Caixa Económica Montepio Geral

ANNUAL REPORT AND ACCOUNTS 2012

Montepio

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The Annual Report and Accounts were approved by the ordinary General Meeting held on 23 April 2013.

Contents

1. Chairman's Message

The year 2012 was a landmark in the life and history of Caixa Económica Montepio Geral (CEMG): there was a change in its Articles of Association and the consolidation of the Group's expansion, which had begun in 2011,with the purchase of ex-Finibanco Holding, SGPS. CEMG was also able to face and overcome on its own the enormous difficulties and challenges brought about by the complex and serious crisis we find ourselves living in.

CEMG's new Articles of Association, approved in October 2012 and in force since January of this year, established a complete separation of its management and control bodies from theircounterparts in the holding company – Montepio Geral - Associação Mutualista (MGAM) – so as to ensure the governance system complied with the latest criteria and recommendations of the market and supervisory authorities and meet the need to provide institutions with broader and specialised management and control capabilities, determined by the size, complexity and importance of the Montepio Group to the economy and to society as a whole.

As a result of the separation of the governing and control bodies the annual reports and accounts of the two entities now follow different calendars and preparation, approval and publishing processes. Note that the Annual Report and Accounts of MGAM were published and approved on 26 March at a General Meeting of MGAM, while this Annual Report, under the provisions of the new Articles of Association, as explained in the chapter covering the Institutional Governance Report, will be submitted for approval at a General Meeting of CEMG in April.

In 2012 the country faced one of its worst crises in recent history, mainly due to the austerity policies stemming from the Economic and Financial Assistance Programme (EFAP) to which Portugal is subject and which had a very unfavourable impact on the productive structures and employment levels of a number of sectors and communities.

Indeed the austerity policies and the Assistance Programme had a very wide reaching effect on the banking and financial sector, not only because of the impact on customers' financial position but also because of the limits and restrictions imposed on the eight largest credit institutions in the country, which were magnified by the persistent crisis of confidence in the finance markets.

At the beginning of this year, despite the fact there was some relief in 2012 that led to a fall in public debt interest rates, the crises in Spain, Italy and Cyprus again increased investors' lack of confidence in the Eurozone stability. In this context the year was particularly tough for credit institutions.

Among these difficulties mention must be made of the increased non-performance in regard to credit and the degree of risk underlying the search for credit in general, which combined with the goal of deleverage imposed in the Financial Assistance Programme (FAP), led to a significant reduction in credit business. Furthermore, the strong competition between institutions for customers' deposits, due to the dwindling financial markets, put pressure on interest rates and led to the authorities introducing further specific capital and prudential requirements.

Nonetheless CEMG was able to overcome these and other difficulties and once again demonstrated its ability to retain its independence and remain true to its mutual purposes.

Throughout the year, the Montepio brand and reputation earned the respect of the market, as shown in the various prizes and awards made to CEMG of which we are very proud. Montepio led the banking sector rankings in terms of market perception, corporate governance, social responsibility and performance, as well as the rankings relating to telephone services and overall customer satisfaction.

It is the satisfaction of our customers, members and other stakeholders, as well as the strict compliance with decisions and recommendations that motivate and guide us in the pursuit of the strategy we have been following which is designed to enhance our ability to adapt, renew and advance the Institution and the mutual group.

I am sure that we will continue to overcome obstacles and that we will meet our customers' and members' needs and expectations. I would like to end on a note of recognition and appreciation for the dedication and hard work shown by Montepio's employees in the performance of their duties, as well as for the remaining members of the governing bodies of the Group's entities for the cooperation and solidarity they have always shown while guiding the institution's destiny.

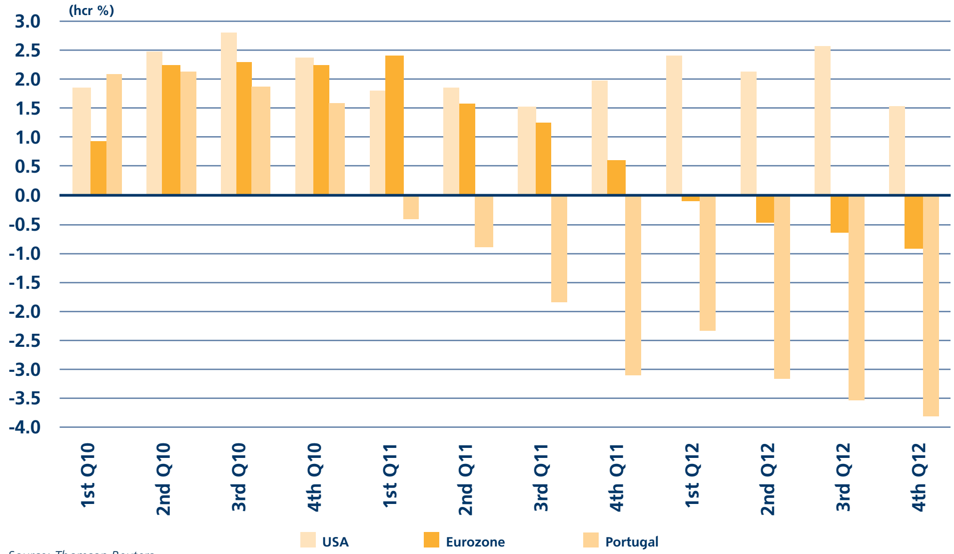
2. Business Framework

MACROECONOMIC FRAMEWORK

The macroeconomic framework in 2012 was marked by a new slowdown in the world economy with the IMF predicting growth in global GDP of just 3.2% (compared to 3.9% in 2011 and 5.1% in 2010). The slowdown was caused by the deleverage in the private sector of the developed economies, by restrictive budgetary policies and by the impasse in solving the sovereign debt crisis in the Eurozone. The last of these factors took the region into recession, which also had an impact on the developing economies because of both the commercial effects and the uncertainty in the financial markets. This meant that growth in the BRIC countries (Brazil, Russia, India and China) also felt short of the forecasts.

On the other hand, the United Kingdom stagnated while Japan experienced growth, largely as a result of business recovering after the 2011 earthquake and the associated reconstruction work, although it entered recession in the second half of the year. The major exception was the USA, mainly as consequence of the first positive contribution from the real estate sector since 2005.

GROWTH IN GROSS DOMESTIC PRODUCT (GDP)



Source: *Thomson Reuters*

The global slowdown was not greater only because major central banks continued to loosen monetary policy, reducing long-term interest rates and supporting investment. Of particular note is the change in the ECB's position in the 2nd half of the year when it launched the Outright Monetary Transactions Program (OMT) in order to intervene in the public debt secondary market and aid countries under pressure from the markets.

In the case of the USA mention should be made of the stimulus measures announced by the Federal Reserve (Fed) to increase the country balance sheet by purchasing housing credit and public debt collateral.

Among the BRIC countries, the authorities in China and Brazil took a number of measures, mainly via public investments in the case of China and through budgetary and monetary expansionist measures in Brazil. On the contrary the authorities in India and Russia were constrained by domestic factors and the Russian central bank had to increase interest rates.

However the main theme in 2012 was undeniably the Eurozone crisis and the developments which while insufficient to fully placate investors allowed us to reach the end of the year with the Eurozone intact.

UNITED STATES OF AMERICA

GDP grew at a slow annualised rate of around 1.5% in the first half of the year, in a 1st phase due to the return of inflationary pressure resulting from the rise in commodity prices (especially energy, for geopolitical reasons in the Middle East) and in a 2nd phase due to the effects of the international slowdown (resulting to a large extent from the worsening of the European crisis and its impact on confidence). In the 2nd half of the year an acceleration was expected but growth remained weak, reflecting the impact of the deepening recession in the Eurozone and due to events both natural (hurricane Sandy) and political (the deadlock over the federal budget consolidation in order to avoid automatic rises in tax and automatic spending cuts at the beginning of 2013).

The less favourable prospects meant that in 2012 corporate investment in equipment grew by the lowest rate in the last three years. The greater recovery in the building industry made the US economy more resilient than expected in the difficult international environment, as investment in residential building grew for the first time since 2005 and non-residential building tripled its growth. In 2012, while GDP went up from 1.8% to 2.2%, the change in private consumption slipped back from 2.5% to 1.9%, growing less than GDP – something that had only happened 7 times since 1990 with 3 of those in the last 5 years – thus reflecting a deleverage among consumers. Exports as well as imports rose 3.2%, around half of the previous year's growth and led to a reduction in the country's trade deficit, as had happened the previous year, with exports to the emerging markets offsetting the recession in Europe.

In a tough international situation the vitality of the labour market is worthy of note since the economy managed to create 2.2 million jobs, the highest figure since 2005. Over the last three years some 5.3 million jobs were created, although still not enough to recover from the 8.7 million lost in 2008/09. In this context, although the unemployment rate fell from 8.5% at the end of 2011 to 7.8% in December 2012, it remained well above the 4.7% recorded in November 2007 the final month of the previous period of economic expansion.

The Fed launched an even more expansionist monetary policy in 2012 with the aim of improving labour market conditions, and in September it decided to purchase housing credit collateral at a monthly rate of 40 thousand million dollars (mM$) and in December it did the same with public debt instruments, this time at a rate of 45 mM$/month. It was possible to take these measures because there was no inflationary pressure since year-on-year inflation, measured by the deflation in private consumption, decreased from 2.4% in December 2011 to 1.3% a year later, reflecting above all the slowdown in energy prices and commodities generally. Core or underlying inflation (i.e., excluding food and energy) fell over the same period from 1.9% to 1.4% and since November 2008 has not exceeded 2% which is the current Fed goal for the consumption indicator.

EUROZONE

The final quarter of 2011 and 2012 marked the return of the Eurozone economy to a recession, as a result of the budgetary consolidation policies adopted by a large number of Member States, in particular Italy and Spain.

In 2012, GDP had an annual decrease of 0.5%, as a consequence of the fall in domestic demand, mainly at the investment level, which was restricted by the austerity measures and magnified by the rise in unemployment. This annual contraction came after two years of growth (+1.5% in 2011) which had not yet provided for a full recovery from the contraction caused by the previous recession (-4.4% in 2009).

The shrinking of the Eurozone economy in 2012 resulted in a continual rise in unemployment which went from 10.7% at the end of 2011 to 11.8% last December, the highest level since the series began in July 1990. The labour market continued to show sizeable geographical differences, namely between the region's major economies with Germany coming out on top with the lowest rate of unemployment (5.3% in December) and Spain with record highs (26.1%).

With the economy contracting, the year-on-year inflation rate fell over the year from 2.7% at the end of 2011 to 2.2% at the end of 2012 (the lowest since December 2010), only to fall again at the beginning of 2013 to 2.0%, thus confirming the transient nature of the previous inflationary pressure that stemmed in particular from consumer energy prices and the increases in indirect taxes some governments levied.

As inflation approached the target of 2%, deemed consistent with stable prices, and with underlying inflation already below this figure (it went from 1.6% at the end of 2011 to 1.5% at the end of 2012), the ECB focused its attention on economic growth, on financial stability and on maintaining the current make up of the Eurozone. In July 2012 the ECB lowered (for the only time in 2012) the Refi rate by 25 basis points to an historic low of 0.75%. At the same time it introduced a number of unconventional measures aimed at supporting the financial sector and its ability to fund the economy, in particular the 2nd Long-term Refinancing Operation (LTRO) at 3 years, more flexible requirements in regard to refinancing operations collateral, as well as announcing its willingness to intervene in the public debt secondary market in order to aid countries under pressure from the markets, although the implementation of the OMT Program became contingent on those countries making a bailout request to the European Funds (EFSF – European Financial Stability Facility/ESM – European Stability Mechanism) plus the implementation of measures agreed with these Funds.

ECONOMIC FORECASTS FOR PORTUGAL AND THE EUROZONE

(unit: %)

	2012		2013				2014			
	Portugal	Eurozone	Portugal		Eurozone		Portugal		Eurozone	
	Eff.	Eff.	BoP	EC	ECB	EC	BoP	EC	ECB	EC
GDP	**-3.2**	**-0.5**	**-2.3**	**-1.9**	**-0.3**	**-0.3**	**1.1**	**0.8**	**1.2**	**1.4**
Private consumption	**-5.6**	**-1.3**	-3.8	-2.8	-0.6	-0.7	-0.4	0.5	0.5	0.9
Public consumption	**-4.4**	**0.0**	-2.4	-3.3	-0.6	-0.2	1.5	-2.0	0.4	0.5
Investment (FBCF)	**-14.5**	**-4.1**	-7.1	-8.0	-2.6	-1.8	1.9	3.0	1.3	2.4
Exports	**3.3**	**2.6**	2.2	1.4	2.3	2.6	4.3	4.6	5.3	4.9
Imports	**-6.9**	**-1.0**	-2.9	-3.1	1.0	1.2	2.7	3.8	4.7	4.8
Inflation	**2.8**	**2.5**	**0.7**	**0.6**	**1.6**	**1.8**	**1.0**	**1.2**	**1.4**	**1.5**
Unemployment Rate	**15.7**	**11.4**	**–**	**17.3**	**–**	**12.2**	**–**	**16.8**	**–**	**12.1**

Source: Bank of Portugal (BoP). 15 January 2013; European Commission (EC), 22 February 2013 and European Central Bank (ECB), 6 December 2012.
Note: «Eff.» corresponds to 2012 data already disclosed; Inflation is measured by year-on-year variation of HIPC.

PORTUGAL

The Financial Assistance Programme (FAP) agreed between the ECB, the IMF and the European Commission (often called the «Troika») was implemented in 2012 and required the adopting of a wide range of austerity measures that restricted the economy.

One should stress the austerity measures included in the State Budget for 2012 (e.g., the cut in public sector pay and the tax increase) which brought about a sharp and generalised drop in domestic demand in 2012. Private consumption fell as a result of both the lower disposable income and the increase in unemployment. In the final quarter of 2012 business was also affected by the deepening recession in the Eurozone and by the impact on economic agents' expectations of the new set of strong measures announced for 2013 (e.g., changes in income tax bands, application of an income tax surcharge, tax increases on large pensions).

In this scenario GDP fell 3.2% in 2012, twice the rate recorded in 2011 (-1.6%).

The difficult credit market financing conditions also led to an increase in forced saving on the part of families, although still outweighed by saving as a precaution. The production sector also felt the effect of a lack of finance and this coupled with the poor business prospects caused a sharp fall in private investment. In the public sector the fall in public investment and consumption matched the budget constraint. The reduction in domestic demand, especially in consumable durables and machinery and equipment manufactured abroad accounted for another annual decline in imports. While exports was one of the positive surprises in the adjustment process and the balance of payments was balanced in 2012 which had not occurred since 1943.

On the other hand the decrease in public sector financing needs and the increase in private sector savings led to a considerable fall in the external deficit which was practically zero at the end of the year.

The sharp deterioration in the labour market reflected and magnified the recession, as the drop in investment led to the continuousincrease in the unemployment rate over the year, reaching 16.9% in 4thQ2012 (INE), which was an enormous rise as compared to the 14.0% recorded at the end of 2011 and constituted a record high for the quarterly figures the Bank of Portugal has compiled since 1977. The average annual unemployment rate rose from 12.7% in 2011 to 15.7% in 2012.

Meanwhile the labour market has continued to decline since the beginning of the year and according to the *Eurostat* estimate for February unemployment stood at 17.5%, the highest level since the data was first collected (1983), maintaining the downward trend that began in 2008.

The Consumer Price Index (CPI) recorded an average annual change of 2.8%, much lower than the 3.7% recorded in 2011. This slowdown was due in part to the smaller rise in energy prices that went from 12.7% in 2011 to 9.6%. The average annual change in the core CPI (which excludes energy and unprocessed food) also fell, although slightly less, from 2.3% in 2011 to 1.5%. The inflation rate remained above the average for the Eurozone, reflecting basically the (temporary) impact of the indirect tax changes and prices determined by administrative procedures in 2011 and 2012. As these temporary effects dissipate during the course of 2013, together with a fall in the average annual price of oil in euros, a relatively moderate rise in the prices of non-energy imports, continued pay restraint and the downward trend in the labour market, we will see a return to lower levels of inflation.

Financial Assistance and Budget Adjustment Program Outturn

The results of the Troika's 7th review of the FAP outturn, published in March 2013, remained positive although the need for more flexible budget deficit goals was recognised. In a communiqué the Troika stressed that the program was on track at a time of difficult economic conditions. In general terms it was reported that the budget deficit goal set for the end of 2012 had been met, the stability of the financial sector had been retained and the planned introduction of a wide range of structural reforms had gone forward.

The Troika also stressed that the external adjustment exceeded expectations and the Government once again issued public debt instruments (in January 2013), while domestic market finance conditions improved. Nonetheless it recognised that the weakened foreign demand (especially that of Eurozone countries), the lack of confidence among economic agents and the private sectors accumulated debt had restricted economic activity more than had been forecast.

The negotiations which led to more flexible public deficit goals called for the adopting of a 4 thousand million euro cut in spending, announced in advance in the 6th review, but which was to be made over three years instead of two.

In order to allow automatic budget stabilizers to work the Troika accepted – subject to approval by the Eurogroup and *EcoFin* – a revision of the deficit goals from 4.5% of GDP to 5.5% in 2013, and from 2.5% to 4.0% in 2014. Only the deficit goal for 2015 (2.5% of GDP) is below the 3% limit set in the Stability and Growth Pact (SGP), which is a year in which the FAP should no longer be in force. In order to meet these goals the Government agreed to take only those austerity measures already laid down in the FAP.

The Government recognised that GDP will contract 2.3% this year, much more than the 1.0% decrease forecast in the 2013 State Budget, while unemployment is expected to peak at close to 19%. As for the 2012 deficit it stood at 6.6% of GDP (*Eurostat* figures). This figure contrasts with the real deficit (excluding one-off measures) reported by the Troika and the Government, that would have been 6.0%, and especially with the 5% (the Government estimate is 4.9%) on which the FAP assessment was based. According to the Government, this difference is explained by three operations that Eurostat deems should not be included for this purpose: *i*) the revenue from the sale of ANA (airports authority); *ii*) the share capital increase in the Caixa Geral de Depósitos bank, as part of bank recapitalisation (an operation deemed a transfer and as such could not be deducted from the deficit); *iii*) the impairment sustained by vehicles with BPN assets, as the authorities required changes to the accounting statistics for «loan transformation» that Parpública had undertaken for these vehicles. Even then the real deficit in 2011 would be7.4%. The slippage seen in 2012, clearly visible in the 6.0% deficit (the target was 5.0%, having already been revised up from the opening 4.5%), was essentially caused by low tax revenues, resulting from the fact that the recession had taken on a character distinct from that initially predicted by the Troika and the Government. It proved to be more severe in terms of private consumption which gave rise to less revenue from taxes on consumption, which constitute the most important taxes in our fiscal system. Moreover there was a steep climb in unemployment which was naturally accompanied on the expenditure side by an increase in social payments and on the revenue side by a reduction in social security contributions. In terms of public expenditure execution proved to be much better.

The **building sector** has been the greatest victim of the recession in the Portuguese economy. In fact having grown between 1995 – the year in which quarterly GAV by sector began to be recorded – and the beginning of the 2000 decade at a rate higher than GDP, this sector's GAV has since then shown a marked downturn. The sector's depression reflects both structural effects and the general state of the economy.

On the one hand in the public sector the abundance of Community funds and the poor infrastructure led to a marked increase in public works for both central and local governments. While the private sector saw an increase in house building in a framework of attractive finance terms, an inflexible renting market and adequate demand that led to a rise in property prices. The growth in supply, especially in terms of housing, meant supply outstripped demand and the real estate market went through an adjustment period.

This structural adjustment was increased by the current recession and the credit shortage, resulting in less demand for homes and the consequent increase in the number of houses for sale, also as a result of the number of foreclosures. All this has given rise to a fall in house prices. Despite everything the drop has been modest, since unlike in Spain and the USA there was no price bubble, so prices have progressed in line with the basic economics and the decreases have reflected the general economic trend.

OTHER COUNTRIES

The majority of emerging economies sloweddown, hit by the European austerity measures, by economic agents' low expectations and by internal factors.

In **China** the measures announced by the authorities – major State investments in infrastructure and cuts in banks' compulsory reserves – only managed to slow the deceleration in GDP in 2012, from 9.2% to 7.8%, the lowest rate of growth since 1999 (+7.6%), although it was still relatively high, which meant the rate of inflation also slowed (+2.6% compared to +5.4% in 2011). In the medium-term the major challenge the authorities face is to move towards a consumption based economy instead of the model based on investment and foreign demand which fuelled the boom in recent decades.

The authorities' failure was even more apparent in **Brazil**, which only grew by around 1%, below its potential and the 2.7% recorded the previous year, despite the tax cuts and the increased public investment announced by the Government and the successive cuts in key interest rates by the central bank (totalling 3.75 p.p. to 7.25%). The economic slowdown meant inflation eased from 6.6% to 5.4%, before accelerating on the 2nd half of the year. The economic slowdown reflected the global deceleration together with the rise in the value of the real, and possibly also structural factors such as the low levels of investment.

In **India** high inflation – the wholesale price index saw year-on-year growth fall from 9.5% to 7.5% in 2012 but remain above the central bank target – left the central bank little room for manoeuvre (it cut the key interest rate just once by 0.5 p.p. to 8.0%). In addition, on the fiscal policy front, the persistence of the «twin deficit» problem, i.e. the balance of payments and the budget deficits, the latter of which remained persistently high throughout the year, restricted the Government's options. As a result, the economy only grew by 5.1%, down on the 7.5% of 2011, recording the lowest rate of growth since the 4.8% of 2002.

In **Russia** the authorities also faced constraints: the Government because of the decline in oil revenues and the central bank because of the high inflation rate (falling from +8.5% to +5.1% in 2012, although accelerating in the 2nd half of the year) causing it to raise the key rate by 0.25 p.p. to 8.25% in September. The absence of countercyclical measures, combined with entrepreneurs fears, hit GDP which rose 3.4%, – the lowest rate since the «Rouble Crisis» of 1998, if we exclude the 7.8% fall seen in 2009, at the height of the 2008-09 recession – penalised by the slowdown in foreign demand and investment.

In **South Africa**, the largest and most sophisticated economy in Africa, (around 34% of Sub-Saharan Africa's GDP), after coming out of the 2009 recession grew 3.1% in 2010, reflecting a series of government policies and the recovery in domestic demand fuelled by the hosting of the World Cup. The economy grew again by 3.5% in 2011, although it slowed once more in 2012 to 2.6%, as a result of the slowdown in the global economy. As regards inflation, the year-on-year change in the CPI was up slightly in 2012 from 5.65% to 5.70%.

Following the budget and balance of payments crisis of 2009, **Angola** signed an agreement with the IMF aimed at correcting the macroeconomic imbalances. The institution considers the program achieved its main goals. According to the

ECONOMIC INDICATORS FOR ANGOLA

(unit: %)

	2009	2010	2011	2012E	2013F
GDP	**2.4**	**3.4**	**3.9**	**>8** [2]	**5.5**
Oil sector [1]	**-5.1**	**-3.0**	**-2.4**	**8.5**	**3.0**
Non-oil sector [1]	**8.1**	**7.6**	**9.5**	**6.0**	**>7** [2]
Exports, f.o.b. (USD)	2.6	-3.3	-6.3	8.7	3.2
Oil	-37.6	23.7	33.1	4.3	2.1
Imports, f.o.b. (USD)	7.3	-21.5	13.0	13.3	7.4
CPI (annual average)	13.7	14.5	13.5	10.3	8.6
BCA (as % GDP)	-9.9	9.0	9.6	8.5	6.6
Overall tax balance (as % GDP)	-7.4	5.5	10.2	7.0	5.3
External public debt (as % GDP) [1]	20.1	21.7	19.7	19.5	20.4

Sources: Bank of Angola for inflation up to 2012. IMF for remainder, preferably data from *World Economic Outlook* – October 2012.
Notes: rates of change %, except when an indicator; E – estimate; F – forecast.
1) Forecasts made in August 2012; 2) Forecasts made in January 2013.

IMF press release at the time the second report on the «Post-Program Monitoring Mission to Angola» was completed (published in January 2013), in 2012 «Angola attained robust economic growth, a strong fiscal position, single digit inflation, a further building of international reserves and a stable exchange rate». Within this framework the authorities carried out a program of institutional reforms, strengthening some key areas in fiscal, monetary and financial management. In the same document the IMF considers that growth will have accelerated in 2012 to a figure above 8% (following two years of average growth of 3.7%). Growth in 2012 was driven by the recovery in oil production, but also by continued strong growth in the non-oil sector.

The IMF believes prospects for 2013 «are favourable», despite a still uncertain global environment. The IMF did not provide new forecasts, so the 5.5% growth estimate published in October in the *World Economic Outlook* should still apply.

According to the IMF, international prices for Angolan oil will remain high and oil production will grow by about 4% to over 1.8 million barrels per day.

Growth in the non-oil sector should be above 7%, driven by a scaling up of the public sector investment program, aimed at completing reconstruction and addressing key infrastructure gaps. *The Economist Intelligence Unit* (EIU) reported an even more optimistic view, in particular because it forecasts a higher price for Angolan oil. The EIU predicts growth will accelerate to 8.9%, driven by the increase in oil production – even with the risks relating to technical delays and the possibility of OPEC imposing stiffer quotas on Angola – and by the beginning of liquid petroleum gas (LPG) exports under the 10 thousand million dollar megaproject that has been successively postponed, this time to the second quarter of 2013.

Inflation, measured by the average annual change in the consumer price index, slowed from 13.5% in 2011 to 10.3% in 2012, with year-on-year inflation at around 9.0% in December, a figure that had not been seen in the last two decades. In October the IMF expected an additional easing in 2013 to 8.6%, a figure that may be excessive since in 2012 the rate fell below the IMF outlook (+10.8%). The decrease in inflation in the coming years should be based on monetary and exchange rate stability induced by the National Bank of Angola (BNA) and the structural reforms introduced to reduce the distortions underlying supply.

Last October the IMF forecast a budget surplus, but, as early as January, it admitted the possibility of a deficit arising in a budget which, in addition to being marked by «universal and unified» accounting, (since for the first time it incorporates all quasi-fiscal operations previously undertaken by the state oil company) reflects the authorities' determination to develop property reconstruction and refurbishment work, in the context of national rebuilding, seen as essential to the strategic priority of diversifying out of oil.

FINANCIAL MARKETS

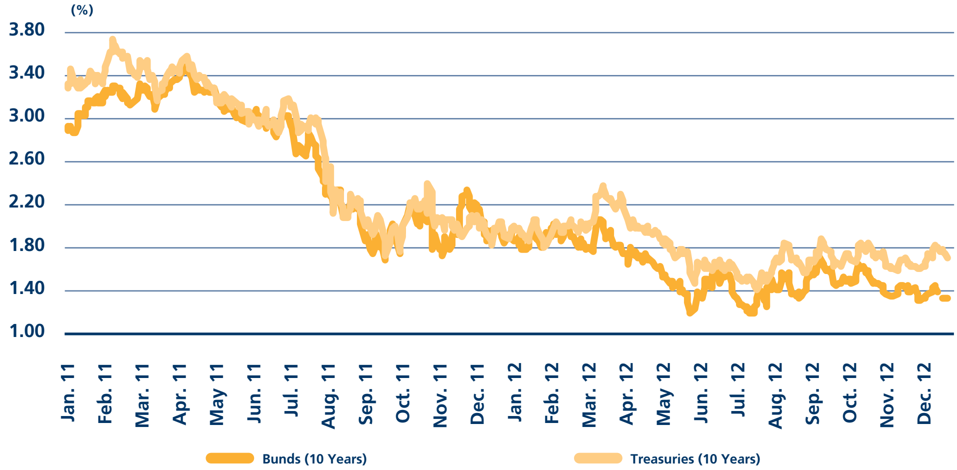
The year 2012 was a positive one for risk assets. Although over the year the markets remained under the shadow of the constraints referred to above – in particular the slowdown in global economy – the truth is they ended up being more than compensated by the combined effect of the intervention of the monetary authorities of a number of countries (which improved future growth expectations) and the political steps taken to solve the euro crisis. Note in the former case the ECB's willingness to purchase debt from peripheral countries and the measures of quantitative easing announced by the Fed; and as regards decisions of a political nature, the European Summit at the end of June, where the euro leaders took a series of measures to solve the crisis and, at the end of the year, the agreement to create a European Single Supervisory Mechanism.

In regard to **reference public debt**, the reduced pessimism in relation to the debt crisis pushed yields upwards; however in general they ended up falling as a result of lower inflation expectations (due to the slowdown in global economy), the fall in expectations as to major central bank interest rates (thanks to the intervention of the monetary authorities and the taking of expansionary measures) and the increased pressure on Spain's debt (one of the region's largest economies), which gave birth to the «search for quality and security» movement. In this way the yields on German public debt (bunds) fell for two year maturities and especially so for ten-year maturities. While in the USA the yields on treasuries rose slightly in the short-term, but fell for ten-year maturities (but by less than 1/4 of the change in bunds). Thus German debt rates (bunds) ended the year in negative territory and generally speaking at record lows, while US debt (treasuries) were close to zero (0.25%) in the short-term, in a scenario in which the Fed continued in December meeting promised again to maintain the fed funds target rate at its current level (between 0.0% and 0.25%) in the near future, contingent on the unemployment and inflation rates.

This change in expectations was also noticeable in the Interbank Money Market (**IMM**), where rates fell, mainly in the Eurozone, and led to a reduction in IMM risk (measured in terms of the Overnight Indexed Swap spreads), as a result of the steps taken to solve the euro crisis as well as the rate cut made by the ECB (plus the expectation of an additional cut). Euribor rates fell to record lows, which was not the case with the dollar Libor which recorded its lowest values in 2011.

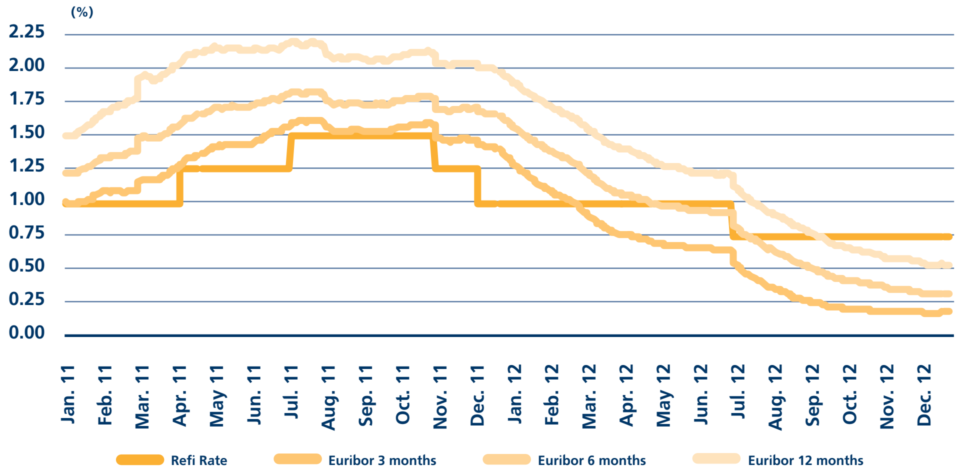
As for the **public debt of the so-called peripheral countries**, the year was marked by strong relief of investors' fears. Thus yield spreads on ten-year debt compared to German debt fell in most of the peripheral countries, increasing at the

CHANGE IN YIELD ON PUBLIC DEBT INSTRUMENTS (10-YEAR BUNDS AND TREASURIES)



Source: *Thomson Reuters*

CHANGE IN EURIBOR INTEREST RATES – EUROZONE



Source: *Thomson Reuters*

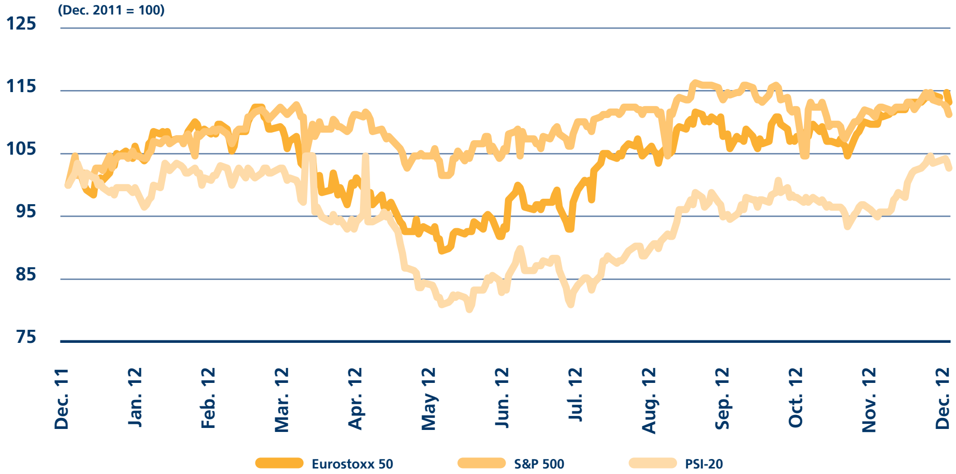
end of the year. The largest decrease was seen in Greece at 2 254 basis points (b.p.), followed by Portugal, Ireland and Italy. Spain was the only exception, seeing its spread worsen by 69 b.p., due in the main to the penalty incurred in the 1st half of the year, as a result of the failings of its finance sector and fears about the country's budget consolidation process.

In **stock markets**, the reference indices showed an upward trend throughout the year, only interrupted in the 2nd quarter and in October-November.

In the USA performance was clearly positive with the technological index, Nasdaq, leading the gains (+15.9%), followed by S&P 500 (+13.4%) and the industrial index (+7.3%). Their performance was closely linked to the new measures announced by the Fed, as well as the decisions taken by the euro leaders, although restrained by the budget impasse in the USA that was only settled on the final day of the year.

In the East index performance was favourable with the Japanese Nikkei 225 index up 22.9% and the Chinese Shanghai Composite growing 3.2%, penalised by the economic slowdown.

CHANGE IN MAJOR STOCK EXCHANGE INDEXES



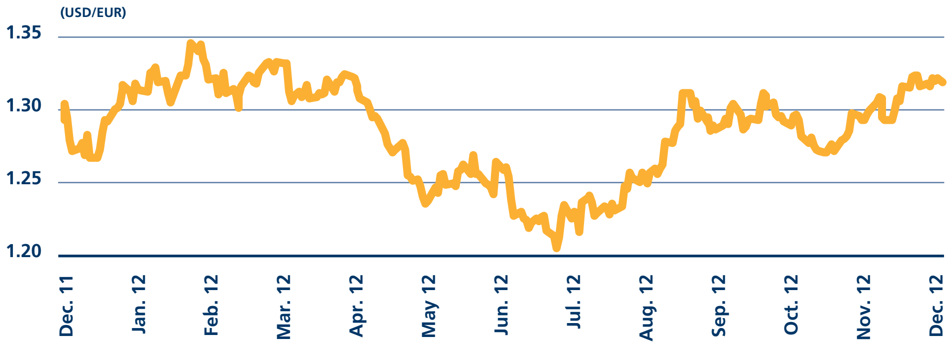
Source: *Thomson Reuters*

While in the Eurozone the indices benefitted considerably from the easing of the euro crisis and the ECB's more active approach. Therefore Eurostoxx 50 advanced 13.8% and the PSI-20 2.9%. The Portuguese index was constrained by the recession affecting the Portuguese economy since the end of 2010. The increases were greater in the indices of the region's two largest economies – the DAX index and the CAC index went up by 29.1% and 15.2%, respectively, as a result of the improved performance of the German and French economies, when compared to the rest of the region. In the United Kingdom the FTSE-100 index was up 5.8%.

In the **private debt market** the trend was identical, i.e. an almost uninterrupted downward trend in spreads since the European Summit at the end of June, with the measures taken by it allowing a market fall in credit spreads in Europe. Thus the *Itraxx* 5Y (5 Years) index, the reference index for Eurozone Investment Grade Credit Default Swaps – whose liquidity is much greater than that of the spot market and therefore is the benchmark for the credit market – fell 56 b.p.. On the other hand the Itraxx Financials index (the most exposed to the sovereign debt crisis) was down 212 b.p., while the speculative grade index, the Itraxx Cross-over 5Y fell by more than four times that amount since it is more sensitive to market feelings and the business cycle.

In the **currency market** the euro progressed mainly in line with risk aversion, developments in the sovereign debt crisis and the ECB's handling of monetary policy. The first two factors pushed the currency upwards, although it should be noted that the single currency is naturally more dependent upon the changes in the larger economies, such as Spain, than in the smaller ones, such as Greece, and while the latter's situation improved dramatically, the former's became slightly worse. As for the ECB the effect should have been to push the currency down a little, since expectations as to the reference rate fell. This upward trend was driven by the fact that the dollar lost value against the major currencies, due to the expected and later announced new Fed measures. The euro ended the year with a mixed record in regard to the three

CHANGE IN EURO-DOLLAR EXCHANGE RATE

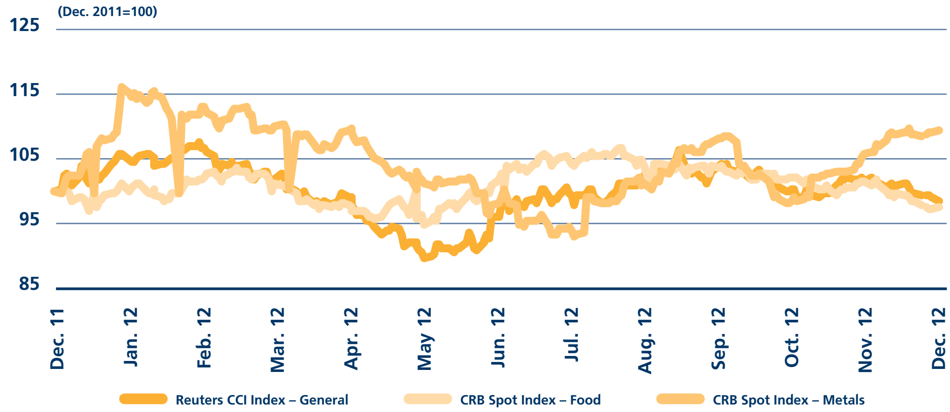


Source: *Thomson Reuters*

main currencies (+1.8% us dollar, -2.8% vs. pound sterling and +14.6% vs. yen). In the major pairing, euro/dollar, the single currency ended the year above the psychological barrier of 1.3 EUR/USD, below that recorded from May to September (with a low of 1.2 EUR/USD at the end of July, coinciding with the largest spread for Spanish debt). For its part the dollar rose against the yen, but depreciated in relation to the pound sterling, with the Dollar Index falling slightly.

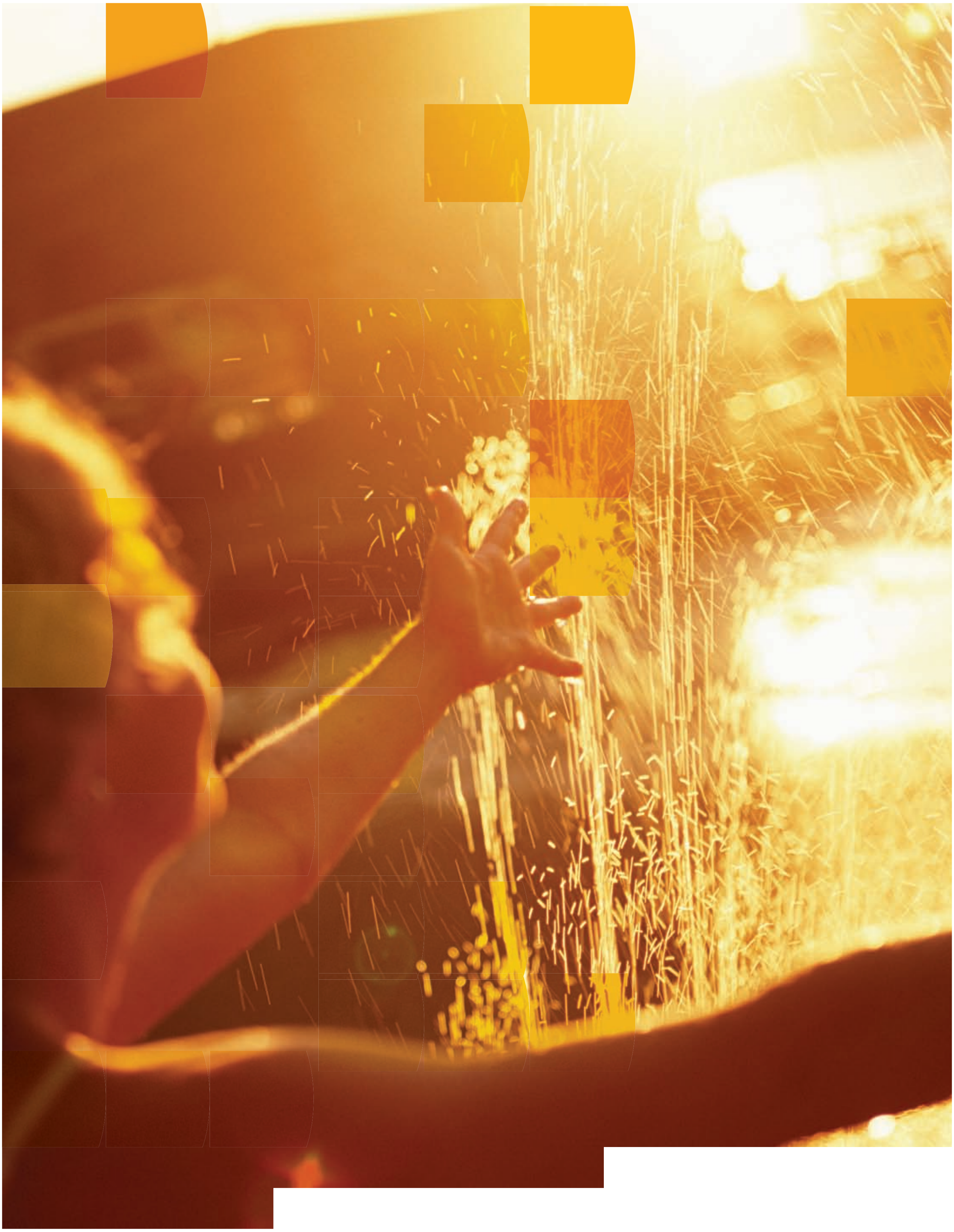
Lastly **commodities** progressed in line with market sentiment and were also affected by specific factors that penalised prices in some segments. Thus the composite indices, Reuters/Jefferies CRB and S&P GSCI recorded mixed results, -3.4% and +0.3%, and showed upward trends in most classes of goods except energy.

CHANGE IN COMMODITIES INDICES



Source: *Thomson Reuters*

Agricultural produce rose in value by 3.9%,inspite the correction seen after the peak at the end of July, which at the time reflected the droughts that affected crops and reduced supply in various parts of the globe (particularly in the USA and Russia). Note should be taken of the sharp rise in the price of wheat and the larger fall in that of coffee. **Precious metals** rose 7.1%, benefitting from the fact that they perform as a store of value, thereby competing with the world's major currencies, which were penalised by central bank interventions in a number of countries. **Base metals** were up 3.8% and remained under pressure from the slowdown in China. On the other hand the price of **livestock** rose by 6.1% whereas energy prices dipped slightly with the exception of Brent oil (up 3.5%). The energy market faces a revolution due to the use of new extraction processes mainly in the USA, which have led to a rise in supply. This change has had a lesser-bearing on Brent oil which shows the change in world oil demand and supply, more clearly and even the US Energy Information Administration has adopted North Sea Brent as a reference in detriment to WTI crude. The difference between Brent and WTI crude broadened once again with the latter falling 7.1%.



Caixa Económica Montepio Geral

3. General Indicators For CEMG Consolidated Basis

(thousand euros)

ITEMS	2010	2011	2012
BUSINESS AND PROFITS			
Net Assets	18 249 290	21 495 390	**20 972 731**
Gross Customer Credit	15 040 645	17 410 344	**16 563 739**
Customer Resources on Balance Sheet	10 910 199	14 498 545	**15 170 652**
Total Deposits	*10 021 794*	*13 608 555*	***13 103 506***
Instruments Placed with Customers	*888 405*	*889 990*	***2 067 146***
Net Profit	51 407	45 029	**2 099**
LEVERAGE AND LIQUIDITY			
Total Net Customer Credit/Customer Deposits (a)	145.65%	122.14%	**118.67%**
Total Net Customer Credit/Customer Deposits (b)	148.11%	124.05%	**120.54%**
Assets Eligible for ECB Refinancing	3 433 820	2 991 055	**3 139 482**
CREDIT QUALITY AND DEGREE OF COVER			
Credit and Interest Overdue more than 90 days Ratio	3.24%	3.99%	**5.02%**
Unpaid Credit Ratio (a)	3.75%	5.02%	**6.32%**
Net Unpaid Credit Ratio/Total Net Credit Ratio (a)	0.29%	0.64%	**0.82%**
Total Credit Impairment/Credit and Interest Overdue more than 90 days	107.20%	111.04%	**111.00%**
Credit at Risk/Total Credit (a)	5.09%	7.82%	**10.95%**
Net Credit at Risk/Total Net Credit (a)	1.39%	3.57%	**5.72%**
EFFICIENCY AND PROFITABILITY RATIOS			
Banking Revenue/Average Net Assets (a)	2.35%	2.65%	**2.05%**
Pre-tax Profit/Average Net Assets (a)	0.29%	0.15%	**-0.80%**
Pre-tax Profit/Net Equity (a)	5.18%	2.81%	**-11.56%**
Profit for the year/Average Net Assets (ROA)	0.29%	0.21%	**0.01%**
Profit for the year/Net Equity (ROE)	5.18%	3.87%	**0.14%**
Cost-to-income (a)	59.01%	66.07%	**83.64%**
Staff Costs/Banking Revenue (a)	34.16%	40.34%	**45.79%**
SOLVENCY (a)			
Solvency Ratio	12.85%	13.56%	**13.58%**
Tier 1 Ratio	9.12%	10.21%	**10.59%**
Core Tier 1 Ratio	9.28%	10.21%	**10.62%**
DISTRIBUTION NETWORK AND STAFF (Units)			
Domestic Branch Network	329	499	**458**
International Branch Network – Angola	–	8	**9**
Representative Offices	6	6	**6**
Staff employed domestically	2 983	3 996	**3 928**
Staff employed internationally – Angola	–	119	**126**

(a) Pursuant to Bank of Portugal Instruction no. 23/2013.
(b) From Funding and Capital Plan stanpoint.

4. Strategic Priorities

In order to stand up to the austerity situation and the deteriorating economy, plus the extraordinary demands made in the FAP Memorandum, CEMG set the following strategic priorities for 2012:

- Mitigation of the impact of the crisis and the increase in risk costs, mainly credit;
- Diversification of its activities, markets and sources of revenue;
- Increased efficiency through cost savings and optimisation of means and resources, especially the distribution network, by consolidating the Group following the incorporation of the ex-Finibanco entities;
- Maintenance of liquidity levels and greater solvency.

The full strategic alignment of the various entities with the mutual association goals of Montepio and the strengthening and streamlining of established operation lines for diversification and efficiency, have been key aspects of the strategic management in response to the scenario of greater risks within a framework of deleverage.

The strategic agenda for 2012 continued to be marked by the incorporation of ex-Finibanco and the work performed and measures taken under the Funding & Capital Plan, required of the eight major national banking groups under Portugal's FAP, which is reviewed quarterly and examined and evaluated by the authorities (Bank of Portugal and the Troika). Generally speaking the targets imposed on the banking sector in these circumstances were maintained in regard to the leverage ratio (credit over deposits) of 120% for the end of 2014 (but in April this indicator went from being compulsory to indicative), to the stable funding ratio of 100% also for the end of 2014, and to the Core Tier I solvency ratio of 10% for the end of 2012 and subsequent years.

The year 2012 was also marked by further specific inspections undertaken by the Bank of Portugal, under the Special Inspections Programme (SIP), that began in 2011, in regard to Workstream 3-WS3. This comprised the assessment of the parameters and methods employed by banking groups in their financial forecasts to evaluate future solvency, within the framework of the stress tests, the conclusions of which confirmed that CEMG's work in this field is generally sound.

In addition to that program, the Bank of Portugal conducted a new On-Site Inspection Program (OIP) covering the eight largest banking groups' credit exposure in the construction and real estate sectors, which was completed in November 2012. That inspection aimed at assessing the adequacy of the impairment recorded for exposure in those sectors hardest hit by crisis and resulted in the need to reinforce the banking sector's impairment in this area and CEMG was no exception.

In keeping with Montepio's governance practices and its Articles of Association, the three-year Strategic Guidelines for 2013-2015 were reviewed and updated, then approved by the governing bodies at the end of the year (6 November 2012). This task confirmed the suitability of the path devised for managing contingencies in the current economic and financial crisis, and served as a basis for the 2013 Action Plan and Budget, approved at a General Meeting held on 20 December 2012.

Further to focusingon fulfilling the targets set by the authorities, CEMG's Strategic Guidelines also aimat reinforcing the institution's ability to maintain its competitiveness, create wealth and ensure balanced and sustainable growth.

The following performance areas were declared priorities:

- **Optimisation of capital management and the Balance Sheet Risk profile** – with the goal of maintaining solvency levels and meeting the Core Tier I requirements.
- **Continual improvement in the Overdue Credit Recovery process and Credit Risk management** – through increasedpreventative monitoring and introduction of the adjustments required to improve recovery as well as continuous improvement credit risk analysis and assessment tools and processes.
- **Reduced Operating Costs** – by carrying out measures planned for that purpose, namely measures for acquiring synergies within the Montepio Group, increasing reliance on electronic tools and achieving higher levels of operational efficiency, as well as improving management, information and internal control systems.

- **Further increase in retail funding** – to continue to attract longer term deposits and balance sheet resources, such as the placing of instruments with customers. Recourse to the ECB continues to be of a supplementary and general nature and any change is contingent on the possibilities and openness of the financial markets. In the current situation the policy pursued is one of strengthening the collateral pool for Eurosystem refinancing operations, as a contingency and liquidity risk mitigation measure.
- **Broaden the across the board diversification policy: Supply, Sectors, Segments and Markets** – through a selective origination policy that will lead to a decrease in the relative weight of housing, construction and real estate loans, in favour of the Microbusiness and SME sectors, and a broader across the board diversification policy in terms of markets and the products and services supplied, especially in the corporate banking area (investment banking).
- **Attract members and increase their loyalty** – by enhancing the commercial nature of the mutual products on offer and by taking advantage of the distribution channel potential of companies included in the consolidation for turning customers into members, whilst always abiding by its mission and purpose as a credit institution at the service of the mutual movement.

THE MONTEPIO BRAND

In 2012, Montepio continued to strengthen its position as a unique and distinct institution in the national financial market, representing the Social Economy and the values of association, solidarity and humanism, encoded in Montepio's DNA. The defence of this DNA has contributed to Montepio having not only customers but an increasing number of members, who not only use of the products and services marketed by the Group, but in particular take part in establishing the institution's ranking and lobby on the brand's behalf.

In a year of enormous challenges and demands and in a highly competitive market, Montepio managed to enhance its reputation and standing in the national banking sector as a sound, trustworthy institution, as shown by the awards and prizes received in 2012, by the Brand Reputation indices and by the quality of the products and services on offer.

As a result of the work undertaken, the Montepio brand achieved the highest reputation level in the entire Portuguese financial sector according to the *RepTrak*™ Pulse 2012 study by the Reputation Institute. Showing a 3.6 point improvement over 2011, Montepio countered the negative trend in the banking sector, and achieved 1st place in the rankings. Montepio was perceived as the best institution in terms of Products and Services, Corporate Governance, Social Responsibility and Performance, the most important items in the building of a brand's reputation.

REPUTATION INSTITUTE

For the fourth consecutive time the Montepio brand was elected a brand of excellence by *Superbrands* Portugal, in clear recognition of the work performedin the area of products and services that resulted in greater confidence among customers and members. The award highlights the values of «Protection», «Proximity», «Kindness», «Responsibility», «Competence», «Safety» and «Stability».

In 2012 Montepio came 1st in the ECSI Portugal ranking (National Index of Customer Satisfaction run by the Portuguese Quality Association) which is a system for measuring the quality of goods and services available on the national market in terms of customer satisfaction.

ECSI PORTUGAL ÍNDICE NACIONAL DE SATISFAÇÃO DO CLIENTE

Also in 2012 Montepio achieved 1st place in the Basef Banca CSI – Marktest (Consumer Satisfaction Index Marktest). The CSI Marktest is another model that measures and estimates customer satisfaction and rates their assessment of the products and services provided.

CSI Marktest

Mention should also be made of Montepio's Customer Service Telephone Services which were awarded the Call Center 2012 Trophy by IFE – International Faculty of Executives and by Call Center Magazine Online for the Best Quality Customer Service Telephone Service.

TROFÉU CALL CENTER 2012

In 2012 Montepio also stood out in terms of communication especially that aimed at its members and the Montepio magazine was voted one of the best publications of its kind. According to Bareme Imprensa the magazine reached an audience of 4%, which represents growth of 2.56% since the last series. The publication retained its leadership of the «General Interest – Quarterly Magazines» category and with an average circulation of 345 000 in 2012 it is the national publication with the highest circulation.

AWARD – MONTEPIO MAGAZINE

The Montepio Magazine was awarded the *Grand Prix* 2012 by FEIEA – *Federation of European Business Communicators Associations* receiving distinctions in two categories «*Best internal magazine/news-magazine*» and «*Best front cover on an internal publication*».

In 2012 the Montepio brand associated itself with the values of Portuguese identity. Montepio was born in Portugal and was founded to solve social problems and provide welfare to Portuguese society.

The current economic and social situation requires Portuguese people to get in touch with their country's potential, a move with which Montepio wished to associate itself and support in a number of ways, in particular through the Montepio *Mare Nostrum* Project, and the support given to Portuguese Music and Theatre.

In 2012 the support for Portuguese music was focused on Fado, following its proclamation as World Intangible Heritage. Of particular note was the support to the launch of the new album by Carminho, «Alma» and the support for the artists Custódio Castelo, Jorge Fernando and Rão Kyao. Taking advantage of the celebration of yet another anniversary for Montepio a Flash Mob was created: «Fado. The voice of a nation», which was widely seen on the Internet. As a result of such support the Montepio brand is recognised as having the best association with national music according to the Brandscore study. As regards support for the Theatre Montepio sponsored the play «I worry therefore I exist», starring Diogo Infante, which played all over the country.

The Sea is undeniably a feature of Portuguese identity with considerable economic potential to be explored. Through the Montepio *Mare Nostrum* Project, Montepio signed up to the sailor Ricardo Diniz's project to circumnavigate Portugal's Exclusive Economic Zone, to show the true size of this resource. Montepio also signed up to the DN Sea publishing project and promoted the making and showing of a series of short documentaries covering stories of our Sea.Thus in a positive manner it made known the depth of business relations existing between the Portuguese and the sea.

In addition, the *BrandScore* study by Grupo Consultores shows that Montepio is already the 2nd bank brand most associated with the Sea Economy.

5. Human Resources, Distribution Channels and Other Means

5.1. HUMAN RESOURCES

At 31st December 2012 the institutions making up the CEMG Group employed 4 867 persons of which 81% worked for CEMG.

CEMG GROUP EMPLOYEES (NO.)

	2011	2012	Variation		Weight
			No.	%	
Total	**4 958**	**4 867**	**-91**	**-1.8**	**100.0%**
Caixa Económica	3 996	3 928	-68	-1.7	80.7%
Lusitania	656	635	-21	-3.2	13.0%
Lusitania Vida	28	28	0	0.0	0.6%
Finibanco Holding, of which:	278	276	-2	-0.7	5.7%
Finibanco Angola	119	126	7	5.9	2.6%
No. of Branches (CEMG)	499	458	-41	-8.2	
No. of employees/No. of Branches (CEMG)	8.0	8.6			

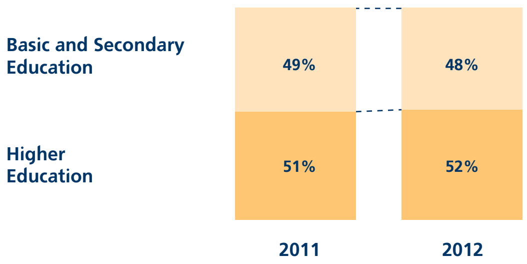
The overall drop in the number of employees in 2012 was the result of several departures, in particular the retirement of a number of older staff, which were greater than the number of new people hired under a very restrictive and selective policy.

The selective nature of new signings meant the gradual increase in the number of staff with a university education (52%), which includes employees with bachelor degrees, masters, postgraduate studies and doctorates.

In keeping with the established policy of enhancing human resources, the number of training courses increased by 45%, although the total number of training hours fell and there was a reduction in the average investment per participant, in line with the downward trend recorded in the banking sector in recent years. The fall in average investment was achieved by opting for in-house contents, a rise in e-learning and cascade effect training.

The aim of the training provided was to ensure a quality response to job demands, the development of commercial skills and an increase in capabilities stemming from legal and regulatory obligations. The training courses covered Mutual Products (at the same time as the campaign to attract new members), operational risk management (relevant to cost

BREAKDOWN OF EMPLOYEES BY ACADEMIC QUALIFICATIONS



INVESTMENT IN TRAINING

	2011	2012
No. Training Courses	149	216
No. Hours of Training	86 142	71 156
No. Participants	19 761	10 845
No. Employees Covered	4 216	3 678
Investment in Training	285 000 euros	202 000 euros

savings and risk mitigation), positive leadership (consolidation of resilience and self-efficiency skills), the strengthening of management skills (Global Management Challenge) and English.

During 2012 a total of 3 678 people received training which shows a degree of involvement of 94% of CEMG staff and the methods used ranged from e-learning (72%) to in person training (28%).

Bearing in mind the importance of contact with the world of employment in the learning process and given the current situation in which youth unemployment has reached record highs, Montepio continued its policy of training placements and in 2012 it provided 46 young persons contact with banking in both its commercial network and support areas.

Taking into account the fact that Health at Work is essential to the promotion of a stable work environment, as well as to human motivation, the main priority for 2012 was an improvement in the quality of service provided to employees.

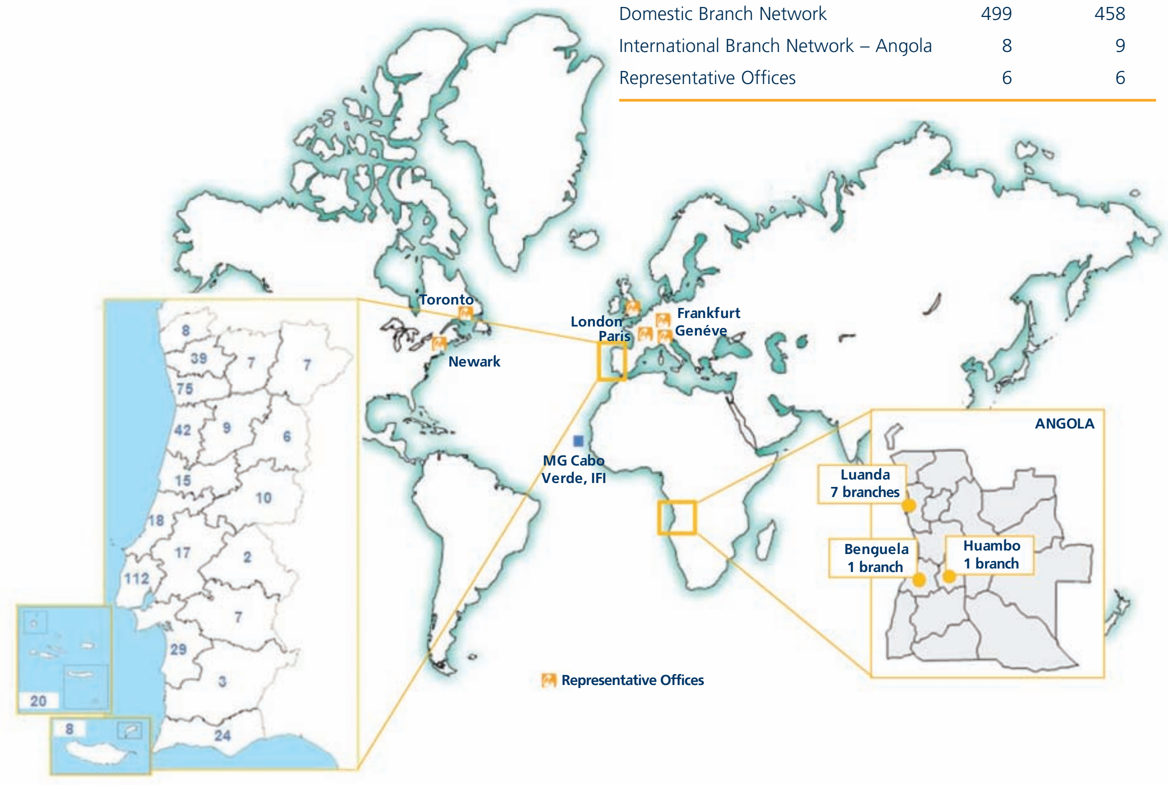
5.2. GEOGRAPHICAL PRESENCE AND DISTRIBUTION NETWORK

In 2011, following the purchase and integration of ex-Finibanco, a thorough study of the resulting physical distribution network was conducted and optimisation needs were defined as well as suitable measures for achieving it.

Thus at the domestic level Montepio ended 2011 with a network of 499 branches, although in January 2012, a total of 31 overlapping geographic branches were closed as a result of the network optimisation measures. The rationalisation of the physical presence continued in 2012 with the aim of maximising proximity and continuing to provide a quality service to members and customers. This led to the closing of a further 12 branches and the opening of two new premises, totalling a network of 458 branches at the year-end. Staff employed at the closed branches was assigned to other posts and duties, both within the commercial network and in central services.

NO. OF DOMESTIC BRANCHES AND INTERNATIONAL PRESENCE

	2011	2012
Domestic Branch Network	499	458
International Branch Network – Angola	8	9
Representative Offices	6	6



Montepio's international presence was strengthened with the Finibanco Angola network increasing from 8 to 9 branches at the end of 2012. In addition the company has 6 Representative Offices, serving Portuguese communities residing abroad, and «Instituição Financeira Internacional» (Financial institution International), located in Cape Verde.

Following the 2011 restructuring of the specialist distribution networks which resulted in 7 «*Banca de Relação*» networks and specialist commercial monitoring of the business segments deemed strategic to Montepio, 2012 was a year of growth and consolidation of these distribution networks.

Thus there was a general expansion across the networks aimed at achieving higher levels of service and customer support. In a context of deteriorating economic conditions and greater difficulties for businesses, Montepio recorded outstanding growth in its Corporate segment support network with an increase of 101 managers (+55%) of which 96 are dedicated to the Small Businesses subsegment.

As for the remaining Group companies, mention must be made of the insurance distribution channels network which at the end of 2012 comprised 3 912 Lusitana Linked Intermediaries, Agents and Brokers and 1 675 (+3.4%) Lusitania Vida Intermediaries.

The strong investment in the Montepio – Lusitania *Assurfinance* Promoters network also allowed the Group's area of influence to expand as well as that of the commercial relations department. At the end of 2012, the *Assurfinance* network had 310 promoters, an increase of 32% over 2011. In terms of turnover the business acquired by the promoters totalled 22 million euros.

NO. OF MANAGERS PER CUSTOMER SEGMENT

	2011	2012	var.
Corporate	**185**	**286**	**56.4%**
Institutions	2	6	200.0%
Large Companies	7	8	14.3%
Small and Medium Enterprises	58	58	0.0%
Small Businesses	118	214	81.4%
Private	**182**	**189**	**3.8%**
Top Premium	7	10	42.9%
Premium	175	179	2.3%
Third Sector (*)	**10**	**12**	**20.0%**
TOTAL MANAGERS	**377**	**487**	**29.2%**

(*) Includes Microcredit managers (2 managers in 2012)

Mention must also be made of the expansion of the Commercial Promoters network to CEMG's entire commercial network with the hiring of 230 new Promoters. At the end of 2012 this network had 932 promoters and turnover through this channel grew by 10.5%.

ELECTRONIC AND DISTANCE CHANNELS

Automatic Payment Terminals (APT) continued to play a fundamental role in attracting customers and increasing customer loyalty, while promoting and developing commercial activities. At the end of 2012 Montepio supported 16 720 active terminals, that accounts for a market share of 6.43% and points to stability in terms of its position in the total APT network.

In 2012 there were 1 456 Automated Teller Machines (ATM) installed, including 323 belonging to the internal network – Chave24.

In 2012 the complementary channels for individuals and corporations (Net24, Phone24, Netmóvel24 and SMS24) recorded notable growth in terms of users climbing to 696 000 individuals and 90 000 corporations.

The Montepio website (montepio.pt) continues to be one of the main points of contact with customers and recorded a considerable increase in hits, with a monthly average of 3.14 million visitors and 15.5 million page views.

6. Change in Business by Business Area

6.1. PRODUCTS AND SERVICES BY SEGMENTS

PRIVATE BANKING

In 2012, the marketing strategy for the private sector concentrated on encouraging family savings, especially through time deposits and other longer term products

Following the considerable growth in the customer portfolio in 2011 (+12.8%), due to the taking on of ex-Finibanco customers, in 2012 Montepio continued to see growth in the number of private customers (+0.2%), which reveals the brand's dynamism, confidence and attractiveness in an adverse environment, as it not only retained the customers that joined it in the previous year while sustaining possible withdrawals following the takeover, but it also continued to attract new customers.

The savings options presented to the market in 2012 played an important role in this outcome, as they favoured resource stability and low risk. Special mention should be made of the up to two years time deposits «Montepio Poupança Especial», «Montepio Net Ganhe» (exclusive to Net24 customers), «Montepio Poupança Flexível» and «Flexível *Plus*», while among the three and four-year deposits «Montepio Aforro Prémio» and «Montepio Super Poupança» are of particular note.

In order to accompany the resources on offer a disruptive line of communication was devised by associating the Montepio and *Star Wars*™ brands. «Join the Strong Side of Saving» was the message for the savings campaign that was promoted on the radio, in the press, through outdoor advertising and the Internet.

The partnership was also used on the prepaid debit cards for which 6 cards with characters from the films were designed and a multimedia campaign was run, with an emphasis on TV and radio that took advantage of both the fame of *Star Wars*™ and the music associated with the saga.

In both campaigns the degree of notoriety soared, reaching a peak in March 2012 (11.3%), as did the figures for brand prestige, strategic vision, young image, confidence and transparency.

In the children and youth segments the centre of attention was once again a star of the youngest children: the Panda. Thus the campaign «Your future is big. You have Panda's word» was launched in June, stressing the notions of saving, group spirit and financial education, through the television (Panda Channel), radio, the press and the Internet.

In order to diversify still further the products on offer, Caixa bonds with a two-year maturity were issued, along with the regular issues of CEMG debt instruments such as Commercial Paper issues, with maturities of 3 months, 6 months and 1 year.

In the field of banking insurance CEMG, in partnership with the Group's insurers, continued to meet efficiently the demands of the economic environment and the needs of customers and members. Minor adjustments were made to the products on offer and new products were launched, in particular the insurance policies «Montepio Proteção Mais II», «Proteção Jovem II», «Serviço Doméstico» and «Risco Pessoal».

CORPORATE BANKING

Despite the shrinking economy Montepio continued to support corporations and businesses, thereby pursuing its strategy of favouring this segment in line with the institution's mission to support the country's development.

As in the private banking segment, Montepio became more dynamic and stepped up its presence in the corporate segment in 2012. Following the growth in the customer portfolio in 2011 (+45%), due to the taking on of ex-Finibanco customers, in 2012 Montepio continued to see growth in the number of corporate customers of 1.5%, which shows not only the continued confidence of existing customers but also the bank's ability to attract new ones.

To that end Montepio consolidated its product range, particularly in terms of export support, and it has taken part in all the national programs underwritten by public bodies designed to promote business and support Portuguese companies, which means it currently offers 25 official credit lines.

In the current economic environment the official credit lines play a decisive role as an essential tool to provide companies with access to credit and at the same time to strengthen the existing partnership between Montepio and the Mutual Guarantee Societies based on risk sharing in order to increase financing of national companies, in particular small and medium-sized enterprises – SMEs.

In 2012 Montepio signed up to all public body initiatives of which the following are of special note:

- «Invest QREN»;
- Social Economy Support Credit;
- 2012 Drought Credit Line;
- *Proder* and *Promar* Projects Credit;
- Portuguese Tourist Office Upgrade and Cashflow Credit;
- 2012 SME Growth Credit Line;
- «FINCRESCE» Program;
- Banking Debt Restructuring Support for Azores Companies and Liquidity Support.

Montepio, Lisbon Municipal Council and IAPMEI, created the **Startup Lisboa** under the Finicia program. This project seeks to support entrepreneurship, the acquiring of knowledge through shared experience and the development of innovation.

Under this project two business incubators have already been set up: one for technological businesses – Startup Lisboa Tech and the other for commercial projects – Startup Lisboa Commerce.

A specific range of products and services was devised for this segment (including Montepio Startup Lisboa Solution), supplemented by partnerships such as Sage Portugal.

Under its market diversification strategy CEMG has developed its international business and supported exporting companies. A specific range of products and services have contributed to that goal, in particular Remittances and Documentary Credits, International Operations Finance and Foreign Discounts.

In 2012 Montepio took part in SISAB – International Food and Beverage Fair for the first time. The event brings together 400 Portuguese exhibitors and over 1 200 international buyers. Montepio stood next to its corporate customers to demonstrate its commitment to their success and to show the products and services available to exporters.

THIRD SECTOR BANKING

The Social Economy and the Third Sector have gradually taken on an increasingly important context in society and the national economy, not only because of their increasing weight in GDP, but also because of their positive contribution to employment. For this reason financial support channelled to the Social and Economy continues to be crucial to the maintenance and survival of many of the institutions operating in this sector.

In 2012, Montepio definitively become the benchmark financial institution for the Third Sector and a strategic partner not only in terms of financial support but also by linking it to the association aspect through a range of corporate responsibility partnerships with MG-AM, creating a bridge between its customers and the Group's social responsibility, and by designing insurance products matched to its customers' needs.

Third Sector strategy has been based on proximity with the various social institutions and the building of commercial partnerships and the signing of agreements with Social Economy institutions. If on the one hand it is possible to develop commercial options that customers find advantageous, through products and services matched to institutions' needs, on the other hand care must be taken over pricing which, while adjusted to risk, must take into account the difficulties and specific nature of each customer in particular and the sector in general.

In a year of economic constraints the Third Sector saw growth, compared to the previous year, i.e. 48.6% in resources obtained and 47.9% in credit granted.

The year was marked by a strengthening of Montepio's relationship with the Social Economy institutions, customers and non-customers, right across the country, with emphasis on Third Sector regionalisation, thus contributing to an increased role in the development of this sector's activities.

On 15 June 2012, CEMG signed a cooperation agreement with the Ministry of Solidarity and Social Security, the National Confederation of Charities (CNIS), the Union of Portuguese Social Welfare Institutions (UMP) and the Union of Portuguese Mutual Societies (UM), that set up a Social Economy Credit Line amounting to 50 million euros, to which Montepio added a further 100 million euros of financing under suitable risk and market terms. It is a credit line of major importance to the sector and was much sought by charities that in this way could finance their investments, stabilise their economic and financial position and achieve medium and long-term sustainability.

Following the operational success of this agreement with Montepio, this type of support was increased by the sum of 12.5 million euros, called «Social Economy Credit Line II», to which Montepio added a further 25 million euros.

MICROCREDIT

In times of increasing social inequality, Microcredit has proved to be a coherent solution that meets the needs of those who have the entrepreneurial spirit and a clear, sustainable business idea, but who have low earnings, little access to bank credit or endure unfavourable social, professional or economic circumstances. By supporting business ideas through small sum financing, Microcredit promotes inclusion and financial independence, self-esteem and social integration, thus creating a link between Economics and Solidarity.

Montepio's Microcredit has proved to be an important tool for supporting our customers and members through the Montepio branch network and society in general through the range of new partnerships forged with Third Sector institutions.

In truth Montepio's Microcredit has innovated and grown through partnerships with national, regional and local organisations highly experienced in the social entrepreneurship field and through risk sharing, but it has also favoured personalised support that precedes and complements the granting of finance.

The strategic measures for this segment are based on the building of a network of specialist commercial managers, backed up by proximity tutors who monitor and support the business promoters, since it is only by being close to people and understanding the needs of those in the field that one can ensure appropriate risk selection and support social inclusion which for a number of reasons is currently more fragile. Therefore Montepio continues to provide proximity tutors, Montepio employees who as corporate volunteers aid and support entrepreneurs in the drawing up of business plans and the running of their respective businesses.

Mention should also be made of the geographical extension of the EAPN – European Anti-Poverty Network agreement to include the districts of Viana do Castelo, Aveiro and Viseu, the strengthening of the relationship with the social welfare institution *Santa Casa de Misericórdia de Lisboa* and the signing of new agreements with the Portuguese College of Psychologists and *Companhia das Obras*. In addition to these steps there was a rise in the number of proximity tutors due to the increased financing under the Entrepreneurship Support and Own Job Creation Program, namely the Microinvest and Invest+ official credit lines.

In recognition of the work done, on 28 November 2012, the Minister of Solidarity and Social Security and the President of *Santa Casa da Misericórdia de Lisboa* visited a number of microcredit projects set up under the cooperation agreement with that social welfare institution.

6.2. CUSTOMER RESOURCES

In 2012 CEMG continued to demonstrate the ability to attract and retain savings as total customer resources rose to 15 170.7 million euros which represents growth of 4.6%.

CHANGE IN CUSTOMER RESOURCES

(thousand euros)

	2011	2012	Change	
	Value	Value	Value	%
Private and Small Business Deposits	**10 848 634**	**10 200 881**	**-647 753**	**-6.0**
Private Individuals	9 949 568	9 170 545	-779 023	-7.8
Traders and Professionals	53 717	54 844	1 127	2.1
Non-profit Institutions	845 349	975 492	130 143	15.4
Corporate Deposits	**2 248 138**	**2 106 338**	**-141 800**	**-6.3**
Other Segment Deposits	**511 783**	**796 287**	**284 504**	**55.6**
Instruments placed with Customers	**889 990**	**2 067 146**	**1 177 156**	**132.3**
TOTAL	**14 498 545**	**15 170 652**	**672 107**	**4.6**

The growth in customer resources was due in the main to the purchase of longer term more stable products, where instruments placed with customers recorded a significant rise of 132.3%.

The positive change in resources was also due to the 15.4% increase in the deposits of not-for-profit institutions, commonly referred to as the Third Sector, the segment in which the Montepio Group has confirmed its position as a financial partner.

The difficulties the national business sector faces in creating excess cash flows had a negative impact on customers resources, which fell by141.8 million euros accounting for a year-on-year decline of 6.3%.

A number of specific products were launched to stimulate growth in resources, among which the medium and long-term products «Montepio Poupança» and «Montepio Aforro» are worthy of note.

Off balance sheet resources grew 9.7%, to total 1 380.2 million euros on 31 December 2012.

CHANGE IN OFF BALANCE SHEET RESOURCES

(thousand euros)

	2011		2012		Change	
	Value	Value	Value	%	Value	%
Investment Funds	266 067	21,1	347 243	25,2	81 176	30,5
Real Estate Funds	629 909	50,1	698 758	50,6	68 849	10,9
Pension Funds	179 559	14,3	185 571	13,4	6 012	3,3
Banking Insurance	182 735	14,5	148 579	10,8	-34 156	-18,7
TOTAL	**1 258 270**	**100,0**	**1 380 151**	**100,0**	**121 881**	**9,7**

At 31 December 2012 the off balance sheet portfolio was mainly made up of investment funds and real estate funds which represented 75.8% of these resources. It should be noted that the growth in investment funds was 30.5%.

6.3. CUSTOMER CREDIT

The country's difficult economic situation, plus the leverage requirements imposed on the major Portuguese banks under the Assistance Program, had a direct impact on the quantity of credit granted to customers in the banking sector over the year, to which CEMG was no exception.

Overall customer credit fell by 4.9% for which the major contributors were housing loans and construction credit which declined by 5.4% and 15.7% respectively compared to the previous year, in keeping with the diversification strategy.

CHANGE IN CREDIT GRANTED TO PRIVATE INDIVIDUALS AND SMALL BUSINESSES

(thousand euros)

	2011	2012	Change	
	Value	Value	Value	%
Total Private Individuals and Small Businesses	**10 912 153**	**10 338 666**	**-573 487**	**-5.3**
Private Individuals	**10 322 893**	**9 732 247**	**-590 646**	**-5.7**
of which:				
Housing	8 451 702	7 997 745	-453 957	-5.4
Individual	777 211	640 920	-136 291	-17.5
Small Businesses	**589 260**	**606 419**	**17 159**	**2.9**
Memo items:				
Guarantees	**21 528**	**19 738**	**-1 790**	**-8.3**

The private segment saw a reduction of 590.6 million euros in the level of credit in 2012 compared to the previous year. Conversely small businesses credit rose by 17.2 million euros which representsa 2.9% growth. This change was the result of the greater proximity and improved relations with this segment brought about by the Business Managers network.

CHANGE IN CORPORATE CREDIT

(thousand euros)

	2011	2012	Change	
	Value	Value	Value	%
Total Corporate Credit	**6 358 648**	**6 158 552**	**-200 096**	**-3.1**
of which:				
Construction	1 370 193	1 155 377	-214 816	-15.7
Other	4 988 455	5 003 175	14 720	0.3
Memo items:				
Guarantees	432 933	402 311	-30 622	-7.1

In line with its portfolio diversification strategy CEMG has increased corporate credit (excluding construction companies) which has come to account for 81.2% of total corporate credit, due to the support given to Small and Medium-Sized Enterprises (SMEs) through the official credit lines. Among the 25 such lines currently marketed SME Growth and *Invest* QREN stand out.

CEMG continues to favour the continuous monitoring of SMEs, encouraging a medium and long-term relationship while seeking an appropriate solution for each situation. This strategy led to 3.7% growth in the number of customers from this segment.

It is the ever increasing range of products for this segment that has provided that growth, led by specialist credit with a year-end total of 645.8 million euros (leasing, renting and factoring). Of particular importance in this portfolio are leasing, valued at 520.6 million euros, and the factoring service OK-invoice, valued at 117.4 million euros.

7. Risk Management

In 2012 methods and procedures were developed to identify risks, quantify the potential underlying losses and take steps to mitigate them.

CREDIT RISK

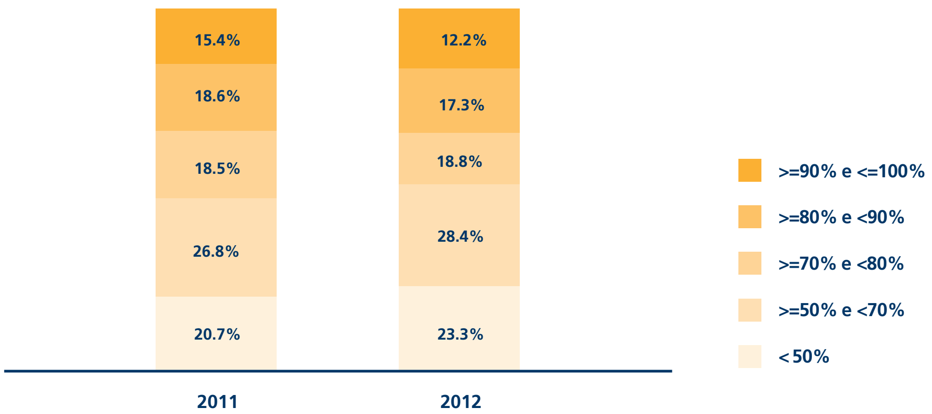
The highlight of 2012 was the introduction of a method for assigning credit ceilings to non-financial companies according to the entity risk.the method of assigning credit ceilingsto financial companies was also revised.

In the corporate credit segment the concentration among the low risk or very low risk classes (classes 1-4) continued and accounted for 41.2% of the portfolio, despite the increase in the relative weight of exposure to customers with an intermediate risk in-house rating (28.7% for classes 5-6, compared to 21.3% the previous year).

Inregard to housing loans the average class credit score fell slightly compared to the previous year (from 4.4 to 4.3 on an increasing risk scale), while for personal credit the average class credit score remained unchanged (3.8 on a similar scale for housing loans). As regards credit granted over the year, in the housing segment the average class score improved slightly over the previous year (from 3.0 to 2.9), due to more restrictive credit criteria, while personal loans retained its average class risk score (3.7).

The Loan to Value ratio (LTV) recorded an improvement in the housing loan portfolio, since the average LTV for the active portfolio fell from 67.9% in 2011 to 65.9% in 2012.

BREAKDOWN OF HOUSING LOAN PORTFOLIO BY LTV LEVEL



The balance sheet continues to be well protected from credit risk given the types and quantity of guarantees received, of which real guarantees represent 75.4% of the total and 92.1% of those are loans with mortgage collateral.

Nonetheless the deteriorating economic context in association with the deleverage process required by the Assistance Program was reflected in the increasing of the non-performance rate and the credit risk ratios. The value of credit and interest overdue rose by 13.6% while gross credit was down 4.9%. This change led to a rise in the various credit risk ratios, with the ratio of credit overdue over 90 days standing at 5.0% and the non-performance ratio at 6.3%.

CHANGE IN MAIN CREDIT AND INTEREST OVERDUE INDICATORS

(thousand euros)

INDICATORS	2011	2012	Change	
			Value	%
Gross Customer Credit	**17 410 344**	**16 563 739**	**-846 605**	**-4.9**
Credit and Interest Overdue	**822 750**	**934 565**	**111 815**	**13.6**
Credit and Interest Due over 90 days	693 892	830 919	137 027	19.7
Imparity for Credit Risks	**770 476**	**922 284**	**151 808**	**19.7**
Credit Overdue Ratios as % of Total Credit				
Credit and Interest Due over 90 days Ratio	3.99	5.02	1.03 p.p.	
Non-performance Credit Ratio (a)	5.02	6.32	1.30 p.p.	
Non-performance Credit Net of Imparity Ratio (a)	0.64	0.82	0.18 p.p.	
Credit at Risk Ratio (a)				
Credit at Risk / Total Credit (%)	7.82	10.95	3.13 p.p.	
Net Credit at Risk / Total Net Credit (%)	3.57	5.72	2.15 p.p.	
Credit Overdue Covered by Imparity (%)				
Credit and Interest Due over 90 days	111.04	111.00	-0.04 p.p.	
Credit and Interest Overdue	93.65	98.69	5.04 p.p.	

(a) Pursuant to Bank of Portugal Instruction no. 23/2012.

In this context credit risk impairment rose by around 151.8 million euros to 922.3 million euros at the end of 2012. The increased provision enabled the ratio of credit overdue for more than 90 days covered by impairment to remain at 111%

CONCENTRATION RISK

In line with the diversification strategy that CEMG has adopted, in 2012 there was a positive change in the levels of concentration, as reported regularly according to Bank of Portugal Instruction no. 5/2011.

The sectoral concentration index fell from 17.6% in December 2011 to 15.7% in December 2012, and the relative weight of the construction sector in the non-financial corporate credit portfolio from 34.0% to 30.4%. Once more, the sectoral distribution of credit in December 2012 showed the predominance of the tertiary sector over the secondary sector, with shares of 54.7% and 44.2% respectively.

As regards geographical concentration the districts of Lisbon and Oporto remained the regions with the highest relative weight in the credit portfolio at 36.4% and 14.3% (34.4% and 14.9% respectively in December 2011), in keeping with each districts demographics. The degree of exposure in Lisbon rose by 1.96 percentage points (p.p.) from December 2011 and December 2012, while in Oporto it fell by 0.6 p.p. over the same period.

As for the individual concentration risk, which measures the risk from significant exposure to an individual counterpart or a group of related counterparts, there was a slight increase in the relative weight of the 100 largest exposures from 12.9% to 14.1%, between December 2011 and December 2012, which represented a change in the general concentration index of 0.19% to 0.21%. The concentration index for the 1 000 largest exposures also rose from 0.11% in December 2011 to 0.12% in December 2012 and relative weight in the total portfolio went up from 25.9% to 28.1% from December 2011 to December 2012.

FINANCIAL ASSETS RISK

CEMG's financial instruments portfolio declined from 76.4 million euros between 2011 and 2012. This decrease is related to the fall in bonds and commercial paper held, whose combined weight in the total portfolio went from 86.5% to 82.9%, while securities increased both in value and in relative weight. Among the debt instruments bonds recorded the sharper fall at 141.8 million euros (-7.2%).

BREAKDOWN OF FINANCIAL INSTRUMENTS BY ASSET TYPE

(thousand euros)

TYPE OF ASSETS	2011		2012		Change	
	Value	%	Value	%	Value	%
Bonds	1 965 388	76.4	1 823 573	73.0	-141 815	-7.2
Commercial Paper	260 998	10.1	247 484	9.9	-13 514	-5.2
Securities	347 982	13.5	426 926	17.1	78 944	22.7
TOTAL	**2 574 368**	**100.0**	**2 497 983**	**100.0**	**-76 385**	**-3.0**

The main changes in the bond portfolio structure by rating class (excluding mortgage bonds and securitisations) were essentially caused by the decline in Eurozone country risk ratings, in particular Portugal which slipped from BB+ to BB. The change in exposure to unrated debt instruments is related to various firm placement bond operations undertaken in the second half of the year.

BOND PORTFOLIO STRUCTURE BY RATING CLASS
(excluding Mortgage Bonds and Securitisations)

(thousand euros)

RATING CLASSES	2011		2012		Change	
	Value	%	Value	%	Value	%
AAA	43 364	2.2	13 194	0.7	-30 170	-69.6
AA+	1 589	0.1	3 666	0.2	2 077	130.7
AA	24 931	1.2	5 496	0.3	-19 435	-78.0
AA-	77 578	3.9	3 252	0.2	-74 326	-95.8
A+	37 297	1.9	19 758	1.1	-17 539	-47.0
A	97 000	4.8	15 387	0.9	-81 613	-84.1
A-	62 737	3.1	55 179	3.1	-7 558	-12.0
BBB+	50 442	2.5	59 472	3.4	9 030	17.9
BBB	49 961	2.5	26 831	1.5	-23 130	-46.3
BBB-	27 541	1.4	60 800	3.4	33 259	120.8
BB+	1 247 924	62.3	64 872	3.7	-1 183 052	-94.8
BB	70 790	3.5	1 105 381	62.6	1 034 591	1461.5
BB-	31 347	1.6	11 906	0.7	-19 441	-62.0
B	28 322	1.4	1 478	0.1	-26 844	-94.8
B-	0	0.0	30 288	1.7	30 288	–
B+	0	0.0	1 519	0.1	1 519	–
CCC+	5 850	0.3	0	0.0	-5 850	–
CCC	24 087	1.2	8 571	0.5	-15 516	-64.4
CC	0	0.0	1 336	0.1	1 336	–
C	0	0.0	3 125	0.2	3 125	–
NR	121 940	6.1	275 367	15.6	153 427	125.8
TOTAL	**2 002 700**	**100.0**	**1 766 878**	**100.0**	**-235 822**	**-11.8**

LIQUIDITY RISK

In order to mitigate liquidity risk CEMG used diversified sources of finance, favouring resource stability, and the maintenance of high liquidity assets that allow the institution to apply for liquidity support from the European Central Bank (ECB) if need be, as well as measures that allow it to acquire more deposits and other customer resources.

The positive change in customer resources and the fall in credit led to a further reduction in the leverage ratio which went from 124.1% in 2011 to 120.5% in 2012 (-3.6 p.p.), calculated under the Financing and Capital Plan submitted quarterly to the Bank of Portugal. This value is already in line with that required by the authorities for the end of 2014 (120%). If we take into account all customer resources on the balance sheet, the leverage ratio improves by around 12.3 p.p. to 104.2%.

CREDIT – DEPOSIT RATIO (%)

	2011	2012	Change
Net Customer Credit / Customer Deposits (1)	124.1	120.5	-3.6 p.p.
Net Customer Credit / Customer Deposits (2)	122.1	118.7	-3.5 p.p.
Net Customer Credit / Customer Resources on Balance Sheet (3)	116.5	104.2	-12.3 p.p.

(1) Funding and Capital Plan definition.
(2) Pursuant to Bank of Portugal Instruction nº 23/2012.
(3) Customer Deposits and Instruments placed with Customers.

Once again the on-going deleverage process, where the priority was an increase in customer savings, in particular small and medium size savings led to a significant reduction in the commercial gap (total net credit – customer deposits) which went from -3 289.7 million euros in 2011 to -2 717.7 million euros in 2012 and had a favourable impact on liquidity.

In regard to resources obtained from the ECB, there was a drop of 240 million euros, as the ECB resources balance went from 2 000 million euros on 31 December 2011 to 1 760 million euros at the end of 2012.

The value of the available liquidity pool, to be requested from the ECB if the need arises, increased to 1 379.5 million euros.

The value of the assets that can be used as collateral at the European Central Bank rose 148.4 million euros from 2 991.1 million euros on 31 December 2011 to 3 139.5 million euros on 31 December 2012. This increase was mainly due to two factors: on the one hand the change in the market value of the assets given as a guarantee to the ECB and on the other the positive impact associated with the ease of acquiring bank loans from the Eurosystem to guarantee credit operations. These two factors more than compensate for the adverse impact of the decrease in some assets' haircuts due to the rating changes.

POOL OF ASSETS ELIGIBLE FOR ECB REFINANCING

(thousand euros)

	2011		2012		Change	
	Value	%	Value	%	Value	%
1 – Pool of eligible assets	2 991 055	100.0	-3 139 482	100.0	148 427	5.0
of which credit portfolios	–	–	*445 442*	*14.2*	*445 442*	–
2 – Pool use	2 000 000	66.9	1 760 000	56.1	-240 000	-12.0
3 – Pool of Assets Available (1-2)	**991 055**	**33.1**	**1 379 482**	**43.9**	**388 427**	**39.2**

In 2012 the change in the use of the pool of assets eligible for ECB refinancing was conditioned by the use of long-term financing lines and by the decline in the risk rating of a number of issuing bodies. Nonetheless following the temporary liquidity measures announced by the ECB in December 2011 and adopted by the Bank of Portugal in 2012 (Instruction no. 7/2012) the eligible assets pool gained from the use of credit rights portfolios to guarantee Eurosystem credit operations.

As in previous years there was little activity on the Interbank Money Market (IMM) throughout 2012. Liquidity placing and purchasing operations were centred on short maturities of up to one week. The fact that Portugal's risk rating was deemed high by the financial markets affected business with foreign banks. CEMG's position at the end of 2012 was a net surplus of 36 million euros over investments in other credit institutions, with an average rate of 1.0417%, above both the Refi rate and the Euribor term rates. On 31 December 2012 CEMG had no operations awaiting placement on the IMM.

Historically CEMG has recorded positive dynamic liquidity gaps, with positive accumulated mismatches for time periods of up to 12 months which constitutes a balanced liquidity plan. At the end of 2012 the accumulated dynamic liquidity mismatch up to the following 12 months was 495 million euros.

DYNAMIC LIQUIDITY GAPS IN DECEMBER 2012

(million euros)

Position at reference date + Forescast values	Time Periods				
	On 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	**1 664**	**2 080**	**1 894**	**839**	**495**

INTEREST RATE RISK

In 2012 the impact on the liquidity position stemming from a parallel shift of +200 basis points (b.p.) on the earnings curve was +8% (-3% in 2011). Therefore the sensitivity of CEMG's banking portfolio to interest rate risk was within the recommended limit of 20% of Equity defined by the BIS in «*Principles for the Management and Supervision of Interest Rate Risk*».

At the end of 2012, the 12 month accumulated repricing gap was estimated at 5 100 million euros (3 100 million euros in 2011) and the expected impact on Financial Profit is +44.5 million euros (+29.6 million euros in 2011) if there is an instant change in interest rates of +100 b.p. The change in this measure comes essentially from the difference between the interest rate revision periods and the concentration in longer term liabilities

OPERATING RISK

In 2012 operating risk management focused on extending the operating risk model to other Group entities, namely Montepio Crédito and Finivalor.

Efforts were made to spread the operating risk management culture by means of an e-learning training course on operating risk management aimed at all employees and the holding of workshops in a range of fields. As regards the identification of operating risk situations, risk and control charts were reviewed and an annual self-assessment was performed for the more significant exposures, together with an operating risk profile evaluation for new products, processes and activities.

In terms of risk monitoring the main activities undertaken were the improvement of the collection process and analysis of loss events deriving from operating risk, the analysis of Key Risk Indicators, the assessment by a committee of exposure to operating risk and the drawing up of regular reports on the Institution's operating risk profile.

In the context of the mitigation phase Action Plans were developed for the more important risks, identified on the basis of the operating risk management tools referred to earlier.

As far as operating risk exposure is concerned the types of event which were most severe and frequent were those connected to external fraud and shortcomings in the execution, delivery and management of processes.

BREAKDOWN OF EVENTS BY LOSS TYPE IN 2012

FREQUENCY		SEVERITY	
Processes	63.9%	External Fraud	42.5%
External Fraud	21.4%	Processes	42.2%
Systems	5.9%	Customers and Business	11.6%
Other	8.8%	Other	3.7%

At the process phase of **Business Continuity Management**, seen as a risk mitigation tool for making business processes more resilient and ensuring operations continue if an event arises that could cause business to be interrupted, the more important developments in 2012 were a result of the consolidating of the business processes following the purchase of Finibanco, aimed at supporting its extension to a number of Group entities. At the assessment phase the critical business processes and respective Recovery Time Objective were reviewed while new systems recovery solutions were implemented and business recovery exercises were conducted.

STRESS TESTS

Under Portugal's financial assistance program CEMG took part in the quarterly stress tests in line with the macroeconomic assumptions and requirements laid down by the Bank of Portugal. The results under the adverse scenarios considered showed that CEMG continues to enjoy suitable capitalisation levels.

In addition to the stress tests reported to the Bank of Portugal, CEMG regularly conducted other impact studies the results of which were disclosed and discussed in the Assets and Liabilities Committee (ALCO). The tests performed set out to provide an analytical view of CEMG's position in terms of liquidity, profits and capital when subject to unfavourable scenarios stemming from changes in risk factors such as interest rates, credit spreads, deposit refunds, eligible asset evaluation margins applied by the Central European Bank (ECB), credit ratings (for CEMG and the issuing bodies), portfolio and collateral losses, among other factors. The results of the analysis showed compliance with the established strategies and the achievement of the desired levels of solvency, liquidity and sustainability.

COMPLIANCE

In recent years the compliance function, as an integral part of the internal control system and responsible for compliance risk management, has been a core activity in credit institutions and finance companies, with a view to control fulfilment of the legal obligations and duties to which such entities are subject.

In this matter the Compliance Office's compliance risk mitigation function runs across the board at the heart of the Montepio Group, at the level of compliance risk management and money laundering and terrorism financing prevention policies, an important factor in compliance risk mitigation given the great advantage taken of existing synergies.

In 2012, in addition to retaining important information disclosure procedures and intervening in the compulsory reports to the authorities and supervisory bodies, special significance was also given to actions taken and monitoring conducted in fields such as:

- Specific processes for incorporating legislative demands and communications from external entities (regulatory, supervisory and sector representatives), with particular emphasis on Decree-Law no. 227/2012 of 25 October which lays down principles and rules to be followed by credit institutions in order to prevent and solve situations of non-performance of credit contracts by banking customers);
- Product development and adjustment process, with special emphasis on matters relating to their characteristics, price, campaigns, promotional materials and respective sale, taking into account the need to comply with the duty of providing information, transparency rules, truthfulness and balance;
- The devising and revising of internal rules by means of a prior opinion on their compliance with the established rules and regulations.
- The continuous improvement of IT solutions aimed at compliance risk management, especially in regard to processes linked to the monitoring of transactions, the filtering of customers and transfers in the context of money laundering and terrorism financing prevention. Note the introduction of improvements in the identification and detection of transactions by PEP's (Politically Exposed Persons), pursuant to Law no. 25/2008 of 5 June which lays down preventative and repressive measures to fight the laundering of illicit advantages and the financing of terrorism).

8. Balance Sheet and Profits Analysis

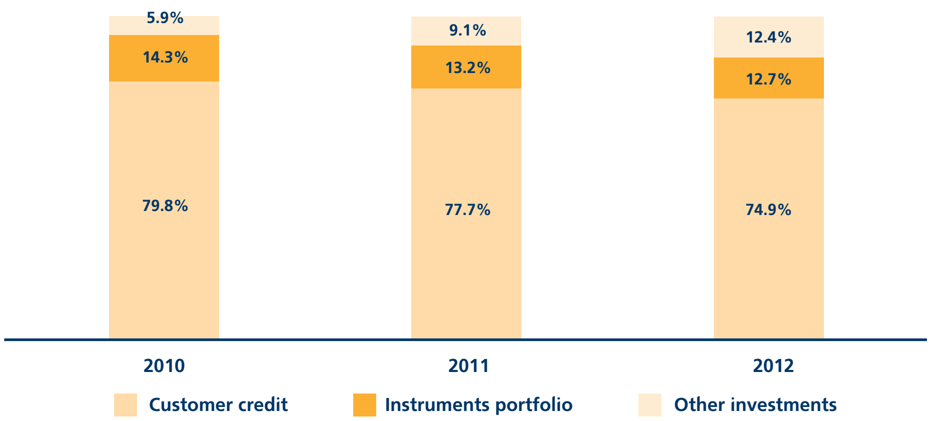
BALANCE SHEET ANALYSIS

In 2012, CEMG pursued its diversification strategy by reducing its asset concentration and by increasing customer resources among its liabilities and equity under the on-going deleverage process, so as to meet the targets set in the Funding & Capital Plan.

ASSET STRUCTURE

Net assets totalled 20 972.7 million euros, recording a decrease of 2.4% compared to 2011. This stemmed from the decline in customer credit, which accounts for less than 75% of total assets (77.7% in 2011), and contributed to the asset concentration reduction profile in 2012.

CHANGE IN ASSET STRUCTURE



LIABILITIES AND EQUITY STRUCTURE

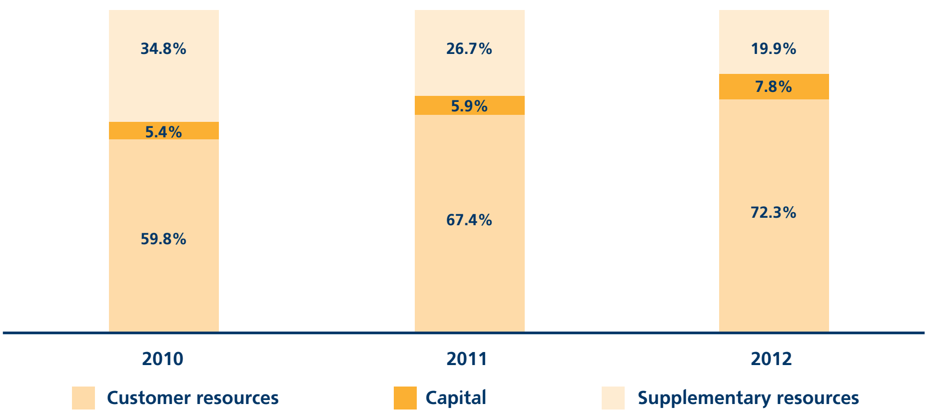
Liabilities totalled 19 337.8 million euros, at the end of 2012, i.e. a decrease of 898.1 million euros as compared with 20 235.9 million euros in 2011. This decrease was due essentially to the decline in complementary resources, which include funding from the financial markets (Subordinated and Unsubordinated Loans and debt Certificates), write-offs and debt instruments repurchasing operations.

(thousand euros)

	2011		2012		Change	
	Value	%	Value	%	Value	%
LIABILITIES	**20 235 902**	**94.1**	**19 337 761**	**92.2**	**-898 141**	**-4.4**
Customer resourses	**14 498 545**	**67.4**	**15 170 652**	**72.3**	**672 107**	**4.6**
Deposits from customers and credit institution deposits	13 608 555	63.3	13 103 506	62.4	-505 049	-3.7
Instruments placed with customers (bonds)	889 990	4.1	2 067 146	9.9	1 177 156	132.3
Supplementary resources	**5 737 357**	**26.7**	**4 167 109**	**19.9**	**-1 570 248**	**-27.4**
Central bank and credit institution resources	2 544 299	11.8	2 234 937	10.7	-309 362	-12.2
Subordinated and unsubordinated loans and debt certificates	2 253 873	10.5	887 285	4.2	-1 366 588	-60.6
Financial liabilities associated with transferred assets	453 061	2.1	244 419	1.2	-208 642	-46.1
Other liabilities	486 124	2.3	800 468	3.8	314 344	64.7
EQUITY	**1 259 488**	**5.9**	**1 634 970**	**7.8**	**375 482**	**29.8**
TOTAL EQUITY AND LIABILITIES	**21 495 390**	**100.0**	**20 972 731**	**100.0**	**-522 659**	**-2.4**

Conversely, there was an increase in customer resources (+4.6%), in line with CEMG's strategy in the current economic climate, due to an increase in the longer-term funds from retail customers to replace funding from the financial markets.

CHANGE IN LIABILITIES AND EQUITY STRUCTURE



Thus customer resources strengthened its position as the major source of business finance, and at the end of 2012 it accounted for around 72.3% of total liabilities and equity, compared to 67.4% in 2011.

There was also an increase in total equity (including reserves), which stood at 1,600 million euros, compared to 1,300 million euros in 2011. This was due in part to an increase in capital of 50 million euros in December, with a view to reinforcing financial soundness and capitalisation so as to meet the targets imposed by the FAP.

PROFITS

The consolidated profit of the CEMG Group in 2012 was 2.1 million euros, which was provided by Finibanco Holding, which includes Finibanco SA, Finibanco Angola, SA, Finivalor and Montepio Crédito, Montepio Cabo Verde, following full consolidation of their accounts and by incorporating the net worth of Lusitania Companhia de Seguros and Lusitania Vida.

(thousand euros)

	2011		2012		Change	
	Value	%	Value	%	Value	%
Financial profit	318 721	57.1	281 080	65.3	-37 641	-11.8
Net commission on customer services	94 014	16.8	104 945	24.4	10 931	11.6
Commercial banking revenue	**412 735**	**73.9**	**386 025**	**89.8**	**-26 710**	**-6.5**
Market profit (a)	89 989	16.1	23 588	5.5	-66 401	-73.8
Return on financial investments	737	0.1	338	0.1	-399	-54.1
Profit on sale of credit recovery properties	24 314	4.4	-17 199	-4.0	-41 513	-170.7
Other income	30 855	5.5	37 754	8.8	6 899	22.4
Banking revenue	**558 630**	**100.0**	**430 506**	**100.0**	**-128 124**	**-22.9**
Staff costs	225 373	40.3	197 146	45.8	-28 227	-12.5
Administrative overheads	115 443	20.7	119 357	27.7	3 914	3.4
Depreciation	28 270	5.1	43 556	10.1	15 286	54.1
Operating costs	**369 086**	**66.1**	**360 059**	**83.6**	**-9 027**	**-2.4**
Operating costs – excluding one-off item	***320 648***	***57.4***	***336 674***	***78.2***	***16 026***	***5.0***
Gross profit	**189 544**	**33.9**	**70 447**	**16.4**	**-119 097**	**-62.8**
Net provisions and impairment	**157 937**	**28.3**	**232 119**	**53.9**	**74 182**	**47.0**
Customer credit	143 728		171 621		27 893	19.4
Instruments	23 048		35 673		12 625	54.8
Other	-8 839		24 825		33 664	380.9
Profit from Associated Companies and Joint Ventures	**999**		**-6 086**		**-7 085**	**-709.2**
Pre-tax profit	**32 606**	**5.8**	**-167 758**	**-39.0**	**-200 364**	**-614.5**
Taxation	**14 692**		**170 951**		**156 259**	**–**
Current	-3 689		-6 963		-3 274	-88.8
Deferred	18 381		177 914		159 533	867.9
Minority Interests	**-2 269**		**-1 094**		**1 175**	**51.8**
Profit for the year	**45 029**	**8.1**	**2 099**	**0.5**	**-42 930**	**-95.3**
Profit for the year – excluding one-off items	***93 467***	***16.7***	***25 484***	***5.9***	***-67 983***	***-72.7***

(a) includes income from shares except financial holdings.

In a context of restricted business, note should be made of the favourable contribution of fees from services provided, due to the more diversified business conducted with customers, the profit on available-for-sale assets and the buying back of own debt, other revenues which include earnings relating to the management of current accounts, and the cut in operating costs.

Excluding events of an extraordinary nature arising in 2012, that include total non-recurring operating costs of 23.4 million euros (5.0 million euros on staff costs, 9.1 million euros on administrative overheads and 9.3 million euros on depreciation), profit for the year stood at 25.5 million euros.

Profits for 2012 included 170.95 million euros in taxes (current and deferred), compared to 14.69 million euros in 2011, following the change in CEMG's corporation tax position. Taxes in 2012 include: -6.96 million euros (-3.69 million euros in 2011) of current taxes and 177.91 million euros (18.38 million euros in 2011) of deferred taxes, relating to time differences resulting from non-deductible impairment losses and tax losses for the period.

The return on equity (ROE) was 0.14% in 2012 and the return on average assets (ROA) was 0.01%.

	2011	2012	Change	
	Value	Value	Value	%
Profitability Ratios				
Return on Assets (ROA)	0.21%	0.01%	-0.20 p.p.	
Return on Equity (ROE)	3.87%	0.14%	-3.73 p.p.	
Total Cash-Flow (thousand euros)	**231 236**	**277 774**	**46 538**	**20.1**
Depreciation	12.2%	15.7%	3.5 p.p.	
Net provisions and impairment	68.3%	83.5%	15.2 p.p.	
Profit for the year	19.5%	0.8%	-18.7 p.p.	

FINANCIAL PROFIT

In 2012, financial profit totalled 281 million euros, a fall of 11.8% compared to the 319 million euros in the previous year. This was caused by the combined effect of deleverage (the decline in the volume of average capital applied) and the accrued rise in liability operation interest rates.

(million euros)

	2011			2012		
	Average capital	Average rate	Revenue/ Costs	Average capital	Average rate	Revenue/ Costs
Financial assets	**20 309**	**5.78%**	**1 174**	**19 944**	**5.77%**	**1 151**
Customer credit	17 057	4.10%	700	16 906	4.41%	745
Other investments	3 252	6.15%	200	3 038	5.77%	175
Swaps			274			231
Financial liabilities	**19 734**	**4.33%**	**855**	**19 186**	**4.54%**	**870**
Deposits	12 274	2.83%	347	13 204	3.41%	450
Other liabilities	7 460	3.34%	250	5 982	3.48%	208
Swaps			258			212
Profit / Margin		**1.57%**	**319**		**1.41%**	**281**
Euribor 3M – average for period		**1.30%**			**0.57%**	

The fall in financial profit was caused by the upward trend in average interest rates for financial liabilities, particularly deposits, in a context of stiff competition for customer savings given financial institutions' liquidity needs.

Conversely, financial asset interest rates remained practically at the 2011 level, benefitting from the decrease in market investment rates and the slight rise of just 30 b.p. in the average customer credit rate.

Thus the financial profit rate fell to 1.41%, below that recorded in 2011.

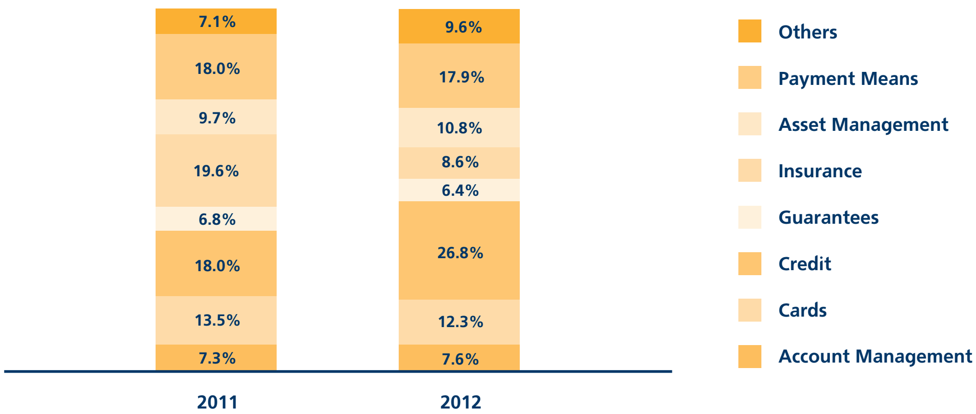
COMMISSION ON SERVICES TO CUSTOMERS

Net commission on services to customers showed progress, reaching 104.9 million euros, which represents growth of 11.6% as compared to 2011. It benefitted from the diversification policy and the continual innovation and improvement in the quality of the products and services on offer.

A major contributor to this positive change was net commission from credit operations that represented 26.8% of total net commission as a result of the more diversified portfolio, especially in the corporate segment.

The rise in commission was also driven by the positive change in asset management revenues, benefitting from the increase in off balance sheet resources, particularly investment funds, by the increase in account management revenues, payment means and other services provided.

BREAKDOWN OF COMMISSION ON SERVICES TO CUSTOMERS



MARKETS

The year 2012 was marked by a slight recovery in the financial markets, mainly in the second half of the year, although it was still volatile and uncertain, as a result of the lack of definition as to the progress of the sovereign debt crisis in the peripheral European countries.

In the field of financial market operations CEMG continued to take a conservative stance, combining prudence and thoroughness. Note the sale of available-for-sale assets totalling 82.6 million euros, the profit on repurchased debt, and the income from currency operations which stood at 14.4 million euros.

Conversely, there was a negative change in assets held for trading which contributed to total market profit falling to 23.6 million euros at the end of the year.

(thousand euros)

	2011	2012	Change	
	Value	Value	Value	%
Profit on Assets and Liabilities at Valued at Fair Value by Profits	**62 138**	**-62 742**	**-124 880**	**-201.0**
Financial assets and liabilities held for trading	64 458	-61 464	-125 922	-195.4
Financial assets and liabilities at fair value by profits	-409	-1 421	-1 012	-247.4
Cover derivatives	-6 612	-895	5 717	86.5
Other financial operations	4 701	1 038	-3 663	-77.9
Profit on sale of financial assets held for sale	**3 667**	**82 586**	**78 919**	**2 152.1**
Profit on currency revaluations	**8 410**	**14 419**	**6 009**	**71.5**
Profit on sale of bonds	**-676**	**0**	**676**	**–**
Other profits	**16 266**	**-10 891**	**-27 157**	**-167.0**
Income from shares	**184**	**216**	**32**	**17.4**
TOTAL	**89 989**	**23 588**	**-66 401**	**-73.8**

OPERATING COSTS

Operating costs, which include staff costs, administrative overheads and depreciation for the year fell 2.4%, to 360.1 million euros in 2012, compared to 369.1 million euros in 2011.

This positive change was brought about by the fall in staff costs of 28.2 million euros (-12.5%), above all due to the lower compulsory social charges (pension fund).

However total operating costs in 2012 include 23.4 million euros of non-recurring costs that include:

- the exceptional writing-off of property and intangible assets totalling 9.2 million euros that include work carried out on branches that were closed in 2012;

- the cost of early retirements to the sum of 3.0 million euros;
- costs of 2.0 million euros relating to the On-Site Inspections Program (OIP) – Workstream 3 (WS3), as described in the text box in the next section.

Operating costs for 2012 less non-recurring costs amounted to 336.7 million euros.

(thousand euros)

	2011	2012	Change	
			Value	%
Staff Costs	225 373	197 146	-28 227	-12.5
Administrative Overheads	115 443	119 357	3 914	3.4
Depreciation	28 270	43 556	15 286	54.1
Total Operating Costs	**369 086**	**360 059**	**-9 027**	**-2.4**
One-off Costs	**48 438**	**23 385**	**-25 053**	**-51.7**
Staff Costs	**33 336**	**5 021**		
Contractual compensation	1 932	717		
Cost of Early Retirement	17 308	3 047		
Transfer from Pension Fund to Social Security	14 096	1 256		
Administrative Overheads	**15 102**	**9 124**		
Finibanco integration costs	13 667	2 875		
Process alignment and improvements	0	4 218		
Assessors costs (OIP and WS3)	1 435	2 031		
Depreciation	**0**	**9 240**		
Exceptional write-off of property and intangible assets	0	9 240		
Total Operating Costs	**320 648**	**336 674**	**16 026**	**5.0**

Despite the fall in operating costs, the sharp fall in banking revenue led to a worsening of the Cost to Income ratio that stood at 83.6 % at the end of 2012. Cost to Income less non-recurring expenses stood at 78.2%.

(thousand euros)

	2011	2012	Change
	Value	Value	Value %
RATIOS			
Staff Costs / Banking Revenue (a)	40.3%	45.8%	5.5 p.p.
Administrative Overheads / Banking Revenue	20.7%	27.7%	7.0 p.p.
Depreciation / Banking Revenue	5.1%	10.1%	5.0 p.p.
Cost-to-Income (a)	**66.1%**	**83.6%**	**17.5 p.p.**

(a) Pursuant to Bank of Portugal Instruction no. 23/2012.

PROVISIONS AND IMPAIRMENT

In 2012, the total change in provisions and impairment was directly related to the increased risk in the credit and finance business and the rise in credit impairment resulting from the Bank of Portugal's On-Site Inspections Program (OIP).

Total net provisions and impairment recorded year-on-year growth of 74.2 million euros. This constitutes a change of +47.0% and includes an increase in credit and instruments impairment.

On-Site Inspections Program (OIP) of Exposure to the Construction and Real Estate Sectors

DIn 2012 it was necessary to upgrade credit impairment as a result of the conclusions of the On-Site Inspections Program (OIP) undertaken by the Bank of Portugal. This program, which involved the 8 major Portuguese banking groups set out to assess the adequacy of the recorded impairment levels to the quality of the Construction and Real Estate credit portfolios, as at 30 June 2012. It was estimated that for the 8 banking groups inspected it would be necessary to increase impairment by 861 million euros, of which 69 million euros were related to CEMG, and accounted for 3.1% of the exposures assessed.

(thousand euros)

	2011		2012		Change	
	Value	%	Value	%	Value	%
Net impairment on customer credit	143 728	91.0	171 621	73.9	27 893	19.4
Net impairment on instruments	23 048	14.6	35 673	15.4	12 625	54.8
Net impairment and provisions for other assets	-8 839	-5.6	24 825	10.7	33 664	380.9
Total net impairment and provisions	157 937	100.0	232 119	100.0	74 182	47.0
Increase in impairment on credit – OIP	0		69 000		69 000	–
Total net impairment and provisions without OIP	157 937		163 119		5 182	3.3

PENSION FUND

On 31 December 2012, pension fund assets stood at 522.8 million euros, with cover for minimum liabilities at 118.3% (116.1% in 2011) and cover for total liabilities at 112.4% (104.9% in 2011).

(thousand euros)

	2011	2012	Change	
	Value	Value	Value	%
1. Total liabilities				
Current staff	311 565	350 702	39 137	12.6
Retired staff	115 271	114 385	-886	-0.8
TOTAL 1	***426 836***	***465 087***	**38 251**	**9.0**
2. Non-demanded or deferred liabilities				
Exempt from financing	15 578	17 535	1 957	12.6
Application of IAS	15 835	5 620	-10 215	-64.5
Impact of Mortality Table	9 773	0	-9 773	–
TOTAL 2	**41 186**	**23 155**	**-18 031**	**-43.8**
3. Cover of Minimum Liabilities (1-2)	**385 650**	**441 932**	**56 282**	**14.6**
4. Value of the Fund	**447 825**	**522 754**	**74 929**	**16.7**
5. Cover:				
Minimum Liabilities (4/3)	116.1%	118.3%		2.2 p.p.
Total Liabilities (4/1)	104.9%	112.4%		7.5 p.p.
6. Adjustments to the Fund:				
6.1. Contributions accepted (+)	44 075	11 911	-32 164	-73.0
6.2. Efective return on assets (+)	-22 993	72 146	95 139	413.8
6.3. Value of Finibanco Pension Fund at 1/1/2011	85 585	0	-85 585	–
6.4. Charges (-)	183 910	1 256	-182 654	-99.3
6.5. Pensions paid (-)	20 029	7 872	-12 157	-60.7
6.6 **TOTAL 6 (6.1+6.2+6.3-6.4-6.5)**	**-97 272**	**74 929**	**172 201**	**177.0**

When calculating Montepio Group Pension Fund liabilities, the following assumptions were made:

- discount rate of 4.5% (5.5% in 2011);
- salary growth rate of 1.5% (2.0% in 2011);
- pensions growth rate of 0.5% (1.0% in 2011);
- continued use of TV 88/90 mortality table, for men and women.

Total liabilities stood at 465.1 million euros and saw year-on-year growth of 9.0% due to the combined effect of changes in assumptions.

Transfer of Pension Liabilities to Social Security

As a result of the operation agreed between the Portuguese Bank Association, on behalf of its member banks, and the Government, the partial transfer of retirement and widow's pensions to the sum of 169.8 million euros was completed on 30 December 2011. This included a payment to the State of 185.2 million euros. The difference between the liabilities transferred (calculated at the 5.5% discount rate used by the Montepio Group) and the sum paid to the State (calculated at the 4% discount rate used by the State) led to an extraordinary expense of 14.1 million euros in 2011 and 1.3 million euros in 2012.

SOLVENCY

In order to maintain a suitable level of capital and improve financial soundness, the institutional financial investment in CEMG was increased by 50 million euros in December 2012 by means of a transfer from MG-AM.

In December 2012 the consolidated solvency ratio stood at 13.58%, which was 0.02 p.p. higher than the December 2011 figure. The Core Tier I ratio rose to 10.62%, which represents a positive year-on-year change of 0.41 p.p., and exceeds the minimum level of 10% set by the Bank of Portugal for December 2012.

(thousand euros)

ITEMS	2011	2012	Change	
	Value	Value	Value	%
Eligible Own Funds	**1 831 996**	**1 854 434**	**22 438**	**1.2**
Institutional Capital	*1 245 000*	*1 295 000*	*50 000*	*4.0*
Reserves and Profits	*254 790*	*317 883*	*63 093*	*24.8*
Regulatory Deductions	*121 206*	*163 155*	*41 949*	*34.6*
Core Tier I Capital	**1 378 584**	**1 449 728**	**71 144**	**5.2**
Other capital instruments	*15 000*	*15 000*	*0*	*0.0*
Base equity deductions	*15 081*	*19 140*	*4 059*	*26.9*
Base Equity	**1 378 503**	**1 445 588**	**67 085**	**4.9**
Supplementary Equity	**456 670**	**421 764**	**-34 906**	**-7.6**
Other deductions	**3 177**	**12 918**	**9 741**	**306.6**
Minimum Required Own Funds	**1 080 498**	**1 092 268**	**11 770**	**1.1**
Assets and similar items weighted for risk	**13 506 227**	**13 653 346**	**147 119**	**1.1**
Ratios				
Solvency	13.56%	13.58%	0.02 p.p.	
Tier 1	10.21%	10.59%	0.38 p.p.	
Core Tier 1 (a)	10.21%	10.62%	0.41 p.p.	

(a) Ratio which defines minimum capital that an institution must possess to meet equity requirements stemming from business risk.

9. Ratings

CEMG's ratings had been assessed by three international rating agencies: Fitch Ratings, Moody's and DBRS. At the end of December 2012 CEMG's ratings were 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

10. Proposed Profit Distribution – Individual Basis

Pursuant to Article 30 (a) and (b) of CEMG's Articles of Association the Board of Directors proposes to the General Meeting the following distribution of Profits for 2012 totalling 2.256 million euros:

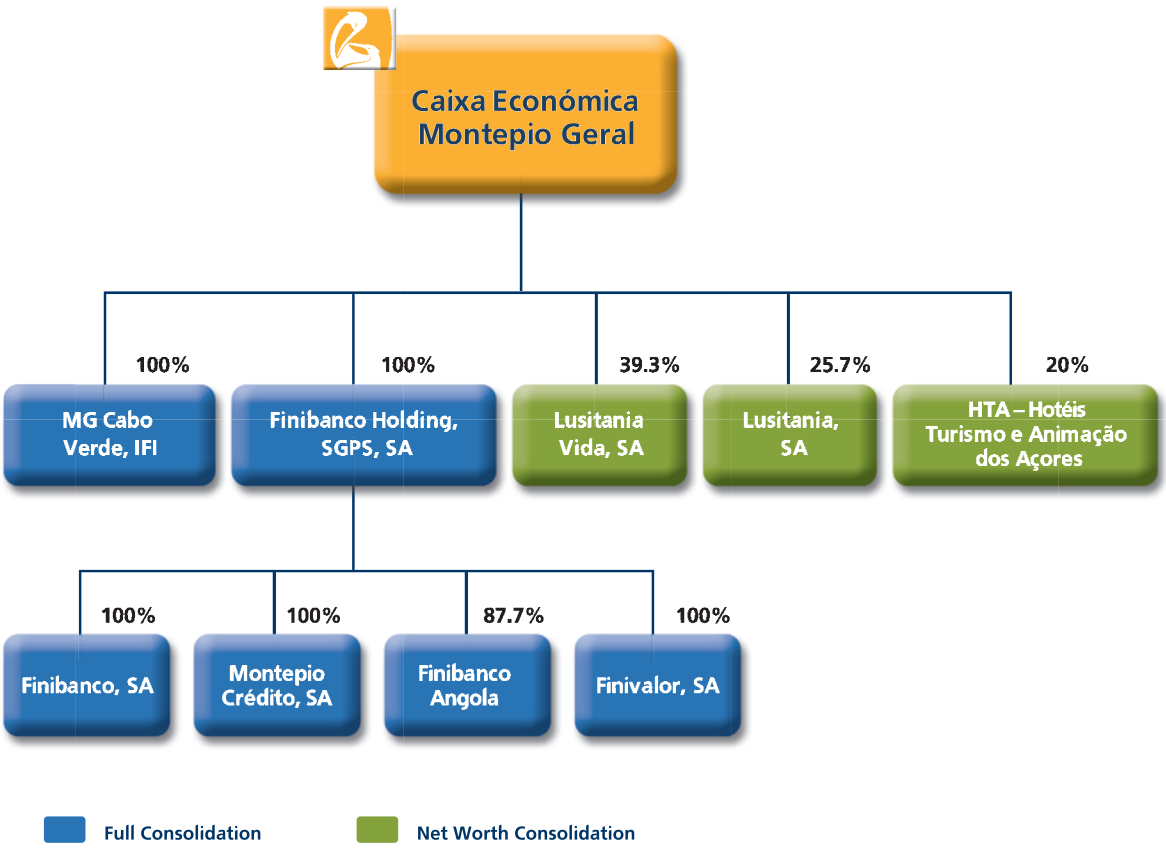
PROFIT DISTRIBUTION

(thousand euros)

	Value
To Legal Reserve (minimum of 20% – Article 30 (a) of CEMG's Article of Association)	451
To Special Reserve (minimum of 5% – Article 30 (b) of CEMG's Article of Association)	113
To be transferred to Montepio Geral – Associação Mutualista	1 692
NET PROFIT FOR THE YEAR ON INDIVIDUAL BASIS	**2 256**

11. Summary of CEMG Group Companies Performance

CEMG, which is wholly owned and attached to Montepio Geral – Associação Mutualista, has a majority holding in a series of companies where it controls management. These companies complement the supply of financial products and services that make up CEMG banking business and their profits contribute to the Creation of Wealth for Members and to the institution's mutual aims, while abiding by high ethical standards and social sustainability principles.



The consolidation scope referred to in this Report covers the accounts of this series of companies as well as:

- The Credit Securitisation Vehicles *Pelican Mortgages* no.1 and no. 2 (Full Consolidation);
- Real Estate Investment Funds (Full Consolidation):
  – *Montepio Arrendamento* – House Leasing Real Estate Investment Fund;
  – *Polaris* – Closed-end Real Estate Fund;
  – *Finipredial* – Open-end Real Estate Fund.

LUSITANIA – COMPANHIA DE SEGUROS, SA

In 2012 Lusitania, Companhia de Seguros, SA was ranked 9th in terms of output (out of a total of 34 Portuguese Non-Life Insurers) and had a market share of 5%.

The year was particularly unkind to the insurance business in general and especially to Lusitania in the Accidents at Work, Motor and Hulls classes that saw turnover slump and claims rise.

In 2012, Lusitania's direct insurance output was 199.4 million euros compared to 244.4 million euros in 2011. Overall the claims rate rose from 77.9% (in 2011) to 109.4%. In 2012 it is worth mentioning the strong growth recorded by Lusitania Mar, whose market share was 30.6% compared to 23.6% the previous year. This company operates in a sector of major strategic interest to the country, as it is linked to the sea economy, and held on to its lead in the Maritime and Transport branch of the Non-Life market.

The combined effect of the fall in gross premiums issued and the rise in claims was reflected in the 2012 losses of 15.7 and 14.7 million euros on an individual and consolidated basis, respectively.

Solvency on an individual basis was strengthened to the tune of 29.5 p.p., while the solvency margin cover rate was 196.2%. On a consolidated basis the improvement was 29.1 p.p. and on 31 December 2012 it was 138.2%.

LUSITANIA VIDA – COMPANHIA DE SEGUROS, SA

In 2012, the Life assurance market recorded an increase in risk aversion on the part of savers and a decline in direct insurance output of 8.1%, ending the year at 6,900 million euros.

Lusitania Vida's total output fell by 24.4 million euros (-23.9%) to 77.6 million euros (55.4% of output was achieved through the CEMG's banking channel – *Bancasseguros*).

On the other hand gross premiums issued recorded a notable growth of 8.6% and totalled 32.8 million euros (42.3% of total output compared to 29.6% in 2011).

Profit for the year was stable, i.e., 5.2 million euros versus 5.4 million euros in 2011. Despite this change return on equity fell 7.4 p.p. to 9.8% as compared to 2011, due to an equity support of 21.3 million euros, resulting from the positive impact of a 25.5 million euros increase in revaluation reserves relating to Portuguese public debt held.

At the end of 2012 Lusitania Vida's solvency margin cover rate was 335% versus 208% in 2011.

FINIBANCO HOLDING, SGPS, SA

Finibanco Holding, SGPS, SA is a holding company that owns 100% of Finibanco SA, Montepio Crédito SA and Finivalor SA as well as 87.67% of Finibanco Angola.

As at 31 December 2012 the net assets of Finibanco Holding stood at 322.7 million euros, representing a rise of 5.3% compared to the previous year.

Liabilities grew by 8.3 million euros (+6.5%) to 135 million euros.

Equity went up by 8 million euros (4.5%) to stand at 187.7 million euros at the year-end.

Profit for the year rose to 11 million euros compared to -0.3 million euros in 2011.

FINIBANCO, SA

Net assets stood at 195.2 million euros, 60.4% of which consisted of customer credit. Gross customer credit, comprising solely asset and property leasing, totalled 131.7 million euros, which accounted for a fall of 23.5 million euros (-15.1%), of which 13.9 million euros (10.6%) was covered by overdue credit provisions.

Banking revenue was 7.7 million euros, resulting in part from other income worth +1.5 million euros, while the sale of properties had a negative impact to the tune of 1.4 million euros.

In overall terms provisions were increased by 2.7 million euros, while profit for the year was 8.1 million euros.

In 2012 work began on devising a new organisational and business model for Finibanco, SA, which in the future will focus specifically on investment banking, i.e., the structuring and handling of corporate finance operations and the management of financial assets, always in keeping with the policies and strategies defined by the Montepio Group.

MONTEPIO CRÉDITO – INSTITUIÇÃO FINANCEIRA DE CRÉDITO, SA

In order for the public to associate Finicrédito with the Montepio brand the name was changed to Montepio Crédito. This change was not merely a brand change but above all it repositioned the company as the core business of motor finance is now complemented by other forms of specialist corporate finance through its partnership with industrial equipment and vehicles suppliers. In this way Montepio Crédito expanded its services to include Operational Leasing plus Equipment Leasing and Renting to new customers acquired outside the Montepio Group.

After a fall in the stock seeking finance in the first half of the year (-9.8%), the portfolio was stable in the second half (-0.6%) and finished the year with a total change of -10.3%. This change was brought about by the strategic repositioning of the company's business at the beginning of the second quarter, when its business priorities were defined as Motor Finance, Equipment Finance, Consumption Credit Development Projects and the establishing of business partnerships with the CEMG commercial network.

Financial Profit was 9.3 million euros, which constitutes a fall of 37.6% compared to 2011, due to the combined effect of the decline in the credit balance in the first quarter and the drop in the portfolio's average interest rate.

Operating costs stood at 11.7 million euros, down 6.9% due to the reduction in staff and administrative overheads.

Provisions were reduced by 48.6% to 1.8 million euros at the year-end.

Profit for the year showed a positive trend, going from -4.5 million euros in 2011 to +4.8 million euros in 2012, giving rise to return on equity of 20.8% in 2012.

For the second year running the national study conducted by Exame magazine together with *Accenture* awarded a prize to Montepio Crédito IFIC SA in February 2012 as one of the top 100 companies to work for in Portugal. Among those companies Montepio Crédito enjoys a degree of commitment of over 60%.

FINIBANCO ANGOLA, SA

Despite the spread of banking in the Angolan market, in 2012 Finibanco Angola (FNBA) recorded a higher turnover growth than the Angolan banking sector (National Bank of Angola data):

- Customer Credit FNBA: +39.2% vs. Banking sector: +22.3%;
- Customers resources FNBA: +17.9% vs. Banking sector: +6.1%.

In order to enable the Angolan banking sector to have an expanding ATM network, Finibanco Angola upheld its commitment to install two machines in each branch, and maintain them duly loaded. Acording to the statistics published by the automated clearing house, Empresa Interbancária de Serviços, SA, the institution's ATMs have the highest average rate of transactions per ATM/month.

The company's liabilities and equity structure remained unchanged when compared to 2011, and business continues to be financed by customer deposits and equity.

Customer deposits grew by 16.8% (11.8 p.p. higher than the sector) to total 155.3 million euros at the end of 2012. The 33% increase in the branch network since the 4th quarter of 2011 (1 branch in 2012 and 2 in the 4th quarter of 2011), as well as the growth in banking in Angola contributed to this change.

Equity stood at 56.4 million euros, a growth of 91.9% thanks to an increase in capital of 30 million dollars in response to the growth strategy devised for Finibanco Angola.

Financial profit was 9.2 million euros and net commission was 6.6 million euros, which represents a gain of +17.2% (+1.3 million euros) and 31.1% (+1.6 million euros), respectively, due to the increase in credit business.

Currency revaluation (10.1 million euros) was once again the largest item in banking revenue (37.9%).

Operating costs were up 2.2 million euros (+27.5%) to 10.3 million euros, producing a cost-to-income ratio of 38.7% (+3.75 p.p.). This increase stemmed from the branch network expansion policy.

Profit for the year was 8.9 million euros compared to 8.2 million euros in 2011, giving a return on equity of 23.3%.

FINIVALOR, SA

Finivalor – Sociedade Gestora de Fundos de Investimento, SA, incorporated in 1997, is held by Finibanco Holding, SGPS, SA, and its object is the management of the open-end real estate fund Finipredial and some private subscription closed-end funds, in particular the *Montepio Arrendamento* house leasing fund.

In Portugal Real Estate Funds managed to reverse the downward trend and achieve slender growth of 1.91% compared to December 2011. Despite the market performance, the funds managed by Finivalor came to represent 3.70% of the market (3.78% in December 2011).

Costs totalled 1.6 million euros which was an improvement of 22.3%, owing to the transfer of staff to other Group companies and the cancelling of some contracts. Despite the progress in operating costs, the decline in banking revenue resulted in an cost-to-income ratio of 66.6% compared to 44.4% in 2011.

Profit for the year was 612,000 euros, giving rise to a ROE of 13.9% and a ROA of 11.9%.

BANCO MONTEPIO GERAL – CABO VERDE, SOCIEDADE UNIPESSOAL, SA

In 2012, MG Cabo Verde recorded an increase of 32.3M€ (+7.8%) in resources acquired, which achieved 448.6 million euros.

Net profit was 449,000 euros, down 239,000 euros on 2011, which led to a 2.9 p.p. decline in return on equity to 5.7%.

The drop in net profit was due in the main to the 141,000 euros reduction in financial profit and the 81,000 euros decline in currency revaluation.

HTA – HOTÉIS, TURISMO E ANIMAÇÃO DOS AÇORES, SA

In 2012 HTA – Hotéis, Turismo e Animação dos Açores, which was only consolidated by the net worth method, recorded an increase of 12% in Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), and while the company still recorded a loss it was greatly reduced, going from -895 thousand euros in 2011 to -596 mil euros in 2012.

12. Acknowledgement

In 2012, CEMG's business and performance continued to be heavily constrained by external factors in a high risk and uncertain environment. Nonetheless we have continued and will continue, as up to now, to demonstrate an enormous capacity to adapt and we will strive to reinforce the internal factors to be found in our strength and ability to overcome today's tough tests and those the future may bring.

When setting out to create wealth for society in general it is very edifying to be able to count on the professionalism and dedication of all our employees, to whom a very special warm thank you is due. And to our stakeholders, at whom all our efforts are directed, we wish to express our sincerest thanks for the trust and preference they have shown.

On a final note the Board wishes to express its thanks to all the Authorities, both Governmental and Supervisory, which have worked with CEMG in an amiable manner, where mutual help and understanding were clear to see. And recognition must also be given to the support provided by the remaining members of the governing bodies.

THE BOARD OF DIRECTORS

António Tomás Correia – Chairman

José de Almeida Serra

Eduardo José da Silva Farinha

Álvaro Cordeiro Dâmaso

Carlos Vicente Morais Beato

13. Financial Statements, Explanatory Notes, Declarations, Legal Certification of the Accounts and Audit Reports

13.1. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET OF CAIXA ECONÓMICA AS AT 31 DECEMBER 2012 AND 2011

(thousand euros)

	2012			2011
	GROSS ASSETS	IMPAIRMENT AND AMORTISATION	NET ASSETS	NET ASSETS
ASSETS				
Cash and liquid assets held by central banks	304 886		304 886	461 483
Deposits at other credit institutions	235 659		235 659	223 834
Financial assets held for trading	139 055		139 055	180 776
Other financial assets at fair value	12 300		12 300	3 606
Financial assets available for sale	2 509 091	27 646	2 481 445	2 574 368
Investments in credit institutions	224 349	25	224 324	284 232
Customer credit	16 625 831	922 284	15 703 547	16 706 626
Investments held to maturity	27 495		27 495	76 994
Hedging derivatives	931		931	1 311
Non-current assets held for sale	521 849	30 054	491 795	137 011
Investment Property	388 260		388 260	
Other tangible assets	281 903	185 328	96 575	108 657
Intangible assets	126 266	67 219	59 047	90 205
Investments in associated companies and joint ventures	61 177	341	60 836	57 856
Current income tax assets	2 702		2 702	2 768
Deferred income tax assets	265 987		265 987	80 693
Other assets	481 523	3 636	477 887	504 970
TOTAL ASSETS	**22 209 264**	**1 236 533**	**20 972 731**	**21 495 390**
LIABILITIES				
Central bank resources			1 776 514	2 003 300
Financial liabilities held for trading			84 794	79 121
Other credit institution resources			625 706	743 797
Customer resources and other loans			13 255 447	13 701 919
Liabilities represented by instruments			2 362 336	2 473 112
Financial liabilities associated with transferred assets			244 419	453 061
Hedging derivatives			3 177	13 041
Provisions			14 292	7 985
Current income tax liabilities			2 044	10
Deferred income tax liabilities			533	36
Other subordinated liabilities			467 120	477 843
Other liabilities			501 379	282 677
TOTAL LIABILITIES			**19 337 761**	**20 235 902**
EQUITY				
Capital			1 295 000	1 245 000
Other Capital instruments			15 000	15 000
Revaluation reserves			-22 083	-319 551
Other reserves and retained earning			337 997	262 629
Profit for the year			42 099	45 029
Minority interests			6 957	11 381
TOTAL EQUITY			**1 634 970**	**1 259 488**
TOTAL LIABILITIES AND EQUITY			**20 972 731**	**21 495 390**

THE CHARTERED ACCOUNTANT

Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS

António Tomás Correia – Chairman
José de Almeida Serra
Eduardo José da Silva Farinha
Álvaro Cordeiro Dâmaso
Carlos Vicente Morais Beato

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2012 AND 2011

(thousand euros)

	2012	2011
Interest and similar revenues	1 155 009	1 182 911
Interest and similar charges	873 929	864 190
NET INTEREST INCOME	**281 080**	**318 721**
Return on capital instruments	554	921
Return on services and commissions	130 517	115 627
Cost of services and commissions	25 572	21 613
Profit on assets and liabilities valued at fair value through profit or loss	-62 743	62 138
Profit on financial assets available for sale	82 586	3 667
Profit on currency revaluation	14 419	8 410
Profit on sale of other assets	-10 706	44 001
Other operating income	20 371	26 758
BANKING REVENUE	**430 506**	**558 630**
Staff costs	197 146	225 373
General administrative costs	119 357	115 443
Depreciation and amortisation	43 556	28 270
Provisions net of write-offs	-2 965	4 282
Impairments on credit net of reversals and recoveries	171 301	143 907
Impairments on other financial assets net of reversals and recoveries	36 640	24 047
Impairments on other assets net of reversals and recoveries	27 143	-14 299
Profit from associated companies and joint ventures (equity equivalence)	-6 086	999
PROFIT BEFORE TAX AND MINORITY INTERESTS	**-167 758**	**32 606**
Taxes		
Current	-6 963	-3 689
Deferred	177 914	18 381
Minority interests	-1 094	-2 269
CONSOLIDATED PROFIT OF FINANCIAL YEAR	**2 099**	**45 029**

THE CHARTERED ACCOUNTANT
Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS
António Tomás Correia – Chaiman
José de Almeida Serra
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Carlos Vicente Morais Beato

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED AT 31 DECEMBER, 2012 AND 2011

(thousand euros)

	2012	2011
Cash flows arising from operating activities		
Interest income received	1 188 060	1 111 303
Commissions income received	131 490	108 994
Interest expense paid	(410 141)	(737 432)
Commissions expense paid	(23 684)	(27 448)
Payments to employees and suppliers	(457 934)	(345 545)
Recoveries on loans previously written off	6 638	6 163
Other payments and receivables	264 588	171 424
Taxes	(265 454)	(43 341)
	433 563	**244 118**
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions and customers	649 120	(2 167 480)
Other assets	(294 824)	(381 917)
	354 296	**(2 549 397)**
(Increase) / decrease in operating liabilities:		
Deposits from clients	(460 144)	3 578 617
Deposits from credit institutions	(115 116)	(600 514)
Deposits from central banks	(240 000)	900 000
	(815 260)	3 878 103
	(27 401)	**1 572 824**
Cash flows arising from investing activities		
Dividends received	554	921
(Acquisition) / sale of trading financial assets	(63 308)	5 534
(Acquisition) / sale of other financial assets at fair value through profit or loss	(8 694)	346
(Acquisition) / sale of available for sale financial assets	366 018	(399 530)
(Acquisition) / sale of hedging derivatives	(9 449)	12 196
(Acquisition) / sale of held to maturity investments	48 559	(18 744)
(Acquisition) / sale of shares in associated companies	(5 134)	(80 199)
Deposits owned with the purpose of monetary control	150 119	(110 378)
Proceeds from sale of fixed assets	31 643	129 538
Acquisition of fixed assets	(422 620)	(231 139)
	87 688	**(691 455)**
Cash flows arising from financing activities		
Dividends paid	(16 584)	(23 085)
Capital increase	50 000	460 000
Proceeds from issuance of bonds and subordinated debt	1 182 612	291 538
Reimbursement of bonds and subordinated debt	(1 277 664)	(1 411 249)
Increase / (decrease) in other sundry liabilities	6 696	17 505
	(54 940)	**(665 291)**
Net changes in cash and equivalents	**5 347**	**216 078**
Cash and equivalents balance at the beginning of the year	**386 072**	**169 994**
Net changes in cash and equivalents	5 347	216 078
Cash and equivalents balance at the end of the year	**391 419**	**386 072**
Cash and equivalents balance at the end of the year includes:		
Cash (note 18)	155 760	162 238
Loans and advances to credit institutions repayable on demand (note 19)	235 659	223 834
Total	**391 419**	**386 072**

See accompanying notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER, 2012 AND 2011

(thousand euros)

	Total equity	Share capital	Other capital instruments	General special reserves	Fair value reserves	Reserves and retained earnings	Non-controlling interests
Balance on 31 December, 2010	**895 449**	**800 000**	**–**	**235 400**	**(85 706)**	**(54 245)**	**–**
Other movements recognized directly in Equity:							
Changes in fair value (note 45)	(233 845)	–	–	–	(233 845)	–	–
Actuarial losses for the year (note 50)	65 391	–	–	–	–	65 391	–
Deferred taxes related to balance sheet changes (note 32)	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 42)	445 000	445 000	–	–	–	–	–
Other capital instruments (note 41)	15 000	–	15 000	–	–	–	–
Non-controlling interests	11 381	–	–	–	–	–	11 381
Dividens 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**
Other movements recognised directly in Equity:							
Changes in fair value (note 45)	297 468	–	–	–	297 468	–	–
Actuarial losses for the year (note 50)	30 860	–	–	–	–	30 860	–
Deferred taxes related to balance sheet changes (note 32)	6 883	–	–	–	–	6 883	–
Profit of the year	2 099	–	–	–	–	2 099	–
Total gains and losses recognised in the year	337 310	–	–	–	297 468	39 842	–
Increase in share capital (note 42)	50 000	50 000	–	–	–	–	–
Non-controlling interests	(4 424)	–	–	–	–	–	(4 424)
Dividends paid (note 46)	(16 584)	–	–	–	–	(16 584)	–
Other reserves	1 358	–	–	–	–	1 358	–
Equity method	8 722	–	–	–	–	8 722	–
Costs related to the issue of perpetual subordinated Instruments	(900)	–	–	–	–	(900)	–
Transfers of reserves:							
General reserve	–	–	–	6 634	–	(6 634)	–
Special reserve	–	–	–	1 641	–	(1 641)	–
Balance on 31 de December, 2012	**1 634 970**	**1 295 000**	**15 000**	**254 095**	**(22 083)**	**86 001**	**6 957**

See accompanying notes to the Consolidated Financial Statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER, 2012 AND 2011

(thousand euros)

	Notes	2012	2011
Other Comprehensive income for the year			
Fair value reserves			
Financial assets available for sale	45	297 468	(233 845)
Actuarial losses for the year	50	30 860	65 391
Deferred taxes	32	6 883	48 152
Comprehensive income recognised directly in Equity after taxes		**335 211**	**(120 302)**
Profit for the year		3 193	47 298
Total Comprehensive income for the year		**338 404**	**(73 004)**

See accompanying notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER, 2012

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. The consolidated financial statements reflect the results of the operations of CEMG and all its subsidiaries (together referred to as the «Group») and the Group's interest in associates, for the years ended 31 December, 2012 and 2011.

In 2010, Montepio Geral – Associação Mutualista, CEMG sole shareholder, has made an acquisition 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 thousands.

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.

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's 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 14 March, 2013. 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 has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1 January, 2012, as referred in note 56.

The financial statements for the year ended 31 December, 2012 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.

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 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 the accounting policy described in note 1 *aa*).

b) Basis of Consolidation

As from 1 January, 2010, the Group applied IFRS 3 (revised) for the accounting of business combinations. The changes in the accounting policies resulting from the application of IFRS 3 (revised) are applied prospectively.

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 was 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 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). As from 1 January 2010 onwards, in an acquisition (dilution) of non-controlling interests not resulting in a loss of control, the difference between the fair value of the non-controlling 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 53) and from operations regarding the sale of loans, 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 and sale of loans 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; and

– 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.

When the Group consolidates real estate investment funds, the real estate property resulting from these funds are classified as investment property, as described in note 1 *q*).

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.

To the investments that use a functional currency different from Euro and to the ones which full consolidation method applies, on the balance sheet dates, assets and liabilities are converted using the exchange rate of the balance sheet date. The items included on the income statement are converted using the average exchange rate of the period. The differences arising from the utilization of the balance sheet and average exchange rates are accounted against a specific item of the equity until the sold of the respective entities.

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*) the Group 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 ob jective evidence 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;
- The 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; and
- 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 Group'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; or

– 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.

3) Investments 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 the Group 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) Impairment

At each balance sheet date, an assessement of the existence of objective evidence of impairment, is made. A financial asset or group of financial assets are impaired when there is objective evidence of impairment resulting from one or more events that occurred after its initial recognition, such as: (*i*) for listed securities, a prolonged devaluation or a significant decrease in its quotation price, and (*ii*) for unlisted securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reasonably. According to the Group's policies, a 30% depreciation in the fair value of an equity instrument is considered a significant devaluation and the 1year period is assumed to be a 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 recognised in the profit or loss) is removed from fair value reserves and recognised 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 recognised in the profit or loss, the impairment loss is reversed through the income statement. Recovery of impairment losses on equity instruments classified as financial assets available for sale, is recognised as a gain in fair value reserves when it occurs (if there are no reversal in the income statement).

(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.

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 Group 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.

Transfers of financial assets recognised in the category of Financial assets available-for-sale to Loans and receivables-Loans represented by securities and to Financial assets held-to-maturity are allowed, in determined and specific circumstances.

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.

In 2012 and 2011, the Group did not perform any reclassifications between financial instruments categories.

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

A financial 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 and when 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, which 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 selling costs 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 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 unrealised losses, these should be recognised as impairment losses against results.

k) Finance lease transactions

At the lessee's perspective, finance lease transactions are recorded as an asset and liability at fair value of the leased asset, which is equivalent to the present value of the future lease payments. Lease rentals are a combination of the financial charge and the amortisation of the capital outstanding. The financial charge is allocated to the periods during the lease term to produce a constant periodic rate of interest on the remaining liability balance for each period.

At the lessor's perspective, assets held under finance leases are recorded in the balance sheet as a receivable at an amount equal to the net investment in the lease. Lease rentals are a combination of the financial income and amortization of the capital outstanding. Recognition of the financial result reflects a constant periodical return rate over the remaining net investment of the lessor.

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) Financial results (Results arising from trading and hedging activities and available for sale financial assets and investments held to maturity)

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 and investments held to maturity. The changes in fair value of hedging derivatives and hedged items, when fair value hedge is applicable, are also recognized in this caption.

o) 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.

p) 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.

q) Investment property

Real estate properties owned by the investment funds consolidated in the Group, are recognised as Investment properties considering, that the main objective of these buildings is the capital appreciation on a long term basis and not its sale in a short term period, or its maintenance for own use.

These investments are initially recognised at its acquisition cost, including the transaction costs and subsequently revaluated at its fair value. The fair value of the investment property should reflect the market conditions at the balance sheet date. Changes in fair value are recognised in results as Other operating income.

The expertises responsible for the valuation of the assets are properly certified for that purpose, being registered in CMVM.

r) Intangible Assets

Software

The Group accounts as intangible assets the costs associated to software acquired from external entities and depreciates them on a straight line basis by an estimated lifetime of three years. The Group does not capitalise internal costs arising from software development.

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

Pensions

Arising from the signing of the «Acordo Colectivo de Trabalho» (ACT) and subsequent amendments resulting from the 3 tripartite agreements as described in Note 50, CEMG and other Group entities set up pension funds and other mechanisms to cover the liabilities with pensions on retirement and disability, widows' pension, health-care benefits and death subsidy.

The pension liabilities and health care benefits are covered by funds that are managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

The pension plans of the Group are classified as defined benefit plans, since the criteria to determine the pension benefit to be received by employees on retirement are predefined and usually depend on factors such as age, years of service and level of salary.

In the light of IFRS 1 and until 2011, the Group decided to adopt, at transition date (1 January 2004), IAS 19 retrospectively and has recalculated the pension and other post-retirement benefits obligations and the corresponding actuarial gains and losses, to be deferred in accordance with the corridor method allowed by this accounting standard. In December 2011, the Group changed retrospectively the accounting policy related to actuarial gains and losses recognition, adjusting the opening balance sheet and comparative values, starting to recognise, as allowed under paragraph 93A of IAS 19 «Employee Benefits», the actuarial deviations under other comprehensive income.

The liability with pensions is calculated annually by the Group, as at 31 December and 30 June for each plan individually, using the projected unit credit method, and is reviewed annually by qualified independent actuaries. The discount rate used in this calculation is determined based on market rates of emissions associated with high quality corporate bonds, denominated in the currency in which benefits will be paid and with a similar maturity to the date of termination of the plan.

The expected return on plan assets is based on the long term expected return for each asset class within the portfolio of the pension funds and takes in consideration the investment strategy determined for the funds.

Actuarial gains and losses determined annually and resulting from (*i*) the differences between financial and actuarial assumptions used and real values obtained and (*ii*) the changes in actuarial assumptions, are recognised under share capital in the balance other comprehensive income.

At each period, the Group recognises as a cost in the income statement a net total amount that comprises (*i*) the service cost, (*ii*) the interest cost, (*iii*) the expected return on plan assets, (*iv*) effect early retirement, and (*v*) effect of settlement or curtailment occurred during the period. Early retirement costs corresponds to an increase on the liabilities due to the fact the employee retires before reaching 65 years of age.

Past service costs (and negative past service costs) are recognised in the income statement, on a straight line basis, over the vesting period. To the extent that the benefits vest immediately on the date of the introduction of, or change to, the pension plan, past service costs (and negative past service costs) are recognised in the income statement immediately.

The Group makes payments to the funds in order to maintain its solvency and to comply with the following minimum levels: (*i*) the liability with pensioners shall be totally funded at the end of each year, and (*ii*) the liability related to past services cost with employees in service shall be funded at a minimum level of 95%.

Annually, the Group assesses for each plan separately, the recoverability of any recognised asset in relation to the defined benefit pension plans, based on the expectation of reductions in future contributions to the funds.

Health care benefits

The Group provides to its banking employees health care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides to its beneficiaries services and/or contributions on medical assistance expenses, diagnostics, medicines, hospital confinement and surgical operations, in accordance with its financing availability and internal regulations.

The annual contribution of the Group to SAMS amounts to 6.5% of the total annual remuneration of employees, including, among others, the holiday and Christmas subsidy.

The measurement and recognition of the Group's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above. These benefits are covered by the Pension Fund which at present covers all responsibilities with pensions and health care benefits.

Long-term service benefits

In accordance with the ACT «Acordo Colectivo de Trabalho» for the banking sector, the Group has assumed the commitment to pay to current employees that achieve 15, 25 and 30 years of service within the Group, long-term service premiums corresponding, respectively, to 1, 2 and 3 months of their effective monthly remuneration earned at the date the premiums are paid.

At the date of early retirement or disability, employees have the right to a premium proportional to what they would earn if they remained in service until the next payment date.

These long-term service benefits are accounted for by the Group in accordance with IAS 19 as other long-term employee benefits.

The liability with long-term service benefits is calculated annually, at the balance sheet date, by the Group using the projected unit credit method. The actuarial assumptions used are based on the expectations about future salary increases and mortality tables. The discount rate used in this calculation was determined based on the same methodology described for pensions.

In each period the increase in the liability for long-term service premiums, including actuarial gains and losses and past service costs is charged to the income statement.

Bonus to employees and to the Board of Directors

In accordance with IAS 19 Employee benefits, the bonus payment to employees and to the Board of Directors is recognised in the income statement 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 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 tax liabilities are recognised for all taxable temporary differences except for goodwill not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future.

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).

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.

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 a group of assets and operations located within a particular economic environment that are subject to risks and returns 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.

On the cases that the discount effect is material, provisions corresponds to actual value of the expected future payments, discounted by a rate that considers the associated risk 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) 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, the Group sells insurance contracts. As remuneration for the insurance brokerage services rendered, the Group receives commission for brokering insurance contracts, which is defined in agreements/protocols established between the Group 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 the Group 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».

aa) Accounting estimates and judgments in applying accounting policies

IFRS set forth a range of accounting treatments and require the 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 the Group 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 the accounting policy 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.

Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value instead of amortised cost.

Held-to-maturity investments are subject to impairment tests made by the Group. The use of different assumptions and estimates could have an impact on the income statement of the Group.

Securitizations and special purpose entities (SPE)

The Group 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 Mortgages No. 1, Pelican Mortgages No. 5, Pelican SME and Pelican Mortgages No. 6 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 and 2. For these SPE, the Group concluded that the main risks and the benefits were transferred, as the Group 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 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.

Goodwill impairment

The goodwill recoverable amount recognised as a Group's asset, is revised annually regardless the existence of impairment losses.

For this purpose, the carrying amount of the business units of the Group for which goodwill has been recognised is compared with the respective recoverable amount. A goodwill impairment loss is recognised when the carrying amount of the business unit exceeds the respective recoverable amount.

In the absence of an available market value, the recoverable amount is determined using cash flows predictions, applying a discount rate that includes a risk premium appropriated to the business unit being tested. Determining the cash flows to discount and the discount rate, involves judgment.

CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED AT 31 DECEMBER, 2012 AND 2011

(thousand euros)

	NOTES	2012	2011
Interest and similar income	3	1 155 009	1 182 911
Interest and similar expense	3	873 929	864 190
NET INTEREST INCOME		**281 080**	**318 721**
Dividends from equity instruments	4	554	921
Fee and comission income	5	130 517	115 627
Fee and comission expense	5	(25 572)	(21 613)
Net losses arising from assets and liabilities at fair value through profit or loss	6	(62 743)	62 138
Net gains/(losses) arising from available-for-sale financial assets	7	82 586	3 667
Net gains arising from foreign exchange differences	8	14 419	8 410
Net gains from sale of other financial assets	9	(10 706)	44 001
Other operating income	10	20 371	26 758
TOTAL OPERATING INCOME		**430 506**	**558 630**
Staff costs	11	197 146	225 373
General and administrative expenses	12	119 357	115 443
Depreciation and amortisation	13	43 556	28 270
TOTAL OPERATING COSTS		**360 059**	**369 086**
Loans impairment	14	171 301	143 907
Other assets impairment	15	63 783	9 748
Other provisions	16	(2 965)	4 282
OPERATING PROFIT		**(161 672)**	**31 607**
Share of profit of associates under the equity method	17	(6 086)	999
PROFIT BEFORE INCOME TAX		**(167 758)**	**32 606**
Taxes			
Current	32	(6 963)	(3 689)
Deferred	32	177 914	18 381
PROFIT FOR THE YEAR		**3 193**	**47 298**
Profit for the year attributable to			
Montepio Geral – Associação Mutualista		2 099	45 029
Non-controlling interests	47	1 094	2 269
PROFIT FOR THE YEAR		**3 193**	**47 298**

See accompanying notes to the Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER, 2012 AND 2011

(thousand euros)

	NOTES	2012	2011
ASSETS			
Cash and deposits at central banks	18	304 886	461 483
Loans and advances to credit institutions	19	235 659	223 834
Other loans and advances to credit institutions	20	224 324	284 232
Loans and advances to customers	21	15 703 547	16 706 626
Financial assets held for trading	22	139 055	180 776
Other financial assets held for trading at fair value through profit or loss	23	12 300	3 606
Financial assets available for sale	24	2 481 445	2 574 368
Hedging derivatives	25	931	1 311
Financial assets held to maturity	26	27 495	76 994
Investments in associated companies	27	60 836	57 856
Non current assets held for sale	28	491 795	137 011
Investment properties	29	388 260	–
Property and equipment	30	96 575	108 657
Intangible assets	31	59 047	90 205
Current income tax assets		2 702	2 768
Deferred income tax assets	32	265 987	80 693
Other assets	33	477 887	504 970
TOTAL ASSETS		**20 972 731**	**21 495 390**
LIABILITIES			
Deposits from central banks	34	1 776 514	2 003 300
Deposits from other credit institutions	35	625 706	743 797
Deposits from customers	36	13 255 447	13 701 919
Debt securities issued	37	2 362 336	2 473 112
Financial liabilities relating to transferred assets	38	244 419	453 061
Financial liabilities held for trading	22	84 794	79 121
Hedging derivates	25	3 177	13 041
Provisions	39	14 292	7 985
Current income tax liabilities	32	2 044	10
Deferred income tax liabilities	32	533	36
Other subordinated debt	40	467 120	477 843
Other liabilities	41	501 379	282 677
TOTAL LIABILITIES		**19 337 761**	**20 235 902**
EQUITY			
Share capital	42	1 295 000	1 245 000
Other capital instruments	43	15 000	15 000
Fair value reserves	45	(22 083)	(319 551)
Reserves and retained earnings	44 and 45	337 997	262 629
Consolidated profit for the year attributable to MGAM		2 099	45 029
Total equity attributable to MGAM		1 628 013	1 248 107
Non-controlling interests	47	6 957	11 381
TOTAL EQUITY		**1 634 970**	**1 259 488**
TOTAL		**20 972 731**	**21 495 390**

See accompanying notes to the Consolidated Financial Statementss

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:

(thousand euros)

	2012	2011
Net interest income	281 080	318 721
Net gains arising from assests and liabilities at fair value through profit and loss and available-for-sale financial assets	19 843	65 805
	300 923	384 526

3. Net interest income

The amount of this account is comprised of:

(thousand euros)

	2012			2011		
	Assets / liabilities at amortized cost and available-for-sale	Assets / liabilities at fair value through profit or loss	Total	Assets / liabilities at amortized cost and available-for-sale	Assets / liabilities at fair value through profit or loss	Total
Interest and similar income:						
Interest from loans and advances	606 095	–	606 095	565 289	–	565 289
Interest from other assets	3 237	–	3 237	8 313	–	8 313
Interest from deposits with banks	2 373	–	2 373	2 459	–	2 459
Interest from available-for-sale financial assets	288 817	–	288 817	312 445	–	312 445
Interest from held-to-maturity financial assets	1 023	–	1 023	2 191	–	2 191
Interest from hedging derivates	1 439	–	1 439	2 804	–	2 804
Interest from available for trading financial assets	–	229 273	229 273	–	271 093	271 093
Other interest and similar income	22 752	–	22 752	18 317	–	18 317
	925 736	229 273	1 155 009	911 818	271 093	1 182 911
Interest and similar expense:						
Interest from deposits	450 127	–	450 127	347 446	–	347 446
Interest from securities issued	71 452	–	71 452	87 654	–	87 654
Interest from loans	4 115	–	4 115	5 110	–	5 110
Interest from other funding	29 436	–	29 436	50 600	–	50 600
Interest from hedging derivates	1 801	–	1 801	2 333	–	2 333
Interest from available for trading financial asset	–	209 770	209 770	–	255 936	255 936
Other interest and similar expense	107 228	–	107 228	115 111	–	115 111
	664 159	209 770	873 929	608 254	255 936	864 190
Net interest income	261 577	19 503	281 080	303 564	15 157	318 721

The balance Interest on loans and advances includes, at 2012, the amount of Euro 21 800 thousands (2011: Euro 23 223 thousands) related to commissions and other gains / losses which are accounted for under the effective interest method, as referred in the accounting policy described in note 1 *l*).

The balance Interest and similar expense – Interest from deposits includes the amount of Euro 6 011 thousands regarding the accounting of interest on deposits with increasing interest rates.

4. Dividends from equity instruments

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Dividends from available-for-sale financial assets	554	594
Other	–	327
	554	921

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 comissions income

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Fee and commission income:		
From banking services	98 000	81 027
From transactions order by third parties	14 849	9 040
From insurance activity	7 798	8 257
From commitments to third parties	8 299	7 615
Other fee and commission income	1 571	9 688
	130 517	115 627
Fee and commission expense:		
From banking services rendered by third parties	20 103	17 934
From transactions with securities	490	530
Other fee and commission expense	4 979	3 149
	25 572	21 613
Net fee and commission income	104 945	94 014

At December 31, 2012 and 2011, commissions received on insurance brokerage services or reinsurance is made up as follows:

(thousand euros)

	2012	2011
Life insurance:		
Mortgage	2 036	2 063
Consumer	115	142
Other	885	812
	3 036	3 017
Non-life insurance:		
Mortgage	1 804	1 841
Consumer	758	940
Other	2 200	2 459
	4 762	5 240
	7 798	8 257

6. Net gains / (losses) arising from financial assets at fair value through profit or loss

The amount of this account is comprised of:

(thousand euros)

	2012			2011		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by public entities	28	–	28	151	–	151
Issued by other entities	4 426	1 958	2 468	476	1 333	(857)
Shares	284	322	(38)	92	88	4
	4 738	2 280	2 458	719	1 421	(702)
Derivative financial instruments						
Exchange rate contracts	79 214	78 771	443	209 978	212 285	(2 307)
Interest rate contracts	1 866 679	1 867 120	(441)	1 642 537	1 653 221	(10 684)
Credit default contracts	5 439	2 352	3 087	3 941	5 578	(1 637)
Others	66 456	55 767	10 689	82 906	76 236	6 670
	2 017 788	2 004 010	13 778	1 939 362	1 947 320	(7 958)
Other financial assets at fair value through profit or loss						
Bonds and other fixed income securities issued by other entities	651	2 072	(1 421)	–	409	(409)
	651	2 072	(1 421)	–	409	(409)
Financial liabilities						
Deposits from other credit institutions	195	56	139	627	284	343
Deposits from customers	1 050	152	898	4 792	434	4 358
Debt securities issued	156 845	157 740	(895)	41 034	47 645	(6 611)
Other	488	78 188	(77 700)	95 180	22 063	73 117
	158 578	236 136	(77 558)	141 633	70 426	71 207
	2 181 755	2 244 498	(62 743)	2 081 714	2 019 576	62 138

The balance Financial liabilities – Others, includes for financial liabilities instruments arising at fair value, gains in the amount of Euro 65 353 thousands (2011: Euro 79 314 thousands) 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 determine 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 aumount of this account is comprised of:

(thousand euros)

	2012			2011		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by public entities	21 326	481	20 845	3 415	1 008	2 407
Issued by other entities	60 530	1 777	58 753	14 099	13 112	987
Shares	58	21	37	111	18	93
Other variable income securities	2 974	23	2 951	187	7	180
	84 888	2 302	82 586	17 812	14 145	3 667

The balance Bonds and other fixed income securities – Issued by other entities includes the amount of Euro 35 116 thousands resulting from a set of repurchase transactions carried out under a number of initiatives undertaken by the Group, regarding the management of financial and capital structure, namely the repurchase operations of bonds (Pelican Mortgage no.3, Euro Medium Term Notes and Covered Bonds), as described in notes 37 and 53.

8. Net gains / (losses) from foreign exchange

The amount of this account is comprised of:

(thousand euros)

	2012			2011		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	53 833	39 414	14 419	157 728	149 318	8 410

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 described in note 1 *u*).

9. Net gains / (losses) arising from sale of other assets

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Sale of real estate properties	(20 420)	48 421
Sale of investments in associates	10 125	–
Sale of other assets	(411)	(4 420)
	(10 706)	44 001

The balance Sales of investments in associates includes the gain arising from the sale of the associated company Prio Energy, S.G.P.S., S.A., as referred in note 27.

As at 31 December 2011, the balance Sales of real estate properties includes the amount of Euro 50 895 thousands regarding the gains arising from the sale of non-current assets available for sale and land and building for own use, as described in notes 28 and 30.

10. Other operating income

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Other operating income:		
Income from services	6 989	6 880
Reimbursement of expenses	8 035	7 277
Profits arising from deposits on demand management	16 802	7 551
Repurchase of own securities	25 164	33 217
Others	37 226	8 099
	94 216	63 024
Other operating expense:		
Indirect taxes	5 795	4 998
Donations and membership	515	532
Contributions to the Deposit Guarantee Fund	3 139	2 286
Contributions to the Investors Claims System	–	2 405
Other operating expenses	64 396	26 045
	73 845	36 266
Other net operating income	20 371	26 758

As at 31 December 2012, the balance Other operating income – Other includes the amount of Euro 7 580 thousands (2011: Euro 8 154 thousands) regarding the staff transfer carried out by the Group to Montepio Geral – Associação Mutualista and other subsidiaries.

The balance Repurchase of own securities is calculated in accordance with accounting policy described in note 1 *d*) and refer to the re-acquisition of covered bonds and Euro Medium Term Notes. Additionally, this balance includes the amount of Euro 1 857 thousands (2011: Euro 17 750 thousands) resulting from the cancellation of covered bonds undertaken during 2012 and 2011, as described in note 21.

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. As at 31 December 2012, the Group recognizes as cost expense for the year the amount of Euro 4 621 thousands (2011: Euro 4 239 thousands), included in the balance Other operating expenses – Taxes.

11. Staff costs

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Remunerations	148 332	138 856
SAMS contribution	39 984	37 703
Other charges with the pensions fund	3 865	43 302
Other staff costs	4 965	5 512
	197 146	225 373

The caption Other charges with the pensions fund includes the amount of Euro 1 256 thousands (2011: Euro 14 096 thousands) 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 50 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.

This balance includes also the amount of Euro 3 048 thousands (2011: Euro 17 640 thousands) regarding the cost with early retirements and the positive effect of Euro 7 070 thousands Euros resulting from the publication of the Decree-Law no. 133/2012 on 27 June 2012, which changed the determination of the provision of death subsidy and led to a limit of a maximum of 6 times the social support index (minimum wage), which in 2012 amounted to Euro 419.22. The referred positive effect corresponds to the reduction of the associated liabilities.

The costs with salaries and other benefits attributed to the Group key management personnel in 2012 are presented as follows:

(thousand euros)

	Board of director's	Other management key personnel	Total
Salaries and other short-term benefits	3 549	5 268	8 817
Pension costs and health-care benefits (SAMS)	19	213	232
Bonus	5	202	207
Total	3 573	5 683	9 256

The costs with salaries and other benefits attributed to the Group key management personnel in 2011 are presented as follows:

(thousand euros)

	Board of director's	Other management key personnel	Total
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

It is our understanding that the Other key management personnel are the top directors of the Group.

As at 31 December, 2012 and 2011, loans granted by the Group to its key management personnel, amounted to Euro 4 904 thousands and Euro 4 200 thousands, respectively.

The average number of employees by professional category at service in the Group during 2012 and 2011 is analysed as follows:

	2012	2011
Management	234	212
Managerial staff	779	779
Techcnical staff	1 169	1 120
Specific categories	158	161
Administrative staff	1 808	1 841
Staff	79	75
	4 227	4 188

12. General and administrative expenses

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Rental costs	31 619	28 118
Specialised services:		
IT services	11 523	14 449
Independent work	6 594	6 832
Other specialised services	24 047	19 772
Advertising costs	5 548	7 512
Communication costs	10 763	11 438
Water, energy and fuel	7 002	5 788
Maintenance and related services	6 080	5 989
Transportation	3 650	4 007
Insurance	2 361	2 751
Travel, hotel and representation costs	2 432	2 030
Consumables	1 817	2 222
Training costs	275	295
Other supplies and services	5 646	4 240
	119 357	115 443

The balance Rents, includes the amount of Euro 22 568 thousands (2011: Euro 16 937 thousands) related to rents paid regarding buildings used by the Group as leaser.

13. Depreciation and amortisation

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Intagible assets:		
Software	18 808	9 830
	18 808	9 830
Other tangible assets:		
Land and buildings	10 821	4 910
Equipment:		
Furniture	1 070	1 042
Office equipment	123	121
Computer equipment	7 805	7 953
Interior installations	1 757	1 618
Motor vehicles	117	227
Security equipment	1 392	1 147
Operational lease	1 481	1 276
Other tangible assets	182	146
	24 748	18 440
	43 556	28 270

During 2012, the Group recorded as a cost of the period the full book value of software assets, which amounted Euro 6 695 thousands.

14. Loans impairment

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Overdue loans and advances to customers:		
Charge for the year net of reversals	178 259	149 892
Recovery of loans and interest charged-off	(6 638)	(6 163)
	171 621	143 729
Other loans and advances to credit instituitions:		
Charge for the year	69	311
Write-back for the year	(389)	(133)
	(320)	178
	171 301	143 907

The caption Loans impairment is related to an estimate of the incurred losses determined according with the methodology for a regular evaluation of objective evidence of impairment, as described in note 1 *c*).

15. Other assets impairment

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Impairment for non-current assets held for sale:		
Charge for the year	32 912	25 197
Write-back for the year	(32 400)	(39 498)
	512	(14 301)
Impairment for securities:		
Charge for the year	51 342	26 133
Write-back for the year	(15 668)	(3 083)
	35 674	23 050
Impairment for intangible assets:		
Charge for the year	26 512	–
	26 512	–
Impairment for other assets:		
Charge for the year	1 085	1 001
Write-back for the year	–	(2)
	1 085	999
	63 783	9 748

The caption Impairment for securities – Charge of the year, includes the amount of Euro 11 257 thousands that corresponds to the impairment recognized during 2012 for sovereign debt of Greece, as referred in notes 24 and 56. At 31 December 2011, for sovereign debt of Greece was recorded a impairment loss of Euro 19 309 thousands. Additionally this caption includes the amount of Euro 4 874 thousands that corresponds to the impairment recognized for investments of units in a Fund specialized in the recovery of loans, acquired under the sale of loans and advances to customers, as referred in notes 24 and 57. The balance Impairment for investments arising from loans in 2011 – Write-back for the year includes the effect of the sale of property recorded in the portfolio of noncurrent assets held for sale, as described in note 28.

16. Other provisions

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Provision for liabilities and charges:		
Charge for the year	2 730	6 050
Write-back for the year	(5 695)	(1 768)
	(2 965)	4 282

During 2011, the Group recorded the amount of Euro 3 900 thousands as provisions for liabilities and charges, regarding the legal contingency related with a court process, in the scope of the disposal of 50% of the subsidiary Finibanco Vida – Companhia de Seguros de Vida, S.A. to Mapfre – Seguros Gerais, S.A, carried out on 2009. These contingencies are reviewed at each reporting date, in order to record the best estimate of the amount and likelihood of payment, in accordance with the accounting policy described in note 1 *aa*).

During 2012, the referred contingencies have ceased, as a reasult of the repurchase of 50% of Finibanco Vida – Companhia de Seguros de Vida, S.A., previously sold to Mapfre Seguros Gerais, S.A. by Montepio Geral – Associação Mutualista, following an agreement between the parties, which led to the write-back of the provision recognized during 2011.

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:

(thousand euros)

	2012	2011
Lusitania, Companhia de Seguros, S.A.	(7 205)	(626)
Lusitania Vida, Companhia de Seguros, S.A.	1 970	2 114
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	(145)	(179)
Iberpartners Cafés S.G.P.S., S.A.	(13)	23
Nutre S.G.P.S., S.A.	(1 446)	(1 138)
Prio Energy S.G.P.S., S.A.	753	805
	(6 086)	999

18. Cash and deposits at central banks

This balance is analysed as follows:

(thousand euros)

	2012	2011
Cash	155 760	162 238
Deposits at central banks		
Bank of Portugal	108 581	248 477
Other deposits at central banks	40 545	50 768
	304 886	461 483

The balance Deposits at central banks includes deposits with the Central Bank to satisfy the legal requirements to maintain a cash reserve for which the value is based on the value of deposits and other liabilities.

The cash reserve requirements, according with the European Central Bank System for Euro Zone, establishes the maintenance of a deposit with the Central Bank equivalent to 2% of the average value of deposits and other liabilities, during each reserve requirement period.

As at 31 December 2012, these deposits at Banco de Portugal presented an average interest rate of 0.75% (2011: 1%). The Other deposits at central banks are non-interest-bearing deposits.

19. Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

(thousand euros)

	2012	2011
Credit institutions in Portugal	180 342	129 806
Credit institutions abroad	10 895	24 671
Amounts due for collection	44 422	69 357
	235 659	223 834

The balance Amounts due for collection represents essentially check receivable from other credit institutions due for collection.

20. Other loans and advances to credit institutions

This balance is analysed as follows:

(thousand euros)

	2012	2011
Loans and advances to credit institutions in Portugal		
Deposits	1 135	1 135
Loans	19 715	19 836
Short term deposits	–	65 002
Other loans and advances	6 003	–
	26 853	85 973
Loans and advances to credit institutions abroad		
Deposits	9 993	39 054
Short term deposits	69 573	30 001
Other loans and advances	117 930	129 549
	197 496	198 604
	224 349	284 577
Impairment for credit risk over credit institutions	(25)	(345)
	224 324	284 232

The main loans and advances to credit institutions in Portugal, as at 31 December 2012, bear interest at an average annual interest rate of 1,25% (2011: 1,35%).

The balance Other loans and advances to credit institutions, by the period to maturity, is analysed as follows:

(thousand euros)

	2012	2011
Due within 3 months	214 190	247 345
3 months to 6 months	–	34 900
Over 5 years	10 045	2 218
Undetermined	114	114
	224 349	284 577

The changes in impairment for credit risks over credit institutions in the year are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	345	50
Charge for the year	69	311
Write-back for the year	(389)	(133)
Transfers	–	117
Balance on 31 December	25	345

The balance Transfers corresponds of amounts transferred from Finibanco Holding, S.G.P.S., S.A. and its subsidiaries in the acquisition by the Group on March 31, 2011.

21. Loans and advances to customers

This balance is analysed as follows:

(thousand euros)

	2012	2011
Domestic loans:		
Corporate:		
Loans	1 936 956	1 789 310
Commercial lines of credits	1 695 686	1 953 428
Finance leases	384 849	418 396
Discounted bills	173 517	163 129
Factoring	105 231	146 496
Overdrafts	66 508	61 844
Other loans	1 370 846	1 718 592
Retail:		
Mortgage loans	8 617 320	8 978 144
Finance leases	119 616	95 486
Consumer and other loans	1 137 704	1 262 037
	15 608 233	16 586 862
Foreign loans:		
Corporate	63 878	50 817
Retail	12 248	11 498
	15 684 359	16 649 177
Correction value of assets subject to the hedge		
Leasing	2 759	–
Other credits	4 148	5 175
	6 907	5 175
Overdue loans and interest:		
Less than 90 days	103 608	128 858
More than 90 days	830 957	693 892
	934 565	822 750
	16 625 831	17 477 102
Impairment for credit risks	(922 284)	(770 476)
	15 703 547	16 706 626

As at 31 December 2012, the balance Loans and advances to customers includes de amount of Euro 2 816 016 thousands (2011: Euro 2 980 039 thousands) related to the issue of covered bonds held by the Group.

As referred in note 58, the Group performed a set of sales of Loans and advances to customers for a Fund specialized in the recovery of loans. The total amount of loans sold amounted to Euro 15 318 thousands.

During 2012, CEMG sold two loans and advances to customers portfolios to a securitisation company named «Hefesto Sociedade de Titularização de Créditos, S.A.». These operations were denominated as Aurea 1 and Aurea 2. These loans presented a balance value of Euro 70 540 thousands, being the sale made by the same amount, as referred in note 61.

The Group realized operations conducted under the Programme for the issuance of CEMG Covered Bonds:

– July 2012: Refund of Euro 655 000 thousands;

– June 2012: Cancellation of Euro 53 300 thousands, with a score of Euro 1 857 thousands, according to note 10;

– November 2011: Issue of Euro 300 000 thousands; term: 5 years; an interest rate: Euribor 3M + 0.75%;

– October 2011: Cancellation of Euro 291 700 thousands, with a score of Euro 17 750 thousands, according to note 10;

– September 2011: Issue of Euro 550 000 thousands; term: 5 years; and interest rate: Euribor 3M + 0.75%;

– November 2010: Issue of Euro 500 000 thousands; term: 5 years; an interest rate: Euribor 3M + 2.5%;

– December 2009: Issue of Euro 150 000 thousands; term: 7 years; an interest rate: Euribor 3M + 0.75%; and

– July 2009: Issue of Euro 1 000 000 thousands; term: 3 years; an interest rate: 3.25%.

The balance loans and advances to customers includes the effect of traditional securitization transactions, held by SPE's subject of consolidation under SIC 12, according with the accountig policy described in note 1 *b*).

As at 31 December 2012, the value of loans and advances to customers (net of impairment), includes the amount of Euro 238 855 thousands (2011: Euro 264 298 thousands) related to securitization transactions where, in accordance with the accounting policy described in note 1 *b*), the SPE's are subject of consolidation in the Group under the integral method (note 53).

As at 31 December 2012, the balance Loans and advances to customers includes the amount of Euro 3 737 641 thousands (2011: Euro 3 268 060 thousands) related with securitized loans and, in accordance with note 1 *g*), were not subject to derecogniton.

In the balance Correction of asset values subject to hedge operations is accounted the fair value of portfolio that is hedge. The valuation is accountend for in the income statement, in accordance with note 1 *e*). The Group evaluates on an ongoing basis the effectiveness of the existing hedge operations.

The fair value of the portfolio of loans to customers is presented in note 49.

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 2012, is as follows:

(thousand euros)

	Loans and advances to customers				
	Due within 1 year	**1 year to 5 years**	**Over 5 years**	**Undetermined**	**Total**
Asset-backed loans	595 945	1 604 010	9 974 404	411 918	12 586 277
Other guarantee loans	947 541	330 218	377 924	210 758	1 866 441
Unsecured loans	678 224	208 266	337 809	268 864	1 493 163
Public sector loans	87	7 788	46 648	311	54 834
Foreign loans	17 448	54 864	2 866	10 810	85 988
Finance lease loans	8 758	178 364	320 102	31 904	539 128
	2 248 003	2 383 510	11 059 753	934 565	16 625 831

The analysis of Loans and advances to customers, b y maturity date and type of credit as at 31 December 2011, is as follows:

(thousand euros)

	Loans and advances to customers				
	Due within 1 year	**1 year to 5 years**	**Over 5 years**	**Undetermined**	**Total**
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	145 140	1 622 007
Public sector loans	1 607	11 004	42 331	539	55 481
Foreign loans	21 738	36 270	625	6 084	64 717
Finance lease 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 balance Financial leases, by the period to maturiry as at 31 December 2012, is analysed as follows:

(thousand euros)

	Finance leases			
	Due within 1 year	1 year to 5 years	Over 5 years	Total
Outstanding rents	83 063	277 951	204 556	565 570
Outstanding interest	(16 521)	(61 941)	(43 175)	(121 637)
Residual Values	9 119	21 128	33 044	63 291
	75 661	237 138	194 425	507 224

The balance Financial leases, by the period to maturiry as at 31 December 2011, is analysed as follows:

(thousand euros)

	Finance leases			
	Due within 1 year	1 year to 5 years	Over 5 years	Total
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 analysis of Overdue loans and interests, by type of customer, is as follows:

(thousand euros)

	2012	2011
Asset-backed loans	411 918	550 424
Other guarantee loans	210 758	100 565
Unsecured loans	269 812	142 871
Public sector loans	311	6 490
Foreign loans	9 862	2 402
Finance lease loans	31 904	19 998
	934 565	822 750

The analysis of Overdue loans and interest, by type of credit, is as follows:

(thousand euros)

	2012	2011
Corporate:		
Construction / Production	178 342	158 884
Investment	223 990	111 284
Treasury	237 164	121 709
Other loans	17 242	8 749
Retail:		
Mortgage loans	125 166	271 197
Consumer credit	54 248	59 136
Other loans	61 256	52 817
Public sector	311	6 490
Other segments	36 846	32 484
	934 565	822 750

The impairment for credit risks is analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	770 476	521 811
Charge for the year net of reversals	171 621	143 729
Recovery of loans and interest charged-off	(179 651)	(22 745)
Transfers	159 838	148 001
Others	–	(20 320)
Balance on 31 December	922 284	770 476

As at 31 December 2012, the balance Transfers corresponds to values transferred from Finibanco Holding, S.G.P.S., S.A. and its subsidiaries in the scope of the acquisition held by the Group on March 31, 2011.

In accordance with the Group'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 in 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 note 1 *c*), 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 impairment for credit risks, by type of credit, is as follows:

(thousand euros)

	2012	2011
Asset-backed loans	442 528	621 351
Other guarateed loans	212 367	48 818
Unsecured loans	267 389	100 307
	922 284	770 476

The analysis of the loans charged-off, by type of credit, is as follows:

(thousand euros)

	2012	2011
Asset-backed loans	135 889	17 704
Other guarateed loans	29 465	1 142
Unsecured loans	14 297	3 899
	179 651	22 745

In accordance with «Carta-circular» n.º 15/2009, of January, 28 from Bank of Portugal, the Group only writes-off overdue loans fully provided that after an economic analysis, are considered uncollectable since there are no perspectives of recovery.

The recovered loans and overdue interest, performed during 2012 and during 2011, includes the amount of Euro 6 638 thousands and Euro 6 163 thousands, related with the recovery of asset-backed loans, as referred in note 14.

As at 31 December 2012 and 31 December 2011, the impairment detail, according to note 1 c), is as follows:

(thousand euros)

	2012						
	Impairment in an individual basis		Impairment in a portfolio basis		Total		
	Loan Value	Impairment	Loan Value	Impairment	Loan Value	Impairment	Loans net from impairment
Loans to companies	4 004 102	371 294	3 333 616	341 307	7 337 718	712 601	6 625 117
Loans to customers – Housing	446	101	8 696 646	117 733	8 697 092	117 834	8 579 258
Loans to customers – Others	70 271	788	989 686	91 061	1 059 957	91 849	968 108
	4 074 819	372 183	13 019 948	550 101	17 094 767	922 284	16 172 483

(thousand euros)

	2011						
	Impairment in an individual basis		Impairment in a portfolio basis		Total		
	Loan Value	Impairment	Loan Value	Impairment	Loan Value	Impairment	Loans net from impairment
Loans to companies	1 774 825	322 250	5 902 673	232 856	7 677 498	555 106	7 122 392
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	16 146 503	439 208	17 972 451	770 476	17 201 975

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:

(thousand euros)

	2012	2011
Total of loans	17 094 769	17 972 451
Loans and advances to customers with impairment		
Individually significant		
Gross amount	4 074 819	1 825 948
Impairment	(372 183)	(331 268)
Net book amount	3 702 636	1 494 680
Parametric analysis		
Gross amount	3 022 367	3 042 545
Impairment	(524 142)	(385 742)
Net book amount	2 498 225	2 656 803
Loans and advances to customers without impairment	9 997 583	13 103 958
Impairment (IBNR)	(25 961)	(53 466)
	16 172 483	17 201 975

The fair value of collaterals associated to the loans to customers portfolio is analysed as follows:

(thousand euros)

	2012	2011
Loans with impairment:		
Individually significant:		
Securities and other financial assets	273 249	64 250
Residential real estate (Housing Loans)	34 041	19 449
Other real estate (Civil Construction)	3 451 879	1 612 072
Other guarantees	184 630	52 443
	3 943 799	1 748 214
Parametric analysis:		
Securities and other financial assets	81 125	78 295
Residential real estate (Housing Loans)	2 203 422	2 249 833
Other real estate (Civil Construction)	991 912	1 117 611
Other guarantees	127 934	133 583
	3 404 393	3 579 322
Loans without impairment:		
Securities and other financial assets	458 101	710 375
Residential real estate (Housing Loans)	14 102 627	14 290 398
Other real estate (Civil Construction)	1 226 174	3 389 833
Other guarantees	485 636	535 391
	16 272 538	18 925 997
	23 620 730	24 253 533

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:

(thousand euros)

	2012	2011
Financial assets held for trading:		
Securities		
Shares	12 337	5 415
Bonds	1 949	–
	14 286	5 415
Derivatives		
Derivatives financial instruments with positive fair value	106 800	130 115
Loans and other receivables	17 969	45 246
	124 769	175 361
	139 055	180 776
Financial liabilities held for trading:		
Securities		
Short sales	984	–
Derivatives		
Derivatives financial instruments with negative fair value	83 810	79 121
	84 794	79 121

The balance Derivatives financial instruments with positive fair value includes the amount of Euro 50 987 thousands (2011: Euro 51 721 thousands) referred to instruments associated to assets or liabilities at fair value through profit and loss.

The balance Derivatives financial instruments with negative fair value includes the amount of Euro 7 990 thousands (2011: Euro 13 768 thousands) referred to instruments associated to assets or liabilities at fair value through profit and loss.

The fair value of derivative financial instruments includes the valuation of the embedded derivatives separated from the host contracts in accordance with the accounting policy described in note 1 *d*) in the amount of Euro 8 450 thousands (2011:Euro 7 331 thousands).

The trading portfolio is recorded at fair value through profit and loss, in accordance with the accounting policy described in note 1 *d*). As referred in this note, assets held for trading are those which were acquired with the purpose of sale or re-acquisition on the short term regardless of 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, as follows:

(thousand euros)

	2012	2011
Financial assets held for trading:		
Level 1	14 286	5 415
Level 2	106 800	130 115
Level 3	17 969	45 246
	139 055	180 776
Financial liabilities held for trading:		
Level 1	984	–
Level 2	83 810	79 121
	84 794	79 121

The analysis of the securities portfolio held for trading by maturity as at 31 December 2012 is as follows:

(thousand euros)

	2012				
	Due within 3 months	3 months to 1 year	Over 1 year	Undetermined	Total
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	5 103	5 103
Foreign	–	–	–	7 234	7 234
Bonds					
Foreign			1 949	–	1 949
	–	–	1 949	12 337	14 286
Quoted	–	–	1 949	12 337	14 286

The analysis of the securities portfolio held for trading by maturity as at 31 December 2011 is as follows:

(thousand euros)

	2011				
	Due within 3 months	3 months to 1 year	Over 1 year	Undetermined	Total
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	804	804
Foreign	–	–	–	4 611	4 611
	–	–	–	5 415	5 415
Quoted	–	–	–	5 415	5 415

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2012, is as follows:

(thousand euros)

2012								
		Derivative			Related asset / liability			
Derivative	Related financial asset /liability	Nocional	Fair value	Changes in the fair value in the year	Fair value	Changes in the fair value in the year	Book Value	Reimbursement amount at maturity date
Interest rate swap	Securities issued	875 236	12 055	324	30 343	118 476	229 501	223 950
Interest rate swap	Deposits	1 360 400	26 055	3 805	(15 531)	375	443 782	437 599
Interest rate swap	Deposits from customers	330 424	17 326	3 655	6 190	13 402	102 196	100 577
Interest rate swap	Titularization	9 276 333	(9 431)	(1 683)	–	–	–	–
Interest rate swap	Covered bonds	11 275 036	(5 519)	(11 394)	–	6 509	–	–
Interest rate swap	Debt issued	50 000	(2 712)	(1 153)	2 475	960	25 350	25 000
Interest rate swap	Others (TRD)	517 840	(15 620)	(13 330)	–	–	–	–
CIRS	–	280 482	215	(264)	(7)	28	1 554	1 516
Forwards	–	38 766	10	32	–	–	–	–
Options	–	332 394	785	787	–	–	–	–
Credit Default Swaps	–	32 500	(174)	2 897	–	–	–	–
Others	Credit to customers and other receivables	–	17 969	(38 957)	–	–	–	–
		24 369 411	40 959	(55 281)	23 470	139 750	802 383	788 642

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2011, is as follows:

(thousand euros)

2011								
		Derivative			Related asset / liability			
Derivative	Related financial asset /liability	Nocional	Fair value	Changes in the fair value in the year	Fair value	Changes in the fair value in the year	Book Value	Reimbursement amount at maturity date
Interest rate swap	Securities issued	1 011 936	11 731	13 649	30 343	118 476	229 501	223 950
Interest rate swap	Deposits	1 872 000	22 250	(3 674)	(15 531)	375	443 782	437 599
Interest rate swap	Deposits from customers	348 767	13 671	(1 408)	6 190	13 402	102 196	100 577
Interest rate swap	Titularization	10 085 419	(7 748)	5 527	–	–	–	–
Interest rate swap	Covered bonds	9 242 912	5 875	12 147	–	6 509	–	–
Interest rate swap	Debt issued	50 000	(1 559)	1 559	2 475	960	25 350	25 000
Interest rate swap	Others (TRD)	997 606	(2 290)	1 486	–	–	–	–
CIRS	Debt issued	216 746	479	(734)	(7)	28	1 554	1 516
Forwards	–	84 752	(22)	21	–	–	–	–
Options	–	92 214	(2)	755	–	–	–	–
Credit Default Swaps	–	81 093	(3 071)	2 333	–	–	–	–
Others	Credit to customers and other receivable	–	56 926	(56 926)	–	–	–	–
		24 083 445	96 240	(25 265)	23 470	139 750	802 383	788 642

The analysis of financial instruments held for trading, by maturity date as at 31 December 2012, is as follows:

(thousand euros)

	2012					
	Notional with remaining term				Fair value	
	Due within 3 months	3 months to 1 year	Over 1 year	Total	Positive	Negative
Interest rate contracts:						
Interest rate swaps	234 000	371 383	23 079 886	23 685 269	99 248	77 094
Options	433	19 200	312 761	332 394	6 857	6 072
Exchange rate contracts:						
Interest rate swaps	279 706	776	–	280 482	627	412
Index contracts:						
Index futures	38 766	–	–	38 766	10	–
Credit default contracts:						
Credit default swaps	–	7 500	25 000	32 500	58	232
Others	–	–	–	–	17 969	–
	552 905	398 859	23 417 647	24 369 411	124 769	83 810

The analysis of financial instruments held for trading, by maturity date as at 31 December 2011, is as follows:

(thousand euros)

	2011					
	Notional with remaining term				Fair value	
	Due within 3 months	3 months to 1 year	Over 1 year	Total	Positive	Negative
Interest rate contracts:						
Interest rate swaps	22 945	1 982 770	21 602 925	23 608 640	119 712	77 782
Options	–	2 800	89 414	92 214	8 482	8 484
Exchange rate contracts:						
Interest rate swaps	216 746	–	–	216 746	648	169
Index contracts:						
Index futures	84 752	–	–	84 752	–	22
Credit default contracts:						
Credit default swaps	–	–	81 093	81 093	1 273	4 344
Others	–	–	–	–	45 246	(11 680)
	324 443	1 985 570	21 773 432	24 083 445	175 361	79 121

23. Other financial assets and liabilities at fair value through profit or loss

This balance is analysed as follows:

(thousand euros)

	2012	2011
Bond issued by other issuers		
Foreign	12 300	3 606
	12 300	3 606

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 the Group'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.

The analysis of the securities at fair value through profit or loss, by maturity is as follows:

(thousand euros)

	2012	2011
From 1 to 5 years	4 257	3 606
Undetermined	8 043	–
	12 300	3 606
Quoted	12 300	3 606

24. Financial assets available for sale

This balance is analysed as follows:

(thousand euros)

	2012				
		Fair value reserve			
	Cost (1)	Positive	Negative	Impairment Losses	Book Value
Fixed income securities:					
Issued by public entities:					
Portuguese	1 106 897	14 067	(5 049)	–	1 115 915
Foreign	95 444	1 322	(1 209)	(11 257)	84 300
Issued by other entities:					
Portuguese	364 382	655	(6 698)	(11 302)	347 037
Foreign	281 053	1 344	(21 565)	(1 049)	259 783
Commercial paper	248 708	–	–	(1 224)	247 484
Variable income securities:					
Shares in companies:					
Portuguese	12 763	108	(42)	(6 437)	6 392
Foreign	8 772	1 087	(81)	(2 596)	7 182
Investment fund units	424 457	2 860	(8 882)	(5 083)	413 352
	2 542 476	21 443	(43 526)	(38 948)	2 481 445

(1) Acquisition cost relating to shares and amortised cost relating to debt securities.

(thousand euros)

	2011				
		Fair value reserve			
	Cost (1)	Positive	Negative	Impairment Losses	Book Value
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.

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 45. The Group 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 *aa*).

As referred in note 58, the balance Variable income securities – Investment fund units includes the amount of Euro 19 018 thousands relating to units in a Fund specialized in the recovery of loans acquired under the sale of loans and advances to customers. This amount includes Euro 4 874 thousands engaged to junior securities (investment fund units with a more subordinated character), which are fully provisioned, according to note 15.

The balance Variable income securities – Investment fund units also includes the amount of Euro 213 601 thousands that corresponds to 24 913 185 participation units of «CA Imobiliário – Fundo Especial de Investimento Imobiliário Aberto (FEII)».

The financial assets available for sale 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, as follows:

(thousand euros)

	2012	2011
Level 1	1 895 751	2 174 363
Level 2	136 504	129 689
Level 3	181 987	3 587
At cost acquisition	267 203	266 729
	2 481 445	2 574 368

The movements of the impairment of the financial assets available for sale are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	30 115	19 172
Charge for the year	51 342	26 133
Write-back for the year	(15 668)	(3 083)
Charged-off	(26 841)	(12 107)
Balance on 31 December	38 948	30 115

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 22 083 thousands (31 December 2011: Euro 319 551 thousands) and impairment amounts to Euro 38 948 thousands (31 December 2011: Euro 30 115 thousands).

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 notes 15 and 57. As at 31 December 2012, the impairment corresponds to the effect of the recognition through profit or loss of the fair value reserve associated to these securities, which is determinated with market prices. Based on this analysis, the Group recorded during 2012 an additional impairment of Euro 11 257 thousands (2011: Euro 19 309 thousands).

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2012, is as follows:

(thousand euros)

	2012				
	Due within 3 months	3 months to 1 year	Over 1 year	Undetermined	Total
Fixed income securities:					
Issued by public entities:					
Portuguese	51 886	248 353	815 676	–	1 115 915
Foreign	2 521	63 627	18 152	–	84 300
Issued by other entities:					
Portuguese	48	64 324	282 665	–	347 037
Foreign	24 674	14 420	217 570	3 119	259 783
Commercial paper	100 596	81 295	65 593	–	247 484
	179 725	472 019	1 399 656	3 119	2 054 519
Variable income securities:					
Shares in companies:					
Portuguese	–	–	–	6 392	6 392
Foreign	–	–	–	7 182	7 182
Investment fund units	–	–	7 375	405 977	413 352
	–	–	7 375	419 551	426 926
	179 725	472 019	1 407 031	422 670	2 481 445

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2011, is as follows:

(thousand euros)

	2011				
	Due within 3 months	3 months to 1 year	Over 1 year	Undetermined	Total
Fixed income securities:					
Issued by public entities:					
Portuguese	–	417 255	733 271	–	1 150 526
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
	–	589 220	1 625 544	11 622	2 226 386
Variable income securities:					
Shares in companies:					
Portuguese	–	–	–	6 501	6 501
Foreign	–	–	–	6 563	6 563
Investment fund units	–	203	–	334 715	334 918
	–	203	–	347 779	347 982
	–	589 423	1 625 544	359 401	2 574 368

This balance, regarding quoted and unquoted securities, is departed as follows:

(thousand euros)

	2012			2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed income securities:						
Issued by public entities:						
Portuguese	1 115 915	–	1 115 915	1 150 526	–	1 150 526
Foreign	84 300	–	84 300	127 213	–	127 213
Issued by other entities:						
Portuguese	319 553	27 484	347 037	257 641	–	257 641
Foreign	259 783	–	259 783	430 008	–	430 008
Commercial paper	1 766	245 718	247 484	–	260 998	260 998
Variable income securities:						
Shares in companies:						
Portuguese	1 380	5 012	6 392	1 087	5 414	6 501
Foreign	6 827	355	7 182	6 245	318	6 563
Investment fund units	399 207	14 145	413 352	334 918	–	334 918
	2 188 731	292 714	2 481 445	2 307 638	266 730	2 574 368

25. Hedging derivatives

This balance is analysed as follows:

(thousand euros)

	2012	2011
Asset		
Interest rate swap	931	1 311
Liability		
Interest rate swap	3 177	13 041

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 the Group 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:

(thousand euros)

	2012	2011
Deposits from other credit institutions	(600)	(739)
Financial assets available for sale	1 987	1 553
	1 387	814

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2012 is as follows:

(thousand euros)

	2012							
	Notional with remaining term				Fair value			
	Due within 3 months	3 months to 1 year	Over 1 year	Total	Due within 3 months	3 months to 1 year	Over 1 year	Total
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	–	23 000	92 000	115 000	–	(366)	(1 880)	(2 246)
	–	23 000	92 000	115 000	–	(366)	(1 880)	(2 246)

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2011 is as follows:

(thousand euros)

	2011							
	Notional with remaining term				Fair value			
	Due within 3 months	3 months to 1 year	Over 1 year	Total	Due within 3 months	3 months to 1 year	Over 1 year	Total
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	–	–	515 000	515 000	–	–	(11 730)	(11 730)
	–	–	515 000	515 000	–	–	(11 730)	(11 730)

As at 31 December 2012, the fair value hedge relationships present the following features:

(thousand euros)

2012							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (1)	Changes in the fair value of the derivative in the year	Hedge item fair value (2)	Changes in the fair value of the hedged item in the year (2)
Interest rate SWAP	Deposits	Interest rate	20 000	803	(108)	(600)	139
Interest rate SWAP	Financial assets available for sale	Interest rate	95 000	(3 049)	(878)	1 987	434
			115 000	(2 246)	(986)	1 387	573

(1) Includes the accrued interest.
(2) Attributable to the hedge risk.

As at 31 December 2011, the fair value hedge relationships present the following features:

(thousand euros)

2011							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (1)	Changes in the fair value of the derivative in the year	Hedge item fair value (2)	Changes in the fair value of the hedged item in the year (2)
Interest rate SWAP	Deposits	Interest rate	20 000	911	1 834	(739)	(739)
Interest rate SWAP	Financial assets available for sale	Interest rate	95 000	(2 171)	432	1 553	1 170
	Loans to customers	Interest rate	400 000	(10 470)	396	3 660	3 660
			515 000	(11 730)	2 662	4 474	4 091

(1) Includes the accrued interest.
(2) Attributable to the hedge risk

26. Held-to-maturity investments

This balance is analysed as follows:

(thousand euros)

	2012	2011
Fixed income securities:		
Bonds issued by Portuguese public entities	6 185	37 419
Bonds issued by foreign public entities	21 310	39 575
	27 495	76 994

The fair value of held-to-maturity investments portfolio is presented in note 49.

The Group assessed, with reference to 31 December 2012, 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:

(thousand euros)

Issue	Issue Date	Maturity Date	Interest Rate	Book Value
OT – setembro 98/23-09-2013	May 1998	Sep. 2013	Fixed rate of 5.450%	96
OT – outubro 05/15-10-2015	Jul. 2005	Oct. 2015	Fixed rate of 3.350%	6 090
Netherlands Government 05/2015	Jun. 2005	Jul. 2015	Fixed rate of 3.250%	5 022
Republic of Austria 04/15-07-2015	May 2004	Jul. 2015	Fixed rate of 3.500%	2 021
Belgium Kingdom 05/28-09-2015	Mar. 2005	Sep. 2015	Fixed rate of 3.750%	1 993
Buoni Poliennali Del Tes. 05/2015	May 2005	Aug. 2015	Fixed rate of 3.750%	2 001
OT Angola 12/18-07-2014 – 6,98%	Jul. 2012	Jul. 2014	Fixed rate of 6.980%	1 220
OT Angola 12/18-07-2014 – 6,98%	Jul. 2012	Jul. 2014	Fixed rate of 6.980%	3 892
OT Angola 12/25-07-2014 – 6,98%	Jul. 2012	Jul. 2014	Fixed rate of 6.980%	1 219
OT Angola 12/25-07-2014 – 6,99%	Jul. 2012	Jul. 2014	Fixed rate of 6.990%	3 890
OT – Cabo Verde – março 10/01-03-2013	Mar. 2010	Mar. 2013	Fixed rate of 5.740%	51
				27 495

The held-to-maturity investments are stated in accordance with the established in note 1 *d*).

During 2012 and 2011, the Group did not transfer to or from this assets category.

As at 31 December 2012 the analysis of held-to-maturity investments by the period of maturity is as follows:

(thousand euros)

	2012				
	Due within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Bonds issued by Portuguese public issuers	–	96	6 089	–	6 185
Bonds issued by foreign public issuers	–	–	21 310	–	21 310
	–	96	27 399	–	27 495
Quoted	–	96	27 399	–	27 495

As at 31 December 2011 the analysis of held-to-maturity investments by the period of maturity is as follows:

(thousand euros)

	2011				
	Due within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
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

27. Investments in associated companies and others

This balance is analysed as follows:

(thousand euros)

	2012	2011
Investments in associated companies and others		
Lusitania Vida, Companhia de Seguros, S.A.	20 596	12 274
Nutre S.G.P.S., S.A.	18 242	18 320
Lusitania, Companhia de Seguros, S.A.	17 541	17 745
HTA – Hotéis, Turismo e Animação dos Açores, S.A	3 460	3 686
Iberpartners Cafés S.G.P.S., S.A.	997	1 041
Pinto & Bulhosa, S.A.	191	191
Naviser – Transportes Maritimos Internacionais, S.A.	150	150
Prio Energy S.G.P.S., S.A.	–	4 790
Unquoted	61 177	58 197
Impairment of investments in associated companies and other	(341)	(341)
	60 836	57 856

The financial information concerning associated companies is presented in the following table:

(thousand euros)

	Assets	Liabilities	Equity	Income	Profit / (Loss) for the year	Acquisition cost
31 December 2012						
Lusitania, Companhia de Seguros, S.A	522 559	442 860	79 699	212 334	(15 706)	29 566
Lusitania Vida, Companhia de Seguros, S.A.	497 552	445 090	52 462	51 628	5 158	9 530
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	45 731	28 302	17 429	7 638	(596)	3 200
Iberpartners Cafés S.G.P.S., S.A.	4 983	1 593	3 390	41	(41)	1 000
Nutre S.G.P.S., S.A.	172 274	127 930	44 344	62 698	(7 232)	21 018
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.	4 891	1 430	3 461	121	77	1 000
Nutre S.G.P.S., S.A.	290 622	240 066	50 556	68 073	(5 687)	21 018
Prio Energy S.G.P.S., S.A.	143 743	123 821	19 922	304 595	4 025	4 300

(thousand euros)

	Percentage held		Book value		Share of associates	
	2012 %	2011 %	2012	2011	2012	2011
Lusitania, Companhia de Seguros, S.A.	25.65	25.65	17 541	17 745	(7 205)	(626)
Lusitania Vida, Companhia de Seguros, S.A.	39.34	39.34	20 596	12 274	1 970	2 114
HTA – Hóteis, Turismo e Animação dos Açores, S.A.	20	20	3 460	3 686	(145)	(179)
Iberpartners Cafés S.G.P.S., S.A.	29.41	29.41	997	1 041	(13)	23
Nutre S.G.P.S., S.A.	20	20	18 242	18 320	(1 446)	(1 138)
Pinto & Bulhosa, S.A.	16	16	–	–	–	–
Naviser – Transportes Marítimos Internacionais, S.A.	20	20	–	–	–	–
Prio Energy S.G.P.S., S.A.	–	20	–	4 790	753	805

The movements for this balance are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	57 856	37 060
Acquisitions	6 000	24 461
Share of profit of associates	(6 086)	999
Fair value reserve from associates	8 722	(3 594)
Dividends received	(866)	(1 070)
Disposals	(4 790)	–
Balance on 31 December	60 836	57 856

28. Non-current assets held for sale

This balance is analysed as follows:

(thousand euros)

	2012	2011
Investments arising from recovered loans	521 849	168 102
Impairment for non-current assets held for sale	(30 054)	(31 091)
	491 795	137 011

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 the Group; 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).

According to the Group's expectation, these assets are available for sale in a period less than 1 year and the Group has a strategy for its sale. This balance includes buildings and other assets for which thr Group has already established contracts for the sale in the amount of Euro 15 345 thousands (31 December 2011: Euro 26 325 thousands).

The movements for non-current assets held for sale are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	168 102	201 710
Acquisitions	461 505	153 705
Sales	(69 216)	(187 568)
Other movements	(38 542)	255
Balance on 31 December	521 849	168 102

The movements for impairment for non-current assets held for sale are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	31 091	39 336
Impairment for the year	32 912	25 197
Write-back for the year	(32 400)	(39 498)
Loans charged-off	(1 549)	(3 944)
Transfers	–	10 000
Balance on 31 December	30 054	31 091

In November and December 2011, the Group 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 thousands, net from impairment, originating a gain of Euro 22 741 thousands and a write-back of impairment of Euro 13 996 thousands, as referred in note 9.

The balance Transfers corresponds to the values transferred from Finibanco Holding, S.G.P.S., S.A. and its subsidiaries, in the scope of the acquisition held by the Group on March 31, 2011.

29. Investment properties

The balance Investment properties considers the real estate properties owned by «Finipredial – Fundo de Investimento Aberto», «Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional» and «Fundo Polaris – Fundo de Investimento Imobiliário Fechado de Subscrição Particular», wich are fully consolidated, according to the accounting policy described in note 1 *b*). The real estate properties are measured in accordance with the accounting policy described in note 1 *q*).

30. Property and equipment

This balance is analysed as follows:

(thousand euros)

	2012	2011
Cost:		
Land and buildings:		
For own use	35 288	36 699
Leasehold improvements in rented buildings	70 698	67 653
Construction in progress	35	35
Equipment:		
Furniture	20 635	20 921
Office equipment	3 292	3 364
Computer equipment	92 550	85 661
Interior installations	25 467	23 382
Motor vehicles	4 835	5 126
Security equipment	9 474	9 846
Other equipment	5	5
Works of art	2 869	2 755
Assets in operacional lease	10 365	9 561
Assets in finance lease	38	38
Other tangible assets	2 454	2 406
Work in progress	3 898	5 858
	281 903	273 310
Accumulated depreciation:		
Charge for the year	(24 748)	(18 440)
Accumulated charge for the previous years	(160 580)	(146 213)
	(185 328)	(164 653)
	96 575	108 657

The Property and equipment movements, during the year of 2012, are analysed as follows:

(thousand euros)

	Balance on 1 January	Acquisitions/ Charges	Disposals	Adjustment/ Transfers	Balance on 31 December
Cost					
Land and buildings:					
For own use	36 699	–	(870)	(541)	35 288
Leasehold improvements in rented buildings	67 653	250	–	2 795	70 698
Construction in progress	35	–	–	–	35
Equipment:					
Furniture	20 921	96	(344)	(38)	20 635
Office equipment	3 364	16	(84)	(4)	3 292
Computer equipment	85 661	8 290	(1 386)	(15)	92 550
Interior installations	23 382	963	(1)	1 123	25 467
Motor vehicles	5 126	300	(583)	(8)	4 835
Security equipment	9 846	74	(436)	(10)	9 474
Other equipment	5	–	–	–	5
Works of art	2 755	114	–	–	2 869
Assets in operacional lease	9 561	2 627	(1 869)	46	10 365
Assets in finance lease	38	–	–	–	38
Other tangible assets	2 406	54	–	(6)	2 454
Work in progress	5 858	2 083	–	(4 043)	3 898
	273 310	14 867	(5 573)	(701)	281 903
Accumulated depreciation:					
Land and buildings:					
For own service	7 921	1 885	(278)	(142)	9 386
Leasehold improvements in rented buildings	37 870	8 801	(605)	–	46 066
Equipment:					
Furniture	15 869	1 103	(267)	–	16 705
Office equipment	2 893	130	(56)	–	2 967
Computer equipment	70 565	8 152	(1 344)	–	77 373
Interior installations	14 502	1 811	(125)	–	16 188
Motor vehicles	4 445	258	(323)	–	4 380
Security equipment	6 605	930	(311)	–	7 224
Other equipment	5	–	–	–	5
Assets in operational lease	2 302	1 499	(610)	–	3 191
Assets in finance lease	38	–	–	–	38
Other tangible assets	1 638	179	(12)	–	1 805
	164 653	24 748	(3 931)	(142)	185 328

The Property and equipment movements, during the year of 2011, are analysed as follows:

(thousand euros)

	Balance on 1 January	Acquisitions/ Charges	Disposals	Adjustment/ Transfers	Balance on 31 December
Cost					
Land and buildings:					
For own use	62 353	42 119	(68 135)	362	36 699
Leasehold improvements in rented buildings	24 190	42 342	–	1 121	67 653
Construction in progress	35	–	–	–	35
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 operacional 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 equipment	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 Acquisition/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 occurred in March 31, 2011.

In December 2011, the Group sold part of Property for own use to «Montepio Geral – Associação Mutualista». Those properties were recorded at the amount of Euro 48 517 thousands, net of depreciation, resulting in a gain of Euro 28 154 thousands, as referred in note 9.

31. Intangible assets

This balance is analysed as follows:

(thousand euros)

	2012	2011
Cost:		
Software	64 565	68 961
Revaluation and consolidation differences (Goodwill)	53 024	53 024
Other intangible assets	8 590	13 286
Work in progress	87	707
	126 266	135 978
Accumulated depreciation:		
Charge for the year	(18 808)	(9 830)
Accumulated charge for the previous years	(21 899)	(35 943)
	(40 707)	(45 773)
Impairment for intangible assets	(26 512)	–
	59 047	90 205

The balance Revaluation and consolidation differences (Goodwill), represents the fair value of assets and liabilities of Finibanco Group acquired by the Group on March 31, 2011 to Montepio Geral – Associação Mutualista, as decribed in note 1 *a*).

This intangible asset does not have finite useful life, so that, as referred in accounting policy described in note 1 *b*) and 1 *aa*), 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, the Group 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; and

(*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, and considering the maintenance of adverse intenacional and nacional market conditions, the Board of Directors decided to initiate a detailled review of the assumptions that supported the ex-Finibanco Group Business Plan. The referred review in still in progress and shall incorporate, not only the impacts from the actual economic condition in Portugal, but also, the impact of the actual Eurozone condition.

Besides the Business Plan revaluation, to be completed during the second semester of 2012, the Board of Directors conclude for the need to reflect in the consolidated financial statements as at 30 June 2012, a prudent perspective compared to the results of the referred revaluation. Based on the above, it was accounted, as at 31 December 2012, an impairment of the total value of the goodwill associated with the participation of ex-Finibanco Group, in the amount of Euro 26 512 thousands.

The Intangible assets movements, during the year of 2012, are analysed as follows:

(thousand euros)

	Balance on 1 January	Acquisitions/ Charges	Disposals	Adjustment/ Transfers	Balance on 31 December
Cost:					
Software	68 961	19 348	(23 862)	118	64 565
Revaluation and consolidation differences (Goodwill)	53 024	–	–	–	53 024
Other intangible assets	13 286	–	(32)	(4 664)	8 590
Work in progress	707	145	(520)	(245)	87
	135 978	19 493	(24 414)	(4 791)	126 266
Accumulated depreciation:					
Software	45 773	18 808	(23 855)	(19)	40 707
	45 773	18 808	(23 855)	(19)	40 707

The Intangible assets movements, during the year of 2011, are analysed as follows:

(thousand euros)

	Balance on 1 January	Acquisitions/ Charges	Disposals	Adjustment/ Transfers	Balance on 31 December
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
Work in progress	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 the Group, that occurred in March 31, 2011.

The Intangible assets impairment movements, during 2012 and 2011, are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	–	
Charges for the year	26 512	–
Balance on 31 December	26 512	–

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 in the accounting policy described in note 1*w*) are eligible for the recognition of deferred taxes.

Deferred income tax assets and liabilities as at 31 December, 2012 and 2011 are analysed as follows:

(thousand euros)

	Assets		Libilities		Net	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Financial instruments	3 749	18 630	–	(1)	3 749	18 629
Other tangible assets	(26)	961	(459)	–	(485)	961
Provisions	153 229	36 089	–	13	153 229	36 102
Benefits to employees	41 784	8 460	(74)	(48)	41 710	8 412
Tax losses carried forward	67 251	16 553	–	–	67 251	16 553
Net deferred tax assets/(liabilities)	265 987	80 693	(533)	(36)	265 454	80 657

The Group evaluated the recoverability of its deferred tax assets on the balance sheet based on the expectations of future taxable profits.

Deferred tax assets and liabilities are recognised for all taxable temporary differences except for goodwill, not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be deducted.

The expire date of recognised tax losses carried forward is presented as follows:

(thousand euros)

Year of expiry	**2012**
2014	10 542
2015	4 606
2017	52 103
	67 251

Deferred tax balance movements were recognized as follows:

(thousand euros)

	2012	**2011**
Balance on 1 January	80 657	–
Charged to profit	177 914	18 381
Charged to reserves and retained earnings	6 883	48 152
Transfers	–	14 124
Balance on 31 December	265 454	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 March 31, 2011.

Tax recognized in the income and reserves for the periods ended 31 December, 2011 and 2010 is analysed as follows:

(thousand euros)

	2012		2011	
	Charged to results	Charged to reserves	Charged to results	Charged to reserves
Financial instruments	–	(14 887)	91	18 627
Other tangible assets	(1 444)	5	1 902	(11)
Provisions	117 128	–	18 438	23 606
Post-employment benefits	10 979	22 318	(992)	5 930
Tax losses carried forward	51 251	(553)	(1 058)	–
Deferred taxes	177 914	6 883	18 381	48 152
Current taxes	(6 963)	–	(3 689)	–
Total recognized tax	170 951	6 883	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.

The reconciliation of the effective tax rate is analysed as follows:

(thousand euros)

	2012		2011	
	%	Amount	%	Amount
Profit before taxes		(134 804)		71 653
Banking levy		4 621		4 239
Profit before tax for the tax reconciliation		(130 183)		75 892
Statury tax rate	25.0		25.0	
Income tax calculated based on the statury tax rate		(32 546)		18 973
Non deductible costs	(68.2)	(88 729)	(5.7)	(4 293)
Tax-exempt profits	(36.7)	(47 715)	(3.5)	(2 627)
Utilization of tax losses	(3.4)	(4 423)	(1.0)	(778)
Autonomous taxation and other taxes	1.2	1 584	0.9	665
Other	0.7	878	(35.1)	(26 632)
Tax for the year	(126.8)	(170 951)	(20.5)	(14 692)

The Group 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.

Until 31 December 2011, according with article 10(1)(*a*) of Income Tax Code («IRC») CEMG was exempt from income tax payment. This exemption was recognized by the Ministerial Secretary of Fiscal Affairs dated 3 December, 1993, and confirmed by the Law no. 10-B/96 from 23 March, which approved the public budget for the year of 1996.

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 probability that such taxes will be paid or recovered in the future are eligible for the recognition of deferred taxes.

Considering this change, during 2011, the Group already recorded temporary differences calculated on December 31, 2011 in the amount of Euro 80 657 thousands. During 2012, the Board of Directors analysed the additional information received from the competent Tax Authorities about the clarifications requested by CEMG and concluded the analysis about the future recoverability of not recognized temporary differences and depending on the evaluation of these aspects, conclude about the eventual recording of deferred taxes not yet recognized in the amount of Euro 184 797 thousands.

33. Other assets

This balance is analysed as follows:

(thousand euros)

	2012	2011
Recoverable subsidies from Portuguese Government	9 736	9 724
Other debtors	136 948	185 852
Other accrued income	6 328	11 903
Prepayments and deferred costs	6 690	8 000
Sundry debtors	321 821	290 528
	481 523	506 007
Impairment from recoverable subsidies	(3 636)	(1 037)
	477 887	504 970

The balance Recoverable subsidies from Portuguese Government 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 2012 and 31 December 2011, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

(thousand euros)

	2012	2011
Recoverable subsidies from the Portuguese Government unliquidated	4 275	2 111
Subsidies unclaimed	1 543	3 157
Overdue subsidies unclaimed	3 918	4 456
	9 736	9 724

The balance Sundry debtors includes, as at 31 December 2012, the amount of Euro 157 010 thousands (2011: Euro 78 215 thousands) refer to transactions with securities recorded on trade date and pending settlement. The balance Sundry debtors also includes the amount of Euro 57 667 thousands (2011: Euro 20 989 thousands) relating to net assets recognized in balance sheet and representing the excess coverage of pension liabilities, health benefits and death subsidies, as described in note 50.

The other assets impairment movements, during the years of 2012 and 2011, are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	1 037	3 473
Impairment for the year	1 085	1 001
Write-back for the year	–	(2)
Loans charged-off	(1 000)	(3 469)
Transfers	2 514	34
Balance on 31 December	3 636	1 037

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 March 31, 2011.

34. Deposits from central banks

As at 31 December 2012 and 2011, this balance 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:

(thousand euros)

	2012	2011
Up to 3 months	110 007	702 975
More than 6 months	1 666 507	1 300 325
	1 776 514	2 003 300

35. Deposits from other financial institutions

This balance is analysed as follows:

(thousand euros)

	2012			2011		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions in Portugal	850	48 348	49 198	12 804	83 586	96 390
Deposits from credit institutions abroad	60 706	515 802	576 508	37 954	609 453	647 407
	61 556	564 150	625 706	50 758	693 039	743 797

The balance Deposits from other credit institutions, analysed by the period of maturity, is as follows:

(thousand euros)

	2012	2011
Up to 3 months	68 240	108 461
3 to 6 months	10 772	55 517
6 months to 1 year	31 356	467
1 year to 5 years	348 871	362 434
More than 5 years	174 973	245 164
	634 212	772 043
Adjustments arising from hedging operations	(8 506)	(28 246)
	625 706	743 797

36. Deposits from customers

This balance is analysed as follows:

(thousand euros)

	2012			2011		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	164 245	2 053 014	2 217 259	101 500	2 512 744	2 614 244
Time deposits (*)	–	10 845 501	10 845 501	–	10 815 437	10 815 437
Saving accounts (*)	–	170 577	170 577	–	248 293	248 293
Other items	6 579	–	6 579	8 039	–	8 039
Adjustments arising from hedging operations	15 531	–	15 531	15 906	–	15 906
	186 355	13 069 092	13 255 447	125 445	13 576 474	13 701 919

Observations: (*) Deposits for which the embedded derivate was separate from the host contract, in accordance with 22 and note 1*d*).

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 2012, this balance includes the amount of Euro 437 599 thousands (2011: Euro 794 197 thousands) 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:

(thousand euros)

	2012	2011
Deposits repayable on demand	2 217 259	2 614 244
Time deposits and saving accounts		
Due within 3 months	1 976 072	1 798 835
3 months to 6 months	2 989 061	4 477 693
6 months to 1 year	1 558 093	2 173 828
1 year to 5 years	4 420 209	2 602 082
Over 5 years	72 643	11 292
	13 233 337	13 677 974
Adjustments arising from hedging operations	15 531	15 906
	13 248 868	13 693 880
Other items		
Due within 3 months	6 579	8 039
	13 255 447	13 701 919

37. Debt securities issued

This balance is analysed as follows:

(thousand euros)

	2012	2011
Euro Medium Term Notes (EMTN)	708 970	1 314 250
Bonds	1 010 123	452 505
Covered bonds	63	706 357
Commercial paper	643 180	–
	2 362 336	2 473 112

The fair value of the debts securities issued is presented in note 49.

As at 31 December 2012, this balance includes the amount of Euro 307 844 thousands (2011: Euro 1 100 266 thousands) related to debt securities issued recognized at the balance sheet at fair value through profit or loss.

During 2012, the Group issued Euro 1,282,612 thousands (2011: Euro 263 011 thousands) of debt securities and performed the refund os Euro 1 277 664 thousands (2011: Euro 1 390 073 thousands).

As at 31 December 2012 and 2011, the analysis of debt securities issued outstanding by period to maturity is as follows:

(thousand euros)

	2012	2011
Due within 6 months	697 685	803 514
6 months to 1 year	302 635	758 726
1 year to 5 years	1 191 066	572 502
Over 5 years	201 921	419 533
	2 393 307	2 554 275
Adjustments arising from hedging operations	(30 971)	(81 163)
	2 362 336	2 473 112

Under the Issuance of covered bonds program, which maximum amount is 5 000 million Euro, the Group proceed to the emissions which totalized Euro 1 500 million. The main characteristics of these issues are as follows:

(thousand euros)

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	*Rating* (Moody's/ /Fitch/Dbrs)
Covered bonds	1 000 000	1 000 389	Dec. 2009	Dec. 2016	Quarterly	Euribor3M+0.75%	Baa3/BB-/AL
Covered bonds	500 000	500 135	Nov. 2010	Nov. 2015	Quarterly	Euribor3M+2.5%	Baa3/BB-/AL
	1 500 000	1 500 524					

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 thousands (2010: EUR 1 000 000 thousands), in 31 December, 2011, according with note 21.

The change occurred in debt securities issued during the year ended 31 December 2012 is analysed as follows:

(thousand euros)

	Balance on 1 January	Issues	Repayments	Net repurchase	Other movements (a)	Balance on 31 December
Euro Medium Term Notes (EMTN)	1 314 250	–	(569 364)	(87 919)	52 003	708 970
Bonds	452 505	546 037	–	13 401	(1 820)	1 010 123
Covered bonds	706 357	–	(708 300)	17 750	(15 744)	63
Commercial paper	–	636 575	–	–	6 605	643 180
	2 473 112	1 182 612	(1 277 664)	(56 768)	41 044	2 362 336

(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 2011 is analysed as follows:

(thousand euros)

	Balance on 1 January	Issues	Repayments	Net repurchase	Other movements (a)	Balance on 31 December
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.

In accordance with the note 1 *d*), debt issued repurchased by the Group 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 2012, the balance Debt securities issued is comprise of the following issues:

(thousand euros)

Issue	Issue date	Maturity date	Interest rate	Book value
OBRIGS CAIXA-MONTEPIO SELECT 5 ANOS	2008-01-22	2013-01-22	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 TX FIXA 5 AN-JAN/08	2008-01-24	2013-01-24	Fixed annual rate of 2.5%	2 500
OBRIGS CAIXA-MG INFLACÇÃO-2008/16-1.ª S	2008-06-16	2016-06-16	Annual interest rate of 3.2% + annual rate of european inflation	4 700
OBRIGS CAIXA-CRPC-SETEMBRO-2009-2014	2009-09-03	2014-09-04	Fixed annual rate of 3% (4th year a fixed rate of 3%, 5th year a fixed rate of 6%)	4 000
OBRIGS CAIXA-CRPC-SETEMBRO-2009-2017	2009-09-03	2017-09-04	Fixed annual rate of 3.75% (4th year a fixed rate of 3.75%, 5th year a fixed rate of 6.75%)	1 500
OBRIGS CAIXA-CRPC-2009-2014-8.ª SERIE	2009-11-13	2014-11-12	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 CX-TX VARIAVEL-CEMG-2009-2013	2009-11-23	2013-11-06	Quarterly rate Eur3M+1% (10th to 17th quarter, Rate Eur3M+1%)	500
OBRIGS CAIXA-MG TITULOS EUROPA-2009/13	2009-12-04	2013-12-04	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
OBRIG.CX-MONT.TX FIXA CRESC.2010/13 1S	2010-01-06	2013-01-06	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 2010/14-1.ª SE	2010-01-29	2014-01-29	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-MG CABAZ OURO E PETRÓLEO	2010-03-02	2014-03-03	At the maturity, the investor receives the maximum between 4% and the annual average performances individuals of the underlying assets, with an individual maximum of 28%	3 705
OBRIG.CX-MONTEPIO TX FIXA-2010/14-2.ª S	2010-03-23	2014-03-23	At the maturity, the investor receives the maximum between 4% and the annual average of Gold and Oil, with a maximum of 28%	20 000
OBRIGS CX-MG TX FIXA CRESC Abril-10/15	2010-04-19	2015-04-19	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
OBRIGS CAIXA-MG TAXA FIXA-2010/13-1.ª SE	2010-05-25	2013-05-25	Fixed rate of 2.5%	10 553
OBRIGS CAIXA-MG TOP-2010-2014-1.ª SERIE	2010-05-31	2014-06-02	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	2010-05-31	2014-06-02	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 CAPITAL CERTO-2010-2018 - 2.ª SERIE - EOO-CRPC 10 18 2S	2010-07-21	2018-07-22	First and second year 2.25%; 3rd and 4th year 2.5%; 5th year 2.75%; 6th year 3%; 7th year 3.5% and 8th year 5%	850
OBRIGS CAIXA-MG TAXA FIXA JULHO 2010/2014 - EOO-MG TXFX 10 14	2010-07-30	2014-07-30	Fixed annual rate of 3.5%	22 747
OBRIGS CAIXA-MG TAXA FIXA AGOSTO-2010-2014 - EOP-MG TXFX 10 14	2010-08-31	2014-08-31	Fixed annual rate of 3.5%	15 914
OBRIGS CAIXA-MG TAXA FIXA SETEMBRO 2010-2020 - EOP-MGTXFXSET1020	2010-09-09	2020-09-09	Fixed annual rate of 4%	200

(thousand euros)

Issue	Issue date	Maturity date	Interest rate	Book value
OBRIGS CAIXA-MG TAXA FIXA SETEMBRRO 2010-2014 - EOP-TXFX SET10 14	2010-09-30	2014-09-30	Fixed annual rate of 3.5%	9 967
OBRIGS CAIXA-MG TELECOMUNICACOES - DEZEMBRO 2010-2014	2010-12-20	2014-12-20	Interets = Max [2%;Min(performance,40%)]	558
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016 -1.ª SERIE	2011-01-27	2016-01-28	Fixed annual rate 3.53% (2nd year 3.53%, 3rd year 4.03%, 4th year 4.28% and 5th year of 5.28%	24 400
OBRIGS CAIXA-MG TAXA FIXA JANEIRO 2011-2015	2011-02-08	2015-02-08	Fixed annual rate of 4%	19 918
OBRIGS CAIXA-MG TAXA FIXA CRESCENTE FEVER-2011-2016	2011-02-11	2016-02-11	Fixed annual rate 3.7% (2nd year 3.9%, 3rd year 4.25%, 4th year 4.5% and 5th year 5.5%)	1 200
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016 - 2.ª SERIE	2011-02-24	2016-01-24	Fixed annual rate 3.5% (2nd year 3.9%, 3rd year 4.2%, 4th year 4.3% and 5th year 5.6%)	22 800
OBRIGS CAIXA-MG TAXA CRESCENTE FEVEREIRO 2016	2011-03-02	2016-02-25	Fixed annual rate 3.5% (2nd year 3.9%, 3rd year 4.2%, 4th year 4.35% and 5th year 5.6%)	12 450
OBRIGS CAIXA-MONTEPIO TOP EUROPA - MARÇO 2011/2015	2011-03-09	2015-03-09	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 MARÇO 2011-2013	2011-03-09	2013-03-09	Fixed annual rate of 3.25%	6 593
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016 - 3.ª SERIE	2011-03-31	2016-04-01	Fixed annual rate 3.75% (2nd year 4%, 3rd year 4.25%, 4th year 4.5% and 5th year 5.5%)	19 250
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2019 - 1.ª SERIE	2011-03-31	2019-04-01	Fixed annual rate de 4.4% (2nd year 4.4%, 3rd 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	2011-04-06	2016-04-01	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.ª SERIE	2011-04-28	2016-04-29	Fixed annual rate 3.75% (2nd year 4%, 3rd year 4.25%, 4th year 4.5% and 5th year 5.5%	24 250
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016 - 5.ª SERIE	2011-05-26	2016-05-27	Fixed annual rate 4.1% (2nd year 4.3%, 3rd year 4.6%, 4th year 4.8% and 5th year 5.75%)	19 500
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2019 - 2.ª SERIE	2011-05-26	2019-05-27	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	2011-06-08	2016-04-29	Fixed annual rate 4.25% (2nd and 3rd year 4.5%, 4th year 4.75% and 5th year 5%)	13 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016 - 6.ª SERIE	2011-06-30	2016-07-01	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	2011-08-04	2016-07-29	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.ª SERIE	2011-09-07	2019-07-01	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	5 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016 - 7.ª SERIE	2011-09-07	2016-09-01	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 DEZEMBRO 07/17	2010-12-20	2017-12-19	Mínimum [15 * (30 Yr Swap Rate – 10 Yr Swap Rate) + 0.75%; 15 * (10 Yr swap Rate – 2 Yr Swap Rate) + 1.25%]	24 816
OBRIGS CX-MG CAPITAL CERTO 2016 -11.ª SER	2012-01-20	2016-12-01	Fixed quartely rate 9.53606% (2nd: 5.56%; 3rd: 5.880%; 4th: 5.880%; 5th: 6.360%; 6th: 6.36%; 7th: 6.68%; 8th: 6.68% and 9th: 8.28%)	2 500
OBRIGS CX-MG CAPITAL CERTO 2016 -12. ªSER	2012-01-20	2016-12-29	Fixed quartely rate 6.833% (2nd: 5.214%; 3rd: 6.0265%; 4th: 6.0265%; 5th: 6.839%; 6th: 6.839%; 7th: 7.6515%; 8th: 7.6515%; 9th: 11.714% and 10th 11.714%	4 000
OBRIGS CX-MG CAPITAL CERTO 2012/17-1.ª S	2012-01-31	2017-02-01	Fixed quartely rate 5.21% (2nd: 5.21%; 3rd: 6.035%; 4th: 6.035%; 5th: 6.861%; 6th: 6.861% 7th: 7.686%; 8th: 7.686%; 9th: 10.162% and 10th: 10.162%	5 650

(thousand euros)

Issue	Issue date	Maturity date	Interest rate	Book value
OBGS CX-MG CAPITAL CERTO 2012/17-1.ª SER	2012-02-28	2017-03-01	Fixed annual rate of 4.8333%; 2nd: 5.6667%; 3rd: 6.5%; 4th: 7.3333% e 5th: 9.8333%	9 750
OBRIGS CX-MG CAP CERTO 2012/2017-3.ª SER	2012-03-30	2017-03-31	Fixed annual rate of 4.6247%; 2nd: 4.9539%; 3rd: 5.2830%; 4th: 5.6122%; 5th: 6.5997%	30 000
OBRIGS CX-CRPC-2012/20-1. ªSER	2012-03-30	2020-03-31	Fixed annual rate of 5.25%; 3rd and 4th: 6% and 5th: 6.75%; 6th, 7th and 8th of Max[6.25% and Min (IPC+2%;9.15%)]	4 400
OBRIGS CX-MG CAPI CERTO 2012/17-4.ª SER	2012-04-30	2017-05-01	Fixed annual rate of 4.75%; 2nd: 4.80%; 3rd: 5.10%, 4th: 5.40% and 5th: 6.35%	68 000
OBRIGS CX-MG CAPITAL CERTO 2012/17-5.ª S	2012-05-31	2017-06-01	Fixed annual rate of 6.3897%; 2nd: 6.8874%; 3rd: 8.8782%; 4th: 9.6247% and 5th: 13.6063%	8 700
OBRIGS CAIXA-MG CAP CERTO 2012/20-2.ª SE	2012-05-31	2020-06-01	Fixed annual rate of 7.05%; 2nd: 8.2583%; 3rd: 8.2583%; 4th: 9.7083%; 5th: 10.7250%; 6th: 7.4750%; 7th: 8.3% and 8th: 11.1583%	600
OBRIG CX-Mg PARTIC junho-junho-2012/14	2012-06-04	2014-06-04	Fixed annual rate of 4.5% at the first year and 5% at the second year	923
OBRIGS CX-MG TAXA FIXA-JUNHO 2012/2014	2012-06-27	2014-06-27	Fixed annual rate of 4.5% at the first year and 5% at the second year	21 919
OBRIGS CX-MG CAP CERTO 2012/2017-6.ª S	2012-06-29	2017-06-30	Fixed annual rate of 6.52%; 2nd: 7.27%; 3rd: 8.02%; 4th: 9.27% and 5th: 12.77%	5 000
OBRIGS CX-MG PARTICUL JULHO-2012-2014	2012-07-09	2014-07-09	Fixed rate of 5%	20 240
OBCX-M.CAB.ACOES JUN12/15	2012-07-11	2015-07-11	On maturity the investor will receive 50% of the average performance of the index with a minnimum of 3.75% and a maximum of 30%	2 272
OBCX-M.PART.JUL/12 230714	2012-07-23	2014-07-23	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	330
OBCX-M.PART.JUL/12 240714	2012-07-24	2014-07-24	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	900
OBRIGS CX-MG PARTIC JUL/12 25072014	2012-07-25	2014-07-25	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	400
OBRIGS CX-MG TAXA FIXA JULHO 2012/2014	2012-07-25	2014-07-25	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	50 000
OBRIGS CX-MG CAPIT CERTO 2012/2017-7.ª S	2012-07-31	2017-08-01	Fixed annual rate of 7.65%; 2nd: 8.40%; 3rd: 8.65%; 4th: 10.40%; 5th: 11.90%	6 000
OBIGS CX-MG PARTIC AGOSTO/12 03082014	2012-08-03	2014-08-03	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	250
OBRIGS CAIXA-MG PART AGO/12 060815	2012-08-06	2015-08-06	Fixed semi annual rate of 5.055%; 2nd: 5%; 3rd and 4th: 5.25%; 5th and 6th: 5.35%	1 025
OBRIGS CX-MG PARTIC AGOSTO/12 08082014	2012-08-08	2014-08-08	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	450
OBRIG.CX-MONTEPIO TX FIXA AGOSTO 12-14	2012-08-16	2014-08-16	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	59 983
OBGS.CX-MG TX FX-24 AGOSTO 2012-14	2012-08-24	2014-08-24	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	78 002
OBRGS CX-MG PARTICULAR AGO/12 31082014	2012-08-31	2014-08-31	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	280
OBRIGS CAIXA-MG CAP CERTO 2012/20-3.ª SE	2012-08-31	2020-09-01	Fixed annual rate of 5%; 2nd: 5.25%; 3rd: 6%; 4th: 6% and 5th: 6.75%	1 345
OBRIGS CAIXA-MG CAP CERTO 2012/17-8.ª SE	2012-08-31	2017-09-01	Fixed annual rate of 8.6%; 2nd: 9.7667%; 3rd: 10.9333%; 4th: 12.1% and 5th: 10.7%	9 000
OBRIGS CAIXA-MG PART SET/12-03092014	2012-09-03	2014-09-03	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	265
OBRIGS CAIXA-MG PART SET/12-05092014	2012-09-05	2014-09-05	Fixed semi annual rate of 4.875%; 3rd and 4th: 5.125%	2 300
OBCX-M.PART.SET/12 120914	2012-09-12	2014-09-12	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	495
OBCX-M.PART.SET/12 140914	2012-09-14	2014-09-14	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	400

(thousand euros)

Issue	Issue date	Maturity date	Interest rate	Book value
OBCX-M.PART.SET/12 170914	2012-09-17	2014-09-17	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	1 000
OBCX-M.PART.SET/12 190915	2012-09-19	2015-09-19	Fixed semi annual rate of 5% at the 1st and 2nd semester, 5.25% at the 3rd and 4th semester and 5.35% at the 5th and 6th semester	250
OBCX-M.PART.SET/12 210914	2012-09-21	2014-09-21	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	525
OBCX-M.PART.SET/12 260914	2012-09-27	2014-09-27	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	250
OBCX-MG CAP.CERTO12/17-9S	2012-09-28	2017-09-29	Fixed annual rate of 10.9393%; 2nd: 11.9179%; 3rd: 12.1625%; 4th: 13.3857% and 5th: 12.3286%	14 000
OBCX-M.PART.OUT/12 011015	2012-10-01	2015-10-01	Fixed annual rate of 5%; 2nd: 5.25%; 3rd: 5.35%	340
OBRIGS CX-MG PART OUTUBRO12-02102014	2012-10-02	2014-10-02	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	610
OBRIGS CX-MG PART OUT12-03102014	2012-10-03	2014-10-03	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	675
OBRIGS CAIXA-MG PART OUT12-04102014	2012-10-04	2013-04-04	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	250
OBRIGS CAIXA-MG PART OUT/12-09102014	2012-10-09	2014-10-09	Fixed annual rate of 5%	270
OBRIGS CAIXA-MG PART OU7/12-10102014	2012-10-10	2014-10-10	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	250
OBRIGS CAIXA-MG PART OUT/12-10102014	2012-10-15	2014-10-15	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	300
OBRIGS CX-MG PART-OUT/12-16102014	2012-10-16	2014-10-16	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	1 210
OBRIGS CX-MG CAP CERTO 2012/2017-10.ª S	2012-10-31	2017-10-31	Fixed annual rate of 5.15%; 3rd: 5.4%; 4th: 5.6% and 5th: 6.15%	57 500
OBRIGS CAIXA-MG PART NOV12-02112014	2012-11-02	2014-11-02	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	250
OBRIGS CAIXA-MG PART NOV12-06112014	2012-11-06	2014-11-06	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	730
OBRIGS CX-MG PARTICUL NOV12-06112014	2012-11-09	2014-11-09	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	300
OBRIGS CAIXA-MG PARTIC NOV12-19112014	2012-11-19	2014-11-19	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	1 000
OBGS CX MG TX FX NOV12-14	2012-11-22	2014-11-22	Fixed rate of 4.25%	6 282
OBG MG TX FXPLUS NOV12-14	2012-11-22	2014-11-22	Fixed rate of 5%	18 549
OBCX-MG POUP.FAMILIAR-1S	2012-11-28	2017-11-29	Fixed annual rate of 5.15%; 3rd and 4th year 5.25%; 5th year: 6.70%	3 450
OBCX-MG CAP.CERT12/17-11S	2012-11-28	2017-11-29	Fixed annual rate of 5.15%; 3rd and 4th year: 5.25%; 5th year: 5.70%	48 500
OBCX-M.PART.DEZ/12 051214	2012-12-05	2014-12-05	Fixed semi annual rate of 5%; 3rd and 4th: 5.25%	250
OBRIGS CX-MG TX FX PLUS-06DEZ 2012-14	2012-12-06	2014-12-06	Fixed rate of 5%	14 140
OBRIGS CAIXA-MG TX FIXA-6DEZ 2012-14	2012-12-06	2014-12-06	Fixed rate of 4.25%	4 114
OBRIGS CAIXA-MG PARTIC DEZ12-211215	2012-12-21	2015-12-21	Fixed semi annual rate of 5%; 3rd and 4th: 5.25%; 5th and 6th: 5.35%	300
OBRIGS CAIXA-MG TX FX-20DEZ-2012-14	2012-12-20	2014-12-20	Fixed rate of 4.25%	3 324
OBRIGS CAIXA-MG TX FX PLUS-20DEZ-12-14	2012-12-20	2014-12-20	Fixed rate of 5%	13 953
OBCXMGTXFXPLUS 31DEZ-1214	2012-12-31	2014-12-31	Fixed rate of 5%	6 140
OBGSCX MGTXFX 31DEZ-12-14	2012-12-31	2014-12-31	Fixed rate of 4.25%	2 122
OBCX-M.PART.DEZ/12-311214	2012-12-31	2014-12-31	Fixed rate of 5%	300
OBRIGS CX-MG-TIMBI-12-15	2012-12-31	2015-12-31	Fixed rate indexed to 400% of index performance with a minnimum of 0%	5
OBRIGS CX-MG-LATAM-12-15	31-12-2012	31-12-2015	Fixed rate indexed to 60% of index performance with a maximum of 10% and a minnimum of 0%.	5
PAPEL COMERCIAL-364 DIAS-5P/C-08082012	2012-08-08	2013-08-07	Fixed rate of 5%	22 607

(thousand euros)

Issue	Issue date	Maturity date	Interest rate	Book value
PAPEL COMERC-180 DIAS-4,5PC-23082012	2012-08-23	2013-02-19	Fixed rate of 4.5%	21 433
PAPEL COMERC-180 DIAS-4,5PC-05092012	2012-09-05	2013-03-04	Fixed rate of 4.5%	14 055
PAPEL COMERCIAL-364 DIAS-5P/C-05092012	2012-09-05	2013-09-04	Fixed rate of 5%	25 753
PAPEL COMERCIAL-180 DIAS-4PC-19092012	2012-09-19	2013-03-18	Fixed rate of 4%	24 389
PAPEL COMERCIAL-364DIAS-4,5PC-19092012	2012-09-19	2013-09-18	Fixed rate of 4.5%	23 839
PAPEL COMERCIAL-180DIAS-4,5PC-26092012	2012-09-26	2013-03-25	Fixed rate of 4.5%	21 953
PAPEL COMERCIAL-364DIAS-5P/C-26092012	2012-09-26	2013-09-25	Fixed rate of 5%	21 977
PAPEL COMERCIAL-364 DIAS-5PC-03102012	2012-10-03	2013-10-02	Fixed rate of 5%	7 188
PAPEL COMERC-364 DIAS-4,5 PC-03102012	2012-10-03	2013-10-02	Fixed rate of 4.5%	11 379
PAPEL COMERC-180 DIAS-4,5PC-03102012	2012-10-03	2013-04-01	Fixed rate of 4.5%	17 008
PAPEL COMERCIAL 180 DIAS-4P/C-03102012	2012-10-03	2013-04-01	Fixed rate of 4.0%	10 689
PAPEL COMERCIAL 180 DIAS-4P/C-10102012	2012-10-10	2013-04-08	Fixed rate of 4.0%	12 050
PAPEL COMERCIAL 180 DIAS-4,5P/C-101012	2012-10-10	2013-04-08	Fixed rate of 4.5%	20 089
PAPEL COMERCIAL 364 DIAS-5P/C-1010201	2012-10-10	2013-10-09	Fixed rate of 5%	18 276
PAPEL COMERCIAL 364 DIAS-4,5P/C-101012	2012-10-10	2013-10-09	Fixed rate of 4.5%	9 982
PAPEL COMERCIAL-180 DIAS-4PC-17102012	2012-10-17	2013-04-15	Fixed rate of 4.0%	9 809
PAPEL COMERCIAL-180 DIAS-4,5PC-171012	2012-10-17	2013-04-15	Fixed rate of 4.5%	20 175
PAPEL COMERCIAL-364 DIAS-4,5PC-171012	2012-10-17	2013-10-16	Fixed rate of 4.5%	8 288
PAPEL COMERCIAL-364 DIAS-5P/C-17102012	2012-10-17	2013-10-16	Fixed rate of 5%	18 230
PAPEL COMERCIAL-90 DIAS-3P/C-24102012	2012-10-24	2013-01-22	Fixed rate of 3%	1 172
PAPEL COMERC-90 DIAS-3,5P/C-24102012	2012-10-24	2013-01-22	Fixed rate of 3.5%	500
PAPEL COMERCIAL 180 DIAS-4P/C-24102012	2012-10-24	2013-04-22	Fixed rate of 4.0%	6 438
PAPEL COMERC-180 DIAS-4,5P/C-241012	2012-10-24	2013-04-22	Fixed rate of 4.5%	7 596
PAPEL COMERC-364DIAS-4,5P/C-241012	2012-10-24	2013-10-23	Fixed rate of 4.5%	7 096
PAPEL COMERCIAL-364 DIAS-5PC-24102012	2012-10-24	2013-10-23	Fixed rate of 5%	5 677
PAPEL COMERCIAL-90 DIAS-3P/C-31102012	2012-10-31	2013-01-29	Fixed rate of 3%	501
PAPEL COMERCIAL-90 DIAS-3,5P/C-3110201	2012-10-31	2013-01-29	Fixed rate of 3.5%	705
PAPEL COMERCIAL 180 DIAS-4P/C-31102012	2012-10-31	2013-04-29	Fixed rate of 4.0%	5 911
PAPEL COMERC 180 DIAS-4,5P/C-31102012	2012-10-31	2013-04-29	Fixed rate of 4.5%	6 440
PAPEL COMERC-364 DIAS-4,5 PC-31102012	2012-10-31	2013-10-30	Fixed rate of 4.5%	7 946
PAPEL COMERCIAL-364 DIAS-5PC-31102012	2012-10-31	2013-10-30	Fixed rate of 5%	10 584
PAPEL COMERCIAL-90 DIAS-3P/C-07112012	2012-11-07	2013-02-05	Fixed rate of 3%	569
PAPEL COMERCIAL-90 DIAS-3,5P/C-071112	2012-11-07	2013-02-05	Fixed rate of 3.5%	3 388
PAPEL COMERCIAL 180 DIAS-4P/C-07112012	2012-11-07	2013-05-06	Fixed rate of 4%	4 399
PAPEL COMERCIAL 180 DIAS-4,5P/C-071120	2012-11-07	2013-05-06	Fixed rate of 4.5%	11 614
PAPEL COMERCIAL-364 DIAS-4,5 PC-071112	2012-11-07	2013-11-06	Fixed rate of 4.5%	5 240
PAPEL COMERCIAL-364 DIAS-5PC-07112012	2012-11-07	2013-11-06	Fixed rate of 5%	13 790
PAPEL COMERCIAL-90 DIAS-3P/C-14112012	2012-11-14	2013-02-12	Fixed rate of 3%	728
PAPEL COMERCIAL-90 DIAS-3,5P/C-141112	2012-11-14	2013-02-12	Fixed rate of 3.5%	1 120
PAPEL COMERCIAL 180 DIAS-4P/C-14112012	2012-11-14	2013-05-13	Fixed rate of 4%	6 553
PAPEL COMERCIAL 180 DIAS-4,5P/C-141112	2012-11-14	2013-05-13	Fixed rate of 4.5%	6 026
PAPEL COMERCIAL-364 DIAS-4,5 PC-141112	2012-11-14	2013-11-13	Fixed rate of 4.5%	4 733
PAPEL COMERCIAL-364 DIAS-5PC-14112012	2012-11-14	2013-11-13	Fixed rate of 5%	4 710
PAPEL COMERCIAL 180 DIAS-4P/C-21112012	2012-11-21	2013-05-20	Fixed rate of 4.0%	7 735
PAPEL COMERCIAL 180 DIAS-4,5P/C-211120	2012-11-21	2013-05-20	Fixed rate of 4.5%	9 180
PAPEL COMERCIAL-364 DIAS-4,5 PC-211120	2012-11-21	2013-11-20	Fixed rate of 4.5%	6 055
PAPEL COMERCIAL-364 DIAS-5PC-21112012	2012-11-21	2013-11-20	Fixed rate of 5%	4 687
PAPEL COMERCIAL 180 DIAS-4P/C-28112012	2012-11-28	2013-05-27	Fixed rate of 4.0%	5 359
PAPEL COMERCIAL 180 DIAS-4,5P/C-281112	2012-11-28	2013-05-27	Fixed rate of 4.5%	6 669
PAPEL COMERCIAL-364 DIAS-4,5 PC-281112	2012-11-28	2013-11-27	Fixed rate of 4.5%	5 203
PAPEL COMERCIAL-364 DIAS-5PC-28112012	2012-11-28	2013-11-27	Fixed rate of 5%	4 743
PAPEL COMERCIA-PARTICULAR-5PC-21112012	2012-11-21	2013-11-20	Fixed rate of 5%	3 000
PAPEL COMERCIAL 180 DIAS-4P/C-05122012	2012-12-05	2013-06-03	Fixed rate of 4.0%	5 871
PAPEL COMERCIAL 180D-4,5PC-05122012	2012-12-05	2013-06-03	Fixed rate of 4.5%	4 249
PAPEL COMERCIAL-364 DIAS-4,5 PC-051220	2012-12-05	2013-12-04	Fixed rate of 4.5%	5 793
PAPEL COMERCIAL-364 DIAS-5PC-05122012	2012-12-05	2013-12-04	Fixed rate of 5%	5 578
PAPEL COMERCIAL 180 DIAS-4P/C-12122012	2012-12-12	2013-06-10	Fixed rate of 4.0%	5 861
PAPEL COMERCIAL 180DIAS-4,5PC-12122012	2012-12-12	2013-06-10	Fixed rate of 4.5%	6 831

(thousand euros)

Issue	Issue date	Maturity date	Interest rate	Book value
PAPEL COMERC-364 DIAS-4,5 PC-12122012	2012-12-12	2013-12-11	Fixed rate of 4.5%	4 132
PAPEL COMERCIAL-364 DIAS-5PC-12122012	2012-12-12	2013-12-11	Fixed rate of 5%	10 241
PAPEL COMERCIAL 180 DIAS-4P/C-19122012	2012-12-19	2013-06-17	Fixed rate of 4%	3 835
PAPEL COMERC 180 DIAS-4,5P/C-19122012	2012-12-19	2013-06-17	Fixed rate of 4.5%	1 570
PAPEL COMERC-364 DIAS-4,5 PC-19122012	2012-12-19	2013-12-18	Fixed rate of 4.5%	2 513
PAPEL COMERCIAL-364 DIAS-5PC-19122012	2012-12-19	2013-12-18	Fixed rate of 5%	2 803
PAPEL COMERCIAL 182 DIAS-4P/C-31122012	2012-12-31	2013-07-01	Fixed rate of 4%	7 106
PAPEL COMERCIAL 182DIAS-4,5PC-31122012	2012-12-31	2013-07-01	Fixed rate of 4.5%	4 595
PAPEL COMERCIAL-364DIAS-4,5PC-31122012	2012-12-31	2013-12-30	Fixed rate of 4.5%	6 469
PAPEL COMERCIAL-364 DIAS-5PC-31122012	2012-12-31	2013-12-30	Fixed rate of 5%	6 442
PAPEL COMERCIAL-PARTIC-90D-4PC-051212	2012-12-05	2013-03-05	Fixed rate of 4.0%	25 000
PAPEL COMERC-PARTIC-356D-5PC-28122012	2012-12-28	2013-12-19	Fixed rate of 5%	1 500
PAPEL COMERCIAL - FINICRÉDITO 1ª EMISSÃO	2012-06-06	2013-05-30	Eur 12M + 3%	10 950
Empréstimo obrigacionista CEMG 2004	2004-09-01	2014-09-01	Euribor 3M + 0.25%	15 000
Empréstimo obrigacionista CEMG 2005	2005-02-25	2013-02-25	Fixed annual rate of 0.875 x 10yr CMS rate	125 000
Empréstimo obrigacionista CEMG 2007	2007-01-30	2017-01-30	Fixed annual rate of 1 x 10yr CMS rate	100 000
Empréstimo obrigacionista CEMG 2007	2007-02-08	2017-02-08	Fixed rate of 5%	90 000
Empréstimo obrigacionista CEMG 2007	2007-05-29	2013-05-29	Euribor 3M + 0.25%	500 000
Pelican Mortgages No. 1	2002-12-19	2037-12-19	W.A.I. – 1.33%	73 169
Pelican Mortgages No. 2	2003-09-29	2013-09-29	W.A.I. – 1.53%	89 939
				2 618 615
Adjustments arising from hedging operations				(30 969)
Accruals, deferred costs and income				(225 310)
				2 362 336

As at 31 December 2012, for the bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.44% and 10.94% (2011: 0.5% and 7.25%).

38. Financial liabilities relating to transferred assets

This balance is analysed as follows:

(thousand euros)

	2012	2011
Pelican Mortgages No. 3	240 051	354 510
Aqua SME n.º 1	–	90 516
Others	4 368	8 035
	244 419	453 061

39. Provisions

This balance is analysed as follows:

(thousand euros)

	2012	2011
Other provisions for liabilities and charges	14 292	7 985

During 2011, the Group recorded provisions for liabilities and charges in the amount of Euro 3,800 thousands related to risks of the sale performed on 2009 to «Mapfre – Seguros Gerais, S.A.» of 50% of the subsidiary «Finibanco Vida – Companhia de Seguros de Vida, S.A.» These contingencies are revised in each reporting date in order to reflect the best estimate of the amount and probability of payment, as described in note 1 *aa*).

During 2012, the referred contingency was extinct due to the repurchase process of 50% of the associated company «Finibanco Vida – Companhia de Seguros de Vida, S.A.» previously sold to «Mapfre – Seguros Gerais, S.A.» by «Montepio Geral – Associação Mutualista», following a prior agreement between the parties.

The movements of the provisions for liabilities and charges are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	7 985	1 311
Charge for the year	2 730	6 050
Write-back for the year	(5 695)	(1 768)
Transfers	9 272	2 392
Balance on 31 December	14 292	7 985

The provisions are accounted in accordance with the probability of occurrence of certain contingencies related with the Group's inherent risks, which are revised in each reporting date in order to reflect the best estimate of the amount and probability of payment.

As at 31 December 2011, 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.

40. Other subordinated debt

As at 31 December 2012, this balance refers to Bonds with fixed maturity and with a residual reimbursement over 5 years.

As at 31 December 2012, the mainly characteristics of the Other subordinated debt, are analysed as follows:

(thousand euros)

Issue	Issue date	Maturity date	Issue amount	Interest rate	Book Value
CEMG/06	Apr.2006	Apr.2016	50 000	Euribor 3 months + 0.45%	50 083
CEMG/08	Feb.2008	Feb.2018	150 000	Euribor 6 months + 0.13%	150 821
CEMG/08	Jun.2008	Jun.2018	28 000	Euribor 12 months + 0.10%	28 349
CEMG/08	Jul.2008	Jul.2018	150 000	Euribor 6 months + 0.13%	151 177
FNB 08/18 1.ª/2.ª Série	Dec.2008	Dec.2018	10 363	Euribor 6 months + 0.15% *(v)*	9 814
FNB Rendimento Garantido 05/13	May.2005	May.2013	410	Range (1.90%;4.50%) *(iii)*	413
FNB Rendimento Seguro 05/15	Jun.2005	Jun.2015	238	6.25%*VN Min.(quotation) *(iv)*	239
FNB Grandes empresas 07/16 1.ª série	May.2007	May.2016	6 450	Max.(0;6.0%*(1-n/5)) *(i)*	5 106
FNB Grandes empresas 07/16 2.ª/3.ª série	Jun.2011	Jun.2016	30 250	Max.(0;6.0%*(1-n/5)) *(i)*	21 761
FNB Indices estratégicos07/17 1.ª série	May.2007	Jun.2015	14 947	6.25%*VN Min.(quotation) *(ii)*	11 016
FNB Indices estratégicos07/17 2.ª/3.ª série	Jun.2011	Jun.2015	39 000	Euribor 6 months+0.5% *(ii)*	32 628
Ob. Caixa Subordinadas Finicredito	Nov.2007	Nov.2017	17 680	Base rate + 0.90%(barrier level)	17 660
					479 067
				Corr. Liability value	(11 947)
					467 120

Other subordinated debt portfolio is recorded at fair value, in accordance with note 49.

As at 31 December 2012 and 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)

41. Other liabilities

This balance is analysed as follows:

(thousand euros)

	2012	2011
Creditors:		
Suppliers	16 130	13 880
Other creditors	201 130	95 213
Public sector	17 330	18 032
Holiday pay and subsidies	32 833	38 672
Other administrative costs payable	1 144	269
Deferred income	3 351	759
Other sundry liabilities	229 461	115 852
	501 379	282 677

The balance Other sundry liabilities includes the amount of Euro 145 898 thousands (2011: Euro 15 905 thousands) engaged to balances of banking and financial transactions pending settlement.

42. Share capital

On 28 December 2012, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 50 000 thousands, by cash transfer.

On 28 December 2011, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 100 000 thousands, by cash transfer. On 29 March 2011, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 345 000 thousands.

After the referred operation, the share capital of CEMG, amounts Euro 1 295 000 thousands (2011: Euro 1 245 thousands) totally subscribed by «Montepio Geral – Associação Mutualista», and is fully paid.

43. Other equity instruments

This caption includes the issuance of Euro 15 000 thousands 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, S.A. and its subsidiaries start to integrate the Equity of the Group.

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 excludes 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 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 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.

44. 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 45.

45. Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

(thousand euros)

	2012	2011
Fair value reserves		
Available-for-sale financial assets	(22 083)	(319 551)
	(22 083)	(319 551)
Reserves and retained earnings:		
General	185 935	179 301
Portuguese	68 160	66 519
Other reserves	25 418	7 840
Retained earnings	58 484	8 969
	337 997	262 629

The fair value reserve 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 note 1 *d*).

The movements of this balance during the first semester of 2012 are analysed as follows:

(thousand euros)

	Balance on 1 January	Reavaluation	Aquisitions	Sales	Impairment in profit and loss	Balance on 31 December
Fixed income securities:						
Bonds issued by Portuguese entities	(241 563)	151 212	4 605	94 764	–	9 018
Bonds issued by Foreign entities	(684)	(6 051)	73	(1 276)	8 052	114
Bonds issued by other entities:						
Portuguese	(21 610)	9 694	(325)	6 198	–	(6 043)
Foreign	(54 785)	15 353	22	18 188	1 000	(20 222)
Commercial paper	–	226	–	–	(226)	–
	(318 642)	170 434	4 375	117 874	8 826	(17 133)
Variable income securities:						
Shares in companies						
Portuguese	(4)	308	4	–	(242)	66
Foreign	(68)	2 184	45	25	(1 180)	1 006
Investment fund units	(837)	(2 436)	2 005	181	(4 935)	(6 022)
	(909)	56	2 054	206	(6 357)	(4 950)
	(319 551)	170 490	6 429	118 080	2 469	(22 083)

The movements of this balance during the first semester of 2011 are analysed as follows:

(thousand euros)

	Balance on 1 January	Reavaluation	Aquisitions	Sales	Impairment in profit and loss	Balance on 31 December
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 fair value reserve can be analysed as follows:

(thousand euros)

	2012	2011
Amortised cost of available-for-sale financial assets	2 542 476	2 924 034
Accumulated impairment recognised	(38 948)	(30 115)
Amortised cost of available-for-sale financial assets, net impairment	2 503 528	2 893 919
Fair value of available-for-sale financial assets	2 481 445	2 574 368
Net / unrealised gains/(losses) recognised in the fair value reserve	(22 083)	(319 551)

46. Distribution of profit

On 29 March 2012, following the General Assembly, CEMG distributed to Montepio Geral – Associação Mutualista the amount of Euro 16 584 thousands (2011: Euro 23 085 thousands).

47. Non-controlling interests

This balance is analysed as follows:

(thousand euros)

	Balance		Income Statement	
	2012	2011	2012	2011
Finibanco Angola S.A.	6 957	11 381	1 094	2 269
	6 957	11 381	1 094	2 269

The movements of this balance are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	11 381	–
Exchange differences	744	1 463
Dividends	(1 994)	(2 044)
Other	(4 268)	8 781
	5 863	8 200
Goodwill arising on consolidation	–	912
Net income attributable to non-controlling interests	1 094	2 269
Balance on 31 December	6 957	11 381

48. Obligations and future commitments

Obligations and future commitments are analysed as follows:

(thousand euros)

	2012	2011
Guarantees granted	473 804	495 349
Guarantees received	31 935 895	32 544 520
Commitments to third parties	1 524 034	1 565 408
Commitments from third parties	42 279	44 545
Securitised loans	238 856	264 299
Securities and other items held for safekeeping on behalf of customers	6 601 424	5 367 132
	40 816 292	40 281 253

The amounts of Guarantees granted and Commitments to third parties are analysed as follows:

(thousand euros)

	2012	2011
Guarantees granted:		
Guarantees	464 722	491 989
Open documentary credits	4 214	3 360
Guarantees and indemnities (counter)	4 868	–
	473 804	495 349
Commitments to third parties:		
Irrevocable commitments		
Irrevocable credit lines	186 351	218 033
Securities subscription	359 200	330 950
Annual contribution to the Guarantee Deposits Fund	25 314	25 314
Potencial obligation with the Investors' Indemnity System	2 399	2 316
Revocable commitments		
Revocable credit lines	950 770	988 795
	1 524 034	1 565 408

Guarantees granted are financial operations that are not consisted by mobilization on Funds by the Group.

Revocable and irrevocable commitments represent contractual agreements to extend credit to the Group'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 the Group 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.

The commitments, revocable and irrevocable, represent contractual agreements for credit concession with the Group 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.

As at 31 December 2012, the balance Annual contribution to the obligations of Guarantee Deposits Fund is related with the irrevocable commitment assumed by the Group and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

Annual contribution to the obligations of Guarantee Deposits Fund is related with the irrevocable commitment assumed by the Group and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

The financial instruments accounted as Guarantees and other commitments are subject to the same approval and control procedures applied to the credit portfolio, namely regarding the analysis of objective evidence of impairment, as described in note 1 *c*). The maximum credit exposure is represented by the nominal value that could be lost related to guarantees and commitments undertaken by the Group in the event of default by the respective counterparties, without considering potential recoveries or collaterals.

49. 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 the Group.

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 the Group.

The main methods and assumptions used in estimating the fair value for the assets and liabilities of the Group 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.

  For Deposits from Central Banks it was considered that the book value is a reasonable estimate of its fair value, given the nature of operations and the associated short-term. The rate of return of funding with the European Central Bank was 0.75% as at 30 December 2012 (31 December 2011: 1%).

  Regarding loans and advances to credit institutions and deposits from credit institutions, the discount rate used reflects the current conditions applied by the Group on identical instruments for each of the different residual 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). As at 31 December 2012, the average discount rate was 3.87% for loans and advances and 3.13% for deposits. As at 31 December 2011 the rates were 3.36% and 3.18%, respectively.

– **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 non-deterministic 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.

– **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.

– **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 the Group 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 2012, the average discount rate was 5.12% (31 December 2011: 6.26%), 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 the Group. 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 the Group 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 the Group 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 2012, the average discount rate was of 2.69% (2011: 4.1%).

– **Debt securities issued and Subordinated debt**

For these financial instruments, fair value was calculated for the components that are not yet reflected on the Group's balance sheet. For the fixed interest rate instruments for which the Group 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 the Group.

As original reference, the Group 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 the Group, 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 2012, 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, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of the financial assets and liabilities of the Group:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese Yen
1 day	0.170%	0.180%	0.505%	-0.045%	0.010%
7 days	0.005%	0.193%	0.505%	-0.045%	0.010%
1 month	0.030%	0.230%	0.590%	-0.175%	0.070%
2 months	0.060%	0.270%	0.545%	0.080%	0.080%
3 months	0.080%	0.415%	0.480%	-0.050%	0.100%
6 months	0.245%	0.505%	0.620%	-0.050%	0.160%
9 months	0.365%	0.590%	0.795%	0.075%	0.270%
1 year	0.460%	0.875%	0.960%	0.245%	0.350%
2 years	0.374%	0.384%	0.703%	0.065%	0.218%
3 years	0.465%	0.493%	0.768%	0.108%	0.223%
5 years	0.765%	0.845%	1.015%	0.318%	0.315%
7 years	1.125%	1.271%	1.359%	0.578%	0.506%
10 years	1.565%	1.775%	1.863%	0.923%	0.846%
15 years	2.018%	2.308%	2.426%	1.283%	1.373%
20 years	2.172%	2.521%	2.426%	1.283%	1.373%
30 years	2.241%	2.692%	2.426%	1.283%	1.373%

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, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of the financial assets and liabilities of the Group:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese Yens
1 day	0.250%	0.355%	0.555%	0.115%	0.105%
7 days	0.620%	0.250%	0.555%	0.115%	0.105%
1 month	0.980%	0.575%	0.725%	0.130%	0.240%
2 months	1.120%	0.725%	0.840%	0.130%	0.175%
3 months	1.300%	0.850%	1.060%	0.130%	0.225%
6 months	1.560%	0.950%	1.440%	0.175%	0.425%
9 months	1.740%	1.075%	1.710%	1.180%	0.575%
1 year	1.890%	1.225%	1.950%	1.340%	0.625%
2 years	1.310%	0.712%	1.324%	0.098%	0.378%
3 years	1.360%	0.815%	1.363%	0.193%	0.390%
5 years	1.725%	1.214%	1.567%	0.583%	0.475%
7 years	2.068%	1.601%	1.867%	0.920%	0.653%
10 years	2.390%	2.020%	2.295%	1.233%	0.984%
15 years	2.685%	2.370%	2.295%	1.233%	0.984%
20 years	2.697%	2.493%	2.295%	1.233%	0.984%
30 years	2.555%	2.589%	2.295%	1.233%	0.984%

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	2012	2011	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.3194	1.2939	8.46	8.43	8.73	9.03	9.28
EUR/GBP	0.8161	0.8353	5.73	6.01	6.40	6.73	6.98
EUR/CHF	1.2072	1.2156	2.58	3.50	4.00	4.68	5.10
EUR/JPY	113.61	100.20	11.70	11.90	12.20	12.38	12.55

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 at 31 December 2012 and 31 December 2011:

(thousand euros)

	2012						
	Held for trading	Designated at fair value	Loans and advances	Available--for-sale	Others	Book Value	Fair value
Financial assets:							
Cash and deposits at central banks	–	–	304 886	–	–	304 886	304 886
Repayable on demand	–	–	235 659	–	–	235 659	235 659
Loans and advances to credit institutions	–	–	224 324	–	–	224 324	224 324
Loans and advances to customers	–	27 475	15 676 072	–	–	15 703 547	14 574 920
Financial assets held for trading	139 055	–	–	–	–	139 055	139 055
Other financial assets at fair value trough profit or loss	–	12 300	–	–	–	12 300	12 300
Available-for-sale financial assets	–	–	–	2 481 445	–	2 481 445	6 730 502
Hedging derivates	–	931	–	–	–	931	931
Held-to-maturity investments	–	–	27 495	–	–	27 495	28 490
Investments in associated companies	–	–	–	–	60 836	60 836	60 836
	139 055	40 706	16 468 436	2 481 445	60 836	19 190 478	22 311 903
Financial liabilities:							
Deposits from central banks	–	–	1 776 514	–	–	1 776 514	1 776 514
Deposits from other credit institutions	–	65 280	560 426	–	–	625 706	625 706
Deposits from customers	–	459 313	12 796 134	–	–	13 255 447	13 282 519
Debt securities issued	–	283 667	2 078 669	–	–	2 362 336	2 312 161
Financial liabilities associated to transferred assets	–	–	–	–	244 419	244 419	244 419
Financial liabilities held for trading	84 794	–	–	–	–	84 794	84 794
Hedging derivates	–	3 177	–	–	–	3 177	3 177
Other subordinated debt	–	88 212	–	378 908	–	467 120	343 677
	84 794	899 649	17 211 743	378 908	244 419	18 819 513	18 672 967

(thousand euros)

	2011						
	Held for trading	Designated at fair value	Loans and advances	Available-for-sale	Others	Book Value	Fair value
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	–	26 515	16 680 111	–	–	16 706 626	15 295 141
Financial assets held for trading	180 776	–	–	–	–	180 776	180 776
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	1 311
Held-to-maturity investments	–	–	76 994	–	–	76 994	74 488
Investments in associated companies	–	–	–	–	57 856	57 856	57 856
	180 776	31 432	17 726 654	2 574 368	57 856	20 571 086	19 157 095
Financial liabilities:							
Deposits from central banks	–	–	2 003 300	–	–	2 003 300	2 003 300
Deposits from other credit institutions	–	48 474	695 323	–	–	743 797	743 797
Deposits from customers	–	779 659	12 922 260	–	–	13 701 919	13 720 350
Debt securities issued	–	621 121	1 851 991	–	–	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	–	84 185	–	393 658	–	477 843	477 843
	79 121	1 546 480	17 472 874	393 658	453 061	19 945 194	19 963 626

50. Employee benefits

Pensions and health-care benefits

In compliance with the collective labor agreement (ACT) for the banking sector established with the unions, the Group undertook the commitment to grant its employees, or their families, pension on retirement and disability, and widows' pension. Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force. Employees hired before March 31, 2008 are covered by this benefit. Employees hired after that date benefit from the General Social Security Scheme.

Additionally, with the publication of Decree-Law n.1-A / 2011 of January 3, all banking sector employees beneficiaries of «CAFEB – Caixa de Abono de Família dos Empregados Bancários» were integrated into the General Social Security Scheme from 1 January 2011, which assumed the protection of banking sector employees in the contingencies of maternity, paternity and adoption and even old age, remaining under the responsibility of the banks the protection in sickness, disability, survivor and death.

Retirement pensions of banking employees integrated into the General Social Security Regime continue to be calculated according to the provisions of ACT and other conventions. Banking employees, however, are entitled to receive a pension under the general regime, which amount takes into account the number of years of discounts for that scheme. Banks are responsible for the difference between the pension determined in accordance with the provisions of ACT and that the one that the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate to the Social Security Regime is 26.6%, 23.6% paid by the employer and 3% paid by the employees, instead of Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by the same law. In consequence of this change, the pension rights of active employers is to be covered under the terms defined by the General Social Security Regime, taking into account the length of service from 1 January 2011 until retirement. The differential required to support the guaranteed pension in terms of the ACT is paid by the Banks.

Notwithstanding, the integration leads to a decrease in the actual present value of total benefits reported to the normal retirement age (VABT) to be borne by the pension fund, after considering the future contributions to be made by the Group and the employees to the social security regime. Since there was no reduction in benefits on a beneficiary's perspective and the liabilities for past services remained unchanged, the Group has not recorded in its financial statements any impact in terms of the actuarial calculatins at 31 December 2010, arising from the integration of its workers in the Social Security Scheme. The resulting gain will be deferred over the average working life until the employees reach the normal retirement age.

At the end of 2011 following the third tripartite agreement established between the Portuguese Government, the Portuguese Banking Association and the banking sector employees unions, it was decided to transfer to the Social Security Regime the banks liabilities with pension in payment as at 31 December, 2011.

The tripartite agreement established, provides for the transfer to the Social Security sphere of the liabilities with pensions in payment as of 31 December 2011 at constant values (0% discount rate). The responsibilities relating to updates of pensions value, other pension benefits in addition to those to be borne by the Social Security, health-care benefits, death allowance and deferred survivor pensions, will remain in the sphere of responsibility of the banks with the correspondent funding being provided through the respective pension funds.

The banks pension funds assets, specifically allocated to the cover of the transferred liabilities were also be transferred to the Social Security.

Being thus a definitive and irreversible transfer of the liabilities with pensions in payment (even if only on a portion of the benefit), the conditions set out in IAS 19 «Employee benefits» underlying the concept of settlement were met, as the obligation with pension in payment as at 31 December, 2011 extinguished at the date of transfer. On this basis, the impacts derived from this transfer were recognized in the income statement in 2011.

The Decree-Law no. 133/2012 published on 27 June 2012 introduced several changes in the calculation of the death subsidy, which is now limited to a maximum of 6 times the social support index (minimum wage), which in 2012 amounted Euro 419.22.

In accordance with IAS 19, and regading that the acquisition conditions of the benefit are fulfilled (vested), in fact the employee or the pensioner has the right to the benefit without habing to fulfill any service condition – the Group as at 31 December 2012 accounted the referred impact in results, which amounted Euro 7 021 thousands (amount that corresponds to the reduction of the liability on the death subsidy).

The key actuarial assumptions used to calculate pension liabilities are as follows:

	Assumptions		Checked	
	2012	2011	2012	2011
Financial Assumptions				
Salaries increase rate	1.50%	2.00%	1.60%	1.30%
Pensions increase rate	0.50%	1.00%	0.14%	-0.10%
Projected rate of return of Fund assets	4.50%	5.50%	16.30%	-3.70%
Discount rate	4.50%	5.50%	–	–
Demographic assumptions and valuation methods				
Mortality tablee				
Men	TV 88/90	TV 88/90		
Women	TV 88/90	TV 88/90		
Acturial method	UCP	UCP		

The number of persons covered by the plan is as follows:

(thousand euros)

	2012	2011
Actives	4 054	4 099
Retirees and survivors	977	953
	5 031	5 052

Based on the changes performed to the accounting policy described in note 1 *v*) during 2012, the aplication of IAS 19 responsibilities and coverage levels reportable to 31 December 2012 and 2011 is presented as follows:

(thousand euros)

	2012	2011
Assets/(Liabilities) recognized in the balance sheet		
Pension plans		
Pensioners	(96 539)	(97 199)
Employees	(326 632)	(289 876)
	(423 171)	(387 075)
Healthcare benefits		
Pensioners	(16 771)	(17 356)
Employees	(23 094)	(14 145)
	(39 865)	(31 501)
Death subsidy		
Pensioners	(1 075)	(716)
Employees	(976)	(7 544)
	(2 051)	(8 260)
Total	(465 087)	(426 836)
Coveragess		
Value of the fund	522 754	447 825
Net assets in the balance sheet (see note 33)	57 667	20 989
Actuarial differences recognized in accumulated other comprehensive income	4 824	35 684

In accordance with the accounting policy described in note 1 *v*), the Group liability with pensions is calculated annually.

In accordance with the accounting policy described in note 1 *v*) and following the requirements of IAS 19 – Employee benefits, the Group assesses at each balance sheet date and for each plan separately, the recoverability of the recognised assets in relation to the defined benefit pension plans based on the expectation of reductions in future contributions to the funds.

The changes in the defined benefit obligation can be analysed as follows:

(thousand euros)

	2012				2011			
	Pension plans	Healthcare benefits	Death subsidy	Total	Pension plans	Healthcare benefits	Death subsidy	Total
Balance on 1 January	387 075	31 501	8 260	426 836	558 605	30 721	7 814	597 140
Finibanco Integration	–	–	–	–	67 806	4 469	2 216	74 491
Service cost	8 738	799	500	10 037	11 212	969	787	12 968
Interest cost	21 289	1 733	454	23 476	34 452	1 936	552	36 940
Actuarial gains / (losses)								
– Changes in the assumptions and the conditions of the plans	33 485	3 242	153	36 880	(108 263)	(5 724)	(2 012)	(115 999)
– Not related to changes assumptions	(22 592)	2 590	(7 316)	(27 318)	(5 737)	333	(1 097)	(6 501)
Payments	(7 872)	–	–	(7 872)	(18 826)	(1 203)	–	(20 029)
Transfer to the general social healthcare system («RGSS»)	–	–	–	–	(169 814)	–	–	(169 814)
Early retirements	3 048	–	–	3 048	17 640	–	–	17 640
Balance on 31 December	423 171	39 865	2 051	465 087	387 075	31 501	8 260	426 836

Under the third tripartite agreement mentioned above and the subsequent transfer to the Social Security sphere of the banks liabilities with pensions in payment as at 31 December 2011, there was a reduction of liabilities, measured based on the actuarial assumptions used in preparing the financial statements and consistent with IAS 19, in the amount of Euro 169 815 thousands.

However, under the agreement, the value of assets to be transferred to the Social Security in return for the transfer of the liabilities with pensions in payment was determined on a settlement perspective, as it is a definitive and irreversible transfer of these responsibilities and corresponded to the value thereof, and it was estimated based on a discount rate of 4% (instead of the 5.5% rate used for the purpose of preparing the financial statements). Thus, the amount payable by the Group to the State amounted to Euro 183 910 thousands, which led to the recognition in 2011 in the income statement of cost in the amount of Euro 14 096 thousands, corresponding to the differential of the discount rates mentioned above.

During 2012 and against the background of this process, the Group paid to Portuguese State the amounted of Euro 1 256 thousands, against the income statement of a cost.

The pension funds are managed by «Futuro – Sociedade Gestora de Fundos de Pensões, S.A.».

The change in the value of plan's assets is analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	447 825	545 097
Finibanco integration	–	85 585
Expected return on plan assets	72 146	(22 993)
Contributions to the Fund of CEMG	9 659	42 125
Contributions to the Fund of the employers	2 252	1 950
Payments	(7 872)	(20 029)
Transfer to the general social healthcare system («RGSS»)	(1 256)	(183 910)
Balance on 31 December	522 754	447 825

The elements of the Pension Fund's assets are analysed as follows:

(thousand euros)

	2012	2011
Investment in banks and other	223 156	251 320
Bonds	234 522	131 803
Other variable income securities	51 462	51 343
Direct real estate	9 677	9 676
Shares	3 937	3 683
	522 754	447 825

The assets of pension funds used by the Group and securities issued by other Group entities are analysed as follows:

(thousand euros)

	2012	2011
Investment in banks and other	207 921	159 040
Direct real estare	9 677	9 676
Bonds	2 760	7 440
	220 358	176 156

The changes in the accumulated actuarial gains and losses are analysed as follows:

(thousand euros)

	2012	2011
Actuarial gains (losses) recognized in other comprehensive income at the beginning of the period	35 684	100 504
Actuarial (gains)/losses		
– Changes in actuarial assumptions	43 973	(115 999)
– Experience adjustments	(74 833)	51 179
Acturial gains (losses) recognized in other comprehensive income at the end of the period	4 824	35 684

The costs with reform pensions, health-care benefits and death subsidies are analysed as follows:

(thousand euros)

	2012	2011
Service cost	10 037	14 919
Interest cost	23 476	36 940
Expected return on plan assets	(24 630)	(34 687)
Early retirements	3 048	17 640
Transfer to the general social healthcare system («RGSS»)	1 256	14 096
Partaking of participants	(2 251)	(1 951)
Other	(7 070)	(3 655)
Personnel costs	3 866	43 302

As at 31 December 2012, the balance Other refers to the positive effect from the reduction of the liabilities related with death subsidies, following the referred publishment of Decree-Law 133/2012 on 27 June 2012.

The evolution of net (assets) / liabilities in the balance sheet is analysed as follows:

(thousand euros)

	2012	2011
At beginning of the period	20 989	(17 738)
Actual return on plan assets	72 146	(22 993)
Contributions to the Fund of CEMG	9 659	42 125
Contributions to the Fund of the employer	2 252	1 950
Pensions paid	(7 872)	(20 029)
Service cost	(10 038)	(14 919)
Interest cost	(23 475)	(36 940)
Actuarial and financial (gains) / losses	(1 691)	35 684
Transfer for the Social Security regime of the liabilities with pensions in payment	(1 256)	(14 096)
Finibanco integration	–	85 585
Early retirements	(3 047)	(17 640)
At the end of the period	57 667	20 989

The evolution of the defined benefit obligations, fair value of plan assets and of the experience adjustments gains / (losses) in the past 5 years, is presented as follows:

(thousand euros)

	2012	2011	2010	2009	2008
Liabilities	(465 087)	(426 836)	(597 140)	(569 822)	(514 212)
Balance of funds	522 754	447 825	545 097	504 883	436 148
Responsabilities (sub) / over funded	57 667	20 989	(52 043)	(64 939)	(78 064)
(Gains) and losses arising from experience liabilities	(7 838)	(6 499)	(4 143)	(2 197)	(1 222)
(Gains) and losses arising from experience adjustments arising on assets	(47 515)	57 680	17 957	(14 893)	52 470

51. Assets under management

In accordance with the legislation in force, the fund management companies and the depositary bank are jointly liable before the participants of the funds for the non fulfilment of the obligations assumed under the terms of the Law and the management regulations of the funds.

As at 31 December 2012 and 2011, the amount of the investment funds managed by the Group is analysed as follows:

(thousand euros)

	2012	2011
Investment funds	347 249	266 064
Real estate investment funds	339 123	268 684
Pension fund	185 571	179 559
Bancassurance	148 579	182 736
	1 020 522	897 043

The amounts recognized in these accounts are measured at fair value determined at the balance sheet date.

52. Related parties transactions

The entities considered to be the Group related parties together with the subsidiaries referred in note 27, as defined by IAS 24, are as follows:

CEMG's subsidiaries:

Banco Montepio Geral – Cabo Verde, Soc. Unipessoal, S.A. (IFI)

Finibanco Angola, S.A.

Finibanco Holding, S.G.P.S., S.A.

Finibanco, S.A.

Montepio Crédito – Instituição Financeira de Crédito, S.A.

Finivalor – Sociedade Gestora de Fundos de Investimento, S.A.

CEMG's associates:

HTA – Hotéis, Turismo e Animação dos Açores, S.A.

Iberpartners Cafés S.G.P.S., S.A.

Lusitania Vida, Companhia de Seguros, S.A.

Lusitania, Companhia de Seguros, S.A.

Nova Câmbios, S.A.

Silvip, S.A.

Board of Directors:

António Tomás Correia

Álvaro Cordeiro Dâmaso

Eduardo José da Silva Farinha

José de Almeida Serra

Rui Manuel Silva Gomes do Amaral

Other related parties:

Bem Comum, Sociedade Capital Risco, S.A.

Bolsimo – Gestão de Activos, S.A.

Finibanco Vida – Companhia de Seguros Vida, S.A.

Finimóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.

Finipredial – Fundo de Investimento Imobiliário Aberto

Fundação Montepio Geral

Fundo de Pensões CEMG – Gerido pela Futuro

Fundo de Pensões Finibanco – Gerido pela Futuro

Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

Germont – Empreendimentos Imobiliários, S.A.

Leacock, Lda.

Lestinvest, S.G.P.S., S.A.

MG Investimentos Imobiliários, S.A.

Montepio Arrendamento – FIIAH

Montepio Geral – Associação Mutualista

Montepio Gestão de Activos – S.G.F.I.M., S.A.

Montepio Mediação – Sociedade Mediadora de Seguros, S.A.

Montepio Recuperação de Crédito, ACE

N Seguros, S.A.

NEBRA, Energias Renovables, S.L.

Nutre S.G.P.S., S.A.

Polaris – Fundo de Investimento Imobiliário Fechado

Prio Energy S.G.P.S., S.A.

Residências Montepio, Serviços de Saúde, S.A.

Sagies, S.A.

Sociedade Portuguesa de Administrações, S.A.

As at 31 December 2012, the Group'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:

(thousand euros)

Companies	2012		
	Deposits from customers	Other subordinated debt	Loans and advances to customers
Bolsimo – Gestão de Ativos, S.A.	3 839	–	–
Conselho de Administração	1 349	–	–
Finibanco Vida – Companhia de Seguros Vida, S.A.	3 735	–	–
Finimóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	16	–	6 100
Fundação Montepio Geral	965	–	–
Fundo de Pensões CEMG	188 848	2 350	–
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	3 460	–	–
Germont – Empreendimentos Imobiliários, S.A.	9	–	21 769
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	147	–	–
Iberpartners Cafés S.G.P.S., S.A.	24	–	–
Lestinvest S.G.P.S., S.A.	653	–	47 640
Lusitania Vida, Companhia de Seguros, S.A.	22 551	3 250	–
Lusitania, Companhia de Seguros, S.A.	16 318	13 000	15 000
MG Investimentos Imobiliários, S.A.	2	–	25
Montepio Geral – Associação Mutualista	572 848	574 257	–
Montepio Gestão de Ativos – S.G.F.I., S.A.	891	–	–
Montepio Mediação – Sociedade Mediadora de Seguros, S.A.	836	–	–
N Seguros, S.A.	4 808	–	–
Nova Câmbios, S.A.	181	–	230
Nutre S.G.P.S., S.A.	–	–	15 000
Prio Energy S.G.P.S., S.A.	11 643	–	–
Residências Montepio, Serviços de Saúde, S.A.	50	–	–
Silvip, S.A.	1 640	–	–
	834 813	592 857	105 764

As at 31 December 2011, the Group'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:

(thousand euros)

	2011		
Companies	Deposits from customers	Other subordinated debt	Loans and advances to customers
Bolsimo – Gestão de Ativos, S.A.	2 749	–	–
Civilcentro – Construções do Centro S.A.	–	–	2 402
Conselho de Administração	1 578	–	302
Finibanco Vida – Companhia de Seguros Vida, S.A.	284	–	–
Finimóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	300	–	–
Fundação Montepio Geral	839	–	–
Fundo de Pensões CEMG	224 224	–	–
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	2 532	–	–
Germont – Empreendimentos Imobiliários, S.A.	308	–	23 119
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	109	–	13
Iberpartners Cafés S.G.P.S., S.A.	–	–	1 379
Lusitania Vida, Companhia de Seguros, S.A.	20 896	3 250	1
Lusitania, Companhia de Seguros, S.A.	30 112	13 350	10 078
MG Investimentos Imobiliários, S.A.	3	–	120
Montepio Geral – Associação Mutualista	464 900	–	–
Montepio Gestão de Ativos – S.G.F.I., S.A.	1 096	–	–
Montepio Recuperação de Crédito, ACE	–	–	2
N Seguros, S.A.	7 226	–	–
NEBRA, Energias Renovables, S.L.	5	–	1 570
Nova Câmbios, S.A.	231	–	530
Prio Energy S.G.P.S., S.A.	8 235	–	5 287
Residências Montepio, Serviços de Saúde, S.A.	141	–	2 463
Silvip, S.A.	1 927	–	–
	767 695	16 600	47 266

As at 31 December 2012, the Group's income with subsidiaries, included in the balances Interest and similar income and Fee and commission income, are analysed as follows:

(thousand euros)

Companies	2012		
	Interest and similar expense	Interest and similar income	Fee and comission income
Bolsimo – Gestão de Activos, S.A.	–	–	1
Civilcentro – Construções do Centro, S.A.	–	129	–
Conselho de Administração	39	2 100	–
Finibanco Vida – Companhia de Seguros de Vida, S.A.	71	1	5
Finimóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	–	422	–
Fundação Montepio Geral	200	–	1
Fundo de Pensões CEMG	10 537	65	66
Fundo de Pensões Finibanco	501	5	2
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	205	1	9
Germont – Empreendimentos Imobiliários, S.A.	–	361	–
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	5	–	–
Iberpartners Cafés S.G.P.S., S.A.	–	66	2
Lestinvest, S.G.P.S., S.A.	–	2 434	18
Lusitania Vida, Companhia de Seguros, S.A.	603	6	53
Lusitania, Companhia de Seguros, S.A.	390	399	322
MG Investimentos Imobiliários, S.A.	–	2	–
Montepio Geral – Associação Mutualista	20 334	282	33
Montepio Gestão de Activos – S.G.F.I., S.A.	33	–	1 961
Montepio Mediação – Sociedade Mediadora de Seguros, S.A.	12	–	–
N Seguros, S.A.	99	1	5
NEBRA, Energias Renovables, S.L.	–	77	–
Nova Câmbios, S.A.	–	18	5
Nutre S.G.P.S., S.A.	–	1 291	1
Prio Energy S.G.P.S., S.A.	1	336	252
Residências Montepio, Serviços de Saúde, S.A.	–	92	76
Silvip, S.A.	58	1	1
	33 088	8 089	2 813

As at 31 December 2011, the Group's income with subsidiaries, included in the balances Interest and similar income and Fee and commission income, are analysed as follows:

(thousand euros)

Companies	2011		
	Interest and similar expense	Interest and similar income	Fee and comission income
Bolsimo – Gestão de Activos, S.A.	–	1	–
Civilcentro – Construções do Centro, S.A.	–	15	1
Conselho de Administração	25	1	1
Finisegur – Sociedade Mediadora Seguros, S.A.	1	–	–
Fundo de Pensões CEMG	2 508	24	60
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	96	1	7
Germont – Empreendimentos Imobiliários, S.A.	–	425	–
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3	1	–
Iberpartners Cafés S.G.P.S., S.A.	–	22	–
Lusitania Vida, Companhia de Seguros, S.A.	1 302	12	69
Lusitania, Companhia de Seguros, S.A.	164	325	178
MG Investimentos Imobiliários, S.A.	–	2	–
Montepio Geral – Associação Mutualista	6 487	224	39
Montepio Gestão de Activos – S.G.F.I., S.A.	33	–	1
NEBRA, Energias Renovables, S.L.	–	3	8
Nova Câmbios, S.A.	–	23	4
Prio Energy S.G.P.S., S.A.	–	387	197
Residências Montepio, Serviços de Saúde, S.A.	–	83	28
Silvip, S.A.	59	–	1
	10 678	1 549	594

The costs with salaries and other benefits attributed to the Group 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 2012 and 2011, there were no transactions with pension's fund of the Group.

53. Securitisation transactions

As at 31 December 2012, there are nine securitization transactions, seven of which originated in the Group and two in Finibanco Holding Group, currently integrated into the Group 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 the Group, as described in note 1 *a*).

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 thousands.

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 thousands. 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 thousands. 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 thousands (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 thousands. 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 thousands (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 thousands. 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 30 June 2009, Montepio Crédito – Instituição Financeira de Crédito, S.A. had settled a portfolio of consume, automobile, Long term rental and leasing credits with «Tagus – Sociedade de Titularização de Créditos, S.A.», with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 207 000 thousands (Aqua Finance No.3). The total term of the operation is 14 years, with a revolving period of 3 years.

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 Euro 1 167 000 thousands. 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.

As at 5 March 2012, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage No. 6. The referred agreement consists in a mortgage credit transfer for a period of 51 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1 107 000 thousands. The transfer price by which the loans were transferred was their nominal value.

Aqua SME no. 1

In accordance with the Aqua SME No.1 Fund regulation , and as described in article 16(3)(*a*), the fund could be liquidated and shared before the maturity date, whenever their residual assets represented less than 10% of the amount of claims held by the fund at the time of its constitution.

Thus, and in accordance with the referred article, the Group decided to perform the early repurchase option of residual risk exposures of the securitization transaction Aqua SME no.1, by its market value.

This transaction was performed on October 16, 2012 and the Group repurchased loans for a total amount of Euro 15 593 thousands. The settlement amount of the fund and charges already incurred allowed for repayment of all notes issued and the distribution of income to the bondholders.

As the owner of class C (the class of the most subordinated bonds) the Group received the amount of Euro 16 740 thousands related to the reimbursement of all the units held in the portfolio (Euro 8 766 thousands) in addition with the respective income distribution as excess spread.

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, the Group follows derecognized criteria to individual statements to all transactions occur until 1 January 2004. For the all transactions after this date, the Group 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 2012, the securitisation operations are presented as follows:

(thousand euros)

Issue	Settlement date	Currency	Asset transferred	Amount
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
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
Aqua Finance No. 3	June 2009	Euro	Consumer credit, car, ALD and leasing	207 000
Pelican SME	June 2010	Euro	Small companies	1 167 000
Pelican Mortgages No. 6	February 2012	Euro	Mortgage credit	1 040 200
				6 747 200

The impact of loans transferred under the securitisation programs in the Loans and advances to customers, is analysed as follows:

(thousand euros)

	2012	2011
Pelican Mortgages No.1	81 282	91 754
Pelican Mortgages No. 2	157 573	172 544
	238 855	264 298

As at 31 December 2012, 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	DBRS	Fitch	Moody's	S&P	DBRS
Pelican Mortgages No. 1	*Class A*	611 000 000	36 888 222	7 782 276	2037	AAA	Aaa	n.a	.n.a.	A	Baa3	n.a.	n.a.
	Class B	16 250 000	16 250 000	–	2037	AAA	A2	n.a.	n.a.	A	Baa3	n.a.	n.a.
	Class C	22 750 000	22 750 000	–	2037	BBB+	Baa2	n.a.	n.a.	n.a.	Ba1	n.a.	n.a.
	Class D	3 250 000	3 250 000	3 250 000	2037	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 2	*Class A*	659 750 000	115 549 576	47 230 398	2036	AAA	Aaa	AAA	n.a.	A	Baa3	A-	n.a.
	Class B	17 500 000	17 500 000	–	2036	AA+	A1	AA-	n.a.	A	Baa3	A-	n.a.
	Class C	22 750 000	22 750 000	–	2036	A-	Baa2	BBB	n.a.	BBB	Ba2	n.a.	n.a.
	Class D	5 600 000	5 600 000	5 600 000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 3	*Class A*	717 375 000	328 136 946	106 897 632	2054	AAA	Aaa	AAA	n.a.	A	Ba1	A-	n.a.
	Class B	14 250 000	8 472 031	–	2054	AA-	Aa2	AA-	n.a.	BBB	B1	BBB	n.a.
	Class C	12 000 000	7 134 342	–	2054	A	A3	A	n.a.	BB	B3	BBB-	n.a.
	Class D	6 375 000	3 790 119	–	2054	BBB	Baa3	BBB	n.a.	B	Caa2	BB	n.a.
	Class E	8 250 000	–	–	2054	BBB-	n.a.	BBB-	n.a.	n.a.	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.	n.a.	n.a.
Pelican Mortgages No. 4	*Class A*	832 000 000	642 669 435	642 669 435	2056	AAA	n.a.	n.a.	n.a.	A	n.a.	n.a.	A
	Class B	55 500 000	55 500 000	55 500 000	2056	AA	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	60 000 000	60 000 000	60 000 000	2056	A-	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class D	25 000 000	25 000 000	25 000 000	2056	BBB	n.a.	n.a.	n.a.	BB	n.a.	n.a.	n.a.
	Class E	27 500 000	27 500 000	27 500 000	2056	BB	n.a.	n.a.	n.a.	B	n.a.	n.a.	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.	n.a.	n.a.
Pelican Mortgages No. 5	*Class A*	750 000 000	584 642 673	584 642 673	2061	AAA	n.a.	n.a.	n.a.	A	n.a.	n.a.	AAH
	Class B	195 000 000	195 000 000	195 000 000	2061	BBB-	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class C	27 500 000	27 500 000	27 500 000	2061	B	n.a.	n.a.	n.a.	B	n.a.	n.a.	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.	n.a.	n.a.
	Class E	4 500 000	1 678 875	1 678 875	2061	n.a.	n.a.	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.	n.a.	n.a.
Aqua Finance No. 3	*Class A*	110 020 000	78 803 402	78 803 402	2023	n.a.	n.a.	AAA	AAA	n.a.	n.a.	AA-	AA
	Class B	96 980 000	90 569 533	90 569 533	2023	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	6 210 000	6 210 000	6 210 000	2023	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 6	*Class A*	750 000 000	734 436 087	734 436 087	2063	A	n.a.	A-	AA	A	n.a.	A-	AA
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	–	–	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican SME	*Class A*	577 500 000	208 303 453	208 303 453	2036	AAA	n.a.	n.a.	n.a.	A	n.a.	n.a.	AL
	Class B	472 500 000	310 639 517	310 639 517	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Vertical	117 000 000	73 331 850	73 331 850	2036	n.a.	n.a.	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.	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.	n.a.	n.a.
Aqua Mortgage No. 1	*Class A*	203 176 000	161 997 635	161 997 635	2063	n.a.	n.a.	AAA	n.a.	n.a.	n.a.	A-	AAH
	Class B	29 824 000	29 824 000	29 824 000	2063	n.a.	n.a.	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.	n.a.	n.a.

54. Segmental reporting

During 2012, the Group adopted IFRS 8 – Operating Segments, for the disclosure of the financial information by operating segments, using new criteria in the preparation of this information.

The Group'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, the Group 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.

The Group has a network of 458 branches in Portugal and with one branch in Cabo verde, one financial institution in Angola with 9 branches, and 6 representation offices.

When evaluating the performance by business area, the Group 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 the Group's structures that are directly or indirectly dedicated, as well as autonomous units of the Group which activity is connected to one of the above segments.

Despite the fact that the Group 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 the Group:

Retail Bank

This segment corresponds to all activity developed by the Group 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 Group'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 analysed by the decision makers of the Group, 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

The Group 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.

Group structures dedicated to the segment

The Group 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, the Group 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; andDa imputação dos custos indirectos (serviços centrais de apoio e informáticos); 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 the Group 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 the Group 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. The Group 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 the Group 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, the Group 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 2012, is as follows:

(thousand euros)

Income statement indicators	Retail	Corporate and institutional	Operations between segments	Total
Interest and similar income	854 518	291 013	9 478	1 155 009
Interest and similar expense	655 947	195 397	22 585	873 929
Net interest income	198 571	95 616	(13 107)	281 080
Dividends from equity instruments	–	–	554	554
Fees and commissions income	104 092	18 874	7 551	130 517
Fees and commissions expense	(4 022)	(940)	(20 610)	(25 572)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	–	–	(62 743)	(62 743)
Net gains/(losses) arising from available-for-sale financial assets	–	–	82 586	82 586
Net gains arising from foreign exchange differences	–	–	14 419	14 419
Net gains from sale of other financial assets	–	–	(10 706)	(10 706)
Other operating income	17 028	2 998	345	20 371
Total operating income	315 669	116 548	(1 711)	430 506
Staff costs	101 896	32 804	62 446	197 146
General and administrative expenses	66 074	23 409	29 874	119 357
Depreciation and amortisation	8 246	2 010	33 300	43 556
Total operating costs	176 216	58 223	125 620	360 059
Total of Provisions and Impairment	140 199	64 896	27 024	232 119
Operating profit	(746)	(6 571)	(154 355)	(161 672)
Equity accounted earnings	–	–	(6 086)	(6 086)
Income before taxes and non-controlling interests	(746)	(6 571)	(160 441)	(167 758)
Current taxes			(6 963)	(6 963)
Deferred taxes			177 914	177 914
Non-controlling interests			(1 094)	(1 094)
Consolidated profit for the year	(746)	(6 571)	9 416	2 099
Net Assets	13 510 161	3 301 703	4 160 867	20 972 731
Liabilities	12 923 886	4 771 257	1 642 618	19 337 761
Investments in Associates	–	–	60 836	60 836

The report by operating segments as at 31 December 2011, is as follows:

(thousand euros)

Income statement indicators	Retail	Corporate and institutional	Operations between segments	Total
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 Group develops bank activities as well as financial services in Portugal, Angola and in Cabo Verde.

Geographical Segments

The Group 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 2012, the net contribution of the main geographical segments is as follows:

(thousand euros)

Income statement indicators	Domestic	International	Adjustments	Consolidated
Interest and similar income	1 139 077	35 182	(19 250)	1 155 009
Interest and similar expense	867 753	25 426	(19 250)	873 929
Net interest income	271 324	9 756	–	281 080
Dividends from equity instruments	1 174	–	(620)	554
Fees and commissions income	123 737	6 780	–	130 517
Fees and commissions expense	(25 433)	(139)	–	(25 572)
Net gains/(losses) arising from assets and liabilities at fair value through profit	(62 743)	–	–	(62 743)
Net gains/(losses) arising from available-for-sale financial assets	82 586	–	–	82 586
Net gains arising from foreign exchange differences	4 329	10 090	–	14 419
Net gains from sale of other financial assets	(10 706)	–	–	(10 706)
Other operating income	20 230	807	(666)	20 371
Total operational income	404 498	27 294	(1 286)	430 506
Staff costs	192 998	4 148	–	197 146
General and administrative expenses	114 638	5 385	(666)	119 357
Depreciation and amortisation	42 656	900	–	43 556
Total operating costs	350 292	10 433	(666)	360 059
Loans impairment	168 202	3 167	(68)	171 301
Other assets impairment	63 783	–	–	63 783
Other provisions	(2 816)	(149)	–	(2 965)
Operating profit	(174 963)	13 843	(552)	(161 672)
Share of profit of associates under the equity method	(6 086)		–	(6 086)
Income before taxes and non-controlling interests	(181 049)	13 843	(552)	(167 758)
Current taxes	(2 438)	(4 525)	–	(6 963)
Deferred taxes	177 914	–	–	177 914
Non-controlling interests	(1 094)	–	–	(1 094)
Consolidated profit for the year	(6 667)	9 318	(552)	2 099

((thousand euros)

Balance sheet indicators	Domestic	International	Adjustments	Consolidated
Cash and deposits at central banks	247 588	57 298	–	304 886
Loans and advances to credit institutions repayable on demand	232 354	27 540	(24 235)	235 659
Other loans and advances to credit institutions	187 752	504 668	(468 096)	224 324
Loans and advances to customers	15 624 154	79 293	100	15 703 547
Financial assets held for trading	139 055	–	–	139 055
Other financial assets at fair value through profit or loss	12 300	–	–	12 300
Financial assets available-for-sale	2 481 257	188	–	2 481 445
Hedging derivatives	931	–	–	931
Held-to-maturity investments	17 222	10 273	–	27 495
Investments in associated companies and others	67 837	–	(7 001)	60 836
Non-current assets held for sale	491 045	750	–	491 795
Investment properties	388 260	–	–	388 260
Other tangible assets	86 210	10 365	–	96 575
Intangible assets	58 242	805	–	59 047
Current tax assets	94	2 608	–	2 702
Deferred tax assets	265 987	–	–	265 987
Other assets	476 888	1 891	(892)	477 887
Total Assets	20 777 176	695 679	(500 124)	20 972 731
Deposits from central banks	1 776 514	–	–	1 776 514
Deposits from other credit institutions	1 114 036	4 001	(492 331)	625 706
Deposits from customers	12 640 967	614 480	–	13 255 447
Debt securities issued	2 362 336	–	–	2 362 336
Financial liabilities associated to transferred assets	244 419	–	–	244 419
Financial liabilities held for trading	84 794	–	–	84 794
Hedging derivatives	3 177	–	–	3 177
Provisions	14 163	129	–	14 292
Current tax liabilities	2 044	–	–	2 044
Deferred tax liabilities	533	–	–	533
Other subordinated debt	467 120	–	–	467 120
Other liabilities	489 441	12 830	(892)	501 379
Total Liabilities	19 199 544	631 440	(493 223)	19 337 761
Share capital	1 261 907	40 094	(7 001)	1 295 000
Other equity instruments	15 000	–	–	15 000
Fair value reserves	(22 083)	–	–	(22 083)
Other reserves and retained earnings	322 518	14 827	652	337 997
Profit for the period	(6 667)	9 318	(552)	2 099
Total Equity attributable to CEMG	1 570 675	64 239	(6 901)	1 628 013
Non-controlling interests	6 957			6 957
Total Equity	1 577 632	64 239	(6 901)	1 634 970
Total Liabilities and Equity	20 777 176	695 679	(500 124)	20 972 731

As at 31 December 2011, the net contribution of the main geographical segments is as follows:

(thousand euros)

Income statement indicators	Domestic	International	Adjustments	Consolidated
Interest and similar income	1 171 127	28 233	(16 449)	1 182 911
Interest expense and similar charges	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	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 operating 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
Consolidated profit for the year	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

((thousand euros)

Balance sheet	Domestic	International	Adjustments	Consolidated
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
Property and equipment	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

55. Risk management

The Group is subject to several risks during the course of its business.

The Group'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 Group'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;
- Operational 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 the Group.

The Group 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 analyses of their impact. The Group 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 fulfill 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 the Group'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 the Group, 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 the Group'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' behavior. 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 behavior 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.

The Group's credit risk exposure can be analysed as follows:

(thousand euros)

	2012	2011
Deposits with Other credit institutions	235 659	223 834
Deposits with banks	224 324	284 232
Loans and advances to customers	15 703 547	16 706 626
Financial assets held for trading	126 718	175 361
Financial assets at fair value through profit or loss	12 300	3 606
Available-for-sale financial assets	2 054 519	2 226 386
Hedging derivatives	931	1 311
Held-to-maturity investments	27 495	76 994
Investments in associated companies and others	60 836	57 856
Other assets	399 660	357 866
Guarantees granted	464 722	491 989
Documentary credits	4 214	3 360
Irrevocable commitments	186 350	218 033
Credit default swaps (notionals)	32 500	81 093
	19 533 775	20 908 547

The analysis of the risk exposure by sector of activity, as at 31 December 2012, can be analysed as follows:

(thousand euros)

	2012							
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	Impairment	Gross Amount	Gross Amount	Gross Amount	Impairment	Gross Amount	Gross Amount
Agriculture	80 306	(4 347)	–	–	–	–	–	6 199
Mining	49 123	(2 391)	–	–	–	–	–	1 546
Food, beverage and tobacco	159 576	(9 711)	–	–	2 948	–	–	5 461
Textiles	82 277	(22 844)	–	–	–	–	–	434
Shoes	23 395	(4 539)	–	–	–	–	–	154
Wood and cork	53 262	(10 173)	–	–	87 275	–	–	1 996
Printing and publishing	55 024	(3 606)	–	–	–	–	–	374
Petroleum refining	600	(305)	–	–	54 638	–	–	–
Chemicals and rubber	103 147	(8 772)	–	–	1 034	–	–	2 079
Non-metallic minerals	58 161	(3 172)	–	–	–	–	–	2 878
Basis metallurgic industries and metallic product	153 564	(9 538)	–	–	–	–	–	9 151
Production of machinery	49 270	(3 007)	–	–	260	–	–	1 691
Production of transport material	21 514	(1 062)	–	–	–	–	–	305
Other transforming material	45 734	(5 506)	–	–	129 000	(78)	–	1 709
Electricity, gas and water	110 573	(394)	–	3 165	5 466	–	–	5 261
Construction	2 167 840	(289 806)	–	–	2 245	(998)	–	198 770
Wholesale and retail	1 141 948	(116 120)	250	–	6 911	(148)	–	61 174
Tourism	346 941	(19 322)	–	–	7 314	–	–	10 039
Transports	240 004	(15 856)	–	–	22 831	–	–	11 362
Communications and information activities	56 133	(3 861)	–	–	30 721	–	–	1 169
Financial activities	557 047	(34 992)	108 499	9 135	299 369	(12 351)	–	68 814
Real estates activities	855 172	(101 860)	–	–	7 008	–	–	34 800
Services provided to companies	556 961	(23 544)	–	–	18 777	–	–	13 551
Public services	153 003	(3 636)	–	–	1 218 023	(11 257)	27 495	595
Other activities of collective services	443 293	(18 799)	–	–	999	–	–	10 824
Mortgage loans	8 404 707	(153 134)	–	–	44 597	–	–	–
Others	657 256	(51 987)	17 969	–	139 935	–	–	14 386
Total	16 625 831	(922 284)	126 718	12 300	2 079 351	(24 832)	27 495	464 722

The analysis of the risk exposure by sector of activity, as at 31 December 2011, can be analysed as follows:

(thousand euros)

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	Impairment	Gross Amount	Gross Amount	Gross Amount	Impairment	Gross Amount	Gross Amount
Agriculture	54 402	(4 185)	60	–	–	–	–	1 198
Mining	46 470	(1 258)	57	–	–	–	–	1 434
Food, beverage and tobacco	136 864	(5 866)	901	–	12 339	–	–	3 182
Textiles	65 649	(5 510)	–	–	–	–	–	627
Shoes	20 257	(1 552)	–	–	–	–	–	125
Wood and cork	52 644	(2 161)	–	–	82 830	–	–	1 406
Printing and publishing	52 637	(3 422)	–	–	–	–	–	748
Petroleum refining	441	(16)	537	–	33 137	–	–	–
Chemicals and rubber	90 487	(6 036)	155	–	1 042	–	–	–
Non-metallic minerals	50 656	(2 562)	–	–	–	–	–	2 916
Basis metallurgic industries and metallic products	138 508	(11 352)	–	–	–	–	–	8 655
Production of machinery	44 705	(2 481)	36	–	267	–	–	1 875
Production of transport material	19 447	(1 189)	42	–	–	–	–	298
Other transforming material	40 348	(3 408)	32	–	73 497	–	–	1 894
Electricity, gas and water	104 285	(3 245)	752	2 677	20 366	–	–	4 620
Construction	2 368 694	(240 536)	153	–	10 968	(998)	–	226 896
Wholesale and retail	1 046 368	(62 584)	294	–	14 145	–	–	61 259
Tourism	319 492	(12 679)	–	–	7 337	–	–	13 878
Transports	167 131	(8 847)	154	–	2 322	–	–	8 689
Communications and information activities	50 325	(2 552)	356	–	27 151	–	–	1 287
Financial activities	742 207	(16 441)	170 631	929	489 203	(2 049)	–	47 024
Real estates activities	985 357	(82 549)	53	–	6 996	–	–	28 444
Services provided to companies	332 310	(19 200)	–	–	14 520	–	–	11 809
Public services	118 627	(1 164)	–	–	1 301 976	(19 309)	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	–	132 595	–	–	58 560
Total	17 477 102	(770 476)	175 361	3 606	2 248 742	(22 356)	76 994	491 989

In terms of risk credit, the financial assets portfolio continued to be concentrated in investment grade bonds issued by financial institutions.

During 2012, the Group did not open new positions in credit default swaps, having reached the majority of them the maturity. Therefore the credit protection bought and sold reduced to Euro 21 000 thousands and Euro 11 500 thousands, from Euro 53 600 thousands and Euro 27 500 thousands, respectively. Regarding the credit quality, the credit protection from Portuguese counterparties followed the downgrade of the Portuguese Republic and fell below the investment grade, which led to buying and selling protection positions of Euro 18 000 thousands and Euro 5 500 thousands, 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 74% of the total's portfolio, including 51% of sovereign debt.

The Group 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 2012, would reach, in static terms, about Euro 293 649 thousands (2011: Euro 703 718 thousands) (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 2012 and 2011:

(thousand euros)

	2012				2011			
	December	**Annual average**	**Maximum**	**Minimum**	**December**	**Annual average**	**Maximum**	**Minimum**
Interest rate GAP	(293 649)	(125 526)	42 597	(293 649)	703 718	366 125	703 718	28 532

Following the recommendations of Basel II (Pillar II) and Instruction no. 19/2005, of the Bank of Portugal, the Group 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.

(thousand euros)

	Within 3 months	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**
31 December 2012					
Assets	10 861 051	4 534 848	465 864	1 206 548	662 270
Off balance sheet	9 695 282	184 356	182 271	1 754 548	–
Total	20 556 334	4 719 204	648 135	2 961 097	662 270
Liabilities	6 362 202	1 901 153	2 047 909	7 551 138	161 855
Off balance sheet	10 046 033	436 494	5 900	1 328 004	–
Total	16 408 235	2 337 648	2 053 809	8 879 142	161 855
GAP (Assets – Liabilities)	4 148 099	2 381 556	(1 405 674)	(5 918 045)	500 415
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

Sensibility analysis

As at December, 2012, 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 44 536 thousands (2011: Euro 29 605 thousands).

The following table presents the average interests, in relation to the Group major assets and liabilities categories for the years ended 31 December 2012 and 2011, as well as the average balances and the income and expense for the year:

(thousand euros)

	2012			2011		
Products	**Average balance for the year**	**Average interest rate (%)**	**Income/ Expense**	**Average balance for the year**	**Average interest rate (%)**	**Income/ Expense**
Assets						
Loans and advances to customers	16 906 212	4,41	745 323	17 056 740	4,10	700 116
Deposits	116 001	0,80	930	171 786	1,42	2 439
Securities portfolio	2 665 351	6,37	169 813	2 803 016	6,75	189 293
Inter-bank loans and advances	256 795	1,82	4 680	277 228	3,01	8 332
Swaps	–		230 410	–		237 760
Total Assets	19 944 359		1 151 156	20 308 770		1 137 940
Liabilities						
Deposits from customers	13 204 002	3,41	450 127	12 273 680	2,83	347 445
Securities deposits	3 284 373	5,45	178 862	4 838 611	4,19	202 528
Interbank deposits	2 697 032	1,09	29 436	2 621 733	1,79	46 975
Other liabilities	260	30,77	80	334	0,60	2
Swaps	–		211 571	–		258 269
Total liabilities	19 185 667		870 076	19 734 358		855 219

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2012 is analysed as follows:

(milhares de Euros

	2012							
	Euro	**United States Dollar**	**Sterling Pound**	**Canadian Dollar**	**Suisse Franc**	**Japanese Yen**	**Other foreign currencies**	**Total amount**
Assets by currency								
Cash and deposits at central banks	238 220	21 049	533	395	1 289	46	43 354	304 886
Loans and advances to credit institutions repayable on demand	216 991	16 635	515	340	502	33	643	235 659
Loans and advances to credit institutions	184 737	104	–	–	–	–	39 483	224 324
Loans and advances to customers	15 612 884	26 815	–	2	171	–	63 675	15 703 547
Financial assets held for trading	134 972	3 757	326	–	–	–	–	139 055
Other financial assets at fair value trough profit or loss	12 300	–	–	–	–	–	–	12 300
Available-for-sale financial assets	2 457 197	23 344	32	48	637	–	187	2 481 445
Hedging derivatives	931	–	–	–	–	–	–	931
Held-to-maturity investments	17 141	–	–	–	–	–	10 354	27 495
Investments in associated companies and others	60 836	–	–	–	–	–	–	60 836
Non-current assets held for sale	491 046	106	–	–	–	–	643	491 795
Property and equipment	388 260	–	–	–	–	–	–	388 260
Intangible assets	86 336	–	–	–	–	–	10 239	96 575
Current tax assets	57 913	–	–	–	–	–	1 134	59 047
Deferred tax assets	100	–	–	–	–	–	2 602	2 702
Deferred income tax assets	265 987	–	–	–	–	–	–	265 987
Other assets	69 933	253 065	18 114	73 988	2 953	–	59 834	477 887
Total Assets	20 295 784	344 875	19 520	74 773	5 552	79	232 148	20 972 731
Liabilities by currency								
Deposits from central banks	1 776 514	–	–	–	–	–	–	1 776 514
Deposits from other credit institutions	601 441	23 293	291	274	353	–	54	625 706
Deposits from customers	12 942 278	158 508	8 984	37 381	3 271	–	105 025	13 255 447
Debt securities issued	2 340 541	21 795	–	–	–	–	–	2 362 336
Financial liabilities associated to transferred assets	244 419	–	–	–	–	–	–	244 419
Financial liabilities held for trading	84 440	354	–	–	–	–	–	84 794
Hedging derivatives	3 177	–	–	–	–	–	–	3 177
Provisions	14 163	–	–	–	–	–	129	14 292
Current tax liabilities	2 044	–	–	–	–	–	–	2 044
Deferred tax liabilities	533	–	–	–	–	–	–	533
Other subordinated debt	467 120	–	–	–	–	–	–	467 120
Other liabilities	240 752	141 142	10 244	37 122	1 834	79	70 206	501 379
Total Liabilities	18 717 422	345 092	19 519	74 777	5 458	79	175 414	19 337 761
Net asset / liability by currency	1 578 362	(217)	1	(4)	94	–	56 734	1 634 970

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2011 is analysed as follows:

(milhares de Euros

	2011							
	Euro	United States Dollar	Sterling Pound	Canadian Dollar	Suisse Franc	Japanese Yen	Other foreign currencies	Total amount
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 others	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	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
Provision	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

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. 13/2009).

As at 31 December 2012, the total collateral value in the European Central Bank amounted Euro 38 617 thousands with a use of Euro 1 760 thousands.

Operational risk

The Group 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, the Group 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 the Group 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 April 2012 came in force the Instruction no. 15/2012 of Bank of Portugal, which extended the definition of deposits with excessive compensation and penalized their calculation methods in terms of the deduction to own funds. This instruction replaced the Instruction no. 28/2011 of Bank of Portugal and applies to deposits made or renewed after April 2, 2012.
- 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 the Group. The prudential rules determine that the COF cannot exceed the COF. 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 regulation 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, the Group 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 the Group as at 31 December 2012 and 2011 is presented as follows:

(thousand euros)

	2012	2011
Core Tier 1		
Paid-up capital	1 295 000	1 245 000
Net profit, General reserves, Special reserves	317 883	254 790
Other regulatory adjustments	(163 155)	(121 206)
	1 449 728	1 378 584
Basic own funds		
Other equity instruments	15 000	15 000
Deduction to basic own funds	(19 140)	(15 081)
	1 445 588	1 378 503
Complementary own funds		
Upper Tier 2	10 229	8 950
Lower Tier 2	430 675	462 801
Deductions to complementary own funds	(19 140)	(15 081)
	421 764	456 670
Deductions to total own funds	(12 918)	(3 177)
Total owned funds	1 854 434	1 831 996
Own funds requirements		
Credit risk	1 021 832	1 004 835
Market risk	4 201	4 420
Operational risk	66 235	71 243
	1 092 268	1 080 498
Prudential Ratio		
Ratio Core Tier 1	10,62%	10,21%
Ratio Tier 1	10,59%	10,21%
Solvency ratio	13,58%	13,56%
EBA Ratio	10,62%	8,40%

56. Accounting standards recently issued

Accounting standards and interpretations recently issued

Recently Issued pronouncements already adopted by the Group in the preparation of the financial Statements are the following:

- **IFRS 7 (amended) – Financial Instruments: Disclosures – Transfers of Financial Assets**

  The International Accounting Standards Board (IASB), issued on 7th October 2010, amendments to «IFRS 7 – Disclosures – Transfers of Financial Assets», effective for annual periods beginning on or after 1st July 2011. Those amendments were endorsed by EU Commission Regulation 1205/2011, 22nd November.

  The amendment requires enhanced disclosures about transfers of financial assets that enable users of the financial statements:

  – To understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liability; and

  – To evaluate the nature of, and risks associated with, the entity´s continuing involvement in derecognised financial asset.

  The amendments also required additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

  The adoption of this amendment by the Group had no impact on its financial statements.

- **IAS 12 (amended) – Deferred Tax: Recovery of Underlying Assets**

  The IASB, issued on 20 December 2010, amendments to «IAS 12 – Income Tax – Recovery of Underlying Assets» (and withdraw SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets), effective for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

  The amendments to IAS 12 provide that, the deferred taxes related to investment properties are measured with the presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. Before the amendment, entities were allowed to consider that the carrying amount of investment proprieties would be recovered either through use or sale, depending on management intention.

  The adoption of this amendment by the Group had no impact on its financial statements.

The Group decided to opt for not having an early application of the following standards endorsed by EU but not yet mandatory effective

- **Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 – Presentation of Financial Statements**

  The IASB, issued on 16th June 2011, amendments to «IAS 1 – Presentation of Financial Statements», effective (with retrospective application) for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 475/2012, 5th June.

  The changes retain the entity's option to present profit or loss and other comprehensive income in two statements, however requires:

  – To present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss; and

  – An entity that presents items of other comprehensive income before related tax effects will also have to allocate the aggregated tax amount between the two subcategories;

  – Change the title to «statement of profit or loss and other comprehensive income» – although other titles could be used.

  The amendments affect presentation only and have no impact on the Group's financial position or performance.

- **IAS 19 Revised – Employee Benefits**

  The IASB, issued on 16th June 2011, amendments to «IAS 19 – Employee Benefits», effective (with retrospective application) for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 475/2012, 5th June.

  The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor method and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group made, in 2011, a voluntary change in the accounting police related to actuarial gains and losses arising from its post employment benefits which from 2011 are charged to equity, under other comprehensive income.

  However, the amended standard will impact the net benefit expenses as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. This change will also have no impact on the Group financial statements.

- **IFRS 7 (Amended) – Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities**

  The IASB, issued on 16th December 2011, amendments to «IFRS 7 – Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities», effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

  These amendments required an entity to disclose information about what amounts have been offset in the statement of financial position and the nature and extend of rights to set-off and related arrangements (e.g. collateral arrangements).

  The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

  The Group expects that adoption of the amendments to IFRS 7 will require more extensive disclosures about rights of set-off.

- **IAS 32 (Amended) – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities**

  The IASB, issued on 16th December 2011, amendments to «IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities», effective (with retrospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

  The IASB amended IAS 32 to add application guidance to address the inconsistent application of the standard in practice. The application guidance clarifies that the sentence «currently has a legal enforceable right of set-off» means that the right of set-off must not be contingent on a future event and must be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy, of the entity and all of the counterparties.

  The application guidance also specifies the characteristics of gross settlement systems in order to be considered equivalent to net settlement.

  The Group is not expecting a significant impact form the adoption of the amendment to IAS 32, taking into consideration the accounting police already adopted.

- **IAS 27 (Revised) – Separate Financial Statements**

  The IASB, issued on 12th May 2011, amendments to «IAS 27 – Separate Financial Statements», effective (with prospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1254/2012, 11th December.

  Taking in consideration that IFRS 10 addresses the principles of controls and the requirements relating to the preparation of consolidated financial statements, IAS 27 was amended to cover exclusively separate financial statements.

  The amendments aimed, on one hand, to clarify the disclosures required by an entity preparing separate financial statements so that the entity would be required to disclose the principal place of business (and country of incorporation, if different) of significant investments in subsidiaries, joint ventures and associates and, if applicable, of the parent.

  The previous version required the disclosure of the country of incorporation or residence of such entities.

On the other hand, it was aligned the effective dates for all consolidated standards (IFRS10, IFRS11, IFRS12, IFRS13 and amendments to IAS 28).

The Group expects no relevant impact from the adoption of this amendment on its financial statements.

- **IFRS 10 – Consolidated Financial Statements**

The IASB, issued on 12th May 2011, «IFRS 10 Consolidated Financial Statements», effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

IFRS 10, withdraw part of IAS 27 and SIC 12, and introduces a single control model to determine whether an investee should be consolidated.

The new concept of control involves the assessment of power, exposure to variability in returns and a linkage between the two. An investment controls an investee when it is exposed, or has rights, to variability returns from its involvement with the investee and is able to affect those returns through its power over the investee (facto control).

The investor considers whether it controls the relevant activities of the investee, taking into consideration the new concept. The assessment should be done at each reporting period because the relation between power and exposure variability in returns may change over the time.

Control is usually assessed over a legal entity, but also can be assessed over only specified assets and liabilities of an investee (referred to as silo).

The new standard also introduce other changes such as: *i*) accounting requirements for subsidiaries in consolidation financial statements are carried forward from IAS 27 to this new standards and *ii*) enhanced disclosures are requires, including specific disclosures for consolidated and unconsolidated structured entities.

Nevertheless, the Group does not expect any significant impact on the application of this standard on its financial statements.

- **IFRS 11 – Joint Arrangements**

The IASB, issued on 12th May 2011, «IFRS 11 Joint arrangements», effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December that allows a delayed on mandatory application for 1st January 2014.

IFRS 11, withdraw IAS 31 and SIC 13, defines «joint control» by incorporating the same control model as defined in IFRS 10 and requires an entity that is part of a «join arrangement» to determine the nature of the joint arrangement («joint operations» or «joint ventures») by assessing its rights and obligations.

IFRS 11 removes the option to account for joint ventures using the proportionate consolidation. Instead, joint arrangements that meet the definition of «joint venture» must be account for using the equity method (IAS 28).

The Group has not carried out a thorough analysis of the impacts of the application of this standard. Nevertheless, the Group does not expect any significant impact on the application of this standard on its financial statements.

- **IAS 28 (Revised) – Investments in Associates and Joint Ventures**

The IASB, issued on 12th May 2011, «IAS 28 Investments in Associates and Joint Ventures», effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed as IAS 28 Investments in Associates and Joint ventures, and describes the application of the entity method to investments in joint ventures and associates.

The Group expects no impact from the adoption of this amendment on its financial statements.

- **IFRS 12 – Disclosures of Interest in Other Entities**

The IASB, issued on 12th May 2011, «IFRS 12 Disclosures of Interests in Other Entities», effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

The objective of this new standard is to require an entity to disclose information that enables users of its financial statements to evaluate: (*a*) the nature of, and risks associated with, its interests in other entities; and (*b*) the effects of those interests on its financial position, financial performance and cash flows.

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special vehicles and other off balance sheet vehicles.

The Group is still assessing the full impact of the new IFRS 12 in ligne with IFRS 10 and IFRS 11.

- **IFRS 13 – Fair Value Measurement**

The IASB, issued on 12th May 2011, «IFRS 13 fair value Measurement», effective (with prospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs.

The Group is currently reviewing its methodologies for determining fair values, to evaluate if this rule has any impact on its financial statements.

Although many of IFRS 13 disclosures requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorized in Level 3.

Recently Issued pronouncements that are not yet effective for the Group

- **Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27 (issued by IASB on 31st October 2012)**

The amendments apply to a particular class of business that qualifies as investment entities. The IASB uses the term «investment entity» to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organizations, venture capital organizations, pension funds, sovereign wealth funds and other investment funds.

The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments are effective from 1 January 2014 with early adoption permitted. This option allows investment entities to apply the Investment Entities amendments on the same date as the first application of the remaining IFRS 10.

The Group expects no impact from the adoption of this amendment on its financial statements.

- **Improvements to IFRS (2009-2011)**

The annual improvements cycle 2009-2011, issued by IASB on 17th May 2012, introduce amendments, with effective date on, or after, 1st January 2013, to the standards IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34 and IFRIC 2.

IAS 1 – Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is related with the previous period.

IAS 16 – Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 – Financial Instruments, Presentation and IFRIC 2

The improvements clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes, avoiding any interpretation that may mean any either application.

IAS 34 – Interim Financial Reporting

The amendments align the disclosure requirement for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures in relation to the changes of profit and loss account and other comprehensive income.

The Group is not expecting any significant impacts from the adoption of these improvements, taking into consideration the accounting police already adopted.

- **IFRS 9 – Financial instruments (issued in 2009 and revised in 2010)**

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additional requirements related to financial liabilities. The IASB currently has an active project to perform limited amendments to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets and hedge accounting.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognized in profits or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment.

Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instruments is assessed in its entirety as to whether it should be amortized cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues.

The Group has started the process of evaluating the potential effect of this standard but is waiting for finalization of the limited amendments before the evaluation can be completed. Given the nature of the Group's operation, this standard is expected to have a pervasive impact on the Group's financial statements.

57. Sovereign debt of European Union countries subject to bailout

As at 31 December 2012, the exposure of the Group to sovereign debt of European Union countries subject to bailout is as follows:

(thousand euros)

	2012						
Issuer/portfolio	Book value	Fair value	Fair value reserves	Impairment	Average maturity rate	Average maturity years	Fair value measurement levels
Portugal							
Financial assets held for trading	1 115 857	1 115 857	9 036	–	3.40	2.05	1
Held to maturity financial assets	6 185	6 246	–	–	3.38	2.76	
	1 122 042	1 122 103	9 036	–			
Greece (*)							
Financial assets held for trading	7 174	(4 083)	71	(11 257)	1.26	25.16	1
	1 129 216	1 118 020	9 107	(11 257)			

(*) The item includes 6 796 thousand euros relating to Greek sovereign debt resulting from exchange transactions, which remains in the portfolio.

The value of the securities includes the respective accrued interest.

As at 31 December 2011, the exposure of the Group to sovereign debt of European Union countries subject to bailout is as follows:

(thousand euros)

	2011						
Issuer/portfolio	Book value	Fair value	Fair value reserves	Impairment	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 trading	33 507	33 507	–	(19 309)	4.22	0.37	1
Irland							
Held to maturity financial assets	11 032	11 032	1 051	–	4.60	4.30	1
	1 232 440	1 229 320	(240 512)	(19 309)			

For the public debt of Portugal, Greece and Ireland do not have occurred in the year ended December 31, 2011 no reclassifications between portfolios.

The evolution of the European Union sovereign debt crisis and specifically the economic and political environment in Greece, which contributed to the continuous deterioration of economic and financial situation of Greece and the incapacity to obtain funds from the international markets, which implied that the short term solvency of the country is dependent on the continuous support by EU and IMF.

Impairment was determined considering the terms of the agreement established between the Greek state and the private sector («PSI»), related to the restructuring of the Greek sovereign debt («GGBs»). For the purposes of determining impairment, the Group considered the terms and conditions of the PSI and also paragraph AG 84 of IAS 39 that considers reasonable that, for the portfolio of assets held to maturity when, for practical reasons, there are relevant uncertainties regarding the estimate of future cash-flows, impairment can be determined based on observable market prices.

Considering the available information regarding the bonds' characteristics, the fair value corresponded to approximately 23% of the book value of the portfolio. Following of the reestructuring of the Greek sovereign debt in the second quarter of 2012, the impairment was charged off. The exchange offer occurred in 12 March 2012.

58. Transfers of assets

The Group performed a set of transactions of sale of financial assets (namely loans and advances to customers) for Funds specialized in the recovery of loans. These funds take the responsibility for management of the companies or assets received as collateral with the objective of ensuring a proactive management through the implementation of plans to explore/increase the value of the companies/assets. The financial assets sold under these transactions are derecognized from the balance sheet of the Group, since the transactions result in the transfer to the Funds of a substantial portion of the risks and benefits associated with the assets as well as the control on the assets.

The specialized funds that acquire the financial assets are closed funds, in which the holders of the participation units have no possibility to request the reimbursement of its investment throughout the useful life of the Fund.

These participation units are held by several banks, which are the sellers of the loans, in percentages that vary through the useful life of the Funds, ensuring however that, separately, none of the banks holds more than 50% of the capital of the Fund.

The Funds have a specific management structure (General Partner), fully independent from the banks and that is selected on the date of establishment of the Fund.

The management structure of the Fund has as main responsibilities:

- determine the objective of the Fund;
- manage exclusively the Fund, determining the objectives and investment policy and the conduct in management and business of the Fund.

The management structure is remunerated through management commissions charged to the Funds.

These funds, in the majority of the transactions (in which the Group holds minority positions) establish companies under the Portuguese law in order to acquire the loans to the banks, which are financed through the issuance of senior and junior bonds. The value of the senior bonds fully subscribed by the Finds that hold the share capital of the companies match the fair value of the asset sold, determined in accordance with a negotiation based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company that holds the assets.

The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the sale value.

These junior bonds, when subscribed by the Group, provide the right to a contingent positive value if the recovered amount for the assets transferred is above the nominal value amount of senior bonds plus it related interest.

However, considering that these junior bonds reflect a difference between the valuations of the assets sold based on the appraisals performed by independent entities and the negotiation between the parties, the junior bonds are fully provided.

Therefore, following the transactions, the Group subscribed:

– Participation units of the Funds, for which the cash-flows that allow the recovery arise mainly from a set of assets transferred from the participant banks (where the Group has clearly a minority interest). These securities are booked in the available for sale portfolio and are accounted for at fair value based on the market value, as disclosed by the Funds and audited at year end.

– Junior bonds (with higher subordination degree) issued by the companies held by the funds and which are fully provided to reflect the best estimate of impairment of the financial assets transferred.

Within this context, not withholding control but maintaining an exposure to certain risks and rewards, the Group, in accordance with IAS 39.21 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the transaction, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence on the funds or companies management, the Group performed the derecognition of the assets transferred under the scope of IAS 39.20 c (*i*) and the recognition of the assets received as follows:

(thousand euros)

	Values associated with the transfer of assets		
	Net assets transferred	**Amount received**	**Result obtained with the transfer**
Vallis Construction Sector Fund	15 318	19 018	3 700

(thousand euros)

	Senior Securities	**Junior Securities**	**Total**	**Junior Impairment**	**Net Value**
Vallis Construction Sector Fund	14 144	4 874	19 018	(4 874)	14 144

The net assets transferred amounted Euro 15 318 thousands, as described in note 21.

The junior securities correspond to supplementary capital in the amount of Euro 4 874 thousands, as referred in note 23.

Within the scope of the transfer of assets, the junior securities subscribed which carry a subordinated nature and are directly linked to the transferred assets, are fully provided for, in accordance with note 15.

Although the junior bonds are fully provided, the Group still holds an indirect exposure to financial assets transferred, under the minority investment that holds in the pool of assets transferred by all financial institutions involved, through the holding of participation units of the funds (denominated in the table as senior bonds).

59. 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 thousands.

As at March 31, 2011, Montepio Geral – Associação Mutualista disposed the participation held on Finibanco Holding, S.G.P.S, S.A. to the Group, for the amount of Euro 341 250 thousands. From that date, the Group owns a participation of 100% on Finibanco Holding S.G.P.S., S.A.

The acquisition of Finibanco Holding by the Group 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 the Group was not present.

The acquisition value by the Group to Montepio Geral – Associação Mutualista was totally made by cash transfer.

The fair value of the assets and liabilities acquired is analysed as follows:

(thousand euros)

	2011
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 the accounting policy described in note 1 *b*) is analysed as follows:

	(thousand euros) 2012
Total amount paid by CEMG	341 250
Fair 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 thousands, with impairment losses in the amount of Euro 191 338 thousands, 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 thousands.

The presented goodwill results essentially of the complementarily of commercial networks and the presence of the Finibanco Group in markets which the Group was not present, such as in Portugal, or in Angola.

The Group 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.

60. Subsidiary companies

As at 31 December 2012, 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%
Montepio Crédito – Instituição Financeira de Crédito, S.A.	Porto	Euro 30 000 000	Finance lease	100.00%
Finivalor – Sociedade Gestora de Fundos de Investimento, 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	87.67%

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	Euro 20 000 000	Insurance	39.34%
Iberpartners Cafés S.G.P.S., S.A.	Lisboa	Euro 3 400 000	Holding company	29.41%
Lusitania, Companhia de Seguros, S.A.	Lisboa	Euro 26 000 000	Insurance	25.65%
HTA – Hóteis, Turismo e Animação dos Açores, S.A.	Ilha de São Miguel	Euro 10 000 000	Hotels with restaurants	20.00%
Nutre S.G.P.S., S.A.	Oliveira de Frades	Euro 5 000 000	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
Finipredial – Fundo de Investimento Imobiliário Aberto	1997	2012	Lisboa	54.291%	Integral
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisboa	100%	Integral
Polaris –- Fundo de Investimento Imobiliário Fechado	2009	2012	Lisboa	100%	Integral

61. Relevant facts

Sale of loans and advances to customers

During 2012, CEMG sold two portfolios of loans and advances to customers to a securitisation company named «Hefesto Sociedade de Titularização de Créditos, S.A.». These operations were denominated as Aurea 1 and Aurea 2.

These loans presented a book value of Euro 70 540 thousands, and were sold by the same amount, as described in note 21.

(thousand euros)

	Credit Gross	Credit Impairment	Net Credit Value	Value of sales	Gains
Aurea 1	76 949	41 430	35 519	35 519	–
Aurea 2	75 355	40 334	35 021	35 021	–
	152 304	81 764	70 540	70 540	–

62. Subsequent events

After the balance sheet date and before the financial statements were authorized for issue, there were no relevant transactions and/or events that deserve relevance disclosure.

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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, 2012 of **Caixa Económica Montepio Geral ("CEMG")** which comprise the consolidated balance sheet as at 31 December, 2012 (showing total assets of 20,972,731 thousand Euro and total equity attributable to the equity holders of CEMG of 1,628,013 thousand Euro, including a net profit attributable to the equity holders of CEMG of 2,099 thousand Euro), the consolidated statement of income, the consolidated statement cash flows, the consolidated changes in equity and the consolidated statement 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 consolidated changes in equity and the consolidated 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 Board of Directors report 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, 2012, the consolidated results of its operations, the consolidated cash flows, the consolidated changes in equity and the consolidated 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 Corporate Governance includes the information required by the article 245.º-A of the Portuguese Securities Market Code ('CVM').

Lisbon, 2 April, 2013

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
represented by
Vitor Manuel da Cunha Ribeirinho (ROC N.º 1081)

13.2. INDIVIDUAL FINANCIAL STATEMENTS

INDIVIDUAL BALANCE SHEET AS AT 31 DECEMBER 2012 AND 2011

(thousand euros)

	2012			2011
	GROSS ASSETS	IMPAIRMENT AND AMORTISATION	NET ASSETS	NET ASSETS
ASSETS				
Cash and liquid assets held by central banks	247 587		247 587	381 540
Deposits at other credit institutions	57 370		57 370	102 701
Financial assets held for trading	132 857		132 857	145 252
Other financial assets at fair value	12 300		12 300	3 606
Financial assets available for sale	6 788 788	58 286	6 730 502	5 821 780
Investments in Credit institutions	250 783	25	250 758	370 268
Customer credit	15 934 680	902 703	15 031 977	16 200 240
Investments held to maturity	17 222		17 222	48 416
Hedging derivatives	931		931	1 184
Non-current assets held for sale	498 885	26 008	472 877	86 830
Other tangible assets	225 869	170 218	55 651	66 183
Intangible assets	146 100	37 228	108 872	110 843
Investments in associated companies and joint ventures	390 547		390 547	384 547
Current income tax assets	10		10	10
Deferred income tax assets	243 313		243 313	59 221
Other assets	379 171	3 086	376 085	310 278
TOTAL ASSETS	**25 326 413**	**1 197 554**	**24 128 859**	**24 092 899**
LIABILITIES				
Central bank resources			1 776 514	2 003 300
Financial liabilities held for trading			84 808	101 524
Other credit institution resources			1 125 074	1 182 068
Customer resources and other loans			12 675 903	13 190 639
Liabilities represented by instruments			2 188 099	2 240 688
Financial liabilities associated with transferred assets			3 743 731	3 289 983
Hedging derivatives			3 177	2 444
Provisions			110 199	120 014
Current income tax liabilities			1 239	
Other subordinated liabilities			479 667	477 247
Other liabilities			331 976	243 419
TOTAL LIABILITIES			**22 520 387**	**22 851 326**
EQUITY				
Capital			1 295 000	1 245 000
Other capital instruments			15 000	15 000
Revaluation reserves			-6 736	-316 692
Other reserves and retained earning			302 952	265 442
Profit for the year			2 256	32 823
TOTAL EQUITY			**1 608 472**	**1 241 573**
TOTAL LIABILITIES AND EQUITY			**24 128 859**	**24 092 899**

THE CHARTERED ACCOUNTANT

Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS

António Tomás Correia – Chairmen
José de Almeida Serra
Eduardo José da Silva Farinha
Álvaro Cordeiro Dâmaso
Carlos Vicente Morais Beato

INDIVIDUAL INCOME STATEMENT AS AT 31 DECEMBER 2012 AND 2011

(thousand euros)

	2012	2011
Interest and similar revenues	1 123 092	1 161 027
Interest and similar charges	865 634	857 554
NET INTEREST INCOME	**257 458**	**303 473**
Return on capital instruments	2 039	2 112
Return on services and commissions	120 106	108 128
Cost of services and commissions	19 492	19 199
Profit on assets and liabilities valued at fair value through profit or loss	- 65 782	68 399
Profit on financial assets available for sale	70 872	3 216
Profit on currency revaluation	4 220	2 520
Profit on sale of other assets	26 132	57 988
Other operating income	42 811	29 451
BANKING REVENUE	**438 364**	**556 088**
Staff costs	185 916	217 319
General administrative costs	107 962	105 628
Depreciation for the period	36 884	26 854
Provisions net of write-offs	- 9 814	- 2 792
Corrections for sums associated with customer credit and other debtors (net of write-offs)	250 345	171 448
Impairments on financial assets net of reversals and recoveries	36 053	34 632
Impairments on other assets net of reversals and recoveries	5 602	- 18 456
PRE-TAX PROFIT	**- 174 584**	**21 455**
Tax	176 840	11 368
AFTER TAX PROFIT	**2 256**	**32 823**

THE CHARTERED ACCOUNTANT
Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS
António Tomás Correia – Chairmen
José de Almeida Serra
Eduardo José da Silva Farinha
Álvaro Cordeiro Dâmaso
Carlos Vicente Morais Beato

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED AT 31 DECEMBER, 2012 AND 2011

(thousand euros)

	2012	2011
Cash flows arising from operating activities		
Interest income received	1 253 310	1 066 203
Commissions income received	121 947	109 898
Interest expense paid	(713 962)	(856 237)
Commissions expense paid	(17 024)	(17 945)
Payments to employees and suppliers	(397 008)	(379 632)
Recoveries on loans previously written off	2 731	–
Other payments and receivables	168 497	256 622
	418 491	**178 909**
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions and customers	1 485 249	(1 947 110)
Other assets	(593 369)	3 242
	891 880	**(1 943 868)**
(Increase) / decrease in operating liabilities:		
Deposits from clients	(522 101)	3 422 117
Deposits from credit institutions	(2 053 217)	(1 623 501)
Deposits from central banks	1 760 000	2 000 000
	(815 318)	**3 798 616**
	495 053	**2 033 657**
Cash flows arising from investing activities		
Dividends received	2 039	2 112
(Acquisition) / sale of trading financial assets	(48 356)	(20 944)
(Acquisition) / sale of other financial assets at fair value through profit or loss	(8 694)	346
(Acquisition) / sale of available for sale financial assets	(652 573)	(836 522)
(Acquisition) / sale of hedging derivatives	894	1 852
(Acquisition) / sale of held to maturity investments	30 375	9 506
(Acquisition) / sale of shares in associated companies	(6 000)	(429 522)
Deposits owned with the purpose of monetary control	139 896	(104 094)
Proceeds from sale of fixed assets	45 320	60 195
Acquisition of fixed assets	(35 606)	(24 101)
	(532 705)	**(1 341 172)**
Cash flows arising from financing activities		
Dividends paid	(16 584)	(23 085)
Capital increase	50 000	460 000
Proceeds from issuance of bonds and subordinated debt	1 222 147	302 011
Reimbursement of bonds and subordinated debt	(1 240 377)	(1 390 073)
Increase / (decrease) in other sundry liabilities	(16 922)	40 380
	(1 736)	**(610 767)**
Net changes in cash and equivalents	**(39 388)**	**81 718**
Cash and equivalents balance at the beginning of the year	**235 764**	**154 046**
Net changes in cash and equivalents	(39 388)	81 718
Cash and equivalents balance at the end of the year	**196 376**	**235 764**
Cash and equivalents balance at the end of the year		
Cash (note 17)	139 006	133 063
Loans and advances to credit institutions repayable on demand (note 18)	57 370	102 701
Total	**196 376**	**235 764**

See accompanying notes to the Individual Financial Statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER, 2012 AND 2011

(thousand euros)

	Total equity	Share capital	Other capital instruments	General and special reserves	Other reserves	Fair value reserves	Retained earnings
Balance on 31 December, 2010	**892 818**	**800 000**	**–**	**235 130**	**8 404**	**(82 973)**	**(67 743)**
Other movements recognised directly in Equity:							
Amortization of the transition adjustment to pensions (Regulation no.12/01)	(3 650)	–	–	–	–	–	(3 650)
Actuarial losses for the year (note 47)	69 058	–	–	–	–	–	69 058
Deferred taxes related to balance sheet changes (note 30)	47 853	–	–	–	–	–	47 853
Changes in fair value	(233 719)	–	–	–	–	(233 719)	–
Profit for the period	32 823	–	–	–	–	–	32 823
Total gains and losses recognised in the period	(87 635)	–	–	–	–	(233 719)	146 084
Dividends paid (note 44)	(23 085)	–	–	–	–	–	(23 085)
Increase in share capital (note 40)	445 000	445 000	–	–	–	–	–
Other capital instruments (note 41)	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**
Other movements recognised directly in Equity:							
Amortization of the transition adjustment to pensions (Regulation no.12/01)	(10 024)	–	–	–	–	–	(10 024)
Actuarial losses for the year (note 47)	31 410	–	–	–	–	–	31 410
Deferred taxes related to balance sheet changes (note 30)	5 943	–	–	–	–	–	5 943
Changes in fair value	309 956	–	–	–	–	309 956	–
Profit for the period	2 256	–	–	–	–	–	2 256
Total gains and losses recognised in the period	339 541	–	–	–	–	309 956	29 585
Dividends paid (note 44)	(16 584)	–	–	–	–	–	(16 584)
Increase in share capital (note 40)	50 000	50 000	–	–	–	–	–
Costs related to the issue of perpetual subordinated Instruments	(900)	–	–	–	–	–	(900)
Other moviments	(5 158)	–	–	–	–	–	(5 158)
Transfers of reserves:							
General reserve	–	–	–	6 564	–	–	(6 564)
Special reserve	–	–	–	1 641	–	–	(1 641)
Balance on 31 December, 2012	**1 608 472**	**1 295 000**	**15 000**	**253 709**	**8 404**	**(6 736)**	**43 095**

See accompanying notes to the Individual Financial Statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER, 2012 AND 2011

(thousand euros)

	Notes	2012	2011
Other Comprehensive income for the year			
Fair value reserves			
Financial assets available for sale	43	309 956	(233 719)
Actuarial losses for the year	47	31 410	69 058
Deferred taxes	30	5 943	47 853
Amortization of the transition adjustment to pensions (Regulation no.12/01)		(10 024)	(3 650)
Comprehensive income recognised directly in Equity after taxes		**337 285**	**(120 458)**
Profit for the year		2 256	32 823
Total Comprehensive income for the year		**339 541**	**(87 635)**

See accompanying notes to the Individual Financial Statements

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
31 DECEMBER, 2012

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.

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 thousands.

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, 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 14 March, 2013. 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 has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1 January, 2012, as referred in note 51.

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.

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 periods presented in these financial statements.

The preparation of the financial statements in accordance with NCA's requires the 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 the accounting policy described in note 1 *z*).

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 recognised when cash is advanced to borrowers.

The derecognition of these assets occurs in the following situations: (*i*) the contractual rights of CEMG 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

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 of the Bank from 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 value 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 CEMG'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; or

– 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 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 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.

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) Investments 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 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 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 2012 and 2011.

(iii) Impairment

At each balance sheet date, an assessment of the existence of objective evidence of impairment, is made. A financial asset or group of financial assets are impaired when there is objective evidence of impairment resulting from one or more events that occurred after its initial recognition, such as: (*i*) for listed securities, a prolonged devaluation or a significant decrease in its quotation price, and *(ii*) for unlisted securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reasonably. According to CEMG's policies, 30% depreciation in the fair value of an equity instrument is considered a significant devaluation and the 1 year period is assumed to be a 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 recognised in the profit or loss) is removed from fair value reserves and recognised 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 recognised in the profit or loss, the impairment loss is reversed through the income statement. Recovery of impairment losses on equity instruments classified as financial assets available for sale, is recognised as a gain in fair value reserves when it occurs (if there are no reversal in the income statement).

(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 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, CEMG 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.

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 Investments 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.

Transfers of financial assets recognised in the category of Financial assets available-for-sale to Loans and receivables-Loans represented by securities and to Investments held-to-maturity are allowed, in determined and specific circumstances.

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.

In 2012 and 2011, CEMG did not perform any reclassifications between financial instruments categories.

f) Derecognition

CEMG derecognises 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 analysed as follows:

– The activities of the SPE, in substance, are being conducted on behalf of the Bank, 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

A financial 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) 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 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.

i) Investments in subsidiaries and associates

Investments in subsidiaries and associated are accounted for in CEMG's individual financial statements at its historical cost less any impairment losses.

Impairment

The recoverable amount of the goodwill in subsidiaries is assessed annually, regardless the existence of any impairment triggers. Impairment losses are are calculated based on the difference between the recoverable amount of the investments in subsidiaries and associated and their book value. Impairment losses identified are charged against results and subsequently, if there is a reduction of the estimated impairment loss, the charge is reversed, in a subsequent period. The recoverable amount is determined based on the higher between the assets value in use and the market value deducted of selling costs, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

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 and when 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, which 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 selling costs 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 unrealised losses, these should be recognised as impairment losses against results.

k) Finance lease transactions

At the lessee's perspective, finance lease transactions are recorded as an asset and liability at fair value of the leased asset, which is equivalent to the present value of the future lease payments. Lease rentals are a combination of the financial charge and the amortisation of the capital outstanding. The financial charge is allocated to the periods during the lease term to produce a constant periodic rate of interest on the remaining liability balance for each period.

At the lessor's perspective, assets held under finance leases are recorded in the balance sheet as a receivable at an amount equal to the net investment in the lease. Lease rentals are a combination of the financial income and amortization of the capital outstanding. Recognition of the financial result reflects a constant periodical return rate over the remaining net investment of the lessor.

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) Financial results (Results arising from trading and hedging activities and available for sale financial assets and investments held to maturity)

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 and investments held to maturity. The changes in fair value of hedging derivatives and hedged items, when fair value hedge is applicable, are also recognized in this caption.

o) Fiduciary activities

Assets held in the scope of fiduciary activities are not recognized in CEMG financial statements. Fees and commissions arising from this activity are recognized in the income statement in the year to which they relate.

p) 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.

q) Intangible Assets

Software

CEMG accounts as intangible assets the costs associated to software acquired from external entities and depreciates them on a straight line basis by an estimated lifetime of three years. CEMG does not capitalise internal costs arising from software development.

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.

r) 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.

s) 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.

t) 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.

u) Employee benefits

Pensions

Arising from the signing of the «Acordo Colectivo de Trabalho» (ACT) and subsequent amendments resulting from the 3 tripartite agreements as described in Note 47, CEMG sets up pension funds and other mechanisms to cover the liabilities with pensions on retirement and disability, widows' pension, health-care benefits and death subsidy.

The pension liabilities and health care benefits are covered by funds that are managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

The pension plans of CEMG are classified as defined benefit plans, since the criteria to determine the pension benefit to be received by employees on retirement are predefined and usually depend on factors such as age, years of service and level of salary.

In the light of IFRS 1 and until 2011, CEMG decided to adopt, at transition date (1 January 2004), IAS 19 retrospectively and has recalculated the pension and other post-retirement benefits obligations and the corresponding actuarial gains and losses, to be deferred in accordance with the corridor method allowed by this accounting standard. In December 2011, CEMG changed retrospectively the accounting policy related to actuarial gains and losses recognition, adjusting the opening balance sheet and comparative values, starting to recognise, as allowed under paragraph 93A of IAS 19 «Employee Benefits», the actuarial deviations under other comprehensive income.

The liability with pensions is calculated annually by CEMG, as at 31 December and 30 June for each plan individually, using the projected unit credit method, and is reviewed annually by qualified independent actuaries. The discount rate used in this calculation is determined based on market rates of emissions associated with high quality corporate bonds, denominated in the currency in which benefits will be paid and with a similar maturity to the date of termination of the plan.

The expected return on plan assets is based on the long term expected return for each asset class within the portfolio of the pension funds and takes in consideration the investment strategy determined for the funds.

Actuarial gains and losses determined annually and resulting from (*i*) the differences between financial and actuarial assumptions used and real values obtained and (*ii*) the changes in actuarial assumptions, are recognised under share capital in the balance other comprehensive income.

At each period, CEMG recognises as a cost in the income statement a net total amount that comprises (*i*) the service cost, (*ii*) the interest cost, (*iii*) the expected return on plan assets, (*iv*) effect early retirement, and (*v*) effect of settlement or curtailment occurred during the period. Early retirement costs corresponds to an increase on the liabilities due to the fact the employee retires before reaching 65 years of age.

Past service costs (and negative past service costs) are recognised in the income statement, on a straight line basis, over the vesting period. To the extent that the benefits vest immediately on the date of the introduction of, or change to, the pension plan, past service costs (and negative past service costs) are recognised in the income statement immediately.

CEMG makes payments to the funds in order to maintain its solvency and to comply with the following minimum levels: (*i*) the liability with pensioners shall be totally funded at the end of each year, and (*ii*) the liability related to past services cost with employees in service shall be funded at a minimum level of 95%.

Annually, CEMG assesses for each plan separately, the recoverability of any recognised asset in relation to the defined benefit pension plans, based on the expectation of reductions in future contributions to the funds.

Health care benefits

CEMG provides to its banking employees health care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides to its beneficiaries services and/or contributions on medical assistance expenses, diagnostics, medicines, hospital confinement and surgical operations, in accordance with its financing availability and internal regulations.

The annual contribution of CEMG to SAMS amounts to 6.5% of the total annual remuneration of employees, including, among others, the holiday and Christmas subsidy.

The measurement and recognition of the CEMG's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above. These benefits are covered by the Pension Fund which at present covers all responsibilities with pensions and health care benefits.

Long-term service benefits

In accordance with the ACT «Acordo Colectivo de Trabalho» for the banking sector, CEMG has assumed the commitment to pay to current employees that achieve 15, 25 and 30 years of service within CEMG, long-term service premiums corresponding, respectively, to 1, 2 and 3 months of their effective monthly remuneration earned at the date the premiums are paid.

At the date of early retirement or disability, employees have the right to a premium proportional to what they would earn if they remained in service until the next payment date.

These long-term service benefits are accounted for by CEMG in accordance with IAS 19 as other long-term employee benefits.

The liability with long-term service benefits is calculated annually, at the balance sheet date, by CEMG using the projected unit credit method. The actuarial assumptions used are based on the expectations about future salary increases and mortality tables. The discount rate used in this calculation was determined based on the same methodology described for pensions.

In each period the increase in the liability for long-term service premiums, including actuarial gains and losses and past service costs is charged to the income statement.

Bonus to employees and to the Board of Directors

In accordance with IAS 19 Employee benefits, the bonus payment to employees and to the Board of Directors is recognised in the income statement 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 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 tax liabilities are recognised for all taxable temporary differences except for goodwill not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future.

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

The Group adopted the IFRS 8 – Operating Segments for the purpose of disclosure financial information by operating segments. A business segment is a group of assets and operations that are subject to risks and returns different from other business segments. The results of the operating segments are periodically reviewed by the management with the aim of taking decisions. The Group prepares regular financial information concerning these segments, which is reported to Management. A geographical segment is a group of assets and operations located within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other 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.

On the cases that the discount effect is material, provisions corresponds to actual value of the expected future payments, discounted by a rate that considers the associated risk 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) 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.

z) Accounting estimates and judgments in applying accounting policies

IFRS set forth a range of accounting treatments and require the 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 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. According to CEMG's policies, 30% depreciation in the fair value of an equity instrument is considered a significant devaluation and the 1 year period is assumed to be a prolonged decrease in the fair value below the acquisition cost.

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 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 the accounting policy 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.

Held-to-maturity investments

CEMG follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, CEMG evaluates its intention and ability to hold such investments to maturity.

If CEMG fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value instead of amortised cost.

Held-to-maturity investments are subject to impairment tests made by CEMG. The use of different assumptions and estimates could have an impact on the income statement of CEMG.

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, Pelican Mortgages No. 4, Pelican Mortgages No. 5, Pelican Mortgages No. 6, Aqua SME No. 1, Aqua Mortgages No. 1 and Pelican SME were not derecognized in 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 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 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.

Intangible assets without useful life defined impairment

The assets without useful life defined recoverable amount recognised as a CEMG's asset, is revised annually regardless the existence of impairment losses.

For this purpose, the carrying amount of the business units of CEMG for which assets without useful life defined has been recognised is compared with the respective recoverable amount. A assets without useful life defined impairment loss is recognised when the carrying amount of the business unit exceeds the respective recoverable amount.

In the absence of an available market value, the recoverable amount is determined using cash flows predictions, applying a discount rate that includes a risk premium appropriated to the business unit being tested. Determining the cash flows to discount and the discount rate, involves judgment.

INCOME STATEMENT FOR THE YEARS ENDED AT 31 DECEMBER, 2012 AND 2011

(thousand euros)

	NOTES	2012	2011
Interest and similar income	3	1 123 092	1 161 027
Interest and similar expense	3	865 634	857 554
NET INTEREST INCOME		**257 458**	**303 473**
Dividends from equity instruments	4	2 039	2 112
Fee and comission income	5	120 106	108 128
Fee and comission expense	5	(19 492)	(19 199)
Net losses arising from assets and liabilities at fair value through profit or loss	6	(65 782)	68 399
Net gains/(losses) arising from available-for-sale financial assets	7	70 872	3 216
Net gains arising from foreign exchange differences	8	4 220	2 520
Net gains from sale of other financial assets	9	26 132	57 988
Other operating income	10	42 811	29 451
TOTAL OPERATING INCOME		**438 364**	**556 088**
Staff costs	11	185 916	217 319
General and administrative expenses	12	107 962	105 628
Depreciation and amortisation	13	36 884	26 854
TOTAL OPERATING COSTS		**330 762**	**349 801**
Loans impairment	14	250 345	171 448
Other assets impairment	15	41 655	16 176
Other provisions	16	(9 814)	(2 792)
OPERATING PROFIT		**(174 584)**	**21 455**
Taxes			
Current	30	(1 309)	–
Deferred	30	178 149	(11 368)
PROFIT FOR THE YEAR		**2 256**	**32 823**

See accompanying notes to the Individual Financial Statements

BALANCE SHEET AS AT 31 DECEMBER, 2012 AND 2011

(thousand euros)

	NOTES	2012	2011
ASSETS			
Cash and deposits at central banks	17	247 587	381 540
Loans and advances to credit institutions	18	57 370	102 701
Other loans and advances to credit institutions	19	250 758	370 268
Loans and advances to customers	20	15 031 977	16 200 240
Financial assets held for trading	21	132 857	145 252
Other financial assets held for trading at fair value through profit or loss	22	12 300	3 606
Financial assets available for sale	23	6 730 502	5 821 780
Hedging derivatives	24	931	1 184
Financial assets held to maturity	25	17 222	48 416
Investments in associated companies	26	390 547	384 547
Non current assets held for sale	27	472 877	86 830
Property and equipment	28	55 651	66 183
Goodwill and intangible assets	29	108 872	110 843
Current income tax assets		10	10
Deferred income tax assets	30	243 313	59 221
Other assets	31	376 085	310 278
TOTAL ASSETS		**24 128 859**	**24 092 899**
LIABILITIES			
Deposits from central banks	32	1 776 514	2 003 300
Deposits from other credit institutions	33	1 125 074	1 182 068
Deposits from customers	34	12 675 903	13 190 639
Debt securities issued	35	2 188 099	2 240 688
Financial liabilities relating to transferred assets	36	3 743 731	3 289 983
Financial liabilities held for trading	21	84 808	101 524
Hedging derivates	24	3 177	2 444
Provisions	37	110 199	120 014
Current income tax liabilities		1 239	–
Other subordinated debt	38	479 667	477 247
Other liabilities	39	331 976	243 419
TOTAL LIABILITIES		**22 520 387**	**22 851 326**
EQUITY			
Share capital	40	1 295 000	1 245 000
Other capital instruments	41	15 000	15 000
Fair value reserves	43	(6 736)	(316 692)
Reserves and retained earnings	42 and 43	302 952	265 442
Profit for the year		2 256	32 823
TOTAL EQUITY		**1 608 472**	**1 241 573**
TOTAL		**24 128 859**	**24 092 899**

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 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:

(thousand euros)

	2012	2011
Net interest income	257 458	303 473
Net gains arising from assets and liabilities at fair value through profit and loss and available-for-sale financial assets	5 090	71 615
	262 548	375 088

3. Net interest income

The amount of this account is comprised of:

(thousand euros)

	2012			2011		
	Assets / liabilities at amortized cost and available-for-sale	Assets / liabilities at fair value through profit or loss	Total	Assets / liabilities at amortized cost and available-for-sale	Assets / liabilities at fair value through profit or loss	Total
Interest and similar income:						
Interest from loans and advances	558 172	–	558 172	528 616	–	528 616
Interest from other assets	2 715	–	2 715	8 385	–	8 385
Interest from deposits with banks	935	–	935	2 459	–	2 459
Interest from available-for-sale financial assets	275 975	–	275 975	297 956	–	297 956
Interest from held-to-maturity financial assets	1 020	–	1 020	2 188	–	2 188
Interest from hedging derivates	1 439	–	1 439	2 804	–	2 804
Interest from available for trading financial assets	–	235 425	235 425	–	275 031	275 031
Other interest and similar income	47 411	–	47 411	43 588	–	43 588
	887 667	235 425	1 123 092	885 996	275 031	1 161 027
Interest and similar expense:						
Interest from deposits	425 377	–	425 377	328 781	–	328 781
Interest from securities issued	71 162	–	71 162	87 341	–	87 341
Interest from loans	4 115	–	4 115	4 960	–	4 960
Interest from other funding	47 043	–	47 043	62 523	–	62 523
Interest from hedging derivates	1 801	–	1 801	2 333	–	2 333
Interest from available for trading financial assets	–	211 299	211 299	–	258 642	258 642
Other interest and similar expenses	104 837	–	104 837	112 974	–	112 974
	654 335	211 299	865 634	598 912	258 642	857 554
Net interest income	233 332	24 126	257 458	287 084	16 389	303 473

The balance Interest on loans and advances includes, at 2012, the amount of Euro 23 119 thousands (2011: Euro 22 123 thousands) related to commissions and other gains / losses which are accounted for under the effective interest method, as referred in the accounting policy, note 1 *l*).

The balance Interest and similar expense – Interest on deposits includes, the amount of Euro 6 011 thousands, related to accounting to the interest on term deposits with increasing interest rates.

4. Dividends from equity instruments

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Dividends from available for sale financial assets	554	594
Dividends from subsidiaries and associated companies	1 485	1 518
	2 039	2 112

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 comissions income

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Fees and commissions income:		
From banking services	89 553	74 617
From transactions order by third parties	14 844	9 040
From insurance brokerage services	7 798	8 257
From commitments to third parties	7 429	7 107
Other fee and commission income	482	9 107
	120 106	108 128
Fees and commissions expenses:		
From banking services rendered by third parties	17 539	17 635
From transactions with securities	497	530
Other fee and commission expense	1 456	1 034
	19 492	19 199
Net fees and commission income	100 614	88 929

At December 31, 2012 and 2011, commissions received on insurance brokerage services or reinsurance is made up as follows:

(thousand euros)

	2012	2011
Life insurance:		
Mortgage	2 036	2 063
Consumer	115	142
Other	885	812
	3 036	3 017
Non-life insurance:		
Mortgage	1 804	1 841
Consumer	758	940
Other	2 200	2 459
	4 762	5 240
	7 798	8 257

6. Net gains / (losses) arising from financial assets at fair value through profit or loss

The amount of this account is comprised of:

(thousand euros)

	2012			2011		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by public entities	13	–	13	151	–	151
Issued by other entities	15	–	15	–	–	–
Shares	4 426	1 957	2 469	475	1 396	(921)
Investment Fund Units	284	322	(38)	93	88	5
	4 738	2 279	2 459	719	1 484	(765)
Derivative financial instruments						
Exchange rate contracts	79 214	78 771	443	209 978	212 285	(2 307)
Interest rate contracts	1 770 013	1 768 258	1 755	1 634 877	1 658 149	(23 272)
Credit default contracts (CDS)	5 439	2 352	3 087	3 941	5 578	(1 637)
Others	58 083	51 858	6 225	98 457	63 380	35 077
	1 912 749	1 901 239	11 510	1 947 253	1 939 392	7 861
	1 917 487	1 903 518	13 969	1 947 972	1 940 876	7 096
Other financial assets at fair value through profit or loss						
Bonds and other fixed income securities Issued by Other Entities	651	2 072	(1 421)	–	346	(346)
	651	2 072	(1 421)	–	346	(346)
Financial liabilities						
Other loans and advances to credit institutions	195	56	139	627	284	343
Deposits from customers	278	152	126	1 118	434	684
Debt securities issued	–	–	–	15	–	15
Other subordinated debt	156 845	157 740	(895)	40 330	42 182	(1 852)
Others	488	78 188	(77 700)	95 180	32 721	62 459
	157 806	236 136	(78 330)	137 270	75 621	61 649
	2 075 944	2 141 726	(65 782)	2 085 242	2 016 843	68 399

The balance Financial liabilities – Others, includes for financial liabilities instruments arising at fair value, losses in the amount of Euro 73 726 thousands (2011: gains in the amount of Euro 79 314 thousands) 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 determine only based on observable market data and reflects the 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:

(thousand euros)

	2012			2011		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by public entities	21 326	482	20 844	2 670	1 008	1 662
Issued by other entities	48 091	1 050	47 041	14 094	12 813	1 281
Shares	58	21	37	111	18	93
Other variable income securities	2 973	23	2 950	187	7	180
	72 448	1 576	70 872	17 062	13 846	3 216

The balance Bonds and other fixed income securities – Issued by other entities, includes the amount of Euro 35 116 000, resulting from a set of repurchase transactions carried out under a number of initiatives undertaken by CEMG, regarding the management of financial and capital structure, namely the repurchase operations of bonds (Pelican Mortgage no. 3, Euro Medium Term Notes and covered bonds), as referred, in notes 36 and 49.

8. Net gains / (losses) from foreign exchange differences

The amount of this account is comprised of:

(thousand euros)

	2012			2011		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	37 043	32 823	4 220	146 380	143 860	2 520

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 *t*).

9. Net gains/(losses) arising from sale of other assets

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Sale of properties	(17 324)	58 604
Sale of loans and advances to customers	44 070	–
Sale of other assets	(614)	(616)
	26 132	57 988

The caption Sale of loans and advances to customers refers to the credit operations Aurea 1 e 2, as described in notes 20 e 54.

At 31 December, 2011 the balance Sale of properties includes the amount of Euro 63 993 thousands 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 e 28.

10. Other operating income

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Operating income:		
Income from services	6 516	14 654
Expenses reimbursement	1 967	2 547
Profits arising from deposits on demand	16 802	7 552
Repurchase of own securities	25 163	33 217
Other operating income	12 577	5 484
	63 025	63 454
Operating costs:		
Indirect taxes	4 395	3 747
Donations and quotizations	472	482
Contributions to the Deposit Guarantee Fund	3 011	2 286
Contributions to Investors Claims System	–	1 684
Other operating expenses	12 336	25 804
	20 214	34 003
Other net operating income	42 811	29 451

As at 31 December 2012, the balance Other operating income – Other includes the amount of Euro 7 580 thousands (2011: Euro 8 154 thousands) regarding the staff transfer carried out by CEMG to Montepio Geral Associação Mutualista and other subsidiaries.

The balance Repurchase of own securities is calculated in accordance with accounting policy described in note 1 *c*) and refer to the re-acquisition of covered bonds and Euro Medium Term Notes. Additionally, this balance includes the amount of Euro 1 857 thousands (2011: Euro 17 750 thousands) resulting from the cancellation of covered bonds undertaken during 2012 and 2011, as described in note 20.

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. As at 31 December 2012, CEMG recognizes as cost expense for the year the amount of Euro 4 233 thousands (2011: Euro 3 515 thousands), included in the balance Other operating expenses – Taxes.

11. Staff costs

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Remunerations	138 785	132 068
Mandatory social security charges	38 355	36 336
Other charges with the pensions fund	3 943	43 480
Other staff costs	4 833	5 435
	185 916	217 319

The caption Other charges with the pensions fund includes the amount of Euro 1 256 thousands (2011: Euro 14 096 thousands) 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 47. 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.

This balance includes also the amount of Euro 3 048 thousands (2011: Euro 17 640 thousands) regarding the cost with early retirements and the positive effect of Euro 7 070 thousands Euros resulting from the publication of the Decree-Law no. 133/2012 on 27 June 2012, which changed the determination of the provision of death subsidy and led to a limit of a maximum of 6 times the social support index (minimum wage), which in 2012 amounted to Euro 419.22. The referred positive effect corresponds to the reduction of the associated liabilities.

The costs with salaries and other benefits attributed to CEMG key management personnel in 2012 are presented as follows:

(thousand euros)

	Board of Directors	Other key management personnel	Total
Salaries and other short-term benefits	2 110	4 701	6 811
Pension costs and health-care benefits (SAMS)	4	168	172
Variable remunerations	–	202	202
Total	2 114	5 071	7 185

The costs with salaries and other benefits attributed to CEMG key management personnel in 2011 are presented as follows:

(thousand euros)

	Board of Directors	Other key management personnel	Total
Salaries and other short-term benefits	1 238	4 053	5 291
Pension costs and health-care benefits (SAMS)	6	147	53
Variable remunerations	–	240	240
Total	1 244	4 440	5 684

It is our understanding that the Other key management personnel are the top directors of CEMG.

As at 31 December, 2012 and 2011, loans granted by CEMG to its key management personnel, amounted to Euro 4 904 thousands and Euro 4 200 thousands, respectively.

The average number of employees by professional category at service in CEMG during 2012 and 2011 is analysed as follows:

	2012	2011
Management	216	198
Managerial staff	741	53
Technical staff	1 087	1 053
Specific categories	156	158
Administrative Staff	1 687	1 682
Staff	64	66
	3 951	3 910

12. General and admnistrative expenses

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Rents	29 878	27 666
Specialised services		
IT services	11 161	13 936
Independent work	4 649	4 410
Other specialised services	21 268	18 134
Advertising	5 237	6 839
Communications	9 823	10 529
Water, electricity and fuel	6 589	5 186
Maintenance and related services	5 428	5 698
Transportation	3 644	3 903
Insurance	2 133	2 380
Travel, hotel and representation costs	1 655	1 555
Consumables	1 673	2 064
Tranining costs	202	281
Other supplies and services	4 622	3 047
	107 962	105 628

The balance Rents, includes the amount of Euro 24 936 thousands (2011: Euro 18 029 thousands) related to rents paid regarding buildings used by CEMG as leaser.

13. Depreciation and amortisation

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Intangible assets:		
Software	18 201	9 449
	18 201	9 449
Other tangible assets:		
Land and buildings	6 116	4 601
Equipment:		
Furniture	1 070	1 042
Office equipment	123	120
Computer equipment	7 805	7 953
Interior installations	1 756	1 618
Motor vehicles	117	227
Security equipment	908	842
Operacional lease – Renting	623	863
Other tangible assets	165	139
	18 683	17 405
	36 884	26 854

During 2012, CEMG recorded as a cost of the period the full book value of software assets, which amounted Euro 6 695 thousands.

14. Loans impairment

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Other loans and advances to credit instituitions:		
Charge for the year	69	311
Write-back for the year	(389)	(133)
	(320)	178
Overdue loans and advances to customers:		
Charge for the year net of reversals	253 396	174 748
Recovery of loans and interest charged-off	(2 731)	(3 478)
	250 665	171 270
	250 345	171 448

The caption Loans impairment is related to an estimate of the incurred losses determined according with the methodology for a regular evaluation of objective evidence of impairment, as described in note 1 *b*).

15. Other assets impairment

The amount of this account is comprised of:

(thousand euros)

	2012	2011
Impairment for investments arising from recovered loans:		
Charge for the year	29 597	10 912
Write-back for the year	(23 994)	(29 368)
	5 603	(18 456)
Impairment for other assets:		
Charge for the year	572	–
Write-back for the year	–	–
	572	–
Impairment for securities:		
Charge for the year	51 148	37 715
Write-back for the year	(15 668)	(3 083)
	35 480	34 632
	41 655	16 176

The caption Impairment for securities – Charge of the year, includes the amount of Euro 11 257 thousands that corresponds to the impairment recognized during 2012 for sovereign debt of Greece, as referred in notes 23 and 52. At 31 December 2011, for sovereign debt of Greece was recorded a impairment loss of Euro 19 309 thousands. Additionally this caption includes the amount of Euro 4 874 thousands that corresponds to the impairment recognized for investments of units in a Fund specialized in the recovery of loans, acquired under the sale of loans and advances to customers, as referred in notes 23 and 53.

The balance Impairment for investments arising from loans in 2011 – 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:

(thousand euros)

	2012	2011
Provision for credit risks		
Charge for the year	63 455	53 801
Write-back for the year	(73 858)	(56 917)
	(10 403)	(3 116)
Other provisions for liabilities and charges		
Charge for the year	1 570	776
Write-back for the year	(981)	(452)
	589	324
	(9 814)	(2 792)

17. Cash and deposits at central banks

This balance is analysed as follows:

(thousand euros)

	2012	2011
Cash	139 006	133 063
Bank of Portugal	108 581	248 477
	247 587	381 540

The caption Bank of Portugal includes deposits made in order to satisfy the legal requirements of minimum reserves, calculated based on the amount of deposits and the other liabilities. The polity for the establishment of cash and reserves, according to the guidelines of European System of Central Banks in the Eurozone to the maintenance of a deposit with a Central Bank, equivalent to 2% on the average amount of deposits and other liabilities over each reserve maintenance period. This rate is different for countries outside with Eurozone.

At as December 2012, these deposits have earned interest of Bank of Portugal at an average rate of 0.75% (2011: 1%). The Other Deposits at central banks are unpaid.

18. Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

(thousand euros)

	2012	2011
Credit institutions in Portugal	572	304
Credit institutions abroad	12 632	33 040
Amounts due for collection	44 166	69 357
	57 370	102 701

The balance Amounts due for collection represents essentially check receivable from other credit institutions due for collection.

19. Other loans and advances to credit institutions

This balance is analysed as follows:

(thousand euros)

	2012	2011
Loans and advances to credit institutions in Portugal:		
Deposits	1 135	1 135
Loans	82 722	103 859
Short term deposits	–	65 002
Other loans and advances	6 003	–
	89 860	169 996
Loans and advances to credit institutions abroad:		
Deposits	9 993	39 054
Short term deposits	33 000	32 014
Other loans and advances	117 930	129 549
	160 923	200 617
	250 783	370 613
Impairment for credit risks over credit institutions	(25)	(345)
	250 758	370 268

The main loans and advances to credit institutions in Portugal, as at 31 December 2012, bear interest at an average annual interest rate of 1.25% (2011: 1.35%).

The balance Other loans and advances to credit institutions, by the period to maturity, is analysed as follows:

(thousand euros)

	2012	2011
Due within 3 months	237 624	249 359
3 months to 6 months	–	34 900
6 months to 1 year	–	80 022
1 year to 5 years	2 000	–
More than 5 years	11 045	6 218
Undetermined	114	114
	250 783	370 613

The changes in impairment for credit risks over credit institutions in the year are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	345	50
Charge for the year	69	311
Write-back for the year	(389)	(133)
Transfers	–	117
Balance on 31 December	25	345

The balance Transfers corresponds of amounts transferred from Finibanco S.A. through the acquisition of assets and liabilities in April 4, 2011 as referred in note 1 *a*).

20. Loans and advances to customers

This balance is analysed as follows:

(thousand euros)

	2012	2011
Domestic loans:		
Corporate:		
Loans	1 936 956	2 004 094
Commercial lines of credits	1 688 452	1 946 800
Finance leases	230 204	242 412
Discounted bills	173 517	163 129
Factoring	105 231	146 496
Overdrafts	66 508	99 807
Other loans	1 430 053	1 684 350
Retail:		
Mortgage loans	8 381 787	8 702 991
Finance leases	50 527	46 466
Consumer and other loans	987 634	1 066 442
	15 050 869	16 102 987
Foreign loans:		
Corporate:		
Overdrafts	982	5 072
	15 051 851	16 108 059
Correction value of assets subject to the hedge	2 475	1 515
Overdue loans and interest		
Less than 90 days	92 520	124 690
More than 90 days	787 834	660 201
	880 354	784 891
	15 934 680	16 894 465
Impairment for credit risks	(902 703)	(694 225)
	15 031 977	16 200 240

As at 31 December 2012, the balance Loans and advances to customers includes de amount of Euro 2 816 016 thousands (2011: Euro 2 980 039 thousands) related to the issue of covered bonds held by CEMG.

As referred in note 53, CEMG performed a set of sales of Loans and advances to customers for a Fund specialized in the recovery of loans. The total amount of loans sold amounted to Euro 15 318 thousands.

During 2012, CEMG sold two loans and advances to customers portfolios to a securitisation company named «Hefesto Sociedade de Titularização de Créditos, S.A.». These operations were denominated as Aurea 1 and Aurea 2. These loans presented a balance value of Euro 70 540 thousands, generating a net profit of Euro 44 070 thousands, according to the notes 9 and 54.

The CEMG realized operations conducted under the Programme for the Issuance of CEMG Mortgage Bonds:

– July 2012: Refund of Euro 655,000 thousands;

– June 2012: Cancellation of Euro 53 300 thousands, with a score of Euro 1 857 thousands, according to note 10;

– November 2011: Issue of Euro 300 000 thousands; term: 5 years; an interest rate: Euribor 3M + 0.75%;

– October 2011: Cancellation of Euro 291 700 thousands, with a score of Euro 17 750 thousands, according to note 10;

– September 2011: Issue of Euro 550 000 thousands; term: 5 years; and interest rate: Euribor 3M + 0.75%;

– November 2010: Issue of Euro 500 000 thousands; term: 5 years; an interest rate: Euribor 3M + 2.5%;

– December 2009: Issue of Euro 150 000 thousands; term: 7 years; an interest rate: Euribor 3M + 0.75%; and

– July 2009: Issue of Euro 1 000 000 thousands; term: 3 years; an interest rate: 3.25%.

In accordance with «Carta-circular» n.º 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 December 2012, the balance Loans and advances to customers includes the amount of Euro 3 737 641 thousands (2011: Euro 3 268 060 thousands) related with loans object of securitization and, in accordance with note 1 *f*), were not subject of derecogniton. Additionally, is recorded as a liability, the securities linked to these transactions as described in note 36.

In the balance Correction of asset values subject to hedge operations is accounted the fair value of portfolio that is hedge. The valuation is accounted for in the income statement, in accordance with note 1 *d*). CEMG evaluates on an ongoing basis the effectiveness of the existing hedge operations.

The fair value of the portfolio of loans to customers is presented in note 46.

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 2012, is as follows:

(thousand euros)

	Loans and advances to customers				
	Due within 1 year	**1 year to 5 years**	**Over 5 years**	**Undetermined**	**Total**
Asset-backed loans	595 431	1 595 835	9 732 769	402 931	12 326 966
Other guarantee loans	943 720	298 607	366 354	207 605	1 816 286
Unsecured loans	743 849	144 511	297 995	255 625	1 441 980
Public sector loans	87	7 788	46 648	311	54 834
Foreign loans	1	–	–	–	1
Finance lease	2 156	81 004	197 571	13 882	294 613
	2 285 244	2 127 745	10 641 337	880 354	15 934 680

The analysis of Loans and advances to customers, by maturity date and type of credit as at 31 December 2011, is as follows:

(thousand euros)

	Loans and advances to customers				
	Due within 1 year	**1 year to 5 years**	**Over 5 years**	**Undetermined**	**Total**
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
Finance lease	8 028	94 872	185 978	7 544	296 422
	604 853	4 613 058	10 891 663	784 891	16 894 465

The balance Financial leases, by the period to maturity as at 31 December 2012, is analysed as follows:

(thousand euros)

	Finance Leases			
	Due within 1 year	1 year to 5 years	Over 5 years	Total
Outstanding rents	57 361	126 032	125 033	308 426
Outstanding interest	(11 514)	(27 523)	(23 688)	(62 725)
Residual Values	6 076	10 187	18 767	35 030
	51 923	108 696	120 112	280 731

The balance Financial leases, by the period to maturity as at 31 December 2011, is analysed as follows:

(thousand euros)

	Finance Leases			
	Due within 1 year	1 year to 5 years	Over 5 years	Total
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 analysis of Overdue loans and interest, by type of credit, is as follows:

(thousand euros)

	2012	2011
Asset-backed loans	402 931	528 670
Other guaranteed loans	207 605	101 602
Unsecured loans	255 625	146 536
Public sector loans	311	539
Financial lease	13 882	7 544
	880 354	784 891

The analysis of Overdue loans and interests, by type of customer, is as follows:

(thousand euros)

	2012	2011
Corporate		
Construction/Production	178 342	164 844
Investment	212 070	108 568
Other short term loans	229 909	126 213
Other loans	9 108	4 611
Retail:		
Mortgage loans	124 304	272 969
Consumer credit	29 636	18 905
Other loans	59 828	55 858
Public Sector	311	530
Other segments	36 846	32 393
	880 354	784 891

The impairment for credit risks is analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	694 225	437 329
Charge for the year net of reversals	253 396	174 748
Loans charged-off	(204 753)	(44 643)
Transfers	159 835	126 791
Balance on 31 December	902 703	694 225

The balance Transfers correspond 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 2012, CEMG has a provision for general banking risks in the amount of Euro 106 663 thousands (2011: Euro 117 066 thousands), which in accordance to NCA's is presented as a liability, as refereed in note 37.

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 2012:

(thousand euros)

	Default Classes					
	Due within 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Overdue loans with collaterals	53 045	22 468	79 966	275 737	184 532	695 714
Impairment for overdue loans with collaterals	445	2 433	20 101	200 957	184 441	408 377
Overdue loans without collaterals	27 709	8 154	19 250	81 524	127 969	264 606
Impairment for overdue loans without collaterals	288	2 039	12 768	81 524	127 969	224 588
Total overdue loans	80 754	30 622	99 216	357 261	312 501	960 320
Total impairment for overdue loans	733	4 472	32 869	282 481	312 410	632 965
Total impairment for due loans, overdue loans and others	240	1 873	13 390	114 632	139 603	269 738
Total impairment for credit risk	973	6 345	46 259	397 113	452 013	902 703

The table below shows the analysis of the overdue loans and advances and the impairment for credit risk as at 31 December 2011:

(thousand euros)

	Default Classes					
	Due within 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
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:

(thousand euros)

	2012	2011
Asset-backed loans	447 840	498 823
Other guaranteed loans	201 523	77 440
Unsecured loans	253 340	117 962
	902 703	694 225

In compliance with 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 impairment for credit risks, by type of credit, is as follows:

(thousand euros)

	2012	2011
Asset-backed loans	160 991	39 602
Other guaranteed loans	29 465	1 142
Unsecured loans	14 297	3 899
	204 753	44 643

The recovered loans and overdue interest, performed during the period of 1 January to 31 December 2012 and during 2011, related with asset-backed loans recovered, amounts to Euro 2 731 thousands e Euro 3 478 thousands, 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 is 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:

(thousand euros)

	2012	2011
Financial assets held for trading:		
Securities		
Shares	12 337	5 414
Bonds	1 949	–
	14 286	5 414
Derivates		
Derivates financial instruments with positive fair value	118 571	139 838
	132 857	145 252
Financial liabilities held for trading:		
Securities		
Short sells	984	–
Derivates		
Derivates financial instruments with negative fair value	83 824	101 524
	84 808	101 524

The balance Derivatives financial instruments with positive fair value includes the amount of Euro 50 987 thousands (2011: Euro 51 721 thousands) referred to instruments associated to assets or liabilities at fair value through profit and loss.

The balance Derivatives financial instruments with negative fair value includes the amount of Euro 6 849 thousands (2011: Euro 11 876 thousands) referred to instruments associated to assets or liabilities at fair value through profit and loss.

The fair value of derivative financial instruments includes the valuation of the embedded derivatives separated from the host contracts in accordance with the accounting policy presented in note 1 *c*) in the amount of Euro 8 450 thousands (2011:Euro 7 331 thousands).

The trading portfolio is recorded at fair value through profit and loss, in accordance with the accounting policy described in note 1 *c*). As referred in this note, assets held for trading are those which were acquired with the purpose of sale or re--acquisition on the short term regardless of 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, as follows:

(thousand euros)

	2012	2011
Financial assets held for trading:		
Level 1	14 286	5 414
Level 2	118 571	139 838
	132 857	145 252
Financial liabilities held for trading		
Level 1	984	–
Level 2	83 824	101 524
	84 808	101 524

The analysis of the securities portfolio held for trading by maturity as at 31 December 2012 is as follows:

(thousand euros)

	2012				
	Due within 3 months	3 months to 1 months	Over 1 year	Undetermined	Total
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	5 103	5 103
Foreign	–	–	–	7 234	7 234
Bonds					
Foreign			1 949	–	1 949
	–	–	1 949	12 337	14 286
Quoted	–	–	1 949	12 337	14 286

The analysis of the securities portfolio held for trading by maturity as at 31 December 2011 is as follows:

(thousand euros)

	2011				
	Due within 3 months	3 months to 1 months	Over 1 year	Undetermined	Total
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	804	804
Foreign	–	–	–	4 610	4 610
	–	–	–	5 414	5 414
Quoted	–	–	–	5 414	5 414

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2012, is as follows:

(thousand euros)

2012								
		Derivative			Related Asset/Liability			
Drivate	Related financial asset/ liability	Notional	Fair value	Changes in fair value in the year	Fair value	Changes in fair value in the year	Book value	Reimbursement amount at maturity date
Interest rate swap	Bonds issued	875 236	12 055	324	36 327	(67 202)	365 213	359 531
Interest rate swap	Deposits	1 360 400	26 055	3 805	(15 531)	375	443 782	437 599
Interest rate swap	Resources	330 424	17 326	3 655	6 190	(13 437)	102 196	99 061
Interest rate swap	Bonds	11 275 036	(5 519)	(11 394)	–	6 509	–	–
Interest rate swap	Loans	50 000	(2 712)	(1 153)	2 475	960	25 350	25 000
Interest rate swap	Others	10 229 977	(13 294)	(2 256)	–	–	–	–
Currency swap	–	280 482	215	(264)	(7)	28	1 554	1 516
Future options	–	38 766	10	32	–	–	–	–
Options	–	332 394	785	787	–	–	–	–
Credit Default Swaps	–	32 500	(174)	2 897	–	–	–	–
		24 805 215	34 747	(3 567)	29 454	(72 767)	938 095	922 707

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2011, is as follows:

(thousand euros)

2011								
		Derivative			Related Asset/Liability			
Drivate	Related financial asset/ liability	Notional	Fair value	Changes in fair value in the year	Fair value	Changes in fair value in the year	Book value	Reimbursement amount at maturity date
Interest rate swap	Bonds issued	1 011 936	11 731	(13 648)	103 529	65 066	438 942	429 031
Interest rate swap	Deposits	1 872 000	22 250	3 673	(15 906)	(1 952)	763 636	753 397
Interest rate swap	Resources	348 767	13 671	1 408	19 627	16 869	251 705	243 195
Interest rate swap	Bonds	9 242 912	5 875	(12 148)	(6 509)	1 108	718 426	708 300
Interest rate swap	Loans	50 000	(1 559)	(1 559)	1 515	1 515	25 354	25 000
Interest rate swap	Others	11 083 025	(11 038)	(8 093)	–	–	–	–
Currency swap	–	216 746	479	(737)	(35)	109	4 269	4 173
Future options	–	84 752	(22)	(21)	–	–	–	–
Options	–	92 214	(2)	(755)	–	–	–	–
Credit Default Swaps	–	81 093	(3 071)	(2 334)	–	–	–	–
		24 083 445	38 314	(32 740)	102 221	82 715	2 202 332	2 163 096

The analysis of financial instruments held for trading, by maturity date as at 31 December 2012, is as follows:

(thousand euros)

	2012					
	Notional with remaining term				Fair value	
	Due within 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities
Interest rate contracts:						
Interest rate swaps	234 000	371 383	23 515 691	24 121 074	111 020	77 107
Options	433	19 200	312 760	332 393	6 857	6 072
Exchange rate contracts:						
Currency swaps	279 706	776	–	280 482	626	412
Index contracts:						
Index futures	38 766	–	–	38 766	10	–
Credit default contracts:						
Credit default swaps	–	7 500	25 000	32 500	58	233
	552 905	398 859	23 853 451	24 805 215	118 571	83 824

The analysis of financial instruments held for trading, by maturity date as at 31 December 2011, is as follows:

(thousand euros)

	2011					
	Notional with remaining term				Fair value	
	Due within 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities
Interest rate contracts:						
Interest rate swaps	20 000	1 979 679	21 608 961	23 608 640	136 702	95 772
Options	–	2 800	89 414	92 214	1 152	1 154
Exchange rate contracts:						
Currency swaps	210 149	3 562	3 562	217 273	712	233
Index contracts:						
Index futures	84 752	–	–	84 752	–	22
Credit default contracts:						
Credit default swaps	–	–	81 093	81 093	1 273	4 343
	314 901	1 986 041	21 783 030	24 083 972	139 839	101 524

22. Other financial assets and liabilities at fair value through profit or loss

This balance is analysed as follows:

(thousand euros)

	2012	2011
Bond issued by other entities		
Foreign	12 300	3 606
	12 300	3 606

CEMG'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.

The analysis of the securities at fair value through profit or loss, by maturity is as follows:

(thousand euros)

	2012	2011
From 1 to 5 years	4 257	3 606
Undetermined	8 043	–
	12 300	3 606
Quoted	12 300	3 606

23. Financial assets available for sale

This balance is analysed as follows:

(thousand euros)

	2012				
		Fair value reserve			
	Cost (1)	Positive	Negative	Impairment Losses	Book Value
Fixed income securities:					
Issued by public entities					
Portuguese	1 106 821	14 085	(5 049)	–	1 115 857
Foreign	95 444	1 322	(1 209)	(11 257)	84 300
Issued by other entities					
Portuguese	4 237 542	655	(17 606)	(27 280)	4 193 311
Foreign	341 790	18 243	(16 865)	(7 289)	335 879
Commercial paper	392 499	–	–	(1 224)	391 275
Variable income securities:					
Stocks					
Portuguese	9 664	108	(42)	(3 556)	6 174
Foreign	8 584	1 087	(81)	(2 597)	6 993
Investment fund units	603 180	6 246	(7 630)	(5 083)	596 713
	6 795 524	41 746	(48 482)	(58 286)	6 730 502

(1) Acquisition cost relating to shares and amortised cost relating to debt securities.

(thousand euros)

	2011				
		Fair value reserve			
	Cost (1)	Positive	Negative	Impairment Losses	Book Value
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 paper	312 067	–	–	(998)	311 069
Variable income securities:					
Stocks					
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.

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 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 referred in note 53, the balance Variable income securities – Investment fund units includes the amount of Euro 19 018 thousands relating to units in a Fund specialized in the recovery of loans acquired under the sale of loans and advances to customers. This amount includes Euro 4 874 thousands engaged to junior securities (investment fund units with a more subordinated character), which are fully provisioned, according to note 15.

The balance Investment funds includes:

– 20 195 716 units of «CA Imobiliário – Fundo Especial de Investimento Imobiliário Aberto (FEII)» representing Euro 173 154 thousands; and

– 59 663 units of «Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)» representing Euro 59 920 thousands.

The financial assets available for sale 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, as follows:

(thousand euros)

	2012	2011
Level 1	2 079 039	2 192 531
Level 2	177 565	174 689
Level 3	4 060 699	3 135 712
At acquisition cost	413 199	318 848
	6 730 502	5 821 780

The movements of the impairment of the financial assets available for sale are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	49 647	27 717
Charge for the year	51 148	37 715
Write-back for the year	(15 668)	(3 083)
Charged-off	(26 841)	(12 702)
Balance on 31 December	58 286	49 647

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 6 736 million (2011: Euro 316 692 thousands) and impairment amounts to Euro 58 286 thousands (2010: Euro 49 647 thousands).

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.

As at 31 December 2012, impairment corresponds to the effect of the recognition through profit or loss of the fair value reserve associated to these securities, which is determined with market prices.

Regarding this analysis, CEMG recorded during 2012 an additional impairment of Euro 11 257 thousands (2011: Euro 19 309 thousands).

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2012, is as follows:

(thousand euros)

	2012				
	Due within 3 months	**3 months to 1 year**	**Over 1 year**	**Undetermined**	**Total**
Fixed income securities:					
Issued by public entities:					
Portuguese	51 886	248 353	815 618	–	1 115 857
Foreign	2 521	63 627	18 152	–	84 300
Issued by other entities:					
Portuguese	64 976	80 502	4 047 833	–	4 193 311
Foreign	24 674	14 420	293 666	3 119	335 879
Commercial paper	122 393	111 144	157 738	–	391 275
	266 450	518 046	5 333 007	3 119	6 120 622
Variable income securities:					
Shares in companies:					
Portuguese	–	–	–	6 174	6 174
Foreign	–	–	–	6 993	6 993
Investment fund units	–	–	7 375	589 338	596 713
	–	–	7 375	602 505	609 880
	266 450	518 046	5 340 382	605 624	6 730 502

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2011, is as follows:

(thousand euros)

	2011				
	Due within 3 months	3 months to 1 year	Over 1 year	Undetermined	Total
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

This balance, regarding quoted and unquoted securities, is departed as follows:

(thousand euros)

	2012			2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed income securities:						
Issued by public entities:						
Portuguese	1 115 857	–	1 115 857	1 150 482	–	1 150 482
Foreign	84 300	–	84 300	127 213	–	127 213
Issued by other entities:						
Portuguese	578 946	3 614 365	4 193 311	318 514	3 090 099	3 408 613
Foreign	259 769	76 110	335 879	456 497	2 610	459 107
Commercial paper	1 766	389 509	391 275	–	311 069	311 069
	2 040 638	4 079 984	6 120 622	2 052 706	3 403 778	5 456 484
Variable income securities:						
Shares in companies:						
Portuguese	1 171	5 003	6 174	1 088	5 003	6 091
Foreign	6 827	166	6 993	6 245	166	6 411
Investment fund units	582 569	14 144	596 713	352 794	–	352 794
	590 567	19 313	609 880	360 127	5 169	365 296
	2 631 205	4 099 297	6 730 502	2 412 833	3 408 947	5 821 780

24. Hedging derivatives

This balance is analysed as follows:

(thousand euros)

	2012	2011
Asset		
Interest rate swap	931	1 184
Liability		
Interest rate swap	3 177	2 444

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:

(thousand euros)

	2012	2011
Deposits from other credit institutions	(600)	(739)
Financial assets held for training	1 987	1 553
	1 387	814

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2012 is as follows:

(thousand euros)

	2012							
	Notional with remaining term				Fair value			
	Due within 3 months	3 months to 1 year	Over 1 year	Total	Due within 3 months	3 months to 1 year	Over 1 year	Total
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	–	23 000	92 000	115 000	–	(366)	(1 880)	(2 246)
	–	23 000	92 000	115 000	–	(366)	(1 880)	(2 246)

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2011 is as follows:

(thousand euros)

	2011							
	Notional with remaining term				Fair value			
	Due within 3 months	3 months to 1 year	Over 1 year	Total	Due within 3 months	3 months to 1 year	Over 1 year	Total
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	–	–	115 000	115 000	–	–	(1 260)	(1 260
	–	–	115 000	115 000	–	–	(1 260)	(1 260)

As at 31 December 2012, the fair value hedge relationships present the following features:

(thousand euros)

2012							
Derivate	**Hedged item**	**Hedged risk**	**Notional**	**Fair value (1)**	**Changes in the fair value of the derivate in the year**	**Hedge item fair value (2)**	**Changes in the fair value of the hedge item in the year (2)**
Interest rate swaps	Resources from credit institutions	Interest rate	20 000	803	108	(600)	139
Interest rate swaps	Financial assets held for trading	Interest rate	95 000	(3 049)	878	1 987	434
			115 000	(2 246)	986	1 387	573

(1) Includes accrued interest.

(2) Attributable to the hedged risk.

As at 31 December 2011, the fair value hedge relationships present the following features:

(thousand euros)

2011							
Derivate	**Hedged item**	**Hedged risk**	**Notional**	**Fair value (1)**	**Changes in the fair value of the derivate in the year**	**Hedge item fair value (2)**	**Changes in the fair value of the hedge item in the year (2)**
Interest rate swaps	Deposit from customers	Interest rate	–	–	(396)	–	(371)
Interest rate swaps	Resources from credit institutions	Interest rate	20 000	911	(1 800)	(739)	(739)
Interest rate swaps	Financial assets held for trading	Interest rate	95 000	(2 171)	(1 086)	1 553	1 851
			115 000	(1 260)	(2 662)	814	741

(1) Includes accrued interest.

(2) Attributable to the hedged risk.

25. Held-to-maturity investments

This balance is analysed as follows:

(thousand euros)

	2012	2011
Fixed income securities:		
Bonds issued by Portuguese public entities	6 185	37 420
Bonds issued by foreign public entities	11 037	10 996
	17 222	48 416

The fair value of held-to-maturity investments portfolio is presented in note 45.

CEMG assessed, with reference to 31 December 2012, 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:

(thousand euros)

Issue	Issue Date	Maturity Date	Interest Rate	Book Value
OT – setembro 98/23-09-2013	May, 1998	September, 2013	Fixed rate of 5.450%	96
OT – outubro 05/15-10-2015	July, 2005	October, 2015	Fixed rate of 3.350%	6 089
Netherlands Government 05/2015	Jun, 2005	July, 2015	Fixed rate of 3.250%	5 022
Republic of Austria 04/15-07-2015	May, 2004	July, 2015	Fixed rate of 3.500%	2 021
Belgium Kingdom 05/28-09-2015	March, 2005	September, 2015	Fixed rate of 3.750%	1 993
Buoni Poliennali Del Tes. 05/2015	May, 2005	August, 2015	Fixed rate of 3.750%	2 001
				17 222

The held-to-maturity investments are stated in accordance with the established in note 1 *c*).

During 2012 and 2011, CEMG did not transfer to or from this assets category.

As at 31 December 2012 the analysis of held-to-maturity investments by the period of maturity is as follows:

(thousand euros)

	2012				
	Due within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Bonds issued by Portuguese public issuers	–	96	6 089	–	6 185
Bonds issued by foreign public issuers	–	–	11 037	–	11 037
	–	96	17 126	–	17 222
Quoted	–	96	17 126	–	17 222

As at 31 December 2011 the analysis of held-to-maturity investments by the period of maturity is as follows:

(thousand euros)

	2011				
	Due within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Totall
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

26. Investments in associated companies and others

This balance is analysed as follows:

(thousand euros)

	2012	2011
Investments in associated companies and others		
Finibanco Holding, S.G.P.S., S.A.	341 250	341 250
Lusitania, Companhia de Seguros, S.A	29 566	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	390 547	384 547

The financial information concerning associated companies is presented in the following table:

(thousand euros)

	Number of shares	Percentage of direct shares	Unit value Euros	Acquisition cost
31 December 2012				
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	100.00%	1.00	341 250
Lusitania, Companhia de Seguros, S.A	1 333 929	26.25%	5.00	29 566
Lusitania Vida, Companhia de Seguros, S.A.	314 736	39.34%	25.00	9 530
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20.00%	5.00	3 200
.				390 547
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	100.00%	1.00	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

In the year 2012, a CEMG proceed to supplementary Euro 6 000 thousands in Lusitania, Companhia de Seguros, S.A.

27. Non-current assets held for sale

This balance is analysed as follows:

(thousand euros)

	2012	2011
Investments arising from recovered loans	498 886	107 236
Impairment for non-current assets held for sale	(26 009)	(20 406)
	472 877	86 830

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).

According to CEMG's expectation, these assets are available for sale in a period less than 1 year and CEMG has 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 13 875 thousands (31 December 2011: Euro 22 591 thousands).

The movements for non-current assets held for sale are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	107 236	201 710
Acquisitions	451 982	115 735
Sales	(61 151)	(217 218)
Transfers	–	7 009
Other movements	818	–
Balance on 31 December	498 885	107 236

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 March 31, 2011, as described in note 1 *a*).

The movement in impairment for non-current assets held for sale balance is analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	20 406	39 336
Impaiment for the year	29 597	10 912
Write-back for the year	(23 994)	(29 368)
Loans charged-off	–	(474)
Balance on 31 December	26 009	20 406

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 thousands, net from impairment, originating a gain of Euro 35 839 thousands and a write back of impairment of Euro 24 356 thousands, as described in note 9.

28. Property and equipment

This balance is analysed as follows:

(thousand euros)

	2012	2011
Cost:		
Land and buildings:		
For own use	8 346	9 664
Leasehold improvements in rented buildings	58 801	55 733
Work in progress	35	35
Equipment:		
Furniture	19 667	19 979
Office equipment	2 975	3 055
Computer equipment	89 919	83 219
Interior installations	24 251	22 440
Motor vehicles	3 730	4 057
Security equipment	9 023	9 415
Other equipment	1	1
Works of art	2 869	2 755
Assets in operacional lease	3 344	4 825
Other tangible assets	1 954	1 954
Work in progress	952	4 387
	225 867	221 519
Accumulated depreciation:		
Charge for the year	(18 683)	(17 405)
Accumulated charge for the previous years	(151 533)	(137 931)
	(170 216)	(155 336)
	55 651	66 183

The Property and equipment movements, during the year of 2012, are analysed as follows:

(thousand euros)

	Balance on 1 January	Acquisitions/ Charges	Disposals	Adjustment/ Transfers	Balance on 31 December
Cost:					
Land and buildings:					
For own service	9 664	–	(870)	(448)	8 346
Leasehold improvements in rented buildings	55 733	250	–	2 818	58 801
Work in progress	35	–	–	–	35
Equipment:					
Furniture	19 979	32	(344)	–	19 667
Office equipment	3 055	4	(84)	–	2 975
Computer equipment	83 219	8 080	(1 380)	–	89 919
Interior installations	22 440	663	–	1 148	24 251
Motor vehicles	4 057	50	(377)	–	3 730
Security equipment	9 415	42	(434)	–	9 023
Other equipment	1	–	–	–	1
Works of art	2 755	114	–	–	2 869
Assets in operacional lease	4 825	127	(1 608)	–	3 344
Other tangible assets	1 954	–	–	–	1 954
Work in progress	4 387	573	–	(4 008)	952
	221 519	9 935	(5 097)	(490)	225 867
Accumulated depreciations:					
Land and building:					
For own service	2 951	311	(261)	(125)	2 876
Leasehold improvements in rented buildings	37 627	5 805	–	–	43 432
Equipment:					
Furniture	15 426	1 070	(333)	–	16 163
Office equipment	2 729	123	(83)	–	2 769
Computer equipment	68 849	7 805	(1 376)	–	75 278
Instalações interiores	14 204	1 756	–	–	15 960
Interior installations	3 906	117	(377)	–	3 646
Motor vehicles	6 550	908	(435)	–	7 023
Security equipment	1 688	623	(813)	–	1 498
Assets in operacional lease	1	–	–	–	1
Other equipment	1 405	165	–	–	1 570
Other tangible assets	155 336	18 683	(3 678)	(125)	170 216

The Property and equipment movements, during the year of 2011, are analysed as follows:

(thousand euros)

	Balance on 1 January	Acquisitions/ Charges	Disposals	Adjustment/ Transfers	Balance on 31 December
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:					
Furniture	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 installations	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	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:					
Furniture	8 010	1 042	(275)	6 649	15 426
Office equipment	1 771	120	(24)	862	2 729
Computer equipment	43 935	7 952	(1 139)	18 101	68 849
Interior installations	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	1 182	863	(382)	25	1 688
Other equipment	–	–	–	1	1
Other tangible assets	–	140	–	1 265	1 405
	99 247	17 405	(21 469)	60 153	155 336

In December 2011, CEMG sold part of Property for own use to «Montepio Geral Associação Mutualista», as described in note 9. Those properties were recorded at the amount of Euro 48 517 thousands, net of depreciation, resulting in a gain of Euro 28 154 thousands.

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.

29. Intangible assets

This balance is analysed as follows:

(thousand euros)

	2012	2011
Cost:		
Software	57 767	64 836
Other intangible assets	88 333	88 365
Work in progress	–	520
	146 100	153 721
Accumulated depreciation:		
Charge for the year	(18 201)	(9 449)
Accumulated charge for the previous years	(19 027)	(33 429)
	(37 228)	(42 878)
	108 872	110 843

The balance Other intangible assets includes de amount of Euro 88 272 thousands 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, as described in note 1 *a*).

This intangible asset does not have finite useful life, so that, as referred in accounting policy described in notes 1 *q*) and 1 *z*), its recoverable amount is annually reviewed, regardless of the existence of impairment signs. Any impairment losses are recognized in income statement.

As at 31 December 2012, was not determined the requirement of impairment losses recognition for these assets.

The Intangible assets movements, during the year of 2012, are analysed as follows:

(thousand euros)

	Balance on 1 January	Acquisitions/ Charges	Disposals	Adjustment/ Transfers	Balance on 31 December
Cost:					
Software	64 836	16 751	(23 820)	–	57 767
Other intangible assets	88 365	–	(32)	–	88 333
Work in progress	520	–	(520)	–	–
	153 721	16 751	(24 372)	–	146 100
Accumulated depreciation:					
Software	42 846	18 201	(23 819)	–	37 228
Other assets	32	–	(32)	–	–
	42 878	18 201	(23 851)	–	37 228

The Intangible assets movements, during the year of 2011, are analysed as follows:

(thousand euros)

	Balance on 1 January	Acquisitions/ Charges	Disposals	Adjustment/ Transfers	Balance on 31 December
Cost:					
Software	31 798	26 512	–	6 526	64 836
Other intangible assets	–	88 365	–	–	88 365
Work in progress	6 106	940	–	(6 526)	520
	37 904	115 817	–	–	153 721
Accumulated depreciation:					
Software	19 650	9 449	–	13 779	42 878
	19 650	9 449	–	13 779	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.

30. 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, 2012 and 2011 are analysed as follows:

(thousand euros)

	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
Financial instruments	14 059	18 328	(12 106)	–	1 953	18 328
Other tangible assets	–	–	(53)	(10)	(53)	(10)
Provisions	147 882	32 071	–	–	147 882	32 071
Pension Fund	41 428	6 747	–	–	41 428	6 747
Death allowance	–	472	–	–	–	472
Early retirement	–	1 231	–	–	–	1 231
Seniority bonus	–	382	–	–	–	382
Tax losses carried forward	52 103	–	–	–	52 103	–
Deferred tax assets / (liabilities)	255 472	59 231	(12 159)	(10)	243 313	59 221

The deferred tax assets and liabilities are presented on a net basis whenever, in accordance with applicable law, current tax assets and current tax liabilities can be offset and when the deferred taxes are related to the same tax.

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.

The expire date of recognized tax losses carried forward is presented as follows:

(thousand euros)

Expire date	2012
2017	52 103

Deferred tax balance movements were recognized as follows:

(thousand euros)

	2012	2011
Initial balance	59 221	–
Charged to profit	178 149	11 368
Charged to reserves and retained earnigs	5 943	47 853
Final balance (Asset / (Liability))	243 313	59 221

Tax recognized in the income and reserves for the periods ended 31 December, 2011 and 2010 is analysed as follows:

(thousand euros)

	2012		2011	
	Charged to results	Charged to reserves	Charged to results	Charged to reserves
Financial instruments	–	(16 375)	–	18 328
Other tangible assets	(42)	–	–	(10)
Provisions	115 811	–	8 466	23 605
Pension Fund	10 277	–	817	5 930
Death allowance	–	22 318	472	–
Early retirement	–	–	1 231	–
Seniority bonus	–	–	382	–
Tax losses carried forward	52 103	–	–	–
Deferred taxes / recognized (profit) / losses	178 149	5 943	11 368	47 853
Current taxes / recognized (profit) / losses	(1 309)	–	–	–
	176 840	5 943	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 unrealized gains and losses resulting from the revaluation of financial assets available for sale recognized in Equity.

The reconciliation of the effective tax rate is analysed as follows:

(thousand euros)

	2012		2011	
	%	Amount	%	Amount
Net loss before income tax		(174 584)		21 455
Specific contribution for the banking sector		4 233		3 515
Net loss before income tax for reconciliation of the effective tax rate		(170 351)		24 970
Tax rate	25.0		25.0	
Income tax calculated based on the statury tax rate		(42 588)		–
Non deductible costs	(53.9)	(91 786)	(45.5)	(11 368)
Autonomous taxation and other assets	(25.1)	(42 775)	–	–
Others	0.2	309	–	–
Tax for the year	(103.8)	(176 840)	(45.5)	(11 368)

CEMG evaluated the recoverability of its deferred tax assets on the balance sheet based on the expectations of future taxable profits. As at 31 December 2012, there are no unrecognized deferred taxes.

Until 31 December 2011, according with article 10(1)(*a*) of Income Tax Code («IRC») CEMG was exempt from income tax payment. This exemption was recognized by the Ministerial Secretary of Fiscal Affairs dated 3 December, 1993, and confirmed by the Law no. 10-B/96 from 23 March, which approved the public budget for the year of 1996.

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 probability that such taxes will be paid or recovered in the future are eligible for the recognition of deferred taxes.

Considering this change, during 2011, the CEMG already recorded temporary differences calculated on December 31, 2011 in the amount of Euro 59 221 thousands. During 2012, the Board of Directors analysed the additional information received from the competent Tax Authorities about the clarifications requested by CEMG and concluded the analysis about the future recoverability of not recognized temporary differences and depending on the evaluation of these aspects, conclude about the eventual recording of deferred taxes not yet recognized in the amount of Euro 184 092 thousands.

31. Other assets

This balance is analysed as follows:

(thousand euros)

	2012	2011
Recoverable subsidies from Portuguese Government	9 736	9 728
Other debtors	117 062	163 739
Other accrued income	3 954	4 615
Prepayments and deferred costs	6 130	17 138
Sundry debtors	242 289	115 058
	379 171	310 278
Impairment from recoverable subsidies	(3 086)	–
	376 085	310 278

The balance Recoverable subsidies from Portuguese Government 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 2012 and 31 December 2011, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

(thousand euros)

	2012	2011
Recoverable subsidies from the Portuguese Government unliquidated	4 275	2 111
Subsidies unclaimed	1 543	3 157
Overdue subsidies unclaimed	3 918	4 460
	9 736	9 728

As at 31 December 2012, the balance Prepayments and deferred costs includes an amount of Euro 5 388 thousands (2011: Euro 15 442 thousands) 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*) and note 47.

As at 31 December 2012, the balance Sundry debtors includes the amount of Euro 157 010 thousands (2011: Euro 78 215 thousands) refer to transactions with securities recorded on trade date and pending settlement.

As at 31 December 2012, the balance Sundry debtors also includes the amount of Euro 55 009 thousands (2011: Euro 17 882 thousands) relating to net assets recognized in balance sheet and representing the excess coverage of pension liabilities, health benefits and death subsidies, as described in note 47.

The other assets impairment movements, during the years of 2012 and 2011, are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	–	3 473
Impairment for the year	572	–
Transfers	2 514	–
Loans charged-off	–	(3 473)
Balance on 31 December	3 086	–

32. Deposits from central banks

As at 31 December 2012 and 2011, this balance 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:

(thousand euros)

	2012	2011
Up to 3 months	110 007	702 975
More than 6 months	1 666 507	1 300 325
	1 776 514	2 003 300

33. Deposits from other financial institutions

This balance is analysed as follows:

(thousand euros)

	2012			2011		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions in Portugal	850	59 368	60 218	12 337	79 978	92 315
Deposits from credit institutions abroad	549 054	515 802	1 064 856	48 841	1 040 912	1 089 753
	549 904	575 170	1 125 074	61 178	1 120 890	1 182 068

The balance Deposits from other credit institutions, analysed by the period of maturity, is as follows:

(thousand euros)

	2012	2011
Up to 3 months	552 153	545 197
3 to 6 months	14 772	57 517
6 months to 1 year	31 356	–
1 year to 5 years	348 578	362 434
More than 5 yearss	186 721	245 167
	1 133 580	1 210 315
Adjustments arising from hedging operations	(8 506)	(28 247)
	1 125 074	1 182 068

34. Deposits from customers

This balance is analysed as follows:

(thousand euros)

	2012			2011		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	76 546	2 069 553	2 146 099	34 621	2 532 341	2 566 962
Time deposits (*)	–	10 339 325	10 339 325	–	10 354 116	10 354 116
Saving accounts (*)	–	170 577	170 577	–	248 293	248 293
Other resources	4 371	–	4 371	5 362	–	5 362
Adjustments arising from hedging operations	15 531	–	15 531	15 906	–	15 906
	96 448	12 579 455	12 675 903	55 889	13 134 750	13 190 639

Observations: (*) Deposits for which the embedded derivate was separate from the host contract, in accordance with note1 *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 2012, this balance includes the amount of Euro 437 599 thousands (2011: Euro 794 197 thousands) 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:

(thousand euros)

	2012	2011
Deposits repayable on demand	2 146 099	2 566 962
Time deposits and saving accounts		
Due within 3 months	1 891 615	1 678 201
3 months to 6 months	2 839 245	4 314 993
6 months to 1 year	1 483 148	2 043 906
1 year to 5 years	4 223 251	2 554 017
Over 5 years	72 643	11 292
	12 656 001	13 169 371
Adjustments arising from hedging operations	15 531	15 906
	12 671 532	13 185 277
Other item		
Due within 3 months	4 371	5 362
	12 675 903	13 190 639

35. Debt securities issued

This balance is analysed as follows:

(thousand euros)

	2012	2011
Euro Medium Term Notes (EMTN)	545 862	1 081 778
Bonds	1 010 874	452 553
Covered bonds	63	706 357
Commercial paper	631 300	–
	2 188 099	2 240 688

The fair value of the debts securities issued is presented in note 46.

As at 31 December 2012, this balance includes the amount of Euro 307 844 thousands (2011: Euro 1 100 266 thousands) related to debt securities issued recognized at the balance sheet at fair value through profit or loss.

During 2012, CEMG issued Euro 1 222 147 thousands (2011: Euro 263 011 thousands) of debt securities and performed the refund of Euro 1 240 377 thousands (2011: Euro 1 390 073 thousands).

As at 31 December 2012 and 2011, the analysis of debt securities issued outstanding by period to maturity is as follows:

(thousand euros)

	2012	2011
Due within 6 months	685 803	803 538
6 months to 1 year	302 635	758 726
1 year to 5 years	1 191 817	572 279
Over 5 years	38 813	187 308
	2 219 068	2 321 851
Adjustments arising from hedging operations	(30 969)	(81 163)
	2 188 099	2 240 688

Under the Issuance of covered bonds program, which maximum amount is 5 000 million Euro, CEMG proceed to the emissions which totalized Euro 1 500 million.

The main characteristics of these issues are as follows:

(thousand euros)

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody's/ /Fitch/Dbrs)
Covered Bonds – 2S	1 000 000	1 000 389	December, 2009	December, 2016	Quartely	Euribor3M+0.75%	Baa3/BB-/AL
Covered Bonds – 3S	500 000	500 135	November, 2010	November, 2015	Quartely	Euribor3M+2.5%	Baa3/BB-/AL
	1 500 000	1 500 524					

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 2 816 016 thousands (2011: EUR 2 980 039 thousands), in 31 December, 2012, according with note 20.

The change occurred in debt securities issued during the year ended 31 December 2012 is analysed as follows:

(thousand euros)

	Balance on 1 January	Issues	Repayments	Net Repurchase	Other movements (a)	Balance on 31 December
Euro Medium Term Notes (EMTN)	1 081 778	–	(500 000)	(70 169)	34 253	545 862
Bonds	452 553	596 522	(32 077)	(18 437)	12 313	1 010 874
Covered bonds	706 357	–	(708 300)	–	2 006	63
Commercial paper	–	625 625	–	–	5 675	631 300
	2 240 688	1 222 147	(1 240 377)	(88 606)	54 247	2 188 099

(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 2012 is analysed as follows:

(thousand euros)

	Balance on 1 January	Issues	Repayments	Net Repurchase	Other movements (a)	Balance on 31 December
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.

As at 31 December 2012, the balance Debt securities issued is comprise of the following issues:

(thousand euros)

Issue	Issue date	Maturity date	Interest rate	Book value
OBRIGS CAIXA-MONTEPIO SELECT 5 ANOS	2008-01-22	2013-01-22	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 TX FIXA 5 AN-JAN/08	2008-01-24	2013-01-24	Fixed annual rate of 2.5%	2 500
OBRIGS CAIXA-MG INFLACÇÃO-2008/16-1.ª S	2008-06-16	2016-06-16	Annual interest rate of 3.2% + annual rate of european inflation	4 700
OBRIGS CAIXA-CRPC-SETEMBRO-2009-2014	2009-09-03	2014-09-04	Fixed annual rate of 3% (4th year a fixed rate of 3%, 5th year a fixed rate of 6%)	4 000
OBRIGS CAIXA-CRPC-SETEMBRO-2009-2017	2009-09-03	2017-09-04	Fixed annual rate of 3.75% (4th year a fixed rate of 3.75%, 5th year a fixed rate of 6.75%)	1 500
OBRIGS CAIXA-CRPC-2009-2014-8.ª SERIE	2009-11-13	2014-11-12	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 CX-TX VARIAVEL-CEMG-2009-2013	2009-11-23	2013-11-06	Quarterly rate Eur3M+1% (10th to 17th quarter, Rate Eur3M+1%)	500
OBRIGS CAIXA-MG TITULOS EUROPA-2009/13	2009-12-04	2013-12-04	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
OBRIG.CX-MONT.TX FIXA CRESC.2010/13 1S	2010-01-06	2013-01-06	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 2010/14-1.ª SE	2010-01-29	2014-01-29	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-MG CABAZ OURO E PETRÓLEO	2010-03-02	2014-03-03	At the maturity, the investor receives the maximum between 4% and the annual average performances individuals of the underlying assets, with an individual maximum of 28%	3 705
OBRIG.CX-MONTEPIO TX FIXA-2010/14-2.ª S	2010-03-23	2014-03-23	On the maturity, the investor receives the maximum between 4% and the annual average of Gold and Oil, with a maximum of 28%	20 000
OBRIGS CX-MG TX FIXA CRESC Abril-10/15	2010-04-19	2015-04-19	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
OBRIGS CAIXA-MG TAXA FIXA-2010/13-1.ª SE	2010-05-25	2013-05-25	Fixed rate of 2.5%	10 553
OBRIGS CAIXA-MG TOP-2010-2014-1.ª SERIE	2010-05-31	2014-06-02	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	2010-05-31	2014-06-02	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 CAPITAL CERTO-2010-2018 - 2.ª SERIE - EOO-CRPC 10 18 2S	2010-07-21	2018-07-22	First and second year 2.25%; 3rd and 4th year 2.5%; 5th year 2.75%; 6th year 3%; 7th year 3.5% and 8th year 5%	850
OBRIGS CAIXA-MG TAXA FIXA JULHO 2010/2014 - EOO-MG TXFX 10 14	2010-07-30	2014-07-30	Fixed annual rate of 3.5%	22 747
OBRIGS CAIXA-MG TAXA FIXA AGOSTO-2010-2014 - EOP-MG TXFX 10 14	2010-08-31	2014-08-31	Fixed annual rate of 3.5%	15 914
OBRIGS CAIXA-MG TAXA FIXA SETEMBRO 2010-2020 - EOP-MGTXFXSET1020	2010-09-09	2020-09-09	Fixed annual rate of 4%	200

(thousand euros)

Issue	Issue date	Maturity date	Interest rate	Book value
OBRIGS CAIXA-MG TAXA FIXA SETEMBRRO 2010-2014 - EOP-TXFX SET10 14	2010-09-30	2014-09-30	Fixed annual rate of 3.5%	9 967
OBRIGS CAIXA-MG TELECOMUNICACOES - DEZEMBRO 2010-2014	2010-12-20	2014-12-20	Interets = Max [2%;Min(performance,40%)]	558
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016 -1.ª SERIE	2011-01-27	2016-01-28	Fixed annual rate 3.53% (2nd year 3.53%, 3rd year 4.03%, 4th year 4.28% and 5th year of 5.28%	24 400
OBRIGS CAIXA-MG TAXA FIXA JANEIRO 2011-2015	2011-02-08	2015-02-08	Fixed annual rate of 4%	19 918
OBRIGS CAIXA-MG TAXA FIXA CRESCENTE FEVER-2011-2016	2011-02-11	2016-02-11	Fixed annual rate 3.7% (2nd year 3.9%, 3rd year 4.25%, 4th year 4.5% and 5th year 5.5%)	1 200
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016 - 2.ª SERIE	2011-02-24	2016-01-24	Fixed annual rate 3.5% (2nd year 3.9%, 3rd year 4.2%, 4th year 4.3% and 5th year 5.6%)	22 800
OBRIGS CAIXA-MG TAXA CRESCENTE FEVEREIRO 2016	2011-03-02	2016-02-25	Fixed annual rate 3.5% (2nd year 3.9%, 3rd year 4.2%, 4th year 4.35% and 5th year 5.6%)	12 450
OBRIGS CAIXA-MONTEPIO TOP EUROPA - MARÇO 2011/2015	2011-03-09	2015-03-09	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 MARÇO 2011-2013	2011-03-09	2013-03-09	Fixed annual rate of 3.25%	6 593
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016 - 3.ª SERIE	2011-03-31	2016-04-01	Fixed annual rate 3.75% (2nd year 4%, 3rd year 4.25%, 4th year 4.5% and 5th year 5.5%)	19 250
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2019 - 1.ª SERIE	2011-03-31	2019-04-01	Fixed annual rate de 4.4% (2nd year 4.4%, 3rd 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	2011-04-06	2016-04-01	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.ª SERIE	2011-04-28	2016-04-29	Fixed annual rate 3.75% (2nd year 4%, 3rd year 4.25%, 4th year 4.5% and 5th year 5.5%	24 250
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016 - 5.ª SERIE	2011-05-26	2016-05-27	Fixed annual rate 4.1% (2nd year 4.3%, 3rd year 4.6%, 4th year 4.8% and 5th year 5.75%)	19 500
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2019 - 2.ª SERIE	2011-05-26	2019-05-27	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	2011-06-08	2016-04-29	Fixed annual rate 4.25% (2nd and 3rd year 4.5%, 4th year 4.75% and 5th year 5%)	13 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016 - 6.ª SERIE	2011-06-30	2016-07-01	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	2011-08-04	2016-07-29	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.ª SERIE	2011-09-07	2019-07-01	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	5 000
OBRIGS CAIXA-MG CAPITAL CERTO 2011/2016 - 7.ª SERIE	2011-09-07	2016-09-01	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 DEZEMBRO 07/17	2010-12-20	2017-12-19	Mínimum [15 * (30 Yr Swap Rate – 10 Yr Swap Rate) + 0.75%; 15 * (10 Yr swap Rate – 2 Yr Swap Rate) + 1.25%]	24 833
OBRIGS CX-MG CAPITAL CERTO 2016 -11.ª SER	2012-01-20	2016-12-01	Fixed quartely rate 9.53606% (2nd: 5.56%; 3rd: 5.880%; 4th: 5.880%; 5th: 6.360%; 6th: 6.36%; 7th: 6.68%; 8th: 6.68% and 9th: 8.28%)	2 500
OBRIGS CX-MG CAPITAL CERTO 2016 -12. ªSER	2012-01-20	2016-12-29	Fixed quartely rate 6.833% (2nd: 5.214%; 3rd: 6.0265%; 4th: 6.0265%; 5th: 6.839%; 6th: 6.839%; 7th: 7.6515%; 8th: 7.6515%; 9th: 11.714% and 10th 11.714%	4 000
OBRIGS CX-MG CAPITAL CERTO 2012/17-1.ª S	2012-01-31	2017-02-01	Fixed quartely rate 5.21% (2nd: 5.21%; 3rd: 6.035%; 4th: 6.035%; 5th: 6.861%; 6th: 6.861% 7th: 7.686%; 8th: 7.686%; 9th: 10.162% and 10th: 10.162%	5 650

(thousand euros)

Issue	Issue date	Maturity date	Interest rate	Book value
OBGS CX-MG CAPITAL CERTO 2012/17-1.ª SER	2012-02-28	2017-03-01	Fixed annual rate of 4.8333%; 2nd: 5.6667%; 3rd: 6.5%; 4th: 7.3333% e 5th: 9.8333%	9 750
OBRIGS CX-MG CAP CERTO 2012/2017-3.ª SER	2012-03-30	2017-03-31	Fixed annual rate of 4.6247%; 2nd: 4.9539%; 3rd: 5.2830%; 4th: 5.6122%; 5th: 6.5997%	30 000
OBRIGS CX-CRPC-2012/20-1. ªSER	2012-03-30	2020-03-31	Fixed annual rate of 5.25%; 3rd and 4th: 6% and 5th: 6.75%; 6th, 7th and 8th of Max[6.25% and Min (IPC+2%;9.15%)]	4 400
OBRIGS CX-MG CAPI CERTO 2012/17-4.ª SER	2012-04-30	2017-05-01	Fixed annual rate of 4.75%; 2nd: 4.80%; 3rd: 5.10%, 4th: 5.40% and 5th: 6.35%	68 000
OBRIGS CX-MG CAPITAL CERTO 2012/17-5.ª S	2012-05-31	2017-06-01	Fixed annual rate of 6.3897%; 2nd: 6.8874%; 3rd: 8.8782%; 4th: 9.6247% and 5th: 13.6063%	8 700
OBRIGS CAIXA-MG CAP CERTO 2012/20-2.ª SE	2012-05-31	2020-06-01	Fixed annual rate of 7.05%; 2nd: 8.2583%; 3rd: 8.2583%; 4th: 9.7083%; 5th: 10.7250%; 6th: 7.4750%; 7th: 8.3% and 8th: 11.1583%	600
OBRIG CX-Mg PARTIC junho-junho-2012/14	2012-06-04	2014-06-04	Fixed annual rate of 4.5% at the first year and 5% at the second year	923
OBRIGS CX-MG TAXA FIXA-JUNHO 2012/2014	2012-06-27	2014-06-27	Fixed annual rate of 4.5% at the first year and 5% at the second year	21 919
OBRIGS CX-MG CAP CERTO 2012/2017-6.ª S	2012-06-29	2017-06-30	Fixed annual rate of 6.52%; 2nd: 7.27%; 3rd: 8.02%; 4th: 9.27% and 5th: 12.77%	5 000
OBRIGS CX-MG PARTICUL JULHO-2012-2014	2012-07-09	2014-07-09	Fixed rate of 5%	20 240
OBCX-M.CAB.ACOES JUN12/15	2012-07-11	2015-07-11	On maturity the investor will receive 50% of the average performance of the index with a minnimum of 3.75% and a maximum of 30%	2 272
OBCX-M.PART.JUL/12 230714	2012-07-23	2014-07-23	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	330
OBCX-M.PART.JUL/12 240714	2012-07-24	2014-07-24	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	900
OBRIGS CX-MG PARTIC JUL/12 25072014	2012-07-25	2014-07-25	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	400
OBRIGS CX-MG TAXA FIXA JULHO 2012/2014	2012-07-25	2014-07-25	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	50 000
OBRIGS CX-MG CAPIT CERTO 2012/2017-7.ª S	2012-07-31	2017-08-01	Fixed annual rate of 7.65%; 2nd: 8.40%; 3rd: 8.65%; 4th: 10.40%; 5th: 11.90%	6 000
OBIGS CX-MG PARTIC AGOSTO/12 03082014	2012-08-03	2014-08-03	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	250
OBRIGS CAIXA-MG PART AGO/12 060815	2012-08-06	2015-08-06	Fixed semi annual rate of 5.055%; 2nd: 5%; 3rd and 4th: 5.25%; 5th and 6th: 5.35%	1 025
OBRIGS CX-MG PARTIC AGOSTO/12 08082014	2012-08-08	2014-08-08	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	450
OBRIG.CX-MONTEPIO TX FIXA AGOSTO 12-14	2012-08-16	2014-08-16	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	59 983
OBGS.CX-MG TX FX-24 AGOSTO 2012-14	2012-08-24	2014-08-24	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	78 002
OBRGS CX-MG PARTICULAR AGO/12 31082014	2012-08-31	2014-08-31	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	280
OBRIGS CAIXA-MG CAP CERTO 2012/20-3.ª SE	2012-08-31	2020-09-01	Fixed annual rate of 5%; 2nd: 5.25%; 3rd: 6%; 4th: 6% and 5th: 6.75%	1 345
OBRIGS CAIXA-MG CAP CERTO 2012/17-8.ª SE	2012-08-31	2017-09-01	Fixed annual rate of 8.6%; 2nd: 9.7667%; 3rd: 10.9333%; 4th: 12.1% and 5th: 10.7%	9 000
OBRIGS CAIXA-MG PART SET/12-03092014	2012-09-03	2014-09-03	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	265
OBRIGS CAIXA-MG PART SET/12-05092014	2012-09-05	2014-09-05	Fixed semi annual rate of 4.875%; 3rd and 4th: 5.125%	2 300
OBCX-M.PART.SET/12 120914	2012-09-12	2014-09-12	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	495
OBCX-M.PART.SET/12 140914	2012-09-14	2014-09-14	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	400

(thousand euros)

Issue	Issue date	Maturity date	Interest rate	Book value
OBCX-M.PART.SET/12 170914	2012-09-17	2014-09-17	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	1 000
OBCX-M.PART.SET/12 190915	2012-09-19	2015-09-19	Fixed semi annual rate of 5% at the 1st and 2nd semester, 5.25% at the 3rd and 4th semester and 5.35% at the 5th and 6th semester	250
OBCX-M.PART.SET/12 210914	2012-09-21	2014-09-21	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	525
OBCX-M.PART.SET/12 260914	2012-09-27	2014-09-27	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	250
OBCX-MG CAP.CERTO12/17-9S	2012-09-28	2017-09-29	Fixed annual rate of 10.9393%; 2nd: 11.9179%; 3rd: 12.1625%; 4th: 13.3857% and 5th: 12.3286%	14 000
OBCX-M.PART.OUT/12 011015	2012-10-01	2015-10-01	Fixed annual rate of 5%; 2nd: 5.25%; 3rd: 5.35%	340
OBRIGS CX-MG PART OUTUBRO12-02102014	2012-10-02	2014-10-02	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	610
OBRIGS CX-MG PART OUT12-03102014	2012-10-03	2014-10-03	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	675
OBRIGS CAIXA-MG PART OUT12-04102014	2012-10-04	2013-04-04	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	250
OBRIGS CAIXA-MG PART OUT/12-09102014	2012-10-09	2014-10-09	Fixed annual rate of 5%	270
OBRIGS CAIXA-MG PART OU7/12-10102014	2012-10-10	2014-10-10	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	250
OBRIGS CAIXA-MG PART OUT/12-10102014	2012-10-15	2014-10-15	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	300
OBRIGS CX-MG PART-OUT/12-16102014	2012-10-16	2014-10-16	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	1 210
OBRIGS CX-MG CAP CERTO 2012/2017-10.ª S	2012-10-31	2017-10-31	Fixed annual rate of 5.15%; 3rd: 5.4%; 4th: 5.6% and 5th: 6.15%	57 500
OBRIGS CAIXA-MG PART NOV12-02112014	2012-11-02	2014-11-02	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	250
OBRIGS CAIXA-MG PART NOV12-06112014	2012-11-06	2014-11-06	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	730
OBRIGS CX-MG PARTICUL NOV12-06112014	2012-11-09	2014-11-09	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	300
OBRIGS CAIXA-MG PARTIC NOV12-19112014	2012-11-19	2014-11-19	Fixed semi annual rate of 5% at the 1st and 2nd semester and 5.25% the 3rd and 4th semester	1 000
OBGS CX MG TX FX NOV12-14	2012-11-22	2014-11-22	Fixed rate of 4.25%	6 282
OBG MG TX FXPLUS NOV12-14	2012-11-22	2014-11-22	Fixed rate of 5%	18 549
OBCX-MG POUP.FAMILIAR-1S	2012-11-28	2017-11-29	Fixed annual rate of 5.15%; 3rd and 4th year 5.25%; 5th year: 6.70%	3 450
OBCX-MG CAP.CERT12/17-11S	2012-11-28	2017-11-29	Fixed annual rate of 5.15%; 3rd and 4th year: 5.25%; 5th year: 5.70%	48 500
OBCX-M.PART.DEZ/12 051214	2012-12-05	2014-12-05	Fixed semi annual rate of 5%; 3rd and 4th: 5.25%	250
OBRIGS CX-MG TX FX PLUS-06DEZ 2012-14	2012-12-06	2014-12-06	Fixed rate of 5%	14 140
OBRIGS CAIXA-MG TX FIXA-6DEZ 2012-14	2012-12-06	2014-12-06	Fixed rate of 4.25%	4 114
OBRIGS CAIXA-MG PARTIC DEZ12-211215	2012-12-21	2015-12-21	Fixed semi annual rate of 5%; 3rd and 4th: 5.25%; 5th and 6th: 5.35%	300
OBRIGS CAIXA-MG TX FX-20DEZ-2012-14	2012-12-20	2014-12-20	Fixed rate of 4.25%	3 324
OBRIGS CAIXA-MG TX FX PLUS-20DEZ-12-14	2012-12-20	2014-12-20	Fixed rate of 5%	13 953
OBCXMGTXFXPLUS 31DEZ-1214	2012-12-31	2014-12-31	Fixed rate of 5%	6 140
OBGSCX MGTXFX 31DEZ-12-14	2012-12-31	2014-12-31	Fixed rate of 4.25%	2 122
OBCX-M.PART.DEZ/12-311214	2012-12-31	2014-12-31	Fixed rate of 5%	300
OBRIGS CX-MG-TIMBI-12-15	2012-12-31	2015-12-31	Fixed rate indexed to 400% of index performance with a minnimum of 0%	5
OBRIGS CX-MG-LATAM-12-15	31-12-2012	31-12-2015	Fixed rate indexed to 60% of index performance with a maximum of 10% and a minnimum of 0%.	5

(thousand euros)

Issue	Issue date	Maturity date	Interest rate	Book value
PAPEL COMERCIAL-364 DIAS-5P/C-08082012	2012-08-08	2013-08-07	Fixed rate of 5%	22 607
PAPEL COMERC-180 DIAS-4,5PC-23082012	2012-08-23	2013-02-19	Fixed rate of 4.5%	21 433
PAPEL COMERC-180 DIAS-4,5PC-05092012	2012-09-05	2013-03-04	Fixed rate of 4.5%	14 055
PAPEL COMERCIAL-364 DIAS-5P/C-05092012	2012-09-05	2013-09-04	Fixed rate of 5%	25 753
PAPEL COMERCIAL-180 DIAS-4PC-19092012	2012-09-19	2013-03-18	Fixed rate of 4%	24 389
PAPEL COMERCIAL-364DIAS-4,5PC-19092012	2012-09-19	2013-09-18	Fixed rate of 4.5%	23 839
PAPEL COMERCIAL-180DIAS-4,5PC-26092012	2012-09-26	2013-03-25	Fixed rate of 4.5%	21 953
PAPEL COMERCIAL-364DIAS-5P/C-26092012	2012-09-26	2013-09-25	Fixed rate of 5%	21 977
PAPEL COMERCIAL-364 DIAS-5PC-03102012	2012-10-03	2013-10-02	Fixed rate of 5%	7 188
PAPEL COMERC-364 DIAS-4,5 PC-03102012	2012-10-03	2013-10-02	Fixed rate of 4.5%	11 379
PAPEL COMERC-180 DIAS-4,5PC-03102012	2012-10-03	2013-04-01	Fixed rate of 4.5%	17 008
PAPEL COMERCIAL 180 DIAS-4P/C-03102012	2012-10-03	2013-04-01	Fixed rate of 4.0%	10 689
PAPEL COMERCIAL 180 DIAS-4P/C-10102012	2012-10-10	2013-04-08	Fixed rate of 4.0%	12 050
PAPEL COMERCIAL 180 DIAS-4,5P/C-101012	2012-10-10	2013-04-08	Fixed rate of 4.5%	20 089
PAPEL COMERCIAL 364 DIAS-5P/C-1010201	2012-10-10	2013-10-09	Fixed rate of 5%	18 276
PAPEL COMERCIAL 364 DIAS-4,5P/C-101012	2012-10-10	2013-10-09	Fixed rate of 4.5%	9 982
PAPEL COMERCIAL-180 DIAS-4PC-17102012	2012-10-17	2013-04-15	Fixed rate of 4.0%	9 809
PAPEL COMERCIAL-180 DIAS-4,5PC-171012	2012-10-17	2013-04-15	Fixed rate of 4.5%	20 175
PAPEL COMERCIAL-364 DIAS-4,5PC-171012	2012-10-17	2013-10-16	Fixed rate of 4.5%	8 288
PAPEL COMERCIAL-364 DIAS-5P/C-17102012	2012-10-17	2013-10-16	Fixed rate of 5%	18 230
PAPEL COMERCIAL-90 DIAS-3P/C-24102012	2012-10-24	2013-01-22	Fixed rate of 3%	1 172
PAPEL COMERC-90 DIAS-3,5P/C-24102012	2012-10-24	2013-01-22	Fixed rate of 3.5%	500
PAPEL COMERCIAL 180 DIAS-4P/C-24102012	2012-10-24	2013-04-22	Fixed rate of 4.0%	6 438
PAPEL COMERC-180 DIAS-4,5P/C-241012	2012-10-24	2013-04-22	Fixed rate of 4.5%	7 596
PAPEL COMERC-364DIAS-4,5P/C-241012	2012-10-24	2013-10-23	Fixed rate of 4.5%	7 096
PAPEL COMERCIAL-364 DIAS-5PC-24102012	2012-10-24	2013-10-23	Fixed rate of 5%	5 677
PAPEL COMERCIAL-90 DIAS-3P/C-31102012	2012-10-31	2013-01-29	Fixed rate of 3%	501
PAPEL COMERCIAL-90 DIAS-3,5P/C-3110201	2012-10-31	2013-01-29	Fixed rate of 3.5%	705
PAPEL COMERCIAL 180 DIAS-4P/C-31102012	2012-10-31	2013-04-29	Fixed rate of 4.0%	5 911
PAPEL COMERC 180 DIAS-4,5P/C-31102012	2012-10-31	2013-04-29	Fixed rate of 4.5%	6 440
PAPEL COMERC-364 DIAS-4,5 PC-31102012	2012-10-31	2013-10-30	Fixed rate of 4.5%	7 946
PAPEL COMERCIAL-364 DIAS-5PC-31102012	2012-10-31	2013-10-30	Fixed rate of 5%	10 584
PAPEL COMERCIAL-90 DIAS-3P/C-07112012	2012-11-07	2013-02-05	Fixed rate of 3%	569
PAPEL COMERCIAL-90 DIAS-3,5P/C-071112	2012-11-07	2013-02-05	Fixed rate of 3.5%	3 388
PAPEL COMERCIAL 180 DIAS-4P/C-07112012	2012-11-07	2013-05-06	Fixed rate of 4%	4 399
PAPEL COMERCIAL 180 DIAS-4,5P/C-071120	2012-11-07	2013-05-06	Fixed rate of 4.5%	11 614
PAPEL COMERCIAL-364 DIAS-4,5 PC-071112	2012-11-07	2013-11-06	Fixed rate of 4.5%	5 240
PAPEL COMERCIAL-364 DIAS-5PC-07112012	2012-11-07	2013-11-06	Fixed rate of 5%	13 790
PAPEL COMERCIAL-90 DIAS-3P/C-14112012	2012-11-14	2013-02-12	Fixed rate of 3%	728
PAPEL COMERCIAL-90 DIAS-3,5P/C-141112	2012-11-14	2013-02-12	Fixed rate of 3.5%	1 120
PAPEL COMERCIAL 180 DIAS-4P/C-14112012	2012-11-14	2013-05-13	Fixed rate of 4%	6 553
PAPEL COMERCIAL 180 DIAS-4,5P/C-141112	2012-11-14	2013-05-13	Fixed rate of 4.5%	6 026
PAPEL COMERCIAL-364 DIAS-4,5 PC-141112	2012-11-14	2013-11-13	Fixed rate of 4.5%	4 733
PAPEL COMERCIAL-364 DIAS-5PC-14112012	2012-11-14	2013-11-13	Fixed rate of 5%	4 710
PAPEL COMERCIAL 180 DIAS-4P/C-21112012	2012-11-21	2013-05-20	Fixed rate of 4.0%	7 735
PAPEL COMERCIAL 180 DIAS-4,5P/C-211120	2012-11-21	2013-05-20	Fixed rate of 4.5%	9 180
PAPEL COMERCIAL-364 DIAS-4,5 PC-211120	2012-11-21	2013-11-20	Fixed rate of 4.5%	6 055
PAPEL COMERCIAL-364 DIAS-5PC-21112012	2012-11-21	2013-11-20	Fixed rate of 5%	4 687
PAPEL COMERCIAL 180 DIAS-4P/C-28112012	2012-11-28	2013-05-27	Fixed rate of 4.0%	5 359
PAPEL COMERCIAL 180 DIAS-4,5P/C-281112	2012-11-28	2013-05-27	Fixed rate of 4.5%	6 669
PAPEL COMERCIAL-364 DIAS-4,5 PC-281112	2012-11-28	2013-11-27	Fixed rate of 4.5%	5 203
PAPEL COMERCIAL-364 DIAS-5PC-28112012	2012-11-28	2013-11-27	Fixed rate of 5%	4 743
PAPEL COMERCIA-PARTICULAR-5PC-21112012	2012-11-21	2013-11-20	Fixed rate of 5%	3 000
PAPEL COMERCIAL 180 DIAS-4P/C-05122012	2012-12-05	2013-06-03	Fixed rate of 4.0%	5 871
PAPEL COMERCIAL 180D-4,5PC-05122012	2012-12-05	2013-06-03	Fixed rate of 4.5%	4 249
PAPEL COMERCIAL-364 DIAS-4,5 PC-051220	2012-12-05	2013-12-04	Fixed rate of 4.5%	5 793
PAPEL COMERCIAL-364 DIAS-5PC-05122012	2012-12-05	2013-12-04	Fixed rate of 5%	5 578

(thousand euros)

Issue	Issue date	Maturity date	Interest rate	Book value
PAPEL COMERCIAL 180 DIAS-4P/C-12122012	2012-12-12	2013-06-10	Fixed rate of 4.0%	5 861
PAPEL COMERCIAL 180DIAS-4,5PC-12122012	2012-12-12	2013-06-10	Fixed rate of 4.5%	6 831
PAPEL COMERC-364 DIAS-4,5 PC-12122012	2012-12-12	2013-12-11	Fixed rate of 4.5%	4 132
PAPEL COMERCIAL-364 DIAS-5PC-12122012	2012-12-12	2013-12-11	Fixed rate of 5%	10 241
PAPEL COMERCIAL 180 DIAS-4P/C-19122012	2012-12-19	2013-06-17	Fixed rate of 4%	3 835
PAPEL COMERC 180 DIAS-4,5P/C-19122012	2012-12-19	2013-06-17	Fixed rate of 4.5%	1 570
PAPEL COMERC-364 DIAS-4,5 PC-19122012	2012-12-19	2013-12-18	Fixed rate of 4.5%	2 513
PAPEL COMERCIAL-364 DIAS-5PC-19122012	2012-12-19	2013-12-18	Fixed rate of 5%	2 803
PAPEL COMERCIAL 182 DIAS-4P/C-31122012	2012-12-31	2013-07-01	Fixed rate of 4%	7 106
PAPEL COMERCIAL 182DIAS-4,5PC-31122012	2012-12-31	2013-07-01	Fixed rate of 4.5%	4 595
PAPEL COMERCIAL-364DIAS-4,5PC-31122012	2012-12-31	2013-12-30	Fixed rate of 4.5%	6 469
PAPEL COMERCIAL-364 DIAS-5PC-31122012	2012-12-31	2013-12-30	Fixed rate of 5%	6 442
PAPEL COMERCIAL-PARTIC-90D-4PC-051212	2012-12-05	2013-03-05	Fixed rate of 4.0%	25 000
PAPEL COMERC-PARTIC-356D-5PC-28122012	2012-12-28	2013-12-19	Fixed rate of 5%	1 500
Empréstimo obrigacionista CEMG 2004	2004-09-01	2014-09-01	Euribor 3M + 0.25%	15 000
Empréstimo obrigacionista CEMG 2005	2005-02-25	2013-02-25	Fixed annual rate of 0.875 x 10yr CMS rate	99 350
Empréstimo obrigacionista CEMG 2007	2007-01-30	2017-01-30	Fixed annual rate of 1 x 10yr CMS rate	77 850
Empréstimo obrigacionista CEMG 2007	2007-02-08	2017-02-08	Fixed rate of 5%	46 750
Empréstimo obrigacionista CEMG 2007	2007-05-29	2013-05-29	Euribor 3M + 0.25%	331 600
				2 185 124
Adjustments arising from hedging operations				(30 969)
Accruals, deferred costs and income				33 944
				2 188 099

As at 31 December 2012, for the bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.44% and 10.94% (2011: 0.5% and 7.25%).

36. Financial liabilities relating to transferred assets

This balance is analysed as follows:

(thousand euros)

	2012	2011
Pelican Mortgages No. 3	345 445	368 822
Pelican Mortgages No. 4	809 543	835 893
Aqua Mortage No. 1	192 089	212 271
Pelican Mortgages No. 5	831 385	865 544
Pelican SME	545 009	924 834
Pelican Mortgages No. 6	1 020 260	–
Aqua SME n.º 1	–	82 619
	3 743 731	3 289 983

The detail of these operations is presented in note 49.

37. Provisions

This balance is analysed as follows:

(thousand euros)

	2012	2011
Provisions for general banking risks	106 663	117 066
Provisions for liabilities and charges	3 536	2 948
	110 199	120 014

The movements of the provisions for liabilities and charges are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	117 066	100 188
Charge for the year	63 455	53 801
Write-back for the year	(73 858)	(56 917)
Transfers	–	19 994
Balance on 31 December	106 663	117 066

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.

The movements of the provisions for liabilities and charges are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	2 948	1 311
Charge for the year	1 570	776
Write-back for the year	(981)	(452)
Charged off	(1)	–
Transfers	–	1 313
Balance on 31 December	3 536	2 948

The provisions are accounted in accordance with the probability of occurrence of certain contingencies related with the CEMG's inherent risks, which are revised in each reporting date in order to reflect the best estimate of the amount and probability of payment.

38. Other subordinated debt

As at 31 December 2012, this balance refers to Bonds with fixed maturity and with a residual reimbursement over 5 years.

As at 31 December 2012, the mainly characteristics of the Other subordinated debt, are analysed as follows:

(thousand euros)

Issue	Issue date	Maturity date	Issue amount	Interest rate	Book value
CEMG/06	Apr.2006	Apr.2016	50 000	Euribor 3 months + 0.45%	50 083
CEMG/08	Feb.2008	Feb.2018	150 000	Euribor 6 months + 0.13%	150 821
CEMG/08	Jun.2008	Jun.2018	28 000	Euribor 12 months + 0.10%	28 349
CEMG/08	Jul.2008	Jul.2018	150 000	Euribor 6 months + 0.13%	151 177
FNB 08/18 1.ª/2.ª Série	Dec.2008	Dec.2018	10 363	Euribor 6 months + 0.15% (*v*)	10 374
FNB Rendimento Garantido 05/13	May.2005	May.2013	410	Range (1.90%;4.50%) (*iii*)	413
FNB Rendimento Seguro 05/15	Jun.2005	Jun.2015	238	6.25%*VN Min.(quotation) (*iv*)	239
FNB Grandes empresas 07/16 1.ª série	May.2007	May.2016	6 450	Max.(0;6.0%*(1-n/5)) (*i*)	6 450
FNB Grandes empresas 07/16 2.ª/3.ª série	Jun.2011	Jun.2016	30 250	Max.(0;6.0%*(1-n/5)) (*i*)	30 250
FNB Indices estratégicos07/17 1.ª série	May.2007	Jun.2015	14 947	6.25%*VN Min.(quotation) (*ii*)	14 947
FNB Indices estratégicos07/17 2.ª/3.ª série	Jun.2011	Jun.2015	39 000	Euribor 6 months+0.5% (*ii*)	39 000
					482 102
				Corr. Liability value	(2 435)
					479 667

Other subordinated debt portfolio is recorded at fair value, in accordance with note 46.

As at 31 December 2012 and 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)

39. Other liabilities

This balance is analysed as follows:

(thousand euros)

	2012	2011
Creditors:		
Suppliers	11 079	10 576
Other creditors	57 400	76 146
Public sector	15 319	12 977
Holiday pay and subsidies	30 479	32 992
Other administrative costs payable	820	2 572
Deferred income	687	759
Other sundry liabilities	216 192	107 397
	331 976	243 419

The balance Other sundry liabilities includes the amount of Euro 145 898 thousands (2011: Euro 15 905 thousands) engaged to balances of banking and financial transactions pending settlement.

40. Share capital

On 28 December 2012, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 50 000 thousands, by cash transfer.

On 28 December 2011, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 100 000 thousands, by cash transfer. On 29 March 2011, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 345 000 thousands.

After the referred operation, the share capital of CEMG, amounts Euro 1 295 000 thousands (2011: Euro 1 245 thousands) totally subscribed by «Montepio Geral – Associação Mutualista», and is fully paid.

41. Other equity instruments

This caption includes the issuance of Euro 15,000 thousands 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, 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 to 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 regulation or the extent and up to competition in its payment implies that is in default with that regulation.

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 regulation.

The impediment to proceed to the Interest Payment may be total or partial.

Interest non-payment on any date excludes the issuer of the interest payment related to this date in a future time.

It is considered distributable funds in a determined 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 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 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:

(thousand euros)

	2012	2011
Fair value reserves:		
Available-for-sale financial assets	(6 736)	(316 692)
Reserves and retained earnings:		
General reserve	185 549	178 985
Special reserve	68 160	66 519
Deferred tax reserve	53 796	47 853
Other reserves	8 404	8 404
Retained earnings	(12 957)	(36 319)
	302 952	265 442

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 note 1 *u*), the caption Retained earnings includes the effect of correction of Euro 6 374 thousands (2011: Euro 35 794 thousands) arising from the Board decision to change the accounting policy relating the recognition of actuarial deviations in accordance with IAS 19.

The movements of this balance during 2012 are analysed as follows:

(thousand euros)

	Balance on 1 January	Reavaluation	Acquisition	Sales	Impairment recognized in the year	Balance on 31 December
Fixed income securities:						
Bonds issued by Portuguese entities	(241 563)	151 213	4 622	94 764		9 036
Bonds issued by foreign entities	(684)	(6 051)	73	(1 277)	8 052	113
Bonds issued by other entities:						
Portuguese	(20 634)	16 111	(7 265)	6 137	(11 300)	(16 951)
Foreign	(52 671)	19 997	14 899	18 153	1 000	1 378
Commercial paper	–	226	–	–	(226)	–
	(315 552)	181 496	12 329	117 777	(2 474)	(6 424)
Variable income securities:						
Shares in companies						
Portuguese	(4)	115	4	–	(49)	66
Foreign	(69)	2 184	46	26	(1 181)	1 006
Investments fund units	(1 067)	1 499	2 939	180	(4 935)	(1 384)
	(1 140)	3 798	2 989	206	(6 165)	(312)
	(316 692)	185 294	15 318	117 983	(8 639)	(6 736)

The movements of this balance during 2012 are analysed as follows:

(thousand euros)

	Balance on 1 January	Reavaluation	Acquisition	Sales	Impairment recognized in the year	Balance on 31 December
Fixed income securities:						
Bonds issued by Portuguese entities	(28 302)	(157 629)	(55 976)	343	–	(241 564)
Bonds issued by foreign entities	(4 103)	21 674	558	496	(19 308)	(683)
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)	(160 591)	(58 166)	4 402	(18 141)	(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)	(157 437)	(58 691)	4 339	(21 930)	(316 692)

The fair value reserve can be analysed as follows:

(thousand euros)

	2012	2011
Amortised cost of available-for-sale financial assets	6 795 524	6 188 119
Accumulated impairment recognised	(58 286)	(49 647)
Amortised cost of available-for-sale financial assets, net impairment	6 737 238	6 138 472
Fair value of available-for-sale financial assets	6 730 502	5 821 780
Net / unrealised gains / (losses) recognised in the fair value reserve	(6 736)	(316 692)

44. Distribution of profit

On 29 March 2012, following the General Assembly, CEMG distributed to Montepio Geral – Associação Mutualista the amount of Euro 16 584 thousands (2011: Euro 23 085 thousands).

45. Obligations and future commitments

Obligations and future commitments are analysed as follows:

(thousand euros)

	2012	2011
Guarantees granted	462 989	510 686
Guarantees received	31 740 740	32 544 520
Commitments to third parties	1 486 342	1 578 234
Commitments from third parties	42 279	44 545
Securitised loans	238 856	264 299
Securities and other items held for safekeeping on behalf of customers	6 601 424	5 367 132
	40 572 630	40 309 416

The amounts of Guarantees granted and Commitments to third parties are analysed as follows:

(thousand euros)

	2012	2011
Guaranteed granted		
Guaranteed	450 196	504 155
Open documentary credits	12 793	6 531
	462 989	510 686
Commitments to third parties:		
Irrevocable commitments		
Irrevocable credit lines	148 659	230 860
Securities subscription	359 200	330 950
Annual contribution to the Guarantee Deposits Fund	25 314	25 314
Potencial obligation with the Investors' Indemnity System Revocable commitments	2 399	2 316
Revocable credit lines	950 770	988 794
	1 486 342	1 578 234

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.

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.

As at 31 December 2012, 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.

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 unrealized amounts of annual contributions required by the Fund.

The financial instruments accounted as Guarantees and other commitments are subject to the same approval and control procedures applied to the credit portfolio, namely regarding the analysis of objective evidence of impairment, as described in note 1 *b*). The maximum credit exposure is represented by the nominal value that could be lost related to guarantees and commitments undertaken by CEMG in the event of default by the respective counterparties, without considering potential recoveries or collaterals.

46. 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.

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.

  For Deposits from Central Banks it was considered that the book value is a reasonable estimate of its fair value, given the nature of operations and the associated short-term. The rate of return of funding with the European Central Bank was 0.75% as at 30 December 2012 (31 December 2011: 1%).

  Regarding loans and advances to credit institutions and deposits from credit institutions, the discount rate used reflects the current conditions applied by the CEMG on identical instruments for each of the different residual 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). As at 31 December 2012, the average discount rate was 3.87% for loans and advances and 3.13% for deposits. As at 31 December 2011 the rates were 3.36% and 3.18%, respectively.

– **Financial assets held for trading (except derivatives), Financial liabilities held for trading (except derivatives) and Available-for-sale financial assetss**

  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.

– **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.

– **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 2012, the average discount rate was 5.14% (31 December 2011: 6.26%), 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 2012, the average discount rate was of 2.69% (2011: 4.1%).

– **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 2012, 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, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese Yen
1 day	0.170%	0.180%	0.505%	-0.045%	0.010%
7 days	0.005%	0.193%	0.505%	-0.045%	0.010%
1 month	0.030%	0.230%	0.590%	-0.175%	0.070%
2 months	0.060%	0.270%	0.545%	0.080%	0.080%
3 months	0.080%	0.415%	0.480%	-0.050%	0.100%
6 months	0.245%	0.505%	0.620%	-0.050%	0.160%
9 months	0.365%	0.590%	0.795%	0.075%	0.270%
1 year	0.460%	0.875%	0.960%	0.245%	0.350%
2 years	0.374%	0.384%	0.703%	0.065%	0.218%
3 years	0.465%	0.493%	0.768%	0.108%	0.223%
5 years	0.765%	0.845%	1.015%	0.318%	0.315%
7 years	1.125%	1.271%	1.359%	0.578%	0.506%
10 years	1.565%	1.775%	1.863%	0.923%	0.846%
15 years	2.018%	2.308%	2.426%	1.283%	1.373%
20 years	2.172%	2.521%	2.426%	1.283%	1.373%
30 years	2.241%	2.692%	2.426%	1.283%	1.373%

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, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese Yen
1 day	0.250%	0.355%	0.555%	0.115%	0.105%
7 days	0.620%	0.250%	0.555%	0.115%	0.105%
1 month	0.980%	0.575%	0.725%	0.130%	0.240%
2 months	1.120%	0.725%	0.840%	0.130%	0.175%
3 months	1.300%	0.850%	1.060%	0.130%	0.225%
6 months	1.560%	0.950%	1.440%	0.175%	0.425%
9 months	1.740%	1.075%	1.710%	1.180%	0.575%
1 year	1.890%	1.225%	1.950%	1.340%	0.625%
2 years	1.310%	0.712%	1.324%	0.098%	0.378%
3 years	1.360%	0.815%	1.363%	0.193%	0.390%
5 years	1.725%	1.214%	1.567%	0.583%	0.475%
7 years	2.068%	1.601%	1.867%	0.920%	0.653%
10 years	2.390%	2.020%	2.295%	1.233%	0.984%
15 years	2.685%	2.370%	2.295%	1.233%	0.984%
20 years	2.697%	2.493%	2.295%	1.233%	0.984%
30 years	2.555%	2.589%	2.295%	1.233%	0.984%

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	2012	2011	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.3194	1.2939	8.46	8.43	8.73	9.03	9.28
EUR/GBP	0.8161	0.8353	5.73	6.01	6.40	6.73	6.98
EUR/CHF	1.2072	1.2156	2.58	3.50	4.00	4.68	5.10
EUR/JPY	113.61	100.20	11.70	11.90	12.20	12.38	12.55

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 at 31 December 2012 and 31 December 2011:

(thousand euros)

	2012						
	Held for trading	Designated at fair value through profit or loss	Amortised cost	Available--for-sale	Others	Book value	Fair value
Financial assets							
Cash and deposits at central banks	–	–	247 587	–	–	247 587	247 587
Loans and advances to credit institutions repayable on demand	–	–	57 370	–	–	57 370	57 370
Loans and advances to credit institutions	–	–	250 758	–	–	250 758	250 758
Loans and advances to customers	–	27 475	15 004 502	–	–	15 031 977	13 903 350
Financial assets held for trading	132 857	–	–	–	–	132 857	132 857
Other financial assets at fair value through profit or loss	–	12 300	–	–	–	12 300	12 300
Available-for-sale financial assets	–	–	–	6 730 502	–	6 730 502	6 730 502
Hedging derivatives	–	931	–	–	–	931	931
Held-to-maturity investments	–	–	17 222	–	–	17 222	18 217
Investments in associated companies and others	–	–	–	–	390 547	390 547	390 547
	132 857	40 706	15 577 439	6 730 502	390 547	22 872 051	21 744 419
Financial liabilities							
Deposits from central banks	–	–	1 776 514	–	–	1 776 514	1 776 514
Deposits from other credit institutions	–	65 280	1 059 794	–	–	1 125 074	1 125 074
Deposits from customers	–	459 313	12 216 590	–	–	12 675 903	12 704 144
Debt securities issued	–	283 667	1 904 432	–	–	2 188 099	2 137 924
Financial liabilities relating to transferred assets	–	–	–	–	3 743 731	3 743 731	3 743 731
Financial liabilities held for trading	84 808	–	–	–	–	84 808	84 808
Hedging derivatives	–	3 177	–	–	–	3 177	3 177
Other subordinated debt	–	88 212	–	391 455	–	479 667	356 225
	84 808	899 649	16 957 330	391 455	3 743 731	22 076 973	21 931 597

(thousand euros)

	2011						
	Held for trading	Designated at fair value through profit or loss	Amortised cost	Available--for-sale	Others	Book value	Fair value
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	–	26 515	16 173 725	–	–	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	–	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
	145 252	31 305	17 076 650	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	–	48 474	1 133 594	–	–	1 182 068	1 182 068
Deposits from customers	–	779 659	12 410 980	–	–	13 190 639	13 209 073
Debt securities issued	–	621 121	1 619 567	–	–	2 240 688	2 240 688
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
Held-to maturity investments	–	2 444	–	–	–	2 444	2 444
Investments in associated companies and others	–	84 185	–	393 062	–	477 247	477 247
	101 524	1 535 883	17 167 441	393 062	3 289 983	22 487 893	22 506 327

47. Employee benefits

Pensions and health-care benefits

In compliance with the collective labor agreement (ACT) for the banking sector established with the unions, CEMG undertook the commitment to grant its employees, or their families, pension on retirement and disability, and widows' pension. Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force. Employees hired before March 31, 2008 are covered by this benefit. Employees hired after that date benefit from the General Social Security Scheme.

Additionally, with the publication of Decree-Law n.1-A / 2011 of January 3, all banking sector employees beneficiaries of «CAFEB – Caixa de Abono de Família dos Empregados Bancários» were integrated into the General Social Security Scheme from 1 January 2011, which assumed the protection of banking sector employees in the contingencies of maternity, paternity and adoption and even old age, remaining under the responsibility of the banks the protection in sickness, disability, survivor and death.

Retirement pensions of banking employees integrated into the General Social Security Regime continue to be calculated according to the provisions of ACT and other conventions. Banking employees, however, are entitled to receive a pension under the general regime, which amount takes into account the number of years of discounts for that scheme. Banks are responsible for the difference between the pension determined in accordance with the provisions of ACT and that the one that the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate to the Social Security Regime is 26.6%, 23.6% paid by the employer and 3% paid by the employees, instead of Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by the same law. In consequence of this change, the pension rights of active employers is to be covered under the terms defined by the General Social Security Regime, taking into account the length of service from 1 January 2011 until retirement. The differential required to support the guaranteed pension in terms of the ACT is paid by the Banks.

Notwithstanding, the integration leads to a decrease in the actual present value of total benefits reported to the normal retirement age (VABT) to be borne by the pension fund, after considering the future contributions to be made by the bank and the employees to the social security regime. Since there was no reduction in benefits on a beneficiary's perspective and the liabilities for past services remained unchanged, CEMG has not recorded in its financial statements any impact in terms of the actuarial calculatins at 31 December 2010, arising from the integration of its workers in the Social Security Scheme. The resulting gain will be deferred over the average working life until the employees reach the normal retirement age.

At the end of 2011 following the third tripartite agreement established between the Portuguese Government, the Portuguese Banking Association and the banking sector employees unions, it was decided to transfer to the Social Security Regime the banks liabilities with pension in payment as at 31 December, 2011.

The tripartite agreement established, provides for the transfer to the Social Security sphere of the liabilities with pensions in payment as of 31 December 2011 at constant values (0% discount rate). The responsibilities relating to updates of pensions value, other pension benefits in addition to those to be borne by the Social Security, health-care benefits, death allowance and deferred survivor pensions, will remain in the sphere of responsibility of the banks with the correspondent funding being provided through the respective pension funds.

The banks pension funds assets, specifically allocated to the cover of the transferred liabilities were also be transferred to the Social Security.

Being thus a definitive and irreversible transfer of the liabilities with pensions in payment (even if only on a portion of the benefit), the conditions set out in IAS 19 «Employee benefits» underlying the concept of settlement were met, as the obligation with pension in payment as at 31 December, 2011 extinguished at the date of transfer. On this basis, the impacts derived from this transfer were recognized in the income statement in 2011.

The Decree-Law no. 133/2012 published on 27 June 2012 introduced several changes in the calculation of the death subsidy, which is now limited to a maximum of 6 times the social support index (minimum wage), which in 2012 amounted Euro 419.22.

In accordance with IAS 19, and regarding that the acquisition conditions of the benefit are fulfilled (vested), in fact the employee or the pensioner has the right to the benefit without having to fulfill any service condition – CEMG as at 31 December 2012 accounted the referred impact in results, which amounted Euro 7,021 thousands (amount that corresponds to the reduction of the liability on the death subsidy).

The key actuarial assumptions used to calculate pension liabilities are as follows:

	Assumptions		Checked	
	2012	2011	2012	2011
Financial assumptions				
Salaries increase rate	1.50%	2.00%	1.60%	1.30%
Pensions increase rate	0.50%	1.00%	0,14%	-0.10%
Projected rate of return of Fund assets	4.50%	5,50%	16.30%	-3.70%
Discount rate	4.50%	5.50%	–	–
Demographic assumptions and valuation methods				
Mortality table				
Men	TV 88/90	TV 88/90		
Women	TV 88/90	TV 88/90		
Actuarial method	UCP	UCP		

The number of persons covered by the plan is as follows:

(thousand euros)

	2012	2011
Employees	3 843	3 904
Pensioners	976	953
	4 819	4 857

Based on the changes performed to the accounting policy described in note 1 *u*) during 2012, the application of IAS 19 n responsibilities and coverage levels reportable to 31 December 2012 and 2011 is presented as follows:

(thousand euros)

	2012	2011
Assets/(Liabilities) recognised in the balance sheet		
Pension plans		
Pensioners	(96 504)	(97 199)
Employees	(321 232)	(285 972)
	(417 736)	(383 171)
Healthcare benefits		
Pensioners	(16 752)	(17 356)
Employees	(22 749)	(13 956)
	(39 501)	(31 312)
Death Subsidy		
Pensioners	(1 073)	(716)
Employees	(956)	(7 417)
	(2 029)	(8 133)
Total	(459 266)	(422 616)
Coverages		
Value of the fund	514 275	440 498
Assets/(Liabilities) recognised in the balance sheet (see note 31)	55 009	17 882
Acumulated actuarial deviations recognised in other comprehensive income	(4 097)	27 313

In accordance with the accounting policy presented in note 1 *u*), CEMG liability with pensions is calculated annually.

In accordance with the accounting policy described in note 1 *u*) and following the requirements of IAS 19 – Employee benefits, CEMG assesses at each balance sheet date and for each plan separately, the recoverability of the recognized assets in relation to the defined benefit pension plans based on the expectation of reductions in future contributions to the funds.

The changes in the defined benefit obligation can be analysed as follows:

(thousand euros)

	2012				2011			
	Pension plans	Healthcare benefits	Death subsidy	Total	Pension plans	Healthcare benefits	Death subsidy	Total
Balance on 1 January	383 171	31 312	8 133	422 616	558 603	30 722	7 815	597 140
Finibanco integration	–	–	–	–	61 998	4 081	2 071	68 150
Service cost	8 586	778	484	9 848	11 067	942	764	12 773
Interest cost	21 074	1 722	447	23 243	34 133	1 914	544	36 591
Actuarial gains and losses								
– Arising from changes in actuarial assumption	32 844	3 199	199	36 242	(106 887)	(5 660)	(1 973)	(114 520)
– Not arising from changes in actuarial assumptions	(23 115)	2 490	(7 234)	(27 859)	(4 743)	516	(1 088)	(5 315)
Contributions to the fund	(7 872)	–	–	(7 872)	(18 826)	(1 203)	–	(20 029)
Arising from the recalculation of the liabilities transferred to RGSS	–	–	–	–	(169 814)	–	–	(169 814)
Early retirement	3 048	–	–	3 048	17 640	–	–	17 640
Balance on 31 December	417 736	39 501	2 029	459 266	383 171	31 312	8 133	422 616

Under the third tripartite agreement mentioned above and the subsequent transfer to the Social Security sphere of the banks liabilities with pensions in payment as at 31 December 2011, there was a reduction of liabilities, measured based on the actuarial assumptions used in preparing the financial statements and consistent with IAS 19, in the amount of Euro 169 815 thousands.

However, under the agreement, the value of assets to be transferred to the Social Security in return for the transfer of the liabilities with pensions in payment was determined on a settlement perspective, as it is a definitive and irreversible transfer of these responsibilities and corresponded to the value thereof, and it was estimated based on a discount rate of 4% (instead of the 5.5% rate used for the purpose of preparing the financial statements). Thus, the amount payable by CEMG to the State amounted to Euro 183 910 thousands, which led to the recognition in 2011 in the income statement of cost in the amount of Euro 14 096 thousands, corresponding to the differential of the discount rates mentioned above.

During 2012 and against the background of this process, CEMG paid to Portuguese State the amounted of Euro 1 256 thousands, against the income statement of a cost.

The pension funds are managed by «Futuro – Sociedade Gestora de Fundos de Pensões, S.A.».

The change in the value of plan's assets is analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	440 498	545 097
Finibanco integration	–	78 238
Return on Plan assets	71 042	(22 925)
Contrubutions to the Fund of CEMG	9 659	42 125
Contributions to the Fund of the employers	2 204	1 902
Payments	(7 872)	(20 029)
Transfer to the general social healthcare system («RGSS»)	(1 256)	(183 910)
Balance on 31 December	514 275	440 498

The change in the value of plan’s assets is analysed as follows:

(thousand euros)

	2012	2011
Bonds	233 876	203 266
Loans and advances to credit institutions and others	214 172	172 529
Other variable income securities	52 668	51 344
Direct real state	9 622	9 676
Shares	3 937	3 683
	514 275	440 498

The elements of the Pension Fund's assets are analysed as follows:

(thousand euros)

	2012	2011
Investments in banks and other	207 921	159 040
Direct real state	9 622	9 676
Bonds	2 760	7 440
	220 303	176 156

The changes in the accumulated actuarial gains and losses are analysed as follows:

(thousand euros)

	2012	2011
Actuarial gains (losses) recognized in other comprehensive income a the beginning of the period	27 313	89 940
Actuarial (gains)/losses		
– Changes in actuarial assumptions	23 782	(114 520)
– Experience adjustments	(55 192)	51 893
Acturial gains (losses) recognized in other comprehensive income at the end of the period	(4 097)	27 313

The changes in the amount of transitional regime are analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	15 411	19 061
Finibanco integration	–	5 876
Amortisation by reserves	(10 023)	(9 526)
Actuarial gains (losses) recognized in other comprehensive income at the end ot the period	5 388	15 411

The costs with reform pensions, health-care benefits and death subsidies are analysed as follows:

(thousand euros)

	2012	2011
Service cost	9 848	12 773
Interest cost	23 243	36 591
Expected return on plan assets	(24 227)	(34 283)
Early retirements	3 048	17 640
Resulting from the transfer to the general social healthcare system («RGSS»)	1 256	14 096
Partaking of participants	(2 204)	(1 902)
Others	(7 021)	(1 435)
Personnel costs	3 943	43 480

As at 31 December 2012, the balance Other refers to the positive effect from the reduction of the liabilities related with death subsidies, following the referred publication of Decree-Law 133/2012 on 27 June 2012.

The evolution of net (assets)/ liabilities in the balance sheet is analysed as follows:

(thousand euros)

	2012	2011
Balance on 1 January	17 882	(52 043)
Expected return on plan assets	71 042	(22 925)
Contrubutions to the Fund of CEMG	9 659	42 125
Contributions to the Fund of the employers	2 204	1 902
Service cost	(9 848)	(12 773)
Interest cost	(23 243)	(36 591)
Actuarial and financial (gains) / losses	(8 383)	119 835
Transfer to the general social healthcare system («RGSS») Pension costs	(1 256)	(14 096)
Finibanco integration	–	10 088
Early retirements	(3 048)	(17 640)
Balance on 31 December	55 009	17 882

The responsibilities and balance of funds changes, as well as gains and losses experienced in the last five years is as follows:

(thousand euros)

	2012	2011	2010	2009	2008
Liabilities	(459 266)	(422 616)	(597 142)	(569 822)	(514 212)
Balance of funds	514 275	440 498	545 097	504 883	436 148
Responsabilities (sub)/over funded	55 009	17 882	(52 045)	(64 939)	(78 064)
(Gains) and losses arising from experience liabilities	(8 378)	(5 315)	(4 243)	(2 197)	(1 222)
(Gains) and losses arising from experience adjustments arising on assets	(46 814)	57 208	17 957	(14 893	51 970

48. Related parties transactions

The entities considered to be CEMG related parties together with the subsidiaries referred in note 26, as defined by IAS 24, are as follows:

CEMG's subsidiaries:

Banco Montepio Geral – Cabo Verde, Soc. Unipessoal, S.A. (IFI)
Finibanco Angola, S.A.
Finibanco Holding, S.G.P.S., S.A.
Finibanco, S.A.
Montepio Crédito – Instituição Financeira de Crédito, S.A.
Finivalor – Sociedade Gestora de Fundos de Investimento, S.A.

CEMG's associates:

HTA – Hotéis, Turismo e Animação dos Açores, S.A.
Iberpartners Cafés S.G.P.S., S.A.
Lusitania Vida, Companhia de Seguros, S.A.
Lusitania, Companhia de Seguros, S.A.
Nova Câmbios, S.A.
Silvip, S.A.

Board of Directors:

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

Other related parties:

Bem Comum, Sociedade Capital Risco, S.A.
Bolsimo – Gestão de Activos, S.A.
Finibanco Vida – Companhia de Seguros Vida, S.A.
Finimóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.
Finipredial – Fundo de Investimento Imobiliário Aberto
Fundação Montepio Geral
Fundo de Pensões CEMG – Gerido pela Futuro
Fundo de Pensões Finibanco – Gerido pela Futuro
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.
Germont – Empreendimentos Imobiliários, S.A.
Leacock, Lda.
Lestinvest, S.G.P.S., S.A.
MG Investimentos Imobiliários, S.A.
Montepio Arrendamento – FIIAH
Montepio Geral – Associação Mutualista
Montepio Gestão de Activos – S.G.F.I.M., S.A.
Montepio Mediação – Sociedade Mediadora de Seguros, S.A.
Montepio Recuperação de Crédito, ACE
N Seguros, S.A.
NEBRA, Energias Renovables, S.L.
Nutre S.G.P.S., S.A.
Polaris – Fundo de Investimento Imobiliário Fechado
Prio Energy S.G.P.S., S.A.
Residências Montepio, Serviços de Saúde, S.A.
Sagies, S.A.
Sociedade Portuguesa de Administrações, S.A.

As at 31 December 2012, 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:

(thousand euros)

Companies	2012		
	Deposits from customers	Other subordinated debt	Loans and advances to customers
Banco Montepio Geral – Cabo Verde, Soc. Unipessoal, S.A. (IFI)	476 817	53	982
Bolsimo – Gestão de Activos, S.A.	3 839	–	–
Conselho de Administração	1 349	–	–
Finibanco Angola, S.A.	26 928	–	–
Finibanco Holding, S.G.P.S., S.A.	185	–	206 286
Finibanco Vida – Companhia de Seguros Vida, S.A.	3 735	–	–
Finibanco, S.A.	11 749	–	25
Finimóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	16	–	6 100
Finipredial – Fundo de investimento Imobiliário Aberto	599	–	–
Finivalor – Sociedade Gestora de Fundos de Investimento, S.A.	4 249	–	–
Fundação Montepio Geral	965	–	–
Fundo de Pensões CEMG	188 848	2 350	–
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	3 460	–	–
Germont – Empreendimentos Imobiliários, S.A.	9	–	21 769
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	147	–	–
Iberpartners Cafés S.G.P.S., S.A.	24	–	–
Lestinvest S.G.P.S., S.A.	653	–	47 640
Lusitania Vida, Companhia de Seguros, S.A.	22 551	3 250	–
Lusitania, Companhia de Seguros, S.A.	16 318	13 000	15 000
MG Investimentos Imobiliários, S.A.	2	–	25
Montepio Arrendamento – FIIAH	14 000	–	–
Montepio Crédito – Instituição Financeira de Crédito, S.A.	6 611	–	32 818
Montepio Geral – Associação Mutualista	572 848	574 257	–
Montepio Gestão de Ativos – S.G.F.I., S.A.	891	–	–
Montepio Mediação – Sociedade Mediadora de Seguros, S.A.	836	–	–
N Seguros, S.A.	4 808	–	–
Nova Câmbios, S.A.	181	–	230
Nutre S.G.P.S., S.A.	–	–	15 000
Prio Energy S.G.P.S., S.A.	11 643	–	–
Residências Montepio, Serviços de Saúde, S.A.	50	–	–
Silvip, S.A.	1 640	–	–
	1 375 951	592 910	345 875

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:

(thousand euros)

Companies	2011		
	Deposits from customers	Other subordinated debt	Loans and advances to customers
Banco Montepio Geral – Cabo Verde, Soc. Unipessoal, S.A. (IFI)	29 526	–	–
Bolsimo – Gestão de Ativos, S.A.	2 749	–	–
Civilcentro – Construções do Centro S.A.	–	–	2 402
Conselho de Administração	1 578	–	302
Finibanco Angola, S.A.	14 912	–	16
Finibanco Holding, S.G.P.S., S.A.	19 176	–	27 264
Finibanco Vida – Companhia de Seguros Vida, S.A.	284	–	–
Finibanco, S.A.	3 403	–	39 309
Finicrédito – Instituição Financeira de Crédito, S.A.	130	–	189 171
Finimóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	300	–	–
Fundação Montepio Geral	839	–	–
Fundo de Pensões CEMG	224 224	–	–
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	2 532	–	–
Germont – Empreendimentos Imobiliários, S.A.	308	–	23 119
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	109	–	13
Iberpartners Cafés S.G.P.S., S.A.	–	–	1 379
Lusitania Vida, Companhia de Seguros, S.A.	20 896	3 250	1
Lusitania, Companhia de Seguros, S.A.	30 112	13 350	10 078
MG Investimentos Imobiliários, S.A.	3	–	120
Montepio Arrendamento – FIIAH	16 543	–	–
Montepio Geral – Associação Mutualista	464 900	–	–
Montepio Gestão de Ativos – S.G.F.I., S.A.	1 096	–	–
Montepio Mediação – Sociedade Mediadora de Seguros, S.A.	699	–	–
Montepio Recuperação de Crédito, ACE	–	–	2
N Seguros, S.A.	7 226	–	–
NEBRA, Energias Renovables, S.L.	5	–	1 570
Nova Câmbios, S.A.	231	–	530
Prio Energy S.G.P.S., S.A.	8 235	–	5 287
Residências Montepio, Serviços de Saúde, S.A.	141	–	2 463
Silvip, S.A.	1 927	–	–
	852 084	16 600	303 026

As at 31 December 2012, CEMG's income with subsidiaries, included in the balances Interest and similar income and Fee and commission income, are analysed as follows:

(thousand euros)

Companies	2012		
	Interest and similar expense	Interest and similar income	Fee and comission income
Banco Montepio Geral – Cabo Verde, Soc. Unipessoal, S.A. (IFI)	326	–	1
Bolsimo – Gestão de Activos, S.A.	–	–	1
Civilcentro – Construções do Centro, S.A.	–	129	–
Conselho de Administração	39	2 100	–
Finibanco Angola, S.A. –	17	1	
Finibanco Holding, S.G.P.S., S.A.	15	5 267	(806)
Finibanco Vida – Companhia de Seguros de Vida, S.A.	71	1	5
Finibanco, S.A.	3 769	2 512	10
Finimóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	–	422	–
Finipredial – Fundo de investimento Imobiliário Aberto	7	1 382	–
Finivalor – Sociedade Gestora de Fundos de Investimento, S.A.	196	1 469	–
Fundação Montepio Geral	200	–	1
Fundo de Pensões CEMG	10 537	65	66
Fundo de Pensões Finibanco	501	5	2
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	205	1	9
Germont – Empreendimentos Imobiliários, S.A.	–	361	–
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	5	–	–
Iberpartners Cafés S.G.P.S., S.A.	–	66	2
Lestinvest, S.G.P.S., S.A.	–	2 434	18
Lusitania Vida, Companhia de Seguros, S.A.	603	6	53
Lusitania, Companhia de Seguros, S.A.	390	399	322
MG Investimentos Imobiliários, S.A.	–	2	–
Montepio Arrendamento – FIIAH	527	4	–
Montepio Crédito – Instituição Financeira de Crédito, S.A.	–	6 629	24
Montepio Geral – Associação Mutualista	20 334	282	33
Montepio Gestão de Activos – S.G.F.I., S.A.	33	–	1 961
Montepio Mediação – Sociedade Mediadora de Seguros, S.A.	12	–	–
N Seguros, S.A.	99	1	5
NEBRA, Energias Renovables, S.L.	–	77	–
Nova Câmbios, S.A.	–	18	5
NutreS.G.P.S., S.A.	–	1 291	1
Prio Energy S.G.P.S., S.A.	1	336	252
Residências Montepio, Serviços de Saúde, S.A.	–	92	76
Silvip, S.A.	58	1	1
	37 928	25 369	2 043

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:

(thousand euros)

Companies	2011		
	Interest and similar expense	Interest and similar income	Fee and comission income
Bolsimo – Gestão de Activos, S.A.	–	1	–
Civilcentro – Construções do Centro, S.A.	–	15	1
Conselho de Administração	25	1	1
Finibanco Holding, S.G.P.S., S.A.	–	2 011	–
Finibanco, S.A.	–	4 908	15
Finicrédito – Instituição Financeira de Crédito, S.A.	45	3 850	27
Finisegur – Sociedade Mediadora Seguros, S.A.	1	–	–
Fundo de Pensões CEMG	2 508	24	60
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	96	1	7
Germont – Empreendimentos Imobiliários, S.A.	–	425	–
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3	1	–
Iberpartners Cafés S.G.P.S., S.A.	–	22	–
Lusitania Vida, Companhia de Seguros, S.A.	1 302	12	69
Lusitania, Companhia de Seguros, S.A.	164	325	178
MG Investimentos Imobiliários, S.A.	–	2	–
Montepio Geral – Associação Mutualista	6 487	224	39
Montepio Gestão de Activos – S.G.F.I., S.A.	33	–	1
NEBRA, Energias Renovables, S.L.	–	3	8
Nova Câmbios, S.A.	–	23	4
Prio Energy S.G.P.S., S.A.	–	387	197
Residências Montepio, Serviços de Saúde, S.A.	–	83	28
Silvip, S.A.	59	–	1
	10 723	12 318	636

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 2012 and 2011, there were no transactions with pension's fund of CEMG.

49. Securitisation transactions

As at 31 December 2012, there are nine securitization transactions, seven of which originated in CEMG and two in Finibanco Holding Group, 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, as described in note 1 *a*).

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 thousands. 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 thousands. 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 thousands. 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 thousands (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 thousands. 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 thousands (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 thousands. 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 Euro 1 167 000 thousands. 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.

As at 5 March 2012, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage No. 6. The referred agreement consists in a mortgage credit transfer for a period of 51 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1 107 000 thousands. The transfer price by which the loans were transferred was their nominal value.

Aqua SME no. 1

In accordance with the Aqua SME No.1 Fund regulation, and as described in article 16(3)(*a*), the fund could be liquidated and shared before the maturity date, whenever their residual assets represented less than 10% of the amount of claims held by the fund at the time of its constitution.

Thus, and in accordance with the referred article, CEMG decided to perform the early repurchase option of residual risk exposures of the securitization transaction Aqua SME no.1, by its market value.

This transaction was performed on 16 October 2012 and CEMG repurchased loans for a total amount of Euro 15 593 thousands. The settlement amount of the fund and charges already incurred allowed for repayment of all Notes issued and the distribution of income to the bondholders.

As the owner of class C (the class of the most subordinated bonds) CEMG received the amount of Euro 16 740 thousands related to the reimbursement of all the units held in the portfolio (Euro 8 766 thousands) in addition with the respective income distribution as excess spread.

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 2012, the securitization operations are presented as follows:

(milhares de Euros

Issue	Settlement date	Currency	Asset transferred	Amount
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
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
Pelican Mortgages No. 6	February 2012	Euro	Mortgage credit	1 040 200
				6 540 200

The impact of loans transferred under the securitization programs in the Loans and advances to customers, is analysed as follows:

(milhares de Euros

	2012	2011
Pelican Mortgages No.1	81 282	91 754
Pelican Mortgages No. 2	157 573	172 544
	238 855	264 298

As at 31 December 2012, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bond Issued	Issue amount Euro	Currents amount Euro	CEMG's retention (Nominal value) Euro	Maturity date	Rating (Initial)				Rating (Current)			
						Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Pelican Mortgages No. 1	*Class A*	611 000 000	36 888 222	7 782 276	2037	AAA	Aaa	n.a	.n.a.	A	Baa3	n.a.	n.a.
	Class B	16 250 000	16 250 000	–	2037	AAA	A2	n.a.	n.a.	A	Baa3	n.a.	n.a.
	Class C	22 750 000	22 750 000	–	2037	BBB+	Baa2	n.a.	n.a.	n.a.	Ba1	n.a.	n.a.
	Class D	3 250 000	3 250 000	3 250 000	2037	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 2	*Class A*	659 750 000	115 549 576	47 230 398	2036	AAA	Aaa	AAA	n.a.	A	Baa3	A-	n.a.
	Class B	17 500 000	17 500 000	–	2036	AA+	A1	AA-	n.a.	A	Baa3	A-	n.a.
	Class C	22 750 000	22 750 000	–	2036	A-	Baa2	BBB	n.a.	BBB	Ba2	n.a.	n.a.
	Class D	5 600 000	5 600 000	5 600 000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 3	*Class A*	717 375 000	328 136 946	106 897 632	2054	AAA	Aaa	AAA	n.a.	A	Ba1	A-	n.a.
	Class B	14 250 000	8 472 031	–	2054	AA-	Aa2	AA-	n.a.	BBB	B1	BBB	n.a.
	Class C	12 000 000	7 134 342	–	2054	A	A3	A	n.a.	BB	B3	BBB-	n.a.
	Class D	6 375 000	3 790 119	–	2054	BBB	Baa3	BBB	n.a.	B	Caa2	BB	n.a.
	Class E	8 250 000	–	–	2054	BBB-	n.a.	BBB-	n.a.	n.a.	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.	n.a.	n.a.
Pelican Mortgages No. 4	*Class A*	832 000 000	642 669 435	642 669 435	2056	AAA	n.a.	n.a.	n.a.	A	n.a.	n.a.	A
	Class B	55 500 000	55 500 000	55 500 000	2056	AA	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	60 000 000	60 000 000	60 000 000	2056	A-	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class D	25 000 000	25 000 000	25 000 000	2056	BBB	n.a.	n.a.	n.a.	BB	n.a.	n.a.	n.a.
	Class E	27 500 000	27 500 000	27 500 000	2056	BB	n.a.	n.a.	n.a.	B	n.a.	n.a.	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.	n.a.	n.a.
Pelican Mortgages No. 5	*Class A*	750 000 000	584 642 673	584 642 673	2061	AAA	n.a.	n.a.	n.a.	A	n.a.	n.a.	AAH
	Class B	195 000 000	195 000 000	195 000 000	2061	BBB-	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class C	27 500 000	27 500 000	27 500 000	2061	B	n.a.	n.a.	n.a.	B	n.a.	n.a.	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.	n.a.	n.a.
	Class E	4 500 000	1 678 875	1 678 875	2061	n.a.	n.a.	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.	n.a.	n.a.
Pelican Mortgages No. 6	*Class A*	750 000 000	734 436 087	734 436 087	2063	A	n.a.	A-	AA	A	n.a.	A-	AA
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	–	–	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican SME	*Class A*	577 500 000	208 303 453	208 303 453	2036	AAA	n.a.	n.a.	n.a.	A	n.a.	n.a.	AL
	Class B	472 500 000	310 639 517	310 639 517	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Vertical	117 000 000	73 331 850	73 331 850	2036	n.a.	n.a.	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.	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.	n.a.	n.a.
Aqua Mortgage No. 1	*Class A*	203 176 000	161 997 635	161 997 635	2063	n.a.	n.a.	AAA	n.a.	n.a.	n.a.	A-	AAH
	Class B	29 824 000	29 824 000	29 824 000	2063	n.a.	n.a.	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.	n.a.	n.a.

50. 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; and
- Operational 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 analyses 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 fulfill 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 Auditin0g 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' behavior. 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 behavior 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:

(thousand euros)

	2012	2011
Deposits with Other credit institutions	57 370	102 701
Deposits with banks	250 758	370 268
Loans and advances to customers	14 925 314	16 083 174
Financial assets held for trading	120 520	139 838
Financial assets at fair value through profit or loss	12 300	3 606
Available-for-sale financial assets	6 120 622	5 456 484
Hedging derivatives	931	1 184
Held-to-maturity investments	17 222	48 416
Investments in associated companies and others	390 547	384 547
Other assets	314 129	274 390
Guarantees granted	450 196	504 155
Documentary credits	12 793	6 531
Irrevocable commitments	148 659	230 860
Credit default swaps (notionals)	32 500	81 093
	22 853 861	23 687 247

The analysis of the risk exposure by sector of activity, as at 31 December 2012, can be analysed as follows:

(thousand euros)

2012								
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	Impairment (a)	Book Value	Book Value	Gross Amount	Impairment	Book Value	Book Value
Agriculture	69 472	(5 294)	–	–	–	–	–	1 079
Mining	40 658	(1 067)	–	–	–	–	–	1 546
Food, beverage and tobacco	154 106	(12 214)	–	–	2 948	–	–	5 196
Textiles	78 520	(28 463)	–	–	–	–	–	434
Shoes	22 240	(6 059)	–	–	–	–	–	154
Wood and cork	51 396	(9 117)	–	–	87 275	–	–	1 996
Printing and publishing	50 767	(2 686)	–	–	–	–	–	374
Petroleum refining	504	(220)	–	–	54 638	–	–	–
Chemicals and rubber	97 092	(7 802)	–	–	1 034	–	–	2 079
Non-metallic minerals	56 132	(3 766)	–	–	–	–	–	2 878
Basis metallurgic industries and metallic products	143 599	(11 124)	–	–	–	–	–	9 151
Production of machinery	46 482	(3 127)	–	–	260	–	–	1 691
Production of transport material	19 438	(3 693)	–	–	–	–	–	305
Other transforming material	41 327	(6 334)	–	–	129 001	(79)	–	1 709
Electricity, gas and water	110 478	(1 183)	–	3 165	5 481	–	–	5 261
Construction	2 133 164	(273 529)	–	–	2 245	(998)	–	196 509
Wholesale and retail	1 075 241	(146 854)	250	–	6 926	(148)	–	61 028
Tourism	339 454	(23 676)	–	–	7 314	–	–	10 039
Transports	219 074	(14 677)	–	–	22 831	–	–	11 362
Communications and information activities	54 420	(5 445)	–	–	30 721	–	–	1 169
Financial activities	629 214	(18 039)	120 270	9 135	1 453 003	(21 413)	–	68 814
Real estates activities	835 039	(89 668)	–	–	7 008	–	–	34 800
Services provided to companies	522 951	(28 096)	–	–	18 777	–	–	13 501
Public service	149 299	(2 181)	–	–	1 217 965	(11 257)	17 222	595
Other activities of collective services	416 388	(17 853)	–	–	998	–	–	7 989
Mortgage loans	8 391 089	(148 719)	–	–	2 979 250	(13 155)	–	–
Others	187 137	(138 481)	–	–	139 997	–	–	10 539
Total	15 934 680	(1 009 366)	120 520	12 300	6 167 672	(47 050)	17 222	450 196

(a) includes provision for impairment in value of 902 703 thousand euros (see note 20) and the provision for general banking risks amounting to 106 663 thousand euros (see note 37).

The analysis of the risk exposure by sector of activity, as at 31 December 2011, can be analysed as follows:

(thousand euros)

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	Impairment (a)	Book Value	Book Value	Gross Amount	Impairment	Book Value	Book Value
Agriculture	51 384	(3 869)	–	–	–	–	–	3 356
Mining	40 265	(1 165)	–	–	–	–	–	1 617
Food, beverage and tobacco	132 141	(10 656)	–	–	12 339	–	–	3 182
Textiles	62 521	(13 143)	–	–	–	–	–	627
Shoes	19 917	(1 477)	–	–	–	–	–	125
Wood and cork	51 510	(10 114)	–	–	82 830	–	–	1 406
Printing and publishing	49 388	(13 261)	–	–	–	–	–	748
Petroleum refining	441	(135)	–	–	33 137	–	–	–
Chemicals and rubber	84 251	(5 242)	–	–	1 042	–	–	–
Non-metallic minerals	48 452	(2 416)	–	–	–	–	–	2 916
Basis metallurgic industries and metallic products	129 638	(10 640)	–	–	–	–	–	8 655
Production of machinery	41 302	(2 442)	–	–	267	–	–	1 875
Production of transport material	18 797	(1 074)	–	–	–	–	–	298
Other transforming material	36 237	(3 219)	–	–	73 497	–	–	1 894
Electricity, gas and water	104 266	(3 240)	–	2 593	20 366	–	–	4 620
Construction	2 343 408	(243 892)	–	–	10 968	(998)	–	228 211
Wholesale and retail	1 006 997	(78 857)	–	–	14 145	–	–	63 125
Tourism	315 542	(12 438)	–	–	7 337	–	–	12 489
Transports	163 265	(8 432)	–	–	2 322	–	–	8 689
Communications and information activities	49 286	(2 540)	–	–	27 151	–	–	1 287
Financial activities	741 721	(16 279)	139 838	1 013	489 203	(2 049)	–	47 024
Real estates activities	962 598	(80 747)	–	–	6 996	–	–	28 444
Services provided to companies	323 802	(18 687)	–	–	14 520	–	–	11 809
Public services	116 238	(1 164)	–	–	1 301 976	(19 309)	48 416	583
Other activities of collective services	287 826	(7 873)	–	–	–	–	–	7 676
Mortgage loans	8 975 960	(233 698)	–	–	18 051	–	–	–
Others	737 312	(24 591)	–	–	132 595	–	–	63 499
Total	16 894 465	(811 291)	139 838	3 606	2 248 742	(22 356)	48 416	504 155

(a) includes provision for impairment in value of 694 225 thousand euros (see note 20) and the provision for general banking risks amounting to 117 066 thousand euros (see note 37).

In terms of risk credit, the financial assets portfolio continued to be concentrated in investment grade bonds issued by financial institutions.

During 2012, CEMG did not open new positions in credit default swaps, having reached maturity at a significant part thereof. This process reduced the buying and selling positions to Euro 21 000 thousands and Euro 11 500 thousands, from Euro 53 600 thousands and Euro 27 500 thousands, respectively. Regarding the credit quality, the credit protection from Portuguese counterparties followed the downgrade of the Portuguese Republic and fell below the investment grade, which led to the engagement of buying and selling protection positions of Euro 18 000 thousands and Euro 5 500 thousands, 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 2011 represented 84% 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 2012, would reach, in static terms, about Euro 181 142 thousands (2011: Euro 604 896 thousands) (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 2012 and 2011:

(thousand euros)

	2012				2011			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Interest rate GAP	(181 142)	(171 210)	(161 278)	(181 142)	604 896	327 435	604 896	49 973

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.

(thousand euros)

	Within 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
31 December 2012					
Assets	10 969 211	4 545 111	418 226	1 670 910	757 794
Off balance sheet	10 125 897	241 898	254 121	1 812 610	–
Total	21 095 108	4 787 009	672 347	3 483 520	757 794
Liabilities	6 938 473	1 970 806	2 059 101	7 364 850	209 155
Off balance sheet	10 590 374	496 402	2 400	1 345 360	–
Total	17 528 847	2 467 208	2 061 501	8 710 210	209 155
GAP (Assets – Liabilities)	3 566 261	2 319 801	(1 389 154)	(5 226 690)	548 639
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

Sensibility analysis

As at December, 2012, 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 39 467 thousands (2011: Euro 26 734 thousands).

The following table presents the average interests, in relation to the CEMG major assets and liabilities categories for the years ended 31 December 2012 and 2011, as well as the average balances and the income and expense for the year:

(thousand euros)

	2012			2011		
Products	**Average balance for the year**	**Average interest rate (%)**	**Income/ Expense**	**Average balance for the year**	**Average interest rate (%)**	**Income/ Expenses**
Assets						
Loans and advances to customers	16 321 809	4.33	707 339	16 167 253	4.18	676 363
Deposits	102 233	0.91	929	196 012	1.24	2 439
Securities portfolio	7 888 323	2.61	205 722	6 363 143	2.98	189 472
Inter-bank loans and advance	354 649	0.77	2 721	453 286	1.85	8 404
Swaps	–	–	236 561	–	–	277 653
Total Assets	24 667 014		1 153 272	23 179 694		1 154 331
Liabilities						
Deposits from customers	13 160 896	3.38	444 251	11 857 822	2.91	344 719
Securities deposits	8 118 810	2.59	210 293	8 180 018	2.47	202 352
Interbank deposits	2 695 262	1.05	28 169	2 656 595	1.61	42 810
Oher liabilities	273	0.47	1	336	0.69	2
Swaps	–	–	213 100	–	–	260 975
Total liabilities	23 975 241		895 814	22 694 771		850 858

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2012 is analysed as follows:

(thousand euros)

	2012							
	Euro	United States Dollar	Sterling Pound	Canadian Dollar	Suisse Franc	Japanese Yen	Other foreign currencies	Total amount
Assets by currency								
Cash and deposits at central banks	237 833	7 182	531	395	1 289	46	311	247 587
Loans and advances to credit institutions repayable	53 004	2 599	514	340	501	32	380	57 370
Loans and advances to credit institutions	250 654	104	–	–	–	–	–	250 758
Loans and advances to customers	15 020 454	11 352	–	2	171	–	(2)	15 031 977
Financial assets held for trading	128 774	3 757	326	–	–	–	–	132 857
Other financial assets at fair value trough profit or loss	12 300	–	–	–	–	–	–	12 300
Available-for-sale financial assets	6 706 441	23 344	32	48	637	–	–	6 730 502
Hedging derivatives	931	–	–	–	–	–	–	931
Held-to-maturity investments	17 222	–	–	–	–	–	–	17 222
Investments in associated companies and others	390 547	–	–	–	–	–	–	390 547
Non-current assets held for sale	472 877	–	–	–	–	–	–	472 877
Property and equipment	55 651	–	–	–	–	–	–	55 651
Intangible assets	108 872	–	–	–	–	–	–	108 872
Current tax assets	10	–	–	–	–	–	–	10
Deferred tax assets	243 313	–	–	–	–	–	–	243 313
Other assets	104 125	176 884	18 109	73 987	2 952	–	28	376 085
Total Assets	23 803 008	225 222	19 512	74 772	5 550	78	717	24 128 859
Liabilities by currency								
Deposits from central banks	1 776 514	–	–	–	–	–	–	1 776 514
Deposits from other credit institutions	1 011 307	75 871	5 006	31 964	871	–	55	1 125 074
Deposits from customers	12 605 004	54 290	4 293	5 802	2 757	–	3 757	12 675 903
Debt securities issued	2 188 099	–	–	–	–	–	–	2 188 099
Financial liabilities associated to transferred assets	3 743 731	–	–	–	–	–	–	3 743 731
Financial liabilities held for trading	84 454	354	–	–	–	–	–	84 808
Hedging derivatives	3 177	–	–	–	–	–	–	3 177
Provisions	110 199	–	–	–	–	–	–	110 199
Current tax liabilities	1 239	–	–	–	–	–	–	1 239
Other subordinated debt	479 667	–	–	–	–	–	–	479 667
Other liabilities	183 622	94 923	10 211	37 009	1 828	78	4 305	331 976
Total Liabilities	22 187 013	225 438	19 510	74 775	5 456	78	8 117	22 520 387
Net asset / liability by currency	1 615 995	(216)	2	(3)	94	–	(7 400)	1 608 472

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2012 is analysed as follows:

(thousand euros)

	2011							
	Euro	United States Dollar	Sterling Pound	Canadian Dollar	Suisse Franc	Japanese Yen	Other foreign currencies	Total amount
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	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 trough profit or loss	3 606	–	–	–	–	–	–	3 606
Available-for-sale financial assets	5 819 192	2 322	–	–	266	–	–	5 821 780
Hedging derivatives	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
Intangible assets	110 843	–	–	–	–	–	–	110 843
Current tax assets	10	–	–	–	–	–	–	10
Deferred tax assets	59 221	–	–	–	–	–	–	59 221
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 associated to transferred assets	3 289 983	–	–	–	–	–	–	3 289 983
Financial liabilities held for trading	101 366	158	–	–	–	–	–	101 524
Hedging derivatives	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

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).

As at 31 December 2012, the total collateral value in the European Central amounted Euro 38 617 thousands with a use of Euro 1 760 thousands.

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 April 2012 came in force the Instruction no. 15/2012 of Bank of Portugal, which extended the definition of deposits with excessive compensation and penalized their calculation methods in terms of the deduction to own funds. This instruction replaced the Instruction no. 28/2011 of Bank of Portugal and applies to deposits made or renewed after April 2, 2012.
- 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 COF. 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 2012 and 2011 is presented as follows:

(thousand euros)

	2012	2011
Core Tier 1		
Paid-up capital	1 295 000	1 245 000
Net profit, General reserves, Special reserves	294 548	257 038
Other regulatory adjustments	(235 473)	(165 806)
	1 354 075	1 336 232
Basic own funds		
Other equity instruments	15 000	15 000
Deduction to basic own funds	(195 245)	(191 745)
	1 173 830	1 159 487
Complementary own funds		
Upper Tier 2	92 990	90 197
Lower Tier 2	440 316	468 575
Deductions to complementary own funds	(195 245)	(191 745)
	338 061	367 027
Deductions to total own funds	(9 262)	(2 532)
Total owned funds	1 502 629	1 523 982
Own funds requirements		
Credit risk	924 399	937 243
Market risk	4 591	4 420
Operational risk	59 463	65 065
	988 453	1 006 728
Prudential Ratio		
Ratio Core Tier 1	10.96%	10.62%
Ratio Tier 1	9.50%	9.21%
Solvency ratio	12,16%	12.11%

51. Accounting standards recently issued

Accounting standards and interpretations recently issued

Recently Issued pronouncements already adopted by CEMG in the preparation of the financial Statements are the following:

- **IFRS 7 (Amended) – Financial Instruments: Disclosures – Transfers of Financial Assets**

  The International Accounting Standards Board (IASB), issued on 7th October 2010, amendments to «IFRS 7 – Disclosures – Transfers of Financial Assets», effective for annual periods beginning on or after 1st July 2011. Those amendments were endorsed by EU Commission Regulation 1205/2011, 22nd November.

  The amendment requires enhanced disclosures about transfers of financial assets that enable users of the financial statements:

  – To understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liability; and

  – To evaluate the nature of, and risks associated with, the entity´s continuing involvement in derecognised financial asset.

  The amendments also required additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

  The adoption of this amendment by CEMG had no impact on its financial statements.

- **IAS 12 (Amended) – Deferred Tax: Recovery of Underlying Assets**

  The IASB, issued on 20 December 2010, amendments to «IAS 12 – Income Tax – Recovery of Underlying Assets» (and withdraw SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets), effective for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

  The amendments to IAS 12 provide that, the deferred taxes related to investment properties are measured with the presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. Before the amendment, entities were allowed to consider that the carrying amount of investment proprieties would be recovered either through use or sale, depending on management intention.

  The adoption of this amendment by CEMG had no impact on its financial statements.

CEMG decided to opt for not having an early application of the following standards endorsed by EU but not yet mandatory effective

- **Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 – Presentation of Financial Statements**

  The IASB, issued on 16th June 2011, amendments to «IAS 1 – Presentation of Financial Statements», effective (with retrospective application) for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 475/2012, 5th June.

  The changes retain the entity's option to present profit or loss and other comprehensive income in two statements, however requires:

  – To present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss; and

  – An entity that presents items of other comprehensive income before related tax effects will also have to allocate the aggregated tax amount between the two subcategories;

  – Change the title to «statement of profit or loss and other comprehensive income» – although other titles could be used.

  The amendments affect presentation only and have no impact on the CEMG's financial position or performance.

- **IAS 19 Revised – Employee Benefits**

  The IASB, issued on 16th June 2011, amendments to «IAS 19 – Employee Benefits», effective (with retrospective application) for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 475/2012, 5th June.

  The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor method and the concept of expected returns on plan assets to simple clarifications and re-wording. CEMG made, in 2011, a voluntary change in the accounting police related to actuarial gains and losses arising from its post employment benefits which from 2011 are charged to equity, under other comprehensive income.

  However, the amended standard will impact the net benefit expenses as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. This change will also have no impact on CEMG financial statements.

- **IFRS 7 (Amended) – Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities**

  The IASB, issued on 16th December 2011, amendments to «IFRS 7 – Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities», effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

  These amendments required an entity to disclose information about what amounts have been offset in the statement of financial position and the nature and extend of rights to set-off and related arrangements (e.g. collateral arrangements).

  The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

  CEMG expects that adoption of the amendments to IFRS 7 will require more extensive disclosures about rights of set-off.

- **IAS 32 (Amended) – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities**

  The IASB, issued on 16th December 2011, amendments to «IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities», effective (with retrospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

  The IASB amended IAS 32 to add application guidance to address the inconsistent application of the standard in practice. The application guidance clarifies that the sentence «currently has a legal enforceable right of set-off» means that the right of set-off must not be contingent on a future event and must be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy, of the entity and all of the counterparties.

  The application guidance also specifies the characteristics of gross settlement systems in order to be considered equivalent to net settlement.

  CEMG is not expecting a significant impact form the adoption of the amendment to IAS 32, taking into consideration the accounting police already adopted.

- **IAS 27 (Revised) – Separate Financial Statements**

  The IASB, issued on 12th May 2011, amendments to «IAS 27 – Separate Financial Statements», effective (with prospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1254/2012, 11th December.

  Taking in consideration that IFRS 10 addresses the principles of controls and the requirements relating to the preparation of consolidated financial statements, IAS 27 was amended to cover exclusively separate financial statements.

  The amendments aimed, on one hand, to clarify the disclosures required by an entity preparing separate financial statements so that the entity would be required to disclose the principal place of business (and country of incorporation, if different) of significant investments in subsidiaries, joint ventures and associates and, if applicable, of the parent.

  The previous version required the disclosure of the country of incorporation or residence of such entities.

  On the other hand, it was aligned the effective dates for all consolidated standards (IFRS10, IFRS11, IFRS12, IFRS13 and amendments to IAS 28).

  CEMG expects no relevant impact from the adoption of this amendment on its financial statements.

- **IFRS 10 – Consolidated Financial Statements**

  The IASB, issued on 12th May 2011, «IFRS 10 Consolidated Financial Statements», effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

  IFRS 10, withdraw part of IAS 27 and SIC 12, and introduces a single control model to determine whether an investee should be consolidated.

  The new concept of control involves the assessment of power, exposure to variability in returns and a linkage between the two. An investment controls an investee when it is exposed, or has rights, to variability returns from its involvement with the investee and is able to affect those returns through its power over the investee (facto control).

  The investor considers whether it controls the relevant activities of the investee, taking into consideration the new concept. The assessment should be done at each reporting period because the relation between power and exposure variability in returns may change over the time.

  Control is usually assessed over a legal entity, but also can be assessed over only specified assets and liabilities of an investee (referred to as silo).

  The new standard also introduce other changes such as: *i*) accounting requirements for subsidiaries in consolidation financial statements are carried forward from IAS 27 to this new standards and *ii*) enhanced disclosures are requires, including specific disclosures for consolidated and unconsolidated structured entities.

  Nevertheless, CEMG does not expect any significant impact on the application of this standard on its financial statements.

- **IFRS 11 – Joint Arrangements**

  The IASB, issued on 12th May 2011, «IFRS 11 Joint arrangements», effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December that allows a delayed on mandatory application for 1st January 2014.

  IFRS 11, withdraw IAS 31 and SIC 13, defines «joint control» by incorporating the same control model as defined in IFRS 10 and requires an entity that is part of a «join arrangement» to determine the nature of the joint arrangement («joint operations» or «joint ventures») by assessing its rights and obligations.

  IFRS 11 removes the option to account for joint ventures using the proportionate consolidation. Instead, joint arrangements that meet the definition of «joint venture» must be account for using the equity method (IAS 28).

  CEMG has not carried out a thorough analysis of the impacts of the application of this standard. Nevertheless, CEMG does not expect any significant impact on the application of this standard on its financial statements.

- **IAS 28 (Revised) – Investments in Associates and Joint Ventures**

  The IASB, issued on 12th May 2011, «IAS 28 Investments in Associates and Joint Ventures», effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

  As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed as IAS 28 Investments in Associates and Joint ventures, and describes the application of the entity method to investments in joint ventures and associates.

  CEMG expects no impact from the adoption of this amendment on its financial statements.

- **IFRS 12 – Disclosures of Interest in Other Entities**

  The IASB, issued on 12th May 2011, «IFRS 12 Disclosures of Interests in Other Entities», effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

  The objective of this new standard is to require an entity to disclose information that enables users of its financial statements to evaluate: (*a*) the nature of, and risks associated with, its interests in other entities; and (*b*) the effects of those interests on its financial position, financial performance and cash flows.

  IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special vehicles and other off balance sheet vehicles.

  CEMG is still assessing the full impact of the new IFRS 12 in ligne with IFRS 10 and IFRS 11.

- **IFRS 13 – Fair Value Measurement**

  The IASB, issued on 12th May 2011, «IFRS 13 fair value Measurement», effective (with prospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

  IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs.

  CEMG is currently reviewing its methodologies for determining fair values, to evaluate if this rule has any impact on its financial statements.

  Although many of IFRS 13 disclosures requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require CEMG to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorized in Level 3.

Recently Issued pronouncements that are not yet effective for CEMG

- **Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27 (issued by IASB on 31st October 2012)**

  The amendments apply to a particular class of business that qualifies as investment entities. The IASB uses the term «investment entity» to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organizations, venture capital organizations, pension funds, sovereign wealth funds and other investment funds.

  The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

  The amendments are effective from 1 January 2014 with early adoption permitted. This option allows investment entities to apply the Investment Entities amendments on the same date as the first application of the remaining IFRS 10.

  CEMG expects no impact from the adoption of this amendment on its financial statements.

- **Improvements to IFRS (2009-2011)**

  The annual improvements cycle 2009-2011, issued by IASB on 17th May 2012, introduce amendments, with effective date on, or after, 1st January 2013, to the standards IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34 and IFRIC 2.

  IAS 1 – Presentation of Financial Statements

  This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is related with the previous period

  IAS 16 – Property Plant and Equipment

  This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

  IAS 32 – Financial Instruments, Presentation and IFRIC 2

  The improvements clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes, avoiding any interpretation that may mean any either application.

  IAS 34 – Interim Financial Reporting

  The amendments align the disclosure requirement for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures in relation to the changes of profit and loss account and other comprehensive income.

  CEMG is not expecting any significant impacts from the adoption of these improvements, taking into consideration the accounting police already adopted.

- **IFRS 9 – Financial instruments (issued in 2009 and revised in 2010)**

  IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additional requirements related to financial liabilities. The IASB currently has an active project to perform limited amendments to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets and hedge accounting.

  The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available--for-sale and loans and receivables.

  For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognized in profits or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment.

  Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

  The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instruments is assessed in its entirety as to whether it should be amortized cost or fair value.

  IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

  IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues.

  CEMG has started the process of evaluating the potential effect of this standard but is waiting for finalization of the limited amendments before the evaluation can be completed. Given the nature of CEMG's operation, this standard is expected to have a pervasive impact on CEMG's financial statements.

52. Sovereign debt of European Union countries subject to bailout

As at 31 December 2012, the exposure of CEMG to sovereign debt of European Union countries subject to bailout is as follows:

(thousand euros)

2012							
Issuer/portfolio	Book value	Fair value	Fair value reserves	Impairment	Average maturity rate	Average maturity years	Fair value measurement levels
Portugal							
Financial assets held for trading	1 115 857	1 115 857	9 036	–	3,40	2,05	1
Held to maturity financial assets	6 185	6 246	–	–	3,38	2,76	n.a.
	1 122 042	1 122 103	9 036	–			
Greece (*)							
Financial assets held for trading	7 174	(4 083)	71	(11 257)	1,26	25,16	1
	1 129 216	1 118 020	9 107	(11 257)			

(*) The item includes 6 796 thousand euros relating to Greek sovereign debt resulting from exchange transactions, which remains in the portfolio.

The value of the securities includes the respective accrued interest.

As at 31 December 2011, the exposure of CEMG to sovereign debt of European Union countries subject to bailout is as follows:

(thousand euros)

2011							
Issuer/portfolio	Book value	Fair value	Fair value reserves	Impairment	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 trading	33 507	33 507	–	(19 309)	4,22	0,37	1
Irland							
Held to maturity financial assets	11 032	11 032	1 051	–	4,60	4,30	1
	1 232 440	1 229 320	(240 512)	(19 309)			

For the public debt of Portugal, Greece and Ireland do not have occurred in the year ended December 31, 2011 no reclassifications between portfolios.

The evolution of the European Union sovereign debt crisis and specifically the economic and political environment in Greece, which contributed to the continuous deterioration of economic and financial situation of Greece and the incapacity to obtain funds from the international markets, which implied that the short term solvency of the country is dependent on the continuous support by EU and IMF.

Impairment was determined considering the terms of the agreement established between the Greek state and the private sector («PSI»), related to the restructuring of the Greek sovereign debt («GGBs»). For the purposes of determining impairment, CEMG considered the terms and conditions of the PSI and also paragraph AG 84 of IAS 39 that considers reasonable that, for the portfolio of assets held to maturity when, for practical reasons, there are relevant uncertainties regarding the estimate of future cash-flows, impairment can be determined based on observable market prices.

Considering the available information regarding the bonds' characteristics, the fair value corresponded to approximately 23% of the book value of the portfolio. Following of the restructuring of the Greek sovereign debt in the second quarter of 2012, the impairment was charged off. The exchange offer occurred in 12 March 2012.

53. Transfers of assets

CEMG performed a set of transactions of sale of financial assets (namely loans and advances to customers) for Funds specialized in the recovery of loans. These funds take the responsibility for management of the companies or assets received as collateral with the objective of ensuring a proactive management through the implementation of plans to explore/increase the value of the companies/assets. The financial assets sold under these transactions are derecognized from the balance sheet of CEMG, since the transactions result in the transfer to the Funds of a substantial portion of the risks and benefits associated with the assets as well as the control on the assets.

The specialized funds that acquire the financial assets are closed funds, in which the holders of the participation units have no possibility to request the reimbursement of its investment throughout the useful life of the Fund.

These participation units are held by several banks, which are the sellers of the loans, in percentages that vary through the useful life of the Funds, ensuring however that, separately, none of the banks holds more than 50% of the capital of the Fund.

The Funds have a specific management structure (General Partner), fully independent from the banks and that is selected on the date of establishment of the Fund.

The management structure of the Fund has as main responsibilities:

– determine the objective of the Fund;

– manage exclusively the Fund, determining the objectives and investment policy and the conduct in management and business of the Fund.

The management structure is remunerated through management commissions charged to the Funds.

These funds, in the majority of the transactions (in which CEMG holds minority positions) establish companies under the Portuguese law in order to acquire the loans to the banks, which are financed through the issuance of senior and junior bonds. The value of the senior bonds fully subscribed by the Finds that hold the share capital of the companies match the fair value of the asset sold, determined in accordance with a negotiation based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company that holds the assets.

The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the sale value.

These junior bonds, when subscribed by CEMG, provide the right to a contingent positive value if the recovered amount for the assets transferred is above the nominal value amount of senior bonds plus it related interest.

However, considering that these junior bonds reflect a difference between the valuations of the assets sold based on the appraisals performed by independent entities and the negotiation between the parties, the junior bonds are fully provided.

Therefore, following the transactions, CEMG subscribed:

– Participation units of the Funds, for which the cash-flows that allow the recovery arise mainly from a set of assets transferred from the participant banks (where CEMG has clearly a minority interest). These securities are booked in the available for sale portfolio and are accounted for at fair value based on the market value, as disclosed by the Funds and audited at year end.

– Junior bonds (with higher subordination degree) issued by the companies held by the funds and which are fully provided to reflect the best estimate of impairment of the financial assets transferred.

Within this context, not withholding control but maintaining an exposure to certain risks and rewards, CEMG, in accordance with IAS 39.21 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the transaction, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence on the funds or companies management, the Bank performed the derecognition of the assets transferred under the scope of IAS 39.20 c (*i*) and the recognition of the assets received as follows:

(thousand euros)

	Values associated with the transfer of assets		
	Net assets transferred	**Amount received**	**Result obtained with the transfer**
Vallis Construction Sector Fund	15 318	19 018	3 700

(thousand euros)

	Senior Securities	**Junior Securities**	**Total**	**Junior Impairment**	**Net Value**
Vallis Construction Sector Fund	14 144	4 874	19 018	(4 874)	14 144

The net assets transferred amounted Euro 15 318 thousands, as described in note 20.

The junior securities correspond to supplementary capital in the amount of Euro 4 874 thousands, as referred in note 23.

Within the scope of the transfer of assets, the junior securities subscribed which carry a subordinated nature and are directly linked to the transferred assets, are fully provided for, in accordance with note 15.

Although the junior bonds are fully provided, CEMG still holds an indirect exposure to financial assets transferred, under the minority investment that holds in the pool of assets transferred by all financial institutions involved, through the holding of participation units of the funds (denominated in the table as senior bonds).

54. Relevant facts

Sale of loans and advances to customers

During 2012, CEMG sold two loans and advances to customers portfolios to a securitisation company named «Hefesto Sociedade de Titularização de Créditos, S.A.». These operations were denominated as Aurea 1 and Aurea 2.

These loans presented a book value of Euro 26 470 thousands, and were sold by the amount of Euro 70 540 thousands, which originated a net profit of Euro 44 070 thousands, as described in notes 9 and 20.

(thousand euros)

	Credit Gross	**Credit Impairment**	**Net Credit Value**	**Value of sales**	**Gains**
Aurea 1	76 949	63 329	13 620	35 519	21 899
Aurea 2	75 355	62 505	12 850	35 021	22 171
	152 304	125 834	26 470	70 540	44 070

55. Subsequent events

After the balance sheet date and before the financial statements were authorized for issue, there were no relevant transactions and/or events that deserve relevance disclosure.

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AUDITORS' REPORT

(ISSUED BY THE STATUTORY AUDITOR, A CMVM REGISTRED 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 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, 2012 of **Caixa Económica Montepio Geral** which comprise the balance sheet as at 31 December, 2012 (showing total assets of 24,128,859 thousand Euro and Shareholders' Equity of 1,608,472 thousand Euro, including a net profit of 2,256 thousand Euro), the statement of income, the statement of cash flows, the statement of changes in equity and the statement of 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 financial statements in accordance with the Adjusted Accounting Standards ("NCA's") issued by the Bank of Portugal, that present fairly, in all material respects, the financial position of CEMG, the results of its operations, the cash flows, the changes in equity and the comprehensive income;

b) the preparation of historical financial information in accordance with the NCA's that 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 maintenance of an appropriate internal control system; and

e) the communication of any relevant matter that may have influenced the activity of the Bank, its financial position or results.

3. Our responsibility is to verify the 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 financial statements are free of material misstatements. Accordingly, our audit included:

   - the verification, on a sample basis, of the documents underlying the figures and disclosures contained therein, and an assessment of the estimates made, based on the judgments and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;

   - evaluating the appropriateness of the accounting principles 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 financial statements' presentation; and

   - the assessment of whether the financial information is complete, true, current, clear, objective and lawful.

5. Our audit also included the verification that the financial information included in the Board of Directors report is consistent with the 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, 2012, 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 as 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 financial information included in the Board of Directors report is consistent with the financial statements and that the Report on Corporate Governance includes the information required by the article 245.º-A of the Portuguese Securities Market Code ('CVM').

Lisbon, 2 April, 2013

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
represented by
Vitor Manuel da Cunha Ribeirinho (ROC N.º 1081)

13.3. FINANCIAL INFORMATION COMPLIANCE STATEMENT

This statement is made pursuant to article 245 (1-*c*) of the Stock Exchange Code (SEC).

The Board of Directors is responsible for drawing up the annual report and financial statements which provide a true and fair view of the Institution's financial position and of the result of its operations, as well as for the adoption of suitable accounting policies and criteria and the maintenance of a suitable internal control system that prevents and detects errors and irregularities.

We confirm to the best of our knowledge that:

- all the individual and consolidated financial information contained in the accounts as at 31 December 2012 was drawn up in accordance with the applicable accounting rules and provides a true and fair view of the assets, liabilities, financial position and profits pertaining to the Institution and the companies falling within the consolidation scope;
- the annual report accurately describes the evolution of the business, the performance and position of the Institution and the companies falling within the consolidation scope, pursuant to the legal requirements.

THE CHARTERED ACCOUNTANT

Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS

António Tomás Correia – Chairman

José de Almeida Serra

Eduardo José da Silva Farinha

Álvaro Cordeiro Dâmaso

Carlos Vicente Morais Beato

13.4. COMPLIANCE WITH THE RECOMMENDATIONS OF THE FINANCIAL STABILITY FORUM (FSF) AND THE COMMITTEE OF EUROPEAN BANKING SUPERVISORS (CEBS), REGARDING TRANSPARENCY OF INFORMATION AND ASSET VALUATION (BANK OF PORTUGAL CIRCULAR NO. 58/2009/DSB).

Bank of Portugal Circular no. 58/2009/DSB calls for institutions to fully comply with the recommendations of the FSF and the CEBS relating to the transparency of information and asset valuation, taking into account the principle of proportionality.

Some of the recommendations are covered in the Annual Report and Accounts and the Notes to the Accounts, and when applicable reference will be made to those documents.

I. BUSINESS MODEL

1. Description of business model

Points 4, 6.2 and 6.3 of the Annual Report and Accounts provide a description of the business model.

2. Description of strategies and goals

Point 4 of the Annual Report and Accounts sets out the Strategic Priorities for the CEMG Group for 2012 and explains the 2013 Strategic Guidelines for achieving the strategic goals in terms of solvency, leverage and liquidity in order to maintain competitiveness and sustainable development.

3., 4. and 5. Activities undertaken and their contribution to business

Points 6.2, 6.3 and 8 of the Annual Report and Accounts describe the activities undertaken and their contribution to business. Also the Reporting by Segments section of the Notes to the Accounts shows each activity's contribution.

II. RISK AND RISK MANAGEMENT

6. and 7. Description and nature of risks and management practices

Point 7 of the Notes to the Accounts describes and quantifies the various risks faced, as well as the monitoring, recovery and control measures taken to minimise them.

III. IMPACT OF FINANCIAL TURBULENCE ON PROFIT

8., 9., 10. and 11. Qualitative and quantitative description of profits, emphasising losses and the impact and breakdown of write-downs

Points 7 and 8 of the Annual Report and Accounts cover the matter of impairment losses related to financial market fluctuations.

Point 8 and the analysis of Profits, Provisions and Impairment also sets out the value of impairment losses on the securities portfolio.

The Notes to the Accounts also show the impact of Impairment.

12. and 13. Breakdown of write-downs by realised and non-realised amounts and their impact on share price

Not applicable.

14. Disclosure of maximum loss risk associated with long financial turbulence

Point 7 of the Annual Report and Accounts deals with these matters generally.

15. Disclosure of impact on profit of change in spreads associated with the Institution's liabilities

The Notes to the Accounts provide detailed information deemed sufficient for the purposes.

IV. EXPOSURE LEVELS AND TYPES DURING THE TURBULENCE PERIOD

16. Face value (or depreciated cost) and fair value of «live» exposure

The Notes to the Accounts provide a breakdown by historic cost, net book value and fair value.

17. Information on credit risk mitigating factors (e.g. credit default swaps) and the respective value of the existing exposure

The Notes to the Accounts provides information as to credit risk mitigating factors for assets and liabilities at fair value based on return.

18. Detailed information on exposure

The information contained in points 7 and 8 of the Annual Report and Accounts and the Notes to the Accounts is deemed to cover the matter.

19. Exposure movements between the relevant reporting periods and the underlying reasons for these changes (sales, purchases, write-downs, etc.)

The information contained in the Notes to the Accounts deals with this matter.

20. Explanations as to exposure (including «vehicles» and, in such cases, the respective activities) which was not consolidated (or which had not been recognised during the crisis) and the respective reasons

In the Notes to the Accounts, point 8 refers to the Securitisation of Assets and provides a detailed description of the various securitisation operations undertaken and their respective «vehicles», in particular Special Purpose Vehicles (SPV).

21. Exposure to single field insurers and quality of assets insured

Not applicable.

V. ACCOUNTING POLICIES AND VALUATION METHODS

22., 23., 24. and 25. Classification of transactions and structured products for accounting purposes, consolidation of Special Purpose Vehicles (SPV), detailed information on the fair value of the financial instruments and description of the modelling techniques used to value financial instruments

The Notes to the Accounts provide detailed information about these matters.

VI. OTHER MATERIAL MATTERS

26. Description of information policies and principles used in the disclosure report and financial report

One of the goals of the CEMG Group's internal control system is to ensure compliance with the rules of prudence, the reliability of information, and the reporting deadlines set by the various outside bodies.

The CEMG Group has adopted the practice of allocating responsibility for reporting information to External Bodies to the Units specialising in the various matters, bearing in mind their tasks and activities and, wherever possible, using technologically advanced support instruments in order to minimise errors and omissions and ensure reliable information is produced in good time.

14. Internal Audit Board's Report, Opinion and Compliance Statement

INTERNAL AUDIT BOARD'S REPORT AND OPINION FINANCIAL YEAR 2012

To the Members:

Pursuant to article 20 (4) of the Articles of Association of CaixaEconómica Montepio Geral, hereinafter referred to as CaixaEconómica (CEMG), and to article 441 (1) (*h*) of the Commercial Companies Code the General and Supervisory Board is required to give its opinion on the Annual Report and Accounts for the year 2012. However since the General and Supervisory Board, the body resulting from the change in the Articles of Association that came into force on 14 January 2013, has not yet taken office, the Internal Audit Board, which retains all its powers and duties, under article 25 (*f*) of the previous Articles of Association, submits for your appreciation its Report on its activities and its Opinion on the Annual Reports and Financial Statements for the year ending 31 December 2012, prepared by the Board of Directors.

REPORT

1. In 2012 the Internal Audit Board, hereinafterreferred to as the Board, followed the management of CEMG by reading the minutes of Board of Directors meetings, by holding regular meetings with the Board of Directors and some of its members, and by examining the accounting documents, reports and figures supplied monthly by the Departments. We also attended General Board meetings and held working meetings with those Directors closely linked to the Board's functions.
2. During the course of its work, the Board always received, in a manner worthy of appreciation, the full cooperation of the Board of Directors and the Institution's Departments, which provided all the information required to perform its duties.
3. An important event in 2012 was the approval of the new CEMG Articles of Association, which separate further the Management and the Supervisory Bodies, in compliance with the supervisory authority's recommendations, a measure that brings operational benefits to the Montepio Group.
4. During the year the Board prepared all statutory documents required, as well as others required by the Bank of Portugal, in particular, the Reports on the adequacy and efficiency of the internal control system as regards both the individual and consolidated accounts, and the prevention of money laundering and the financing of terrorism, which were prepared with the technical support of KPMG & Associados – Sociedade de Revisores Oficiais de Contas, SA., and which, in addition to identifying deviations and recommending improvements, state that as a whole, the internal control procedures meet efficiently and fairly, in all material aspects, the requirements of Bank of Portugal Notices no. 5/2008 and no. 9/2012.
5. As regards the Annual Report and the Institutional Governance Report, which includes the items required by article 245-A of the Stock Exchange Code, the Board checked that the former matches the financial statements and that both comply with the legal requirements and the Articles of Association.
6. When examining the individual and consolidated Financial Statements, the Board paid special attention to the Legal Certification of the Accounts and the Audit Reports drawn up by KPMG & Associados – Sociedade de Revisores Oficiais de Contas, SA., the body hired to monitor and audit over the year and at the year-end the accounting practices and accounts produced by the Board of Directors, under the provisions of the law and the Articles of Association. The documents produced by the External Auditors reported no qualification and we are in agreement with their contents.

7. Following the closing of the accounts, the Board examined the accounting statements, consisting of the Annual Report, the Balance Sheet as at 31 December 2012, the Income Statement, the Cash Flow Statement and Changes in Equity Statement and the Return for the Year ending on that date, as well as the Notes to the Accounts.
8. The Board believes the Institutional Governance Report within the Annual Report and Accounts for 2012 is of particular importance.
9. As a result of the work undertaken, the Board believes that the financial information examined, drawn up in accordance with the applicable accounting rules, provides an accurate view of the financial position of CEMG and its subsidiaries included in the consolidation as at 31 December 2012 and of the manner in which the consolidated profit was calculated.
10. The Board seconds the Board of Directors' vote of thanks to the various entities referred to in the Annual Report, the Governing Body members and all the Institution's Employees.

OPINION

In light of the above the Internal Audit Board gives its agreement to the Annual Report and the individual and consolidated Financial Statements of Caixa Económica Montepio Geral, relating to the year ending 31 December 2012, and is in favour of the General meeting approving:

a) The Annual Report and Accounts of Caixa Económica Montepio Geral for the year ending 31 December 2012;

b) The proposed profit distribution, based on the individual accounts, contained in the Annual Report;

c) A vote of appreciation to the Board of Directors for their efficient management, which should be extended to the Employees in recognition of their efforts.

Lisbon, 3 April 2013

INTERNAL AUDIT BOARD

Álvaro João Duarte Pinto Correia – Chairman

Gabriel José dos Santos Fernandes – Member

Luísa Maria Xavier Machado – Member

COMPLIANCE STATEMENT

This statement is made pursuant to article 245 (1) (*c*) of the Stock Exchange Code (SEC).

According to its statutory duties the Internal Audit Board is responsible for supervising and auditing the Institution's business and for expressing a professional opinion based on its examination of the Annual Report and Financial Statements.

We confirm all items and information supplied to us and state that, to the best of our knowledge:

- the individual and consolidated financial information as at 31 December 2012 provides a true and fair view of the assets, liabilities, financial position and profits pertaining to the Institution and the companies falling within the consolidation scope; and
- The annual report accurately describes the progress of the business, the performance and position of the Institution and the companies falling within the consolidation scope, pursuant to the applicable rules.

Lisbon, 3 April 2013

INTERNAL AUDIT BOARD

Álvaro João Duarte Pinto Correia – Chairman

Gabriel José dos Santos Fernandes – Member

Luísa Maria Xavier Machado – Member

15. Institutional Governance Report

Caixa Económica Montepio Geral (hereinafter referred to as «CEMG»), in addition to its organisational capability resulting from over a century of experience, must adopt a set of rules and principles covering both management, with special relevance to prudence, competition, transparency and advertising, and professional ethics, which should guide employees and governing bodies relations with customers, members, the State, consumers and the general public.

In this way and pursuant to the provisions of SEC Regulation no. 1/2010 and the Corporate Governance Code – which codifies all SEC recommendations on the subject of governance – CEMG presents its Institutional Governance Report that describes all relevant matters so as to comply with the existing rules and to improve the governance model.

Before starting this report it must be stressed that on 7 December 2012 the Association and Institutional Bodies of Montepio Geral – Associação Mutualista (hereinafter referred to as «MG-AM») and the associated CEMG were elected for the three-year period 2013-2015.

In 2012 it was also decided to amend the Articles of Association of CEMG and these alterations came into force on 14 January 2013.

At a later date the governing bodies of CEMG were elected: General Meeting Board; Executive Board of Directors; Remuneration Committee and membership ex-officio of the General and Supervisory Board was checked. The Auditor is yet to be appointed as the appointment is only made after the General and Supervisory Board have taken office.

As a result and until the members of the aforesaid bodies took office in line with the new Articles of Association those elected under the previous Articles of Association remained in office.

CHAPTER 0 – COMPLIANCE STATEMENT

0.1. INFORMATION POINTS

Within the scope of its activities, CEMG applies a set of internal procedures and rules on performance that meet the existing legislation.

The Internal Regulations, available on the organisation's Intranet, lay down a series of compulsory guidelines for all its employees.

In terms of operational support, a series of supporting documents and information essential to the management of the various units' activities is provided.

In addition the corporate website www.montepio.pt contains not only the information required by law and the applicable regulations but also information on the institution's social responsibility policy.

In order to allow customers and MG-AM members to ask questions and make suggestions and comments the institution provides a space for that purpose on its website.

On its website the Institution also provides relevant information on the activities of its subsidiaries and on markets, news and events.

0.2. BREAKDOWN OF RECOMMENDATIONS CONTAINED IN THE SEC CORPORATE GOVERNANCE CODE THAT HAVE BEEN ADOPTED AND NOT ADOPTED

The table below sets out the Recommendations contained in the Corporate Governance Code and shows whether or not they were adopted, as well as their degree of applicability in 2012, under the Articles of Association in force at the time.

The Observations refer to changes resulting from the entering into force of the new Articles of Association and the reference is also made to the points in this report which cover the information contained in the Recommendations.

Recommendations	Adopted	Not Adopted or Not Applicable	Observations/Reference in Institutional Governance Report
I. GENERAL			
I.1. GENERAL MEETING BOARD			
I.1.1. The Chairperson of the General Meeting Board shall have at his/her disposal the human resources and logistic support to meet his/her needs, bearing in mind the economic position of the company.	x		Chapter I - I.4.
I.1.2. The remuneration of the Chairperson of the General Meeting Board shall be disclosed in the annual report on Corporate Governance.	x		Chapter I - I.3.
I.2. ATTENDANCE OF GENERAL MEETINGS			
I.2.1. The deadline for the General Meeting Board receiving share deposit or blocking statements to attend general meetings shall not be greater than five business days.		Not applicable	Chapter 0 - 0.4.
I.2.2. If a general meeting is suspended the company shall not oblige the blocking to continue during the period up to the time the meeting is resumed and the notice required by law shall be sufficient.		Not applicable	Chapter 0 - 0.4.
I.3. VOTING AND EXERCISING VOTING RIGHTS			
I.3.1. Companies shall not place any statutory restriction on postal votes nor, whenever adopted and admissible, on electronic postal votes.		Not applicable	Chapter I - I.5. Not applicable under new Articles of Association
I.3.2. The statutory deadline for receiving postal votes shall not be exceed three business days.		Not applicable	Chapter I - I.5.
I.3.3. Companies shall ensure proportionality between voting rights and the shareholding, preferably through a provision in the Articles of Association granting one vote per share. Companies do not comply with the proportionality rule whenever they: *i*) hold shares that have no voting rights; *ii*) determine that voting rights above a certain number shall not be counted when issued to a single shareholder or shareholders related to him.		Not applicable	Chapter 0 - 0.4.
I.4. QUORUM			
Companies shall not set a quorum figure higher than that permitted by law.		Not applicable	Chapter 0 - 0.4.
I.5. MINUTES AND INFORMATION ON RESOLUTIONS PASSED			
Extracts from the minutes of general meetings, or documents with equivalent content, shall be made available to shareholders on the company's website within five days of the holding of the meeting, provided they do not contain privileged information. The information disclosed shall cover the resolutions passed, the share capital represented and the outcome of the votes. Such information shall be kept on the company's website for at least three years.	x		Chapter I - I.6.

Recommendations	Adopted	Not Adopted or Not Applicable	Observations/Reference in Institutional Governance Report
I.6. MEASURES ON CORPORATE CONTROL			
I.6.1. Measures aimed at preventing successful takeover bids shall respect the interests of the company and its shareholders. Whenever a company's Articles of Association, while complying with this principle, provide for a restriction on the number of votes that can be held or exercised by a single shareholder, individually or together with other shareholders, they shall also require the general meeting to decide, at least once every five years, – without requiring a quorum higher than the legal limit – whether to amend or retain that provision, and that when taking that decision all votes issued shall be counted and the restriction shall not operate.		Not applicable	Chapter 0 - 0.4.
I.6.2. In the case of a change of control or a change in the composition of the management body, defensive measures shall not be taken that may automatically cause a serious erosion of the company's wealth and jeopardise the free transfer of shares and the shareholders' free assessment of the performance of the members of the management body.		Not applicable	Chapter 0 - 0.4.
II. MANAGEMENT AND AUDIT BODIES			
II.1. GENERAL MATTERS			
II.1.1. STRUCTURE AND POWERS			
II.1.1.1. In its Corporate Governance Report the management body shall assess the model adopted and identify possible constraints on its operations and propose the measures that it deems fit to overcome them.	x		Chapter 0 - 0.3.
II.1.1.2. Companies shall set up internal control and risk management systems, in order to safeguard the company's worth and promote transparency in corporate governance, that allow risks to be identified and managed. Such systems shall include at least the following components: *i*) setting of strategic goals for the company as regards taking on risk; *ii*) identifying the major risks associated with the business pursued and events likely to generate risk; *iii*) analysis and measurement of the impact and the likelihood of each potential risk; *iv*) risk management aimed at aligning the risks actually incurred with the company's strategy as to taking on risk; *v*) control mechanisms for the implementation of the risk management measures adopted and their efficacy; *vi*) use of internal information and communication mechanisms covering the various system components and risk alerts; *vii*) periodic assessment of the system implemented and the carrying out of any adjustments that prove necessary.	x		Chapter II - II.9.1 and II. 9.2.
II.1.1.3. The management body shall ensure internal control and risk management systems are set up and operated, while the audit body shall be responsible for assessing the operating of those systems and proposing any necessary adjustments to the company.	x		Chapter II - II.9.1 and II. 9.2.
II.1.1.4. In their annual report on Corporate Governance companies shall: *i*) identify the major economic, financial and legal risks to which the company is exposed when pursuing its business; *ii*) describe the performance and efficacy of the risk management system.	x		Chapter II - II. 9.2.
II.1.1.5. The management and audit bodies shall be governed by operating rules that shall be published on the company's website.	x		Chapter 0 - 0.1. New operating rules are being introduced

Recommendations	Adopted	Not Adopted or Not Applicable	Observations/Reference in Institutional Governance Report
II.1.2. INCOMPATIBILITIES AND INDEPENDENCE			
II.1.2.1. The Board of Directors shall include a number of non-executive members that ensures effectively supervision, auditing and evaluation of the executive members' activities.		Not applicable	There are no non-executive members
II.1.2.2. The non-executive directors shall include a suitable number of independent directors, taking into account the size of the company and its shareholder structure and that number shall never be less than one quarter of the total number of directors.		Not applicable	There are no non-executive members
II.1.2.3.The management body's assessment of the independence of its non--executive members shall take into account the existing legislation and regulations as to independence requirements and incompatibility applicable to members of other governing bodies and shall ensure systematic, consistent and timely application of the independence criteria to the entire company. A director may not be deemed independent if in another governing body he could not make that claim under the existing rules.		Not applicable	There are no non-executive members
II.1.3. ELIGIBILITY AND APPOINTMENT			
II.1.3.1. According to the applicable model, the Chairperson of the audit board, of the audit committee or the financial affairs committee shall be independent and have the skills required to perform his/her duties.		Not applicable	Chapter 0 - 0.4.
II.1.3.2. The selection process for non-executive director candidates shall be devised so as to prevent interference from executive directors.		Not applicable	There are no non-executive members
II.1.4. REPORTING OF IRREGULARITIES POLICY			
II.1.4.1. The company shall adopt a reporting policy for irregularities that allegedly occurred within it that includes the following: *i*) indication of the means by which irregularities shall be reported internally, including the persons entitled to receive the reports; *ii*) indication of how the report is to be handled, including confidential treatment, if so requested by the reporter.	x		Chapter II - II.7.
II.1.4.2. The general guidelines of this policy shall be disclosed in the Corporate Governance Report.	x		Chapter II - II.7.
II.1.5. REMUNERATION			
II.1.5.1. The remuneration of management body members shall be structured in such a way as to allow the alignment of their interests with the company's long-term interests. The remuneration shall be based on performance assessment and discouraging the taking on of excessive risk. To that end remuneration shall be structured in the following manner:			
(i) The remuneration of directors who carry out executive functions shall include a variable component dependent upon a performance evaluation, undertaken by the appropriate corporate bodies, in accordance with pre-established measurable criteria that take into account real growth in the company and the wealth actually generated for the shareholders, its long-term sustainability and the risks taken on, as well as compliance with the rules and regulations governing the company's business.	x		Chapter II - II.5. and II.6. and the Annex to the Institutional Governance Report
(ii) Overall, the variable component of the remuneration shall be reasonable as regards the fixed component of remuneration and maximum limits shall be set for all components.	x		Chapter II - II.5. and II.6. and the Annex to the Institutional Governance Report

Recommendations	Adopted	Not Adopted or Not Applicable	Observations/Reference in Institutional Governance Report
(iii) A significant part of the variable remuneration shall be deferred for a period of not less than three years and its payment shall depend upon the company's continued positive performance over this period.		Not applicable	Chapter II - II.5. and II.6. and the Annex to the Institutional Governance Report
(iv) Members of the management body shall not enter contracts be signed with the company or third parties that seek to mitigate the effect of the risk inherent in the variable nature of the remuneration established by the company.	x		Chapter II - II.5. and II.6. and the Annex to the Institutional Governance Report
(v) Up to the end of their term of office executive directors shall retain any company shares that they have acquired as a result of variable remuneration schemes up to two times the value of total annual remuneration, with the exception of shares that must be sold in order to pay tax stemming from the benefit of those shares.		Not applicable	Chapter 0 - 0.4.
(vi) Whenever the variable remuneration includes stock options, the beginning of the period to exercise them shall be postponed for a period of not less than three years.		Not applicable	Chapter 0 - 0.4.
(vii) Suitable legal instruments shall be established in order that the compensation payable to a director for unfair dismissal shall not be payable when the dismissal or termination of the contract stems from poor performance as a director.		Not applicable	Chapter 0 - 0.4.
(viii) The remuneration of non-executive members of the management body shall not include any component the value of which depends upon performance or the company's worth.		Not applicable	Chapter 0 - 0.4.
II.1.5.2. The management and audit bodies remuneration policy statement referred to in article 2 of Law no. 28/2009 of 19 June shall, in addition to the contents described therein, contain sufficient information on: *i)* which corporate groups' remuneration policy and practices were used for comparison purposes when setting remuneration; *ii)* payments relating to a director's dismissal or termination of contract.	x		Annex to the Institutional Governance Report
II.1.5.3. The remuneration policy statement referred to in article 2 of Law no. 28/2009 shall also cover other managers, pursuant to article 248-B/3 of the Stock Exchange Code, whose remuneration contains an important variable component. Such statement shall be detailed and the policy presented shall take into account, in particular, the company's long-term performance, compliance with the rules and regulations applying to the company's business and the level of risk taken.	x		Annex to the Institutional Governance Report
II.1.5.4. A proposal shall be submitted to the general meeting on the plans for approval of share allotment and/or share options or on changes in share price, for members of the management and audit bodies and other managers, pursuant to article 248-B/3 of the Stock Exchange Code. The proposal shall contain all information required to make an accurate evaluation of the plan. The proposal shall be accompanied by the plan regulations or, if they have not yet be drawn up, the plan conditions. The major features of the retirement benefits system for members of the management and audit bodies and other managers, pursuant to article 248-B/3 of the Stock Exchange Code shall be approved at a general meeting.		Not applicable	Chapter 0 - 0.4.
II.1.5.6. At least one member of the Remuneration Committee shall be present at general meetings of shareholders.	x		Chapter II - II.5.
II.1.5.7. The annual report on Corporate Governance shall state the amount of remuneration received – aggregate and individual amounts – from other group companies and pension rights acquired in the year in question.		Not applicable	Remuneration is not payable for functions performed in subsidiary companies

Recommendations	Adopted	Not Adopted or Not Applicable	Observations/Reference in Institutional Governance Report
II.2. BOARD OF DIRECTORS			
II.2.1. Within the limits set by the law for each management and audit structure the Board of Directors shall, unless the size of the company does not allow it, delegate the daily running of the company, and the delegated powers shall be identified in the annual report on Corporate Governance.	x		Chapter II - II.8.
II.2.2. The Board of Directors shall ensure that the company acts in a manner in keeping with its aims and it shall not delegate powers concerning: *i*) definition of the company's strategy and general policies; *ii*) definition of the group's corporate structure; *iii*) decisions that must be deemed strategic given the sums or risk involved or their special nature.	x		Chapter II - II.2.
II.2.3. If the Chairman of the Board of Directors exercises executive functions, the Board of Directors shall employ efficient mechanisms for coordinating the work of non-executive members which ensure that they may make independent and informed decisions, and those mechanisms shall be duly explained to the shareholders in the report on Corporate Governance.		Not applicable	There are no non-executive members
II.2.4. The annual report shall include a description of the work performed by non-executive directors, referring, in particular, to any constraints detected.		Not applicable	There are no non-executive members
II.2.5. The company shall set out its policy for rotating responsibilities among members of the Board of Directors, especially responsibility for finance, and shall state that policy in the annual report on Corporate Governance.	x		Chapter II - II.2.
II.3. MANAGING DIRECTOR, EXECUTIVE COMMITTEE AND EXECUTIVE BOARD OF DIRECTORS			
II.3.1. Upon a request of other members of the governing bodies, the directors who carry out executive functions shall provide in a timely manner and in an orderly fashion the information so requested.	x		Chapter II - II.2.
II.3.2. The Chairperson of the Executive Committee shall send to the Chairman of the Board of Directors and to the Chairperson of the Audit Board or of the audit committee, as applicable, notice and minutes of the respective meetings.		Not applicable	
II.3.3. The Chairperson of the Executive Board of Directors shall send to the Chairperson of the General and Supervisory Board and to the Chairperson of the committee for financial matters, notice and minutes of the respective meetings.	x		Chapter II - II.2. In 2012 this recommendation was not applicable. Once CEMG's new Articles of Association came into force it was adopted.
II.4. GENERAL AND SUPERVISORY BOARD, COMMITTEE FOR FINANCIAL MATTERS, AUDIT COMMITTEE AND AUDIT BOARD			
II.4.1. The General and Supervisory Board, in addition to performing its supervisory duties, shall provide advice, monitor and continually assess the management of the company by the Executive Board of Directors. The matters on which the General and Supervisory Board shall voice an opinion include: *i*) the defining of company strategy and general policies; *ii*) the group's corporate structure; and *iii*) decisions that must be deemed strategic given the sums or risk involved or their special nature.	x		Chapter II - II.3. In 2012 this recommendation was not applicable. Once CEMG's new Articles of Association came into force it was adopted.
II.4.2. The annual reports on the activities of the General and Supervisory Board, the committee for financial matters, the audit committee and the audit board shall be disclosed on the company's website, together with the accounts.	x		Chapter II - II.3.

Recommendations	Adopted	Not Adopted or Not Applicable	Observations/Reference in Institutional Governance Report
II.4.3. The annual reports on the activities of the General and Supervisory Board, the committee for financial matters, the audit committee and the audit board shall include a description of the supervisory work, referring, in particular, to any constraints detected.	x		Chapter II - II.3.
II.4.4. The General and Supervisory Board, the audit committee and the audit board (depending on the applicable model) shall represent the company in all dealings with the external auditor, and shall propose the service provider, the respective remuneration and ensure the company has appropriate conditions for the service to be provided, as well as act as company spokesperson and first recipient of the respective reports.	x		Chapter II - II.3. In 2012 this recommendation was not applicable. Once CEMG's new Articles of Association came into force it was adopted.
II.4.5. The General and Supervisory Board, the audit committee and the audit board (depending on the applicable model) shall assess the external auditor on an annual basis and propose his dismissal to the general meeting when justified.	x		Chapter II - II.3. In 2012 this recommendation was not applicable. Once CEMG's new Articles of Association came into force it was adopted.
II.4.6. The internal audit department and those ensure compliance with the rules and regulations applying to the company (compliance department) shall report directly to the audit committee, to the General and Supervisory Board or, in the case of companies that adopt the Latin model, to an independent director or to the Audit board, regardless of their hierarchical relationship with the company's executive board.	x		Chapter II - II.3. In 2012 this recommendation was not applicable. Once CEMG's new Articles of Association came into force it was adopted.
II.5. SPECIALIST COMMITTEES			
II.5.1. Unless the size of the company does not allow it, the Board of Directors and the General and Supervisory Board (depending on the model adopted) shall set up the committees required to: *i)* ensure competent and independent assessment of executive directors' performance and to assess its own overall performance, as well as that of the various committees; *ii)* study the governance system adopted, check its efficacy and propose to the appropriate bodies measures designed to improve it; *iii)* identify in good time potential candidates of suitable pedigree to act as directors.			In 2012 this recommendation was not applicable. Once CEMG's new Articles of Association came into force the provisions of this recommendation were implemented.
II.5.2. Members of the Remuneration Committee or an equivalent body shall be independent from the members of the management body and include at least one member with knowledge and experience of remuneration policy matters.	x		Chapter II - II.5.
II.5.3. No individual or corporate body shall be hired to assist the Remuneration Committee in the performance of its duties that provides or has provided, over the previous three years, services to any structure subordinate to the Board of Directors or to the Board of Directors itself, or which currently acts as a consultant to the company. This recommendation shall also apply to any individual or corporate body connected to them by a contract of employment or service provision.	x		Chapter II - II.5.
II.5.4. All committees shall draw up minutes of meetings held.	x		Chapter II - II.5.
III. INFORMATION AND AUDITING			
III.1. GENERAL DUTIES OF INFORMATION			
III.1.1. Companies shall maintain a permanent contact with the market, so respecting the principle of equality among shareholders and preventing uneven access to information among investors. To that end the company shall run an investor support office.		Not applicable	Chapter III - III.1.

Recommendations	Adopted	Not Adopted or Not Applicable	Observations/Reference in Institutional Governance Report
III.1.2. The following information available on the company's website shall be disclosed in English: *a*) The company name, the fact it is an open company, its registered office and the other items set out in article 171 of the Commercial Companies Code; *b*) the Articles of Association; *c*) the names of the members of the governing bodies and of the market liaison officer; *d*) the Investor Support Office, its duties and means of access; *e*) the Accounts; *f*) Half-yearly calendar of corporate events; *g*) Proposals presented for discussion and voting at general meetings; *h*) notice of general meetings.	x		Chapter 0 - 0.1. Chapter I - I.4. and I.6.
III.1.3. Companies shall encourage rotation of the auditor at the end of two or three terms of office, depending on whether the term is four or three years. The retaining of the auditor after this period must be based on a specific opinion of the audit body that expressly considers the auditor's state of independence and the advantages and costs of his replacement.	x		Contracts are signed annually.
III.1.4. The external auditor shall, within the scope of his powers, verify the application of remuneration policies and systems, the efficacy and operating of internal control mechanisms and report any flaws to the company's audit body.	x		Chapter III - III.2.
III.1.5. The company shall not hire services other than audit services from neither the external auditor nor any other entities in which the auditor has a holding or which belong to the same network. If there are reasons for hiring those services – which must be approved by the audit body and explained in the annual report on Corporate Governance – they must not exceed 30% of the total value of the services provided to the company.	x		Chapter III - III.2.
IV. CONFLICTS OF INTEREST			
IV.1. RELATIONSHIPS WITH SHAREHOLDERS			
IV.1.1. The company's business with holders of a qualifying shareholding, or with entities related to them under the terms of article 20 of the Stock Exchange Code, shall be conducted in line with normal market conditions.		Not applicable	
IV.1.2. Business of significant importance relevance with holders of a qualifying shareholding, or with entities related to them under the terms of article 20 of the Stock Exchange Code, shall be subject to prior approval from the audit body. That body shall set up the procedures and criteria required to define the degree of importance of such business and the other terms of its intervention.		Not applicable	

0.3. OVERALL ASSESSMENT OF THE DEGREE TO WHICH THE RECOMMENDATIONS HAVE BEEN ADOPTED

Bearing in mind the table above and the information contained throughout the Report, it may be concluded that the degree to which the Recommendations have been adopted is appropriate and in line with the values such as ethics, integrity and transparency which govern the institution. Furthermore all acts of management are in accordance with the rules and regulations, the Executive Board of Directors as the body responsible for managing the institution defines its strategy, its organisational structure and its goals, and all its activities are monitored effectively.

0.4. REASONS FOR THE RECOMMENDATIONS NOT BEING ADOPTED OR APPLIED

We have sought to improve the governance model, taking into account the needs of the market in general and the members in particular. An example of this are the Recommendations that previously were not adopted or not applicable but now are.

Therefore, as a result of the table shown in point 0.2., all the non-applicable Recommendations are deemed so because of the institution's legal status – which is not that of a commercial company and its capital is not divided into shares – and compliance with the Articles of Association, in the context of its mission and aims.

CHAPTER I – GENERAL MEETING

As stated at the beginning of the Report, the Articles of Association of CEMG were amended in 2012 which resulted in the separation of the governance bodies of CEMG and the MG-AM bodies.

However, and as stated earlier, the governance model in force up to 31 December 2012, common to both MG-AM and CEMG, consisted of the General Meeting, the Board of Directors and the Audit Board, and a body with mainly advisory duties known as the General Council.

Up to the amendment to the Articles of Association the General Meetingwas the collegiate and the institutional body, made up of all full members of MG-AM who are adults and have been members for over two years, and each member had the right to one vote.

Under the new model of governance the General Meeting consists not of all MG-AM members but of the members elected to MG-AM's General Council who are ex-officio members of CEMG's General Meeting.

I.1. IDENTIFICATION OF GENERAL MEETING BOARD MEMBERS

The General Meeting Board consists of a Chairperson and two Secretaries. In the Chairperson's absence the First Secretary shall take his/her functions, and in the latter's absence the Second Secretary shall take those functions.

I.2. TERM OF OFFICE OF GENERAL MEETING BOARD

As is the case with the other members of the governing bodies, General Meeting Board members are elected every three years and they may be elected for more than three successive terms of office, notwithstanding legal limits.

I.3. GENERAL MEETING BOARD CHAIRPERSON'S REMUNERATION

In 2012, as in the previous year, the General Meeting Board Chairperson's remuneration was based on attendance at the rate of € 813.75 per session.

I.4. GENERAL MEETING PROCEEDINGS

Traditionally General Meeting proceedings were governed by their own regulations in addition to the Articles of Association of MG-AM and CEMG.

The Chairperson of the General Meeting Board continues to be, both before and after the amendment to the Articles of Association, responsible for calling extraordinary and ordinary General Meetings, at least fifteen days in advance, and for presiding over them. The Secretaries are responsible, in particular, for drawing up the minutes and issuing the respective certificates.

The General Meeting Board Chairperson shall be provided with the logistics and human resources required to perform his/her functions and shall be assisted by the Institution's General Secretary and the appropriate departments.

Before the amendments to the Articles of Association, an ordinary General Meeting could only be duly convened on first call when at least half the members were present and on second call the General Meeting could conduct business an hour later, regardless of the number of members present. Nonetheless resolutions as to the revision or amendment of the Articles of Association, mergers, splits, modifications or incorporations of CEMG, required the presence of at least two thirds of members on first call, and any number of members on second call up to twenty but no less than fifteen days later.

Under the new Articles of Association a General Meeting is deemed duly convened and its resolutions valid regardless of the number of members present, except in the case of the revision or amendment of the Articles of Association, mergers, splits, modifications, the liquidation or incorporations of CEMG which require the presence of at least two thirds of its members.

In the case of these exceptions, if the required quorum is not present the General Meeting after a second call may pass resolutions regardless of the number of members present.

The CEMG General Meeting call shall be drawn up and disclosed pursuant to the legal requirements and in addition shall be available on the company's Intranet and its website.

In 2012, two Ordinary General Meetings and one Extraordinary General Meeting were held – which took place over five sessions and resulted in the approval of CaixaEconómica Montepio Geral's new Articles of Association – as well as an Electoral Meeting.

I.5. PROCEDURES RELATING TO VOTING RIGHTS

As regards CEMG, in the past votes were cast either in person or by mail, and in the latter case only to elect the governing bodies and under the terms of the Articles of Association.

Under the new Articles of Association votes may only be cast in person.

Documents relating to General Meetings shall be made available to members of the MG-AM General Council members, by electronic means and fifteen days before the meeting is held.

The call shall clearly state not only the date, time and place of the General Meeting, but also information on the places where members may obtain clarifications.

There is still no system which allows voting by electronic means to elect members of the remaining governing bodies.

I.6. INFORMATION ON GENERAL MEETING RESOLUTIONS

The CEMG shall disclose the resolutions of ordinary and extraordinary General Meetings on its website. This information shall be stored there for five years.

CEMG's annual accounts shall also be disclosed on the SEC website.

CHAPTER II – MANAGEMENT AND AUDIT BODIES

II.1. MAKE UP OF INSTITUTIONAL BODIES

The association and institutional bodies that made up the governance model of Montepio Group (Montepio Geral – Associação Mutualista and Caixa Económica Montepio Geral) up to 31 December 2012 were: General Meeting, Board of Directors, Audit Board and a body with mainly advisory functions known as the General Council.

When the CEMG's institutional bodies come to office, the MG-AM shall keep the same governance model, but the CEMG's bodies shall be: General Meeting, General and Supervisory board, Executive Board of Directors, Remuneration Committee and Auditor.

II.2. BOARD OF DIRECTORS/EXECUTIVE BOARD OF DIRECTORS

The Board of Directors was the body responsible for CEMG management. Directors were elected at a General Meeting, as were the remaining members of the institutional bodies.

After the amendment to the Articles of Association the Executive Board of Directors continues to be the body responsible for CEMG management. Directors are elected at a General Meeting, as are the remaining members of the institutional bodies.

Make up

The Board of Directors was made up of executive members, a Chairman and four directors,who held office for three years and could be re-elected. The Executive Board of Directors continues to be made up of executive members, a Chairman and a maximum of four directors.

Responsibilities

The Executive Board of Directors is responsible for:

- preparing the Annual Report and Accounts and the appropriation of profit proposal, as well as the action programme and budget for the following year;
- approving the increase in the institutional financial investment and the issuing of mutual fund shares, within the limits set by the Articles of Association;

• approving the opening and closing of branches and any other form of representation;

• approving the purchase, sale and pledging of fixed assets.

Proceedings

The Executive Board of Directors continues to act as a collegiate body, as under the previous Articles of Association. It meets at least twice a week and may take decisions provided a majority of its members are present. Decisions are taken by a simple majority of those present, the Chairman having a casting vote.

The Executive Board of Directors may also appoint agents to represent CEMG in any acts or contracts, and shall always define the scope of their powers.

Distribution of responsibilities on 31 December 2012

As stated at the beginning of this Report, on 7 December 2012 the Association and Institutional Bodies of MG-AM and CEMG were elected for the three-year period 2013-2015 and they took office on 11 January 2013.

Management body responsibilities are distributed among the same people in MGAM and in CEMG, as this distribution has not yet taken place at the CEMG level.

For each area of responsibility there is a substitute Director and when CEMG's institutional bodies take office the corporate structure will be reorganised and the areas of responsibility will be redistributed, as mentioned earlier.

Since the CEMG management body has been elected but has not yet taken office no reference is made in this Report to the qualifications of and responsibilities held by members of the Executive Board of Directors in other Montepio Group companies.

II.3. AUDIT BOARD/GENERAL AND SUPERVISORY BOARD

In the past the Audit Board was responsible for internal control and monitoring of CEMG's activities.

When the new Articles of Association came into force these duties were transferred to the General and Supervisory board.

Make up

The Audit Board, consisting of a Chairperson and two Members, must include an Auditor and a member appointed by the employees.

Under the new Articles of Association the General and Supervisory board consists of the Chairperson of the General Meeting Board of MG-AM and members of the Board of Directors and the Audit Board, who when elected to the MG-AM bodies become ex-officio members of CEMG's General and Supervisory board.

The first person on each of the first three lists, if any, to be elected to the MG-AM General Council, are also ex-officio members of the General and Supervisory Board.

Responsibilities

The General and Supervisory Board is responsible for:

a) Acting as an advisor to and providing a continuous assessment of the Institution;

b) Examining the financial statements and the minutes of Executive Board of Directors meetings;

c) Supervising risk policies and accounting practices;

d) Monitoring financial performance and budgetary control;

e) Analysing and discussing the external auditors' reports;

f) Controlling non-compliance with regulations, the Articles of Association and the defined policies.

Proceedings

The MG-AM and the CEMG Audit Board met at least once a month.

The CEMG General and Supervisory Board shall also meet monthly and shall prepare annual reports on the company's business that shall be discussed at a General Meeting and disclosed on the company website together with the Accounts.

II.4. GENERAL COUNCIL

As stated in Chapter I of this Report, the governance model existing up to 31 December 2012, shared by MG-AM and CEMG, comprised, in addition to the General Meeting, the Board of Directors and the Audit Board, a body with mainly advisory functions known as the General Council.

In 2012 the General Council met eight times. Council members, except for members of the Board of Directors received an attendance fee for each session.

Following the changes to CEMG's Articles of Association, only MG-AM has a General Council and, as mentioned earlier, members of that body are ex-officio members of CEMG General Meetings.

II.5. REMUNERATION

The remuneration of members of the association and institutional bodies are set by a Remuneration Committee whose members were elected at a General Meeting for the period 2010-2012.

No member of that committee is a member of the management body or the spouse or relative up to the third degree of such a member. Committee members have knowledge and experience of remuneration matters and they have no contract of employment, service provision, supply or credit with Montepio, with the possible exception of own home or health expenses loans.

When performing its tasks the Committee shall abide by the principles laid down in the «Management and Audit Bodies Remuneration Policy Statement» approved annually at a General Meeting upon a proposal by the Board of Directors, and put into practice according to the Remuneration Committee's decisions.

In addition the setting of remunerations aims at assessing practices and policies applying to the Institution's activities, as well as the criteria used, as per an annual report that shall also be submitted to a General Meeting which shall be attended by at least one Committee member.

In 2012 the Remuneration Committee met twice and drew up minutes of the meetings.

II.6. REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS AND AUDIT BOARD

Pursuant to the approved remuneration policy, the remuneration received by the members of the Board of Directors in 2012 was as follows:

(Euros)

	Fixed Remuneration	Variable Remuneration	Total Remuneration
António Tomás Correia – Chairman	447 671.83	–	447 671.83
José de Almeida Serra	395 546.84	–	395 546.84
Rui Manuel Silva Gomes do Amaral	449 294.34	–	449 294.34
Eduardo José da Silva Farinha	395 546.84	–	395 546.84
Álvaro Cordeiro Dâmaso	395 546.84	–	395 546.84
TOTAL	**2 083 606.69**	**–**	**2 083 606.69**

In 2012 there was no increase in their remuneration, as decided by the Remuneration Committee and approved by a General Meeting. However compared to 2011 there were some differences resulting from corrective adjustments, as shown below:

(Euros)

	2011 Value	2012 Value	Change Value
António Tomás Correia – Chairman	447 662.80	447 671.83	9.03
José de Almeida Serra	395 537.81	395 546.84	9.03
Rui Manuel Silva Gomes do Amaral	400 467.77	449 294.34	48 826.57
Eduardo José da Silva Farinha	395 537.81	395 546.84	9.03
Álvaro Cordeiro Dâmaso	394 878.72	395 546.84	668.12
TOTAL	**2 034 084.91**	**2 083 606.69**	**49 521.78**

As for the audit body, a monthly gross salary of 5 500 euros for the Chairman and 5 000 euros for each member was set, in addition to the attendance fee of 813.75 euros for the Chairman and 712.03 euros for the other members.

The remuneration proposal for 2013 to be submitted to a General Meeting is attached as an annex to this Report.

Other quantitative information

Given the level of responsibility assigned to the company's top management (Director, Deputy Director and Assistant Director) which has a material impact on the Institution's risk profile – internal auditing, risk management and compliance – the remuneration paid to those employees in 2012 is given below:

Coordinating Director	Director	Deputy Director	Assistant Director	Director's Assistant
1	3	4	3	1

Total no. of Employees	**12**
Total Fixed Rem. (euros)	1 080 745.48
Total Variable Rem. (euros)	35 981.00
Relative Weight of Variable Rem.	3.22%

II.7. REPORTING OF IRREGULARITIES

The Audit and Inspection Department is charged with supporting the management body in the exercise of its disciplinary power in regard to practices involving employees who breach the rules and with identifying in a timely manner the most important and risky areas with a view to ensuring efficient governance.

II.8. ORGANISATION CHART AND COMPANY UNITS

Under CEMG's organisational model the macrostructure brings together a series of units separated by the type of activities they undertake. Their activities are structured in line with the organisation, functions and responsibilities defined by the management body, which establishes the organisation structure model. This model is not only functional but is also decidedly a market oriented structure.

Adjustments are made to the corporate structure, whenever they prove necessary, so as to provide the Institution with an even more flexible organisational structure and allow an improved channelling of efforts to achieve greater efficiency and returns.

II.9. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

When performing its duties the management body shall propose and revise annually the goals and strategic guidelines for the next three-year period and control permanently the Institution's overall progress, the risks inherent in its business and the leadership and execution of the various projects.

There are also a number of units that provide internal control, risk management and information systems.

In addition to the information contained in the Annual Report, the units responsible for internal auditing, compliance and risk management should be identified here.

II.9.1. Internal Control System

The management body is responsible for preparing the report on the Internal Control System, as well as for implementing and maintaining a suitable and effective system that abides by the defined principles, as a key element of the organisation's business and culture.

It shall also evaluate the internal control system on the basis of the defined suitability and efficacy assessment mechanisms and with the support of the functional units: Audit and Inspection Department, Risk Department and Compliance Office, together with the supplementary work carried out by the external auditor KPMG & Associados, SROC.

Thus the internal audit function is an integral part of the Institution's internal control continuous monitoring system, and checks in an independent manner the suitability of and compliance with the defined policies, as well as assisting top management.

II.9.2. Risk Control System

As regards the management of the different types of risk inherent in the business the Risk Department (DRI), within the Montepio Group, supports the management body, providing an analysis of market, liquidity, interest rate, credit and operational risks for CEMG, as well as for other entities belonging to the Montepio Group, when so decided by the management.

In order to perform its duties the DRI comprises the following departments: credit risk; market risk and operational risk whose main tasks are designed to prevent and control the risks inherent in the business.

In terms of compliance the Compliance Office performs its duties in a permanent, effective, autonomous and independent manner so as to help the management bodies, organisational structure and all employees to fully complying with external and internal rules and regulations.

In the pursuit of its mission the Compliance Office supports the management body in the definition and implementation of compliance policy and the prevention of money laundering, thereby contributing to the spread of a culture of compliance through the identification and evaluation of the various situations that run this type of risk.

CHAPTER III – INFORMATION AND AUDITING

III.1. INFORMATION

CEMG was incorporated with the aim of placing at the disposal of Montepio Geral – Associação Mutualista (MG-AM) the profits on its activities, net of the deductions laid down in the Articles of Association so that the latter could apply them to achieve its goals.

CEMG institutional capital is permanent, unredeemableand does not give rise to the payment of interest or dividends. It is established in accordance with the terms of the Articles of Association and consists either of the sums paid over by MG-AM for this purpose and which become an integral part of CEMG's equity, or by those reserves of CEMG which are incorporated.

As at 31 December 2012, CEMG institutional capital was1 295 million euros and it was fully paid up.

As stated at the beginning of this Report, the institution discloses on its website, quarterly, half-yearly and annual information in addition to publishing monthly and weekly reports on economic analysis and the financial markets, in accordance with its legal and regulatory reporting duties. On the other hand, relevant institutional information is also provided in the institutional section.

Although CEMG has no Investor Support Office, which is explained by the fact that is not an entity that resorts to the market to obtain its capital, it has departments that provide institutional and financial information.

III.2. AUDITING

KPMG & Associados – SROC, SA is the external auditor responsible for auditing and inspecting the accounts of both MG-AM and CEMG.

KPMG provides its services in a manner that is completely independent from Montepio, in keeping with the applicable professional and regulatory rules.

In line with previous practice, the service provision agreement is signed annually and in 2012 the fees charged by KPMG & Associados – SROC, SA, in regard to the various services provided to Montepio Geral – Associação Mutualista were 24 132.60 euros.

As for the services provided to Caixa Económica Montepio Geral the fees totalled 1 503 278.94 euros. These sums include the cost of audit services.

CEMG MANAGEMENT AND AUDIT BODIES REMUNERATION POLICY STATEMENT FOR 2013

1. The general and fundamental rules of remuneration policy are set by the General Meeting and shall be applied to particular situations by a Remuneration Committee, elected under the terms of article 16 (*c*) of CEMG's Articles of Association, in force since 14 January 2013, and there shall be no recourse to external consultants.
2. Article 11 (1) of CEMG's Articles of Association provides that the institutional bodies of CEMG are: the General Meeting; the General and Supervisory Board; the Executive Board of Directors; the Remuneration Committee and the Statutory Auditor.
3. The performance of the management and audit bodies shall be assessed by the General and Supervisory Board.
4. The remuneration of members of the Executive Board of Directors shall be made up of:

   a) A monthly fixed sum, paid in double in January (holiday bonus) and November (Christmas bonus), which shall be higher in the case of the Chairman of the Executive Board of Directors and equal for all other members;

   b) A fixed annual subsidy, payable in April, of a sum not exceeding 11% of annual fixed remuneration;

   c) Travel expenses payable under identical terms to those payable to employees;

   d) A possible special reward to be made under identical distribution terms and criteria as that payable to top management;

   e) The variable remuneration shall never exceed 20% of the annual fixed remuneration;

   f) The remuneration referred to in subparagraphs *a*) and *c*) may be revised annually under the same terms as employee pay is revised;

   g) At the end of their term of office members of the management body shall be entitled to the monthly remuneration up to the day they left office, plus any sums arising under application of the terms of their contract of employment;

   h) In cases of unfair dismissal, members of the management body shall be entitled to receive the monthly sums due to them up to the end of their term of office;

   i) Remuneration is not due for duties performed in subsidiary companies, be they payable by those companies or by CEMG.

5. Members of the General and Supervisory Board shall receive attendance fees and a monthly salary under terms to be set by the Remuneration Committee.
6. Members of the General Meeting Board, as referred to in article 17 (1) of the Articles of Association shall receive attendance fees for the sessions they attend.
7. The Statutory Auditor shall receive a fixed fee.

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Montepio

Valores que crescem consigo.