASB's comprehensive project to replace IAS 39 and relates to matters of classification and measurement of financial assets. The main issues considered are as follows:

  – The financial assets can be classified in two categories: at amortised cost or at fair value. This decision should be determined at initial recognition of the financial assets. The classification depends on the entity, business model for managing the financial instruments and the contractual cash flows associated to each financial asset;

  – Only debt instruments for which the contractual cash-flows represent only payments of principal and interest, which means that they contain only the basic loan features, and for which an entity holds the asset to collect the contractual cash flows, can be measured at amortised cost. All the other debt instruments are recognized at fair value;

– Equity instruments issued by third parties are recognized at fair value with subsequent changes recognized in the profit and loss. However, for equity instruments an entity could make an irrevocable option at initial recognition for fair value changes to be recognized in fair value reserves. This is a discretionary decision, not implying that all the equity instruments should be treated on this basis. Gains and losses recognized on fair value reserves cannot be recycled to profit and loss. The dividends received are recognized as income for the year;

– The exception to stop investments in equity instruments whose fair value can not be reliably determined and related derivatives, under IAS 39, IFRS is not allowed in 9;

– Changes in fair value attributable to own credit risk of financial liabilities classified as fair value through profit or loss (Fair Value Option), shall be recognized in Other comprehensive income (OIC). The remaining fair value changes related to these financial liabilities shall be recognized through profit or loss. The amounts recognized in Other comprehensive income shall not be reclassified/transferred to profit and loss.

CEMG is currently evaluating the impact of the adoption of this interpretation.

- ***IFRS 10 – Consolidated Financial Statements***

The International Accounting Standards Board (IASB) has issued in May 2011, IFRS 10 – Consolidated Financial statements, with mandatory application for financial years beginning after 1 January 2013, although early adoption is permitted.

This IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements, and supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purposes Entities.

An investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. «De facto» control is explicitly included by this standard.

The major changes introduced by this standard are as follows:

– A single control model is applied whether an investee should be consolidated;

– Introduction of enhance disclosures about involvement with unconsolidated entities.

CEMG is currently evaluating the impact of the adoption of this interpretation.

- ***IFRS 11 – Joint Agreements***

The International Accounting Standards Board (IASB) has issued in May 2011, IFRS 11 – Joint Arrangements, with mandatory application for financial years beginning after 1 January 2013, although early adoption is permitted.

This standard supersedes IAS 31 Interest in Joint Ventures, maintaining the same definition of joint arrangements. However, two types of joint arrangements were introduced: (i) joint operations and (ii) joint ventures.

The major changes introduced by this standard are as follows:

– An entity shall determine the type of joint arrangements in which it is involved by considering its rights and obligations. An entity shall assess its rights and obligations by considering the structure and legal form of the arrangement, the contractual terms agreed to by the parties to the arrangement and, when relevant, other facts and circumstances;

– Mandatory application of the equity method to a joint venture, eliminating the option of the proportionate consolidation method.

CEMG is currently evaluating the impact of the adoption of this interpretation.

- ***IFRS 12 – Disclosures of Interests in Other Entities***

The International Accounting Standards Board (IASB) has issued in May 2011, IFRS 12 – Disclosures of Interests in Other Entities, with mandatory application for financial years beginning after 1 January 2013, although early adoption is permitted.

The objective of this standard is to require an entity to disclose information regarding its involvement with consolidated entities (subsidiaries) and those that are not consolidated, namely:

– The nature of, and risks associated with, its interest in other entities; and

– The effects of those interests on its financial position, financial performance and cash flows.

CEMG is evaluating the impact from the application of this standard.

- ***IFRS 13 – Fair Value Measurement***

  The International Accounting Standards Board (IASB) has issued in May 2011, IFRS 13 – Fair Value Measurement, with mandatory application for financial years beginning after 1 January 2013, although early adoption is permitted.

  This standard presents a revised concept of fair value and determines new disclosures requirements. The main aspects considered are as follows:

  – Principles of fair value;

  – Appropriate valuations techniques and fair value hierarchy; and

  – Additional disclosure requirements.

  CEMG is evaluating the impact from the application of this standard.

- ***IAS 27 (2011) – Separate Financial Statements***

  The International Accounting Standards Board (IASB) has issued in May 2011, IAS 27 – Separate Financial Statements, with mandatory application for financial years beginning after 1 January 2013, although early adoption is permitted.

  IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications, as follows: (i) an entity that prepares separate financial statements shall follow all relevant IFRS standards, and (ii) disclosure requirements.

  CEMG is evaluating the impact from the application of this standard.

- ***IAS 28 – Investments in Associates and Joint Ventures***

  The International Accounting Standards Board (IASB) has issued in May 2011, IAS 28 – Investments in Associates and Joint Ventures, with mandatory application for financial years beginning after 1 January 2013, although early adoption is permitted.

  This standard replaced IAS 28 (2003) and describes the accounting treatment to be adopted by the investor in associates and joint ventures, defining the accounting requirements for applying the equity method for both associates and joint ventures.

  IFRS 11 determines in which type of joint arrangements an entity is involved, and if an interest in a joint arrangement exists, an entity shall apply the equity method in the consolidated financial statements, in accordance with IAS 28 (revised in 2011), except if any exemptions are applicable, such as defined.

  IFRS 12 describes the disclosure requirements.

  CEMG is evaluating the impact from the application of this standard.

- ***IFRS 7 (changed) – Disclosures – Offsetting of financial assets and liabilities***

  The International Accounting Standards Board (IASB) has issued in May 2011, IFRS 7 – Disclosures – Offsetting of financial assets and liabilities, with mandatory application for financial years beginning after 1 January 2013, although early adoption is permitted.

  This standard changed the disclosure requirements for the users of financial statements to be able to assess the effect/potential effect of the net presentation of the financial assets and liabilities in the financial position of an entity.

  CEMG is evaluating the impact from the application of this standard.

- ***IAS 32 (changed) – Offsetting of financial assets and liabilities***

  The International Accounting Standards Board (IASB) has issued in May 2011, an amendment to IAS 32 – Offsetting of financial assets and liabilities, with mandatory application for financial years beginning after 1 January 2014, although early adoption is permitted.

  This change replaced the AG38 paragraph of IAS 32 by the new AG38A-AG38F paragraphs, regarding the required conditions to be met in order to present the net position of the financial assets and liabilities in the financial position of an entity, as follows:

  – The entity currently has a legally enforceable right to set off the recognized amounts; and

  – The entity has the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

  CEMG is evaluating the impact from the application of this standard.

54. Relevant facts

In November and December 2011, CEMG conducted a significant sale of Buildings and land classified as non-current assets held for sale, according to note 27 and Buildings for own use, according to note 28.

The sale of non-current assets held for sale were made to two investment funds: CA Imobiliário – Fundo Especial de Investimento Imobiliário Aberto (FEII) and Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH). Relatively to the sale of properties for own use the counterparty was Montepio Geral Associação Mutualista.

These operations generated a net gain of Euro 63 993 000, described in note 9 and a impairment write-back associated of Euro 24 356 000, as mentioned in note 15.

For these transactions with investment funds referred above, the transfer prices that were determined, are in line with the valuation rules set by the CMVM for Investment Funds, through two evaluation reports for each property, conducted by independent evaluators accredited by the CMVM. For each property was assigned the lowest amount between two reports or the average of both, according to the CMVM regulations for this type of operation.

In addition, CEMG acquired units of the investment funds referred above by an amount equal to the value of the sale to investment funds (note 23):

- 20 195 716 participation units in the CA Imobiliário – Fundo Especial de Investimento Imobiliário Aberto (FEII); and
- 59 663 participation units in the Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH).

Operations mentioned above were accounted as sales of to investment funds. So, there was a transfer of rights and obligations associated with these assets. The units of these funds are included in the portfolio of financial assets available for sale, accounted at fair value, as described in IAS 39. The determination of the fair value of these units is done based on market value.

As the counterparty of these operations are investment funds, they are subject to regulation and supervision of the CMVM, complying with the obligations, of which it can be emphasized the evaluation of the fund assets by two independent evaluators. FIIAH, and since CEMG has 100% of its units, the fund is consolidated using the full method.

55. Impact of change in accounting policy for recognition of actuarial gains and losses related to defined benefit plans

Previously, CEMG proceeded to the deferral of actuarial gains and losses determined in accordance with the corridor method. Under the corridor method, actuarial gains and losses not recognized that exceed 10% of the greater of the present value of the liabilities and the fair value of the Fund's assets were recorded in the income statement for the period corresponding to the remaining estimated useful life of the employees.

According to one of the options allowed by IAS 19 Employee Benefits, the Bank decided in 2011 for a change in accounting policy starting to recognize the actuarial gains and losses against reserves. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes from 1 January 2010, recognizing in that date all the deferred actuarial gains and losses in equity.

Thus, as described in notes 11, 31, 42 and 46 the balance Reserves and retained earnings includes, with effect from 1 January 2010, the restatement resulted from the referred changing in the accounting policy. The restatement is analysed as follows:

	Equity 31.12.2010 Euro '000	Net income 31.12.2010 Euro '000	Equity 1.1.2010 Euro '000
Previously reported	994 019	41 491	995 234
Adjustments:			
Actuarial deferred gains and losses	(102 247)	–	(88 533)
Amortization of deferred actuarial losses	(1 046)	1 046	–
	(103 293)	1 046	(88 533)
Restated	890 726	42 537	906 701

56. Subsequent events

Following discussions between the Greek State and the private sector related to the restructuring of sovereign debt of Greece («GGB's») on February 21, 2012, the Ministry of Finance of Greece announced the key aspects of the sector's involvement private («PSI») in that restructuring. According to available information, the terms of the PSI currently agreed are as follows:

Holders of the GGB's should replace the current titles by:

– New GGB's with face value equal to 31.5% of face value of old GGB's; and

– Notes issued by the Financial Stabilisation Fund («EFSF»), with a face value equal to 15% of old GGB's. The notes will have a market interest rate and a maturity of 24 months.

The new GGB's will have the following terms

– Initial coupon of 2% with an increase to 3% and then 4.3%;

– Equity payment in 20 annual installments beginning on the 11th anniversary of the date of issue and maturity in 2042;

– Aggregated collective action clauses;

– Listing on the Athens Stock Exchange;

– Emissions governed by English law; and

– Including of indexed bonds to «PIB», which will entitle the holder to an additional 1% coupon if they hit certain targets in terms of «PIB».

The PSI is part of the bailout package in the amount of Euro 130 billion from the European Union to Greece and is subject to approval of the parliaments of Eurozone countries.

KPMG

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AUDITORS' REPORT

(ISSUED BY THE STATUTORY AUDITOR)

(This report is a free translation to English from the original Portuguese version)

Introduction

1 In accordance with the applicable legislation, we present our Auditors' Report, on the financial information included in the Annual Report of the Board of Directors and in the accompanying financial statements as at and for the year ended 31 December, 2011 of **Caixa Económica Montepio Geral** which comprise the balance sheet as at 31 December, 2011 (showing total assets of 24,092,899 thousand Euro and Shareholders' Equity of 1,241,573 thousand Euro, including a net profit of 32,823 thousand Euro), the statements of income, the cash flows, the changes in equity and the comprehensive income for the year then ended and the corresponding notes to the financial statements.

Responsibilities

2 The Board of Directors is responsible for:

a) the preparation of the financial information in accordance with the Adjusted Accounting Standards ("Normas de Contabilidade Ajustadas") issued by the Bank of Portugal, which are based on the application of International Financial Reporting Standards ("IFRS") as adopted by the European Union, with exception of the issues defined in no. 2 and no. 3 of Regulation no. 1/2005 and no. 2 of Regulation no. 4/2005 of the Bank of Portugal ("NCA's"), that present fairly the financial position of **Caixa Económica Montepio Geral**, the results of its operations, cash flows, changes in equity and its comprehensive income;

b) maintaining historical financial information prepared in accordance with NCA's which is complete, true, current, clear, objective and lawful as required by the Stock Exchange Code ("CVM");

c) the adoption of adequate accounting policies and criteria;

d) the maintaining of an appropriate system internal control; and

e) the communication of any relevant matter that may have influenced the activity, financial position or results of the CEMG.

3 Our responsibility is to verify the consolidated financial information included in the documents referred above, namely if the information is complete, true, current, clear, objective and lawful as required by the CVM in order to issue a professional and independent opinion based on our audit.

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Scope

4 We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Accordingly, our audit included:

- verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;

- evaluating the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;

- assessing the applicability of the going concern basis of accounting;

- assessment of the appropriateness of the overall presentation of the financial statements; and

- assessment of whether the financial information is complete, true, timely, clear, objective and lawful.

5 Our audit also included the verification that the consolidated financial information included in the Annual Report of the Board of Directors is consistent with the consolidated financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451.º, of the Portuguese Companies Code ("Código das Sociedades Comerciais").

6 We believe that our audit provides a reasonable basis for our opinion.

Opinion

7 In our opinion, the referred financial statements present fairly, in all material respects, the financial position of **Caixa Económica Montepio Geral**, as at 31 December, 2011, the results of its operations, the cash flows, the changes in equity and the comprehensive income for the year then ended, in accordance with NCA's defined by the Bank of Portugal and the information contained therein is complete, true, current, clear, objective and lawful.

Report on Other Legal Requirements

8 It is also our opinion that the consolidated financial information included in the Board of Directors report is consistent with the consolidated financial statements and that the Report on Institutional Governance includes the information required by the article 245.º-A of the Portuguese Securities Market Code ("CVM").

Lisbon, 15 March, 2012

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
represented by
Vitor Manuel da Cunha Ribeirinho (ROC N.º 1081)

12. Reports, Opinions and Internal Audit Board's Statement of Compliance

INTERNAL AUDIT BOARD'S REPORT AND OPINION ON THE INDIVIDUAL ACCOUNTS

Members,

In compliance with the competences set out in Article 36 (1) (d) of the Articles of Association of Montepio Geral – Associação Mutualista, hereinafter referred to as Montepio Geral, and Article 25 (f) of the Articles of Association of Caixa Económica Montepio Geral, hereinafter referred to as Caixa Económica, in our capacity as the Internal Audit Board of both institutions, we hereby submit for your appreciation a report on their business activity and our opinion of the report and individual financial statements for 2011 of Montepio Geral and Caixa Económica, drafted by the Board of Directors.

REPORT

1. In 2011, the Internal Audit Board monitored the management of Montepio Geral and Caixa Económica by reading the minutes of the meetings of the Board of Directors and holding regular meetings with it and some of its members, analysing the accounting documents and reports and quantitative information provided every month by the departments, attending meetings of the General Board and working meetings with some of the directors closest to the duties of the Internal Audit Board.

2. Following the sale by MGAM of its holding in FINIBANCO, Holding, SGPS, SA to CEMG on 4 April 2011, most of the assets and liabilities from the banking activity of FINIBANCO, SA were included in its balance sheet.

3. 2011 witnessed an event that indelibly marked the institution's life, to wit the publication of Law 64-B/2011, which approved the 2012 State Budget, in which Caixa Económica Montepio Geral lost its exemption from corporate income tax, which it had enjoyed for many years. This change, which will adversely affect the profits on its banking activity as of the coming year, had a favourable impact on deferred taxes this year.

4. Another event that we also believe is necessary to highlight was the change in the pension fund of the institution's employees, in which liabilities for retirement and survival pensions were transferred to Social Security on 31.12.2011. Liabilities for working personnel and other expenses, such as health benefits and death subsidies remained in the pension fund. The amount of the liabilities transferred had to be calculated on the basis of stricter assumptions, resulting in a difference that was recognised as costs for the year.

5. When performing its work, the Internal Audit Board is pleased to say that it was always able to count on the cooperation of the Board of Directors and the institution's departments to supply the information that it considered necessary for its duties.

6. During the year, the Internal Audit Board drafted the documents required of it by the Articles of Association and Banco de Portugal, including opinions on the adequacy and efficacy of the individual and consolidated internal control system, which were prepared with the support of the firm of certified auditors and which, apart from the deficiencies identified and improvements recommended, express our opinion that the internal control procedures as a whole effectively and adequately reflect in all materially relevant aspects the requirements set out in Banco de Portugal Notice 5/2008.

7. In 2011, the financial statements of Montepio Geral were prepared on the basis of recognition and measurement criteria set out in the International Financial Reporting Standards (IFRS), as adopted in the European Union up to 31 December 2011. The accounting policies used by Associação Mutualista in preparing the financial statements as at 31 December 2011 are consistent with those used in the annual financial statements with reference to 31 December 2010 and respect the disclosure requirements set out in the accounting plan for mutual associations.

8. The financial statements of Caixa Económica are prepared, presented and disclosed in accordance with the Adjusted Accounting Standards, meaning that the IFRS, as adopted by the European Union, were applied to the individual financial statements, with the exception of some matters regulated by Banco de Portugal, such as impairment of loans to customers and accounting of recognition in retained earnings of adjustments of liabilities for retirement and surviving spouse pensions.

9. Regarding the institution's Annual Report and Governance Report, which includes the information required by Article 245-A of the Securities Code, the Internal Audit Board found that, in all essential aspects, the content of the former tallies with the financial statements and abides by the law and Articles of Association.

10. In its appreciation of the financial statements for the year, the Internal Audit Board took special account of the Certification of Accounts (Montepio Geral) and the Legal Certification of Accounts and Audit Report (Caixa Económica) drafted by the firm of certified auditors, which, under contract, during the year and at the end of 2011, monitored and audited the accounting and accounts that the Board of Directors drafted as required by law and the Articles of Association. The documents produced by the entity in question were presented without reservations and we agree with their contents. However, the Certification of Accounts of Montepio Geral contains a highlight, with which we also agree and which is fully explained in notes 3.1 and 3.15 to the financial statements.

11. After the close of the year, we appreciated the accounting documents, including the Annual Report, the balance sheet as at 31 December 2011, the income statement, cash flow statement, changes in equity and total income in the year ended on that date and their notes.

12. The Internal Audit Board draws your attention to the importance of the sections on social responsibility and corporate governance in the 2011 Annual Report and Accounts.

13. As a result of the work performed, the Internal Audit Board considers that the Annual Report, the institutions' financial statements and notes comply with the law and Articles of Association and are appropriate for an understanding of their financial situation, profits, cash flows, changes in equity and total income for the year ended on 31 December 2011.

14. We would like to express our gratitude for the reference to our work made in the Annual Report and we also second the Board of Directors in its acknowledgement of the different bodies mentioned, the members of the other corporate bodies and the employees mentioned in the report.

15. At the end of the year, the economic situation deteriorated, accompanying the performance of the economy in the Euro Area. We expect an accentuated fall in national product and the continuation of a high level of unemployment, though the European authorities are more sensitive to the problems of growth and employment, which may help to mitigate the negative aspects. Portugal is complying strictly with the bailout agreement, which must be taken into account in 2013 pursuant to the agreement. In spite of some unfavourable conditions, Montepio was able to overcome these difficulties and occupied a satisfactory position in the Portuguese financial system in terms of solvency and profitability. It has pursued its strategy of contributing to the economic development that the country needs so much.

16. The Internal Audit Board therefore backs the policies that Montepio Geral and Caixa Económica have followed, in the certainty that the Board of Directors, with the collaboration of the employees, will follow the abovementioned policies and find the right means to face up to the foreseeable difficulties and continue on the path of development that it has been achieving.

OPINION

In view of the above, the Internal Audit Board agrees with the annual reports and financial statements of Montepio Geral and Caixa Económica as at 31 December 2011 and recommends that they should be approved by the General Meeting:

a) The proposals for appropriation of profits in said annual reports;

b) The other proposals set out in the Montepio Geral Annual Report;

c) A vote of approval of the Board of Directors for its efficient performance of its duties and of the employees for their commitment to their work.

Lisbon, 6 March 2012

THE INTERNAL AUDIT BOARD

Manuel Jacinto Nunes – Chairman

Gabriel José dos Santos Fernandes – Member

José Moreira Venâncio – Member

INTERNAL AUDIT BOARD'S REPORT AND OPINION ON THE CONSOLIDATED ACCOUNTS

Members:

In compliance with the competences set out in Article 25 (f) of the Articles of Association of Caixa Económica Montepio Geral, hereinafter referred to as Caixa Económica, the Internal Audit Board hereby submits for your appreciation a report and opinion on the consolidated report and consolidated financial statements for 2011 of Caixa Económica and the companies included in the consolidation, drafted by the Board of Directors.

REPORT

1. We analysed the consolidated Annual Report of the Board of Directors and consolidated financial statements, including the consolidated balance sheet as at 31 December 2011, the consolidated income statement, consolidated cash flow statement, changes in equity and total income for 2011 and the notes to the consolidated financial statements.
2. The Internal Audit Board found that, in all essential aspects, the content of the Consolidated Annual Report tallies with the consolidated financial statements presented and satisfies the requirements of the law and Articles of Association.
3. A milestone in the institution's life of was the acquisition by Montepio Geral – Associação Mutualista of 100% of the share capital of FINIBANCO, Holding, SGPS, SA at the end of 2010 in a takeover bid for the amount of 341.25 billion euros. MG-AM sold its shareholding in FINIBANCO, Holding, SGPS, SA to CEMG on 31 March 2011.
4. The essential basis of the Internal Audit Board's appreciation of the financial statements for the year was the Legal Certification of Accounts and Audit Report, without reservations, drafted by the firm of certified auditors. We are in agreement with its contents.
5. As a result of the work performed, the Internal Audit Board considers that the consolidated financial statements (consolidated balance sheet as at 31 December 2011, consolidated income statement, consolidated cash flow statement, changes in equity and total income for 2011 and the notes thereto) are appropriate for an understanding of the financial situation of Caixa Económica and its subsidiaries included in the consolidation as at 31 December 2011 and the way in which the consolidated profits of the year ended on that date were formed.

OPINION

In view of the above, the Internal Audit Board agrees with the consolidated annual reports and consolidated financial statements of Caixa Económica Montepio Geral as at 31 December 2011 and recommends that they should be approved by the General Meeting.

Lisbon, 6 March 2012

THE INTERNAL AUDIT BOARD

Manuel Jacinto Nunes – Chairman

Gabriel José dos Santos Fernandes – Member

José Moreira Venâncio – Member

STATEMENT OF COMPLIANCE OF FINANCIAL INFORMATION

This statement is made pursuant to Article 245 (1) (c) of the Securities Code.

Pursuant to its competences as laid down in the Articles of Association, the Internal Audit Board is responsible for monitoring the institution's business activity and expressing a professional opinion on the basis of its examination of the annual report and financial statements.

In this statement, we confirm all the information that was provided to us to the best of our knowledge and certainty:

- Individual and consolidated financial information as at 31 December 2011, which gives a true, appropriate picture of the assets and liabilities, financial situation and profits of the institution and the companies included in the consolidation perimeter;
- The annual report, which faithfully describes the business, performance and position of the institution and the companies included in the consolidation perimeter, as required by law.

Lisbon, 6 March 2012

THE INTERNAL AUDIT BOARD

Manuel Jacinto Nunes – Chairman

Gabriel José dos Santos Fernandes – Member

José Moreira Venâncio – Member

13. Institutional Governance Report

As required by the law and regulations, especially the CMVM Corporate Governance Code of January 2010 (Recommendations), this report is intended to disclose clearly and transparently the institution's governance practices in accordance with its legal nature and in compliance with CMVM recommendations.

Montepio, considered here to be Caixa Económica Montepio Geral, has sought to improve its governance model by establishing a parallel between compliance with CMVM recommendations and the best market practices, in accordance with its institutional structure and current practices, while making the necessary adjustments when taking internal organisation and operational measures regarding these matters.

CHAPTER 0 – STATEMENT OF COMPLIANCE

0.1. SOURCES OF INFORMATION

In addition to the provisions set out in the law, regulations and Articles of Association, all the institution's activities are also governed by the corporate bodies' guidelines, internal standards, rules of conduct and deontological standards.

All employees are provided in the regulations area of the intranet with a set of documents classified on the basis of goals and contents, with which compliance is mandatory. In addition to circulars and service orders, the area also contains rules of procedure and communications from the Board of Directors, regarding business, personnel department and those of a general nature.

The organisation's internal standards also include its Internal Regulations on financial intermediation, which set out the rules on financial intermediation by Caixa Económica Montepio Geral.

In order to ensure the provision of instructive and reporting information as part of prudential and behavioural supervision, employees are also provided with a service order on reporting and the duty of information to supervisory bodes and other external bodies, which lists the type of reporting, the departments responsible for it, applicable regulations, frequency and the channels used.

In 2011, we published our Code of Conduct, which sets out the competences and scope of action of the governance bodies, deontological standards and rules of behaviour that all must obey. The code is available on the Montepio internal portal and website.

In addition to the duty to disclose the information required by law or regulations, the institution provides relevant institutional and financial information on its own activity and that of its subsidiaries and on the markets on its website (e.g. annual and six-monthly reports, quarterly balance sheets, ratings), along with news and events.

0.2. RECOMMENDATIONS IN THE CMVM CORPORATE GOVERNANCE CODE

The table below lists the recommendations on the Corporate Governance Code issued by the CMVM in 2010. It indicates those that have been adopted and those that have not, and their applicability based on the institution's legal nature, as mentioned above. It also indicates the points in this report that refer to the information in the recommendations.

Recommendations	Adopted	Not adopted or not applicable	Remarks / reference in institutional governance report
I. GENERAL MEETINGS			
I.1. OFFICERS OF GENERAL MEETING			
I.1.1. The chair of the general meeting shall have the human and logistical resources necessary, considering the company's economic situation.	x		Chapter I – I.4.
I.1.2. The remuneration of the chair of the general meeting shall be disclosed in the annual Corporate Governance Report.	x		Chapter I – I.3.
I.2. PARTICIPATION IN THE MEETING			
I.2.1. The prior notice required by the officers for the receipt of declarations depositing or blocking shares for participation in the meeting shall not exceed five business days.		Not applicable	Chapter 0 – 0.4.
I.2.2. Should the General Meeting be suspended, the company shall not compel share blocking during that period until the meeting is resumed and shall then follow the standard requirement of the first session.		Not applicable	Chapter 0 – 0.4.
I.3. VOTING AND EXERCISING VOTING RIGHTS			
I.3.1. Companies shall not impose any statutory restriction on postal voting or, when allowed, on vote by electronic correspondence.	x		Chapter I – I.5.
I.3.2. The statutory deadline for receiving early voting ballots by post shall not exceed 3 business days.		Not applicable	Chapter I – I.5.
I.3.3. Companies shall ensure the proportionality between voting rights and shareholder participation, preferably in the Articles of Association determining one vote per share. Companies that: *i)* have shares that do not grant voting rights; *ii)* establish that voting rights do not count above a certain number when made by a single shareholder or shareholders related to it are not obliged to abide by proportionality.		Not applicable	Chapter 0 – 0.4.
I.4. QUORUM			
Companies shall not establish a quorum higher than that imposed by law.		Not applicable	Chapter 0 – 0.4.
I.5. MINUTES AND INFORMATION ON DECISIONS			
Extracts of the minutes of general meetings or equivalent documents shall be made available to shareholders on the company's website within five days of the meeting, even if it is not privileged information. The information shall include decisions made, the share capital represented and the results of the votes. This information must be kept on the website for at least three years.	x		Chapter I – I.6.
I.6. CORPORATE CONTROL MEASURES			
I.6.1. Measures aimed at preventing successful takeover bids shall respect both the company's and the shareholders' interests. Respecting this principle, companies' Articles of Association that limit the number of votes that can be held or exercised by the single shareholder individually or jointly with other shareholders, shall also provide for a resolution by the General Meeting, (5 year intervals, at least) on whether that statutory provision is to prevail – without super quorum requirements as to the one legally in force – and that in said resolution, all votes issued be counted, without applying said restriction.		Not applicable	Chapter 0 – 0.4.

Recommendations	Adopted	Not adopted or not applicable	Remarks / reference in institutional governance report
I.6.2. No defensive measures shall be taken that automatically cause serious erosion of the company's assets in the event of transfer of control or a change in the composition of the Board of Directors thereby adversely affecting the free transfer of shares and the shareholders' free appreciation of the performance of the members of the Board of Directors.		Not applicable	Chapter 0 – 0.4.
II. MANAGEMENT AND SUPERVISORY BODIES			
II.1. GENERAL MATTERS			
II.1.1. STRUCTURE AND POWERS			
II.1.1.1. In its annual governance report, the Board of Directors shall evaluate the model adopted, identify any constraints thereon and propose any corrective measures that it sees fit.	x		Chapter 0 – 0.3.
II.1.1.2. Companies shall set up internal control and risk management systems to protect their assets and to benefit the transparency of their governance in order to identify and manage the risk. These systems shall include at least the following components: *i*) the company's strategic goals when taking risks; *ii*) identification of the main risks associated with their activity and events likely to cause risks; *iii*) analysis and measurement of the impact and probability of each potential risk; *iv*) risk management aimed at aligning actual risks with the company's strategic option as to risk taking; *v*) control mechanisms of implementation of risk management measures taken and their efficacy; *vi*) internal information and communication mechanisms on the different system components and risk alerts; *vii*) periodic assessment of the system and any changes that may prove necessary.	x		Chapter II – II.9.1 and II. 9.2.
II.1.1.3. The Board of Directors shall ensure the creation and operation of internal control and risk management systems, while the supervisory body shall be responsible for assessing the systems and proposing any adjustments to the company's needs.	x		Chapter II – II.9.1 and II. 9.2.
II.1.1.4. In their annual corporate governance reports, companies shall: *i*) identify the main economic, financial and legal risks to which the company is exposed; *ii*) describe the operation and efficacy of the risk management system.	x		Chapter II – II. 9.2.
II.1.1.5. The Board of Directors and supervisory body shall have operating regulations, which shall be disclosed on the company's website.	x		Chapter 0 – 0.1.
II.1.2. INCOMPATIBILITIES AND INDEPENDENCE			
II.1.2.1. The Board of Directors shall include a number of non-executive members that ensure the efficient supervision, auditing and assessment of the executive members' activity.		Not applicable	There are no non-executive members
II.1.2.2. Non-executive members must include an adequate number of independent members. The size of the company and its shareholder structure must be taken into account when devising this number and may never be less than one fourth of the total number of directors.		Not applicable	There are no non-executive members

Recommendations	Adopted	Not adopted or not applicable	Remarks / reference in institutional governance report
II.1.2.3. Assessment of the independence of its non-executive members by the Board of Directors must take account of the legal rules and regulations on independence requirements and the incompatibility rules applicable to the members of other corporate bodies, in order to ensure systematic, timely coherence in the application of the criteria of independence to the entire company. No director who could not take this position in another corporate body due to applicable rules may be considered independent.		Not applicable	There are no non-executive members
II.1.3. ELIGIBILITY AND APPOINTMENT			
II.1.3.1. Depending on the applicable model, the Chair of the Audit Board, Audit Committee or Financial Committee shall be independent and be adequately capable to carry out his/her duties.		Not applicable	Chapter 0 – 0.4.
II.1.3.2. The selection of candidates for non-executive director positions must be designed so as to prevent interference from executive directors.		Not applicable	There are no non-executive members
II.1.4. WHISTLEBLOWING POLICY			
II.1.4.1. The company shall adopt a policy whereby irregularities occurring within the company, are reported, including the following information: *i)* the means by which irregularities may be reported internally, including the persons entitled to receive the reports; *ii)* how the report is to be handled, including confidential treatment, should it be required by the whistleblower.	x		Chapter II – II.7.
II.1.4.2. The general guidelines on this policy should be set out in the corporate governance report.	x		Chapter II – II.7.
II.1.5. REMUNERATION			
II.1.5.1. The remuneration of the members of the Board of Directors shall be in line with the interests of those with a long-term interest in the company, be performance based and discourage excessive risk taking. Remuneration should therefore be structured as follows:			
(i) The remuneration of the executive directors shall include a variable component that depends on a performance assessment performed by the company's competent bodies in accordance with established, measurable criteria that consider the company's real growth and the wealth effectively created for shareholders, long-term sustainability, the risks taken and compliance with the rules governing the company's activity.	x		Chapter II – II.5. e II.6. and Annex to the Institutional Governance Report
(ii) The variable component of remuneration shall be reasonable in relation to the fixed component and maximum limits shall be set for all components.	x		Chapter II – II.5. e II.6. and Annex to the Institutional Governance Report
(iii) A significant part of the variable remuneration shall be deferred for no less than three years and its payment shall be subject to the company's continued positive performance over this period.	x		Chapter II – II.5. e II.6. and Annex to the Institutional Governance Report
(iv) The members of the Board of Directors shall not sign contract with the company or third parties having the effect of mitigating the risk of the variability of their remuneration fixed by the company.	x		Chapter II – II.5. e II.6. and Annex to the Institutional Governance Report

Recommendations	Adopted	Not adopted or not applicable	Remarks / reference in institutional governance report
(v) Up to the end of their term of office, executive directors shall retain the company shares that they have received under variable remuneration schemes up to the limit of twice the amount of their total annual remuneration, with the exception of those that need to be sold to pay taxes resulting from the benefits from these same shares.		Not applicable	Chapter 0 – 0.4.
(vi) If the variable remuneration includes options, the start of the option period shall be deferred for no less than three years.		Not applicable	Chapter 0 – 0.4.
(vii) Appropriate legal instruments shall be established so that any compensation for any form of dismissal of a director without due cause is not paid if the dismissal or rescission by mutual accord is due to the director's inadequate performance.		Not applicable	Chapter 0 – 0.4.
(viii) The remuneration of non-executive members of the Board of Directors shall not include a component depending on the company's value or performance.		Not applicable	Chapter 0 – 0.4.
II.1.5.2. The statement on the remuneration policy of the Board of Directors and supervisory body referred to in Article 2 of Law 28/2009 of 19 June shall, in addition to the content referred to therein, contain sufficient information: *i)* on the company groups whose remuneration policies and practices were used for comparison in fixing the remuneration; *ii)* on payments for dismissal or rescission by mutual accord of directors.	x		Annex to the Institutional Governance Report
II.1.5.3. The statement on the remuneration policy of the Board of Directors and supervisory body referred to in Article 2 of Law 28/2009 shall also cover the remuneration of managers in the sense set out in Article 248-B (3) of the Securities Code if their remuneration contains a substantial variable component. The statement shall be detailed and the policy presented must take account of the company's long-term performance, compliance with rules applicable to the company's business and restraint in risk taking.	x		Annex to the Institutional Governance Report
II.1.5.4. The General Meeting must receive a proposal on the approval of share or option allocation plans based on variations in share prices to members of the Board of Directors, supervisory body and other managers in the sense set out in Article 248-B (3) of the Securities Code. It shall contain all the necessary elements for a correct assessment of the plan. The proposal shall be accompanied by the plan's regulations or, if there is none, the conditions by which it must abide. The General Meeting shall also approve the main characteristics of the retirement benefit scheme for members of the Board of Directors, supervisory body and other managers in the sense set out in Article 248-B (3) of the Securities Code.		Not applicable	Chapter 0 – 0.4.
II.1.5.6. At least one of the Remuneration Committee's representatives shall be present at the Annual General Meeting of Shareholders.	x		Chapter II – II.5.
II.1.5.7. The annual corporate governance report shall disclose the remuneration received as a whole and individually at other group companies and the pension rights acquired in the year in question.		Not applicable	No remuneration is payable for positions held in subsidiaries
II.2. BOARD OF DIRECTORS			
II.2.1. Within the limits established by Law for each management and supervisory structure, and unless the company is of a reduced size, the Board of Directors shall delegate the day-to-day running and the delegated duties should be identified in the Annual Report on Corporate Governance.	x		Chapter II – II.8.

Recommendations	Adopted	Not adopted or not applicable	Remarks / reference in institutional governance report
II.2.2. The Board of Directors shall ensure that the company acts in accordance with its goals, and should not delegate its duties, especially with regard to: *i*) definition of the company's strategy and general policies; *ii*) definition of the corporate structure of the group; *iii*) definition of the group's business structure, *iv*) decisions taken that are considered to be strategic due to their amounts, risk or particular characteristics.	x		Chapter II – II.2.
II.2.3. Should the Chair of the Board of Directors carry out executive duties, the Board of Directors shall set up efficient mechanisms for coordinating non-executive members that can ensure that they may decide, in an independent and informed manner, upon the mechanisms and explain them to the shareholders in the corporate governance report.		Not applicable	There are no non-executive members
II.2.4. The annual report shall include a description of the activity of the non-executive board members and shall mention any constraints.		Not applicable	There are no non-executive members
II.2.5. The company shall explain its policy of rotation of Board of Directors' departments, especially the person in charge of the financial department, and give information about it in the annual corporate governance report.	x		Chapter II – II.2.
II.3. CEO, EXECUTIVE COMMITTEE AND EXECUTIVE BOARD OF DIRECTORS			
II.3.1. If directors with executive duties are requested by other board members to supply information, they shall do so in a timely manner and the information supplied must meet the requests.		Not applicable	Chapter II – II.1.
II.3.2. The Chair of the Executive Committee shall send the convening notices and minutes of the meetings to the Chair of the Board of the Directors and, when applicable, to the Chair of the Supervisory Board or the Audit Committee.		Not applicable	Chapter II – II.1.
II.3.3. The Chair of the Executive Board of Directors shall send the convening notices and minutes of the meetings to the Chair of the General and Supervisory Board and to the Chair of the Financial Committee.		Not applicable	
II.4. GENERAL AND SUPERVISORY BOARD, FINANCIAL COMMITTEE, AUDIT COMMITTEE AND AUDIT BOARD			
II.4.1. Besides fulfilling its supervisory duties, the General and Supervisory Board shall advise, follow-up and carry out on an on-going basis, the assessment on the management of the company by the Executive Board of Directors. Besides other subject matters, the General and Supervisory Board shall decide on: *i*) definition of the strategy and general policies of the company; *ii*) the corporate structure of the group; and *iii*) decisions taken that are considered to be strategic due to the amounts, risk and particular characteristics involved.		Not applicable	Chapter II – II.4.
II.4.2. The annual reports and financial information on the activity carried out by the General and Supervisory Board, Financial Committee, Audit Committee and Audit Board shall be disclosed on the company's website together with the financial statements.	x		Chapter II – II.3. and II.4.
II.4.3. The annual reports on the activity of the General and Supervisory Board, Financial Committee, Audit Committee and Audit Board shall include a description on their supervisory activity and shall mention any constraints that they may have come up against.	x		Chapter II – II.3. and II.4.

Recommendations	Adopted	Not adopted or not applicable	Remarks / reference in institutional governance report
II.4.4. The General and Supervisory Board, Audit Committee and Audit Board, depending on the applicable model, shall represent the company for all purposes with the external auditor, and shall suggest the supplier of these services and his remuneration, ensure that adequate conditions for the provision of these services are in place within the company and be the liaison between the company and the first recipient of the reports.		Not applicable	
II.4.5. The General and Supervisory Board, Audit Committee and Audit Board, depending on the applicable model, shall evaluate the external auditor every year and propose his dismissal to the General Meeting whenever there is due cause to do so.		Not applicable	
II.4.6. Internal audit departments and the people in charge of compliance shall report to the Audit Committee, General and Supervisory Board or, in the case of companies using the Latin model, to an independent director or the Internal Audit Board, irrespective of these departments' hierarchical relationship with the company's executive management.		Not applicable	All departments report to the Board of Directors
II.5. SPECIALISED COMMITTEES			
II.5.1. Unless the company is small in size and depending on the model adopted, the Board of Directors and the General and Supervisory Committees shall set up the necessary committees to: *i*) ensure a competent and independent assessment of the Executive Directors' performance, its own overall performance and the performance of all different committees; *ii*) study the adopted governance system, verify its efficiency and propose to the competent bodies measures for its improvement; *iii*) make a timely identification of potential candidates with the right profile for director positions.		Not applicable	
II.5.2. The members of the Remuneration Committee or equivalent shall be independent from the members of the Board of Directors and include at least one member with knowledge and experience of remuneration policy matters.	x		Chapter II – II.5.
II.5.3. No natural or legal person that provides or has provided in the last three years services to any body answering to the Board of Directors or to the company's Board of Directors itself or who has a current relationship as a consultant to the company shall be hired to assist the Remuneration Committee in its duties. This recommendation also applies to any natural or legal person related to them by an employment or service agreement.	x		Chapter II – II.5.
II.5.4. All the Committees shall keep minutes of their meetings.	x		Chapter II – II.5.
III. INFORMATION AND AUDITS			
III.1. GENERAL DISCLOSURE OBLIGATIONS			
III.1.1. Companies shall maintain permanent contact with the market thus upholding the principle of equality for shareholders and ensure that investors are able to access information on an equal footing. To this end, the company shall set up an investor relations office.		Not applicable	Chapter III – III.1.

Recommendations	Adopted	Not adopted or not applicable	Remarks / reference in institutional governance report
III.1.2. The following information posted on the company's website, shall be provided in English A: *a*) The company name, its status as a listed company, its registered office and other information mentioned in Article 171 of the Company Code; *b*) Articles of Association; *c*) names of the members of the corporate bodies and the market relations representative; *d*) investor relations office and its duties and contact details; e) accounting documents; *f*) six-monthly calendar of company events; *g*) Proposals and votes at the General Meeting; *h*) Invitations to General Meetings.	x		Chapter 0 – 0.1. Capitulo I – I.4. and I.6.
III.1.3. Companies shall change auditor after two or three terms of office, depending on whether they are three or four years. Maintenance of the auditor beyond this period shall be justified in a specific opinion by the supervisory body, which expressly considers the auditor's independence and the advantages and costs of replacing him.	x		Annual contracts are signed
III.1.4. As part of its duties, the external auditor must verify compliance with remuneration schemes and policies, the efficacy of the internal control mechanisms and report any deficiencies to the company's supervisory body.	x		Chapter III – III.2.
III.1.5. The company shall not hire from the external auditor or any bodies related to it through shareholdings or the same network services other than auditing services. If there is reason to hire said services, which must be approved by the supervisory body and explained in its annual corporate governance report, they shall not account for more than 30% of the value of the services provided to the company.	x		Chapter III – III.2.
IV. CONFLICTS OF INTEREST			
IV.1. SHAREHOLDER RELATIONS			
IV.1.1. Company business with shareholders owning qualifying holdings or with entities related to them pursuant to Article 20 of the Securities Code must take placed under normal market conditions		Not applicable	
IV.1.2. Business deals of significant relevance with shareholders owning qualifying holdings t or with entities related to them pursuant to Article 20 of the Securities Code shall be submitted to the supervisory body for a prior opinion. This body shall establish the procedures and criteria for defining the degree of significance of these deals and the other terms of intervention.		Not applicable	

0.3. EVALUATION OF ADOPTION OF RECOMMENDATIONS

In view of the content of the above tables and the information provided in the report, we consider that the extent of the adoption of the recommendations is in line with values such as ethics, integrity and transparency by which the institution is governed and with the rules and regulations in all management acts that the Board of Directors, as the institution's management body, has defined in its strategy, organisational structure and goals and with effective monitoring of all activity.

0.4. REASONS FOR NON-ADOPTION OR NON-APPLICABILITY OF RECOMMENDATIONS

We have endeavoured to further improve our governance model while always considering the needs of the market in general and members in particular.

Taking account of the table in point 0.2., all the non-applicable recommendations are due to the institution's legal profile, as it is not a commercial company and its capital does not take the form of shares, and compliance with its Articles of Association within the framework of its mission and purposes.

CHAPTER I – GENERAL MEETING

The General Meeting (GM), a corporate body that brings together all full members of Montepio Geral who are of age and were admitted more than two years ago:

- Elects or removes members of the corporate bodies;
- Decides on the annual report from the Board of Directors (BoD), annual accounts and opinion of the Internal Audit Board and also appreciates the report by the General Boardl;
- Decides on the plan of action and budget submitted by the BoD and Internal Audit Board's opinion;
- Decides on the appropriation of profits;
- Authorises the constitution of own funds not expressly provided for in the Articles of Association and increase in any funds, when this does not fall within the powers of the Board of Directors;
- Decides on amendments to the Articles of Association;
- Every three years, elects a committee with powers to fix the remuneration of members of the corporate bodies.

I.1. OFFICERS OF THE GENERAL MEETING

The officers of the General Meeting consist of the Chairman and two secretaries. If the Chairman is unable to attend he is substituted by the first secretary and if the first secretary is unable to attend, by the second secretary. The names of the officers of the General Meeting are listed in point 1 of the Annual Report.

I.2. TERM OF OFFICE OF THE OFFICERS OF THE GENERAL MEETING

As with the other members of the corporate bodies, the officers of the General Meeting are elected every three years and may be re-elected for more than three successive terms of office. The current officers were elected on 11 December 2009 for 2010-2012.

I.3. REMUNERATION OF THE CHAIRMAN OF THE GENERAL MEETING

In 2011, as in 2010, the remuneration of the Chairman of the General Meeting was based on presence slips with a unit value of 813.75 euros.

I.4. HOW THE GENERAL MEETING OPERATES

General Meetings are governed by their own regulations, in addition to the Articles of Association of MG-AM and CEMG.

The Chairman of the General Meeting is responsible, in particular, for convening an extraordinary or ordinary General Meeting at least 15 days in advance and for presiding over the proceedings. The Secretaries are responsible, in particular, for drafting the minutes of the meetings and issuing certificates.

The Chairman of the General Meeting has human and logistic resources for his duties provided by the Secretary of the institution and its departments.

An ordinary General Meeting cannot conduct business on the first call without at least half of the members present. On the second call the meeting may be held after one hour and may conduct business regardless of the number of members present.

Nonetheless, decisions on the reform or amendment of the Articles of Association, mergers, splits, conversion or incorporation of or in Caixa Económica require the presence of at least two-thirds of all its members on the first call and any number of members on the second call, though this meeting must be held fifteen to twenty days after the first.

Before a General Meeting is held, Montepio publishes the invitation in the daily press and also posts it for members on its intranet and website. If the agenda includes the annual accounts, it is also posted on the CMVM website extranet.

In 2011, there were two ordinary and three extraordinary General Meetings.

I.5. VOTING RIGHTS

Pursuant to the Articles of Association, votes are cast at the meeting or by postal vote, in the latter case if the corporate bodies are being elected and in accordance with the Articles of Association.

Attendance and participation at General Meetings is subject to a set of rules, in accordance with the Articles of Association.

As set out in the MG-AM Articles of Association, there may be several categories of member. However, only full members, i.e. only individuals meeting certain requirements, such as having been admitted more than two years ago, being of age and complying with the applicable provisions of the law, regulations and Articles of Association, may participate and vote at the General Meeting or by postal vote, on an equal footing.

In addition to the invitation published in the newspapers, by law the members of the General Meeting are informed of it in announcements on the institution's website, with an indication of the main documents to be appreciated and voted on. They are also sent a non-binding written communication to their home addresses.

Furthermore, all the documents pertaining to the agenda are placed at the disposal of the General Meeting's members at the head office at least fifteen days before the date of the meeting.

The invitation clearly indicates not only the date, time and place of the General Meeting, but also the places where members can obtain further information and send postal votes.

Members are also sent the documents they need for submitting a postal vote.

As required by law and the Articles of Association, when the corporate bodies are elected, a member employee is elected to the Internal Audit Board. These votes are cast on the intranet. There is not yet a system for electronic votes to elect the other corporate bodies.

I.6. INFORMATION ON DECISIONS AT GENERAL MEETINGS

Montepio posts ordinary and extraordinary decisions made by General Meetings on its website. This information is kept on file for five years. When the annual accounts are disclosed, they are also published on the CMVM website.

CHAPTER II – MANAGEMENT AND SUPERVISORY BODIES

II.1. CORPORATE BODIES

The corporate bodies of which the same people are members for Montepio Geral – Associação Mutualista (MG-AM) and Caixa Económica Montepio Geral (CEMG) and which constitute the Montepio governance model are: the General Meeting, Board of Directors, Internal Audit Board and a mainly consultative body called the General Board.

There is no Executive Committee and the Board of Directors performs this function. There is one specialised committee, the Remuneration Committee, plus certain units that are responsible for internal control, risk management and information systems.

II.2. BOARD OF DIRECTORS

The Board of Directors is responsible for the management of Montepio Geral – Associação Mutualista and Caixa Económica Montepio Geral. It is elected at a General Meeting, along with the other members of the corporate bodies.

Membership

The Board of Directors consists of executive members, a Chairman and four directors. Their term of office is three years and they may be re-elected.

Competences

Its powers include:

- Drafting the annual report and accounts, proposing the appropriation of profits and drawing up the plan of action and budget for the following year;
- Deciding on an increase in the institution's share capital and the issue of investment fund units, within the limits allowed by the Articles of Association;
- Deciding on the opening and closing of branches and any other form of representation;
- Deciding on the acquisition, divestment or burdening of fixed assets.

Operation

The Board of Directors operates collegially and may make decisions provided that the majority of its members are present. It meets at least twice a week. Decisions are made by majority of votes of members present and the Chairman has the deciding vote. The Board of Directors may appoint proxies to represent the institutions in any acts or contracts and will define their powers.

Should the position of Chairman fall vacant, the directors elect a replacement from among their number until the position is filled [Article 22 (2) of the Articles of Association].

Positions

The directors are responsible for the following departments in accordance with the institution's structure:

António Tomás Correia

Secretariat-General, Planning, Studies and Accounting Department, New Business and Board Support Department, Group Financial Strategy Office, Public Relations Office, Social Responsibility Office, Finibanco, SA, Finibanco Angola, Finibanco Holding SGPS, SA, Finibanco Vida, SA, Finisegur, SA, Lusitania Companhia de Seguros SA and Lusitania Vida – Companhia de Seguros SA.

José de Almeida Serra

Credit Analysis Department, Audit and Inspection Department, Central Procurement Department, Financial and International Department, Risk Department, Compliance Office, Mutual Product Office, Association Office, Finivalor, SA, Futuro, Sociedade Gestora de Fundos de Pensões, SA, Montepio Gestão de Ativos, SGFI, SA, Residências Montepio and Serviços de Saúde, SA.

Rui Manuel Silva Gomes do Amaral

Greater Porto Commercial Department, Northern Region Commercial Department, Organisational Development Department, Operations Department, Information Systems Department and Shared Services Departments.

Eduardo José da Silva Farinha

Central Region Commercial Department, Greater Lisbon Commercial Department, Real Estate and Premises Department, Legal Department, Human Resource Department, Support Service Department, Bolsimo, Gestão de Ativos, SA, Finimóveis, SA, Germont, Empreendimentos Imobiliários, SA, Leacock (Seguros), Lda, Lestinvest SGPS, Montepio Geral – Investimentos Imobiliários, SA and Montepio Geral – Recuperação de Crédito, ACE.

Álvaro Cordeiro Dâmaso

Legal and Tax Advisory Department, Corporate Commercial Department, Lisbon and Autonomous Regions Commercial Department, New Branch Commercial Department, Southern Region Commercial Department, Marketing Department, Customer Ombudsman Office and Finicrédito, SA.

Each position has replacement members. Whenever there is a reorganisation, positions are redistributed.

Qualifications of members of the Board of Directors

António Tomás Correia – Chairman

Academic qualifications:	Law degree from Universidade Clássica de Lisboa
Professional experience:	1995 to 2003 director of CGD 2004 to 30 April 2008 director of Montepio Since 1 May 2008 Chairman of Montepio Board of Directors

José de Almeida Serra

Academic qualifications:	Degree in Economics from ISCEF and post-graduate diploma from Massachusetts Institute of Technology
Experiência Profissional:	Director of IPE Director of Banco Pinto & Sotto Mayor 1999 to 2003 Director SOGRUPO (Grupo CGD) Since 2004 director of Montepio

Rui Manuel Silva Gomes do Amaral

Academic qualifications:	Degree in Finance from Instituto Superior de Economia
Professional experience:	2000 to 2006 director of Banif-Banco Internacional do Funchal, SA and a number of companies in the financial group Since January 2007 director of Montepio

Eduardo José da Silva Farinha

Academic qualifications: Degree in Finance from ISCEF

Professional experience: 1996 to 2006 Chairman of the Board of Directors of Credivalor – Soc. Parabancária de Valorização de Créditos, SA.
Since January 2007 director of Montepio

Álvaro Cordeiro Dâmaso

Academic qualifications: Law degree Faculdade de Direito de Lisboa

Professional experience: Chairman of the Lisbon Stock Exchange (BVL) – 3 years
Chairman of ICP – ANACOM – 3 years
Chairman of ANACOM Advisory Board – 5 years
2006/2007 Manager of Melo Abreu, Lda.
2007 to 2009 Chairman of Agência de Promoção do Investimento dos Açores
Since January 2010 director of Montepio

Positions held by Board of Directors at subsidiaries

Chairman: António Tomás Correia

Chairman of the Board of Directors of Lusitania, Companhia de Seguros, SA
Chairman of the Board of Directors of Lusitania Vida, Companhia de Seguros, SA
Chairman of the Board of Directors of Finibanco – Holding, SGPS, SA
Chairman of the Board of Directors of Finibanco, SA
Chairman of the Board of Directors of Finibanco Angola

Director: José de Almeida Serra

Chairman of the Board of Directors of Residências Montepio, Serviços de Saúde, SA
Chairman of the Board of Directors of Montepio Gestão de Ativos – SGFI, SA
Chairman of the Board of Directors of Futuro – Soc. Gestora de Fundos de Pensões, SA
Chairman of the Board of Directors of Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, SA (IFI)
Member of the Board of Directors of Finibanco – Holding, SGPS, SA
Member of the Board of Directors of Finibanco, SA
Member of the Board of Directors of Finibanco, SA
Member of the Remuneration Committee of SAGIES – Segurança, Higiene e Saúde no Trabalho, SA

Director: Rui Manuel Silva Gomes do Amaral

Member of the Board of Directors of SAGIES – Segurança, Higiene e Saúde no Trabalho, SA
Member of the Board of Directors of SIBS – Soc. Interbancária de Serviços, SA
Member of the Remuneration Committee of Clínica CUF Belém, SA
Member of the Board of Directors of Finibanco – Holding, SGPS, SA
Member of the Board of Directors of Finibanco, SA

Director: Eduardo José da Silva Farinha

Chairman of the General Meeting of Montepio Gestão de Ativos – SGFI, SA
Chairman of the Board of Directors of MG Investimentos Imobiliários, SA
Chairman of the Management Board of Leacock Seguros, Lda.
Chairman of the Board of Directors of Finivalor – Soc.Gestora de Fundos Mobiliários, SA
Member of the Board of Directors of Clínica CUF Belém, SA
Member of the Board of Directors of Finibanco – Holding, SGPS, SA
Member of the Board of Directors of Finibanco, SA

Director: Álvaro Cordeiro Damaso

Chairman of the Board of Directors of Finicrédito – Instituição Financeira de Crédito, SA
Chairman of the Board of Directors of Finimóveis – Sociedade de Serviços Auxiliares, SA
Chairman of the Board of Directors of Lestinvest, SGPS,SA
Member of the Board of Directors of Finibanco – Holding, SGPS, SA
Member of the Board of Directors do Finibanco, SA

II.3. INTERNAL AUDIT BOARD

The Internal Audit Board is the body that monitors and supervises the business activity of MG-AM and CEMG.

Membership

The Internal Audit Board consists of a Chairman and two members, one of whom should be a certified auditor and another appointed by the employees pursuant to Article 28 of the Articles of Association.

Competences

The main competences of the Internal Audit Board are:

a) To supervise the management of the institution;

b) To ensure compliance with the law and Articles of Association;

c) To check the regularity of the books, accounting records and their supporting documents;

d) To draft an annual report on its work and give an opinion on the report, accounts, proposals, budget and plan of action submitted by the Board of Directors.

The Internal Audit Board's report and opinion is included in the Annual Report and Accounts and is published on the website, along with the financial statements.

Operation

Pursuant to the Articles of Association, the Internal Audit Board meets at least once a month and may only make decisions if the majority of its members are present. The Chairman has the deciding vote. The Internal Audit Board met 12 times in 2011 and minutes of its meetings were drafted.

II.4. GENERAL BOARD

The General Board comprises the officers of the General Meeting, the members of the Board of Directors and Internal Audit Board and members elected from the General Meeting. It is responsible for strategic guidance and, on the proposal of the Board of Directors, approval of the general guidelines of multi-annual plans of action and their updates. Every year it drafts a report that is appreciated at a General Meeting and published with the financial statements on the website.

The General Board met 10 times in 2011. Its members, with the exception of the Board of Directors received remuneration in attendance slips for the meetings in which they participated.

II.5. REMUNERATION

The remuneration of the corporate bodies are fixed by a Remuneration Committee which, like the other members of the corporate bodies, was elected at a General Meeting for 2010-2012.

The current members of the committee are:

Chairman: Luís Eduardo Silva Barbosa
Member: António Francisco Espinho Romão
Member: José Joaquim Fragoso

None of the committee members is a member of the Board of Directors or a spouse or relative to the third degree, inclusive. They are people with knowledge and experience of remuneration matters and have no employment, service, procurement or credit agreements with Montepio, with the exception of possible personal mortgages or health expense loans.

In the performance of its duties, the committee abides by the principles set out in the Statement on Remuneration Policy of the Members of the Management and Supervisory Bodies that is approved annually by the General Meeting, on a proposal from the Board of Directors, and put into practice by decisions of the Remuneration Committee.

In addition to the above, the establishment of remuneration is also aimed at assessing practices and policies applicable to Montepio's business activity and the criteria used. The final result is an annual report that is also submitted to the General Meeting, at which at least one of the committee members is present.

The Remuneration Committee met once in 2011 and drafted minutes of the meeting.

II.6. REMUNERATION MEMBERS OF THE BOARD OF DIRECTORS AND INTERNAL AUDIT BOARD

In accordance with the approved remuneration policy in effect in 2011, the remuneration received by the Board of Directors was the same as in the previous year:

(euros)

	2011 Amount
António Tomás Correia – Chairman	447 662.80
José de Almeida Serra	395 537.81
Rui Manuel Silva Gomes do Amaral	400 467.77
Eduardo José da Silva Farinha	395 537.81
Álvaro Cordeiro Dâmaso	394 878.72
TOTAL	**2 034 084.91**

The Internal Audit Board received a gross monthly remuneration of 5 500 euros for the Chairman and 5 000 euros for each member, in addition to presence slips to the amount of 813.75 euros for the Chairman and 712.03 euros for the other members.

Attached is a draft remuneration policy to be submitted to the General Meeting to come into effect in 2012.

Other quantitative information

Considering the responsibilities assigned to people in management positions (directors, deputy directors and sub-directors) with a material impact on the institution's risk profile -internal audits, risk management and compliance, the table below shows the fixed and variable remuneration paid to these employees in 2011:

Coordinating director	Director	Deputy director	Assistant director	Management assistant
1	5	4	4	1
Total employees				**15**
Total fixed remuneration (euros)				1 205 267.05
Total variable remuneration (euros)				38 217.73
Weight variable remuneration				3.07%

II.7. WHISTLEBLOWING

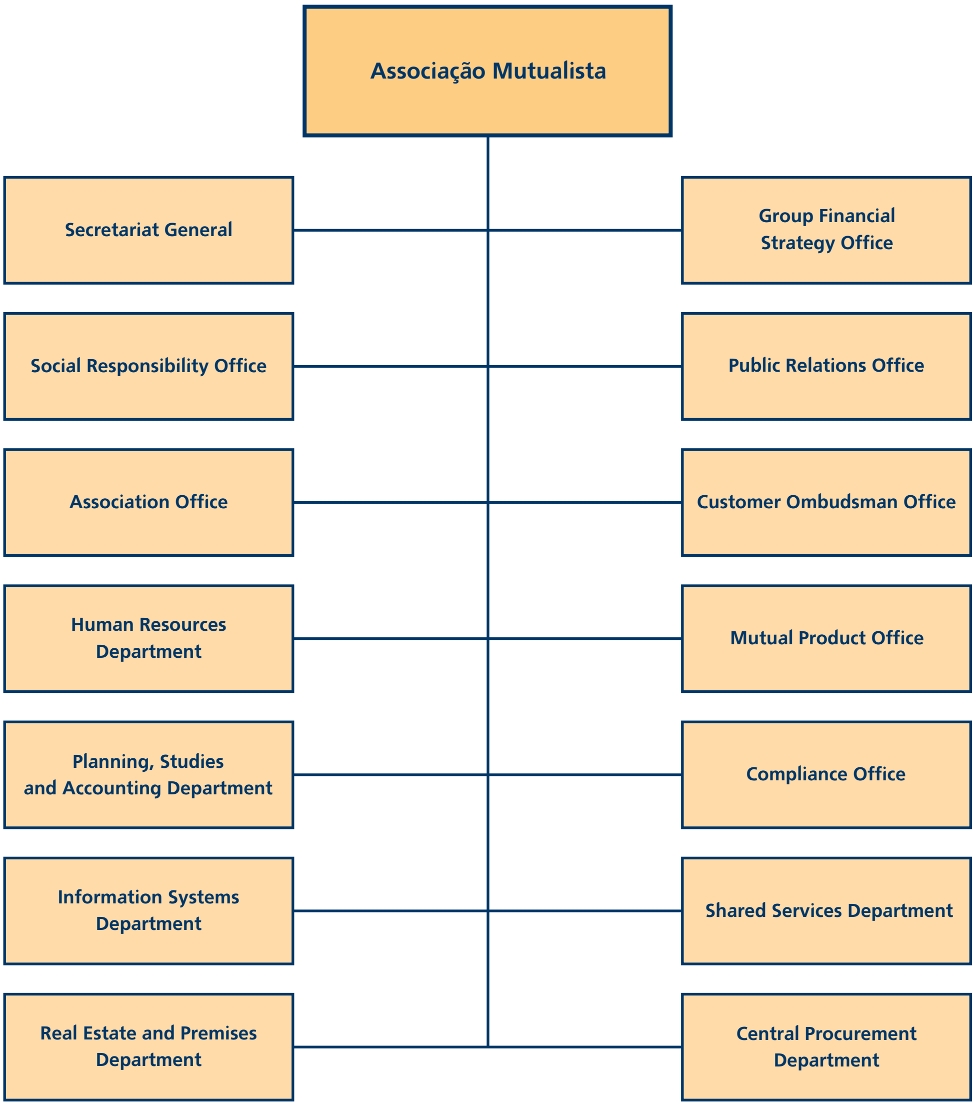
The process is the responsibility of the Internal Audit Department, which assists the Board of Directors in exercising disciplinary powers as a result of acts involving MG-AM or CEMG employees who infringe the rules. It opportunely identifies the area of highest risk and importance, with a view to effective governance.

II.8. ORGANISATION CHART AND CORPORATE UNITS

The Board of Directors is responsible for the organisational model and the division of duties and responsibilities among the different units. This is was what happened in 2008 when, after the creation of the corporate centre model, MG-AM was repositioned as the head of the Montepio Group (Caixa Económica Montepio Geral, Associação Mutualista and subsidiaries). As a result, several units ceased to belong to the CEMG and came under MG-AM.

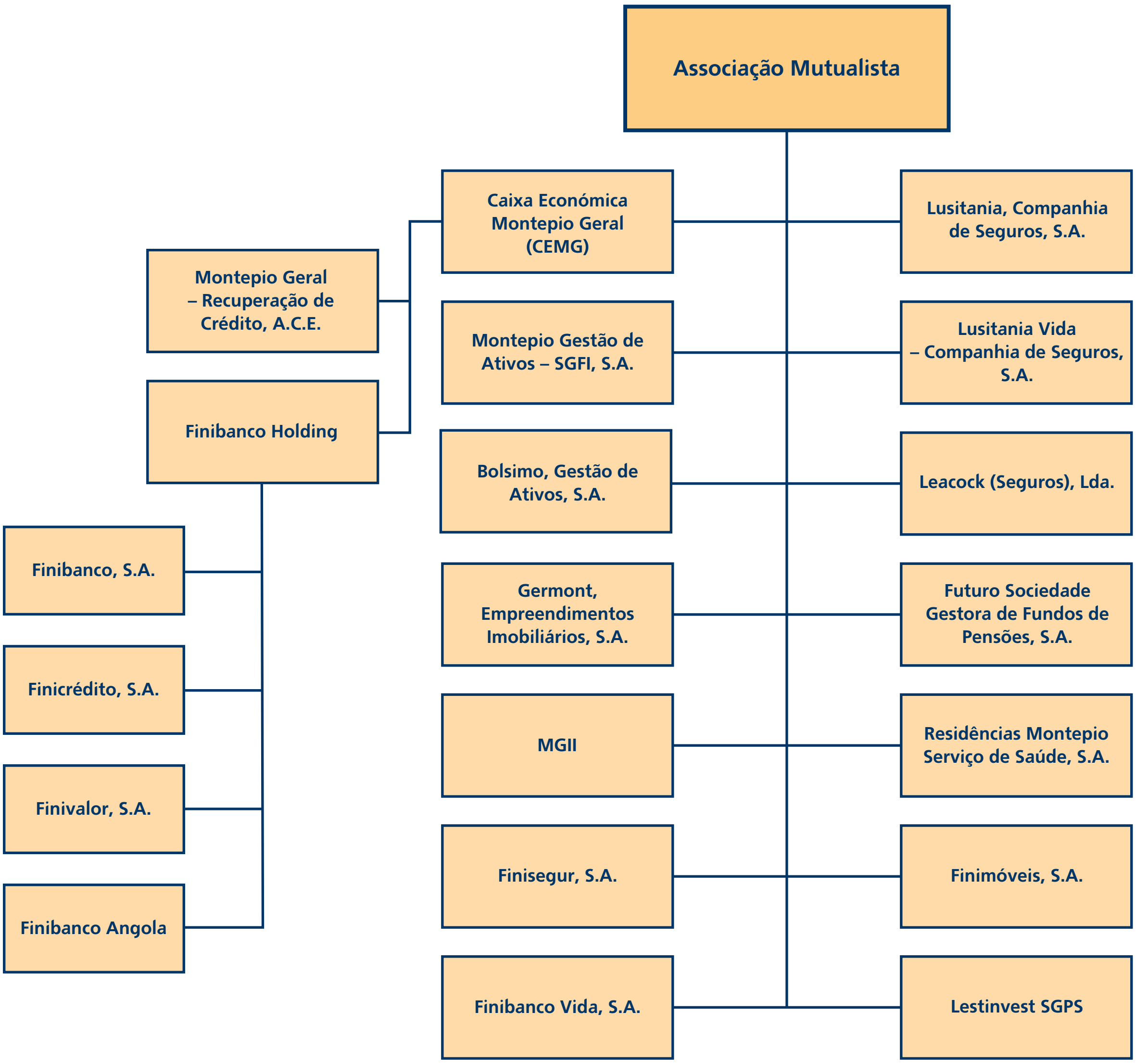
Several adjustments have been made to the organisation's structure and the corporate centre's current configuration is as follows:

ASSOCIAÇÃO MUTUALISTA – CORPORATE CENTRE

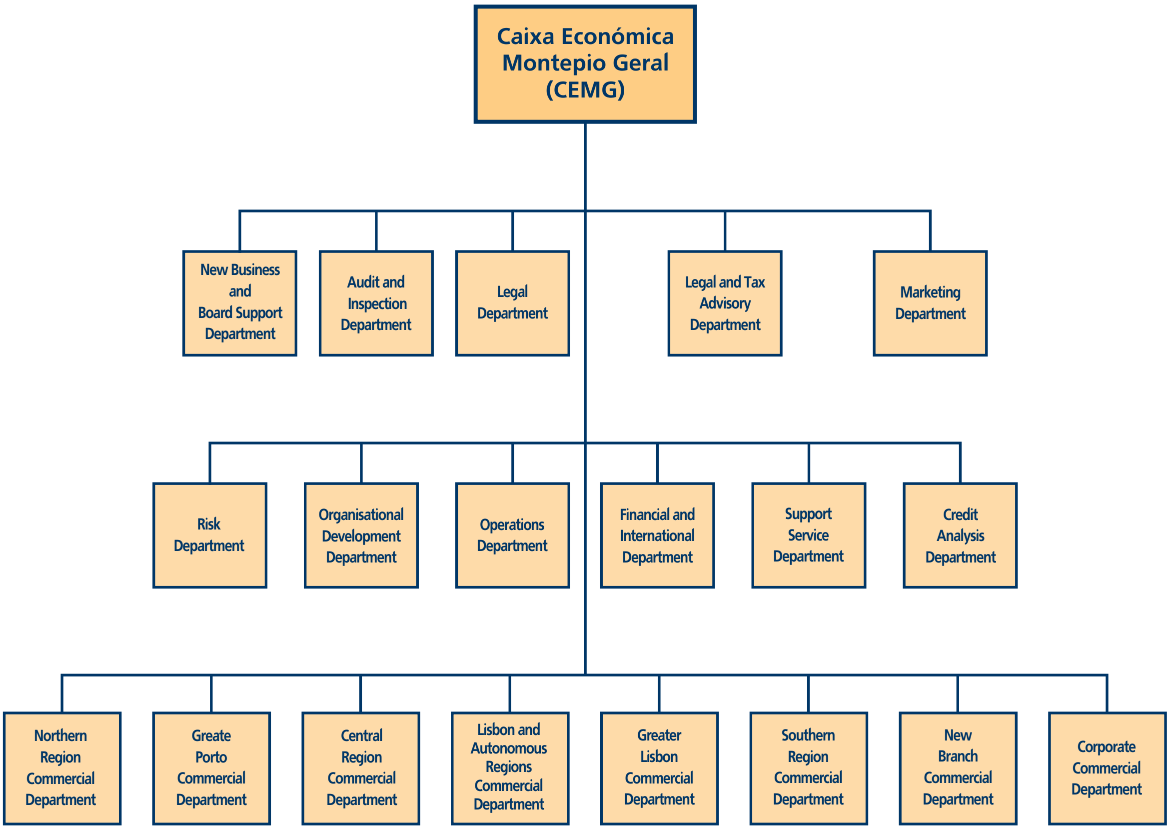


The current statuses of Associação Mutualista and Caixa Económica Montepio Geral are as follows:

ASSOCIAÇÃO MUTUALISTA



CAIXA ECONÓMICA MONTEPIO GERAL



This reorganisation in 2011 included the creation of new departments, renaming of others and the splitting of some departments to provide the institution with units involved in distinct activities. The aim was to offer instruments in line with the demands of the banking market and other business areas.

II.9. INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

Every year, the Board of Directors approves and reviews the goals and strategic guidelines for the following three years and permanently monitors the institution's overall performance, the risks of its business and the implementation of its projects.

There is a chapter in this Annual Report with a detailed description of the principles, methods and tools used to manage risks. However, we will briefly describe the methods used and bodies responsible for internal auditing, compliance and risk management.

II.9.1. Internal control system

The Board of Directors is responsible for preparing a report on the internal control system and for implementing and maintaining an appropriate, effective system that abides by the principles defined, as an essential component in the organisation's business and culture.

The Board of Directors uses mechanisms to evaluate the adequacy and efficacy of the internal control system, with the support of the Audit and Inspection Department, Risk Department and Compliance Office, plus the additional work performed by KPMG & Associados, SROC, as external auditor.

The internal audit function is therefore an integral part of the system for continuous monitoring of the institution's internal control. It entails independent check of the adequacy of and compliance with policies and assists top management.

II.9.2. Risk control system

Where risk management is concerned, the Risk Department (DRI) analyses and manages risk for the group. This includes identifying, assessing, monitoring and controlling credit, interest rate, liquidity, exchange, market and operating risks.

As part of its risk management, the DRI is responsible for reporting to the supervisory authorities in the areas of own fund requirements, major risks, the liquidity risk, interest rate risk, country risk, counterparty risk, stress testing, self-assessment of adequacy of own funds, market discipline and concentration risk.

The Compliance Office handles the compliance risk permanently, and effectively and independently in order to help ensure that the institution's managing bodies, structure and employees comply with external and internal rules.

As part of its remit, the Compliance Office assists the Board of Directors in defining and implementing compliance policy and preventing money laundering, helping to disseminate a culture of compliance by identifying and assessing situations that contribute to this type of risk.

In 2011, in addition to circulating relevant information and participating in the transposition of external legislation, the office was also involved in drafting an information classification and security policy and perfecting and developing risk management and compliance software.

CHAPTER III – INFORMATION AND AUDITS

III.1. INFORMATION

CEMG was set up to provide Montepio Geral – Associação Mutualista (MG-AM) with the profits of its business after the deductions laid down in the Articles of Association, so that MG-AM can use them to achieve its purpose, as set out in Article 4 of its Articles of Association. Pursuant to Article 7 of CEMG's Articles of Association, its institutional capital is permanent and not demandable and does not pay interest or dividends.

This institutional capital consists of amounts submitted by MG-AM for the purpose, which are added to the assets of CEMG, and the incorporation of reserves from CEMG itself. As at 31 December 2011, CEMG's institutional capital was 1.245 billion euros and was fully paid up.

As mentioned at the start of this report, the institution posts quarterly, six-monthly and annual information on its website in addition to publishing monthly and six-monthly economic and financial market analyses in compliance with legal and regulatory reporting requirements. Important corporate information is also available in the institutional area.

As we do not resort to the market to constitute our capital, we have no investor relations office, though there are departments responsible for disclosing institutional and financial information.

III.2. AUDITS

KPMG & Associados – SROC, SA is the external auditor responsible for auditing Associação Mutualista and Caixa Económica Montepio Geral. The services provided by KPMG are completely independent from Montepio, in accordance with professional and regulatory standards.

The service agreement is signed annually. In 2011, the fees charged by KPMG & Associados – SROC, SA for the different services provided to Montepio Geral – Associação Mutualista were 37 500 euros. The fees for the services provided to Caixa Económica Montepio Geral totalled 1 100 860.72 euros. These amounts include auditing services.

ANNEXES

REMUNERATION POLICY FOR MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

PRIOR CONSIDERATIONS

A – Current situation

Article 25 (b) and Article 16 (b) of the Articles of Association of MG-AM and CEMG respectively set out that the General Meeting is responsible for «electing and empowering a committee with powers to fix the remuneration of the members of the (association) bodies». The word «association» only figures in the MG-AM Articles of Association.

The specific matter of remuneration is only provided for in Article 50 of the Montepio Geral Articles of Association, though this regulation applies to CEMG as the same persons hold positions in the equivalent bodies of both institutions. Article 50 sets out that the members of the Board of Directors work full time and are remunerated, adding that they enjoy «among others the benefits to which the institution's employees are entitled».

Remuneration Committees have been regularly and successively elected and have approved the type and amount of remuneration payable to members of the corporate bodies. These decisions have been based on the prudent criterion of the committee members and, as of the 2010 General Meeting that approved the 2009 Annual Report and Accounts, on a statement on remuneration policy constituting a true duty granted to the committee by the meeting. This change in orientation resulted from the entry into force of CMVM Regulation 1/2010, in which Article 3 required corporate governance reports to disclose «remuneration policy for the management and supervisory bodies».

In this matter, Portuguese legislation merely accompanied European Union law, in which there are an increasing number of standards on these matters.

B – Recent amendments

Following recent amendments at EU level, Decree-Law 88/2011 of 20 July amended Decree-Law 103/2007 of 3 April, resulting in the following major alterations:

1. It established that Banco de Portugal could issue notices setting out the rules on the remuneration policy of institutions subject to its supervision [Article 6 (1)].
2. It obliged credit institutions to inform Banco de Portugal of the number of employees receiving annual incomes of one million euros or more, with the breakdowns set out in the law [Article 6 (2)].
3. «Significant» credit institutions (in accordance with criteria to be regulated) had to set up a Remuneration Committee (Annex, XI Remuneration policies, point 25, part 1).
4. The composition of said Remuneration Committee would be such that it was able to make informed, independent judgements on remuneration policies and practices and on incentives set up for capital and liquidity risk management (Annex, XI Remuneration policies, point 25, part 2).
5. It established certain institutional requirements for the Remuneration Committee:
   - 5.1. – (competence) – prepare decisions on remuneration, including decisions affecting the credit institution's risks and risk management, decisions to be taken by the competent company body (Annex, XI Remuneration policies, point 26);
   - 5.2. – (composition) – the committee must consist of a chairperson and members, all belonging to the Board of Directors, but without executive functions (Annex, XI Remuneration policies, point 26);
   - 5.3. – (decision criteria) – when preparing decisions the committee must take account of the long-term interests of shareholders, investors and other stakeholders (Annex, XI Remuneration policies, point 26).

Banco de Portugal Notice 10/2011 was published in *Diário da República* (official government gazette) on 9 January 2012. It regulates the matter in question, as set out in the decree-law.

We would like to highlight the following points, from the same perspective of institutional analysis:

1. (entities affected) – credit institutions, investment companies, branches in Portugal of credit institutions and investment companies based outside the European Union, which are obviously subject to Banco de Portugal supervision [Article 1 (1)], provided that they meet any of the following criteria [Article 7 (1)]:
   - 1.1. – They have more than 1 500 employees;
   - 1.2. – Their employee remuneration costs exceed 15 000 000 euros;

1.3. – The annual remuneration of the management and supervisory bodies exceeds 1 000 000 euros;

1.4. – They calculate their own fund requirements with the methods set out in Articles 14 to 20 of Decree-Law 104/2007;

1.5. – They engage in an activity that, taking account of the complexity of the markets and instruments used or the nature of their customers, may be considered of higher risk.

2. (competent body for implementing remuneration policy) the entities affected must have a Remuneration Committee [Article 7 (1)].
3. (competent body for deciding on remuneration policy) for the remuneration of the members of the management and supervisory bodies, it should be the competent corporate body [Article 5 (1)], which, according to the Company Code (Article 399) may be the General Meeting or a committee appointed by it. For employees, the competent body for approving remuneration policy shall be the Board of Directors [Article 5 (2)].
4. (composition of committee) this is not defined (see decree-Law); but it is understood that, in addition to the committee members themselves, «people belonging to the bodies responsible for control [compliance, risk management, internal audits – Article 2 (f)] and, whenever necessary, for human resources, along with outside experts» should be involved in the process [Article 5 (3)].
5. (suitability of members) «The majority of the Remuneration Committee members must be independent» [Article 7 (2)]. This is understood to mean that they shall not be associated with any specific interest group at the institution or in any circumstance likely to affect their analysis or decision, which may occur, for example, if they own a shareholding of 2% or more in the company and or they have been re-elected for more than two terms in succession or separately [Article 7 (3)].
6. (members' capacity) At least one of the members must «have specific professional qualifications for the duties, such as professional knowledge or experience in risk management or control, especially in the preparation or implementation of mechanisms for aligning the institution's remuneration structures with its risk profile» [Article 7 (2)].
7. (competences):

7.1. – To approve remuneration policy, if competent under the law and Articles of Association [Articles 5 (1) and 7 (1)];

7.2. – To prepare and oversee the approval of the remuneration policy [Articles 5 (3) and 7 (4 *a*)] with special focus on employees with the highest total remuneration [Article 7 (4 *a*)];

7.3. – To provide necessary support and make recommendations for the purpose of approval of the institution's general remuneration policy, if it does not have the power to approve it [Article 7 (4 *b*)];

7.4. – To use external services, on its own initiative, based on criteria of prudence and proportionality [Article 7 (4 *c*)];

7.5. – «To revise the conclusions of the external consultancy services that the competent corporate body decided to hire» [Article 7 (4 *d*)];

7.6. – «To test the system's response capacity to external events by using a series of possible scenarios and to promote retroactive tests of the model used for the purpose» [Article 7 (4 *e*)];

7.7. – To ensure, in accordance with the law, that a revision is performed at least once a year of the institution's remuneration policy and that its implementation meets legal requirements [Article 7 (4 *f*)];

7.8. – To draft a reasoned opinion every year to be submitted to the General Meeting on the adequacy of the remuneration policy to the minimum content required by law [Article 7 (7)];

7.9. – To provide the General Meeting with any information that it requests and attend the meetings at which remuneration policy is on the agenda [Article 7 (7)].

8. (frequency of meetings) at least once a year [Article 7 (8].
9. (proof of decisions) in minutes [Article 7 (8)].

C – Implications for Montepio

The mandatory nature of these requirements is limited to CEMG, though it is natural for MG-AM to accompany it. The matter must be enshrined in the Articles of Association more extensively than at present, where reference to the Remuneration Committee is restricted to its election by the General Meeting. It is not, however, necessary to set out the entire content of the law in the Articles of Association.

STATEMENT ON REMUNERATION POLICY FOR MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES FOR 2012

1. – The basic, generic rules on remuneration policy are set by the General Meeting and applied to concrete situations by a Remuneration Committee that is elected pursuant to Article 16 (b) of the Articles of Association. No external consultants are used for these matters.

2. – The performance of the management and supervisory bodies is appreciated by the General Meeting.

3. – The remuneration of the members of the Board of Directors comprises:

   a) A fixed monthly remuneration, paid twice in January (leave subsidy) and November (Christmas subsidy), which is higher for the Chairman and equivalent for the other members;

   b) An annual fixed subsidy paid in April of no more than 11% of their annual fixed remuneration;

   c) Travel expenses paid on the same terms as for anyone on the payrolll;

   d) Possibly a special gratuity on the same conditions and criteria as senior managers;

   e) This variable remuneration must not be more than 20% of their annual fixed remuneration;

   f) The remunerations referred to in *a*) and *c*) may be reviewed annually on the same terms as for the remaining personnel;

   g) At the end of their term of office the members of the Board of Directors are entitled to receive their monthly remuneration up to the last day in the position plus what they are owed pursuant to their employment agreements;

   h) In the event of dismissal without due cause, they are entitled to receive the monthly remuneration payable to the end of their term of office;

   i) No remuneration is paid for positions held at subsidiaries by them or CEMG.

4. – The remuneration of the members of the Internal Audit Board consists of a gross monthly salary paid 14 times, in addition to attendance slips. That of the Chairman is higher than that of the other members. This remuneration is subject to sub-paragraph *f*) of the preceding paragraph.

5. – The remaining members of the corporate bodies: officers of the General Meeting and members of the General Board referred to in Article 20 (1) (b) of the Articles of Association are paid in attendance slips for the meetings in which they participate.

14. Annexes

14.1. COMPLIANCE WITH THE RECOMMENDATIONS OF THE FINANCIAL STABILITY FORUM (FSF) AND COMMITTEE OF EUROPEAN BANKING SUPERVISORS (CEBS) WITH REGARD TO THE TRANSPARENCY OF INFORMATION AND VALUATION OF ASSETS (BANCO DE PORTUGAL CIRCULAR 58/2009DSB)

Banco de Portugal Circular 58/2009/DSB establishes the need for institutions to continue to comply properly with FSF and CEBS recommendations on the transparency of information and valuation of assets based on the principle of proportionality.

Some of the recommendations are addressed in this Annual Report and Accounts and notes to the financial statements and so reference will be made to these documents when this is the case.

I. BUSINESS MODEL

1. Description business model

Points 4.3 and 7.1 of this Annual Report and Accounts (ARA) describe the business model and business activities.

2. Description of strategies and objectives

Point 4.3 of the ARA sets out the Montepio Group's vision and strategic priorities for 2011 and over the medium term and analyses fulfilment of the strategic guidelines of Associação Mutualista and Caixa Económica. It also includes a description of the strategic guidelines for 2012 for Caixa Económica for meeting its strategic targets in order to preserve its competitiveness and sustainable development.

3., 4. and 5 Activities undertaken and contribution to business

Points 7.1 and 7.3 of the ARA describe activities and their contribution to the business. The notes to the financial statements on reporting by segments also describe the contribution of each activity.

II. RISKS AND RISK MANAGEMENT

6. and 7 Description and nature of risks and management practices

Points 4.6 and 7.2 of the ARA and the notes to the financial statements describe and quantify the different risks incurred and monitoring, recovery and control practices to minimise them.

III. IMPACT OF FINANCIAL TURMOIL ON RESULTS

8., 9., 10. and 11 Qualitative and quantitative description of profits with emphasis on losses and impact of write-downs and breakdown of write-downs

Points 7.2 and 7.3 of the ARA address the issue of impairment related to the financial markets. Point 7.2 and the analysis of profits and provisions and impairment indicate the impairment of our securities portfolio. The notes to the financial statements also refer to the impact of impairment.

12. and 13. Breakdown of write-downs between realised and unrealised amounts and impact on company's share prices

Not applicable.

14. Disclosure of risk of maximum loss associated with ongoing financial turmoil

Point 7.2 of the ARA (interest rate risk and stress tests) refers to these issues in general.

15. Disclosure of impact of spreads associated with institution's own liabilities on results

The notes to the financial statements give sufficient information considering the intended scope.

IV. LEVELS AND TYPES OF EXPOSURE DURING THE TURMOIL PERIOD

16. Nominal amounts (or amortised cost) and fair value of outstanding exposures

The notes to the financial statements break down the amounts into notional, balance sheet and fair value.

17. Information on credit protection (e.g. credit default swaps) and net exposures

The notes to the financial statements provide information on credit protection for assets and liabilities at fair value through profit or loss.

18. Detailed disclosure of exposures

We consider that the information in points 7.2 and 7.3 of the ARA and notes to the financial statements answers this question.

19. Movement schedules in exposures between relevant reporting periods and the underlying reasons (sales, disposals, write-downs, etc)

The information in the notes to the financial statements answers this question.

20. Discussion of exposures (including vehicles and, in this case, their activities) that have not been consolidated (or that have been recognised in the course of the crisis) and the related reasons

The section on securitisation of assets in Point 7.3 of the ARA and the notes to the financial statements describes in detail the different securitisation operations and their vehicles, i.e. special purpose vehicles (SPVs).

21. Exposure to monoline insurers and quality of insured assets

Not applicable.

V. ACCOUNTING POLICIES AND VALUATION ISSUES

22., 23., 24. and 25. Classification of transactions and structured products for accounting purposes, consolidation of special purpose vehicles (SPVs), detailed disclosure of fair values of financial instruments and disclosure of the modelling techniques used to value financial instruments

The notes to the financial statements include detailed information on these issues.

VI. OTHER DISCLOSURE ASPECTS

26. Description of disclosure policies and of the principles that are used for disclosures and financial reporting

One of the goals of Montepio's internal control system is to ensure compliance with prudential standards, the reliability of information and reporting deadlines to different authorities.

It has been the practice at Montepio to concentrate the responsibility for reporting information to the authorities in the units specialised in the matters in question, taking account of their functions and activities. Whenever possible, advanced technological support tools are used to minimise errors and omissions and ensure highly reliable, timely information.

ANNUAL REPORT AND ACCOUNTS 2011
MONTEPIO GERAL

Preprint
Heragráfica – *Artes Gráficas, Lda.*

Print
Grifos – *Artes Gráficas*