ANNUAL REPORT AND ACCOUNTS 2010

Montepio

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Montepio

Contents

1. Governing Bodies

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

GENERAL MEETING BOARD

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

BOARD OF DIRECTORS

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

INTERNAL AUDIT BOARD

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

GENERAL BOARD

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

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

2. Chairman's Statement

The country's social and economic scenario in 2010, which was marked by an increase in the public deficit and foreign debt, a rise in unemployment and weak growth in the economy, placed particular demands on financial institutions in general and the banking sector in particular. Many of them had to resort to the ECB for financing and they felt the effects of the drop in their ratings in spite of their good scores in the solidity tests.

In this framework, Montepio was able to preserve the necessary liquidity and solvency balances and devoted special attention to its basic function of intermediation. As a result, we reconfigured our balance sheet in favour of assets with higher liquidity, stable funding and the stimulation of saving. We replaced market debt by customer resources, mitigated the impact of the adverse circumstances on operations and results, placed strict restrictions on cost management and diversified activities, risks, income and markets.

We proved our resilience, overcame the challenges and ensured that Montepio showed a highly positive performance, reflected by high levels of trust and repute, substantial growth in assets and profits from Associação Mutualista, Caixa Económica and the other Group companies. We also worked intensively in the field of social intervention based on the mutual values that inspire us and set us apart, in line with our mission of fostering cohesion and strengthening the social economy.

We are aware that society's expectations are changing rapidly and that it is necessary to live up to them and so we have been adjusting Montepio's organisation and management and business and stakeholder communication models in order to provide services and solutions in the financial social and insurance areas that meet the needs and aspirations of our community of members and customers.

Portugal is going through a critical period. We therefore believe that the contribution of financial players is essential in favouring balanced, sustainable growth in the economy.

We believe that it is vital to support economic activity and investment in the sectors producing tradable goods and services in order to increase exports and replace imports and that there is a crucial need to foster financial literacy in order to combat over-indebtedness, encourage households to save and nurture the balance and consolidation of their financial situation.

Looking to the future, we grasped opportunities with the support of a solid economic and financial situation. Following the acquisition in 2009 of Real Seguros and Mutuamar, in 2010 we embarked on an important new growth project, the takeover of Finibanco, SGPS. We feel that this is yet another crucial strategic decision for the Montepio Group in order to strengthen it and place it at a level that is more appropriate to the pursuit of its purpose.

The transaction was completed in an exemplary fashion and its integrity and quality were recognised by the regulatory and supervisory bodies. And so now the time has come to integrate the different Finibanco, SGPS companies with their Montepio Group counterparts. Everything will be done with the greatest respect for people and their jobs and there will be no dismissals.

Our goal is to nurture growth, modernisation and the creation of value for our members and prepare Montepio to meet the challenges of the 21st century, while ensuring sustained work in associations, ethics, transparency and active social responsibility aimed at people, a better standard of living and the country's development.

This is our vision for Montepio and these are the references that guide us in our determined management of the present and future of the largest Portuguese association, the largest lender and the best example of how society can conduct a solid, sustainable project capable of generating value for everyone that it serves.

On behalf of the staff and Board of Directors, I would like to highlight the expression of our gratitude in a later point in this report and our acknowledgement of the commitment and dedication of all Montepio Group employees. My thanks go to our members and customers, who give life to and are the raison d'être of this organisation and support us with the trust and loyalty that do so much to motivate us.

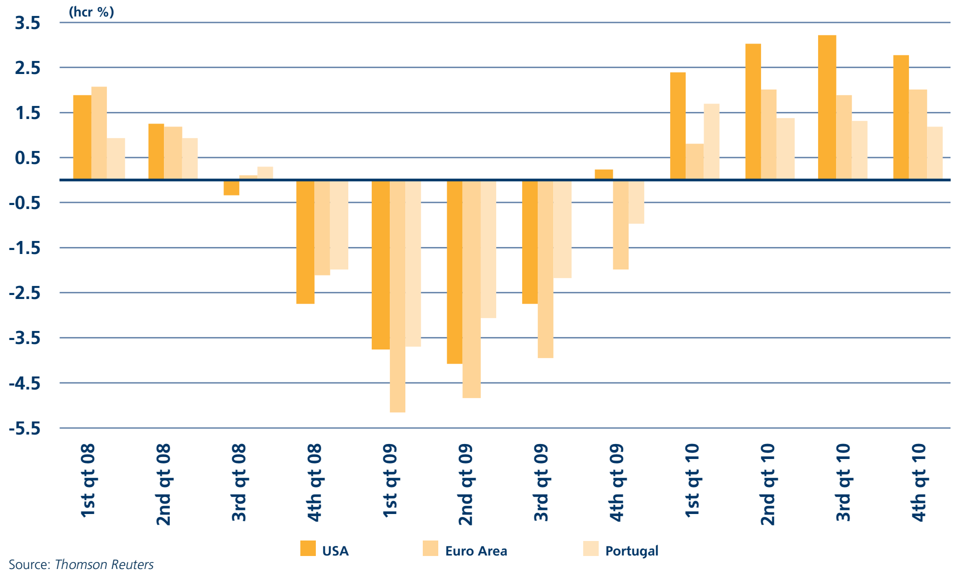
3. Overview of Activities

MACROECONOMIC FRAMEWORK

The macroeconomic situation in 2010 was marked by the global economic recovery that began in the second half of 2009 and a revitalisation of international trade, although they occurred at a different pace, even in the developed economies (where robust growth in the USA and Japan contrasted with anaemic growth in Europe).

However, the increased turbulence in the financial markets resulting from a sovereign debt crisis in several Euro Area countries eventually introduced additional uncertainty as to the recovery of the global economy. Indeed, there was deterioration in financial market conditions, which impacted on the financing of the economy. In order to meet market pressure, a number of governments were obliged to consolidate their budgets, which affected their aggregate demand.

GROWTH OF GROSS DOMESTIC PRODUCT (GDP)



Source: *Thomson Reuters*

In this scenario, there was a certain deceleration in growth in most economies in the second quarter of 2010 (lasting several months). The effects on the gross domestic product (GDP) figures for that quarter were not homogeneous even in the developed economies, either because the basic effects were not similar or because the feedback effect between the real economy and financial markets is faster in the United States, where financing via capital markets is more vigorous than in the Euro Area.

The sovereign debt crisis had an impact on the devaluation of the euro, especially against the US dollar, which affected flows of international trade. In view of the signs of deceleration and growing risks of another recession of the world's largest economy, in the middle of the third quarter of 2010 the Federal Reserve (Fed) began to devise a scenario, confirmed in November, of new quantitative easing measures (QE II) to breathe new life into the economy by reducing the unemployment rate at bankina time when the inflation core was at historically low levels. This event, or rather expectations that the Fed would bring it about, was decisive in improving financial market conditions. The markets were put to the test again in November by the bailout of Ireland by the EU and IMF. The fourth quarter witnessed acceleration in economic growth in the Euro Area and the United States.

In turn, the emerging economies showed very positive signs during the year, particularly Brazil, China, India and other Asian economies, to such an extent that, in spite of signs of a slowdown, these countries' central banks were forced to tighten their monetary policy to prevent their economies from overheating.

THE UNITED STATES

In the USA, GDP is expected to have grown 2.8% in 2010, thereby recovering completely from the 2.6% fall in 2009 and reaching an all-time maximum. After private spending fell 1.2% (the largest drop since 1942 and the second one running) in 2009, in a scenario of gradually improving consumer confidence, it is thought to have risen 1.8% in 2010, i.e. lower than GDP and, especially below the average 3.5% advance during the 1992-2007 expansion period, in which it systematically grew above GDP, supported by the expansion of credit.

In 2010, 900 000 jobs were created in the United States, which is a slow pace, considering that it is still necessary to recover around 7.8 million jobs to achieve the employment level in December 2007.

The situation in the credit market began to turn around in mid-2010, as the banks loosened their tight loan criteria. The amounts of consumer credit at the end of the third quarter began to reverse the downward trend that they had begun in August 2008.

Where prices were concerned, the 2.7% inflation of December 2009 had gone down to 1.5% a year later. This reflected a slowdown in year-on-year growth in energy prices and most raw materials. The growth in prices of Brent futures went from 75% in December 2009 to 23% in December 2010, while the growth in the Reuters/Jefferies CRB composite index (comprising 19 raw materials) dropped from 25% to 16% over the same period. Furthermore, there was also a slowdown in core inflation (i.e. excluding food and energy), which went from 1.8% to 0.8% in the same period, leaving it slightly higher than the 0.6% recorded in October, which was the lowest figure since at least 1958.

These data show an absence of inflation pressuring commodity prices, which allowed the Fed to follow an even more expansionist monetary policy via the new QE II measures, as mentioned above. In spite of inflationary pressure on commodity prices, for now it has not been passed on to consumers, although it makes it more difficult for entrepreneurs to absorb price rises. If this occurs, it will pose an additional challenge for the Fed.

EURO AREA

After the considerable contraction in GDP in 2009 (-4.1%), 2010 was a year of recovery, which was particularly intense in the first half of the year and slowed down in the second half. Average growth over the entire year was around 1.7% (preliminary Eurostat estimate). There were substantial variations in different geographical areas and Germany continued to be the main engine of growth.

As a result of the slump in business activity in 2009 and the traditional time lapse between growth in GDP and the labour market, the unemployment rate rose from 9.9% in December 2009 to 10% in December 2010, though it was then on its way down after reaching 10.1% in October, the highest level since July 1998. Throughout 2010 there was a clear slowdown in the deterioration rate with prospective indicators suggesting a gradual recovery of the employment market. The reversal in the cycle in this market at the end of the year can therefore be expected to be sustainable, although here too there have been some divergences in recovery rates.

Where prices were concerned, the inflation rate rose substantially from 0.9% in December 2009 to 2.2% at the end of 2010, though its core component's behaviour was different, as it remained at 1.1%. As in the United States, there was no inflationary pressure other than from commodities prices, although this pressure in the Euro Area was also due to the depreciation of the euro and an increase in indirect taxes. This reflected the austerity measures implemented by some member countries following the sovereign debt crisis. This is also the opinion of the European Central Bank (ECB), which continues to consider that expectations of inflation are firmly anchored to its medium-term goal of 2%.

PORTUGAL

After a contraction of 2.5% in 2009, the performance of Portugal's GDP in the first half of 2010 was fairly similar to that of the Euro Area average. It even grew in the first quarter, after which it began to decelerate and returned to negative figures by the fourth quarter (-0.3% according to the INE's preliminary estimate [Statistics Portugal]). At the end of the year, the economy benefited from a new effect of anticipated purchases of durable goods, in view of the sharp rise in taxation in January 2011 as part of the austerity measures set out in the 2011 State Budget. This was not, however, sufficient to offset the negative contributions of net exports and investment, which was especially penalised by construction and most likely by variations in inventory. In any case, in 2010 the economy grew by an annual average of 1.4% (without recovering from the fall in 2009).

There was a deterioration in the employment market over the year. According to the INE, the unemployment rate rose from 10.1% in the last quarter of 2009 to 11.1% in the last quarter of 2010. This is the highest level since at least the first quarter of 1977 (considering seasonally adjusted data from the Banco de Portugal [Portuguese Central Bank] quarterly series). The serious situation in the employment market continues to be one of the main constraints on the Portuguese economy and there has been an additional deterioration in 2011, a year that is expected to be particularly difficult.

Where prices were concerned, after inflation (measured by the CPI) was negative (-0.1%) in December 2009, it began 2010 with a positive figure of 2.5% (+1.4% in average annual terms). However, core inflation was only 0.9%, which suggests that, as in the Euro Area, the absence of inflationary pressure other than from commodity prices and changes in taxation (e.g. an increase in VAT).

In its latest economic forecasts in *Boletim Económico de Inverno*, Banco de Portugal (BdP) painted an unfavourable picture for the Portuguese economy, when it predicted a contraction in GDP (-1.3%) in 2011 and slow growth (+0.6%) in 2012. This period will witness further adjustments in macroeconomic imbalances accumulated over more than a decade, which have favoured high pressure on Portuguese debt in the international markets. The deterioration in finance conditions will limit economic activity due to its impact on credit.

According to the Portuguese monetary authority, this economic profile reflects not only a drop in domestic demand over the timeline in question and a sharp reduction in public spending, investment and private spending, which will be particularly intense in 2011 but also substantial growth in exports, albeit at a slower rate than planned for 2010, accompanying international trade flows.

ECONOMIC FORECASTS FOR PORTUGAL AND THE EURO AREA

(unit: %)

	2010				2011				2012			
	Portugal			Euro Area	Portugal		Euro Area		Portugal		Euro Area	
	BdP	Efe.	EC	Efe.	BdP	EC	ECB	EC	BdP	EC	ECB	EC
GDP	**1.3**	**1.4**	**1.3**	**1.7**	**-1.3**	**-1.0**	**1.7**	**1.6***	**0.6**	**0.8**	**1.8**	**1.8**
Private Consumption	1.8	–	1.6	0.7	-2.7	-2.8	1.0	0.9	-0.5	-0.7	1.3	1.4
Public Consumption	3.2	–	3.0	0.7	-4.6	-6.8	0.1	-0.1	-1.0	-1.3	0.2	0.2
Investment (GFCF)	-5.0	–	-4.1	-0.8	-6.8	-3.2	1.9	2.2	-0.4	-0.4	3.1	3.6
Exports	9.0	–	9.1	10.6	5.9	5.6	7.2	6.1	6.1	6.4	6.1	6.3
Imports	5.0	–	5.8	8.7	-1.9	-3.2	5.6	5.1	2.4	1.5	5.6	5.9
Inflation	**1.4**	**1.4**	**1.4**	**1.6**	**2.7**	**2.3**	**2.3**	**2.2***	**1.4**	**1.3**	**1.7**	**1.7**
Unemployment Rate	**–**	**10.8**	**10.5**	**10.0**	**–**	**11.1**	**–**	**10.0**	**–**	**11.2**	**–**	**9.6**

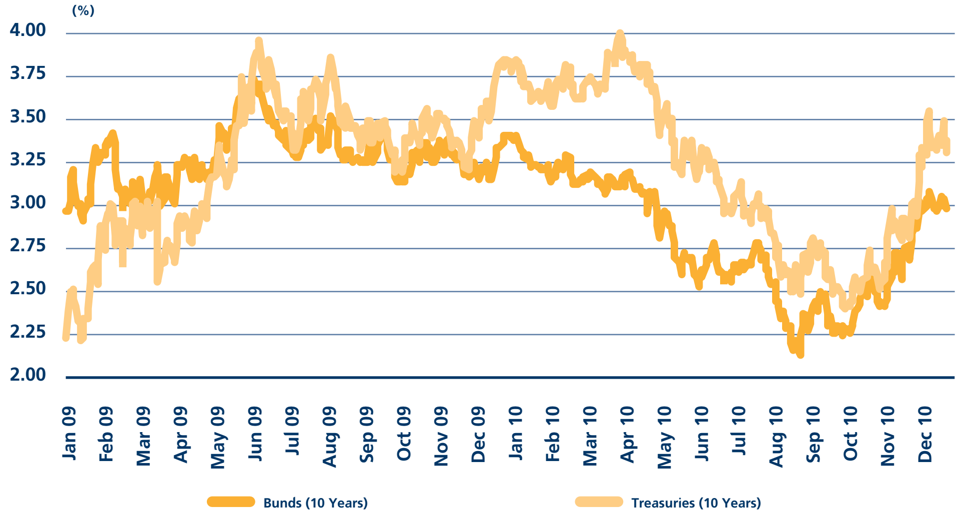
Sources: Banco de Portugal (BdP), 11 January 2011; European Commission (EC), 29 November 2010; and European Central Bank (ECB), 2 March 2011.

Notes: «Actual» corresponds to the effective data already published for 2010; The EC figures marked with an asterisk are intermediate forecasts published on 1 March 2011.

FINANCIAL MARKETS

In 2010, activity in the financial markets was essentially determined by variations in the prospects for the global economy during the year and the so-called sovereign debt crisis. As explained above, macroeconomic data for the United States improved, particularly towards the end of the year, while the Euro Area was hindered by the performance of the economies in peripheral countries. The emerging economies continued to grow at a good pace. The sovereign debt crisis reflected awareness on the part of the markets and rating agencies of the situation in the public finances of peripheral Euro Area countries.

TREND IN SOVEREIGN DEBT SECURITIES' PROFITABILITY (*BUNDS* AND *TREASURIES* – 10 YEARS)



Source: *Thomson Reuters*

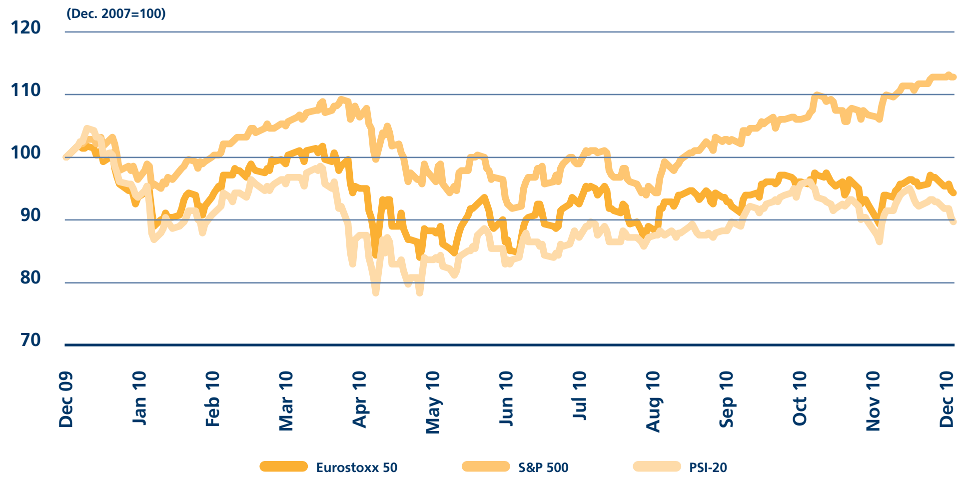
The growing tension forced European leaders to intervene. They first undertook to take measures to «safeguard financial stability in the region», then reached an agreement to help Greece with the IMF and European Commission and finally decided to create the European Financial Stability Facility (EFSF).

The ECB also made the unprecedented decision to acquire public debt from countries in difficulty (on the secondary market).

Because these measures were accompanied by demands for all the peripheral countries to adopt austerity policies, they raised the markets' fears that they might slow down the recovery of the world economy. Greek's bailout did not reassure investors and the pressure remained on the other peripheral countries. This led Ireland to resort to the EFSF in late November, and this resulted in fears that the EFSF would not be able to help all the countries that might need it. Nonetheless, the possible enlargement of the EFSF and the creation of pan-European obligations have been staunchly opposed by the two largest Euro Area economies, France and especially Germany.

In a year marked by the sovereign debt crisis in Europe and partly resulting difference between the recovery on the two sides of the Atlantic, shares naturally reflected this discrepancy. Prices went up in the United States, with the S&P 500 rising 12.8% during the year, but fell in Europe, with the Eurostoxx 50 falling 5.8%, although Germany is expected to have performed differently, with the DAX going up 16.1% and even the United Kingdom (not in the Euro Area), where the FTSE rose 9%.

TREND IN MAIN STOCK EXCHANGE INDEXES

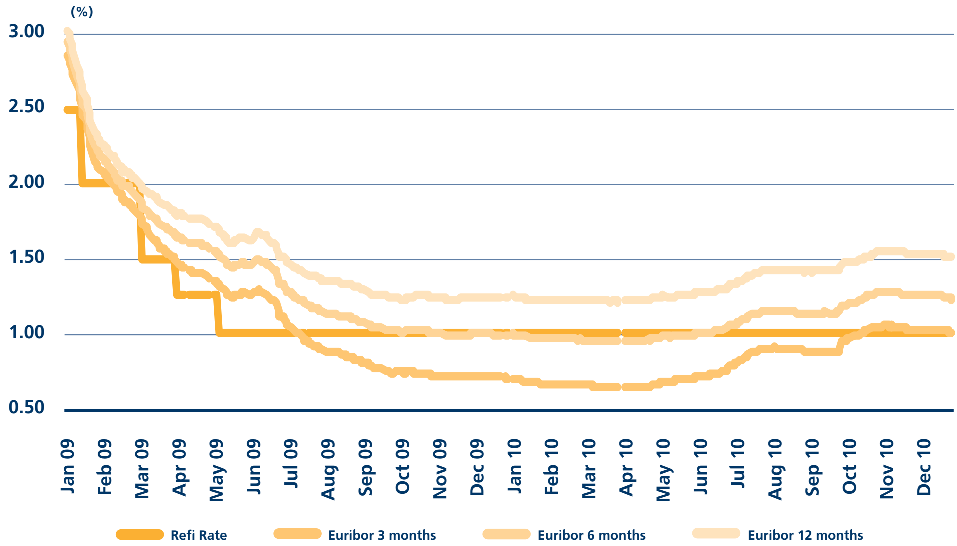


Source: *Thomson Reuters*

Another factor that boosted the United States stock markets was company profits, which were higher than analysts' expectations. In the second quarter, the number of companies that surpassed expectations was the third largest since Bloomberg began compiling these statistics in 1993. Profits in the third quarter were much higher than the historical average.

Benchmark bond yields fell over the year due to the sovereign debt crisis, which led to a demand for refuge in bunds and treasuries. These falls in yield were similar throughout the yield curve. They were slightly higher in the United States for shorter maturities, also reflecting continuing prospects as to the country's monetary policy. In the **Interbank Money Market** (IMM), Libor rates remained practically unchanged (+5 b.p. at 3 months), while Euribor rates rose 30 b.p., reflecting the positive performance of the German economy and the approximation of year-on-year inflation in the Euro Area to the ECB target. Furthermore, the increase in the IMM credit risk due to the sovereign debt crisis also contributed to the rise in rates in the Euro Area with the OIS Spread going up a total of 10 b.p. during the year.

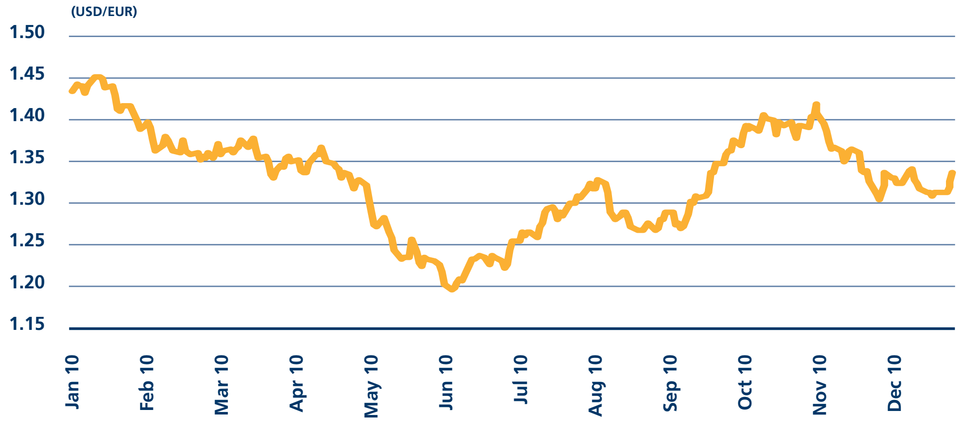
TREND IN EURIBOR INTEREST RATES – EURO AREA



Source: *Thomson Reuters*

In the exchange market, the euro devalued against the three main currencies in 2010. Even so, its fall was cushioned by the performance of the core countries in the region and, as mentioned above, by the less expansionist monetary policy in the Euro Area, with the markets anticipating a monetary squeeze earlier in the Euro Area than in the United States. In fact, although the dollar appreciated 6.7% against the euro, the Dollar Index advanced only 1.5%, reflecting the QE II measures taken by the Fed and the prospect of a continuation of this accommodating monetary policy in 2011. The euro's largest devaluation was against the yen (-18.7%), which was also the case with the dollar, though it lost only 3.4% against the pound.

TREND IN EURO vs. DOLLAR

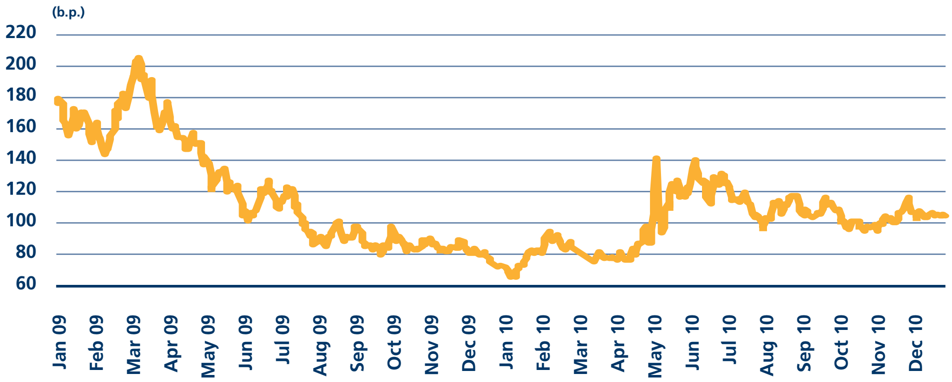


Source: *Thomson Reuters*

The public debt in the so-called peripheral countries was naturally the one that suffered most, with the *spreads* against the bund rising considerably. The extent of these deteriorations also reflects investors' fears, with Greece's spread rising 712 b.p. to 951 b.p. in 2010, while Ireland's rose 464 b.p. to 610 b.p. and Portugal's went up 296 b.p. to 364 b.p.

Private debt was also affected by the sovereign debt situation in the peripheral countries, in spite of a favourable performance in the second half of the year. The Itraxx index (5 years), the benchmark CDS (credit default swaps) for the Euro Area in investment grade class, which has much higher liquidity than the spot market and is therefore the benchmark for the credit market, rose 31 b.p. to end the year at 105 b.p., mainly pressured by financial companies, whose sub-index rose 94 b.p. to 163 b.p. Indeed the continued normalisation of the credit market and improvements in some stock markets allowed the speculative grade index, the Itraxx Crossover (5 years), to rise only 4 b.p. to 437 b.p.

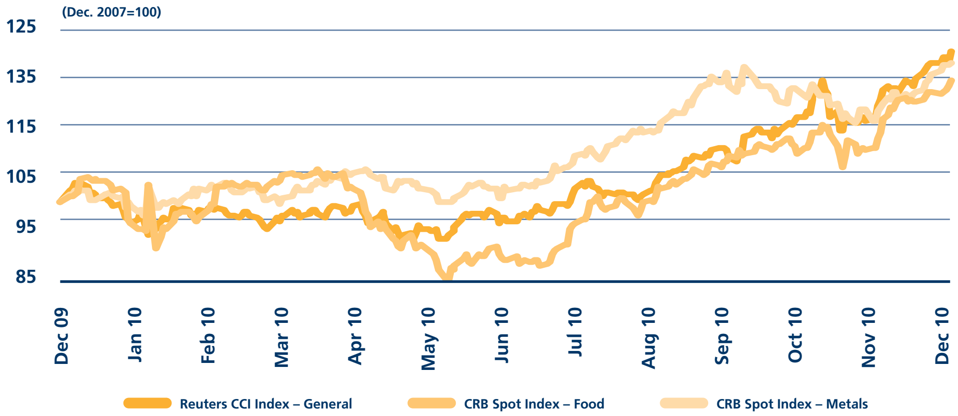
ITRAXX CDS INDEX – 5 YEARS



Source: *Thomson Reuters*

Finally, commodities were the class of assets that benefited most in 2010, judging from the composite indexes Reuters/Jefferies CRB (19 raw materials) and S&P GSCI, which rose 17.4% and 20.4%, respectively to maximum levels since mid-2008. This progression was essentially the result of an improvement in the outlook for the global economy, with strong performances in the emerging economies and encouraging figures for the United States, the Euro Area core countries and the United Kingdom. This market also showed a degree of immunity to the sovereign debt crisis in that its only interest was the possible collateral effects on the main Euro Area economies and even the world economy, which did not actually occur. Indeed, this appreciation in commodities came with a slight rise in the dollar, which tends to adversely affect commodities quoted in USD. The class that benefited most was agricultural products, which appreciated considerably at around 45%, driven by the shortages caused by droughts and floods in the second half of the year, especially in August.

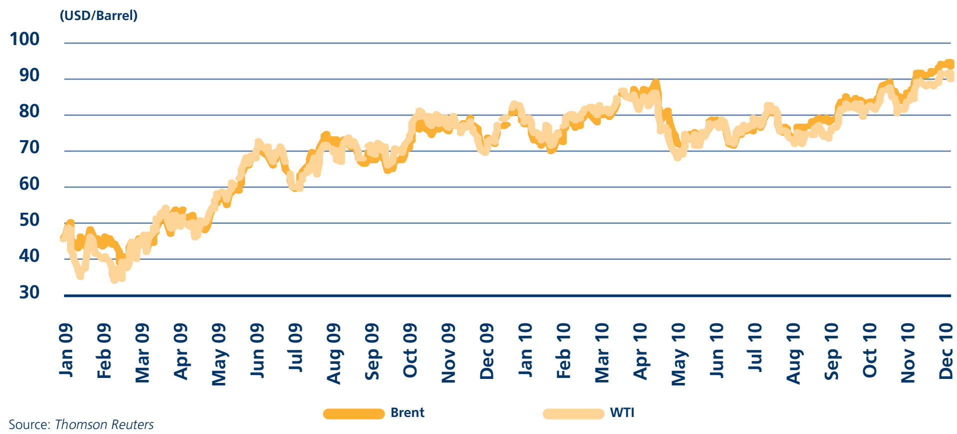
TREND IN COMMODITIES INDEXES



Source: *Thomson Reuters*

Where energy was concerned, oil rose 21.6% in London (Brent) and 15.2% in New York (WTI Crude). Oil was boosted by the prospects of global demand, which were successively raised by a number of bodies, such as the International Energy Agency, the United States Department of Energy and OPEC. In a period when the two main currencies in the international financial system, the euro and the dollar, lost ground against the other currencies, precious metals appreciated 35.5%, with gold rising 29.7%, as it benefited from being used as a substitute reserve asset at a time when uncertainty remained unusually high in spite of a brighter outlook for the economy.

TREND IN OIL PRICES



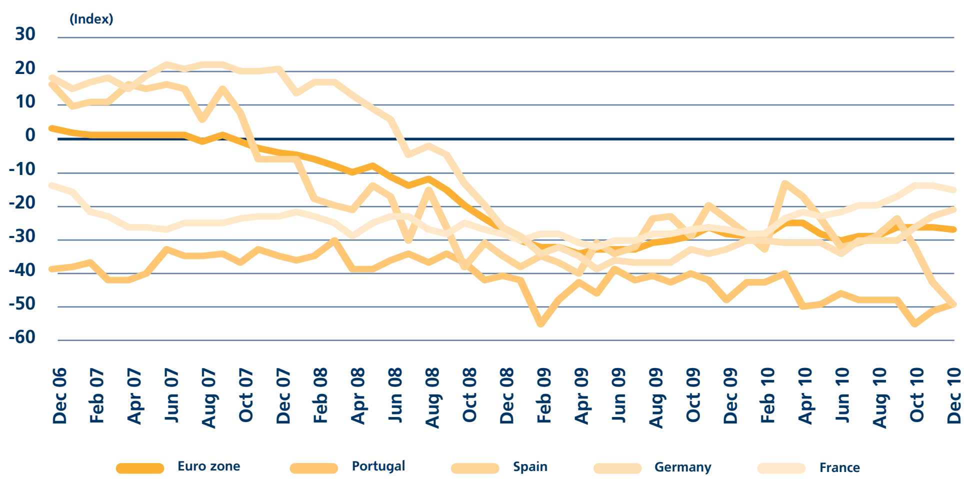
Source: *Thomson Reuters*

REAL ESTATE MARKET

The first half of the year brought some signs of stabilisation in this market, as was the case in 2009, especially in the residential segment and in the economies that had been affected most by the subprime crisis in mid-2007. However, the second half of the year brought some setbacks, as the market in the United States (the epicentre of the crisis) showed some inability to resist with public support programmes along with that in the United Kingdom (another of the countries affected most), with an improvement in property prices for most of the year, which was not based on robust foundations from a macroeconomic viewpoint giving way to a foreseeable correction in the last months.

In the **Euro Area** the construction sector was still the most pressured and contracted 1.6% in the first quarter of 2010. It was the only one of the main sectors in which gross value added (GVA) fell in the period. This situation recurred after a fleeting period of growth in the second quarter (+0.8%) in the third quarter, when it dropped 0.7% in quarterly terms (-3.1% year on year). The difficulties that the construction sector in general and the residential segment in particular are

CONSTRUCTION SECTOR CONFIDENCE INDICATOR – EURO AREA



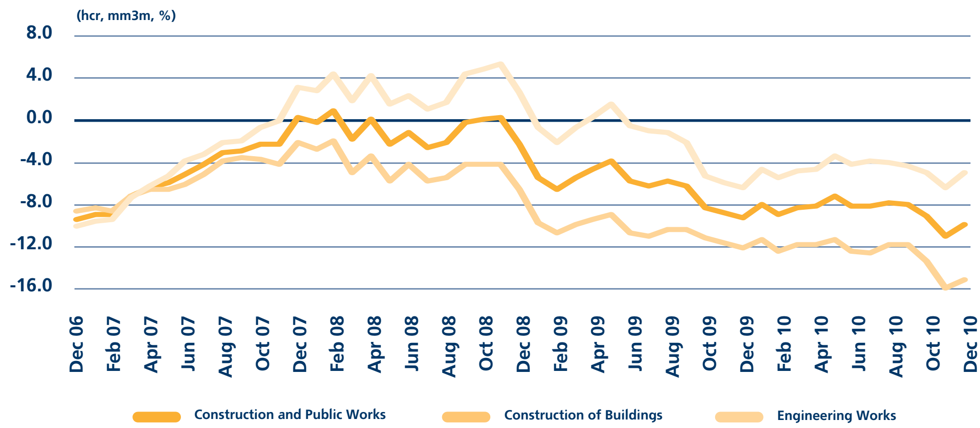
Source: European Commission

still experiencing are very clear in the confidence indicators calculated by the European Commission. Although they pointed to improvements in some Euro Area countries (e.g. Germany and France), they continued to indicate a poor situation and the average in the Euro Area countries was more or less at the same level of confidence with which they began the year. This reflected the deteriorations in some peripheral markets such as Greece, Spain and Portugal (though much less intense in the last case).

The deterioration in confidence in **Portugal** in 2010 was reflected to a certain extent in the performance in the construction sector, where the latest data on GVA point to a contraction.

In the third quarter, the sector contracted 0.9% and continues to show the largest year-on-year fall of the different sectors, although the situation has improved (from -10.1% in the fourth quarter of 2009 to -2.9% in the third quarter of 2010), reflecting the expansion in the first two quarters of the year.

CONSTRUCTION AND PUBLIC WORKS PRODUCTION INDEX



In the current context of considerable budgetary consolidation, in which business activity will be seriously limited by the austerity measures implemented by the Portuguese government at the beginning of this year, we can expect a fall in momentum in public works as a result of the cancellation or postponement of certain works. Probably already reflecting this, the data on confidence in the construction sector for January 2011 published by the European Commission showed a considerable deterioration in the situation with confidence at its lowest since March 2004. It is still the sector in which entrepreneurs are the most pessimistic, as a reflection of a fall in their order portfolios.

REGULATORY FRAMEWORK

Concerning the increase in regulation of the financial system in recent years, legislation was published in 2010 to improve the governance of financial institutions, step up capital and liquidity requirements, improve the quality of information given to customers and reinforce the powers of supervisory bodies.

In Europe, the Bank of International Settlements (BIS) and the Committee of European Banking Supervisors (CEBS) published a set of good governance principles for financial institutions. They were transposed into Portugal in the new Recommendations on Governance of Listed companies published by the CMVM and Notice 1/2010 and Circular 2/2010 published by Banco de Portugal. This new regulatory package basically covers internal risk control systems, the independence of external auditors and the adaptation to return objectives and medium-term risk of the criteria for determining the remuneration of directors and other people responsible for taking risks.

In the area of risk management, the Basel Committee approved the final version of the new rules on minimum capital and liquidity requirements (Basel III), which set out stricter criteria on capital, provisioning, liquidity and financial leverage. In Portugal, Decree-Law 140-A/2010 sets out measures to increase the solidity of financial institutions with new eligibility criteria in hybrid capital instruments for their own funds, set up supervisory powers and improve liquidity risk management.

Instruction 2/2010 from Banco de Portugal defined the concept of concentration risk and the way in which it should be monitored and disclosed by financial institutions. Banco de Portugal and the CMVM also published recommendations on business continuity management aimed at offsetting the effects of events that may affect the normal operations of financial institutions.

In January 2010, Banco de Portugal published Instruction 32/2009, which lays down the legal framework for stress tests and possible corrective measures. The aim of the tests is to assess the potential effects on an institution's financial conditions of changes in risk factors due to exceptional events.

The legislation on behavioural supervision produced by Banco de Portugal focused on increasing the minimum information to be given to customers, especially on mortgage agreements (Notice 2/2010) and the provision of additional information to the supervisor on deposit and credit agreements with customers (Instruction 8/2010).

In 2010, Decree-Law 12/2010 on microcredit in Portugal was published and set up microcredit companies, while Ministerial Order 1315/2010 regulates the activities and maximum amounts in microcredit operations.

4. Profile of the Montepio Group

4.1. SUMMARY OF PERFORMANCE IN 2010 AND TAKEOVER OF FINIBANCO

The Montepio Group is the largest mutual and social economy financial group in Portugal. In addition to Associação Mutualista and its associated Caixa Económica, it comprises six institutions that are strategic to its mutual goals, headed by Montepio Geral Associação Mutualista, which owns their share capital and is responsible for their management.

An important event was the announcement of a general, voluntary takeover bid of Finibanco Holding, SGPS, SA on 30 July 2010 by Montepio Geral Associação Mutualista (MGAM). The operation took place on 29 November at a special stock exchange session, in which MGAM acquired 99.23% of the share capital of Finibanco – Holding, SGPS. On 10 December 2010, MGAM purchased the remainder of its shares in a squeeze-out operation. The total value of its shareholding in the company was 341.25 million euros on 31 December 2010. The aim of the operation is to foster the expansion of mutual loans and the social economy, step up the Montepio Group's operations and commercial capacity in terms of its banking dimension and the diversification of its business profile, markets and sources of earnings, expand its presence in a number of markets and help consolidate the Portuguese financial sector.

The table on the following pages shows overall indicators of our performance in 2010.

The figures for Associação Mutualista, the largest mutual association in the Iberian Peninsula and one of the largest in Europe, were as follows:

- The net profit of the year was 54.4 million euros (+27.9% on 2009);
- Its number of members increased to 463,390, i.e. 4.8% or 21,299 more members than in 2009;
- Net assets rose to 2 759.3 billion euros, representing a year-on-year growth of 5.7;
- Revenue from members amounted to 329.2 million euros, 27.6 million euros (9.2%) more than in 2009;
- The number of subscriptions of schemes rose to 799 053 (+4.7%), while the average number of subscriptions per member was 1.72;
- Equity amounted to 410.6 million euros, which is equivalent to an annual growth of around 2%, through an increase in profits, own funds and the Legal Reserve (+6.2%);
- The net return rate on assets remained at 2.7%, with around 60% assets with liquidity (bank deposits and securities);
- The institution's degree of solidity was maintained, as reflected by coverage of liabilities (funds, reserves and mathematical provisions on provisions for risks and costs), at 1.15.

Thanks to its size and reputation in banking activity, Caixa Económica, commercially known as Montepio, holds a prominent position in the group. It also holds sixth place in the banking sector rankings and plays a central role in the strategic development of the group and mutual loans in Portugal.

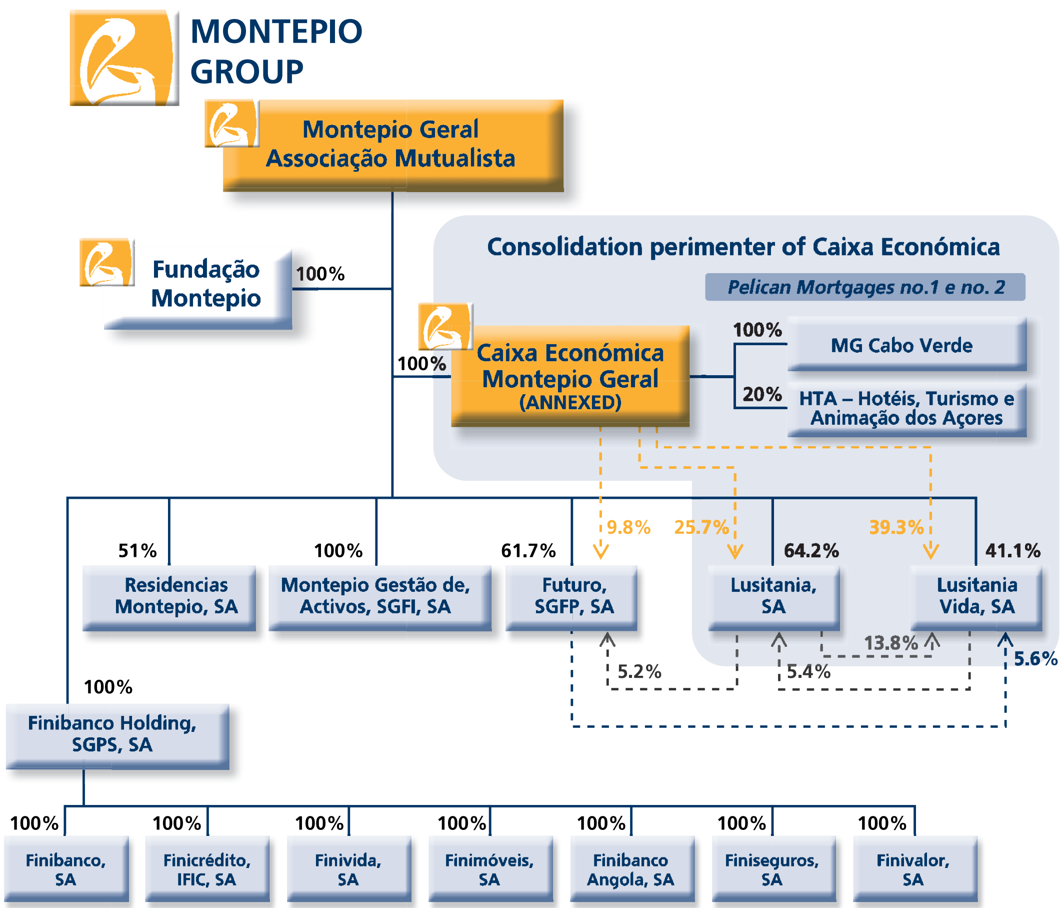
Lusitania Companhia de Seguros also achieved sixth place in the insurance rankings after acquiring and integrating Real Seguros and Mutuamar and consolidating N Seguros. Lusitania Vida is in 15th position in the life insurance market and Futuro is seventh in the pension fund market.

The following are the most important figures on the performance of Montepio (CEMG):

- It achieved a consolidated net profit of 51.4 million euros (+15.6% on 2009), to which the following factors contributed:
  - A 27.7 million euro (+70.9%) increase in profits from financial market operations, which mitigated the effect on the reduction in net interest income (-15.5%);

– A 34.8 million euro (23.5%) reduction in funds for credit provisions and impairment.

- It improved levels of return for MGAM and return on equity (ROE) went from 4.72% to 5.18%, while return on assets (ROA) went from 0.26% to 0.29%;
- The cost-to-income efficiency ratio went up to 58.7% (55% in 2009), as a result of s slight increase in operating costs (+0.3%) versus a smaller banking income;
- Net assets amounted to 18.249 billion euros (+5.8%);
- Financial assets (credit, securities and investments in interbank markets) grew by 5.8%, with special focus on its securities portfolio, which grew 1.2 billion euros (+84.5%), especially in securities eligible for discount by the ECB, which improved the liquidity profile in the balance sheet;
- Customer resources in the balance sheet amounted to 10.91 billion euros, which is 8% more, and customer deposits in particular grew 9.2%;
- Loans to customers (gross) fell 0.7%, though loans to companies in diversification sectors rose 14.6% against 2009 and loans to the small business segment increased 9.3%;
- Default on loans fell by 0.7%, thanks to efforts made and improvement in risk-mitigation tools and policies and in analysis, management, risk control and loan recovery processes. The default on loan ratio went down to 3.82% (-0.15 p.p.) and ratio of loans and interest in arrears for more than three months fell to 3.24% (-0.12 p.p.);
- Credit coverage ratios and due interest by impairment improved and the ratio of credit in arrears for more than three months went from 97.2% to 107.2% while the balance of credit and interest in arrears for more than 12 was covered 121.2% (+8.8 p.p.);
- We maintained an appropriate level of capital and solidity, as reflected by a solvency ratio of 12.74% and a tier 1 and core capital ratio both at 8.95%, which was above the minimum recommended by Banco de Portugal.



4.2. GENERAL INDICATORS

(thousand euros)

INDICATORS	2008	2009	2010
1. ASSOCIAÇÃO MUTUALISTA			
• SIZE			
Net Assets	2 600 326	2 609 777	**2 759 348**
Equity (Own Funds, Reserves and Profits)	342 173	403 105	**410 645**
Members (Units)	431 596	442 091	**463 390**
Pensioners (Units)	6 741	7 039	**7 287**
• PROFITABILITY			
Cash Flow for the Year	31 214	50 853	**60 645**
Profit for the Year	9 390	42 533	**54 393**
Net Profit for the Year / Average Net Assets	0.39%	1.63%	**2.04%**
• LIABILITIES COVER			
Funds, Reserves and Mathematical Provisions / Provisions for Liabilities and Charges	1.14	1.16	**1.15**
• EMPLOYEES (Number)	95	86	**87**
2. CAIXA ECONÓMICA			
• BUSINESS ACTIVITY			
Net Assets	16 851 534	17 244 767	**18 249 290**
Equity (Capital, Reserves and Profits)	823 669	986 214	**995 478**
Total Loans to Customers	15 329 602	15 143 916	**15 040 645**
Total Customer Resources	9 568 661	10 103 894	**10 910 199**
• PROFITABILITY			
Profit for the Year	33 874	44 476	**51 407**
Banking Income	409 635	449 025	**422 312**
Profit for the Year / Average Net Assets (ROA)	0.20%	0.26%	**0.29%**
Profit for the Year / Average Equity (ROE)	4.12%	4.72%	**5.18%**
• CREDIT RISK			
Ratio of Credit Overdue more than 90 days	2.29%	3.36%	**3.24%**
Credit default ratio	2.91%	3.97%	**3.82%**
Total Credit Provision/Credit and Interest Overdue +3 months	109.58%	97.20%	**107.21%**
• PRUDENTIAL			
Solvency Ratio	11.44%	12.81%	**12.74%**
Adequacy of Base Equity Ratio (Tier 1)	7.92%	9.08%	**8.95%**
Net Fixed Assets Ratio (Fixed Assets / Equity)	10.63%	12.14%	**11.91%**
• EFFICIENCY			
Operating Costs + Depreciation / Banking Income (cost to income)	62.33%	55.02%	**58.68%**
• DISTRIBUTION NETWORK AND EMPLOYEES (Units)			
Branches	320	326	**329**
Representation Offices	6	6	**6**
Employees – Staff in Portugal	2 923	2 942	**2 896**

4.3 STRATEGIC PRIORITIES

In 2010, the activities and strategic orientation of the financial institutions and Montepio were particularly affected by the unfavourable scenario and the pressure on the financial markets, in view of increasing budgetary imbalances, the sovereign debt crisis and poor growth prospects for Portugal and other peripheral countries in Europe.

In this framework of tensions and persisting lack of confidence in the financial markets and high uncertainty and risk factors, financial operators' conditions deteriorated due to restrictions on liquidity and increasing costs of finance. There was an increase in deleveraging of banking activity in the domestic market with a considerable slowdown in growth, an increase in defaults and fall in efficiency and return indicators.

On the basis of Montepio's longstanding values based on ethics, integrity, transparency, professionalism, solidarity and sustainability, we set goals and targets and established the following strategic priorities for the group:

- Solidly manage liquidity and solvency;
- Mitigate the impacts of the economic crisis and credit risk;
- Minimise weaknesses and increase efficiency;
- Take advantage of opportunities to emerge in a stronger position.

The aim of these priorities is sustainable, diversified growth in activities, the preservation of balanced assets, a decrease in non-payments and accidents and their impacts and a reduction in costs through synergies.

Based on more integrated planning and strategic control guaranteeing total alignment of the different organisations' strategies with Montepio's aims, management increasingly focusing on common complementarity projects and a recognised, trustworthy brand, it will be possible to achieve greater integration of processes in order to create synergies and reduce costs, diversify products, markets and sources of profits in order to satisfy customers and members, contribute to society and fulfil our vision.

Taking advantage of market opportunities and its situation in terms of solvency and liquidity, Associação Mutualista took over Finibanco Holding, SGPS, SA, as explained in the previous point, and then began the integration of each Finibanco organisation with its counterpart in the Montepio Group. This process is expected to reinforce the strategic role of each company, growth in complementarity, diversification of products and the distribution and performance of certain functions, in order to extend Montepio's field of action and increase the possibilities of creating value for its members.

With this in mind, there were developments in bancassurance and the assurfinance project that will help take advantage of channels and provide a better service for Lusitania Companhia de Seguros and Lusitania Vida, the diversity of investment funds at the disposal of different customer profiles created under the management of Montepio Gestão de Activos, complemented by Futuro's pension funds, and the growing range of health, wellbeing and quality of life services through Residências Montepio.

We set goals for 2011 and targets for up to 2013 and redefined and reprioritised the strategic guidelines for 2011-2013 for Associação Mutualista and Caixa Económica in order to achieve our strategic vision.

The aim of this vision is to strengthen the role of Associação Mutualista as the largest association in Portugal promoting and managing complementary social security and health, wellbeing and quality of life schemes, while abiding by high standards of ethics and mutual values and criteria of social responsibility and sustainability thereby developing and consolidating the social economy and the third sector in Portugal. It is based on five strategic guidelines.

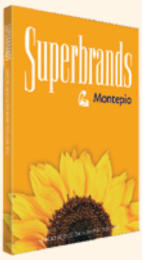
THE MONTEPIO BRAND

In 2010, Montepio was voted a Brand of Excellence in Portugal by Superbrands, an independent international organisation that promotes brands of excellence in 85 countries.

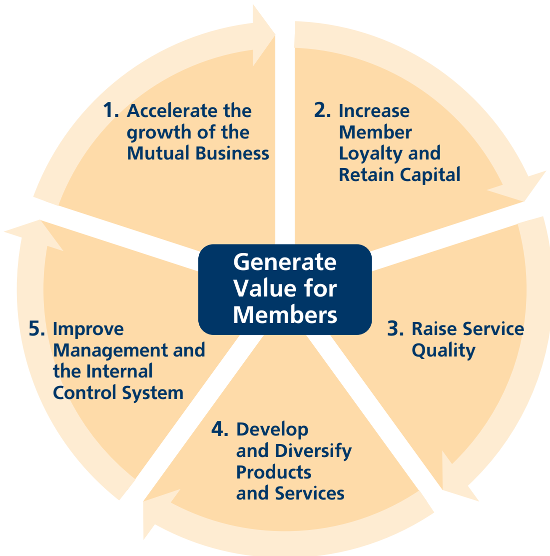
Montepio was also voted the bank with the best brand relationship with customers and one of the brands with the best overall reputation by *BrandScore'09*, and received the Timeless Brand award from Exponor.

In a strategy of continuing to support Portuguese cultural values and contributing to our brand's reputation, in 2010 Montepio sponsored small monthly musical recitals (showcases) in the auditorium at its head office in Rua do Ouro in Lisbon. This fostered culture, helped performers, ranging from young unknowns

to big names, and brought together customers, fans and the specialised press. In chronological order, the following artists performed in the auditorium in 2010: Bernardo Fachada, Rua da Saudade (who presented Montepio with a platinum disk), António Chainho, António Zambujo, Yolanda Soares, Baile Popular, Os Golpes, Joana Machado and TIM. The last showcases ended the year with the comedy «The 39 Steps», which will premiere in the first half of 2011.



ASSOCIAÇÃO MUTUALISTA – STRATEGIC GUIDELINES 2011-2013



The first guideline aims at accelerating growth of mutual loan activities by converting the customers of the different group companies into members, thereby taking advantage of the companies' different channels of distribution. All the Finibanco organisations and dissemination and promotion of mutual loans will be involved in this. The recent training of employee teams will be play a fundamental role in this area.

The second guideline has to do with loyalty of members and retention of capital invested. The goal of increasing revenue per member, stabilising capital flows and member management and boosting association activities will play an essential role in achieving this purpose.

The third guideline is aimed at improving quality of service, which will be decisive for previous aspects. We expect to achieve improvements in transaction and management systems in general and interfaces with group companies in particular and to introduce quality of service meters in distribution channels.

The fourth guideline is intended to develop and diversify our products. Continuing our policy of fully meeting members' needs in the field of mutual loans, we will continue to invest in the management of social facilities and the provision of health and care services and to pursue our policy of complementary benefits and positive discrimination of members in the Montepio Group's conditions.

The fifth guideline refers to an improvement in management and out internal control system, which entails ongoing modernisation and optimisation of AM's organisation and financial and prudential management in the fields of liquidity and solvency, in line with the strict requirements governing financial and banking institutions.

Caixa Económica is the main strategic financial support for Associação Mutualista and plays a central role in implementing the group's strategy. Five strategic priorities have been set for it in order to increase its capacity to operate as a unique universal retail bank in Portugal, due its mutual loan functions. Its aim is to attract customers' savings and provide financial support for individuals and companies, especially micro-companies and SMEs and third sector organisations, with whom it acts as a partner recognised for prudent medium- and long-term management, quality of service and a commitment to the country's sustainable development.

The priorities to be achieved are an increase in the amount of customer savings attracted, a reduction in market funding by speeding up the diversification of our credit portfolio, diversifying our customer, market and risk profile and diversifying bank product sources and structure, a decrease in the progression on non-performing loans, an increase in credit recovery, containment of operating costs, greater efficiency and containment of the deterioration in the financial intermediation rate.

In order to achieve these priorities we defined strategic action based on four aspects: customers, risk and internal control, processes and development. Where the first of these is concerned, we plan to increase the number of first-bank customers and their financial relationship using the brand's strength and reputation, our unique nature as a mutual association and the potential of the group's channels. The second of these aspects has to do with improving risk management and the balance sheet risk profile and continuing to develop our internal control system. The third is aimed at increasing the efficacy and quality of service, which require good planning and control, dematerialisation and more integrated processes to obtain synergies. The fourth focuses on ways of improving skills for the future and includes better management processes, building employee's qualifications and capacity, adapting the organisation, technological development and innovation.

4.4. HUMAN RESOURCES

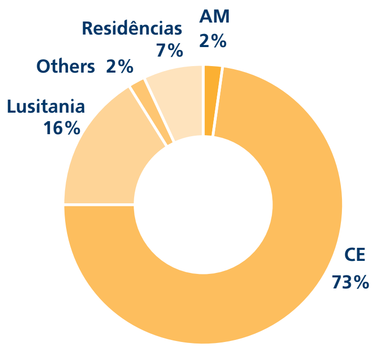
At the end of 2010, the employees in all the main organisations in the Montepio Group amounted to 3 978, which is 40 more than in 2009. This was the result of the admission of 113 employees at Residências Montepio, as two new residential units were opened in Coimbra (December 2009) and Parede (October 2010).

MONTEPIO GROUP EMPLOYEES * (NO.)

	2009	2010	Change	
			No.	%
Total Group Staff	**3 938**	**3 978**	**40**	**1,0**
Associação Mutualista	86	87	1	1.2
Caixa Económica	2 942	2 896	-46	-1.6
Lusitania	673	646	-27	-4.0
Lusitania Vida	30	30	0	0.0
Montepio Gestão de Activos	13	13	0	0.0
Futuro	32	31	-1	-3.1
Residências Montepio	162	275	113	69.8
No. Branches (CE)	326	329	3	0.9
Average Total Staff/No. Branches (CE)	9.0	8.8		

* Not including Finibanco SGPS,SA

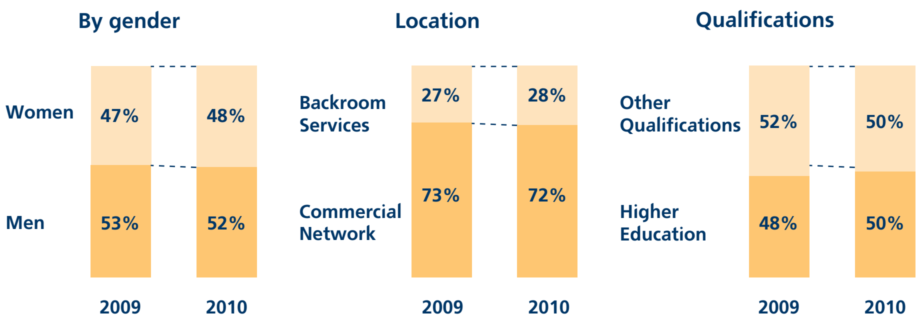
POSITION IN GROUP* (2010)



Of the Montepio Group's employees, 73% (2 896) belong to Caixa Económica, or 75%, if we count the 87 Associação Mutualista employees.

There was a reduction of 46 employees at Caixa Económica as a result of 112 people leaving, most of whom retired, and highly selective admission of 66 new employees, in line with the opening of only three branches and the effort to optimise existing resources by means of the restructuring and reorganisation, essentially of central services, which began in 2009.

EMPLOYEES



On 31 December 2010, there was an increase in the number of women, who represented 48% of the total and also in employees with degrees. Graduates now account for 50% of the total, in which 6% ave post-graduate diplomas, master's degrees and PhDs. The admission of young graduates and the retirement of other employees helped to rejuvenate Montepio's personnel, 58% of whom are aged under 40, and to improve their qualifications.

In 2010, Montepio continued its policy of improving and developing its human capital, which is of vital importance within the group and maintaining an appropriate social and motivational climate.

Montepio's training strategy has helped to step up technical capacities in key areas of the institution's business in order to prepare it to meeting the growing challenges and complexity of financial activity.

Training, which is a crucial feature in making the institution more competitive, continued to be one of its strategic pillars. With an investment of around 310 000 euros, 85 763 hours of training were given to 2 821 participants, i.e. 94.5% of Montepio's employees.

The use of new e-learning training solutions has resulted in considerable growth essentially in courses aimed at the commercial network or the entire institution.

The 77 mutual loan information and training sessions held in 2010 with a total of 2 281 participants, also attended by Finibanco employees, made it possible to further their knowledge of the specificities of mutual loans.

Montepio also sponsored employees taking honours, master's, PhD and post-graduate courses. As in previous years, in 2010 Montepio provided direct support for on-the-job training and contact with banking work, by granting 174 internships in its commercial network and central services.

MUTUALISTA TRAINING

	Courses		Trainees	
	2009	**2010**	**2009**	**2010**
CEMG Staff	24	57	574	1 491
Finibanco Staff	0	20	0	790
Total	**24**	**77**	**574**	**2 281**

Concerns for wellbeing, motivation, a culture of commitment and dialogue, the identification of potential room for improvement and the definition of optimisation goals are the purpose of our climate survey conducted in 2010. Of answers in the survey, 80.79% of the respondents had a good opinion of the organisation climate and 93.7% gave a positive answer to «In general, I am happy to be working for Montepio» (top-of-mind question).

In the area of occupational health, the most important events were the reorganisation of the department, ongoing development of a culture of prevention using the corporate intranet as an excellent way of circulating information, the Course on Occupational Health in the Service Sector for around 3 000 employees and action taken for continuous improvement of the services provided by the companies that work with Montepio in this area.

4.5 GEOGRAPHICAL LOCATIONS AND DISTRIBUTION NETWORK

At the end of 2010, Montepio's distribution channels (not including the Finibanco, SGPS network) consisted of a physical network of 329 bank branches (in mainland Portugal, Madeira and the Azores), supported by a network of electronic channels and six agencies for Portuguese communities abroad.

In 2010, Montepio continued to expand its domestic distribution network, while its representation with the Portuguese communities abroad remained the same. It mainly consolidated its activity with customer managers, particularly in strategic segments, and a growing network of additional channels.

From a group perspective, there was considerable growth in its insurance distribution network. On 31 December 2010 it included 4 807 Lusitania agents and brokers and 1 516 from Lusitania Vida, plus, by the end of the year, 180 branches of Finibanco, SGPS, which included six branches in Angola.

NETWORK OF MONTEPIO BRANCHES

Three branches were opened in 2010, to continue the project to expand our domestic network.

Physical Distribution Network Dec. 2009		326
Branches Opened in 2010		**3**
Leiria	Caldas Rainha - 1º Maio	Jan-10
Lisbon	Cascais - Av. 25 Abril	Jul-10
Lisbon	Carnaxide	Nov-10
Physical Distribution Network Dec. 2010		**329**

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

In 2010 we consolidated the activity of customer managers for the affluent, small business and third Sector segments, in accordance with our policy of being closer to customers, especially in strategic segments. With a view to relationship banking, Montepio now has 332 customer managers (34 company and 119 business managers, 175 premium managers and four third sector managers).

ELECTRONIC AND REMOTE CHANNELS

By the end of 2010, additional channels for private customers (Net24, Phone24, Netmóvel24 and SMS24) had 565 000 subscribers, 8% more than in 2009. There was a 22% increase in the number of subscribers against 2009 in channels for companies (Net24 Empresas, Phone24 Empresas, Netmóvel24 Empresas and SMS24 Empresas).

In self-service banking and electronic payments, Montepio achieved a market share of 6% of the number of Montepio Multibanco ATM machines in the SIBS (Sociedade Interbancária de Serviços) network. This corresponds to 840 ATMs, 2% more than in 2009.

There were 381 Chave24 internal ATMs at the end of 2010 as follows: 213 cash dispensers, 105 recycling and intelligent deposit machines, nine cheque-issuing and deposit terminals and 54 passbook updaters. In 2010, Montepio began replacing its internal equipment with models that re-circulate cash and substituted 48 machines.

Our automatic payment terminal network has played a vital role in attracting and retaining customers in the small business segment and increasing average current-account balances. There were several campaigns to attract new customers for this service in 2010. At the end of 2010, Montepio supported 14,693 terminals, which was 10% up on December 2009, and a 5.3% market share in the SIBS network.

Remote channels using telephone, internet, mobile banking and self-service banking continue to be extremely important to efficient distribution and the service provided to customers. Additional channels accounted for 72.5% of the total number of operations processed.

Of particular importance in 2010 was the substantial increase in our network of Montepio-Lusitania assurfinance promoters to 205, which was a 225% increase on 2009. In terms of business attracted, our assurfinance promoters contributed to production of 8.7 million euros, which was 417% more than in 2009, when the assurfinance began. Around 2.5 million euros was also channelled into other Montepio products.

Montepio's public website (www.montepio.pt) continues to receive an increasing number of visits and uses, at a monthly average of 2.2 million visits and 30 million page views.

4.6. COMPLIANCE

Management of the compliance risk has been gaining importance, not only at Caixa Económica but also in the other Montepio Group organisations, especially since 2007, when a separate Compliance Office answering directly to the Board of Directors was set up.

Particularly in recent years, financial institutions have been the subject of a considerable amount of legislative and regulatory output, which is described in the chapter Overview of Activities and has required permanent monitoring, analysis and adaptation in a wide variety of fields and functions.

The mission of the Compliance Office has been to ensure that the managing bodies, the organisational structure and all employees at Montepio comply fully with legislation, rules, codes and internal and external regulations in order to the prevent any financial losses or damage to the institution's image or reputation.

Within the framework of this mission, the Compliance Office's duties are to assist the Board of Directors in defining and implementing compliance policy and preventing money laundering. Its aim is to disseminate a culture of compliance by identifying and assessing situations posing a risk to compliance, in terms of transactions, activities, transactions, product and corporate bodies. It defines compliance procedures and control mechanisms and performs any necessary monitoring.

In 2010, in addition to circulating information, preparing contents of regular training in Compliance and Money Laundering, participating in the transposition of legislation and processes regarding mandatory reporting to the authorities, the following were the most important Compliance Office activities:

- Analysis of products, campaigns, advertising and marketing;
- Internal regulations, giving a prior opinion in their compliance with rules;
- Improvements in the business model based on agency channels (assurfinance);
- Assistance in implementing credit decision processes: credit workflow – private and business customers and periodic updates of customer information;
- Collaboration in the revision of the agreement with Associação Portuguesa de Bancos on the simplification of procedures for credit transfers between institutions;
- Participation in implementation of obligations emerging from the Single European Payment Area;
- Assistance in implementing the minimum banking service account to which Montepio is a subscriber;
- Collaboration in the assessment of relations with correspondent banks;
- Participation in the annual reassessment of the transmission and execution of orders policy (MiFID).

As part of the improvement of compliance risk management, we invested in existing or developing applications and functions and the improvement of procedures and automations associated with monitoring transactions and filtering customers and transfers, the prevention of money laundering and the financing of terrorism or involving organisations based offshore.

During the analysis of compliance risk events, the office detected no events that were materially relevant or that resulted in any prosecutions or penalties. Indeed, we feel that we should underscore the positive results achieved in the audit conducted at Montepio Geral Corp Newark – Escritório de Representação, under the Bank Secrecy Act/Anti Money Laundering and the inspection of MG Cabo Verde conducted by Banco Central de Cabo Verde.

5. Social Responsibility Report

Social responsibility in its broad sense is understood to be actions and measures that go beyond compliance with formal obligations and contribute to the sustainable development of society. In other words, they satisfy the needs of present generations without compromising the possibilities of future generations. They also improve relations with the different stakeholders or groups with specific interests in Montepio Group organisations. We therefore address social responsibility in its many dimensions: governance policy, relations with members, customers and investors, innovation and quality of service, employability and improvement of human resources, community support initiatives and social solidarity.

MISSION AND GOVERNANCE POLICY

At a time when the state is experiencing particular budgetary difficulties in meeting its social obligations and stimulating the growth of the economy, with a view to economic development and the people's wellbeing and quality of life, private institutions like those in the Montepio Group play a particularly important role and perform decisive missions for sustainable development. As a part of the social economy, within the framework of its mission as a mutual association, Montepio helps meet the need for social protection, additional welfare and health care. As a credit institution it channels resources to the production sectors that can contribute to a balanced, sustainable economic growth model for the country.

The fulfilment of these missions meets the needs and concerns of the different stakeholders, complemented by the other financial and insurance activities of the group's strategic companies and social support initiatives that have been undertaken throughout Montepio's 171 years of history.

As an integral part of its DNA, the mission of Montepio and its organisations enshrines the current concepts and principles of social responsibility and sustainability, which are behind all everyday actions. They involve work and management aimed at the long term, an integrated vision of performance and the economic and social purposes of the profits generated and the adoption of policies of openness, dialogue, participation and inclusion.

The Montepio Group's governance policy is guided by principles of high deontological, moral and ethical conduct, which is reflected in prudent, diligent, painstaking, transparent management, the defence of the interests of its members and other stakeholders, based on the assumption that one of the main priorities of management with a high social commitment is protecting and valuing the assets placed in their hands.

The Montepio Group has adopted an attitude of increasing openness to the market and to society. It seeks to detect opportunities and situations in which its contribution can help minimise problems and enhance resources and capabilities and establishes medium-term goals and strategic guidelines that, within the framework of its mission and aims, will ensure sustainable growth and the creation of value.

The attitude has been welcomed by the different stakeholders, as shown by an increase in business, the growing number of customers and the more than 460 000 members on 31 December 2010. They transmit the necessary capital of confidence and recognise Montepio as a solid, competent institution for increasing the value of their assets.

Corporate management of high social responsibility is reflected by efficient, sustainable management methods and processes in prudential and behavioural aspects. Considerable improvements have been made in internal control systems, with emphasis on risk management, closer integration of other common functions and management of the group with a view to better strategic articulation, gains in efficiency and the mitigation of risks and impacts. There have also been developments in the field of communication and circulation of information within the group and particularly at external level, with considerable improvements in instruments and channels for this information.

MEMBER RELATIONS

Montepio acknowledges its members as the main targets of its work and has a body totally devoted to member relations, the Association Office. It has been undertaking a number of initiatives as part of an annual plan aimed at publicising mutual associations, increasing members' participation and involvement and contributing to their social and cultural development.

In 2010 there were 75 member events, involving close to 2 500 members, more than twice the number in 2009, as shown in the table on the right.

	Events			Participants		
	2009	2010	Yoy	2009	2010	Yoy
Introduction to the Internet	10	14	40%	96	178	85%
History Outings	14	18	29%	728	774	6%
Open-Air Activities	7	22	214%	197	503	155%
Guided Visits of Exhibitions	0	3		0	60	
Reception for New Members	0	6		0	165	
Conferences	0	9		0	478	
Competitions	2	2	0%	136	149	10%
Pastimes	0	1		0	170	
Total	**33**	**75**	**127%**	**1 157**	**2 477**	**114%**

In addition to open-air activities and history outings, there were also the 2010 Montepio Conferences, which covered three subjects: Stories of the Land, Poverty and Social Exclusion and the Social Economy and Mutual Associations. A number of personalities associated with the subjects participated in them. We continued introductory internet courses for members who, due to their age or social profile, tend to appreciate this kind of initiative as part of the democratisation of knowledge and information technologies.

As in 2009, there were two member competitions, both on the subject of Poverty and Social Exclusion as part of the 2010 – European Year for Combating Poverty and Social Exclusion. One was an essay contest, with 53 entrants and the other a photography contest in which 96 members entered 258 photos.

We also continued activities for members aged up to 13 in Clube Pelicas, which included publication of a free quarterly children's magazine for club members and publicity campaigns at schools and children's associations.

Given the primary importance of monitoring of members' satisfaction as a pillar of their loyalty, for the second year running we conducted a member satisfaction survey, on which three reports were based:

- Quality of service and satisfaction at members' points of contact with Montepio Geral – Associação Mutualista (Montepio magazine, commercial network branches and remote contact channels);
- Overall satisfaction with Montepio Geral – Associação Mutualista and degree of commitment to it (loyalty);
- Quality of associative products and services and satisfaction with them.

Following prior work, in 2010 we developed a model for identifying a propensity to cancel membership, which systematised and identified behaviours associated with cancellation of membership. From now on it will be incorporated in the relations management platform as part of the institution's marketing policy, in order to improve loyalty indicators.

In 2010, Montepio stepped up its national and international cooperation with social economy organisations, including membership of the Board of Directors of Mutualidades Portuguesas and, as a result, in the activities of Association Internationale de la Mutualité (AIM).

QUALITY OF SERVICE

The provision of quality services resulting in high degrees of satisfaction is a goal of all areas of the Montepio Group. It has been reflected in the implementation of service quality measurement and control systems: customer satisfaction with final service, comparison with competitors, market surveys and internal evaluation of performance of the central services.

Our instruments for monitoring quality of service and customer satisfaction include:

- The conclusions of the Banco de Portugal Behavioural Supervision Report and our internal complaint and suggestion management system, which indicate an 11% reduction in complaints in 2010 against 2009, with a 49% drop in complaints about mortgages;
- The conclusions of the mystery shopper method used by Multimétrica with a view to standardising good customer care practices;
- Telephone surveys of customers aimed at ascertaining their perception of quality of service and the quality and speed of underlying processes.

According to Vaga Global 2010 from the Marktest Basef Banca survey, Montepio has been improving in the «overall satisfaction as my first bank» and «satisfaction with customer care» categories and compares favourably with the sector's averages. Montepio came in second with a score of 7.47 out of 10 in the ESCI (European Consumer Satisfaction Index) service quality rankings, which shows the favourable opinion that Montepio's customers have of perceived quality of service, as the average for the sector was 7.26.

The assessment of Montepio's central services as an essential element in the value chain leading to final quality perceived by external customers is performed on a regular basis in an in-house survey, from the viewpoint of internal users. Its results are used within the group as a raw material for defining quality policies.

CUSTOMER RELATIONS

Changes in the economic and social environment have had a considerable impact on the everyday lives of the people, companies and organisations with which Montepio works in close partnership. In addition to growing regulatory requirements governing business relations in the financial sector, especially in banking, customers today are better informed and the media have been focusing more and more on the sector and the shift in the paradigm of the relationship between institutions and their customers.

All who work for the Montepio Group wish to learn and meet the new tangible and intangible needs that these changes bring about in customers.

We pursued our policy of innovation and development in our range of products and services, which is not only designed to meet members' and customers' current financial needs in the different phases of their life cycles, but also to improve quality of service and satisfaction, and cement the relationship.

We stepped up support for the company segment, especially micro-, small and medium sized enterprises, which are not only the driving force behind the country's development but are also excellent employers in the national economy.

In this regard, Montepio has been participating increasingly in community programmes and lines agreed upon with different bodies, such as the IAPMEI, EIB, IEFP and mutual guarantee companies, under which it has supported investments by SMEs in industry, services, tourism, energy and infrastructures. This creates the right conditions for the country's sectoral and regional economic development and, on a smaller scale, stimulates entrepreneurship and the creation of self-employment for the jobless. It also encourages the creation of employment by companies that hire people in a context of job insecurity.

In this field, Montepio set up a 50-million-euro support line for the recovery of businesses in Madeira following the storms in February 2010, based on an agreement signed with Instituto de Desenvolvimento Empresarial da Região Autónoma da Madeira and the mutual guarantee companies Garval, Lisgarante and Norgarante. In addition to this specific line of credit, Montepio and the same companies also set up another 5-million-euro to co-finance incentive systems under the Intervir+ operational programme for the Madeira region. Montepio also provided microcredit, which enabled it to be an important social partner in promoting self-employment and social and economic inclusion.

In 2010, the new department responsible for supporting and liaising with third sector institutions completed its first year. It currently plays an important role in this universe, as it fosters its development by devising special products for the sector and contributes actively to ensuring that projects of recognised social merit go ahead with the appropriate financial resources.

Where the environment is concerned, an agreement was signed by Montepio and ADENE – Agência para a Energia, to facilitate access by SMEs and private charities to financial incentives associated with investments in energy efficiency and diversification. It includes the existing range of credit products for the purchase of renewable energy equipment.

Montepio's stake in partnerships and agreements aimed at greater focus on SMEs and social economy institutions is unequivocal proof of the importance that it lends to initiatives promoting citizenship, social inclusion, innovation and entrepreneurship as tools for fostering sustainability and integrated development.

EMPLOYMENT AND DEVELOPMENT OF HUMAN RESOURCES

In an unfavourable economic scenario and a cooling sectoral environment, the Montepio Group has made a contribution to improving employability in the country. The personnel at Montepio Group, including Associação Mutualista, the insurance companies Lusitania and Lusitania Vida, Montepio Gestão de Activos, Futuro and Residências Montepio, increased by 40 people. One hundred and thirteen employees were added to the area of assisted living facilities.

Special attention goes to the fact that, in the present circumstances, the cornerstone of the Montepio Group's integration processes has been no loss of jobs during the takeover of Lusitania – Companhias de Seguros, the acquisition of Real and Mutuamar, and the takeover of Finibanco, SGPS, SA.

Within the framework of its age-old mutual vocation, Montepio defends the primacy of valuing human beings, developing policies that contribute to its employees' personal and professional fulfilment and interacting with schools and universities in the preparation of new generations of professionals and citizens.

In addition to vocational training programmes, sponsorship of honours, master's and doctoral degrees and post-graduate courses, which are crucial features in stepping up the group's competitive and strategic capacities, in 2010 Montepio promoted on-the-job training, by granting internships in the commercial network and central services.

As part of the institution's social policy, Montepio employees have access to intervention initiatives according to their needs and situations. This social action may be applied to the entire organisational structure, career development and assistance to retired employees.

Montepio's Social Services have also undertaken a considerable number of cultural, sports and recreational initiatives, with the support and encouragement of the Board of Directors, allowing employees and their families access to many rewarding cultural and sporting events.

CORPORATE VOLUNTEER PROGRAMME

In 2010, the Board of Directors continued to encourage its employees to take part on corporate volunteer initiatives in order to foster cohesion between the internal and external dimensions of corporate social responsibility. Employees were involved in solidarity and made the community aware that these initiatives were not mere charm operations but rather the institution's overall attitude to society.

There were 545 volunteers enrolled, representing 18% of the employees, making Montepio one of the organisations with the largest number of employees interested in active citizenship.

There were 15 collective and 35 individual volunteer campaigns (financial education, learning to own a business, *Braço Direito* (Right Arm) and member incentive campaigns), in which 177 volunteers participated. More than 3 000 people benefited directly or indirectly.

VOLUNTARIADO MONTEPIO
SOLIDARIAMENTE CONSIGO

THE COMMUNITY AND SOCIAL SOLIDARITY

Because the current situation required broader, more constructive dialogue between financial sector players and the so-called social economy, Montepio, as a group particularly well-positioned in this quadrant, considered one of its essential strategic orientations to be the development of its commitment to social responsibility, community support and social solidarity, with better organisation and greater communication.

Fundação Montepio plays an essential role in this field, as an organisation in charge of cooperation, and channels to the community support from its own annual budget, from commissions from the Mais Vida credit card and from annual voluntary donations from personal income tax transferred by the tax authority. The Social Responsibility Office, which answers directly to the Board of Directors, is responsible for implementing the foundation's mission and goals.

In 2010, Montepio analysed around 600 proposals and projects and performed more than 200 evaluation visits and meetings, which resulted in financial support to the amount of 1 670 229.82 euros from Fundação Montepio granted to 158 institutions, 45% of which had already received support on previous occasions. It therefore served the purpose of guaranteeing the sustainability and monitoring of intervention. In order to qualify social economy structures and improve its intervention, this amount included donations to 128 organisations amounting over 998 000 euros, which corresponded to an average of around 7 800 euros per organisation.

In an effort to spread support all over the country, around 40% (51 recipients) of the organisations operate on a national scale, while 25% (32 recipients) focus on the districts of Lisbon and Porto, which are areas with a substantial part of exclusion and social vulnerability. The main areas receiving support were health, social solidarity, education and training. In health and social solidarity, the foundation donated a total of 597 296.97 euros to 87 institutions. It gave support to Cáritas for humanitarian aid for the Madeira victims (150 000 euros), the *Os mais sós* project to combat loneliness among the elderly and Fundação da Juventude to set up a shelter for teenage mothers.

Where health was concerned, many organisations counted on their partnership with Montepio, such as Fundação Portuguesa de Cardiologia, Associação Alzheimer Portugal and Fundação Ernesto Roma. Thanks to Montepio's committed involvement, they were able to continue to provide information and help their members. Around 18 education and training organisations received a total of 206 797.50 euros.

Of particular importance was the Montepio School Award Project. In 2010, a donation of 25 000 euros was made to each of the four schools submitting the best projects. The Montepio Financial Education Programme (for children and adults) was implemented in partnership with organisations such as Associação Nacional de Acção Familiar (ANJAF) and received an award from the World Family Organization in 2010. Through this initiative Montepio helped combat financial illiteracy and trained more than 2 500 people.

In the field of entrepreneurship and the social economy, Montepio participated in the Microcredit Monitoring Committee and in the structuring of the programme, training of organisers and hands-on tutors and the monitoring of the initial launch of the partnership with the EAPN (European Anti-Poverty Network).

Montepio continued the *Frota Solidária*, *Reis por Um Dia* and Mais Vida credit card projects and scrutinised the beneficiaries and their activities in the community. These projects made it possible to help more than 30 institutions and 16 adapted vehicles were donated under the Frota Solidária project and financial aid totalling 639 965.75 euros was donated to another 14 organisations.

Montepio monitored the 19 institutions that were beneficiaries of Espaço Incluarte in 2010 and the 2 950 children and young people (from 31 schools) who enjoyed free admission to shows out on by Til (Teatro Infantil de Lisboa) and Arte D'Encantar.

Finally, in this connection with the third sector, Montepio signed 12 cooperation agreements supervised by the Social Responsibility Office, included those with Liga dos Bombeiros Portugueses, Confederação das Colectividades de Cultura and Recreio, Museu da Criança and Associação Portuguesa para o Ensino dos Cegos.

Montepio was represented at more than 50 events in order to demonstrate its ethical responsibility practices and promote critical reflection on social responsibility. It was actively involved in bodies such as Grupo de Reflexão para a Cidadania Empresarial (GRACE), Juniores Achievement, Centro Nacional de Fundações, European Savings Banks Social Responsibility Committee, Associação de Responsabilidade Social Portugal, Rede Local de Acção Social de Lisboa and Conselho Português para o Desenvolvimento Sustentável (BCSD).

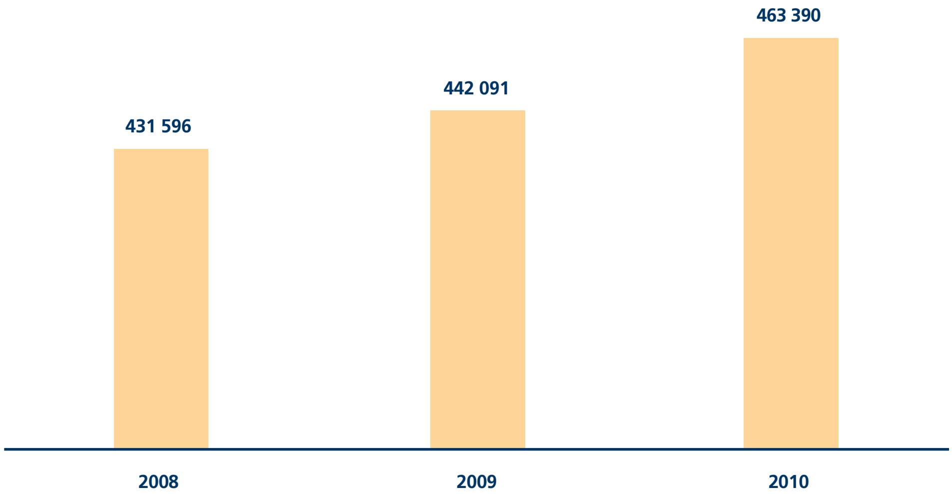
6. Montepio Geral Associação Mutualista

6.1. ASSOCIATION MOVEMENT

MEMBERS

The number of members of Montepio Geral – Associação Mutualista (AM) increased to 463 390 by the end of 2010, which represents an annual growth rate of 4.8%, in line with our strategic targets.

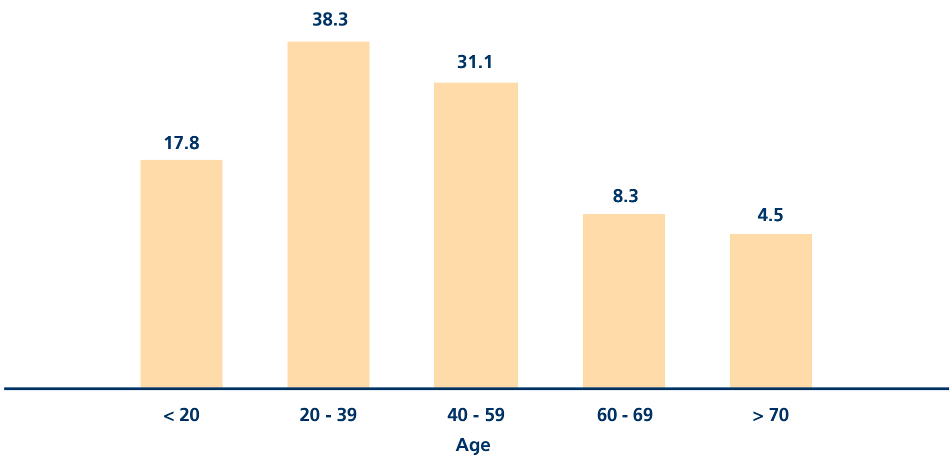
NUMBER OF MEMBERS



The Caixa Económica (CE) branch network continued to serve as an excellent vehicle for advertising and placing savings products and sought to take advantage of existing growth potential, as only 38.7% of its private customers are members.

The age of AM members remained stable against 2009, with slightly more females, at 50.9%, (50.8% in 2009). With an average age of 37, 56.1% of the members were under 40 and only 12.8% over 60.

AGE GROUP OF MEMBERS IN 2010 (%)



Where younger members were concerned, there was a small change in the number of Clube Pelicas members in 2010 as a result of lowering the age limit from 14 to 13. There were 26 619 club members at the end of the year.

CLUBE «TIO PELICAS»

(No. Members)

YEAR	2008	2009	2010
Members	30 855	31 676	26 619

We continued to publish the quarterly magazine to disseminate the values of mutualism and retain and further relations with our younger members. Club activities included publicising the club at schools and children's associations and participation in Festival Panda.

DEVELOPMENT OF MUTUAL PRODUCTS AND SERVICES

Over the years, Associação Mutualista has made sure that it contributes towards completely satisfying its members' needs. Our constant concern is therefore to provide solutions that meet these needs within the regulatory framework of mutual activity and live up to the expectations of members and their families.

The reformulation of its portfolio of products and services and the creation of new mutual schemes in recent years reflect this concern, changes in members' age structure and demographics and adaptation to changes in market conditions, such as interest rates.

We conducted promotion campaigns for actuarial schemes, which contributed towards a significant increase in subscriptions, and 12 series of fixed-term retirement capital schemes (Montepio Capital Certo) were issued. They attracted 105.3 million euros in 2010.

Residências Montepio – Serviços de Saúde, a Montepio Group company, extended its range of healthcare and wellness services. In addition to its home care and telephone assistance services, in 2010 a new unit was opened in the assisted living network, Residência Montepio Parede, thus increasing the number to four (Residência Montepio Breyner was opened in Porto in 2008 and Residências Montepio Gaia – Quinta de Cravel and Montepio Coimbra – Quinta da Romeira were opened in 2009). This increased the number of services and facilities available for specific segments of the population.

ADDITIONAL BENEFITS

Members enjoy preferential conditions for the products and services sold by Montepio, which include lower spreads on mortgages and personal loans, special interest rates on term deposits and other savings products, discounts on credit card annuities, no maintenance fees on current accounts and management costs and discounts on partial or total property management services.

In 2010, benefit for members as CEMG customers amounted to 13 830 000 euros, 14% more than the 12 096 000 in 2009.

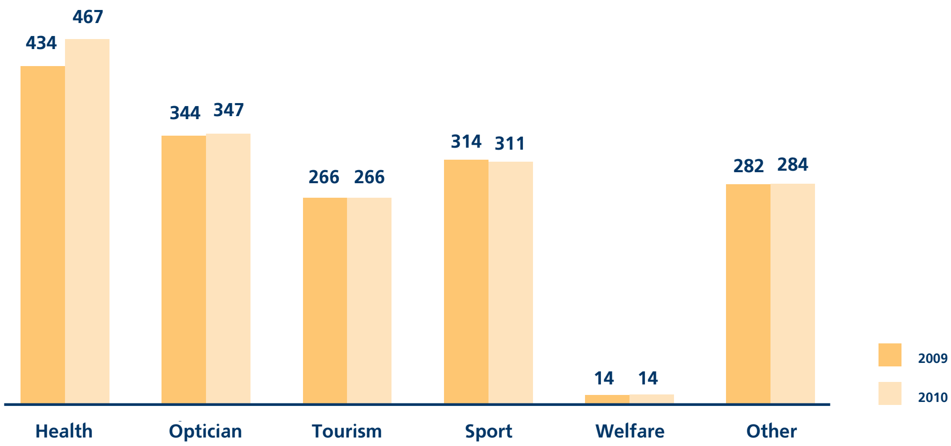
TOTAL BENEFITS GRANTED BY CAIXA ECONÓMICA TO MEMBERS IN 2010

(thousand euros)

CATEGORY	Product Family	Benefit Value		Change
		2009	2010	
ASSET PRODUCTS	Mortgages	7 909	8 053	2%
	Personal Credit	578	821	42%
LIABILITY PRODUCTS	Current Accounts	1 899	3 489	84%
	Term Deposits	421	343	-19%
	Structured Deposits	195	98	-50%
OFF-BALANCE SHEET PRODUCTS	Credit Cards	1 091	1 023	-6%
	Property Management	3	3	0%
TOTAL		**12 096**	**13 830**	**14%**

Where additional benefits were concerned, in order to enhance the position of members of Montepio, we continued our policy of signing agreements with local and national partner organisations, especially in the areas of health, eye care, tourism, training and sport. At the end of 2010, AM had agreements with 616 organisations allowing members access on favourable conditions to 1 689 discount points all over the country.

ADDITIONAL BENEFITS FOR MEMBERS
AGREEMENTS – NO. OF DISCOUNT POINTS



These benefits mean that members are entitled to discounts ranging from 2% to 50% on normal prices. Most of the discounts are between 10% and 20% and also apply to their parents, offspring and spouse.

In addition to these agreements, under a strategic partnership with Repsol since 2009, members with a discount card received discounts totalling 3.27 million euros in 2010.

In this field, there was also a vast programme of cultural, recreational and educational initiatives, such as the Montepio Conferences, Outings with History, the Idea Competition and Member PC Training in 2010, in order to strengthen the relationship with members and improve their satisfaction, as described in more detail in Chapter 5 of this report.

6.2. ASSOCIATION REVENUE

Attracting new members and strengthening ties with existing ones continued to be our policy for increasing subscriptions of mutual products and raising membership fees and capital received.

Subscriptions of new schemes amounted to 799 053 at the end of 2010, 4.7% more than in 2009. The average number of subscriptions per member was 1.72.

The increase in member activity resulted in a growth in revenue to 329.2 million euros at the end of 2010, which was 27.6 million euros (9.2%) up on 2009. This performance benefited considerably from revenue from capitalisation schemes, such as retirement capital (10.6 million euros) and welfare schemes, especially deferred welfare capital with option (6.5 million euros) and capital for young people (862 000 euros).

TREND IN ASSOCIATION REVENUES (Quotations and Capital by Scheme)

(thousand euros)

SCHEME	2009		2010		Change	
	Value	%	Value	%	Value	%
1. MEMBERSHIP WELFARE BENEFITS	**6 023**	**2.0**	**6 590**	**2.0**	**567**	**9.4**
2. INDIVIDUAL SCHEMES	**293 976**	**97.4**	**321 432**	**97.6**	**27 456**	**9.3**
2.1. Retirement Capital	***113 069***	***37.5***	***123 639***	***37.5***	***10 570***	***9.3***
2.2. Retirement Savings	***12 166***	***4.0***	***13 010***	***4.0***	***844***	***6.9***
2.3. Fixed Term Retirement Capital	***97 485***	***32.3***	***105 294***	***32.0***	***7 809***	***8.0***
2.4. Other Schemes	***71 256***	***23.6***	***79 489***	***24.1***	***8 233***	***11.6***
Of which:						
Deferred Welfare Capital with Option	39 025	12.9	45 540	13.8	6 515	16.7
Capital for Young People	4 800	1.6	5 662	1.7	862	18.0
Retirement Pensions	4 951	1.6	4 935	1.5	-16	-0.3
Expenses Payment Guarantee	20 469	6.8	21 104	6.4	635	3.1
3. COLLECTIVE SCHEMES	**910**	**0.3**	**503**	**0.2**	**-407**	**-44.7**
4. CAPITAL TRANSFERRED TO PENSIONS AND ANNUITIES	**700**	**0.3**	**693**	**0.2**	**-7**	**-1.0**
5. TOTAL (1) + (2) + (3) + (4)	**301 609**	**100.0**	**329 218**	**100.0**	**27 609**	**9.2**

Note: EUR 1 229 million in capital of Life Annuities (+58.1% on 2009) is not considered since it is not a mutual scheme.

6.3. OVERDUE BENEFITS AND REIMBURSEMENTS

The amount of overdue benefits and reimbursements amounted to 218.2 million euros in 2010, which is 38 million euros more than in 2009. Increases in the following reimbursements contributed to this:

- Retirement capital, to the amount of around 19.4 million euros;
- Fixed-term retirement capital of around 13.2 million euros.

The number of benefits and reimbursements processed amounted to 100 606 cases at the end of the year, 23% more than in 2009.

OVERDUE BENEFITS AND REIMBURSEMENTS

(thousand euros)

ITEM	2009		2010		Change	
	Quantity	Value	Quantity	Value	Value	%
PENSIONS AND ANNUITIES	**6 242**	**7 621**	**6 458**	**8 225**	**604**	**7.9**
Subscribed Values	6 242	3 613	6 458	4 132	519	14.4
Grants and Improvements		4 008		4 093	85	2.1
CAPITAL AND ALLOWANCES	**17 818**	**34 611**	**21 749**	**37 136**	**2 525**	**7.3**
Subscribed Values	17 818	31 058	21 749	34 015	2 957	9.5
Grants and Improvements		3 553		3 121	-432	-12.2
REIMBURSEMENTS	**53 910**	**127 712**	**67 952**	**160 523**	**32 811**	**25.7**
OTHER COSTS	**3 849**	**10 255**	**4 447**	**12 359**	**2 104**	**20.5**
TOTAL	**81 819**	**180 199**	**100 606**	**218 243**	**38 044**	**21.1**

Note: EUR 2 637 million in annual charges of Life Annuities (-3.2% than 2009) is not considered since it is not a mutual scheme.

Pursuant to Article 18 of the Articles of Association and Article 53 of the Mutual Association Code, in 2010 AM allocated a benefit improvement rate of 1% to actuarial schemes with a technical rate of 3%, 0.25% to survivor's pensions and endowments and 0.5% to other actuarial schemes with a technical rate of 4%. The amount allocated was based on calculation of the value of mathematical reserves.

As required by the regulations, we excluded from the allocation of improvements schemes with a negative available fund or with debts accumulated into the reserve fund. Improvements allocated to members in 2010 amounted to 1.2 million euros, which was 200 000 more than in 2009.

Subscribers to capitalisation schemes received an overall annual rate of return of 2.75% in two components:

- Minimum annual income (from 0.677% to 2.25%);
- Additional annual income (from 0.5% to 2.073%).

6.4. FINANCIAL ANALYSIS AND PROFITS

6.4.1. INVESTMENT POLICY

In 2010, Associação Mutualista continued to operate on the financial markets on the basis of conservative criteria and sought to provide an appropriate response to medium- and long-term liabilities to members subscribing the different schemes in a framework of financial autonomy.

Low exposure to the stock market in a year when some of the world' main indexes fell, and the careful choice of debt market securities mitigated the negative effect of reference interest rates at an all-time low.

In the debt market, we continued to favour issuers with investment grade ratings eligible for access to liquidity facilities. In spite of the successive credit risk downgrades during the year, around 92% of our bond portfolio is rated BBB- or higher (91.4% in 2009). It is also important to note the geographical diversification of our financial investments both in terms of the country risk and type (sovereign and corporate). Investments with fixed and variable interest rates were also weighed on the basis of financial market opportunities. The portfolio's duration went up to 3.96 years (2.44 in 2009) as a result of longer--term investments, taking account of the characteristics and financial profile of some of the schemes under management.

6.4.2. PERFORMANCE AND RETURN ON ASSETS

En 2010, the net assets of Associação Mutualista amounted to 2 759,3 billion euros, which represents an annual growth rate of 5.7%, comparing favourably with the annual variation in 2009 (+0.4%). Of its main components, the performance of sundry financial holdings, as a direct result of the takeover of Finibanco-Holding, SGPS and the consequent reduction in bank deposits are particularly worthy of note.

With the exception of the above components, the asset structure remained practically unchanged.

TREND IN NET ASSETS

(thousand euros)

ITEMS	2009		2010		Change	
	Value	%	Value	%	Value	%
Real Estate	134 936	5.2	147 139	5.3	12 203	9.0
Securities	909 056	34.8	957 261	34.7	48 205	5.3
Institutional Financial Investment	760 000	29.1	800 000	29.0	40 000	5.3
Other Financial Investment	81 965	3.1	461 674	16.7	379 709	463.3
Bank Deposits	673 394	25.8	344 688	12.5	-328 706	-48.8
Derivatives	-3 403	-0.1	-5 443	-0.2	-2 040	-59.9
Other Assets	53 829	2.1	54 029	2.0	200	0.4
TOTAL	**2 609 777**	**100.0**	**2 759 348**	**100.0**	**149 571**	**5.7**

Average return on assets in 2010 was the same as in 2009 (2.7%), i.e. above the average medium-term reference rates (5 years) on the interbank market (average swap rate of 2.25% in 2010).

NET RETURN ON ASSETS

(thousand euros)

ITEMS	Average Balance		Return		Average rate of return	
	Value	%	Value	%	2009	2010
Real Estate	139 702	5.2	12 907	18.1	9.2	9.2
Securities	956 109	35.9	26 494	37.1	3.3	2.8
Institutional Financial Investment	772 308	28.9	20 292	28.4	1.6	2.6
Other Financial Investment	89 101	3.3	2 084	2.9	3.6	2.3
Bank Deposits	666 890	25.0	11 391	16.0	2.4	1.7
Derivatives	-4 747	-0.2	-1 935	-2.7		
Other Assets	50 217	1.9	111	0.2	0.4	0.2
TOTAL	**2 669 580**	**100.0**	**71 344**	**100.0**	**2.7**	**2.7**

Notes: The Average Balance was calculated based on 13 observations (Dec/2009 to Dec/2010);
The Average Balance of Other Financial Investments exclues the shareholding in Finibanco-Holding, SGPS.

Here it is important to highlight the improvement in return from our institution holding in Caixa Económica as opposed to bank deposits, with the return associated with our portfolio of securities. In 2010, these components were influenced by a substantial reduction in market reference rates (Euribor 3M and Euribor 6M) to which they are indexed.

Real estate portfolio

Our real estate portfolio increased to a gross inventory of 201.1 million euros at the end of 2010, i.e. 15.5 million euros more than in 2009 (+8.3%). The growth was basically the result of the following:

- Completion of the construction of two new residential centres (Vila Nova de Gaia and Coimbra);
- Purchase of a property in Ponta Delgada.

BREAKDOWN OF REAL ESTATE PORTFOLIO

(thousand euros)

ITEM	2009		2010		Change	
	Value	%	Value	%	Value	%
Investment Property	164 270	88.5	179 648	89.3	15 378	9.4
Buildings and Other Constructions	17 650	9.5	17 741	8.8	91	0.5
Land and Natural Resources	3 754	2.0	3 754	1.9	0	0.0
TOTAL	**185 674**	**100.0**	**201 143**	**100.0**	**15 469**	**8.3**

Note: These figures differ from those set out in the «Trend in Net Assets» chart for Associação Mutualista because the latter include depreciation of 50 739 million euros and 54 005 million euros in 2009 and 2010 respectively.

Net income from the portfolio amounted to 12.9 million euros, 6.1% more than in 2009. This performance is mainly the result of collection of rents on new investment properties and low maintenance costs.

Securities portfolio

Bonds account for a significant part of our securities portfolio, which amounted to 957.3 million euros at the end of 2010. AM continued to focus its financial investments on the debt market in general and public debt in particular.

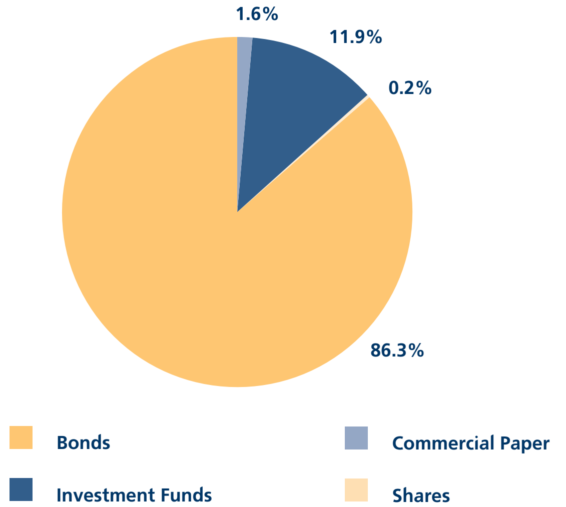
BREAKDOWN OF SECURITIES PORTFOLIO

(thousand euros)

ITEM	2009		2010		Change	
	Value	%	Value	%	Value	%
1. Securities and similar items						
Bonds (including Negotiable Instruments)	791 875	85.1	839 925	85.9	48 050	6.1
Commercial Paper	15 009	1.6	15 005	1.6	-4	-0.0
Shares (including Negotiable Instruments)	4 274	0.5	3 311	0.3	- 963	-22.5
TOTAL 1	**811 158**	**87.2**	**858 241**	**87.8**	**47 083**	**5.8**
% of Assets	**31.1**		**31.1**		**0.0 p.p.**	
2. Other Financial Investments						
Equity Investment Funds	15 030	1.6	15 344	1.6	314	2.1
Real Estate Investment Funds	39 252	4.2	31 635	3.2	-7 617	-19.4
Other Investment Funds	65 063	7.0	72 559	7.4	7 496	11.5
TOTAL 2	**119 345**	**12.8**	**119 538**	**12.2**	**193**	**0.2**
% of Assets	**4.6**		**4.3**		**-0.3 p.p**	
TOTAL (1+2)	**930 503**	**100.0**	**977 779**	**100.0**	**47 276**	**5.1**
% of Assets	**35.7**		**35.4**		**-0.3 p.p.**	
3. Impairment						
Bonds	14 707	68.6	13 460	65.6	-1 247	-8.5
Shares	1 228	5.7	1 088	5.3	-140	-11.4
Equity Investment Funds	5 512	25.7	5 970	29.1	458	8.3
TOTAL 3	**21 447**	**100.0**	**20 518**	**100.0**	**-929**	**-4.3**
NET TOTAL	**909 056**		**957 261**		**48 205**	**5.3**
% of Assets	**34.8**		**34.7**		**-0.1 p.p.**	

In order to mitigate the credit and interest rate risks, our bond portfolio preferably consists of senior debt securities with investment grade ratings (rating of BBB-or higher) and with a variable income (floating rate notes). The change in our portfolio's rating structure in 2010 is directly related to the downgrades of most issuers.

BREAKDOWN OF INVESTMENTS BY ASSET TYPE (after Impairment)



BREAKDOWN OF BOND PORTFOLIO BY RATING

(thousand euros)

RATING	2009 Value	2009 %	2010 Value	2010 %
AAA	26 613	3.4	20 997	2.5
AA+	2 027	0.3	3 719	0.5
AA	10 466	1.4	7 084	0.9
AA-	88 864	11.4	15 922	1.9
A+	31 026	4.0	22 185	2.7
A	68 675	8.8	100 784	12.2
A-	357 438	46.0	49 660	6.0
BBB+	81 569	10.5	31 728	3.8
BBB	35 242	4.5	433 990	52.5
BBB-	8 350	1.1	74 242	9.0
<BBB-	5 709	0.7	17 328	2.1
NR	61 189	7.9	48 826	5.9
TOTAL	**777 168**	**100.0**	**826 465**	**100.0**

In view of the nature of AM'ost its entire securities portfolio is accounted for as assets available for sale (96.9%), while securities accounted for in the trading portfolio represent 1.7% of the total.

There was a year-on-year increase of 66.5 million euros in the gross value of our portfolio of securities available for sale and a decrease of 7.3 million euros in our portfolio of securities classified at fair value through profit or loss and 11.9 million euros in the trading portfolio and as a result of the maturity of most of the positions in the portfolio.

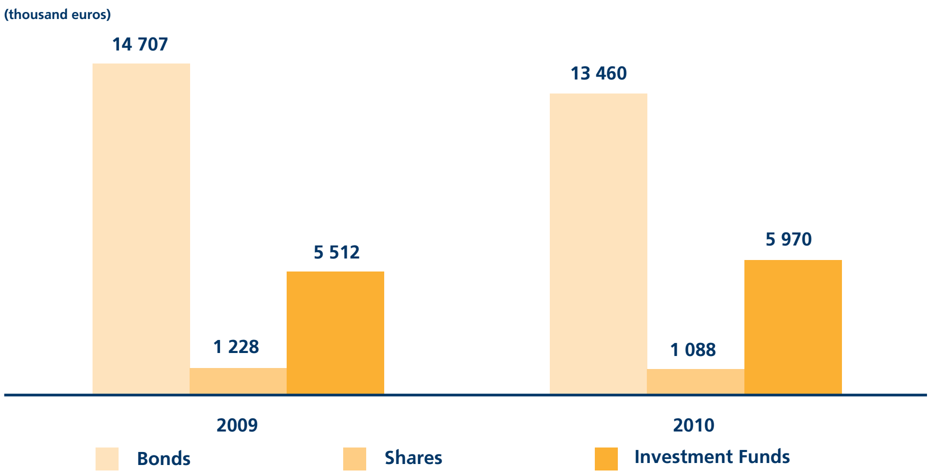
SECURITIES PORTFOLIO BREAKDOWN

(thousand euros)

ITEM	Portfolio 2009 Value	Portfolio 2010 Value	Impairment 2009 Value	Impairment 2010 Value	Change Portfolio Value	Change Impairment Value
Available for Sale	**880 996**	**947 529**	**21 447**	**20 518**	**66 533**	**-929**
Treasury Bonds	76 189	72 782			-3 407	
Other Bonds	666 179	737 203	14 707	13 460	71 024	-1 247
Commercial Paper	15 009	15 005			-4	
Shares	4 274	3 001	1 228	1 088	-1 273	-140
Investment Funds	119 345	119 538	5 512	5 970	193	458
Classified as fair Value though Profit or Loss	**20 998**	**13 683**			**-7 315**	
Bonds	20 998	13 683			-7 315	
Negotiable instruments	**28 509**	**16 567**			**-11 942**	
Shares	0	310			310	
Bonds	28 509	16 257			-12 252	
TOTAL	**930 503**	**977 779**	**21 447**	**20 518**	**47 276**	**-929**

In spite of the high volatility of the international financial markets, it was possible to reduce the amounts of impairment in our securities portfolio by 0.9 million euros. There was a fall in impairment of 1.25 million euros in the debt securities component.

TREND IN SECURITIES' IMPAIRMENT



Net income from our securities portfolio amounted to 26.5 million euros, i.e. 6% less than in 2009. This is directly related to a significant reduction in the main indexer of our portfolio of variable rate bonds (Euribor 3M), which averaged 0.814% in 2010 against 1.218% in 2009.

RETURN ON SECURITIES PORTFOLIO

(thousand euros)

ITEM	2009		2010		Change	
	Value	%	Value	%	Value	%
Bonds	51 628	183.2	24 973	94.3	-26 655	-51.6
Shares	-121	-0.4	-298	-1.1	-177	-146.3
Commercial Paper	421	1.5	274	1.0	-147	-34.9
Investment Funds	23 749	-84.3	1 545	5.8	25 294	106.5
TOTAL	**28 179**	**100.0**	**26 494**	**100.0**	**-1 685**	**-6.0**

Institutional financial investment in CEMG

AM's financial investment in CE was raised from 760 to 800 million euros in 2010. This increase was approved at a General Meeting on 24 March 2010.

Furthermore, the General Meeting on 21 December 2010 approved an increase in the institutional capital of Caixa Económica up to 345 million euros, which will make it possible to accommodate the integration of Finibanco SA and pursue the Montepio Group's strategy of sustainable development, thereby preserving robust levels of solvency.

The amount of profits from Caixa Económica in 2009 transferred to AM in 2010 amounted to 20.3 million euros, as opposed to 11.3 million euros transferred in 2009.

Other financial investments

After the takeover of Finibanco-Holding, SGPS, AM's portfolio of other financial investments increased significantly against 2009. In addition to this strategic investment, there were other important movements, including:

- Investment in the incorporation of Sociedade de Capital de Risco Bem Comum;
- Increase in share capital of Germont Empreendimentos Imobiliários;
- Increase in share capital of Bolsimo – Gestão de Activos.

Without counting the acquisition of Finibanco Finibanco-Holding, SGPS in November 2010, the average rate of return from the financial investment portfolio was 2.3%, with a net income of some 2.1 million euros.

TREND IN FINANCIAL INVESTMENTS PORTFOLIO AND RETURNS

thousand euros)

ITEM	2009				2010				Change			
	Investment	%	Return	%	Investment	%	Return	%	Investment	%	Return	%
Equity Holdings												
Strategic	**38 239**	**46.7**	**2 185**	**90.0**	**379 489**	**82.2**	**1 851**	**88.8**	**341 250**	**892.4**	**-334**	**-15.3**
MONTEPIO GESTÃO DE ACTIVOS	1 331	1.6	505	20.8	1 331	0.3	495	23.7	0	0.0	-10	-2.0
FUTURO	1 963	2.4	160	6.6	1 963	0.4			0	0.0	-160	-100.0
LUSITANIA – VIDA	9 647	11.8	863	35.6	9 647	2.1	699	33.5	0	0.0	-164	-19.0
LUSITANIA – COMPANHIA DE SEGUROS	23 769	29.0	657	27.1	23 769	5.1	657	31.5	0	0.0		
RESIDÊNCIAS MONTEPIO, SA	1 530	1.9			1 530	0.3			0	0.0		
FINIBANCO					341 250	73.9			341 250			
Other holdings	**13 976**	**17.1**	**242**	**10.0**	**17 435**	**3.8**	**233**	**11.2**	**3 459**	**24.7**	**-9**	**-3.8**
NEBRA ENERGIAS RENOVABLES	611	0.7			611	0.1	-4	-0.2	0	0.0	-4	
BOLSIMO	12 370	15.1			15 119	3.3			2 749	22.2		
GERMONT	70	0.1			700	0.2			630	900.0		
LEACOCK	242	0.3			242	0.1			0	0.0		
NOVACÂMBIOS	227	0.3	11	0.5	227	0.0	11	0.5	0	0.0		
SAGIES	97	0.1			97	0.0	87	4.2	0	0.0	87	
SILVIP	308	0.4	231	9.5	308	0.1	138	6.6	0	0.0	-93	-40.1
MG INVESTIMENTOS IMOBILIÁRIOS	50	0.1			50	0.0			0	0.0		
SOCIEDADE BEM COMUM					80	0.0			80			
Subtotal	**52 215**	**63.7**	**2 427**	**100.0**	**396 924**	**86.0**	**2 084**	**100.0**	**344 709**	**660.2**	**-343**	**-14.1**
Additional Capital Paid in												
LUSITANIA – COMPANHIA DE SEGUROS	29 750	36.3			29 750	6.4			0			
BOLSIMO					35 000	7.6			35 000			
Subtotal	**29 750**	**36.3**	**0**	**0.0**	**64 750**	**14.0**	**0**	**0.0**	**35 000**	**117.6**	**0**	**0.0**
TOTAL	**81 965**	**100.0**	**2 427**	**100.0**	**461 674**	**100.0**	**2 084**	**100.0**	**379 709**	**463.3**	**-343**	**-14.1**

Bank Deposits

Bank deposits amounted to 344.7 million euros on 31 December 2010. In spite of the 341.25 million euro reduction in deposits following the takeover of Finibanco SGPS, their value represented 12.5% of all of AM's assets (25.8% in 2009).

TREND IN BANK DEPOSITS

(thousand euros)

ITEM	2009		2010		Change	
	Value	%	Value	%	Value	%
Current Accounts	116 894	17.4	132 444	38.4	15 550	13.3
Term Deposits	556 500	82.6	212 244	61.6	-344 256	-61.9
TOTAL	**673 394**	**100.0**	**344 688**	**100.0**	**-328 706**	**-48.8**

Other assets

As in 2009, the most important components of other assets are construction in progress and loans to members.

In construction in progress, there were improvements in some properties and important developments at residential centres (five current projects) with an overall investment of 28.1 million euros at the end of 2010.

BREAKDOWN OF FIXED ASSETS IN PROGRESS

(thousand euros)

ITEM	2009		2010		Change	
	Value	%	Value	%	Value	%
Residential Centre	36 634	98.3	28 088	89.9	-8 546	-23.3
Continued Care Units	64	0.2	70	0.2	6	9.4
Other	540	1.5	3 088	9.9	2 548	471.9
TOTAL	**37 238**	**100.0**	**31 246**	**100.0**	**-5 992**	**-16.1**

Where loans to members were concerned, 1 420 new agreements were signed, 14 fewer than in 2009. The average loan for each new agreement was 2 300 euros (2 800 euros in 2009). Total loans granted amounted to 3.3 million euros, as opposed to 4.1 million in 2009. The accumulated balance of loans went down to 3.2 million euros from 3.6 million in 2009).

LOANS TO MEMBERS

ITEM	2009	2010	Change
			(Units)
Number of new contracts	**1 434**	**1 420**	**-14**
Against mathematical reserves (1)	703	784	81
Against Capital	731	636	-95
			(thousand euros)
Value of New Contracts	**4 082**	**3 257**	**-825**
Against mathematical reserves	1 135	1 359	224
Against Capital	2 947	1 898	-1 049
			(ratios)
Average value of new contracts	**2,8**	**2,3**	**-0,5**
Against mathematical reserves	1,6	1,7	0,1
Against Capital	4,0	3,0	-1,0
			(thousand euros)
Accrued Amount	**3 606**	**3 177**	**-429**
Against mathematical reserves	1 009	1 135	126
Against Capital	2 597	2 042	-555

(1) Includes Loans against Refundable Membership Subscriptions

6.4.3. EQUITY AND LIABILITIES

The 141.3 million euro increase in liabilities (+6.4%) was slightly lower than the 147.4 million in 2009. This was due mainly to a reduction in subsidies and improvements and in actuarial provisions. On the other hand, in the capitalisation schemes (especially the different series of the fixed-term retirement capital scheme) and in some actuarial schemes, (*Protecção 5 em 5*, *Protecção Sub-25* and retirement pensions), subscriptions entailed a substantial increase in mathematical provisions.

Actuarial scheme mathematical reserve adequacy tests

As in previous years, we conducted a test of the adequacy of liabilities in actuarial schemes and perpetual annuities closed to new subscriptions with technical rates not in line with current circumstances.

In spite of a reduction in the discount rate for most schemes, it was possible to release mathematical reserves as a result of the suspension of payment of 4% and 6% contributions in retirement pension schemes.

TREND IN LIABILITIES

(thousand euros)

ITEM	2009 Value	2009 %	2010 Value	2010 %	Change Value	Change %
PROVISIONS FOR LIABILITIES AND CHARGES	**2 201 184**	**99.8**	**2 342 462**	**99.7**	**141 278**	**6.4**
MATHEMATICAL WELFARE PROVISIONS	2 114 982	95.9	2 258 937	96.1	143 955	6.8
Statutory	2 027 917	91.9	2 175 579	92.6	147 662	7.3
Life Annuity	19 272	0.9	18 848	0.8	- 424	-2.2
Actuarial	67 793	3.1	64 510	2.7	-3 283	-4.8
BENEFIT IMPROVEMENTS AND GRANTS	86 202	3.9	83 525	3.6	- 2 677	- 3.1
OTHER LIABILITIES	**5 488**	**0.2**	**6 241**	**0.3**	**753**	**13.7**
TOTAL	**2 206 672**	**100.0**	**2 348 703**	**100.0**	**142 031**	**6.4**

AM's equity, which consists of its social fund, reserves and profits increased 7.5 million euros in 2010, which is an annual growth of +1.9%. This performance was the result of an increase in profits and own funds and an addition to the legal reserve (+6.2%), following higher contributions from the different schemes and rents. The fall in revaluation reserves reflects the instability in most financial markets in 2010.

TREND IN EQUITY

(thousand euros)

ITEM	2009 Value	2009 %	2010 Value	2010 %	Change Value	Change %
SOCIAL FUND	**151 905**	**37.7**	**158 854**	**38.7**	**6 949**	**4.6**
OWN FUNDS	**79 436**	**19.7**	**90 013**	**21.9**	**10 577**	**13.3**
ADMINISTRATION FUND	101	0.0	133	0.0	32	31.7
MEMBERSHIP WELFARE FUND	37 733	9.4	43 162	10.5	5 429	14.4
SCHOLARSHIP FUND	912	0.2	935	0.2	23	2.5
EXPENSE PAYMENT GUARANTEE FUND	40 288	10.0	45 405	11.1	5 117	12.7
MONTEPIO EGITANIENSE CLINICAL SERVICES FUND	402	0.1	378	0.1	-24	-6.0
ACCOUNTING SURPLUSES	72 469	18.0	68 841	16.8	-3 628	-5.0
RESERVES	**208 667**	**51.7**	**197 398**	**48.1**	**-11 269**	**-5.4**
REVALUATION RESERVES	**5 616**	**1.4**	**-16 902**	**-4.1**	**-22 518**	**-401.0**
LEGAL RESERVES	**168 471**	**41.7**	**178 844**	**43.6**	**10 373**	**6.2**
OTHER RESERVES	**34 580**	**8.6**	**35 456**	**8.6**	**876**	**2.5**
PROFIT	**42 533**	**10.6**	**54 393**	**13.2**	**11 860**	**27.9**
NET PROFIT	**42 533**	**10.6**	**54 393**	**13.2**	**11 860**	**27.9**
TOTAL	**403 105**	**100.0**	**410 645**	**100.0**	**7 540**	**1.9**

In spite of this high instability in the financial markets, AM's financial solidity AM did not undergo any significant changes:

- An equity to liquid asset ratio of 14.9% (15.4% in 2009);
- Coverage of liabilities (i.e. the ratio between total funds, reserves and mathematical provisions and total provisions for risks and costs) of 1.15 (1.16 in 2009).

6.4.4. PROFITS

AM ended 2010 with an accumulated net profit of 54.4 million euros, 27.9% more than in 2009.

ASSOCIAÇÃO MUTUALISTA INCOME STATEMENT

(thousand euros)

ITEM	2009	2010	Change	
	Value	Value	Value	%
1. INCOME AND GAINS				
Income from Members	486 051	554 305	68 254	14.0
Reduction in Mathematical Provisions (1)	181 854	221 941	40 087	22.0
Membership and Other Revenues (2)	304 197	332 364	28 167	9.3
Supplementary Revenue	8	82	74	925.0
Operating Subsidies and Grants	11 147	20 292	9 145	82.0
Financial Revenue and Gains	78 225	61 068	-17 157	-21.9
Extraordinary Revenue and Gains	5 488	8 024	2 536	46.2
TOTAL	**580 919**	**643 771**	**62 852**	**10.8**
2. COSTS AND LOSSES				
Costs Associated with Members	504 581	559 826	55 245	10.9
Increase in Mathematical Provisions (2)	321 658	338 945	17 287	5.4
Benefits Matured, Refunds and Other Costs (1)	182 923	220 881	37 958	20.8
Supplies and Services	2 681	3 068	387	14.4
Personnel Costs	6 904	6 715	-189	-2.7
Other Operating Costs	718	968	250	34.8
Financial Costs and Losses	10 943	8 088	-2 855	-26.1
Extraordinary Costs and Losses	4 240	4 460	220	5.2
TOTAL	**530 066**	**583 125**	**53 059**	**10.0**
3. CASH FLOW	**50 853**	**60 646**	**9 793**	**19.3**
4. FIXED ASSET AMORTISATION	**3 074**	**3 325**	**251**	**8.2**
5. FINANCIAL INVESTMENTS' AMORTISATION AND PROVISIONS	**5 246**	**2 928**	**-2 318**	**-44.2**
6. NET PROFIT FOR YEAR (3-4-5)	**42 533**	**54 393**	**11 860**	**27.9**

(1) Matured Benefits are offset on the Revenue side by the Reduction in Mathematical Provisions.
(2) Income from Members is offset on the Costs side by the Increase in Mathematical Provisions.

The following variables contributed to the performance of profits:

- An increase of profits transferred from Caixa Económica (+ 9.1 million euros) to 20.3 million euros;
- Lower losses of impairment recognised in the year (2.8 million euros in 2010 against 4.9 million in 2009) plus a reversal of some accumulated amounts in our securities portfolio (3.7 million euros in 2010 and 2009);
- Reduction in amounts paid in respect of minimum guaranteed income in capitalisation schemes (15.3 million euros in 2010 and 24.2 million in 2009), due mainly to changes in the market indexer to which most subscriptions are indexed (ECB refinance rate, which went from an average of 1.23% in 2009 to 1% in 2010);
- Release of mathematical provisions from actuarial schemes as a result of the annual liability adequacy test (net reduction of 3.3 million euros in 2010 against a net increase of 1.6 million in 2009).

6.5. PROPOSALS

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

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

- Coverage of the negative annual balance in available funds of some schemes using accounting surpluses to the amount of 1 946 569.69 euros
- Coverage of the negative annual balance in available funds of some schemes using the general reserve fund if there no or insufficient accounting surpluses in the schemes to the amount of 566 335.93 euros.

Permanent Fund of the Respective Scheme	(euros)
– Accounting Surpluses	
(The sum available in the respective Accounting Surplus to cover the overall annual negative balance of the relevant Available Fund for the Scheme)	
Fixed Annuities/Pensions Collective Schemes – 3%	4 154.03
Retirement Pensions – Disability Benefits – 4%	60.54
Retirement Pensions – Disability Benefits – 4% TV 88/90	345.79
Capital for young People	1 218 407.32
Capital for Studies	280 799.70
Survivor's Pension and Dowries	442 802.31
Subtotal	**1 946 569.69**

General Reserve Fund:	(euros)
(The remaining sum to provide complete coverage of the annual negative balance of the relevant Available Fund)	
Fixed Term Retirement Capital Schemes 2010-2015 – Series 1	108 611.08
Retirement Pensions – 4%	416 516.97
Retirement Capital Pensions – 4%	41 207.88
Subtotal	**566 335.93**
TOTAL	**2 512 905.62**

6.5.2. PROPOSED APPROPRIATION OF PROFIT FOR THE YEAR

Taking into account:

- The transfer of 1 946 569.69 euros of accounting surpluses to cover available funds;
- The transfer of 566 335.93 euros from the general reserve fund to cover available funds;
- The profit for the year of Associação Mutualista, comprising the sum of the balances of the available funds of the mutual schemes, perpetual annuities and other funds and the income from the general reserve fund to a total amount of 54 392 566.29 euros.

The amount of 56 905 471.91 euros is available for appropriation, for which we make the following proposal:

To the General Reserve Fund: (euros)

– Fund Income, pursuant to Article 56 (2) of the Articles of Association:		3 265 943.99	
– Allocation pursuant to Article 60(1)a) combined with Article 60 (2) of the Articles of Association (65% of the annual balances of the Available Funds)			
Individual Schemes			
Expenses Payment Guarantee (1988 articles of association)	7 103 441.59		
Expenses Payment Guarantee I	1 935 828.70		
Expenses Payment Guarantee II	5 286.22	9 044 556.51	
– Allocation pursuant to Article 60 (1) a) of the Articles of Association (5% of the annual balances of the Available Funds)			
Individual Schemes			
Welfare Capital – 3%	1 488.66		
Deferred Welfare Capital with Option – 3%	23 962.50		
Capital for Young People – 3%	2 470.37		
Retirement Pensions – 3%	491.18		
Retirement Pensions – Contribution Refund – 3%	17.36		
Retirement Capital Pensions – 3%	1 939.96		
Retirement Savings Pensions – 3%	6.57		
Temporary Disability Capital – 3%	31.15		
Guarantee Capital	3 999.92		
Disability Contributions – Collective Schemes	34.92		
Retirement Pensions – 4% (TV 88/90)	55 010.11		
Retirement Pensions – Contribution Refund – 4%	3 605.05		
Retirement Pensions – Contribution Refund – 4% (TV88/90)	1 128.37		
Welfare Capital – 4%	4 834.59		
Deferred Welfare Capital with Option – 4%	18 074.11		
Death Allowance	785.46		
Term Welfare Capital	203.10		
Disabled Person Pensions	67.87		
Temporary Welfare Capital due to Disability or Death	26.15		
Temporary Disability Capital – 4%	1 239.97		
Survivor's Annuity	246.07		
Deferred Capital with Additional Cover	28.39		
Welfare Capital for Specified Persons	2.82		
Life Annuities for Specified Persons	9.22		
Death Allowance – Lutuosa Nacional	12.93		
Retirement Pensions – 6%	115 408.12		
Retirement Pensions – Contribution Refund – 6%	5 828.75		
Retirement Pensions – Disability Benefits – 6%	319.37		
Retirement Capital Pensions – 6%	19.86		
Retirement Savings	59 731.82		
Retirement Capital	1 300 243.80		
Fixed Term Retirement Capital	116 379.12		
Collective Schemes			
Collective Capital	8 118.14		
Life Annuities – 6%	17 545.32		
Life Annuities – 4%	9 317.83		
Life Annuities – 3%	1 654.29		
Other Funds			
Scholarship Fund	395.03		
Montepio Egitaniense Clinical Services Fund	521.44	1 755 199.69	14 065 700.19

To the Permanent Funds of the Respective Schemes and Annuities:

(euros)

– (Allocation pursuant to Article 60 (1) c) of the Articles of Association)		
– Accounting Surpluses:		
Welfare Capital – 3%	28 284.56	
Deferred Welfare Capital with Option – 3%	455 287.45	
Capital for Young People – 3%	46 937.06	
Retirement Pensions – 3%	9 332.48	
Retirement Pensions – Contribution Refund – 3%	329.82	
Retirement Capital Pensions – 3%	36 859.24	
Retirement Savings Pensions – 3%	124.81	
Temporary Disability Capital – 3%	591.83	
Retirement Pensions – 4% (TV 88/90)	1 045 192.16	
Retirement Pensions – Contribution Refund – 4%	68 496.03	
Retirement Pensions – Contribution Refund – 4% (TV88/90)	21 438.93	
Welfare Capital – 4%	91 857.28	
Deferred Welfare Capital with Option – 4%	343 408.12	
Death Allowance	14 923.78	
Term Welfare Capital	3 858.84	
Disabled Person Pensions	1 289.52	
Temporary Welfare Capital due to Disability or Death	496.84	
Temporary Disability Capital – 4%	23 559.49	
Survivor's Annuity	4 675.36	
Deferred Capital with Additional Cover	539.45	
Welfare Capital for Specified Persons	53.53	
Life Annuities for Specified Persons	175.13	
Death Allowance – Lutuosa Nacional	245.58	
Retirement Pensions – 6%	2 192 754.23	
Retirement Pensions – Contribution Refund – 6%	110 746.26	
Retirement Pensions – Disability benefits – 6%	6 068.03	
Retirement Capital Pensions – 6%	377.31	
Life Annuities – 6%	333 361.02	
Life Annuities – 4%	177 038.67	
Life Annuities – 3%	31 431.43	5 049 734.24

To Own Funds of the Respective Schemes and Other Funds:

(euros)

(Allocation pursuant to Article 60 (1) c) of the Articles of Association)			
– Capitalisation Schemes			
Individual Schemes			
Retirement Capital	24 704 632.23		
Guarantee Capital	75 998.42		
Retirement Savings	1 134 904.67		
Fixed Term Retirement Capital	2 211 203.28		
Disability Contribution – Collective Schemes	663.49		
Collective Schemes			
Collective Capital	154 244.74	28 281 646.83	
– Membership Welfare Fund		4 581 848.74	
– Administration Fund		38 983.07	
– Montepio Egitaniense Clinical Services Fund		9 907.43	
– Scholarship Fund		7 505.60	
– Expenses Payment Guarantee Fund I (1988 Articles of Association)		3 824 930.09	
– Expenses Payment Guarantee Fund I		1 042 369.30	
– Expenses Payment Guarantee Fund II		2 846.42	37 790 037.48
TOTAL			**56 905 471.91**

6.5.3. PROPOSAL FOR THE RESTORAL OF THE GENERAL RESERVE FUND

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

		(euros)
Life Annuities – 6%	188 587.98	
Retirement Capital Pensions – 6%	113.51	
Retirement Pensions – 4% (TV 88/90)	12 299.94	
TOTAL		**201 001.43**

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

In the light of this, the following restoration is proposed:

		(euros)
– To the General Reserve Fund		
Life Annuities – 6%	144 773.04	
Life Annuities – 4%	177 038.67	
Retirement Pensions – 6%	2 192 754.23	
Retirement Capital Pensions – 6%	263.80	
Retirement Pensions – 4% (TV 88/90)	1 032 892.22	
TOTAL		**3 547 721.96**

6.5.4. PROPOSED ALLOCATION OF BENEFIT IMPROVEMENTS

We propose that benefit improvements (on mathematical reserves relating to benefits in formation and in progress as at 31.12.10) be allocated to the following schemes:

– Schemes with 6% rate	0.00%
– Schemes with 4% rate	
· Retirement Capital Pensions	0.00%
· Retirement Pensions and Disability Benefits	0.00%
· Other Schemes	0.25%
– Schemes with 3% rate	1.00%

All the schemes and annuities with negative annual available funds and/or accumulated debts are not entitled to improvements. The cost of improvements to be allocated to members is as follows:

(euros)

(Allocation pursuant to Article 18 of the Articles of Association and Article 53 of The Mutual Schemes Code)		
– Schemes with 4% rate		
Welfare Capital	91 132.14	
Deferred Welfare Capital with Option	274 859.94	
Death Allowance	4 113.73	
Term Welfare Capital	3 609.40	
Disabled Person Pensions	1 241.30	
Temporary Disability Capital	79.79	
Survivor's Annuities	1 932.93	
Deferred Capital with Additional Cover	130.38	
Welfare Capital for Specified Persons	44.82	
Life Annuities for Specified Persons	149.11	
Death Allowance – Lutuosa Nacional	43.07	
– Schemes with 3% rate		
Welfare Capital	3 182.26	
Deferred Welfare Capital with Option	240 254.70	
Capital for Young People	46 877.66	
Retirement Pensions	9 226.55	
Retirement Capitals Pensions	36 654.00	
Retirement Savings Pensions	66.99	
Temporary Disability Capital	17.87	
TOTAL		**713 616.64**

6.5.5. PROPOSED APPROPRIATION OF ACCOUNTING SURPLUSES ON PERPETUAL ANNUITIES

Considering the amount of accounting surpluses in the perpetual annuity fund 3% and Article 64(6) of the Articles of Association of Montepio Geral – Associação Mutualista, we propose that the annuities set up prior to 31 December 2009 be increased by 1% (31 301.54 euros).

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

Taking into account:

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

We propose that the allocation of the addition annual income be made in a differentiated fashion to ensure that each scheme has an overall rate of 2.5%:

– Retirement Savings	2.1
– Retirement Capital	Between 0.25% and 2.10%
– Collective Capital	2.1%

In order to allocate an overall rate of return of 2.5% to capitalisation schemes, we expect the need for an extraordinary financial resource of 1.2 million euros, which will be covered by the profit stabilisation reserve for the schemes themselves.

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

Subscription Date	Position at 31st December 2010	Guaranteed Annual Return in 2010	Supplementary Annual Return
1st March 1990 to 31st August 1992	Guaranteed Refi Rate -0.6% from 01/Jan/2010 to 31/Dec/2010	0.40%	2.10%
1st September 1992 de to 31st October 2003	Guaranteed Refi Rate -0.6% from 01/Jan/2010 to 31/Dec/2010	0.40%	2.10%
1st November 2003 to 28th February 2007	Guaranteed rate of 75% of Accounting Rate of 3% (2.25%) from 1/Jan/2010 to maturity at five years Guaranteed Refi Rate -0,6% from the fifth anniversary to 31/Dec/2010	from 0.4% to 2.25%	from 2.10% to 0.25%
	Subscription less than five years old on 31/12/2010 had a minimum guaranteed rate of 75% of the Accounting Rate of 3% (2.25%)	2.25%	0.25%
Since 1st March 2007	Guaranteed Refi Rate -0.6% from 01/Jan/2010 to 31/Dec/2010	0.40%	2.10%

6.5.7. PROPOSED TRANSFER TO THE GENERAL RESERVE FUND OF ACCOUNTING SURPLUSES ON DISCONTINUED SCHEMES

As the temporary welfare due to disability or death scheme was discontinued in 2010, the accumulated amounts in its accounting surpluses need to be transferred to the general reserve fund. We therefore propose the transfer of the following amounts:

(Euros)

– To General Reserve Fund	
Temporary Welfare Capital due to Disability or Death	2 753.38
TOTAL	**2 753.38**

6.5.8. PROPOSED CONTRIBUTION TO THE MANAGEMENT FUND

In the order help guarantee the commitments of the management fund with regard to the management costs borne by Associação Mutualista, we propose the approval of the following contributions from schemes and annuities in 2010:

SCHEMES	(%)
Retirement Capital	0.300
Retirement Savings	0.300
Collective Schemes	0.300
Fixed Term Retirement Capital	0.250
Expenses Payment Guarantee 1988, I and II	1.000
Other Schemes and Life Annuities	0.625

6.5.9. PROPOSED APPROPRIATION OF SUM TRANSFERRED FROM CEMG

Considering the amount of income to be transferred from Caixa Económica in respect of profits for 2010, we propose that, pursuant to Article 62 of the Articles of Association, it be appropriated as follows:

	(Euros)
To Membership Welfare Fund	532 000.00
To Scholarship Fund	9 000.00
To Available Funds and General Reserves	22 544 000.00
TOTAL	**23 085 000.00**

6.5.10. PROPOSED ALLOCATION TO FUNDAÇÃO MONTEPIO GERAL

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

7. Caixa Económica Montepio Geral (Consolidated Accounts)

7.1. TREND IN BUSINESS

PRODUCTS AND SERVICES BY SEGMENT

In line with its strategy, Montepio has designed its products and services to attract more savings from customers and not only diversify its credit portfolio but also adapt it to the profile of its strategic segments, with special focus on private customers, small businesses, micro-companies and small and medium-sized enterprises (SMEs), and the third sector.

We stepped up our policy of adjusting the pricing of products, services and operations to the segment and its risk, while continuing to improve risk analysis and management and control, especially for credit risks, in order to reduce the progression of defaults.

PRIVATE CUSTOMERS

In 2010, our marketing strategy for the private customer segment, where our portfolio increased by 1.3%, focused on encouraging saving, creating customer loyalty and rejuvenating its base by attracting under-18s. Products and services for seniors were not neglected, as we offered more assistance and wellbeing services, in which the Montepio Group has become known for its pioneering response and quality in meeting society's needs.

As part of our goal to attract mass-market customers in order to strengthen Montepio as their main bank, we introduced Solução Montepio Consigo (With You Solution). This financial solution includes a set of everyday management products that are essential for private customers (a salary account, a central product in the first bank relationship, with an automatic saving component, direct debits, etc). When acquired simultaneously, they offer customers additional benefits and allow the cross-selling of products and services.

We sold term deposits, mainly of medium maturity (three years) to ensure stability of resources, low risk and a diversified range. They include Montepio Depósito Especial (Montepio Special Deposit) a term deposit with an attractive interest rate and different maturities (three to 18 months). We used a similar strategy for retaining investments with Montepio Depósito Exclusivo (Montepio Exclusive Deposit) (for three to 15 months).

We also offered investments with maturities of four years or more, such as Montepio Crescimento Garantido (Guaranteed Growth) 2010, several series of Montepio Super Poupança (Super Savings) 2010 and Montepio Capital Certo (Fixed Capital). We introduced two-year term deposits to encourage cross-selling, such as Montepio Poupança Solução Consigo (Saving With You Solution) and Montepio Poupança Solução Valor (Value Saving Solution), linked to overall solutions. In the last quarter of the year, we also offered a six-month term deposit, Montepio Depósito com Futuro (Deposit with a Future) to encourage subscription of retirement savings plans.

We continued to encourage the use of remote channels by offering products for exclusive use in these channels, such as the Conta Montepio 24 account, Super Depósito Net and Super Depósito Net Plus, in which we constantly revised pricing policy.

Montepio played an important role in financial education and encouragement of saving in special campaigns on the World Day of the Child on 1 June and World Saving Day, 31 October, when we offered preferential interest rates to encourage saving. In June 2010, during the celebrations of World Day of the Child, we reintroduced a campaign from previous years, «Mealheiro Montepio – tão importante para o seu filho como foi para si» (Montepio money box – as important for your child as it is for you). This resulted in the re-issue of Montepio's Historic Money Boxes and the offer of products for minors with special interest rates.

In the area of equity investment funds, we marketed two mixed products in 2010, Montepio Multi Investimento and Montepio Multi Investimento Plus. These products consist of a an investment fund component and a term deposit with a preferential interest rate combined with the safety of a term deposit and the attractive income of an investment fund. The Montepio Acções fund run by Montepio Gestão de Activos won the award for the best Portuguese European equity fund from *Diário Económico* and the well-known Morningstar.

Montepio, in partnership with Seguradora Lusitania, introduced a new policy called Montepio Sorriso Garantido (Guaranteed Smile), which could be taken out quickly and easily. It is a dental care policy with no limit on the amount, age or duration and offers access to more than 1 300 dental clinics in Portugal and Spain. In 2010, we conducted a campaign offering the first annuity of coverage of home contents as part of the Montepio Home Protection policy.

In the affluent sub-segment, which requires a closer relationship, we continued to focus on better monitoring of satisfaction of customers' financial needs by customer managers, by extending our range and introducing exclusive investment products. Examples are the series of the Montepio Aforro Mais (Save More) 2010 deposit and the above-mentioned structured products. We also created Solução Montepio Valor which, like Solução Montepio Consigo, provides these customers with an integrated range of products and services with additional benefits suited to their needs.

The increase in our range of electronic channels had played an important role in attracting and retaining customers. In the private segment, we developed cards with extra functions and advantages tied to partnerships. Credit cards for the private segment were complemented by a new, innovative product, Cartão Sentidos (the Senses Card). It is a credit card with a loyalty programme that allows customers to earn points on using it and then exchange them for prizes. Since May 2010, Montepio has provided its customers with a free 24-hour card fraud screening service. If an abnormal situation is found by the fraud detection system and it is necessary to verify the legitimacy of the transaction, its holder is contacted by phone to confirm the operation. In 2010, there was a substantial increase in active credit cards and their use rose by 15.4% against 2009.

COMPANIES

In 2010, we continued our strategy of greater penetration of the company segment. We adapted our range of products in the area of resources and loans and provided more and better services. The support that Montepio provides to companies in Portugal is designed to increase the Montepio brand's reputation as a financial institution committed to the country's development that supports economic agents such as small businesses and enterprises and to achieve more diversified growth in its credit portfolio to sectors other than real estate.

Attracting new customers in the sub-segment of one-person businesses, micro-companies and small and medium-size enterprises plays an important role in our strategy for the segment. In order to attract and retain business customers, Montepio introduced integrated solutions for these sub-segments, which include everyday management products and services for a single monthly fee.

In the last quarter of 2010, we conducted an advertising campaign in the specialised press in the area of tourism, hospitality and distribution to publicise Montepio solutions for business customers.

We offered Montepio Depósito Especial and Montepio Depósito Exclusivo for the business segment with conditions and pricing adapted to its profile. We also introduced Montepio Mais Negócios (More Business), with a maturity of one year, and Montepio Aforro Negócios (Business Saving) lasting 16 months.

Where credit was concerned, in view of the higher risk, the need to offer customers competitive conditions and achieve goals of caution and mitigation of risk, particular attention was devoted to the repricing of our portfolio and the adjustment of prices to the risk.

In 2010, Montepio remained committed to improving business opportunities for the company segment and signed a number of agreements with public bodies regarding lines of credit for companies, especially SMEs.

The interest shown by companies and the dynamic sales of these lines show the importance of this instrument for Montepio in its management of the strategic company segment.

In 2010 Montepio therefore began marketing new special lines of credit at national level: *PME Investe*, line of credit for farming and fishery SMEs and *QREN Investe*, and at regional level: in the Azores – *Programa Complementar de Apoio ao PROCAP* and *Açores Empresas II* and in Madeira: *Co-financiamento dos SI do PO Intervir+* and *Linha de Apoio à Recuperação Empresarial da Madeira* – designed to help SMEs hit by the storm on 20 February 2010 in Madeira.

THIRD SECTOR

Montepio is a mutual financial group that is part of the third sector. We believe that the development of partnerships and cooperation with third sector institutions and being the third sector bank are part of our strategic vocations.

In order to follow this calling and better support private charities in their financial needs, in 2010 we continued to develop special products and channels for this segment. For example, we created Soluções Montepio IPSS and Montepio Misericórdias, which provide products and services at an appropriate price for institutions in this segment.

CUSTOMER RESOURCES

The development of innovative products and services offering low-risk financial investments with guaranteed principal and short to medium-term stability in the form of term deposits and cash bonds made it possible to reduce underwriting of funds from the markets and to step up attraction and retention of deposits and other balance sheet resources from customers.

Customer resources rose 8% to 10 910.2 billion euros at the end of 2010, compared to 10 103.9 billion at the end of 2009, influenced 11.4% growth in private and 20.6% in company deposits.

(thousand euros)

	2009	2010	Change	
	Value	Value	Value	%
Private and Small Business Deposits	**7 354 980**	**7 785 112**	**430 132**	**5.8**
Private Individuals	6 387 056	7 112 017	724 961	11.4
Traders and Self-Employed Professionals	50 915	57 309	6 394	12.6
Non-profit Institutions	917 009	615 786	-301 223	-32.8
Company Deposits	**1 535 898**	**1 851 556**	**315 658**	**20.6**
Other Segment Deposits	**285 063**	**385 126**	**100 063**	**35.1**
Instruments placed with Customers	**927 953**	**888 405**	**-39 548**	**-4.3**
TOTAL	**10 103 894**	**10 910 199**	**806 305**	**8.0**

CUSTOMER CREDIT

In 2010, credit to customers amounted to 15 040.6 billion euros, which was 0.7% lower than the 15 143.9 billion at the end of 2009. This was the result of the economic difficulties and higher risk associated with our strategy of reducing exposure to the real estate sector to mitigate the risk of concentration and achieve greater diversity in our credit portfolio.

As a result, there was a slight reduction in our mortgage portfolio and a larger one in our construction loan portfolio, while loans to private customers and especially to business continued to grow.

The performance of loans to private customers benefited mainly from personal loans, which increased 7.2%, in contrast to mortgages, which fell 1.8%, also as a result of the postponement of investment decisions by households in view of the economic difficulties in 2010.

(thousand euros)

	2009	2010	Change	
	Value	Value	Value	%
Private and Small Businesses				
Total Customer Credit	**10 255 559**	**10 127 908**	**-127 651**	**-1.2**
Private Individuals	**9 987 967**	**9 835 409**	**-152 558**	**-1.5**
of which:				
Housing	8 642 963	8 485 379	-157 584	-1.8
Personal	414 539	444 481	29 942	7.2
Small Businesses	**267 592**	**292 499**	**24 907**	**9.3**
For Memory:				
Guarantees	**18 820**	**19 381**	**561**	**3.0**

Credit to the small business segment grew by 9.3% to 292.5 million euros at the end of 2010 and its weight in our customer credit portfolio increased 1.9%.

Our total portfolio of credit to the company segment grew 0.6% to 4.8604 billion euros. There was less exposure to the construction segment, and our construction credit portfolio went down 21%, as opposed to a 14% rise in credit for company investments in other sectors, thanks to Montepio's ongoing work in supporting businesses through special lines, such as Linhas PME Investe.

(thousand euros)

	2009	2010	Change	
	Value	Value	Value	%
Corporate Banking				
Total Corporate Credit	**4 833 187**	**4 860 447**	**27 260**	**0.6**
of which:				
Construction	1 909 569	1 509 342	-400 227	-21.0
Investment	1 591 459	1 814 127	222 668	14.0
CID Ratio	5.3%	5.1%	-0.2 p.p.	
For Memory:				
Guarantees	360 185	339 660	-20 525	-5.7

The focus on Montepio's participation in initiatives providing funding to companies, in partnership with public bodies and the national mutual guarantee system, was evident in the strengthening of business relations with the companies involved, which was reflected by an increase in the average retention of products and degree of subscription and the substantial 83% growth in special lines of credit to companies.

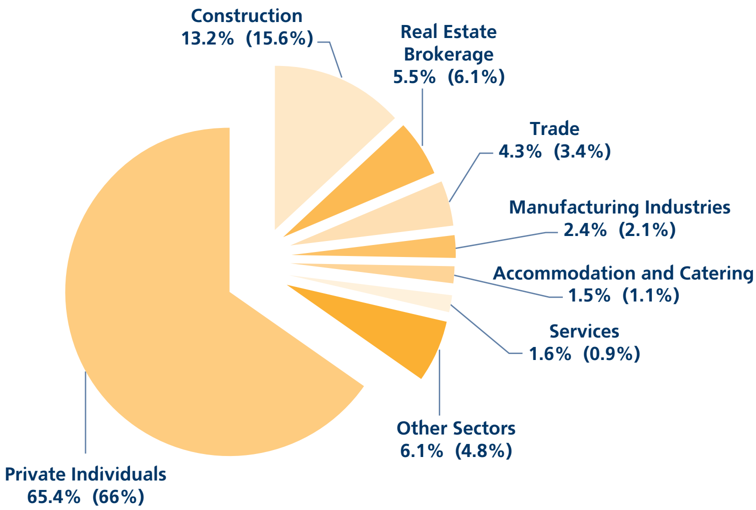
Following our strategic move of diversifying the profile of our support for companies, specialised credit grew 21.6% to 395.3 million euros at the end of 2010, including a 37.3 million euros increase in factoring.

(thousand euros)

	2009	2010	Change	
	Value	Value	Value	%
Leasing	**247 958**	**280 185**	**32 227**	**13.0**
Auto	35 193	43 676	8 483	24.1
Equipment	72 852	73 173	321	0.4
Real Estate	139 913	163 336	23 423	16.7
Factura Ok – Factoring	**73 857**	**111 180**	**37 323**	**50.5**
Renting	**3 339**	**3 909**	**570**	**17.1**
TOTAL	**325 154**	**395 274**	**70 120**	**21.6**

Fulfilling our strategic goal of diversifying activities and optimising our risk profile, credit to customers benefited from the performance of credit to different segments from usual, whose weight went up to 15.9%, as opposed to 12.3% in 2009. The opposite occurred with the private and construction segments, which went down from 66% to 65.4% and 15.6% to 13.2%, respectively.

CREDIT BREAKDOWN BY SECTOR



(2009)

7.2. RISK MANAGEMENT

DEVELOPMENTS

In 2010, we continued to make an effort to identify all risks more accurately, quantify potential losses and use appropriate measures to mitigate risks.

We implemented new scoring models for the small business segment, workflow systems for credit to companies and the formation of economic groups. We also adopted the standard method (TSA) for calculating minimum own fund requirements to hedge the operational risk authorised by Banco de Portugal effective as of 30 June.

At a prudential level, we continued the reporting processes to Banco de Portugal provided for in Pillar II – supervisory review and Pillar III – market discipline of Basel II. Pursuant to Pillar II, we reported to Banco de Portugal the results of the internal capital adequacy assessment process (ICAAP), stress tests and risk concentration tests in accordance with Banco de Portugal Instruction 2/2010. These results point to solid levels of capital to face the most material risks and potential downward trends in the main macroeconomic indicators. Pursuant to Pillar III, we published our market discipline report detailing the types and degrees of risk incurred in our business and our risk management processes, structure and organisation.

CREDIT RISK

Our credit risk control techniques and methods are based on econometric modelling using the institution's experience in granting different types of credit and, whenever possible, recovery. The decision process on credit portfolio operations is based on scoring models for portfolios of private customers and small businesses and rating models for the company segment.

The reactive scoring models for mortgages and personal loans use a scale that includes 10 classes, covering both customers and non-customers. Our reactive scoring for credit cards classifies credit proposals into four risk classes.

The scoring model in the small business segment classifies one-person businesses and micro companies into 11 classes of risk, nine performing classes and two customers with incidents or defaults. Our internal rating model for medium-size and large companies classifies them into seven performing risk classes and one for default.

These models have been developed from in-house historical data and make a quantitative assessment of the likelihood of default of the risk class in which the customer or operation falls. In the company segment, they are complemented by a qualitative assessment performed by credit analysts. This in-house risk classification and the evaluation of risk-mitigating factors in the form of personal or real guarantees are essential aspects of the decision on and price of operations. The mitigation of risk by collateralising operations is considered on the basis of the severity of the loss (e.g. cases of real collateral) or reduction in the value exposed, in the case of financial collateral (e.g. the market risk of the assets involved). The call for collateral depends on the size of the expected loss and is common in the case of large scale operations, especially construction financing and home purchases.

The classes of pricing decisions are defined on the basis of risk-adjusted return on equity (ROE) based on the principle that the highest ranks have the power to approve operations with a lower risk-adjusted ROE. Credit rejections are the result of credit events in the financial system, breach of credit rules (e.g. stress rate in the case of personal loans) and whenever the incorporation of the risk in pricing significantly raises the risk of adverse selection.

In 2010, the frequency of default in company credit operations remained stable in the construction segment and the other sectors. The construction industry continued to show the highest levels of non-performance.

Average default frequency is periodically monitored in the private segment for mortgages and personal loans. There was a slight improvement in average levels in mortgages and personal loans against 2009, from 0.89% to 0.8% and 0.53% 0.5%, respectively.

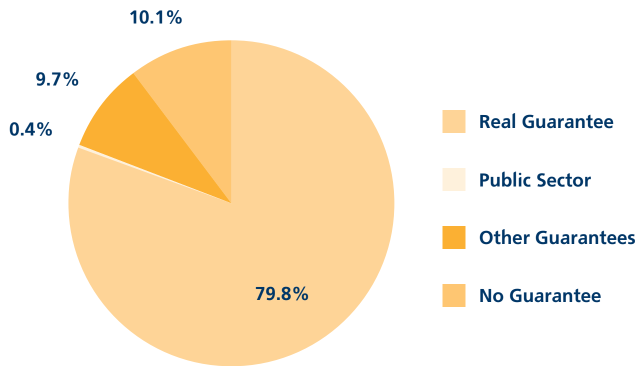
The classification of operations in 2010, when analysed by risk class (reactive scoring), was similar to the previous year, with greater concentration in the low and medium risk classes. There was a slight improvement against 2009 in average scoring for mortgages, while personal loans remained in the mid-level risk class.

In the mortgage segment, there was an improvement in the LTV (loan to value) ratio in our credit portfolio. The average LTV of our credit portfolio fell from 70.6% in December 2009 to 69.3% in December 2010.

The efforts that have been made to improve risk analysis and mitigation in monitoring customers and recovering credits resulted in an improvement in loans and interest in arrears, which was down 0.7% at the end of 2010. This reduction is particularly significant in a context of difficulties and considering that in the banking sector as a whole, there was a 6% increase in loans and interest in arrears.

Montepio's portfolio of 577.5 million euros in loans and interest in arrears maintained its low risk profile, given the types of guarantee associated with them, as real guarantees account for around 80% of the total.

CREDIT PORTFOLIO BY TYPE OF GUARANTEE – 2010



Loans and interest in arrears for more than three months amounted to 486.7 million euros, i.e. 4.2% less than in 2009, representing 84.3% of the total. Default ratios improved. The ratio of unrecoverable credit in accordance with Banco de Portugal Instruction 16/2004 went down to 3.82% in December 2010, which reflects a year-on-year decrease of 0.15 p.p. and the ratio of loans and interest in arrears more than three months went down to 3.24% (-0.12 p.p.).

MAIN INDICATORS OF LOANS AND INTEREST IN ARREARS

(thousand euros)

INDICATORS	Dec 09	Dec 10	Change	
			Value	%
Gross Loans to Customers	**15 143 916**	**15 040 645**	**-103 271**	**-0.7**
Loans and Interest in Arrears	**581 587**	**577 490**	**-4 097**	**-0.7**
Loans in arrears more than 3 months	508 118	486 740	-21 378	-4.2
Loans in arrears more than 12 months	439 201	430 425	-8 776	-2.0
Impairment for Credit Risks	**493 913**	**521 811**	**27 898**	**5.6**
Ratio of Loans in Arrears as % of Total Loans				
Ratio of Loans and Interest in Arrears more than 3 months	3.36	3.24	-0.12 p.p.	
Ratio of Loans and Interest in Arrears more than 12 months	2.90	2.86	-0.04 p.p.	
Ratio of Defaulted Loans (a)	3.97	3.82	-0.15 p.p.	
Ratio of Defaulted Loans net of provisions (a)	1.64	1.43	-0.21 p.p.	
Coverage of Loans in Arrears by Impairment (%)				
Loans in arrears more than 3 months	97.20	107.21	10.01 p.p.	
Loans in arrears more than 12 months	112.46	121.23	8.77 p.p.	

(a) According to Banco de Portugal Instruction No. 16/2004.

Impairment for credit risks amounted to 521.8 million euros, corresponding to a year-on-year increase of 27.9 million euros (+5.6%). This increase in provisions for credit risks substantially improved coverage ratios of loans and interest in arrears. Coverage of loans and interest in arrears for more than three months by impairment went from 97.2% in 2009 to 107.2% in 2010, while balance of loans and interest in arrears for more than 12 months was covered 121.2% (+8.8 p.p.).

CONCENTRATION RISK

Our strategic guidelines are designed to mitigate this risk, which has been analysed in recent years. However, pursuant to new Banco de Portugal Instruction 2/2010, exposure to and analysis of the concentration risk had to be specifically reported. There was a favourable change in the main types of concentration risk – sectoral and geographical in 2010. There was a reduction from 27.8% to 21.5% in the sectoral concentration risk from December 2009 to December 2010, although the construction sector is still the one with the largest weight in our credit portfolio.

In terms of geographical concentration, the districts of Lisbon and Porto remained the regions most represented in our credit portfolio. Lisbon's exposure remained at 37% while that for Porto fell slightly against December 2009 (from 15.1% to 14.6%). However, geographical distribution is equivalent to each district's population density.

In the individual concentration risk, which measures the risk of significant exposure to an individual counterparty or a group of related counterparties, there was a slight increase in the 100 greatest exposures in our total credit portfolio from 11.4% in December 2009 to 11.9% in December 2010. This represented a variation in the individual concentration rate from 0.18% to 0.2%. This was influenced by a reduction in our total credit portfolio.

FINANCIAL ASSET RISK

Montepio's securities portfolio increased by 2.45 billion euros to more than 3.5 billion euros from 2009 to 2010. This was due to bonds, whose weight in the total portfolio went from 80.8% to 92.6%, while commercial paper accounted for 6.9% and shares went down to only 0.4%.

Our securities portfolio's credit risk remained under control. The main component of bonds was concentrated in rating investment grade, representing 94.5% of the portfolio (excluding certifications and mortgage bonds).

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

(thousand euros)

RATING	Dec 09		Dec 10		Change	
	Value	%	Value	%	Value	%
AAA	61 271	6.8	42 810	2.2	-18 461	-30.1
AA+	39 686	4.4	92 046	4.8	52 360	131.9
AA	99 875	11.1	55 607	2.9	-44 268	-44.3
AA-	105 460	11.7	60 700	3.1	-44 760	-42.4
A+	154 863	17.2	1 211 724	62.8	1 056 861	682.4
A	130 356	14.5	113 439	5.9	-16 917	-13.0
A-	152 284	16.9	98 213	5.1	-54 071	-35.5
BBB+	56 559	6.3	78 026	4.0	21 467	38.0
BBB	43 051	4.8	35 982	1.9	-7 069	-16.4
BBB-	18 909	2.1	34 059	1.8	15 150	80.1
BB+	0	0.0	58 668	3.0	58 668	-
BB	1 740	0.2	2 725	0.1	985	56.6
BB-	154	0.0	12 642	0.7	12 488	8 109.1
C	35	0.0	0	0.0	-35	-
CCC	900	0.1	0	0.0	-900	-
NR	33 751	3.8	33 017	1.7	-734	-2.2
TOTAL	**898 894**	**100.0**	**1 929 658**	**100.0**	**1 030 764**	**114.7**

BREAKDOWN OF SECURITIES' PORTFOLIO BY ASSET TYPE

(thousand euros)

ASSET	Dec 09		Dec 10		Change	
	Value	%	Value	%	Value	%
Bonds	898 894	80.8	3 299 320	92.6	2 400 426	267.0
Commercial Paper	202 548	18.2	247 025	6.9	44 477	22.0
Shares	10 743	1.0	15 198	0.4	4 455	41.5
TOTAL	**1 112 185**	**100.0**	**3 561 543**	**100.0**	**2 449 358**	**220.2**

LIQUIDITY RISK

Where the liquidity risk is concerned, Montepio uses diversified sources of finance favouring stable resources or maintains highly liquid assets so that it can borrow from the European Central Bank (ECB).

In 2010 we reinforced our pool of assets eligible for refinancing at the ECB and it amounted to 3.43 billion euros at the end of the year (+111.1%).

POOL ASSETS ELIGIBLE FOR REFINANCING AT THE ECB

(thousand euros)

ITEM	Dec 09		Dec 10		Change	
	Value	%	Value	%	Value	%
1 – Pool of Eligible Assets	1 626 265	100.0	3 433 820	100.0	1 807 555	111.1
2 – Use of Pool	500 000	30.7	1 540 000	44.8	1 040 000	208.0
3 – Pool Available Assets (1-2)	**1 126 265**	**69.3**	**1 893 820**	**55.2**	**767 555**	**68.2**

The pool of available assets was worth 1.89 billion euros at the end of 2010, which was 767.6 million more than at the end of 2009 (+68.2%).

Our commitment to growth in customer deposits and stability of resources together with containment of our credit portfolio made it possible to reduce the commercial gap and substantially improve structural liquidity ratios, i.e. the conversion of customers' deposits and resources (including securities placed with customers) into credit. As a result there was a reduction of 15 p.p. in the total credit / total deposits indicator.

The improvement in the balance sheet's liquidity profile was reflected in the substantial level achieved by the extended liquidity indicator, which relates coverage of financial liabilities by available funds and assets discountable at the ECB.

BALANCE SHEET LIQUIDITY INDICATORS (%)

	Dec 09	Dec 10	Change
	Value	Value	Value
Total Loans to Customers (gross) / Total Customer Deposits	**165.4**	**150.4**	**-15.0 p.p.**
Total Loans to Customers (gross) / Total Customer Resources (1)	**150.2**	**138.2**	**-12.0 p.p.**
Broad Liquidity (2)	**8.9**	**12.5**	**3.6 p.p.**

(1) – Includes Securities Placed with Customers.

(2) – Cash Resources + Available Eligible Assets/ Financial Liabilities.

Montepio has shown positive dynamic liquidity gaps with positive accumulated mismatches for the different timeframes up to 12 months. This reflects a robust liquidity situation. At the end of 2010, dynamic accumulated liquidity mismatch up to the next 12 months (corrected with the pool of eligible assets) was 120 million euros.

DYNAMIC LIQUIDITY GAPS AS AT 31 DECEMBER 2010

(million euros)

Position at reference date + Forecast Values	Time Periods				
	At Sight up to 1 week	More than 1 week and up to 1 month	More than 1 month and up to 3 months	More than 3 months and up to 6 months	More than 6 months and up to 12 months
Mismatches Accrued	**444**	**47**	**42**	**194**	**120**

INTEREST RATE RISK

When identifying, measuring and controlling the interest rate risk in its bank portfolio, Montepio follows the recommendations of the Bank for International Settlements (BIS) and regularly monitors its exposure to this risk through the ALCO – Assets & Liabilities Committee. The impact on its net worth of a parallel movement of +200 base points (b.p.) of the income curve is -5% (+3% in 2009). The sensitivity of Montepio's bank portfolio to the interest rate risk is therefore within the reference limit of 20% of own funds defined by the BIS in Principles for the Management and Supervision of Interest Rate Risk.

At the end of 2010, the accumulated 12-month repricing gap was estimated at 1.3 billion euros (2.08 billion in 2009) with an expected impact on net interest income of +12 million euros (+18 million in 2009) in the event of an instantaneous change in interest rates of +100 b.p.

OPERATING RISK

The operating risk is of losses resulting from failures or deficiencies in internal processes, human resources or systems or external factors.

The operating risk is managed with the individual intervention of all employees, who are responsible for managing the risk resulting from their duties through operating risk interlocutors from the different corporate bodies. Their mission, in turn, is to ensure that this risk is properly managed in their unit and in the others through the Operating Risk Department, which is responsible for coordinating the development, implementation and monitoring the policy and strategy for managing this risk and is part of the Risk Analysis and Management Division.

There is a system for identifying, monitoring, mitigating and reporting the operating risk. For identification purposes, the culture and management of operating risk was disseminated to the entire organisation. All employees were involved in reporting and managing the operating risk in workshops with different departments involving members of the internal audit team. The mapping of activities, risks and controls were revised, and there was an annual self-evaluation of risks and controls and an assessment of the operating risk profile of new products, processes and activities.

Where monitoring was concerned, work was done to pinpoint losses caused by operating risk by providing general KRI (key risk indicators) by type of activity, such as quality of service, with an assessment of exposure to the operating risk in committee and periodical reports on the institution's operating risk profile. In the mitigation phase, plans of action were suggested to reduce exposure to the risks identified based on constant, systematic monitoring of occurrences of operating risks and there were annual revisions of different areas of activity, risks and controls and consequent results of the self--assessment exercise.

Montepio received authorisation from Banco de Portugal, effective as of 30 June 2010, to adopt the standard method (TSA) for calculating minimum own-fund requirements to cover the operating risk. Use of this method on a consolidated basis shows own-fund requirements to cover the operating risk to be 55.5 million euros, while the basic indicator method result would have been 63.1 million euros.

Events related to processes and external fraud are the most common and the most serious, although process-related events had a smaller impact in terms of severity.

EVENTS BY TYPE OF LOSS IN 2010

FREQUENCY		SEVERITY	
Legal Proceedings	54.9%	Legal Proceedings	10.9%
External Fraud	37.5%	External Fraud	81.7%
Physical Assets	2.0%	Customers and Business	5.3%
Other	5.6%	Other	2.1%

Important work was done in 2010 on the business continuity plan, which is a risk-mitigating tool that ensures the continuity of operations if there are events causing an interruption of business.

SOLVENCY

In order to maintain an adequate level of capital and thereby reinforce solidity in a context of higher risk levels, Caixa Económica's corporate capital increased by 40 million euros in 2010 by means of a transfer from Associação Mutualista.

Our consolidated solvency ratio was 12.74% on 31 December 2010, while the Tier 1 corresponding to core capital for Caixa Económica was 8.95%, above the 8% minimum limit recommended by Banco de Portugal.

EQUITY AND SOLVENCY RATIOS

(thousand euros)

ITEM	Dec 09	Dec 10	Change	
	Value	Value	Value	%
1. Eligible Own Funds	**1 285 121**	**1 312 547**	**27 426**	**2.1**
(+) Institutional Capital	*760 000*	*800 000*	*40 000*	*5.3*
(+) Reserves and Profits	*227 418*	*219 334*	*-8 084*	*-3.6*
(–) Regulatory Deductions	*76 619*	*97 552*	*20 933*	*27.3*
1.1 (=) Base Equity	**910 799**	**921 782**	***10 983***	***1.2***
(+) Supplementary Equity	383 400	395 327	*11 927*	3.1
(–) Other deductions	9 078	4 562	*-4 516*	-49.7
2. Minimum Required Equity	**802 705**	**824 317**	**21 612**	**2.7**
3. Assets and similar items weighted for risk (2x12.5)	**10 033 813**	**10 303 966**	**270 153**	**2.7**
4. Rations				
Solvency (1/3)	12.81%	12.74%	-0.07 p.p.	
Tier 1 (1.1/3)	9.08%	8.95%	-0.13 p.p.	
Core Capital (1.1/3)	9.08%	8.95%	-0.13 p.p.	

In 2010, impact studies were conducted for the proposals submitted by the Basel Committee on strengthening global regulation and increasing capital and liquidity requirements, the so-called Basel III. The studies showed that the capital structure of Caixa Económica Montepio Geral will enable it to comfortably accommodate the proposed measures.

STRESS TESTS

In compliance with Banco de Portugal Instruction 32/2009, Montepio performs stress tests every six months. They are important tools in planning internal capital and liquidity by simulating adverse conditions and the institution's response capability.

The exercises carried out at Caixa Económica for different extreme situations in terms of credit risk, interest rates, liquidity conditions and operating risk confirmed the adequacy of its own funds. They also included an analysis of its pension fund and found the negative effect of poorer credit spreads on the appreciation of its equity portfolio and the effect on own funds of a reduction in the actuarial discount rate. The reduction in solvency ratios and Tier 1 was estimated at 0.2 to 1.3 percentage points in the different adverse scenarios for the banking sector. They still remained above the required minimums.

The individual sensitivity analyses of each risk factor resulted in a negative impact on solvency ratios and Tier 1 of 0.02 and 0.99 percentage points. The results of the tests conducted for financial and balance sheet risks were moderate, especially in terms of profits and liquidity gaps.

A new series of stress tests of the balance sheet and profits, considering a long scenario of deleveraging of the banking system, is being prepared in early 2011.

In addition to the stress tests and sensitivity analyses reported to Banco de Portugal every six months, Montepio regularly performs stress tests and submits their results to the ALCO. These tests are designed to give an analytical view of Montepio's position in terms of liquidity and profits in adverse scenarios related, for example, to interest rates, credit spreads, reimbursement of deposits, eligible asset evaluation margins applied by the ECB and Caixa Económica's rating. Their results show that our strategies are in line and ensure achievement of levels of solvency and sustainability.

7.3. FINANCIAL ANALYSIS AND PROFITS

2010 was a complex year for Portuguese banking, due to the increased sovereign risk of the Euro Area peripheral countries and poor growth in the Portuguese economy.

In a difficult context like that in 2010, the continued balance in the Montepio Group's management model, along with strict capital discipline, was decisive to the growth in profits and consequent creation of value for members. The following were particularly important in 2010:

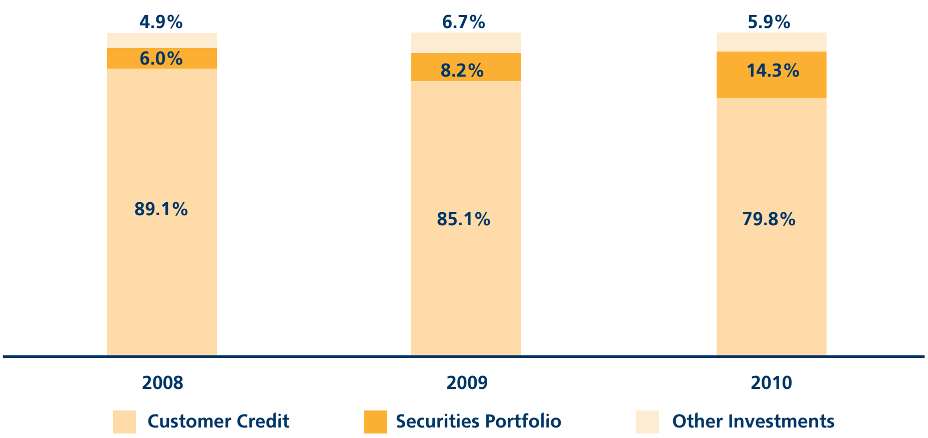
- Net profit rose 15.6% to 51.4 million euros, equivalent to a return on equity (ROE) of 5.18%;
- Customer resources on the balance sheet increased 8%, while private resources rose 11.4% year-on-year;
- Solvency measured by the Tier I ratio remained at a very comfortable level of 8.95% and the solvency ratio was 12.74%.

ANALYSIS OF BALANCE SHEET

Assets

In the aforementioned climate of instability, in 2010 Montepio confirmed the adequacy of its strategy and the importance of its role in the Portuguese banking and financial sector, as reflected by the growth in its business and improvement in its asset liquidity profile. Net assets grew by 5.8% to 18 249.3 billion euros and its structure improved, with a reduction in concentration.

TOTAL ASSETS



The 1 004.5 billion euro growth in assets essentially reflects the 89.5% increase in our portfolio of financial assets available for sale and of 26.8% in financial assets held for trading. We continued to focus on the liquidity – risk ratio and so investments went mainly into short maturities from issuers with investment-grade ratings in business sectors less exposed to the effects of the economic crisis, reflecting the purchase of securities eligible for collateral in refinancing operations at the ECB.

Assets were also influenced by an 92.8 million euro reduction in loans and advances repayable on demand and other loans and advances to credit institutions, as a reflection of stricter criteria in liquidity management.

The weight of net credit to customers in assets went down from 85.1% to 79.8% and helped to reduce its concentration.

Liabilities and equity

Liabilities increased 6.1% to 17 253.8 billion euros in 2010, including an 8% increase in customer resources, particularly 9.2% in customers' deposits and credit institutions (+845.9 million euros). On the other hand, there was a 22.9% reduction in financial market resources in subordinated and non-subordinated loans, syndicates and debt certificates (-1 091.6 billion euros).

TREND IN LIABILITIES AND EQUITY

(thousand euros)

ITEM	2009		2010		Change	
	Value	%	Value	%	Value	%
1 – Customer Resources	**10 103 894**	**58.6**	**10 910 199**	**59.8**	**806 305**	**8.0**
Customer and Credit Institution Deposits	9 175 941	53.2	10 021 794	54.9	845 853	9.2
Instruments placed with Customers (Cash Bonds)	927 953	5.4	888 405	4.9	-39 548	-4.3
2 – Complementary Resources	**6 153 168**	**35.7**	**6 342 302**	**34.8**	**189 134**	**3.1**
Credit Institution and Central Bank Resources	654 745	3.8	1 964 609	10.8	1 309 864	200.1
Subord., Non-subord., and Syndicated Loans and Debt Certificates	4 777 170	27.7	3 685 530	20.2	-1 091 640	-22.9
Financial Liabilities associated with Transferred Assets	428 147	2.5	387 183	2.1	-40 964	-9.6
Other Liabilities	293 106	1.7	304 980	1.7	11 874	4.1
3 – Equity and Provisions	**987 705**	**5.7**	**996 789**	**5.4**	**9 084**	**0.9**
TOTAL LIABILITIES AND EQUITY	**17 244 767**	**100.0**	**18 249 290**	**100.0**	**1 004 523**	**5.8**

Financing of activity continued to come mainly from customer resources, which increased their proportion in total assets and equity to 59.8% (58.6% at the end of 2009), while additional market resources went to down to less than 35%. Almost 55% of total customer resources were deposits and cash bonds placed by the commercial network, which represented 4.9% and contributed to the stability of resources, given their savings characteristics, as they are products with maturities of two to five years.

In addition to attracting financial resources through its commercial network in order to obtain more stable funding, Montepio performed the following operations:

- Sixth securitisation operation to an amount of 1.167 billion euros, the first in its securitisation programme involving a credit portfolio for SMEs, such as loans and current account credits;

  Class A (senior) securities amounted to 577.5 million euros, which served to reinforce our portfolio of assets eligible for financing from the ECB;

- Third issue of private subscription mortgage bonds to an amount of 500 million euros for three years;

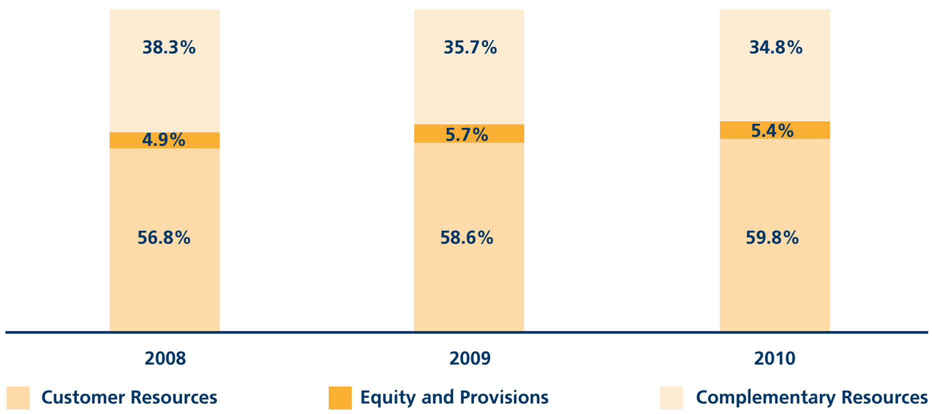
- A 100 million euro line of credit from the European Investment Bank to finance SMEs.

In 2010, the activity of the Interbank Money Market (IMM) continued to be low, as in the previous year. Liquidity call and put operations focused on short maturities and in the increase in Portugal's risk conditioned business with other jurisdictions. In spite of the considerable limitations on the regular operation of the IMM, at the end of 2010 Montepio had a net balance of 90 million euros in surplus investments.

Montepio amortised 950.9 million euros in debt that had been placed on the international market, including floating rate notes and Schuldschein, to amounts of 625 and 50 million euros, respectively, and debt placed on the domestic market with retail customers (cash bonds) in 275.9 million euros.

Its own resources and provisions were increased from 987.7 million euros at the end of 2009 to 996.8 million in 2010. Associação Mutualista increased its corporate capital by 40 million euros in order to maintain Caixa Económica's levels of solidity.

LIABILITIES AND EQUITY



ANALYSIS OF RETURN

Net profit

In 2010, Caixa Económica generated a net profit of 51.4 million euros, 15.6% more than the 44.5 million in 2009.

INCOME STATEMENT

(thousand euros)

	2009		2010		Change	
	Value	%	Value	%	Value	%
Net Interest Income	320 808	71.5	270 948	64.2	-49 860	-15.5
Net Commissions from Services provided to Customers	75 115	16.7	73 970	17.5	-1 145	-1.5
Commercial Banking Income	**395 923**	**88.2**	**344 918**	**81.7**	**-51 005**	**-12.9**
Markets Profit (a)	39 115	8.7	66 854	15.8	27 739	70.9
Return on Financial Holdings	811	0.2	474	0.1	-337	-41.6
Profit on Sale of Real Estate for Debt Recovery	417	0.1	-2 411	-0.6	-2 828	-678.2
Other Profits	12 759	2.8	12 477	3.0	-282	-2.2
Banking Income	**449 025**	**100.0**	**422 312**	**100.0**	**-26 713**	**-5.9**
Personnel Costs	147 352	32.8	143 457	34.0	-3 895	-2.6
General and administrative expenses	79 204	17.6	83 495	19.8	4 291	5.4
Depreciation	20 507	4.6	20 850	4.9	343	1.7
Operating Costs	**247 063**	**55.0**	**247 802**	**58.7**	**739**	**0.3**
Gross Profit	**201 962**	**45.0**	**174 510**	**41.3**	**-27 452**	**-13.6**
Net Provisions and Impairment	**159 989**	**35.6**	**125 057**	**29.7**	**-34 932**	**-21.8**
Credit	147 774		112 992		-34 782	-23.5
Securities	2 132		2 152		20	0.9
Other	10 083		9 913		-170	-1.7
Membership and Joint Ventures Proceeds (net worth)	**2 503**		**1 954**		**-549**	**-21.9**
= Net Profit for the Year	**44 476**	**9.9**	**51 407**	**12.2**	**6 931**	**15.6**

(a) Includes return on shares, except financial holdings

Net profits were positively influenced by an increase in market profits (+70.9%) and a reduction in provisions and credit impairment (-23.5%), thanks to an improvement in risk management and credit recovery. Net Interest Income went down 15.5%, reflecting an increase in the cost of funding and containment of our credit portfolio in a scenario of reduced investment, spending and trust on the part of economic agents.

The levels of return achieved were above those in 2009. Return on assets (ROA) was 0.29% (0.26% in 2009) and return on equity (ROE) was 5.18 % (4.72% in 2009).

PROFITABILITY

	2009	2010	Change	
	Value	Value	Value	%
Profitability Ratios				
Return on Assets (ROA)	0.26%	0.29%	0.03 p.p.	
Return on Equity (ROE)	4.72%	5.18%	0.46 p.p.	
Total Cash-Flow (thousand euros)	**224 972**	**197 314**	**-27 658**	**-12.3**
Depreciation	9.1%	10.6%	1.5 p.p.	
Net Provisions and Impairment	71.1%	63.4%	-7.7 p.p.	
Net Profit for the Year	19.8%	26.1%	6.3 p.p.	

The consolidated profit for the year is higher than the individual profit by 9.916 billion euros, due to credit impairment and positive contributions from subsidiaries.

DIFFERENCE BETWEEN PROFIT IN INDIVIDUAL AND CONSOLIDATED ACCOUNTS

(thousand euros)

	NET PROFIT	EQUITY
1 – CEMG – Individual Accounts as at 31 Dec.10	**41 491**	**994 019**
2 – Impact of Consolidation Financial Holdings	**786**	**1 502**
2.1. – Full Consolidation	**-237**	**738**
MG Cabo Verde	-237	738
2.2. – Equity Equivalence	**1 023**	**764**
Lusitania – Seguros	-32	-3 780
Lusitania – Vida	1 104	3 791
HTA Hotéis Turismo e Animação dos Açores	-49	753
3 – Other Consolidation Adjustments	**9 130**	**-43**
Credit Impairment	6 730	**21 946**
Pension Fund	-634	**-77**
Swaps associated with securitisation operations	3 034	**-21 912**
4 – CEMG – Consolidated Accounts as at 31 Dec.10 (1+2+3)	**51 407**	**995 478**

Net interest Income

In 2010, intermediation was particularly affected by unfavourable market conditions, such as an increase in the country risk and greater difficulties in refinancing debt, which intensified competition to attract customers' resources, and a reduction in economic growth and demand for credit.

Net Interest Income amounted to 270.9 million euros, which was 15.5% (-49.9 million euros) lower than in 2009.

PROFIT AND NET INTEREST INCOME

(million euros)

	2009			2010		
	Average Value	Average Rate	Income/ /Costs	Average Value	Average Rate	Income/ /Costs
Financial Assets (Investments)	**16 757**	**5.18%**	**868**	**17 518**	**4.29%**	**752**
Customer Credit	15 159	3.71%	563	15 018	3.01%	451
Other Investments	1 598	4.10%	66	2 500	4.19%	105
Swaps			239			196
Financial Liabilities (External Resources)	**16 081**	**3.40%**	**547**	**16 844**	**2.86%**	**481**
Deposits	8 558	2.16%	185	9 342	1.62%	152
Other Liabilities	7 523	2.25%	169	7 502	2.37%	178
Swaps			193			151
Financial Intermediation Rate		**1.91%**	**321**		**1.55%**	**271**
Euribor 3M – average for period		**1.18%**			**0.71%**	

There was a higher reduction in average interest rates on assets than on liabilities. The average rate on financial liabilities (resources) went down 0.54 p.p., while that on financial assets fell 0.89 p.p. The performance of interest rates on assets is strongly influenced by our credit portfolio structure, which mainly comprises medium- and long-term products. Average Euribor for the period went down by 1.18% to 0.71% (-0.47 p.p.). This caused the financial intermediation rate to fall from 1.91% to 1.55%.

Services to customers

The profits from customer services were 74 million euros in 2010, 1.5% lower than the 75.1 million in 2009.

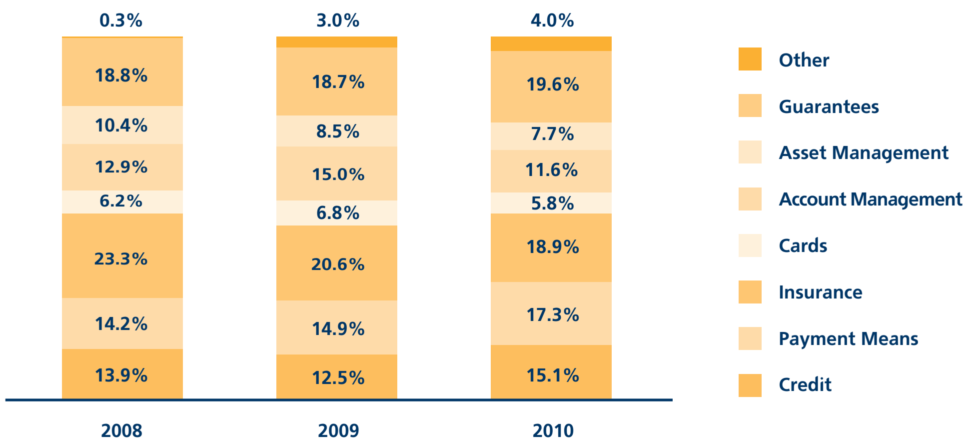
This reduction was due in part to a fall in commissions from the sale of insurance (-3.2 million euros), asset management (-0.8 million euros) and credit (-1.8 million euros), as a result in low concentration in loans to private customers, especially mortgages.

Demonstrating the dynamic of our commercial network in commission-generating activities with customers, in the price adjustments made in 2010, associated with an improvement in the quality of products and services, we would like to highlight:

- An 18.9% increase in account management fees;
- 14.8% growth in credit card fees as a result of more customers holding the new Montepio cards;
- a 3% variation in commissions on means of payment, at 16.9 million euros.

There was a greater balance in the structure of profits from services to customers in 2010 with an increase in the proportion of account management fees (12.5% to 15.1%), cards (14.9% to 17.3%) and means of payment (18.7% to 19.6%).

BREAKDOWN OF SERVICES TO CUSTOMERS



Market profits

In 2010, thanks to continued prudent, meticulous, relatively conservative action, market profits amounted to 66.9 million euros (+70.9%), influenced by profits from assets and liabilities evaluated at fair value (+17.5 million euros) and financial assets available for sale (+11 million euros).

MARKET PROFITS

(thousand euros)

	2009	2010	Change	
	Value	Value	Value	%
Profit on Assets and Liabilities recorded at Fair Value in Profits	**28 319**	**45 857**	**17 538**	**61.9**
Financial assets and liabilities held for trading	27 438	46 665	19 227	70.1
Financial assets and liabilities at fair value in profits	160	-240	-400	-250.0
Hedging derivatives	-2 408	-1 996	412	17.1
Other financial operations	3 129	1 428	-1 701	-54.4
Profit on Sale of Financial Assets Available for sale	**1 657**	**12 692**	**11 035**	**666.0**
Profit on Exchange Rate Revaluation	**2 069**	**2 344**	**275**	**13.3**
Profit on Sale of Bonds	**-135**	**-759**	**-624**	**-462.2**
Other Profits	**7 191**	**6 656**	**-535**	**-7.4**
Return on Shares	**14**	**64**	**50**	**357.1**
TOTAL	**39 115**	**66 854**	**27 739**	**70.9**

Operating costs

Operating costs, which include personnel and administrative expenses and depreciation for the year increased by 0.3% to 247.8 million euros. This performance was favourably influenced by our diligent, contained cost management, in spite of the need to continue strategic investments and step up activity, especially in information systems and advertising, which was why administrative costs rose by 5.4%.

The cost-to-income ratio (weight of operating costs in bank product) increased slightly by 3.7 p.p. to 58.7%, at the end of 2010. This was the result of the 0.3% increase in operating costs (with a lower bank product (-5.9%).

(thousand euros)

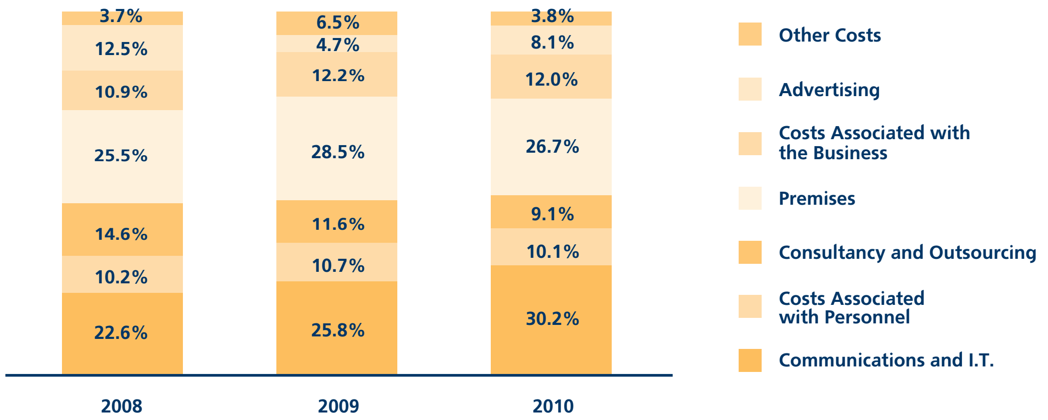
	2009		2010		Change	
	Value	%	Value	%	Value	%
Personnel Costs	147 352	59.6	143 457	57.9	-3 895	-2.6
General and administrative expenses	79 204	32.1	83 495	33.7	4 291	5.4
Running Costs	**226 556**	**91.7**	**226 952**	**91.6**	**396**	**0.2**
Depreciation	20 507	8.3	20 850	8.4	343	1.7
Operating Costs	**247 063**	**100.0**	**247 802**	**100.0**	**739**	**0.3**
Banking Income	**449 025**		**422 312**		**-26 713**	**-5.9**
RATIOS						
Personnel Costs / Banking Income	32.8%		34.0%		1.2 p.p.	
General and administrative expenses / Banking Income	17.6%		19.8%		2.2 p.p.	
Depreciation / Banking Income	4.6%		4.9%		0.3 p.p.	
Cost-to-Income (Operating Costs / Banking Income)	**55.0%**		**58.7%**		**3.7 p.p.**	
Efficiency Ratio (Operating Costs / Banking Income)	50.5%		53.7%		3.2 p.p.	

We continued our human resource policy of recent years and achieved an overall reduction of 3.9 million euros (2.6%) in personnel costs. A drop in compulsory social contributions to the pension fund (-12.6%) related to lower costs related to early retirement made a fundamental contribution to this decrease.

The cost of early retirements went down by 2.6 million euros (54.7%) as fewer occurred in 2010.

Our policy of diligence and containment of costs was reflected by a reduction in expenditure on consultancy (-2.1 million euros) and other supplies and services (-2 million euros). However, in a highly competitive sector it was necessary to continue to invest in advertising, which involved costs of 3.1 million euros, plus 4.3 million euros in computer costs, which were essential to improving transaction systems and management and control processes.

BREAKDOWN OF GENERAL AND ADMINISTRATIVE EXPENSES



Depreciation amounted to 20.9 million euros, a 1.7% increase, essentially due to investments in technology, with an impact on the area of IT equipment.

Provisions and impairment

In 2010 improvements were made in risks analysis processes, credit recovery systems and information and control in order to counter the progression in levels of default resulting from the current adverse circumstances significantly affecting economic agents.

(thousand euros)

	2009		2010		Change	
	Value	%	Value	%	Value	%
Net Provisions and Impairments of Credit	**147 774**	**92.4**	**112 992**	**90.4**	**-34 782**	**-23.5**
Setting up provisions and impairments	527 206		525 339		-1 867	-0.4
Recovery of provisions and impairments	379 432		412 347		32 915	8.7
Net Impairment of Securities	**2 132**	**1.3**	**2 152**	**1.7**	**20**	**0.9**
Setting up impairments	2 398		3 514		1 116	46.5
Recovery of impairments	266		1 362		1 096	412.0
Net Impairment of Others Assets	**10 083**	**6.3**	**9 913**	**7.9**	**-170**	**-1.7**
Setting up provisions and impairments	10 665		14 535		3 870	36.3
Recovery of provisions and impairments	582		4 622		4 040	694.2
Total Net Provisions and Impairment	**159 989**	**100.0**	**125 057**	**100.0**	**-34 932**	**-21.8**
Setting up provisions and impairments	540 269		543 388		3 119	0.6
Recovery of provisions and impairments	380 280		418 331		38 051	10.0

The following factors contributed to the overall variation in total provisions and impairment (-34.9 million euros):

- Recovery of credit provisions and impairment (32.9 million euros), thanks to the work done in 2009 and 2010 in post-sale credit management and more effective pre-legal solutions;
- Almost zero variation in net impairment of securities and other assets (-0.02 million euros).

Pension fund

On 31 December 2010, the pension fund's assets amounted to 545.1 million euros and maintained more or less the same coverage of minimum liabilities of 100.1%. Total coverage of liabilities increased to 91.3%.

TREND IN PENSION FUND

(thousand euros)

	2009	2010	Change	
	Value	Value	Value	%
1. Total liabilities				
Current staff	321 838	341 688	19 850	6.2
Retired staff	247 984	255 452	7 468	3.0
TOTAL 1	**569 822**	**597 140**	**27 318**	**4.8**
2. Non-required or deferred liabilities				
Exempt from financing	14 650	16 040	1 390	9.5
Application of IAS	27 094	19 061	-8 033	-29.6
Impact of Mortality Table	23 971	17 434	-6 537	-27.3
TOTAL 2	**65 715**	**52 535**	**-13 180**	**-20.1**
3. Minimum liabilities to be financed (1-2)	**504 107**	**544 605**	**40 498**	**8.0**
4. Value of Fund Assets	**504 883**	**545 097**	**40 214**	**8.0**
5. Coverage of:				
Minimum Liabilities (4/3)	100.2%	100.1%		-0.1 p.p.
Total Liabilities (4/1)	88.6%	91.3%		2.7 p.p.
6. Adjustments to Fund in the Year:				
6.1. Contributions (+)	45 553	48 750	3 197	7.0
6.2. Actual return on assets (+)	39 971	9 812	-30 159	-75.5
6.3. Overheads (-)	125		-125	-100.0
6.4. Pensions paid (-)	16 664	18 348	1 684	10.1
6.5 TOTAL 6 (6.1+6.2-6.3-6.4)	**68 735**	**40 214**	**-28 521**	**-41.5**

When calculating pension fund liabilities, Montepio took the following assumptions into account:

- discount rate of 5.5%;
- salary growth rate of 3%;
- pension growth rate of 2%;
- continued use of TV 88/90 mortality table for men and women.

Total liabilities were 597.1 million euros with a growth rate of 4.8%. The parcel of non-required liabilities or deferred finance (IAS, 8 to 10 years and mortality table, 24 years) amounted to 52.5 million euros, which, when subtracted from total liabilities, reflect the total mandatory minimum liabilities to be financed, to the amount of 544.6 million euros. They are fully covered and partially exceeded by the value of the assets in the fund (545.1 million euros).

7.4. RATINGS

Montepio has been rated by two respected international rating agencies, Fitch Ratings and Moody's.

On 22 April 2010, following a revision in its analysis methods, Moody's Investors Service decided to lower the rating of the hybrid instruments included in Portuguese banks' own funds. This impacted on the rating of subordinated bonds of indefinite maturity issued by Montepio in its Euro Medium Term Notes Programme, which went from Baa3 to Ba3.

On 21 May, the ratings of all the Portuguese banks scored by Moody's, including Montepio, were placed under «review for possible downgrade», following a similar move by the agency for Portugal's rating.

On 2 June 2010, Moody's decided to confirm Montepio's bank financial strength rating at «D», with a stable outlook.

On 14 July, following the downgrade of Portugal's rating from Aa2 to A1, Moody's lowered the Portuguese banks' rating. The impact on Montepio was the same as for Portugal, i.e. a fall of two notches for:

- Medium- and long-term senior debt to Baa3 from Baa1;
- Short-term senior debt to P-3 from P-2;
- Subordinated debt of indefinite maturity to Ba1 from Baa2, with the outlook for its rating going from rating under review to stable.

On 21 October 2010, anticipating the possible impact of poor growth prospects in Portugal, Fitch Ratings decided to lower Montepio's individual default rating to BBB+ from A-, placing it on negative watch.

Finally, on 21 December 2010, Moody's placed Portugal's rating on review for possible downgrade and did the same for Montepio's senior rating.

Our current ratings are as follows:

RATINGS

RATING AGENCY	Short-Term	Long-Term	Outlook
Fitch Ratings	F2	BBB+	Negative
Moody's	P-3	Baa3	Negative

7.5. PROPOSED APPROPRIATION OF PROFITS – INDIVIDUAL ACCOUNTS

In compliance with Article 23(1)(b) of the Articles of Association of Caixa Económica Montepio Geral, the Board of Directors proposes to the General Meeting the following appropriation of profits for 2010, to the amount of 41.5 million euros:

APPROPRIATION OF PROFITS

(thousand euros)

ITEM	Value
Legal Reserve	8 298
Special Reserve	2 075
Transfer to Retained Earnings (BdP Regulation 12/2001)	8 033
Transfer to Montepio Geral – Associação Mutualista	23 085
INDIVIDUAL PROFIT FOR FINANCIAL YEAR	**41 491**

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

8. Montepio Group Companies

LUSITANIA
Grupo Montepio

LUSITANIA – COMPANHIA DE SEGUROS, SA.

The Montepio Group's non-life insurance business is handled by Lusitania, Companhia de Seguros, which for over 20 years has contributed to the achievement of the Group's mutual association aims, thanks to its profits and the vast range of personal and property insurance it provides, such as accident, motor and credit insurance.

At the end of 2009, Lusitania took over the insurance companies Real and Mutuamar, thereby significantly increasing the Montepio Group's stake in the Portuguese insurance market. Today Montepio plays a greater role in a sector that contributes considerably to the protection of society, while also offering important synergies with mutual and banking activity to generate value for members.

Summary of business

From a consolidated point of view, at the end of 2010, Lusitania was in sixth position in the insurance sector rankings in Portugal. It had a market share of 5.9%, corresponding to direct insurance premiums worth 244.2 million euros.

In 2010, motor and health insurance grew more than the market by 4.3% and 14.6% respectively. Occupational accident insurance fell due to the unfavourable scenario though Lusitania maintained an important position in this sub-branch with a market share of over 8%.

The closer relationship between Lusitania and Montepio, particularly with regard to use of their distribution networks and the complementarity of their products, is a strategic priority for the company. As a result, Lusitania paid Montepio around 5 million euros in brokerage commissions. The assurfinance project for private and corporate customers expanded considerably and the number of promoters rose from 63 at the end of 2009, when the project started, to 205 by the end of 2010.

Financial indicators

In 2010, Lusitania's individual net profit went down 36.8% to 3 million euros. This was due partly to a reduction in financial income from its portfolio of assets, particularly those of Real Seguros.

The considerable drop in consolidated net profit from 4.6 in 2009 to 0.6 million euros in 2010 reflects the negative impact of the consolidation of N Seguros, the Group's direct insurer in 2010, the company's first whole year of business in the Lusitania Group perimeter. In 2009, the consolidation only took account of the post-acquisition period, i.e. the last two months of the year. The corrective measures taken at N Seguros in 2010 were not sufficient to reverse its performance. These measures included correcting its prices in the higher risk segments and increasing risk and fraud control.

The claim and cost indicators for the year confirm the benefits of the recent increase in size of Lusitania and they are expected to be decisive to the company's future competitiveness. Indeed, its claim rate and expense ratio both went down in consolidated and individual terms.

At the end of 2010, coverage of its solvency margin was 1.6 in individual activity and above the minimum required by Instituto de Seguros de Portugal in consolidated activity (1.1).

FINANCIAL INDICATORS – Individual Accounts

(thousand euros)

ITEM	2009 (1)	2010	Change Absolute	Change Relative (%)
Gross Premiums Issued	**231 803**	**232 373**	570	0.2
Claims rate	67.8%	56.1%	-11.7 p.p.	
Expense ratio	26.5%	25.2%	-1.3 p.p.	
Net Profit for the Year	4 803	3 034	-1 769	-36.8
Net Return on Assets	0.87%	0.54%	-0.33 p.p.	
Return on Equity	6.05%	3.94%	-2.09 p.p.	
Net Assets	550 360	558 897	8 537	1.6
Equity	79 421	76 963	-2 458	-3.1
Solvency Margin	1.6	1.6	0.0	
No. of Employees as at 31 December	673	646	-27	-4.0

FINANCIAL INDICATORS – Consolidated Accounts

(thousand euros)

ITEM	2009 (1)	2010	Change Absolute	Change Relative (%)
Gross Premiums Issued	**242 941**	**244 194**	1 253	0.5
Claim rate	69.7%	58.3%	-11.4 p.p.	
Expense ratio	26.4%	25.1%	-1.3 p.p.	
Net Profit for the Year	4 630	581	-4 049	-87.4
Net Return on Assets	0.82%	0.10%	-0.72 p.p.	
Return on Equity	5.84%	0.79%	-5.04 p.p.	
Net Assets	564 511	574 294	9 783	1.7
Equity	79 288	74 026	-5 262	-6.6
Solvency Margin	1.1	1.1	0.0	
No. of Employees as at 31 December	679	667	-12	-1.8

(1) Values re-reported according to final valuation of goodwill in accordance with IAS 3.

LUSITANIAVIDA
Grupo Montepio

LUSITANIA VIDA – COMPANHIA DE SEGUROS, S.A.

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

Summary of business

The amount of premiums issued by Lusitania Vida fell 5.4% from 110 to 104 million euros. This is entirely due to a fall in production by the banking channel, which had grown nearly 50% in 2009. The brokerage channel grew around 41%, reflecting Lusitania Vida's commitment to enlarging its brokerage network, which had contributed around 40% to the company's volume of production by the end of the year.

Financial indicators

Lusitania Vida's net profit amounted to 4.5 million euros in 2010, representing a substantial growth of 37.4% against 2009 and return on equity of 13.3%.

An increase in life insurance policies issued, reductions in the main cost items, such as costs by nature and net costs of claims, and an approximately 40% growth in financial profits had a positive impact on the profit account. Lusitania Vida's solvency remained at comfortable coverage levels, in spite of a reduction in coverage of the solvency margin from 2.7 in 2009 to 2.1 in 2010, as a result of the negative impact of the volatile financial markets on its investment portfolio.

FINANCIAL INDICATORS

(thousand euros)

ITEM	2009	2010	Change	
			Absolute	Relative (%)
Output:	**109 916**	**104 026**	**-5 890**	**-5.4**
Life Assurance	***35 387***	***35 854***	***466***	***1.3***
Investment Contacts	***74 529***	***68 172***	***-6 356***	**-8.5**
Net cost of claims	27 612	26 175	-1 437	-5.2
Costs by nature	3 547	3 446	-101	-2.8
Net Profit for the Year	3 279	4 506	1 227	37.4
Net Return on Assets	0.66%	0.88%	0.22 p.p.	
Return on Equity	8.17%	13.31%	5.14 p.p.	
Net Assets	496 693	513 641	16 948	3.4
Equity	40 137	33 860	-6 277	-15.6
Solvency Margin	2.7	2.1	-0.6	
No. of Employees as at 31 December	30	30	0	0.0

Montepio Gestão de Activos

MONTEPIO GESTÃO DE ACTIVOS – SGFI, SA.

Montepio Gestão de Activos is the Montepio Group company that specialises in the management of financial assets, with special emphasis on equity fund management and discretionary portfolio management.

Summary of business

The equity investment fund market contracted by 17.5% in 2010 and the amount under management amounted to 14 219.7 billion euros on 31 December, as opposed to the 20.1% growth in 2009. This reduction was due in part to the large number of redemptions, which were worth 3 020.2 billion euros more than subscriptions (Source: Associação Portuguesa de Fundos de Investimento, Pensões and Patrimónios).

At the end of 2010, the equity investment funds managed by Montepio Gestão de Activos were worth 291.4 million euros and the value of its discretionary management portfolio was 1 012.1 billion euros.

The performance by Montepio Gestão de Activos was acknowledged again in 2010, as the Montepio Acções investment won the award for the best Portuguese European equity fund from in Melhores Fundos Morningstar – Diário Económico.

Financial Indicators

In 2010, the management fees from Montepio Gestão de Activos benefited from an increase in fees from discretionary portfolio management, especially a positive contribution of around 44% from variable fees, i.e. earnings from performance above the benchmark of assets under management, which offset the drop in revenue from investment funds.

The profit for 2010 was 0.6 million euros, which is 18.5% higher than in 2009.

FINANCIAL INDICATORS

(thousand euros)

ITEM	2009	2010	Change	
			Absolute	Relative (%)
Assets under Management	**1 494 106**	**1 303 533**	**-190 573**	**-12.8**
Investments Funds	***479 059***	***291 425***	***-187 634***	***-39.2***
Asset Management	***1 015 048***	***1 012 109***	***-2 939***	***-0.3***
Management Fees	**4 723**	**4 738**	**15**	**0.3**
Administrative Costs	1 495	1 553	58	3.9
Net Profit for the Year	539	639	100	18.5
Net Return on Assets	16.24%	19.45%	+3.2 p.p.	
Return on Equity	20.53%	23.07%	+2.5 p.p.	
Net Assets	3 321	3 286	-36	-1.1
Equity	2 626	2 769	143	5.5
No. of Emnployees as at 31 December	13	13	0	

FUTURO – SGFP, SA.

Futuro is the Montepio Group company that specialises in pension fund management for companies and private individuals. It was legally incorporated on 14 January 1988.

Summary of business

The assets under management in the pension funds managed by Futuro increased 5.3% to 1 178.6 billion euros by the end of 2010. Both the closed-end and open-ended funds contributed to this rise, though in different proportions. While the value managed in the former rose 7.2%, that in the latter grew by only 0.4%. At the end of the year, the portfolio of funds managed by Futuro represented 6.1% of the Portuguese market. Futuro is positioned as a separate fund in the retirement savings segment, i.e. excluding life assurance, in which Futuro holds a notable position, with a market share of around 16%.

A new fund called Futuro Activo was set up in the first half of 2010, in order to enlarge the range in the company segment in the Montepio Group.

In the private customer segment, Futuro sought to encourage retirement savings and promoted periodical subscriptions, particularly in younger segments. Its successful action increased the number of periodical subscriptions to an all-time high.

Financial indicators

In 2010, revenue from Futuro's pension fund management grew 12.1%, in line with the growth and performance of open-ended and closed-end funds.

Its fixed business cost remained low and controlled in 2010, rising only 2.2% against 2009.

Its net profit was 0.32 million euros at the end of the year.

FINANCIAL INDICATORS

(thousand euros)

ITEM	2009 [1]	2010	Change	
			Absolute	Relative (%)
Assets under Management	**1 119 555**	**1 178 641**	**59 086**	**5.3**
Open-ended Funds	***312 764***	***313 935***	***1 171***	***0.4***
Closed-end Funds	***806 791***	***864 706***	***57 915***	***7.2***
Management Fees	**6 339**	**7 103**	**764**	**12.1**
Administrative Costs *	2 343	2 395	52	2.2
Net Profit for the Year	381	319	.62	-16.3
Net Return on Assets	4.94%	3.77%	-1.2 p.p.	
Return on Equity	7.50%	5.91%	-1.6 p.p.	
Net Assets	7 712	8 464	752	9.8
Equity	5 078	5 397	319	6.3
No. of Employees as at 31 December	32	31	-1	-3.1

* Excludes cost of portfolio management services rendered by Montepio Gestão Activos.

(1) Pro-forma data pursuant to Decree-Law 158/2009 of 13 July approving the new Portuguese accounting standards.

Montepio RESIDÊNCIAS

RESIDÊNCIAS MONTEPIO – SERVIÇOS DE SAÚDE, SA.

Residências Montepio, Serviços de Saúde S.A. was incorporated at the end of 2005 in order to strengthen the Montepio Group's presence in social protection and better quality of life, especially for the elderly segment. It focuses on the management of senior care homes and home care by selling Vitalidade cards in the Montepio commercial network.

Today, Residências Montepio is the leader of the elderly sector in Portugal in terms of the number of beds in the private patient and ongoing care segments.

Summary of business

In 2010, activity stabilised at the care homes in Porto, Gaia and Coimbra. With occupancy rates of over 90%, they have now gone past the critical point. The Parede care home was opened in October and had a 35% occupancy rate by the end of the year.

Residências Montepio is the company with the largest number of beds contracted to Rede Nacional de Cuidados Continuados Integrados (RNCCI) and the care it provides includes convalescence, medium term and long term care. The quality of its services has been recognised by the RNCCI, which has ranked it in the highest positions in its assessments.

Home care and phone care complement the activity of care homes and continue to stem from the sale of Vitalidade + and Tele-Vitalidade cards in the Montepio branch network. The number of subscribers to these services increased 31% in 2010.

Prospects

Although the current economic scenario is having a negative effect on Residências Montepio's business, the development prospects are still positive. In upcoming years, the company can be expected to consolidate its leadership in the elderly care home segment and in ongoing health care.

The Montijo Home will open in 2011, bringing the company's operating homes up to five. In view of the quality of service and sparse supply of similar services in the market, ambitious occupancy goals were set for the homes in 2011. We expect to achieve an average occupancy rate of over 80% in the newest homes and full occupancy in the others. We will also continue to work towards increasing subscriptions of the Vitalidade + and Tele-Vitalidade cards at the Montepio branch network.

Residências Montepio and therefore the Montepio Group contributed to the creation of employment, to the tune of 113 jobs in 2010 and an expected 115 or more in 2011.

9. Acknowledgement

In spite of the current difficulties with an unstable, deteriorating economic situation, Montepio, with its 170 years of history based on solidarity and humanism, continued to boost its reputation and recognition in society as a different institution capable of offering a credible alternative in the areas in which it operates.

As we continue to work in adverse circumstances, the path involves reflection, intelligent crisis management, grasping new opportunities and, above all, respect for each person's value.

Montepio's age-old experience and constant ability to adapt have been two of the essential secrets behind this growing success, but none of it would have been possible without the committed contribution of its employees and the understanding and support of its members and customers, to whom the Board of Directors would like to express its appreciation and gratitude.

A word of thanks also goes to the government, monetary and financial authorities for their cooperation, support and trust.

We would also like to express our gratitude to the officers of the General Meeting, Audit Committee and General Board for their proficient monitoring of the institution's business activity, which contributed greatly to facilitating the work of the Board of Directors.

Today, with our eyes focused on the future but in awareness of the difficulties, we are prepared to continue to contribute actively to the success and satisfaction of our members and customers.

Finally, the Board of Directors would like to move that the General Meeting accompany it in a vote of acknowledgement of the above-mentioned people and organisations and in an expression of grief for all members and employees who passed away last year.

THE BOARD OF DIRECTORS

António Tomás Correia – Chairman

José de Almeida Serra

Rui Manuel Silva Gomes do Amaral

Eduardo José da Silva Farinha

Álvaro Cordeiro Dâmaso

10. Statement of Compliance of Financial Information

This statement is made pursuant to article 245(1-c)) of the Stock Exchange Code («CVM»).

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

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

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

THE CHIEF ACCOUNTANT

Armindo Marques Matias

THE BOARD OF DIRECTORS

António Tomás Correia – Chairman

José de Almeida Serra

Rui Manuel Silva Gomes do Amaral

Eduardo José da Silva Farinha

Álvaro Cordeiro Dâmaso

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

11.1. MONTEPIO GERAL – ASSOCIAÇÃO MUTUALISTA

BALANCE SHEET AS AT 31 DECEMBER 2010 AND 2009

(thousand euros)

ASSETS	NOTES	2010 GROSS ASSETS	2010 AMORTISATION AND PROVISIONS	2010 NET ASSETS	2009 NET ASSETS
TANGIBLE ASSETS		**52 831**	**6 979**	**45 852**	**52 116**
Land and Natural Resources	7	3 754		3 754	3 754
Building and Other Constructions	7	17 741	6 979	10 762	11 034
Other Tangible Assets	7	90		90	90
Work in Progress	7	31 246		31 246	37 238
INVESTMENTS		**2 405 710**	**67 544**	**2 338 166**	**1 846 266**
Institutional Financial Investment	9	800 000		800 000	760 000
Other Financial Investments	9	461 674		461 674	81 965
Shares	8	3 001	1 088	1 913	3 046
Bonds and other Fixed Income Securities	8	750 886	13 460	737 426	672 470
Financing Loans		3 177		3 177	3 606
Investment Property	7	179 648	47 026	132 622	120 148
Other Securities	8	207 324	5 970	201 354	205 031
DEBTORS		**7 972**	**671**	**7 301**	**1 875**
Members		442		442	495
State and other Public Entities	17	752		752	1 334
Other Debtors		6 778	671	6 107	46
TRADING SECURITIES		**11 124**		**11 124**	**25 106**
Shares	8	310		310	
Bonds and other Fixed Income Securities	8	16 257		16 257	28 509
Derivates at Negative Fair Value	8	(5 443)		(5 443)	(3 403)
CASH AND BANK DEPOSITS		**344 688**		**344 688**	**673 394**
Bank Deposits	35	344 688		344 688	673 394
ACCRUALS AND DEFERRALS		**12 217**		**12 217**	**11 020**
Accrued Revenue	32	12 217		12 217	11 020
Deferred Costs					
TOTAL DEPRECIATION			**54 005**		
TOTAL PROVISIONS			**21 189**		
TOTAL ASSETS		**2 834 542**	**75 194**	**2 759 348**	**2 609 777**

THE CHIEF ACCOUNTANT
Armindo Marques Matias

See accompanying notes to the financial statements

(thousand euros)

EQUITY AND LIABILITIES	NOTES	2010	2009
EQUITY			
Social Fund			
Own Funds	23	90 013	79 436
Accounting Surpluses	20 and 23	68 841	72 469
Revaluation Reserves	11 and 23	(16 902)	5 616
Legal Reserves	23	178 844	168 471
Other Reserves	23	35 456	34 580
Retained Earnings			
Net Profit for the Year		54 393	42 533
TOTAL EQUITY		**410 645**	**403 105**
LIABILITIES			
PROVISIONS FOR RISKS AND EXPENSES		**2 342 462**	**2 201 184**
Mathematical Provisions for Expenses relating to Association Schemes	20 and 23	2 258 937	2 114 982
Grants and Benefit Improvements	20 and 23	83 525	86 202
CREDITORS		**5 128**	**4 744**
Beneficiaries		2 809	2 362
Debt to Credit Institutions			
State and Other Public Entities	17	880	803
Suppliers		461	189
Other Creditors		978	1 390
ACCRUALS AND DEFERRALS		**1 113**	**744**
Accrued Costs	32	1 113	744
TOTAL LIABILITIES		**2 348 703**	**2 206 672**
TOTAL EQUITY AND LIABILITIES		**2 759 348**	**2 609 777**

OFF-BALANCE SHEET ITEMS			
Foundations' Management	18	997	961
Commitments by Third Parties	18	30 638	31 595
Commitments to Third Parties	18	19 477	15 945
Other Off-Balance Sheet Items	18	3 626	10 988

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

INCOME STATEMENT AS AT 31 DECEMBER 2010 AND 2009

(thousand euros)

DEBIT	NOTES	2010	2009
COSTS AND LOSSES			
MEMBERSHIP COSTS		**559 826**	**504 581**
Increase of Mathematical Provisions	23	338 945	321 658
Other Membership Scheme Costs			
Paying in capital		4 132	3 613
Matured Capital	36	194 538	158 770
Grants and Benefit Improvements		7 215	7 561
Perpetual Annuities		2 637	2 724
Other Membership Costs		12 359	10 255
EXTERNAL SUPPLIES AND SERVICES		**3 068**	**2 681**
PERSONNEL COSTS	26	**6 715**	**6 904**
AMORTISATION	7	**362**	**353**
PROVISIONS		**148**	**314**
OTHER OPERATING COSTS AND LOSSES		**968**	**718**
AMORTISATION AND PROVISIONS FOR FINANCIAL INVESTMENTS	27	**5 743**	**7 652**
INTEREST AND SIMILAR COSTS	27	**8 088**	**10 943**
(A)		**584 918**	**534 146**
EXTRAORDINARY COSTS AND LOSSES		**4 460**	**4 240**
Donations	29	1 012	144
Losses on Fixed Assets	29	3 319	3 971
Prior-Year Corrections	29	127	111
Other Extraordinary Losses	29	2	14
TOTAL COSTS (C)		**589 378**	**538 386**
PROFIT FOR THE YEAR		**54 393**	**42 533**
TOTAL DEBIT		**643 771**	**580 919**

THE CHIEF ACCOUNTANT
Armindo Marques Matias

See accompanying notes to the financial statements

(thousand euros)

CREDIT	NOTES	2010	2009
REVENUE AND GAINS			
MEMBERSHIP REVENUE		**554 305**	**486 051**
Reduction of Mathematical Provisions	23	221 941	181 854
Other Membership Schemes Revenue			
Fees		357	285
Contributions		86 080	77 280
Incoming Capital	37	243 138	224 330
Perpetual Annuities		1 229	777
Other Membership Revenue		1 560	1 525
ADDITIONAL REVENUE		**82**	**8**
OPERATING SUBSIDIES AND GRANTS		**20 292**	**11 147**
Allocation from Caixa Económica	23	20 292	11 147
FINANCIAL REVENUE AND GAINS		**61 068**	**78 225**
Interest Income	27	33 800	43 830
Investment Property Income	27 and 28	17 975	17 499
Profits on Capital Investments	27	2 185	2 694
Other Financial Revenue and Gains	27	6 917	12 657
Hedging Operations Revenue	27	191	1 545
(B)		**635 747**	**575 431**
EXTRAORDINARY REVENUE AND GAINS		**8 024**	**5 488**
Gains on Fixed Assets	29	3 956	1 461
Amortisation and Provisions Decrease	29	3 726	3 782
Prior-Year Corrections	29	262	221
Other Extraordinary Revenue and Gains	29	80	24
TOTAL CREDIT	**(D)**	**643 771**	**580 919**
SUMMARY:			
CURRENT PROFIT	(B)-(A)	50 829	41 285
NET PROFIT	(D)-(C)	54 393	42 533

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

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER, 2010 AND 2009

(thousand euros)

	2010	2009
CASH FLOW ARISING FROM OPERATING ACTIVITIES		
Increase / (Decrease) in suppliers	(254)	825
Debtors and creditors	(607)	5 104
Membership costs	(220 881)	(182 923)
Membership profits	332 364	304 196
Members and beneficiaries	504	207
Other operating profits	150	45
Other operating costs	(8 978)	(10 160)
Own funds	(834)	(830)
Extraordinary losses and costs	(158)	(143)
Taxes	660	292
	101 966	**116 613**
CASH FLOW ARISING FROM INVESTMENT ACTIVITIES		
Proceeds from sale of other investments	304 864	(28 483)
Disposal/(acquisition) of investment property	18 611	15 129
Disposal/(acquisition) of investment securities	(71 535)	(36 235)
Disposal/(acquisition) of trading securities	12 741	(2 156)
Deposits with fixed maturity date	(333 223)	283 497
Commercial paper	263	414
Interest income from deposits repayable on demand	1 029	1 013
Acquisition of tangible assets	(90)	(19 336)
	(67 340)	**213 843**
CASH FLOW ARISING FROM FINANCING ACTIVITIES		
Institutional financial investment	(40 000)	(100 000)
Profits transferred from CEMG	20 292	11 272
Financing loans	632	1 440
Loans from credit institutions		(200 194)
	(19 076)	**(287 482)**
Net changes in cash and equivalents	15 550	42 974
Cash and equivalents at the beginning of the period	116 894	73 920
Cash and equivalents at the end of the period	132 444	116 894

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER, 2010 AND 2009

Introduction

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

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

3. Accounting policies

3.1. BASIS OF PRESENTATION

Montepio Geral – Associação Mutualista is a private mutual benefit institution established in Portugal in 1840. The Association has commenced its operations in 4 October, 1840, and the Financial Statements presented reflect the results of the operations for the years ended 31 December, 2010 and 2009.

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

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

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

The financial statements now presented for the years ended 31 December, 2010 and 2009 have been prepared in accordance with the recognition and measurement criteria established by International Financial Reporting Standards as adopted in the European Union until 31 December, 2010.

The accounting policies applied by the Association in the preparation of its financial statements as at 31 December 2010 are consistent with the ones used in the preparation of the financial statements as at and for the year ended 31 December 2009.

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

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

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

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

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

3.2. TANGIBLE ASSETS

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

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

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

	Number of years
Interior facilities	10
Buildings and other constructions	50

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

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

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

3.3. INVESTMENT PROPERTY

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

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

	Number of years
Investment property	50

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

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

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

3.4. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

The investment in subsidiaries and associates are classified as follows:

Subsidiaries

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

Associates

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

3.5. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Embedded derivatives

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

3.6. FINANCIAL ASSETS AND OTHER FINANCIAL INVESTMENTS

Classification

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

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

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

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

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

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

- *Available-for-sale investments*

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

Initial recognition, measurement and derecognition

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

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

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

Subsequent measurement

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

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

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

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

Reclassifications between categories

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

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

Impairment

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

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

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

3.7. FOREIGN CURRENCY TRANSACTIONS

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

3.8. CASH AND BANK DEPOSITS

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

3.9. PROVISIONS FOR DOUBTFUL DEBTS

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

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

3.10. RECOGNITION OF INCOME AND EXPENSES

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

Interest income and expense

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

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

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

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

Dividends received

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

3.11. MATHEMATICAL PROVISIONS

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

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

3.12. PROVISIONS

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

3.13. EXPENSES RELATED TO CAIXA ECONÓMICA MONTEPIO GERAL

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

3.14. PROFITS RELATED TO CAIXA ECONÓMICA MONTEPIO GERAL

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

3.15. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

a) Impairment of available-for-sale equity investments

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

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

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

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

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

b) Fair value of derivatives

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

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

c) Technical Provisions

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

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

6. Number of associates

As at 31 December, 2010, the Association had 463 390 (2009: 442 091) effective associates responsible for 799 053 subscriptions (2009: 763 032). As at 31 December, 2010 and 2009, the number of associates subscribing the different membership schemes, are analysed as follows:

	2010	2009
Individual schemes:		
Retirement capitals	243 392	234 667
Care payment guarantee	172 139	143 301
Deferred welfare capitals with option	146 864	135 243
Retirement saving	23 005	21 150
Welfare capitals for younger	12 235	11 347
Welfare capitals	7 362	7 481
Retirement capitals with fixed term	40 355	29 356
Retirement pensions	5 837	6 162
Survival pensions and dowries	1 667	1 725
Others	2 615	2 742
	655 471	593 174
Additional coverage schemes:		
Retirement pensions – quotes restitution	5 787	6 072
Disability temporary capitals	254	292
Retirement pensions – additional disability	220	246
Warrant capitals quotes	30	30
	6 291	6 640

7. Tangible assets and investment property

This balance is analysed as follows:

	2010 Euros '000	2009 Euros '000
Tangible assets:		
Land and natural resources	3 754	3 754
Buildings and other constructions	17 741	17 650
Other tangible assets	90	90
Work in progress	31 246	37 238
	52 831	58 732
Investments:		
Investment property	179 648	164 270
	232 479	223 002
Accumulated depreciation:		
Charge for the year	(3 326)	(3 073)
Accumulated charge for the previous years	(50 679)	(47 665)
	(54 005)	(50 738)
	178 474	172 264

As at 31 December, 2010, the balance Work in progress includes an amount of Euros 28 158 000 (2009: Euros 36 698 000) related to costs incurred with the construction of several assisted living residences.

The movements occurred in the balance Tangible assets and investment property during the year 2010 are analysed as follows:

	Balance as at 1 January Euros '000	Dotations/ Acquisitions Euros '000	Transfers Euros '000	Write-off Euros '000	Balance as at 31 December Euros '000
Cost:					
Tangible assets:					
Lands and natural resources	3 754	–	–	–	3 754
Buildings and other constructions	17 650	91	–	–	17 741
Other tangible assets	90	–	–	–	90
Work in progress	37 238	9 344	(15 276)	(60)	31 246
	58 732	9 435	(15 276)	(60)	52 831
Investments:					
Investment property	164 270	2 617	15 276	(2 515)	179 648
	223 002	12 052	–	(2 575)	232 479
Accumulated depreciation:					
Tangible assets:					
Buildings and other constructions	6 616	363	–	–	6 979
Investments:					
Investment property	44 122	2 963	–	(59)	47 026
	50 738	3 326	–	(59)	54 005

8. Securities portfolio

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

As at 31 December 2010 and 2009, available-for-sale financial assets are analysed as follows:

	Euros '000				
	Amortised Cost	Revatuation reserve		Impairment	Book Value
		Positive	Negative		
Shares	4 253	111	(90)	(1 228)	3 046
Bonds and other fixed income securities	676 679	8 217	(18 717)	(14 707)	651 472
Other securities	194 448	17 494	(1 399)	(5 512)	205 031
31 December, 2009	**875 380**	**25 822**	**(20 206)**	**(21 447)**	**859 549**
Shares	3 079	100	(178)	(1 088)	1 913
Bonds and other fixed income securities	766 554	6 348	(35 699)	(13 460)	723 743
Other securities	194 797	22 719	(10 192)	(5 970)	201 354
31 December, 2010	**964 430**	**29 167**	**(46 069)**	**(20 518)**	**927 010**

As at 31 December 2010 and 2009, the financial assets that are designated at fair value through profit or loss at inception are analysed as follows:

	2010 Euros '000	2009 Euros '000
Book Value – Bonds	13 683	20 998
Acquisition cost	*16 931*	*24 788*

As at 31 December 2010 and 2009, the financial assets held for trading are analysed as follows:

	2010 Euros '000	2009 Euros '000
Book Value – Bonds	16 257	28 509
Book Value – Investment Funds	310	–
Acquisition cost	*16 390*	*28 169*

The securities portfolio with reference to 31 December, 2010, is presented in the Appendix I.

As at 31 December 2010 and 2009, derivative financial instruments are analysed as follows:

	2010 Euros '000		2009 Euros '000	
	Notional	**Fair value**	**Notional**	**Fair value**
Credit contracts				
Credit Default Swaps	16 500	(393)	10 500	(21)
Interest-rate contracts				
Interest Rate Swaps	25 000	(5.128)	25 000	(3 463)
Exchange Rates contracts				
Call Options	104	78	104	81
		(5 443)		(3 403)

The provision for shares, bonds and other securities refers to the impairment determined according to the criteria established by IAS 39 – Financial Instruments. The movements occurred in this balance during the year 2010 are analysed as follows:

	Euros '000			
	Balance as at 1 January	**Charge for the year**	**Reversals**	**Balance as at 31 December**
Shares, bonds and other securities	21 447	2 795	(3 724)	20 518

9. Investments in subsidiaries and associates

This balance is analysed as follows:

	2010 Euros '000	2009 Euros '000
Institutional financial investment	800 000	760 000
Other investments	461 674	81 965
	1 261 674	841 965

Investments in subsidiaries and associates can be analysed as follows:

	2010					
	Share capital	Number of shares	Percentage held	Acquisition Cost Euros '000	Shareholders Equity (*) Euros '000	Book Value Euros '000
Subsidiaries and associates						
Caixa Económica Montepio Geral	800 000	–	100,00%	800 000	994 019	800 000
Finibanco Holding, S.G.P.S., S.A.	180 000	175 000	100,00%	341 250	172 921	341 250
Lusitania, Companhia de Seguros, S.A. *b)*	25 581	3 285 475	64,22%	53 519	49 539	53 519
Lusitania Vida, Companhia de Seguros, S.A.	20 000	328 893	41,11%	9 647	13 920	9 647
Nova Câmbios, S.A.	750	4 500	30,00%	227	433	227
Silvip, S.A.	750	3 960	26,40%	308	551	308
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	2 567	52 822	61,74%	1 963	3 332	1 963
MG Gestão de Activos Financeiros – S.G.F.I.M., S.A.	1 200	239 655	99,86%	1 331	2 765	1 331
MG Investimentos Imobiliários, S.A.	50	10 000	100,00%	50	20	50
Bolsimo – Gestão de Activos, S.A. *c)*	16 500	151 190	91,63%	50 119	46 094	50 119
Residências Montepio, Serviços de Saúde, S.A.	3 000	1 529 700	50,99%	1 530	(268)	1 530
Sagies, S.A.	500	27 000	27,00%	97	275	97
Leacock (Seguros), Lda.	300	*a)*	81,00%	242	1 902	242
Germont – Empreendimentos Imobiliários, S.A.	1 000	7 000	70,00%	700	459	700
NEBRA, Energias Renovables, SL	10	3 550	35,50%	611	n.d.	611
Bem Comum – Sociedade Capital Risco, S.A.	250	50 000	32,00%	80	n.d.	80
						1 261 674

(*) The shareholders' equity shown is referred to the latest financial statements available.

a) Represented by quotas.

b) The acquisition cost of participation includes the amount of Euros 29 750 000 related to ancillary capital.

c) The acquisition cost of participation include the amount of Euros 35 000 000 related to ancillary capital.2010.

During 2010, Caixa Económica Montepio Geral increased its share capital in the amount of Euros 40 000 000. The Association fully subscribed this capital increase.

Also during 2010, the Association proceeded to the acquisition of 100% of the share capital of Finibanco Holding, S.G.P.S., S.A. in the amount of Euros 341 250 000, through a public takeover offer.

During 2010, the Association delivered the amount of Euros 35 000 000 to Bolsimo – Gestão de Activos as an ancillary capital contribution.

Additionally, Montepio Geral – Associação Mutualista subscribed and realized the increase in share capital of Bolsimo – Gestão de Activos in the amount of Euros 2 749 000.

During 2010, Montepio Geral – Associação Mutualista acquired a share of 32% in Bem Comum – Sociedade Capital Risco, S.A. in the amount of Euros 80 000.

Also during 2010, Montepio Geral – Associação Mutualista realized capital of Germont – Empreendimentos Imobiliários, S.A. in the amount of Euros 630 000.

The institutional financial investment corresponds to the institutional capital (100%) in Caixa Económica Montepio Geral. The balance sheet of Caixa, for the years ended 31 December, 2010 and 2009, can be presented as follows:

	2010 Euros '000	2009 Euros '000
Assets		
Cash and deposits at central banks	240 024	305 018
Loans and advances to credit institutions repayble on demand	58 405	51 745
Other loans and advances to credit institutions	338 662	370 884
Loans and advances to customers	14 352 766	14 448 162
Financial assets held for trading	130 865	103 195
Financial assets at fair value through profit and loss	3 952	4 192
Available-for-sale financial assets	5 256 811	3 164 510
Hedging derivatives	2 810	5 109
Held to maturity investments	58 093	33 523
Investments in associates	43 297	43 297
Non-current assets held for sale	162 374	128 599
Other tangible assets	89 188	91 173
Tangible assets	18 254	16 151
Other assets	128 519	130 226
Total Assets	20 884 020	18 895 784
Liabilities		
Amounts owed to central banks	1 540 266	502 353
Amounts owed to credit institutions	1 262 546	945 400
Amounts owed to customers	9 654 340	8 881 046
Debt securities	3 578 677	4 583 307
Other financial liabilities	53 814	41 345
Hedging derivatives	1 408	598
Provisions	101 499	102 800
Other subordinated debts	380 986	381 043
Other liabilities	3 316 465	2 462 658
Total Liabilities	19 890 001	17 900 550
Shareholders' Equity		
Share capital	800 000	760 000
Fair value reserves	(82 973)	(28 600)
Retained earnings and other reserves	235 501	226 056
Net income for the year	41 491	37 778
Total Shareholders' Equity	994 019	995 234
	20 884 020	18 895 784

10. Financial assets revaluation criteria

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

11. Revaluation

The revaluation is analysed as follows:

	Amortised cost * Euros '000	Revaluation reserve Euros '000	Book value Euros '000
Shares	1 991	(78)	1 913
Bonds and other fixed income securities	753 094	(29 351)	723 743
Other securities			
Government bonds	82 488	(9 706)	72 782
Investment funds	91 339	22 228	113 567
Commercial paper	15 000	5	15 005
	943 912	(16 902)	927 010

* The amortised cost is deducted of impairment losses.

17. State and other public entities

This balance is analysed as follows:

	2010 Euros '000	2009 Euros '000
Assets:		
Recoverable VAT	327	432
VAT – reimbursements claimed	425	902
	752	1 334
Liabilities:		
Income tax with-held at source	304	96
VAT settlement	575	706
Other taxes	1	1
	880	803

18. Obligations and future commitments

This account is analysed as follows:

	2010 Euros '000	2009 Euros '000
Commitments to third parties	19 477	15 945
Amounts received for deposit and management	997	961
Commitments from third parties	30 638	31 595
Other obligations and future commitments	3 626	10 988

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

The balance «Commitments to third parties» includes the amount of Euros 16 500 000 (2009: Euros 10 500 000) regarding derivatives contracted with Caixa Económica Montepio Geral, as well as the amount of Euros 2 977 000 (2009: Euros 5 445 000) related to adjudicated contract jobs.

The balance «Commitments from third parties» includes the amount of Euros 25 104 000 (2009: Euros 25 104 000) referring to derivatives contracted with Caixa Económica Montepio Geral and the amount of Euros 5 534 000 (2009: Euros 6 491 000) related to bank guarantees.

20. Permanent Funds

As at 31 December, 2010 and 2009, the balance Permanent funds of the associated schemes, can be analysed as follows:

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

	2009 Euros '000			
	Mathematical provisions	Surplus for subsidies and additional benefits	Technical surpluses	Total
Retirement capitals	1 404 021	–	2 934	1 406 955
Retirement capitals with fixed term	276 676	–	735	277 411
Retirement saving	68 227	–	–	68 227
Welfare capitals	11 152	24 969	13 385	49 506
Deferred welfare capitals with option	125 271	7 762	28 825	161 858
Retirement pensions	132 568	25 931	4 685	163 184
Capitais para jovens	35 311	4 635	10 655	50 601
Welfare capitals for younger	6 600	20 680	2 672	29 952
Others	30 098	2 225	7 887	40 210
	2 089 924	86 202	71 778	2 247 904
Perpetual annuities	25 058	–	691	25 749
	2 114 982	86 202	72 469	2 273 653

As at 31 December, 2010, the level of coverage of the net assets by the mathematical provisions corresponds to 115% (2009: 116%). The mathematical provisions include the amount of Euros 64 510 000 (2009: Euros 67 793 000), related to the schemes liabilities increase due to the application of the liability adequacy test, as referred in note 3.11. As at 31 December, 2010, the discount interest rate used in the application of liability adequacy test was determined for each scheme in accordance with its duration, falling in the range of 3% to 3.75% (2009: 3.75%).

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

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

	Balance as at 1 January Euros '000	Dividends paid From Association Euros '000	Dividends paid From Caixa Euros '000	Net changes on mathematical provisions Euros '000	Transfers and charges Euros '000	Others Euros '000	Balance as at 31 December Euros '000
Own and permanent funds:							
Own funds	79 436	10 603	8	–	–	(34)	90 013
Technical surpluses	72 469	2 092	–	–	(4 507)	(1 213)	68 841
	151 905	12 695	8	–	(4 507)	(1 247)	158 854
Reserves and retained earnings:							
Revaluation Reserves	5 616	–	–	–	–	(22 518)	(16 902)
Legal Reserves	68 471	10 139	–	–	234	–	178 844
Other reserves	34 580	–	–	–	249	627	35 456
	208 667	10 139	–	–	483	(21 891)	197 398
Provisions for liabilities and charges:							
Mathematical provisions	2 114 982	25 064	–	120 871	(1 092)	(888)	2 258 937
Surplus for subsidies and additional benefits	86 202	–	–	(3 867)	–	1 190	83 525
	2 201 184	25 064	–	117 004	(1 092)	302	2 342 462
	2 561 756	47 898	8	117 004	(5 116)	(22 836)	2 698 714

As at 31 December, 2010, the amount referred on «Others» regarding «Technical surpluses» includes the annual benefits attribution to actuarial schemes and the cost with annuities actualization.

During the years 2010 and 2009, the Association dividends received from Caixa (note 35), were accounted for in the following balances:

	2010 Euros '000	2009 Euros '000
Contributions and operating subsidies	20 292	11 147
Own funds	8	125
	20 300	11 272

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

***a)* Mathematical provisions** – These provisions are recorded at the balance Provisions for liabilities and charges and its purpose is to cover the future liabilities with membership schemes. These provisions were calculated according to the actuarial technical basis approved by Ministério do Trabalho e da Solidariedade Social. Additionally, as at 31 December, 2010 and 2009, these provisions were subjected to a liability adequacy test, as described in note 3.11.

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

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

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

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

26. Personnel expense

The Association supports not only the costs with the employees allocated to the *Gabinete de Desenvolvimento da Oferta Mutualista*, the *Gabinete de Comunicações e Relações Associativas* and the *Gabinete de Desenvolvimento da Associação Mutualista*, but also the costs with the *Órgãos de Gestão e Fiscalização* and employees of the *Direcção Imobiliária e de Instalações*. The amount supported corresponds to the compensation due by the Association regarding the assistance rendered by Caixa in several areas in which the Association does not have in place any organisational structure and for the selling of mutualism schemes by the commercial network. As at 31 December, 2010, the personnel expense supported by Association amounts to Euros 6 715 000 (2009: Euros 6 904 000).

27. Statement of financial results

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

	2010 **Euros '000**	**2009** **Euros '000**
Revenue:		
Interest income	33 800	43 830
Investment property income	17 975	17 499
Profits arising from investments	2 185	2 694
Other financial profits and gains	6 917	12 657
Hedging operations	191	1 545
	61 068	78 225
Expenses:		
Interest expenses	1 881	166
Buildings improvement	1 988	2 653
Other financial differences	4 198	6 940
Hedging operations	21	1 184
Interest and similar expenses	8 088	10 943
Depreciation for investment property	2 963	2 720
Provisions for financial investments	2 780	4 932
Depreciation and provisions for financial investments	5 743	7 652
	13 831	18 595
Net financial income	47 237	59 630

28. Investment property income

The amount of this account is analysed as follows:

	Euros' 000		
	Book value	Repairs and maintenance	Investment property income
Buildings	201 143	1 988	17 975

29. Statement of extraordinary results

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

	2010 Euros '000	2009 Euros '000
Revenue:		
Gains arising from fixed assets	3 956	1 461
Depreciation and provisions decrease	3 726	3 782
Other gains attributable to previous years	262	221
Other extraordinary gains	80	24
	8 024	5 488
Expenses:		
Donations	1 012	144
Losses arising from fixed assets	3 319	3 971
Losses attributable to previous years	127	111
Other extraordinary losses	2	14
	4 460	4 240
Extraordinary income	3 564	1 248

32. Prepayments and accrued income

This balance is analysed as follows:

	2010 Euros '000	2009 Euros '000
Accrued income:		
Interest receivable		
Securities	9 555	7 685
Deposits	2 652	3 324
Other accrued income		
Others	10	11
	12 217	11 020
Accrued expense	1 113	744

As at 31 December, 2010, the balance Accrued expense includes the amount of Euros 949 000 (2009: Euros 600 000), related to obligations with the holiday pay (including subsidies).

34. Income tax

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

35. Transactions with Caixa Económica Montepio Geral

The balances and main transactions between the Association and Caixa during the years ended 31 December, 2010 and 2009, were the following:

	2010 Euros '000	2009 Euros '000
Deposits repayable on demand	132 444	116 894
Deposits with fixed maturity date	212 244	556 500
Income received from investment property	11 600	11 729
Dividends received (note 23)	20 292	11 272
Caixa institutional share capital increase (note 9)	40 000	100 000

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

36. Overdue capitals

This balance is analysed as follows:

	2010 Euros '000	2009 Euros '000
Retirement capitals	136 934	117 620
Deferred welfare capitals with option	29 534	26 382
Retirement capitals with fixed maturity	20 058	6 898
Welfare capitals for younger	3 801	3 882
Others	4 211	3 988
	194 538	158 770

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

37. Capital received

This balance is analysed as follows:

	2010 Euros '000	2009 Euros '000
Retirement capitals	123 639	113 069
Retirement capitals with fixed term	105 294	97 485
Retirement saving	13 010	12 166
Others	1 195	1 610
	243 138	224 330

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

SECURITIES PORTFOLIO
AS AT 31 DECEMBER 2010

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost		Amortised Cost		Impairment	Book Value	
		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
AVAILABLE-FOR-SALE FINANCIAL ASSETS			**961 271**		**964 430**	**(20 518)**		**927 010**
SHARES			***3 079***		***3 079***	***(1 088)***		***1 913***
EDP RENOVÁVEIS		6.83	785	6.83	785	(358)	4.34	499
NEBRA Renovables, SL		172.11	164	172.11	164	–	46.86	45
ETFS SHORT DAX		102.00	153	102.00	153	(72)	54.33	81
ETFS SHORT DJ Eurostoxx 50		56.11	112	56.11	112	(46)	33.27	67
MOÇAMBIQUE – Companhia de Seguros		6.39	379	6.39	379	(230)	2.51	149
CLÍNICA SANTA MARIA DE BELÉM		7.45	493	7.45	493	(75)	6.31	418
SOFICATRA		24.23	36	24.23	36	(6)	20.11	30
BANCO COMERCIAL PORTUGUÊS		0.91	146	0.91	146	(44)	0.58	93
BANCO BPI		1.88	226	1.88	226	(21)	1.39	166
EDP		2.72	136	2.72	136	–	2.49	125
E.I.A.		4.99	349	4.99	349	(236)	1.70	119
GALP ENERGIA		11.71	100	11.71	100	–	14.34	122
BONDS			**763 713**		**766 554**	**(13 460)**		**723 743**
CEMG Abr/2012 (Obrigações de Caixa – Subscrição Privada)	6 000	1.00	6 000	1.00	6 000	–	1.03	6 195
CEMG Jun08-2018 (Obrigações de Caixa – Subscrição Privada)	28 000	1.00	28 000	1.00	28 000	–	0.84	23 454
CEMG Inflação 2008-2016 (Obrigações de Caixa)	5 000	1.00	5 000	1.00	5 000	–	1.09	5 439
CRPC Setembro 2008/2013 (Obrigações de Caixa)	31 500	1.00	31 500	1.00	31 500	–	1.01	31 741
CRPC Outubro 2008/2013 (Obrigações de Caixa)	34 500	1.00	34 500	1.00	34 500	–	1.01	34 746
CRPC Fevereiro 2009/2014 (Obrigações de Caixa)	14 100	1.00	14 100	1.00	14 100	–	1.00	14 138
CRPC Março 2009/2014 – 2S	18 000	1.00	17 993	1.00	17 996	–	1.00	18 040
CRPC SETEMBRO 2009/2014 – 7S	10 000	1.00	10 000	1.00	10 000	–	1.03	10 272
CRPC SETEMBRO 2009/2017 – 1S	5 000	1.00	5 000	1.00	5 000	–	1.03	5 131
CRPC SETEMBRO 2007/2012 – 2S	28 500	1.00	28 500	1.00	28 500	–	1.00	28 552
CRPC SETEMBRO 2008/13 – 2.ª EMISSÃO	1 750	1.00	1 750	1.00	1 750	–	1.01	1 759
CRPC 2009/2014 – 8 SERIE	5 000	1.00	5 000	1.00	5 000	–	1.03	5 139
OB CX TX VAR CEMG 2009/12	23 500	1.00	23 500	1.00	23 500	–	1.00	23 519
OB CX TX VAR CEMG 2009/13	1 700	1.00	1 700	1.00	1 700	–	1.00	1 700
CRPC 2009/2014 – 9 SERIE	7 000	1.00	7 000	1.00	7 000	–	1.02	7 149
CRPC 2009/2014 – 10 SERIE	5 000	1.00	5 000	1.00	5 000	–	1.04	5 175
OB CX Montepio Capital Certo 2010/2015 – 1.ª Série	25 000	1.00	25 002	1.00	25 002	–	1.01	25 288
OB CX Taxa Variável CEMG 2010/2014	1 700	1.00	1 700	1.00	1 700	–	1.06	1 807
CRPC 2010/2015 – 2 SERIE	23 000	1.00	23 006	1.00	23 006	–	1.01	23 279
OB CX CRPC 2010-2018 1.ª SÉRIE	10 000	1.00	10 000	1.00	10 000	–	1.01	10 112
MONTEPIO TAXA FIXA CRESCENTE Maio 2010/2014	8 000	1.00	8 000	1.00	8 000	–	1.03	8 249
OB CX CRPC 2010-2015 3S	6 000	1.00	6 000	1.00	6 000	–	0.99	5 967
CRPC 2010/2018 2S	5 000	1.00	5 000	1.00	5 000	–	0.99	4 942
CRPC 2010/2015 4S	10 000	1.00	10 000	1.00	10 000	–	1.00	9 957
CRPC 2010/2015 5S	10 000	1.00	10 000	1.00	10 000	–	1	10 057
CRPC 2010/15 – 6.º S	10 000	1.00	10 000	1.00	10 000	–	1.01	10 073
CRPC 2010/15 – 7.º S	15 000	1.00	15 000	1.00	15 000	–	1.02	15 262
CRPC 2010/15 – 8.ª S	10 000	1.00	10 000	1.00	10 000	–	1.03	10 275
BELGACOM SA DROIT PUB	400	1.00	399	1.00	400	–	1.02	409
DEUTSCHE POSRBANK	2 000	1.00	1 994	1.00	1 997	–	0.90	1 798
HYPOVEREINSBANK LUX	1 000	1.03	1 032	1.00	1 003	–	0.99	993
PORSCH 3 7/8 02/16	2 000	1.00	2 000	1.00	2 000	–	1.01	2 029
COMMERZBANK AG	4 000	0.99	3 967	1.00	3 980	–	0.84	3 356
LB BADEN – WUERTTEMBERG	1 000	1.00	998	1.00	999	–	1.06	1 058
CAJA ZARAGOZA ARAGON & R	2 000	1.00	2 000	1.00	2 000	–	0.72	1 434
CAJA SEVILLA MONPIS	5 000	1.00	5 000	1.00	5 000	–	0.54	2 717
AYT DEUDA SUBORDINADA (Fundo Titularização)	1 500	1.00	1 500	1.00	1 500	–	0.75	1 125

See accompanying notes to the financial statements

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost		Amortised Cost		Impairment	Book Value	
		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
BANKINTER SA	1 000	1.00	999	1.00	1 000	–	0.99	994
BANCO DE VALENCIA SA	2 000	1.00	1 998	1.00	2 000	–	0.94	1 874
CAIXA ESTALVIS TERRASSA	1 000	1.00	999	1.00	1 000	–	0.97	972
CAJA CANTABRIA (Ahorros de Santander)	2 000	1.00	2 000	1.00	2 000	–	0.95	1 894
ABS BANCO POPULAR	100	1.00	100	1.00	100	–	0.45	45
PYME BANCO POPULAR (POPY 2006-1 B)	1 500	1.00	1 500	1.00	1 500	–	0.69	1 037
VEOLIA ENVIRONNEMENT	1 000	0.99	990	0.99	994	–	1.05	1 047
COFIDIS	2 000	1.00	1 998	1.00	1 999	–	0.98	1 960
CIE FINANCIERE DU CRED	1 000	1.00	999	1.00	999	–	0.92	920
NATIXIS	1 750	1.00	1 749	1.00	1 749	–	0.92	1 608
BANQUES POPULAIRES CB	1 700	1.00	1 696	1.00	1 698	–	1.05	1 781
CAISSE REFINANCE L´HABIT	1 000	0.99	994	1.00	999	–	1.01	1 011
CREDICO FUNDING SRL	1 000	1.00	1 000	1.00	1 000	–	0.72	724
SOMEC/94	150	0.99	149	0.99	149	(149)	0.00	–
BPIPL 3 1/4 01/15/15	2 000	0.88	1 753	0.88	1 754	–	0.85	1 707
BPIPL 0 01/25/12	1 000	1.00	999	1.00	999	–	0.95	951
BCPPL 5.625 04/23/14	1 000	0.96	963	0.97	968	–	0.86	860
BCPPL 3.75 06/17/2011	2 000	0.98	1 958	0.98	1 966	–	0.97	1 933
BCPPL 2,375 01/18/12	3 500	0.97	3 407	0.98	3 442	–	0.91	3 197
BCPPL 0 05/09/14	2 000	1.00	1 998	1.00	1 999	–	0.74	1 480
BCPPL 4.75 10/29/2014	1 000	0.99	990	0.99	990	–	0.91	910
BESPL 0 05/08/13	3 000	0.95	2 850	0.96	2 876	–	0.81	2 418
BESPL Float 02/13	2 200	0.95	2 081	0.96	2 113	–	0.82	1 810
BESPL 3 7/8 01/21/15	5 950	0.97	5 786	0.98	5 809	–	0.81	4 800
BOLSIMO – Gestão de Activos, SA	25 000	1.00	25 000	1.00	25 000	–	1.00	25 000
BRISA 4.5 05/12/2016	1 300	0.97	1 258	0.97	1 267	–	0.94	1 226
BANCO SANTANDER TOTTA SA	1 000	1.00	997	1.00	1 000	–	1.00	997
BRISA CONCESSAO RODOV SA	2 000	0.99	1 988	1.00	1 997	–	1.00	2 007
CAIPL 0 08/30/11	5 000	1.00	5 000	1.00	5 000	–	1.01	5 059
CXGD 4 3/8 05/13/13	1 000	0.94	940	0.94	942	–	0.92	921
CXGD5 1/8 02/19/14	6 250	0.99	6 201	0.99	6 187	–	0.91	5 712
CAIXA GERAL DE DEPÓSITOS	1 000	0.99	989	0.99	994	–	0.83	830
CGDCOVERED	1 000	1.00	998	1.00	999	–	0.90	903
MONTEPIO TAXA FIXA AGOSTO 2010/2014	9	0.98	9	0.98	9	–	0.93	8
MONTEPIO TAXA FIXA 2010/2014-2.ª SÉRIE	123	0.98	121	0.98	121	–	0.93	114
MONTEPIO TAXA FIXA 2010/2013-1.ª SÉRIE	13	0.97	13	0.97	13	–	0.94	12
MONTEPIO TAXA FIXA 2010/2012-1.ª SÉRIE	31	0.98	30	0.99	30	–	0.96	29
MONTEPIO TAXA FIXA JULHO 2010/2014	5	0.99	5	0.99	5	–	0.93	5
MONTPI StrNt 01/30/17	2 000	0.75	1 500	0.76	1 512	–	0.75	1 497
MONTPI 5 02/08/17	2 000	0.93	1 868	0.94	1 883	–	0.75	1 497
MONTPI Float 05/29/13	16 000	0.82	13 110	0.90	14 324	–	0.96	15 313
MONTPI 0 02/28/18	21 602	0.99	21 370	0.99	21 413	–	0.83	17 906
MONTPI 0 07/23/18	19 372	0.98	18 997	0.98	19 047	–	0.81	15 644
OBRIG.MONTEPIO TAXA FIXA 2010/2014-1.ª SÉRIE	55	0.98	54	0.98	54	–	0.94	51
SANTAN 3 3/4 06/12	1 000	1.03	1 030	1.02	1 019	–	0.97	973
LUSITANIA VIDA/2007	5 000	1.00	5 000	1.00	5 000	–	0.88	4 390
PARPUBLICA 3 1/2	500	0.97	485	0.97	487	–	0.93	467
PTIPL 0 10/27/12	4 500	1.00	4 500	1.00	4 500	–	1.00	4 495
REN Redes Energéticas	1 100	1.00	1 096	1.00	1 097	–	1.06	1 165
BEI/96–16	379	1.00	381	1.00	380	–	1,26	477
SUN LIFE CANADÁ FUNDING	750	1.00	749	1.00	750	–	1.00	754
BESPL 6.25 05/11	1 000	1.04	1 043	1.01	1 009	–	0.98	984
BESPL 5,89 05/14/12	1 500	1.00	1 501	1.00	1 500	–	0.97	1 461
DT 7,125 07/11/11	1 000	1.08	1 077	1.03	1 025	–	1.03	1 028
BNP PARIBAS	500	1.00	500	1.00	500	–	0.99	497
TELECOM ITALIA SPA	500	1.06	531	1.01	507	–	1.04	522
PELICAN 1A	966	0.94	909	0.94	911	–	0.92	888
REPSOL INTL FINANCE	1 000	1.03	1 035	1.01	1 013	–	1.05	1 049
BESPL 6 08/27/13	2 000	1.00	1 990	1.00	1 992	–	0.91	1 810

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TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost		Amortised Cost		Impairment	Book Value	
		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
NOSTRUM MORTGAGES PLC	2 810	0.98	2 764	0.98	2 767	–	0.80	2 259
THYSSENKRUPP AG	2 000	1.03	2 055	1.00	2 002	–	1.01	2 013
CIMPL 4.5 05/11	3 653	1.01	3 700	1.00	3 670	–	0.98	3 576
AUTOSTRADE SPA	2 500	1.01	2 515	1.00	2 501	–	1.00	2 493
CITIGROUP GLOBAL MARKETS	1 000	0.68	678	0.76	762	–	0.88	880
PARPUB 4.191 10/14	6 500	1.00	6 472	1.00	6 497	–	0.91	5 904
DNB NORBANK	2 000	1.00	2 004	1.00	2 002	–	0.98	1 959
AZOR 1 A	824	0.93	769	0.94	770	–	0.88	728
BES FINANCE LTD	1 000	0.98	983	0.98	984	–	0.56	559
LANDSBANKI ISLANDS	500	0.99	494	0.99	494	(494)	0.00	–
MONTPI var 02/15	9 000	0.92	8 324	0.95	8 517	–	0.84	7 526
PORTUGAL TELECOM 2012	4 500	0.90	4 060	0.98	4 395	–	1.01	4 535
MONTPI Float 05/03/12	5 678	0.98	5 557	0.98	5 579	–	0.89	5 056
FINANTIA	2 500	1.00	2 500	1.00	2 500	–	0.60	1 500
ABN AMRO BANK NV	2 000	0.96	1 917	0.97	1 948	–	0.80	1 600
FORTIS BANK	3 000	1.00	3 005	1.00	3 003	–	0.86	2 573
MAGEL 3 A	3 318	0.90	2 992	0.91	3 036	–	0.77	2 554
DEUTSCHE BANK AG	1 000	0.96	956	0.97	972	–	0.94	943
SEB 0 09/28/17	1 000	1.00	999	1.00	1 000	–	0.97	965
PREPS 2005–2 B1	3 000	0.99	2 963	0.99	2 963	(2 603)	0.12	360
TELECOM ITALIA SPA	500	1.00	500	1.00	500	–	0.98	492
KBC IFIMA NV	1 000	1.00	999	1.00	1 000	–	0.87	871
TAUEU 0 12/22/15	2 000	1.00	2 000	1.00	2 000	–	0.85	1 701
BCPPL FLOAT 02/03/2011	2 000	0.99	1 982	1.00	1 995	–	0.98	1 961
MONTPI Float 01/31/11	20 150	0.97	19 626	1.00	20 075	–	0.99	19 944
BESPL Float 02/08/11	1 000	0.99	985	0.99	992	–	0.99	994
GOLDMAN SACHS GROUP INC	1 000	1.00	999	1.00	1 000	–	0.98	980
CITIGROUP INC	1 000	1.00	999	1.00	999	–	0.91	911
BANCHE POPOLARI UNITE 2011	2 000	1.00	1 997	1.00	2 000	–	1.00	1 997
GE CAPITAL EURO FUNDING	1 500	1.00	1 497	1.00	1 498	–	0.94	1 416
SANTANDER ISSUANCES	500	0.99	497	1.00	499	–	0.94	469
MORGAN STANLEY	1 000	1.00	1 001	1.00	1 000	–	0.97	970
CITIGROUP	1 000	0.94	942	1.00	997	–	1.00	1 003
HSBC FINANCE CORP	2 000	1.00	1 995	1.00	1 998	–	0.97	1 938
MONTPI 0 04/18/16	6 100	1.00	6 086	1.00	6 087	–	0.91	5 571
SEDNA FINANCE	2 500	1.00	2 500	1.00	2 500	(2 500)	0.00	–
LEHMAN BROTHERS HOLDINGS	1 000	1.00	998	1.00	998	(798)	0.20	200
ABB INTL FINANCE LTD	1 000	1.01	1 012	1.00	1 005	–	1.06	1 063
TELECOM ITALIA SPA	500	0.99	495	1.00	498	–	1.04	522
SLM CORP	2 000	1.00	1 994	1.00	1 998	–	0.89	1 770
EDP FINANCE	1 000	1.01	1 008	1.00	1 002	–	1.02	1 020
LEHMAN BROTHERS HOLDINGS	2 500	1.00	2 491	1.00	2 491	(1 991)	0.20	500
BANCA ITALEASE	2 000	1.00	1 995	1.00	1 997	–	0.85	1 700
ERSTE BANK	2 000	1.00	1 999	1.00	1 999	–	0.90	1 795
MAGEL 4 A	1 910	0.82	1 574	0.83	1 578	–	0.75	1 434
PREPS LIMITED PARTNERSHIP	1 200	1.00	1 200	1.00	1 200	(1 076)	0.10	124
SELLA HOLDING BANCA SPA	1 000	1.00	999	1.00	1 000	–	0.99	991
MERRILL LYNCH & CO	1 000	1.00	999	1.00	1 000	–	0.95	952
VODAFONE GROUP PLC	2 000	1.00	1 999	1.00	2 000	–	1.00	1 993
ALLIED IRISH BANKS PLC	1 000	1.00	999	1.00	1 000	–	0.84	835
BANK OF AMERICA CORP	2 000	1.00	1 995	1.00	1 998	–	0.95	1 896
ING VERZEKERINGEN NV	2 000	1.00	1 997	1.00	1 999	–	0.95	1 895
UNICREDITO ITALIANO	1 000	1.00	999	1.00	999	–	0.94	939
ROTHSHILDS CONT FIN PLC	1 000	1.00	999	1.00	1 000	–	0.99	985
MONTPI Float 09/19/11	11 000	0.98	10 769	0.99	10 922	–	0.97	10 648
DOURO 2 A1 (SAGRES)	22	1.00	22	1.00	22	–	0.80	18
MEDIOBANCA	2 000	1.00	1 998	1.00	1 999	–	0.95	1 899
CASSA RISPARMIO FIRENZE	1 000	1.00	997	1.00	999	–	0.96	963
BBVA SUB CAPITAL UNIPERS	1 500	1.00	1 500	1.00	1 500	–	0.92	1 377

See accompanying notes to the financial statements

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost		Amortised Cost		Impairment	Book Value	
		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
NOMURA EUROPE FINANCE	1 000	1.00	999	1.00	1 000	–	0.99	989
LUSITANO SME OLC	950	1.00	950	1.00	950	–	0.85	803
COMMONWEALTH	1 500	1.00	1 497	1.00	1 500	–	1.00	1 500
OTP BANK PLC	1 000	1.00	1 002	1.00	1 001	–	0.66	656
BANCA SELLA LT2	1 500	1.00	1 499	1.00	1 500	–	0.87	1 310
DNB NOR BANK ASA	3 000	1.00	2 999	1.00	3 000	–	1.00	3 001
CARNIVAL PLC	1 000	1.00	995	1.00	998	–	1.03	1 033
EBS BUILDING SOCIETY	3 000	1.00	2 993	1.00	2 996	(1 750)	0.41	1 243
STANDARD CHARTERES BANK	1 000	1.00	997	1.00	998	–	0.93	935
PROMS XXS6–1 C	858	1.00	858	1.00	858	(166)	0.81	692
BANCA LOMBARDA	1 500	1.00	1 498	1.00	1 499	–	0.92	1 378
BCP FINANCE BANK 2016	1 000	0.92	918	0.94	943	–	0.65	654
STADSHYPOTEK AB	1 000	0.98	976	0.99	988	–	1.05	1 047
BANIF FINANCE LTD	1 000	1.00	1 000	1.00	1 000	–	0.81	806
MUFG CAPITAL FIN 4 LTD (Tier 1)	750	1.00	750	1.00	750	–	0.93	695
RCI BANQUE SA	1 500	1.00	1 499	1.00	1 500	–	0.99	1 486
ANGLO IRISH BANK CORP	2 000	1.00	1 999	1.00	2 000	–	0.70	1 391
BANCO POPOLARE DI MILANO	2 000	1.00	1 994	1.00	1 997	–	0.96	1 920
BCP FINANCE BANK LTD	3 000	0.99	2 968	1.00	2 993	–	0.88	2 644
HEAT MEZZANINE (Classe AAA)	463	1.00	463	1.00	463	(154)	0.67	309
MERRIL LYNCH & co Inc.	2 500	1.00	2 498	1.00	2 500	–	0.98	2 461
REPSOL INTL FINANCE	4 000	0.99	3 962	1.00	3 992	–	0.99	3 971
CLO PREPS	1 751	1.00	1 751	1.00	1 751	(891)	0.49	860
EATON VANCE CDO LTD	985	1.00	985	1.00	985	–	0.88	872
INTESA SANPAOLO SPA	2 000	1.00	1 998	1.00	1 999	–	0.96	1 910
BBVA SUB CAPITAL UNIPERS	2 000	1.00	1 997	1.00	1 998	–	0.89	1 789
DEUTSCHE TELEKOM INT FIN	2 000	1.00	2 000	1.00	2 000	–	1.00	1 999
LHB INTERNATIONAL HANDEL	250	1.00	250	1.00	250	–	0.60	150
UBS AG JERSEY BRANCH	500	0.97	486	0.99	496	–	1.00	498
GSCP 2007–5X A2 (CDO)	938	1.00	938	1.00	938	(107)	0.89	831
BANIF FINANCE LTD	2 000	1.00	1 995	1.00	1 999	–	0.85	1 708
BBVA BANCOMER AS	2 000	1.00	2 000	1.00	2 000	–	0.96	1 916
BANCA DELLE MARCHE 2017	1 500	1.00	1 499	1.00	1 499	–	0.86	1 290
MERRILL LYNCH 2014	1 500	1.00	1 495	1.00	1 498	–	0.92	1 385
ESFG INTERNATIONAL LTD	500	1.00	500	1.00	500	–	0.53	263
SOCIETÉ GENERALE 2017	1 500	1.00	1 499	1.00	1 499	–	0.95	1 419
CAJA DE AHORROS DEL MEDITERRANEO (Global Finance)	1 750	1.00	1 748	1.00	1 749	–	0.91	1 594
ENEL – SOCIETA PER AZIONI	500	1.00	499	1.00	499	–	0.97	486
UCGIM 0 07/27/11	505	0.96	487	0.99	498	–	0.99	499
NOMURA EUROPE FINANCE NV	2 000	1.00	1 999	1.00	2 000	–	0.97	1 946
UBI BANCA SPCA	1 000	1.00	998	1.00	999	–	0.98	975
DOURM 3 A	1 762	0.81	1 429	0.81	1 435	–	0.76	1 340
ELECTRICITE DE FRANCE SA	500	0.99	497	1.00	498	–	1.09	543
NATIONAL AUSTRALIA BANK	500	1.00	500	1.00	500	–	1.01	503
ING BANK NV 2013	1 000	1.00	998	1.00	999	–	1.05	1 052
MALACHITE SENIOR MEZZANINE	840	1.00	840	1.00	840	(781)	0.07	59
ING GROEP NV FIXED RATE	1 000	0.99	990	0.99	990	–	0.97	969
UBS CAPITAL SECS LTD	500	1.00	500	1.00	500	–	1.03	514
BANK OF NOVA SCOTIA	1 000	1.00	997	1.00	1 000	–	1.01	1 010
FORTIS FINANCE NV	500	1.00	500	1.00	500	–	1.00	500
RBS 5 1/4 05/15/13	500	1.05	523	1.03	517	–	1.04	519
XSTRATA CANADA FIN CORP	500	1.00	498	1.00	500	–	1.02	508
E.ON INTL FINANCE BV	1 000	0.99	994	1.00	997	–	1.09	1 092
SANTANDER INTL DEBT SA	1 000	1.00	999	1.00	1 000	–	1.02	1 023
IBERDROLA FINAZAS SAL	200	1.00	200	1.00	200	–	1.04	208
VOLKSWAGEN FIN SERV AG	200	1.00	199	1.00	199	–	1,13	225
NATIONAL GRID PLC	150	0.99	149	1.00	149	–	1,12	169
TELEFONICA 5Y	400	1.00	400	1.00	400	–	1.06	424

Ctd.

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TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost Unit Value	Acquisition Cost Total Euros '000	Amortised Cost Unit Value	Amortised Cost Total Euros '000	Impairment Euros '000	Book Value Unit Value	Book Value Total Euros '000
EON 5Y	250	1.00	250	1.00	250	–	1.08	269
SIEMENS FINACIERINGSMAT 4Y	125	1.00	125	1.00	125	–	1.05	131
TELEFONICA 7Y 2009_16	250	1.00	250	1.00	250	–	1.06	266
LLOYDS 6 1/4 TSB BANK PLC	1 500	1.07	1 608	1.06	1 593	–	1.07	1 604
SAMPO OYJ	500	1.00	500	1.00	500	–	1.05	524
AEGON N.V.	125	1.00	125	1.00	125	–	1.06	132
PORTUGAL TELECOM 2013	150	1.00	150	1.00	150	–	1.05	157
CITIGROUP 7 3/8 06/16/14	1 000	1,11	1 105	1.08	1 084	–	1,11	1 110
ESF 6 7/8 10/21/19	1 000	1.04	1 041	1.04	1 037	–	0.66	658
LLOYDS 3 1/4 11/12	500	1.01	507	1.01	505	–	1.00	502
FIDINT 6 7/8 02/24/17	100	1.00	100	1.00	100	–	1.05	105
RBS 3,625 05/17/13	1 301	0.99	1 291	0.99	1 293	–	1.00	1 306
LLOYDS TSB BANK Float	750	0.99	739	0.99	741	–	1.00	749
VOTORA 5,25 04/28/17	150	1.00	149	1.00	149	–	0.99	148
RBS 4,875 07/15/15	1 500	1.00	1 500	1.00	1 500	–	1.01	1 510
PORTB 0 11/19/11 (BT´s)	2 000	0.95	1 907	0.96	1 918	–	0.96	1 918
OTHER INVESTMENT SECURITIES			***194 479***		***194 797***	***(5 970)***		***201 354***
Government bonds			*82 170*		*82 488*	*–*		*72 781*
BBELGIUM KINGDOM / Mar-2018	1 000	0.98	980	0.99	986	–	1.02	1 020
SPGB 3.15 01/31/16	1 000	0.94	940	0.96	962	–	0.93	935
RFGB3 7/8 09/15/17	1 000	0.99	991	0.99	994	–	1.08	1 079
GGB 4.1 08/20/12	1 000	0.94	944	0.96	964	–	0.88	879
HELLENIC REPUBLIC 5 YR	3 000	0.99	2 985	1.00	2 990	–	0.75	2 260
GGB 6.1 08/20/15	4 000	1.01	4 020	1.00	4 017	–	0.75	3 006
HELLENIC REPUBLIC / Jul-2015	3 000	0.98	2 933	0.99	2 960	–	0.66	1 993
GGB 4.7 03/20/24	1 000	0.73	733	0.75	746	–	0.58	577
IRISH 5 10/18/20	2 000	0.84	1 675	0.84	1 681	–	0.73	1 469
BTPS3 3/4 08/01/15	4 000	0.98	3 934	0.99	3 960	–	1.00	4 001
BUONI POLIENNALI DEL TES	1 000	0.98	980	0.99	989	–	0.99	991
BUONI POLIENNALI DEL TES / Mar-2011	1 000	0.99	987	1.00	999	–	1.00	1 003
NETHER 3 1/4 07/15	2 000	0.97	1 937	0.98	1 962	–	1.06	2 115
NETHER 3 3/4 07/14	2 000	1.00	1 993	1.00	1 996	–	1.08	2 155
CONSOLIDADO 1942	279	0.94	262	0.95	264	–	0.46	128
CONSOLIDADO-CENTENÁRIOS 1940	410	1.00	409	1.00	409	–	0.61	249
PGB 4.375 06/16/14	1 000	0.96	962	0.97	968	–	0.97	971
PGB 3.35 10/15/15	5 000	0.95	4 735	0.96	4 797	–	0.90	4 496
PGB 4.2 10/15/16	1 000	1.01	1 013	1.01	1 011	–	0.91	910
PGB 4.8 06/15/20	4 490	0.92	4 114	0.92	4 125	–	0.87	3 910
PGB 4,35 10/16/17	6 500	1.01	6 572	1.01	6 560	–	0.88	5 749
PGB 4 3/4 06/14/19	1 240	0.93	1 155	0.94	1 161	–	0.88	1 094
PGB 4,45 06/15/18	1 000	0.96	959	0.96	961	–	0.88	884
PGB 3.6 10/15/14	6 000	0.99	5 946	0.99	5 950	–	0.94	5 622
PGB 3.85 04/15/21	32 000	0.94	30 013	0.94	30 077	–	0.79	25 285
Investment funds			97 309		97 309	(5 970)		113 568
FUNDO ROTSCHILD SAINT		163.61	749	163.61	749	(23)	175.03	802
FUNDO ARIS DEFENSIVE		156.64	36	156.64	36	–	141.52	32
GLOBAL HIGH YIELD BOND FUND		11.70	1 755	11.70	1 755	(728)	11.71	1 756
FUNDO NOVENERGIA II		52 656.56	22 850	52 656.56	22 850	–	70 716.60	30 687
FUNDO CAPITAL ONGOING		1 000.00	30 000	1 000.00	30 000	–	1 355.75	40 673
FUNDO VISION ESCRITÓRIOS		4.76	4 759	4.76	4 759	(255)	4.50	4 504
FUNDO LOGISTICA DISTRIBUIÇÃO		6.12	2 447	6.12	2 447	–	6.26	2 502
FUNDO IBÉRIA		5.24	524	5.24	524	(203)	3.28	328
FUNDO VIP		9.28	23 236	9.28	23 236	–	9.53	23 843
MG – ACÇÕES EUROPA		48.58	1 966	48.58	1 966	(1 000)	35.84	1 450
MG MULTI GESTÃO DINÂMICA		46.27	1 388	46.27	1 388	(727)	31.81	954
MONTEPIO FINANCE SERVICE		50.00	2 000	50.00	2 000	(1 479)	21.39	856
MONTEPIO EURO ENERGY		50.00	2 150	50.00	2 150	(840)	43.02	1 850

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		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
MONTEPIO HEALTHCARE		50.00	2 250	50.00	2 250	(715)	47.37	2 132
FUNDO CAPITAL PVCI		1.00	1 199	1.00	1 199	–	1.00	1 199
Commercial paper			15 000		15 000	–		15 005
BOLSIMO	15 000	1.00	15 000	1.00	15 000	–	1.00	15 005
FINANCIAL ASSETS THAT ARE DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS AT INCEPTION			**16 931**		**16 931**	**–**		**13 683**
BONDS			***16 931***		***16 931***	**–**		***13 683***
GOLDEN 2 SERIES	2 500	1.00	2 500	1.00	2 500	–	1.02	2 547
MONTEPIO CEMG CABAZ 14	31	0.96	29	0.96	29	–	0.94	29
Montepio Títulos Europa 2009/2013	26	0.99	25	0.99	25	–	0.96	25
MONTEPIO CABAZ OURO PETROLEO	37	0.98	36	0.98	36	–	0.98	36
ATLANTEO 2019	1 000	1.00	1 000	1.00	1 000	–	1.13	1 132
KBC IFIMA	750	1.00	749	1.00	749	–	0.79	594
LB BADEN-WUERTTEMBERG	1 000	0.98	981	0.98	981	–	0.81	813
UBS FLOAT (GBP-EUR 10NC3M RA)	1 000	0.99	990	0.99	990	–	0.89	886
ZELA FINANCE CORPORATION	1 000	1.00	1 000	1.00	1 000	–	0.00	–
CLARIS LIMITED	1 000	1.00	1 000	1.00	1 000	–	0.06	56
BOIRO FINANCE BV	3 000	1.00	3 000	1.00	3 000	–	0.75	2 248
DRESDNER BANK AG	1 000	0.99	985	0.99	985	–	0.95	949
STARLING FINANCE	1 000	1.00	1 000	1.00	1 000	–	0.78	782
MALACHITE JUNIOR MEZZANINE	160	1.00	160	1.00	160	–	0.00	0
NOMURA Var 09/19	2 000	1.00	1 990	1.00	1 990	–	1.03	2 069
NOMURA Var 10/14	1 500	0.99	1 485	0.99	1 485	–	1.01	1 519
FINANCIAL ASSETS HELD FOR TRADING			**16 390**		**16 390**	**–**		**16 567**
BONDS			***16 089***		***16 089***	**–**		***16 257***
MG VALOR GARANTIDO	917	1.02	932	1.02	932	–	1.00	915
MG AFORRO 2006 (5 Anos) – 2.ª Série	18	1.03	19	1.03	19	–	1.03	19
MG AFORRO 2006 (5 Anos) – 3.ª Série	96	1.03	99	1.03	99	–	1.03	99
MG AFORRO 2006 (5 Anos) – 1.ª Série	126	1.03	130	1.03	130	–	1.02	129
AFORRO MONTEPIO 2006 (5 Anos) – 4.ª Série	89	1.03	92	1.03	92	–	1.03	92
AFORRO MONTEPIO 2006 (5 Anos) – 5.ª Série	19	1.02	19	1.02	19	–	1.03	19
AFORRO MONTEPIO 2007 (5 ANOS) – 2.ª Série	13	1.02	13	1.02	13	–	1.00	13
AFORRO MONTEPIO ASSOCIADOS 2007 (5 ANOS) – 2.ª Série	209	1.03	215	1.03	215	–	1.00	210
AFORRO MONTEPIO ASSOCIADOS 2007 (5 ANOS) – 1.ª Série	101	1.03	104	1.03	104	–	1.00	101
AFORRO MONTEPIO 2007 (5 ANOS) – 1.ª Série	4	1.02	4	1.02	4	–	1.00	4
AFORRO MONTEPIO 2008/11 – 1.ª Série	935	1.01	944	1.01	944	–	1.00	933
MONTEPIO CABAZ COMMODITIES AGRICOLA 2008/2011	849	0.98	833	0.98	833	–	1.00	849
MONTEPIO EURO AFORRO 2008 – 1.ª SÉRIE	3 800	0.98	3 742	0.98	3 742	–	1.00	3 790
MONTEPIO EURO AFORRO 2008/11 – 2.ª SÉRIE	2 778	0.98	2 722	0.98	2 722	–	1.00	2 770
MONTEPIO EURO AFORRO 2008/11 – 3.ª SÉRIE	2 887	0.98	2 839	0.98	2 839	–	1.00	2 880
MONTEPIO EURO AFORRO 2008/11 – 4.ª SÉRIE	2 557	0.98	2 508	0.98	2 508	–	1.00	2 552
BCPPL Float 02/06/12	1 000	0.87	874	0.87	874	–	0.88	881
INVESTMENT FUNDS			***301***		***301***	**–**		***310***
LYXOR ETF IBEX 35 INVERSO	6	52.81	301	52.81	301	–	54.37	310
TOTAL			**994 592**		**997 751**	**(20 518)**		**957 260**

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AUDITORS' REPORT

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

Introduction

1. We have audited the financial statements of Montepio Geral – Associação Mutualista ("Association"), which comprise the balance sheet as at 31 December, 2010 (which shows total assets of Euro 2,759,348 thousand and total equity of Euro 410,645 thousand, including a net profit of Euro 54,393 thousand), the Income statement and the Cash flows statement for the year then ended and the corresponding Notes.

Responsibilities

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

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

Scope

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

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

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

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

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

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., a Portuguese company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG & Associados - S.R.O.C., S.A. Capital Social: 2.840.000 Euros - Pessoa Colectiva Nº PT 502 161 078 - Inscrito na O.R.O.C. Nº 189 - Inscrito na C.M.V.M. Nº 9093

Matriculada na Conservatória do registo Comercial de Lisboa sob o Nº PT 502 161 078

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

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

Opinion

7. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montepio Geral – Associação Mutualista, as at 31 December, 2010, the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles referred in Note 3.

Report on other legal requirements

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

Emphasis of matter

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

Lisbon, 10 March, 2011

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

11.2. CAIXA ECONÓMICA MONTEPIO GERAL – CONSOLIDATED ACCOUNTS

CONSOLIDATED BALANCE SHEET OF CAIXA ECONÓMICA AT 31 DECEMBER 2010 AND 2009

(thousand euros)

	2010			2009
	GROSS ASSETS	IMPAIRMENT AND AMORTISATION	NET ASSETS	NET ASSETS
ASSETS				
Cash and deposits at central banks	240 024		240 024	305 018
Loans and advances to credit institutions repayable on demand	74 353		74 353	69 870
Financial assets held for trading	124 589		124 589	98 239
Other financial assets at fair value through profit or loss	3 952		3 952	4 192
Financial assets available-for-sale	2 449 740	19 172	2 430 568	1 282 417
Other loans and advances to credit institutions	338 712	50	338 662	370 938
Loans and advances to customers	15 075 944	521 811	14 554 133	14 682 382
Held-to-maturity investments	58 144		58 144	33 523
Hedging derivatives	7 734		7 734	7 844
Non-current assets held for sale	201 710	39 336	162 374	128 599
Other tangible assets	188 550	99 263	89 287	91 275
Intangible assets	37 904	19 650	18 254	16 151
Investments in associated companies and others excluded from consolidation	37 060		37 060	40 775
Other assets	113 629	3 473	110 156	113 544
TOTAL ASSETS	**18 952 045**	**702 755**	**18 249 290**	**17 244 767**
LIABILITIES				
Deposits from central banks			1 540 266	502 353
Financial liabilities held for trading			47 615	36 767
Deposits from other credit institutions			901 742	637 770
Deposits from customers and other loans			10 007 563	9 180 858
Debts securities issued			3 836 243	4 914 915
Financial liabilities associated with transferred assets			387 183	428 147
Hedging derivatives			6 894	5 008
Provisions			1 311	1 490
Other subordinated debt			380 986	381 043
Other liabilities			144 009	170 202
TOTAL LIABILITIES			**17 253 812**	**16 258 553**
EQUITY				
Capital			800 000	760 000
Revaluation reserves			-75 623	-14 486
Other reserves and retained earnings			219 694	196 224
Profit for the year			51 407	44 476
TOTAL EQUITY			**995 478**	**986 214**
TOTAL LIABILITIES AND EQUITY			**18 249 290**	**17 244 767**

THE CHIEF ACCOUNTANT
Armindo Marques Matias

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

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2010 AND 2009

(thousand euros)

	2010	2009
Interest and similar income	761 188	871 401
Interest and similar expense	490 240	550 593
NET INTEREST INCOME	**270 948**	**320 808**
Dividends from equity instruments	538	703
Fee and comission income	89 175	88 719
Fee and comission expense	15 205	13 605
Net losses arising from assets and liabilities at fair value through profit or loss	45 857	28 319
Net gains/(losses) arising from available-for-sale financial assets	12 692	1 657
Net gains arising from foreign exchange differences	2 344	2 070
Net gains from sale of other financial assets	-3 363	389
Other operating income	19 326	19 965
BANKING INCOME	**422 312**	**449 025**
Staff costs	143 457	147 352
General and administrative expenses	83 495	79 204
Depreciation and amortisation	20 850	20 507
Provisions net of adjustments	-84	154
Impairment on credit net of reversals and recoveries	112 975	147 798
Impairment on other financial assets net of reversals and recoveries	2 152	2 132
Impairment on other assets net of reversals and recoveries	10 014	9 905
Profit from associated companies and joint ventures (equity equivalence)	1 954	2 503
CONSOLIDATED PROFIT FOR THE YEAR	**51 407**	**44 476**

THE CHIEF ACCOUNTANT
Armindo Marques Matias

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António Tomás Correia – Chairman
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Álvaro Cordeiro Dâmaso

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AT 31 DECEMBER 2010 AND 2009

(thousands of Euro)

	2010	2009
Cash flows arising from operating activities		
Interest income received	731 013	893 081
Commission income received	89 255	88 661
Interest expense paid	(474 362)	(598 748)
Commission expense paid	(15 073)	(15 050)
Payments to employees and suppliers	(264 939)	(245 084)
Recovered from charged-off loans	2 376	3 308
Other payments and receivables	45 436	92 456
	113 706	**218 624**
(Increase) / decrease in operating assets		
Loans and advances to credit institutions and customers	(25 984)	(110 698)
Other assets	25 291	(72 683)
	(693)	**(183 381)**
(Increase) / decrease in operating liabilities		
Deposits from central banks	811 458	880 451
Deposits from clients	404 346	(953 494)
Deposits from credit institutions	900 000	500 000
	2 115 804	426 957
	2 228 817	**462 200**
Cash flows arising from investing activities		
Dividends received	538	703
(Acquisition) / sale of trading financial assets	(116)	(33 355)
(Acquisition) / sale of other financial assets at fair value through profit or loss	240	(161)
(Acquisition) / sale of available for sale financial assets	(1 207 407)	(346 526)
(Acquisition) / sale of hedging derivatives	1 996	2 408
(Acquisition) / sale of held to maturity investments	(24 037)	6 278
(Acquisition) / sale of shares in associated companies	931	(11 690)
Deposits owned with the purpose of monetary control	61 507	(41 048)
Proceeds from sale of fixed assets	3 116	156
Acquisition of fixed assets	(24 105)	(27 350)
	(1 187 337)	**(450 585)**
Cash flows arising from financing activities		
Dividends paid	(20 300)	(11 271)
Proceeds from issuance of share capital	40 000	100 000
Proceeds from issuance of bonds and subordinated debt	(218 169)	1 108 775
Reimbursement of bonds and subordinated debt	(860 459)	(1 248 555)
Increase / (decrease) in other (sundry) liabilities	18 444	4 032
	(1 040 484)	**(47 019)**
Net changes in cash and equivalents	996	(35 404)
Cash and equivalents balance at the beginning of the year	168 998	204 402
Cash (note 17)	99 128	89 900
Loans and advances to credit institutions repayable on demand (note 18)	69 870	114 502
Cash and equivalents balance at the end of the year	**169 994**	**168 998**

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED AT 31 DECEMBER 2010 AND 2009

(thousands of Euro)

	Total equity	Share capital	General and special reserves	Other reserves	Fair value reserves	Rerained earnings
Balance on 1 January, 2009	**823 669**	**660 000**	**216 985**	**1 995**	**(48 064)**	**(7 247)**
Other movements recognized directly in Equity:						
Changes in fair value (note 40)	19 464	–	–	–	19 464	–
Profit for the year	44 476	–	–	–	–	44 476
Total gains and losses recognized in the year	63 940	–	–	–	19 464	44 476
Dividends paid (note 42)	(11 271)	–	–	–	–	(11 271)
Equity method	9 876	–	–	12 120	–	(2 244)
Increase in share capital (note 38)	100 000	100 000	–	–	–	–
Reserves constitution						
General reserve	–	–	7 125	–	–	(7 125)
Special reserve	–	–	1 766	–	–	(1 766)
Balance on 31 December, 2009	**986 214**	**760 000**	**225 876**	**14 115**	**(28 600)**	**14 823**
Other movements recognized directly in Equity:						
Changes in fair value (note 40)	(57 106)	–	–	–	(57 106)	–
Profit for the year	51 407	–	–	–	–	51 407
Total gains and losses recognized in the year	(5 699)	–	–	–	(57 106)	51 407
Dividends paid (note 42)	(20 300)	–	–	–	–	(20 300)
Equity method	(4 737)	–	–	(4 032)	–	(705)
Increase in share capital (note 38)	40 000	40 000	–	–	–	–
Reserves constitution						
General reserve	–	–	7 635	–	–	(7 635)
Special reserve	–	–	1 889	–	–	(1 889)
Balance on 31 December, 2010	**995 478**	**800 000**	**235 400**	**10 083**	**(85 706)**	**35 701**

COMPREHENSIVE INCOME STATEMENT
FOR THE YEARS ENDED AT 31 DECEMBER 2010 AND 2009

(thousands of Euro)

	Note	2010	2009
Fair Value Reserve			
Available for sale financial instruments	40	(57 106)	19 464
Net profit of the year		51 407	44 476
Total Comprehensive Income Statement		(5 699)	63 940

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2010

1. Accounting Policies

1.1. 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 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 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.

These consolidated financial statements for the year ended 31 December 2010, were prepared in accordance with the IFRS effective and adopted for use in the European Union until 31 December 2010. The accounting policies used by CEMG in the preparation of its consolidated financial statements as at 31 December 2010 are consistent with the ones used in the preparation of the consolidated financial statements as at 31 December 2009.

However, as described in note 49, in the preparation of the financial statements as at 31 December 2010, CEMG adopted the accounting standards issued by the IASB and the interpretations issued by the IFRIC effective since 1 January 2010. The accounting principles used by CEMG in the preparation of these financial statements, described in this note, were modified accordingly. The adoption of these new standards and interpretations by CEMG in 2010 had impact mainly in new disclosures for which comparative figures are presented.

The accounting standards and interpretations recently issued but not yet effective and that CEMG has not yet adopted in the preparation of its financial statements can be analysed in note 49.

These consolidated financial statements are expressed in thousands of Euro, rounded to the nearest thousand. The financial statements are prepared under the historical cost convention, as modified by the application of fair value basis 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. Recognized 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 amortized cost or historical cost. Noncurrent assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell. The liability for defined benefit obligations is recognized as the present value of the defined benefit obligation net of the value of the fund and deducted from the actuarial losses not recognized.

The preparation of the consolidated financial statements in conformity with IFRS requires CEMG to make judgments, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The issues involving a higher degree of judgment or complexity, or where assumptions and estimates are considered to be significant are presented in note 1.22.

These consolidated financial statements were approved in the Board of Directors meeting held on 3 March, 2011.

1.2. BASIS OF CONSOLIDATION

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

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

Investment in subsidiaries

Investments in subsidiaries where CEMG exercises control are fully consolidated from the date CEMG assumes control over its activities and until the control ceases to exist. Control is presumed to exist when CEMG owns more than half of the voting rights. Additionally, control exists when CEMG 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%.

When the accumulated losses of a subsidiary attributable to the minority interest exceed the equity of the subsidiary attributable to the minority interest, the excess is attributed to CEMG and charged to the income statement as it occurs. Profits subsequently reported by the subsidiary are recognised as profits of CEMG until the prior losses attributable to minority interest previously recognised by CEMG have been recovered. As from 1 January, 2010, the due proportion of accumulated losses is attributed to minority interests, implying that CEMG can recognise negative minority interests.

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 partial disposal resulting in loss of control over a subsidiary, any participation retained is revaluated at market value on the sale date and the gain or loss resulting from this revaluation is booked against the income statement.

Associates

Associates are entities over which CEMG has significant influence over the company's financial and operating policies but not its control. Generally when CEMG owns more than 20% of the voting rights it is presumed that it has significant influence. However, even if CEMG owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive board of directors. Investments in associates are accounted for by the equity method of accounting from the date on which significant influence is transferred to CEMG until the date that significant influence ceases. The book value of the investments in associates includes the value of the respective goodwill determined on acquisitions and is presented net of impairment losses.

After 1 January 2010, in a step acquisition that results in CEMG obtaining significant influence over an entity, any previously held stake in that entity is remeasured to fair value through the income statement when the equity method is first applied.

If CEMG's share of losses of an associate equals or exceeds its interest in the associate, including any long-term interest, CEMG discontinues the application of the equity method, except when it has a legal or constructive obligation of covering those losses or has made payments on behalf of the associate.

Gains or losses on sales of shares in associate companies are recognised in the income statement even if that sale does not result in the loss of significant influence.

Special Purpose Entities («SPE's»)

CEMG fully consolidates SPE's, specifically created to accomplish a narrow and well-defined objective, when the substance of the relation with those entities indicates that CEMG exercises control over its activities, independently of the percentage of the equity held. Besides these SPE's resulting from securitization operations, no additional SPE's have been identified that would meet the criteria established on SIC 12 as described below.

The evaluation of the existence of control is made based on the criteria established by SIC 12 – Consolidation of Special Purpose Entities, which can be summarised as follows:

- In substance, the activities of the SPE are being conducted in accordance with the specific needs of the business, so that CEMG obtains the benefits from these activities;
- In substance CEMG has the decision-making powers to obtain the majority of the benefits from the activities of the SPE;
- In substance, CEMG has rights to obtain the majority of the benefits of the SPE, and therefore may be exposed to the inherent risks of its activities;
- In substance, CEMG retains the majority of residual or ownership risks related to the SPE so as to obtain the benefits from its activities.

Transactions eliminated on consolidation

Inter-company balances and transactions, including any unrealised gains and losses on transactions between CEMG's companies, are eliminated in preparing the consolidated financial statements, unless unrealised losses provide evidence of an impairment loss that should be recognised in the consolidated financial statements.

Unrealised gains on transactions between CEMG and its associates are eliminated to the extent of CEMG's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment loss.

1.3. FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

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

1.4. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Classification

Derivatives for risk management purposes include (i) hedging derivatives and (ii) derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss that were not classified as being hedging derivatives.

All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses of the derivatives designated as hedging instruments depends on the nature of the risk being hedged and of the hedge model used.

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

Hedge accounting

i) Classification criteria

Hedge accounting is used for derivative financial instruments designated as hedging instrument, provided the following criteria are met:

– At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the hedged item and of the hedging instrument and the evaluation of the effectiveness of the hedge;

– The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;

– The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;

– The hedge is valuable in a continuous basis and highly effective throughout the reporting period; and

– For cash flows hedges, the cash flows are highly probable of occurring.

ii) Fair value hedge

In a fair value hedge, the book value of the hedged asset or liability, determined in accordance with the respective note, is adjusted to reflect the changes in its fair value that are attributable to the risks being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk being hedged.

If the hedge no longer meets the criteria for hedge accounting, the derivative financial instrument is transferred to the trading portfolio and the hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to the income statement over the period to maturity.

iii) Hedge effectiveness

For each hedge relationship in order 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, 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.

iv) Embedded derivatives

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

1.5. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers include 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.

Loans and advances to customers are derecognised from the balance sheet when (i) the contractual rights to receive their cash flows have expired, (ii) CEMG has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, CEMG has transferred the control over the assets.

Loans and advances to customers are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less provisions for loan losses.

Impairment

The CEMG's policy consists in a regular assessment of the existence of objective evidence of impairment in the loan portfolios. Impairment losses identified are charged against income 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, CEMG 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:

- CEMG aggregate exposure to the customer and the existence of overdue loans;
- The viability of the customers' 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 clients rating;
- The assets available on liquidation or bankruptcy;
- The ranking of all creditor claims;
- The amount and timing of expected receipts and recoveries.

When loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of evaluating the impairment on a portfolio basis (collective assessment). Loans that are assessed individually and found to be impaired are not included in a collective assessment for impairment. The present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from the foreclosure less costs for obtaining and selling the collateral less costs for obtaining and selling the collateral.

If an impairment loss is identified on an individual basis, the amount of the impairment loss to be recognised is calculated as the difference between the book value of the loan and the present value of the expected future cash flows (considering the recovery period), discounted at the original effective interest rate. The carrying amount of impaired loans is reduced through the use of an allowance account. If a loan has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined under the contract rules.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

ii) Collective assessment

Impairment losses are calculated on a collective basis in 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 identified («IBNR») on loans subject to individual assessment for impairment (see previous 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 influence in historical losses level;

– The estimated period between a loss occurring and that loss being identified.

The methodology and assumptions used to estimate the future cash flows are revised regularly by CEMG in order to monitor the differences between estimated and real losses.

Loans that have been individually assessed and 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 sometime 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 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.

1.6. OTHER FINANCIAL ASSETS

i) Classification

CEMG classifies its other financial assets at initial recognition in the following categories:

Financial assets at fair value trough profit or loss

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

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

– Such financial assets are managed, measured and their performance evaluated on a fair value basis;

– Such financial assets are bring hedged on an economical basis, in order to eliminate an accounting mismatch; or

– Such financial assets contain an embedded derivative.

Note 22 include a summary of the assets and liabilities that were classified at fair value trough profit or loss at inception.

The structured products acquired by CEMG corresponding to financial instruments containing one or more embedded derivatives meet the above-mentioned conditions, and, in accordance, are classified under the fair value through profit or loss category.

CEMG has adopted the Fair Value Option for certain own bond issues, loans and time deposits performed that contain embedded derivatives or with related hedge derivatives.

The financial assets and liabilities at Fair Value Option are initially accounted at their fair value, with the expenses or income related to the transactions being recognized in profit and loss and subsequently measured at fair value through profit and loss. The accrual of interest and premium/discount (when applicable) is recognized in Net interest income according with the effective interest rate of each transaction, as well as for the derivatives associated to financial instruments classified as Fair Value Option.

Held-to-maturity investments

These investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the CEMG's management has the positive intention and ability to hold until its maturity and that are not classified as at fair value through profit or loss or as available-for-sale.

Available-for-sale financial assets

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

ii) Initial recognition, measurement and derecognising

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

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

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

iii) Subsequent measurement

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

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

Held-to-maturity investments are carried at amortised cost using the effective interest method, net of any impairment losses recognised.

Any reclassification or sale of financial assets included in this category that does not occur close to the maturity of the assets will require that CEMG 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.

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

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

iv) Reclassifications between categories

CEMG only reclassifies non-derivative financial assets with fixed or determinable payments and fixed maturities, from the available-for-sale financial assets category to the held-to-maturity investments category, if it has the intention and ability to hold those financial assets until maturity.

Reclassifications between these categories are made at the fair value of the assets reclassified on the date of the reclassification. The difference between this fair value and the respective nominal value is recognised in the income statement until maturity, based on the effective interest rate method. The fair value reserve at the date of the reclassification is also recognised in the income statement, based on the effective interest rate method.

Financial assets may be reclassified to the (i) held-to-maturity investments category if the entity has the intention and ability to hold those financial assets until maturity and to the (ii) loans and receivables category if the entity has the intention and ability to hold those financial assets for the foreseeable future and if those financial assets are not traded in an active market.

During the years of 2010 and 2009, there were no reclassifications between categories.

v) Impairment

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

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

For held-to-maturity investments the amount of the impairment loss is measured as the difference between the asset's book value and the present value of estimated future cash flows (considering the recovery period) discounted at the financial asset's original effective interest rate. The carrying amount of the impaired assets is reduced through the use of an allowance account. If a held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For held-to-maturity investments if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the income statement.

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

1.7. ASSETS SOLD WITH A REPURCHASE AGREEMENT

The securities sold with a repurchase agreement (repos) with a fixed price or a price that is the selling price plus an inherent rate adjusted with the operation periods, which are not derecognised in the balance sheet. The underlying liability is recognised in Loans and advances to credit institutions or to customers as appropriate. The difference between the selling price and the repurchase price is recognised as interest and is deferred over the useful life of the agreement, using the effective interest method.

Securities lent under lending agreements are not derecognised of the balance sheet, being classified and measured in accordance with note 1.6.

1.8. FINANCIAL LIABILITIES

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, independently from its legal form.

Non-derivatives financial liabilities include deposits from credit institutions and customers, loans, debt securities issued and other subordinated debt.

The financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

CEMG designates, at inception, certain financial liabilities as at fair value through profit or loss when:

– Such financial liabilities are bring hedged on an economical basis, in order to eliminate an accounting mismatch; or

– Such financial assets contain an embedded derivative.

The structured products issued by CEMG meet either of the above-mentioned conditions and, in accordance, are classified under the fair value trough profit or loss category.

The fair value of quoted financial liabilities is based on the current price. In the absence of a quoted price, CEMG establishes the fair value by using valuation techniques based on market information, including the own credit risk of the issuer.

If CEMG repurchases debt issued, it is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

1.9. OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.10. NON-CURRENT ASSETS HELD FOR SALE

In the scope of its activity, CEMG incurs in the risk from failure of the borrower to repay all the amounts due. In case of loans and advances with mortgage collateral, CEMG acquires the asset held as collateral in exchange for loans. In accordance with the requirements of Regime Geral das Instituições de Crédito e Sociedades Financeiras («RGICSF»), banks are prevented from acquiring property that is not essential to their daily operations (article 112.º of the DL no. 298/92 of 31 December and subsequent amendments) being able to acquire, however, property in exchange for loans. This property must be sold within 2 years, period that may be extended by written authorization from the Bank of Portugal and in conditions to be determined by this authority (art. 114.º).

It is CEMG's objective to immediately dispose all property acquired in exchange for loans. This property is classified as non-current assets held-for-sale and is initially recognised at the lower of its fair value less costs to sell and the carrying amount of the loans. Subsequently, this property is measured at the lower of its carrying amount and the corresponding fair value less costs to sell and is not depreciated. Any subsequent write-down of the acquired property to fair value is recorded in the income statement.

The fair value is determined based on the expected selling price estimated through periodic valuations performed by CEMG.

The valuations are performed by independent entities specialized in this type of services. The valuation reports are analysed internally with the gauging of processes adequacy, by comparing the sales values with the revaluated values.

1.11. PROPERTY AND EQUIPMENT

CEMG's property and equipment are stated at deemed cost less accumulated depreciation and impairment losses. At the transition date to IFRS (1 January 2004), CEMG elected to consider as deemed cost, the revalue amount of property and equipment as determined in accordance with previous accounting policies, which was broadly similar to depreciated cost measured under IFRS, adjusted to reflect changes in a specific price index. The value includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to CEMG. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

	Number of years
Land and building for own use	50
Works in rented buildings	10
Equipment	4 a 10

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

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

The impairment losses of the fixed tangible assets are recognized in profit and loss.

1.12. INTANGIBLE ASSETS

The costs incurred with the acquisition, production and development of software are capitalised, as well as the costs incurred by CEMG to acquire and bring to use the specific software. These costs are amortised on the basis of their expected useful lives, which is usually of three years.

Costs that are directly associated with the development of identifiable specific software applications by CEMG, and that will probably generate economic benefits beyond one year, are recognised as intangible assets.

All remaining costs associated with IT services are recognised as an expense when incurred.

1.13. LEASES

CEMG classifies its lease agreements as capital lease or operating leases taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases

– As lessee

Payments made by CEMG under operating leases are charged to the income statement in the period to which they relate.

– As lessor

Assets leased out are recorded in the balance sheet, according to the nature of the asset.

Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

Costs, including the depreciation, incurred in earning the lease income are recognised on a straight-line basis over the lease term as interest income. The initial direct costs incurred by the lessor, such as negotiating and securing leasing arrangements Initial direct costs incurred by lessor in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, as described in note 1.10.

CEMG performs impairment testing whenever events or circumstances show that the book value exceeds the recoverable amount and the difference between the book value and recoverable amount is charged in the income statement.

Finance leases

– As lessee

Finance lease contracts are recorded at inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the amortisation of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of liability for each period.

– As lessor

Assets leased out are recorded in the balance sheet as loans granted, for an amount equal to the net investment made in the leased assets.

Interest included in instalments charged to customers is recorded as interest income, while amortisation of principal, also included in the instalments, is deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

1.14. EMPLOYEES BENEFITS

Defined benefit plan

CEMG assumed the responsibility to pay its employees pensions on retirement or disabilities, as established in the terms of «Acordo Colectivo de Trabalho do Sector Bancário (ACT)», for employees engaged until 1 March 2009. The new admissions, since that date, are covered by the social security general scheme.

The pension plan benefits is in accordance with the «Plano ACT – Acordo Colectivo de Trabalho do Sector Bancário» and the «Plano ACTQ – Acordo Colectivo dos Quadros do Sector Bancário».

CEMG's pension obligations are financed by a fund 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.

The liability with pensions is calculated semi-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 by reference to interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liabilities.

Actuarial gains and losses determined semi-annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained and (ii) changes in the actuarial assumptions are recognised as an asset or liability and are recognised in the income statement using the corridor method defined by IAS 19.

This method establishes that the actuarial gains and losses accumulated at the beginning of the semester that exceed the greater of 10% of the pension liabilities or the fair value of the plan assets, as at the beginning of the semester, are charged to the income statement over a period that cannot exceed the average of the remaining working lives of the employees participating in the plan. CEMG determined on the basis of the above criteria to amortise the actuarial gains and losses that fall outside the corridor during a 24 year period. The actuarial gains and losses accumulated at the beginning of the period that are within the corridor are not recognised in the income statement.

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) a portion of the net cumulative actuarial gains and losses determined using the corridor method, and (v) the effect of curtailment losses related with early retirements, which includes the early amortisation of the respective actuarial gains and losses.

The effect of the early retirements corresponds to the increase in pension liabilities due to retirements before the normal age of retirement, which is 65 years.

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%.

CEMG assesses at each reporting date and 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 contribution 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, 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.

Variable remunerations to employees and to the Board of Directors (Bonus)

In accordance with IAS 19 – Employees benefits, variable remunerations (bonus) payment to employees and to the Board of Directors, are recognised in the income statement in the period to which they relate.

1.15. INCOME TAX

According to the no. 1 a) of Article 10th, of IRC Legislation, CEMG is exempt from income tax payment (*Imposto sobre o Rendimento das Pessoas Colectivas – IRC*). This exemption was recognised by a regulation issued 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.

1.16. PROVISIONS

Provisions are recognised when (i) CEMG has a present legal or constructive obligation, (ii) it is probable that its payment will be required and (iii) a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are not probable.

The provisions are derecognized through their use for the obligations for which they were initially accounted or for the cases that the situations were not already observed.

1.17. INTEREST RECOGNITION

Interest income and expense are recognised in the income statement under interest and similar income and interest and similar expense for all non-derivative financial instruments measured at amortised cost and for the available-for-sale financial assets, using the effective interest method. Interest income arising from non-derivative financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, respectively.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is calculated at inception and it is not subsequently revised.

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

In case of financial assets or groups of similar financial assets for which an impairment loss was recognised, interest income is calculated using the interest rate used to measure the impairment loss.

Specifically regarding the note for interest on overdue loans' portfolio the following aspects are considered:

– Interest income for overdue loans with collaterals is 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 written-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 for (i) those classified as hedging instruments of interest rate risk and (ii) those used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, the interest component of the changes in their fair value is not separated out and is classified under net (losses)/gains from financial assets at fair value through profit or loss. The interest component of the changes in the fair value of hedging derivatives of interest rate risk and of derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, in order to eliminate an accounting mismatch, is recognised under interest and similar income or interest and similar expense.

1.18. FEE AND COMMISSION INCOME

Fee and commission are recognised as follows:

– Fee and commission that are earned on the execution of a significant act, as loan syndication fees, are recognised as income when the significant act has been completed;

– Fee and commission earned over the period in which the services are provided are recognised as income in the period the services are provided;

– Fee and commission that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest method.

1.19. DIVIDENDS FROM EQUITY INSTRUMENTS

Dividends from equity instruments are recognised when the right to receive payment is established.

1.20. SEGMENTAL REPORTING

Since 1 January 2009, CEMG adopted the IFRS 8 – Operational Segments for purposes of disclosure of financial information by operating segments (see note 47).

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. CEMG prepares on a regular basis, financial information regarding the operating segments, which is reported to the Management.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

1.21. 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 inception date, including other loans and advances to credit institutions.

Cash and cash equivalents exclude restricted balances with central banks.

1.22. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

IFRS set forth range of accounting treatments and require the Board of Directors 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. A broader description of the accounting policies employed by CEMG is shown in notes 1.1 to 1.21 to the consolidated financial statements.

Because in many cases there are other alternatives to the accounting treatment chosen by management, the CEMG's reported results would differ if a different treatment were chosen. The Board of Directors believes that the choices made by it are appropriate and that the consolidated financial statements present the CEMG's financial position and results fairly in all material respects.

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

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 decline in the fair value below its cost or when it has identified an event with impact on the estimated future cash flows of the assets. This determination requires judgement based on all available relevant information, including the normal volatility of the financial instruments prices. Considering the high volatility and the reduced markets liquidity, CEMG has considered the following parameters when assessing the existence of impairment losses:

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

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

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

Alternative methodologies and the use of different assumptions and estimates could result in a higher level of impairment losses recognised 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 fair values.

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

Impairment losses on loans and advances to customers

CEMG reviews its loan portfolios to assess impairment losses on a regularly basis, as described in note 1.5.

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgments. The frequency of default, risk ratings, loss recovery rates and the estimation of both the amount and timing of future cash flows, among other things, are considered in making this evaluation.

The use of 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.

Held-to-maturity investments

CEMG follows the guidance of IAS 39 – Financial instruments: Recognition and Measurement on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity investments. This classification requires significant judgement.

In making this judgement, CEMG evaluates its intention and ability to hold such investments to maturity. If CEMG fails to keep these investments to maturity other than for 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 not 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's»)

CEMG sponsors the formation of Special Purpose Entities (SPE) primarily for asset securitisation transactions and for liquidity purposes.

CEMG does not consolidate SPE that it does not control. As it can sometimes be difficult to determine whether CEMG does control an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question (note 1.2).

The determination of the SPE that needs to be consolidated by CEMG requires the use of estimates and assumptions in determining the respective expected residual gains and losses and which party retains the majority of such residual gains and losses. Different estimates and assumptions could lead CEMG to a different scope of consolidation with a direct impact in net income.

Pension and other employee's benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED AT 31 DECEMBER 2010 AND 2009

(thousands of Euro)

	NOTES	2010	2009
Interest and similar income	3	761 188	871 401
Interest and similar expense	3	490 240	550 593
NET INTEREST INCOME		**270 948**	**320 808**
Dividends from equity instruments	4	538	703
Fee and comission income	5	89 175	88 719
Fee and comission expense	5	(15 205)	(13 605)
Net losses arising from assets and liabilities at fair value through profit or loss	6	45 857	28 319
Net gains/(losses) arising from available-for-sale financial assets	7	12 692	1 657
Net gains arising from foreign exchange differences	8	2 344	2 070
Net gains from sale of other financial assets		(3 363)	389
Other operating income	9	16 950	16 657
TOTAL OPERATING INCOME		**419 936**	**445 717**
Staff costs	10	143 457	147 352
General and administrative expenses	11	83 495	79 204
Depreciation and amortisation	12	20 850	20 507
TOTAL OPERATING COSTS		**247 802**	**247 063**
Loans impairment	13	110 599	144 490
Other assets impairment	14	12 166	12 037
Other provisions	15	(84)	154
OPERATING PROFIT		**49 453**	**41 973**
Share of profit of associates under the equity method	16	1 954	2 503
PROFIT FOR THE YEAR		**51 407**	**44 476**

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2010 AND 2009

(thousands of Euro)

	NOTES	2010	2009
ASSETS			
Cash and deposits at central banks	17	240 024	305 018
Loans and advances to credit institutions repayable on demand	18	74 353	69 870
Other loans and advances to credit institutions	19	338 662	370 938
Loans and advances to customers	20	14 554 133	14 682 382
Financial assets held for trading	21	130 865	103 195
Other financial assets at fair value through profit or loss	22	3 952	4 192
Financial assets available-for-sale	23	2 430 568	1 282 417
Hedging derivatives	24	2 810	5 109
Held-to-maturity investments	25	58 144	33 523
Investments in associated companies and others	26	37 060	40 775
Non-current assets held for sale	27	162 374	128 599
Property and equipment	28	89 287	91 275
Intangible assets	29	18 254	16 151
Other assets	30	108 804	111 323
TOTAL ASSETS		**18 249 290**	**17 244 767**
LIABILITIES			
Deposits from central banks	31	1 540 266	502 353
Deposits from other credit institutions	32	901 742	637 770
Deposits from customers	33	10 007 563	9 180 858
Debt securities issued	34	3 836 243	4 914 915
Financial liabilities held for trading	21	53 891	41 724
Hedging derivatives	24	1 408	598
Provisions	35	1 311	1 490
Other subordinated debt	36	380 986	381 043
Other liabilities	37	530 402	597 802
TOTAL LIABILITIES		**17 253 812**	**16 258 553**
EQUITY			
Capital	38	800 000	760 000
Fair value reserves	40	(85 706)	(28 600)
Other reserves and retained earnings	39 and 40	229 777	210 338
Profit for the year		51 407	44 476
TOTAL EQUITY		**995 478**	**986 214**
TOTAL		**18 249 290**	**17 244 767**

See accompanying notes to the consolidated financial statements

2. Net interest income and net gains arising from 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 AFS 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.

These balances are analysed as follows:

	2010 Euro '000	2009 Euro '000
Net interest income	270 948	320 808
Net gains arising from financial assets and financial liabilities at fair value through profit or loss and available-for-sale financial assets activities	58 549	29 976
	329 497	350 784

3. Net interest income

This balance is analysed as follows:

	2010			2009		
	Assets/ liabilities at amortised cost and available-for-sale Euro '000	Assets/ liabilities at fair value through profit or loss Euro '000	Total Euro '000	Assets/ liabilities at amortised cost and available-for-sale Euro '000	Assets/ liabilities at fair value through profit or loss Euro '000	Total Euro '000
Interest and similar income:						
Interest from loans and advances	450 222	–	450 222	557 893	–	557 893
Interest from other assets	11 509	–	11 509	1 729	–	1 729
Interest from deposits with banks	1 499	–	1 499	1 953	–	1 953
Interest from available-for-sale financial assets	87 607	–	87 607	60 088	–	60 088
Interest from held-to-maturity financial assets	2 432	–	2 432	1 420	–	1 420
Interest from hedging derivatives	3 799	–	3 799	5 713	–	5 713
Interest from available for trading financial assets	–	194 034	194 034	–	234 226	234 226
Other interest and similar income	10 088	–	10 088	8 379	–	8 379
	567 156	194 034	761 190	637 175	234 226	871 401
Interest and similar expense:						
Interest from deposits	141 416	–	141 416	184 711	–	184 711
Interest from securities issued	91 192	–	91 192	126 517	–	126 517
Interest from loans	4 736	–	4 736	7 368	–	7 368
Interest from other funding	36 056	–	36 056	22 634	–	22 634
Interest from hedging derivatives	2 311	–	2 311	3 615	–	3 615
Interest from available for trading financial assets	–	149 285	149 285	–	189 929	189 929
Other interest and similar expense	65 244	–	65 244	15 819	–	15 819
	340 955	149 285	490 240	360 664	189 929	550 593
Net interest income	226 199	44 749	270 948	276 511	44 297	320 808

4. Dividends from equity instruments

The amount of Euro 538 000 (2009: Euro 703 000) is related to dividends from available-for-sale financial assets.

5. Net fees and commission income

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Fee and commission income:		
From banking services	64 845	60 489
From transactions order by third parties	8 957	9 195
From commitments to third parties	5 786	6 535
Other fee and commission income	9 587	12 500
	89 175	88 719
Fee and commission expense:		
From banking services rendered by third parties	14 358	12 661
From transactions with securities	373	484
Other fee and commission expense	474	460
	15 205	13 605
Net fee and commission income	73 970	75 114

6. Net gains from financial assets and financial liabilities at fair value through profit or loss

This balance is analysed as follows:

	2010			2009		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by public entities	686	1 140	(454)	49	17	32
Issued by other entities	349	1 012	(663)	1 002	66	936
Shares	235	160	75	660	17	643
	1 270	2 312	(1 042)	1 711	100	1 611
Derivative financial instruments						
Exchange rate contracts	331 042	332 833	(1 791)	112 842	109 941	2 901
Interest rate contracts	465 065	436 808	28 257	352 804	345 979	6 825
Credit default contracts	6 036	6 569	(533)	6 541	6 014	527
Others	120 227	98 453	21 774	58 081	42 507	15 574
	922 370	874 663	47 707	530 268	504 441	25 827
	923 640	876 975	46 665	531 979	504 541	27 438
Other financial assets at fair value through profit or loss						
Bonds and other fixed income securities issued by other entities	–	240	(240)	160	–	160
Financial liabilities						
Deposits from other credit institutions	1 247	382	865	1 237	760	477
Deposits from customers	677	356	321	521	795	(274)
Debt securities issued	242	–	242	4 946	2 020	2 926
Other Subordinated debt	34 974	36 970	(1 996)	35 515	37 923	(2 408)
	37 140	37 708	(568)	42 219	41 498	721
	960 780	914 923	45 857	574 358	546 039	28 319

7. Net gains arising from available-for-sale financial assets

The amount of this account is comprised of:

	2010			2009		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Bonds and other fixed income securities						
Issued by public entities	5 094	3 290	1 804	1 005	2	1 003
Issued by other entities	8 636	1 479	7 157	851	413	438
Shares	2 673	15	2 658	218	49	169
Other variable income securities	2 918	1 845	1 073	413	366	47
	19 321	6 629	12 692	2 487	830	1 657

8. Net gains from foreign exchange differences

The amount of this account is comprised of:

	2010			2009		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Foreign exchange differences	17 154	14 810	2 344	30 469	28 399	2 070

This account is comprised of the results from foreign exchange differences of monetary assets and liabilities in foreign currency in accordance with note 1.3.

9. Other operating income

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Other operating income:		
Income from services	5 374	4 578
Reimbursement of expenses	2 144	1 541
Profits arising from deposits on demand management	7 821	7 574
Gains on repurchase of own securities	6 646	7 191
Others	2 605	2 809
	24 590	23 693
Other operating expense:		
Indirect taxes	153	131
Donations and membership	462	423
Contributions to the Deposit Guarantee Fund	1 662	1 748
Other operating expenses	5 363	4 734
	7 640	7 036
Other net operating income	16 950	16 657

10. Staff costs

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Remunerations	105 143	105 633
Health-care benefits – SAMS	5 833	6 349
Mandatory social security charges	8 148	7 924
Pension costs	21 030	24 073
Other staff costs	3 303	3 373
	143 457	147 352

The health-care benefits – SAMS include the amount of Euro 714 000 (2009: Euro 705 000) related to the health-care net periodic benefit cost, which was determined based on the actuarial valuation performed (see note 44).

The costs with salaries and other benefits attributed to CEMG key management personnel, during 2010, are presented as follows:

	Boards of Directors Euro '000	Other key management Euro '000	Total Euro '000
Salaries and other short-term benefits	1 230	4 253	5 483
Pension costs and health-care benefits (SAMS)	6	159	165
Bonus	–	234	234
	1 236	4 646	5 882

The costs with salaries and other benefits attributed to CEMG key management personnel, during 2009, are presented as follows:

	Boards of Directors Euro '000	Other key management Euro '000	Total Euro '000
Salaries and other short-term benefits	843	3 876	4 719
Pension costs and health-care benefits (SAMS)	6	164	170
Bonus	144	496	640
	993	4 536	5 529

Other key management personnel are the top Directors of CEMG.

As at 31 December 2010 and 2009, the loans granted by CEMG to its key management personnel, amounted to Euro 5 046 000 and Euro 4 685 000, respectively.

The average number of employees by professional category at service in CEMG during 2010 and 2009 is analysed as follows:

	2010	2009
Management	127	125
Managerial staff	494	512
Technical staff	654	662
Specific categories	139	144
Administrative	1 362	1 418
Staff	66	74
	2 842	2 935

11. General and administrative expenses

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Rents	20 307	24 613
Specialised services		
Information technology services	10 506	3 748
Outsourcing	3 523	3 659
Other specialised services	12 880	13 471
Advertising	6 600	3 578
Communications	8 605	8 229
Water, electricity and fuel	4 261	3 706
Maintenance and related services	5 462	4 754
Transportation	3 327	3 501
Insurance	1 894	2 881
Travel, hotel and representation costs	1 112	1 187
Consumables	1 481	1 756
Training costs	572	718
Other supplies and services	2 965	3 403
	83 495	79 204

The balance Rents includes the amount of Euro 15 621 000 (2009: Euro 15 764 000) related to rents paid regarding buildings used by CEMG in the condition of tenant.

The fees invoiced during the years 2010 and 2009, by Statutory Auditors according to Article 66.º-A of «*Código das Sociedades Comerciais*», are presented as follows:

	2010 Euro '000	2009 Euro '000
Audit services fees	86	113
Other assurance services arising from the external audit function	163	148
Tax advisory	73	94
Other services	1 111	465
	1 433	820

12. Depreciation and amortisation

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Intangible assets:		
Software	7 776	8 338
Other tangible assets:		
Land and buildings	3 352	3 269
Equipment:		
Furniture	573	614
Office equipment	57	92
Computer equipment	6 307	5 737
Interior installations	1 585	1 741
Motor vehicles	9	9
Security equipment	434	229
Operational lease – Renting	757	478
	13 074	12 169
	20 850	20 507

13. Loans and Impairment

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Overdue loans and advances to customers:		
Charge for the year	525 338	527 206
Write-back for the year	(412 347)	(379 432)
Recovery of loans and interest charged-off	(2 376)	(3 308)
	110 615	144 466
Other loans and advances to credit institutions:		
Charge for the year	104	162
Write-back for the year	(120)	(138)
	(16)	24
	110 599	144 490

14. Other assets impairment

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Impairment for investments arising from recovered loans:		
Charge for the year	13 845	10 088
Write-back for the year	(3 831)	(183)
	10 014	9 905
Impairment for securities:		
Charge for the year	3 515	2 398
Write-back for the year	(1 363)	(266)
	2 152	2 132
	12 166	12 037

15. Other provisions

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Provision for liabilities and charges:		
Charge for the year	586	416
Write-back for the year	(670)	(262)
	(84)	154

16. Share of profit of associates under the equity method

The contribution of the associated companies accounted for under the equity method to CEMG's profit is as follows:

	2010 Euro '000	2009 Euro '000
Lusitania, Companhia de Seguros, S.A.	230	1 267
Lusitania Vida, Companhia de Seguros, S.A.	1 773	1 290
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	(49)	(54)
	1 954	2 503

17. Cash and deposits at central banks

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Cash	95 641	99 128
Bank of Portugal	144 383	205 890
	240 024	305 018

The balance Bank of Portugal includes mandatory deposits intended to comply legal minimum cash requirements. According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements.

As at 31 December 2010, these deposits have earned interest at an average rate of 1% (2009: 1.35%).

18. Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Credit institutions in Portugal	16 372	18 260
Credit institutions abroad	12 209	9 433
Amounts due for collection	45 772	42 177
	74 353	69 870

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

19. Other loans and advances to credit institutions

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Loans and advances to credit institutions in Portugal		
Deposits	205	245
Short term deposits	260 003	–
Other loans and advances	10 000	50 014
	270 208	50 259
Loans and advances to credit institutions abroad		
Deposits	112	159
Short term deposits	–	280 000
Other loans and advances	68 392	40 586
	68 504	320 745
	338 712	371 004
Impairment for credit risks over credit institutions	(50)	(66)
	338 662	370 938

The main loans and advances to credit institutions in Portugal, as at 31 December 2010, bear interest at an average annual interest rate of 1.37% (2009: 1%).

Loans and advances to credit institutions abroad bear interest at international market rates where CEMG operates.

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

	2010 Euro '000	2009 Euro '000
Due within 3 months	301 495	285 686
3 months to 6 months	–	50 014
6 months to 1 year	34 900	34 900
Over 5 years	2 205	299
Undetermined	112	105
	338 712	371 004

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

	2010 Euro '000	2009 Euro '000
Impairment for credit risks over credit institutions:		
Balance on 1 January	66	42
Charge for the year	104	162
Write-back for the year	(120)	(138)
Balance on 31 December	50	66

20. Loans and advances to costumers

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Domestic loans:		
Corporate		
Loans	1 388 583	1 249 077
Commercial lines of credits	2 106 934	2 309 633
Finance leases	229 348	203 803
Discounted bills	87 087	121 695
Factoring	109 683	76 807
Overdrafts	9 134	5 274
Other loans	756 961	681 904
Retail		
Mortgage loans	8 937 169	9 106 948
Finance leases	45 001	36 411
Consumer and other loans	828 554	803 137
	14 498 454	14 594 689
Foreign loans:		
Corporate		
Overdrafts	–	18
	14 498 454	14 594 707
Overdue loans and interest:		
Less than 90 days	90 750	73 470
More than 90 days	486 740	508 118
	577 490	581 588
	15 075 944	15 176 295
Impairment for credit risks	(521 811)	(493 913)
	14 554 133	14 682 382

As at 31 December 2010, the balance Loans and advances to customers (net of impairments losses) includes the amount of Euro 285 895 000 (2009: Euro 318 961 000) related to securitised loans following the consolidation of securitisation vehicles (see note 46), according to note 1.2. The liabilities related to these securitisations are booked under debt securities issued (see note 34).

As at 31 December 2010, this balance includes Euro 1 000 000 000 regarding mortgage loans that collateralise the issue of covered bonds issued by CEMG (see note 34).

As referred in the previous paragraph, CEMG performed in July 2009 the first issue of covered bonds in the amount of Euro 1 000 000 000 and maturity of three years. This issue was performed under the CEMG Covered Bonds Programme. The interest rate is 3.25%.

As at 31 December 2010, the account Mortgage Loans included the amount of approximately Euro 387 183 000 (2009: Euro 428 147 000) related to loans subject of securitization, which according to note 1.5 were not derecognized. This value is equally recognized in the Liabilities balance, more specifically in the financial liabilities associated with transferred assets account, as referred in note 37.

As at 31 December 2010 and 2009, the balance Overdue loans for more than 90 days includes the amount of Euro 1 532 000 related to loans bought at court auctions. These amounts correspond to loans overdue for more than three years for which the contractual obligation with the former debtor has been extinguished due to the acquisition in court auction bankruptcy or acquisition through for sale but for which there are still pending legal actions.

Loans and advances to customers include mostly variable interest rate contracts.

The analysis of Loans and advances to customers, by maturity date and type of credit as at 31 December 2010, is as follows:

	Loans and advances to customers				
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Undertermined Euro '000	Total Euro '000
Asset – backed loans	440 557	1 951 681	9 855 180	466 714	12 714 132
Other guarantee loans	617 575	183 750	198 000	44 373	1 043 698
Unsecured loans	539 821	123 202	252 793	60 327	976 143
Public sector	18 164	56	43 326	211	61 757
Foreign	2 850	116 347	155 152	5 865	280 214
	1 618 967	2 375 036	10 504 451	577 490	15 075 944

The analysis of Loans and advances to customers, by maturity date and type of credit as at 31 December 2009, is as follows:

	Loans and advances to customers				
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Undertermined Euro '000	Total Euro '000
Asset – backed loans	455 186	2 295 521	9 921 728	452 576	13 125 011
Other guarantee loans	569 351	172 650	163 416	49 506	954 923
Unsecured loans	357 020	110 770	259 038	69 227	796 055
Public sector	656	239	48 900	254	50 049
Foreign	18	–	–	–	18
Finance leases	232	91 175	148 807	10 025	250 239
	1 382 463	2 670 355	10 541 889	581 588	15 176 295

The balance Finance leases, by the period to maturity as at 31 December 2010, is analysed as follows:

	Finance leases			
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Outstanding rents	57 430	109 276	137 829	304 535
Outstanding interest	(10 104)	(20 613)	(30 269)	(60 986)
Residual values	3 906	9 029	17 865	30 800
	51 232	97 692	125 425	274 349

The balance Finance leases, by the period to maturity as at 31 December 2009, is analysed as follows:

	Finance leases			
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Outstanding rents	49 580	116 482	93 464	259 526
Outstanding interest	(820)	(18 631)	(21 886)	(41 337)
Residual values	817	9 973	11 235	22 025
	49 577	107 824	82 813	240 214

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

	2010 Euro '000	2009 Euro '000
Asset-backed loans	466 714	452 576
Other guaranteed loans	44 373	49 506
Unsecured loans	60 327	69 227
Public sector	211	254
Finance leases	5 865	10 025
	577 490	581 588

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

	2010 Euro '000	2009 Euro '000
Corporate:		
Construction / Production	146 973	144 921
Investment	54 383	52 602
Other short term loans	44 031	53 208
Other loans	2 472	3 047
Retail:		
Mortgage loans	268 443	262 286
Consumer credit	7 179	5 931
Other loans	32 586	32 788
Public Sector	211	254
Other segments	21 212	26 551
	577 490	581 588

The movements of the impairment for credit risk are analysed as follows:

	2010 Euro '000	2009 Euro '000
Impairment for credit risk:		
Balance on 1 January	493 913	383 921
Impairment for the year	525 338	527 206
Write-back for the year	(412 347)	(379 432)
Loans charged-off	(85 093)	(37 782)
Balance on 31 December	521 811	493 913

In accordance with CEMG's policy, interest on credits overdue for a period over 30 days not covered by asset-backed guarantees, is only recorded as income when received.

The impairment for credit risk, by type of credit, is as follows:

	2010 Euro '000	2009 Euro '000
Asset-backed loans	409 894	407 430
Other guaranteed loans	43 103	24 415
Unsecured loans	68 814	62 068
	521 811	493 913

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

	2010 Euro '000	2009 Euro '000
Asset-backed loans	51 907	22 139
Other guaranteed loans	13 615	6 081
Unsecured loans	19 571	9 562
	85 093	37 782

The loans charge-off is related with write-offs performed during 2010, according to the «*Carta-Circular*» no. 15/2009, of the Bank of Portugal.

The analysis of recovered loans and overdue interest, performed during 1 January and 31 December 2010, and 2009, amounts to Euro 2 376 000 and Euro 3 308 000, respectively, related with asset-backed loans recovered, as referred in note 13.

As at 31 December 2010 and 2009, the impairment detail, according to note 1.5, is as follows:

	2010						
	Impairment in an individual basis		Impairment in a portfolio basis		Total		
	Loan Value Euro '000	Impairment Euro '000	Loan Value Euro '000	Impairment Euro '000	Loan Value Euro '000	Impairment Euro '000	Loans net from impairment Euro '000
Loans to companies	925 863	176 451	4 031 149	209 744	4 957 012	386 195	4 570 817
Loans to customers – Housing	–	–	9 205 612	116 888	9 205 612	116 888	9 088 724
Loans to customers – Others	–	–	913 320	18 728	913 320	18 728	894 592
	925 863	176 451	14 150 081	345 360	15 075 944	521 811	14 554 133

	2009						
	Impairment in an individual basis		Impairment in a portfolio basis		Total		
	Loan Value Euro '000	Impairment Euro '000	Loan Value Euro '000	Impairment Euro '000	Loan Value Euro '000	Impairment Euro '000	Loans net from impairment Euro '000
Loans to companies	1 085 531	167 948	4 302 436	171 707	5 385 967	339 655	5 046 312
Loans to customers – Housing	1 023	43	9 106 948	127 418	9 107 971	127 461	8 980 510
Loans to customers – Others	7 585	7 493	674 772	19 304	682 357	26 797	655 560
	1 092 139	175 484	14 084 156	318 429	15 176 295	493 913	14 682 382

Fair value of the collaterals associated to the loans portfolio is analyzed as follows:

	2010 Euro '000	2009 Euro '000
Loans with impairment:		
Individually significant:		
Securities and other financial assets	62 233	60 962
Residential real estate (Mortgage Loans)	4 802	7 872
Other real estate (Civil Construction)	1 157 645	1 349 797
Other guarantees	19 003	28 216
	1 243 683	1 446 847
Parametric analysis:		
Securities and other financial assets	39 486	31 173
Residential real estate (Mortgage Loans)	2 056 510	2 044 393
Other real estate (Civil Construction)	850 227	885 526
Other guarantees	63 130	50 269
	3 009 353	3 011 361
Loans without impairment:		
Securities and other financial assets	590 373	509 751
Residential real estate (Mortgage Loans)	14 326 035	14 209 225
Other real estate (Civil Construction)	3 666 409	4 430 478
Other guarantees	94 675	80 483
	18 677 492	19 229 937
	25 930 528	23 688 145

21. Financial assets and liabilities held for trading

The balance Financial assets and liabilities held for trading is analysed as follows:

	2010 Euro '000	2009 Euro '000
Financial assets held for trading:		
Securities		
Shares	2 805	1 380
Bonds	3 192	5 772
	5 997	7 152
Derivatives		
Derivatives financial instruments with positive fair value	124 868	96 043
	130 865	103 195
Financial liabilities held for trading:		
Derivatives		
Derivatives financial instruments with negative fair value	53 891	41 724

The trading portfolio is recorded at fair value trough profit or loss, in accordance with note 1.6. As referred in the note, the securities held for trading are those who are acquired with the purpose of short term transactions, independently from its maturity.

As referred in IFRS 7, financial assets held for trading and available for sale are valued in accordance with the following fair value measurement levels:

– Level 1: financial instruments measured in accordance with quoted market prices or providers.

– Level 2: financial instruments measured in accordance with internal valuation techniques based on observable market inputs.

– Level 3: financial instruments measured in accordance with valuation techniques based on inputs not based on observable data that have significant impact in the instruments valuation.

Financial assets and liabilities held for trading 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 and 2.

As at 31 December 2010, the analysis of the portfolio of securities held for trading by the period to maturity is as follows:

	2010				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined maturity Euro '000	Total Euro '000
Variable income securities:					
Shares					
Portuguese companies	–	–	–	464	464
Foreign companies	–	–	–	2 341	2 341
	–	–	–	2 805	2 805
Fixed income securities:					
Bonds					
Issued by other entities	–	–	3 192	–	3 192
	–	–	3 192	2 805	5 997
Quoted	–	–	3 192	2 805	5 997

As at 31 December 2009, the analysis of the portfolio of securities held for trading by the period to maturity is as follows:

	2009				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined maturity Euro '000	Total Euro '000
Variable income securities::					
Shares					
Portuguese companies	–	–	–	663	663
Foreign companies	–	–	–	717	717
	–	–	–	1 380	1 380
Fixed income securities:					
Bonds					
Issued by other entities	–	–	5 772	–	5 772
	–	–	5 772	1 380	7 152
Quoted	–	–	5 772	1 380	7 152

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2010, is as follows:

		2010						
		Derivative			Related asset / liability			
Derivative	**Related financial asset/liability**	**Notional Euro '000**	**Fair value Euro '000**	**Changes in the fair value in the year Euro '000**	**Fair value Euro '000**	**Changes in the fair value in the year Euro '000**	**Book value Euro '000**	**Reimbursement amount at maturity date Euro '000**
Interest rate swap	Securities issued	605 000	25 379	2 617	(36 223)	(48 475)	302 500	302 500
Interest rate swap	Deposits	3 609 775	17 386	13 230	12 954	11 593	2 013 304	2 013 304
Interest rate swap	Deposits from customers	490 052	12 263	(3 102)	(2 757)	(13 319)	247 113	247 113
Interest rate swap	Securitization	10 717 877	(1 834)	(2 168)	–	–	–	–
Interest rate swap	Covered bonds	11 890 474	18 023	7 891	(7 617)	(8 061)	1 000 000	1 000 000
Currency interest rate swap	Debt issued	538 428	(255)	(1 672)	–	–	–	–
Futures	–	14 298	(1)	(1)	–	–	–	–
Options	Time deposits and other deposits	70 586	753	169	–	–	–	–
Credit default swaps	–	89 710	(737)	(306)	–	–	–	–
		28 026 200	70 977	16 658	(33 643)	(58 262)	3 562 917	3 562 917

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2009, is as follows:

		2009						
		Derivative			Related asset / liability			
Derivative	Related financial asset/liability	Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Book value Euro '000	Reimburse-ment amount at maturity date Euro '000
Interest rate swap	Securities issued	605 000	22 762	14 110	12 252	(10 583)	302 500	302 500
Interest rate swap	Deposits	2 070 643	4 156	3 324	2 361	(1 423)	948 692	948 692
Interest rate swap	Deposits from customers	733 572	15 365	8 952	10 562	2 760	386 471	386 471
Interest rate swap	Securitization	7 188 322	334	(3 699)	–	–	–	–
Interest rate swap	Covered bonds	9 239 330	10 132	10 132	444	(444)	1 000 000	1 000 000
Currency interest rate swap	Debt issued	381 270	1 417	4 002	–	(1 128)	–	–
Futures	–	2 432	–	2	–	–	–	–
Options	Time deposits and other deposits	76 540	584	612	–	–	–	–
Credit default swaps	–	87 410	(431)	(170)	–	–	–	–
		20 384 519	54 319	37 265	25 619	(10 818)	2 637 663	2 637 663

The analysis of financial instruments held for trading, by maturity date as at 31 December 2010, is as follows:

	2010					
	Notional with remaining term				Fair value	
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Positive Euro '000	Negative Euro '000
Interest rate contracts:						
Interest rate swaps	31 000	201 184	27 080 994	27 313 178	119 941	48 724
Options	10 500	–	60 086	70 586	2 011	1 258
Exchange rate contracts:						
Interest rate swaps	529 439	–	8 989	538 428	1 975	2 230
Index contracts:						
Index futures	14 298	–	–	14 298	–	1
Credit default contracts:						
Credit default swaps	–	–	89 710	89 710	941	1 678
	585 237	201 184	27 239 779	28 026 200	124 868	53 891

The analysis of financial instruments held for trading, by maturity date as at 31 December 2009, is as follows:

	2009					
	Notional with remaining term				Fair value	
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Positive Euro '000	Negative Euro '000
Interest rate contracts:						
Interest rate swaps	187 000	356 800	19 293 067	19 836 867	90 055	37 306
Options	250	50 300	25 990	76 540	1 209	625
Exchange rate contracts:						
Interest rate swaps	381 270	–	–	381 270	4 191	2 774
Index contracts:						
Index futures	2 432	–	–	2 432	–	–
Credit default contracts:						
Credit default swaps	–	1 000	86 410	87 410	588	1 019
	570 952	408 100	19 405 467	20 384 519	96 043	41 724

The fair value of the derivatives financial instruments includes, the valuation of the embedded derivatives separated from the host contract in accordance with note 1.4 in the amount of Euro 6 276 000 (2009: Euro 4 956 000).

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

The balance Other financial assets and liabilities held for trading at fair value through profit or loss amounts in Euro 3 952 000 (2009: Euro 4 192 000), which is fully composed by fixed income bonds and other securities of other issuers.

CEMG's selection of these assets at fair value through profit and loss, according to IAS 39 and note 1.6, can be observed in the planed strategy of CEMG's management, considering that (i) these financial assets are managed and evaluated in a fair value basis and/or (ii) that these assets are holding embedded derivative instruments.

Other financial assets and liabilities held for trading at fair value through profit or loss are measured in accordance with internal valuation techniques considering mainly observable market inputs. In accordance with the hierarchy of the valuation sources, as referred in IFRS 7, these instruments are classified in level 1.

As at 31 December 2010 and 2009, securities portfolio included in the balance Other financial assets and liabilities held for trading at fair value through profit or loss is found quoted with a maturity greater than 1 year.

23. Available-for-sale financial assets

This balance is analysed as follows:

	2010				
		Fair value reserve			
	Cost (1) Euro '000	Positive Euro '000	Negative Euro '000	Impairment losses Euro '000	Book value Euro '000
Fixed income securities:					
Issued by public entities:					
Portuguese	1 075 466	2 155	(30 457)	–	1 047 164
Foreign	114 501	365	(4 468)	–	110 398
Issued by other entities:					
Portuguese	465 122	487	(13 342)	(1 284)	450 983
Foreign	622 608	1 336	(41 865)	(15 608)	566 471
Commercial paper	242 634	–	–	(997)	241 637
Variable income securities:					
Shares in companies:					
Portuguese	3 865	190	(31)	(279)	3 745
Foreign	4 123	78	(124)	(947)	3 130
Investment fund units	7 127	270	(300)	(57)	7 040
	2 535 446	4 881	(90 587)	(19 172)	2 430 568

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

	2009				
		Fair value reserve			
	Cost (1) Euro '000	Positive Euro '000	Negative Euro '000	Impairment losses Euro '000	Book value Euro '000
Fixed income securities:					
Issued by public entities:					
Foreign	7 954	125	(19)	–	8 060
Issued by other entities:					
Portuguese	312 574	3 321	(1 850)	(1 640)	312 405
Foreign	792 764	2 469	(33 910)	(17 116)	744 207
Commercial paper	203 534	–	–	(998)	202 536
Variable income securities:					
Shares in companies:					
Portuguese	4 505	99	(10)	(321)	4 273
Foreign	2 513	523	–	(746)	2 290
Investment fund units	10 831	1 097	(445)	(2 837)	8 646
	1 334 675	7 634	(36 234)	(23 658)	1 282 417

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

As referred in note 1.6, 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 39. 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 1.22.

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

	2010 Euro '000	2009 Euro '000
Impairment for securities:		
Balance on 1 January	23 658	24 987
Charge for the year	3 515	2 398
Write-back for the year	(1 363)	(266)
Charged-off	(6 638)	(3 461)
Balance on 31 December	19 172	23 658

During 2010 and as referred in note 1.6, impairment losses were recognised in the amount of Euro 4 486 000.

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2010, is as follows:

	2010				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	Total Euro '000
Fixed income securities:					
Issued by public entities:					
Portuguese	19 881	133 310	893 973	–	1 047 164
Foreign	25 250	3 007	82 141	–	110 398
Issued by other entities:					
Portuguese	2 347	16 247	432 389	–	450 983
Foreign	9 419	21 325	535 183	544	566 471
Commercial paper	211 324	30 313	–	–	241 637
	268 221	204 202	1 943 686	544	2 416 653
Variable income securities:					
Shares in companies:					
Portuguese	–	–	–	3 745	3 745
Foreign	–	–	–	3 130	3 130
Investment fund units	–	–	–	7 040	7 040
	–	–	–	13 915	13 915
	268 221	204 202	1 943 686	14 459	2 430 568

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2009, is as follows:

	2009				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	Total Euro '000
Fixed income securities:					
Issued by public entities:					
Foreign	–	–	8 060	–	8 060
Issued by other entities:					
Portuguese	–	14 262	298 143	–	312 405
Foreign	74 169	145 188	514 505	10 345	744 207
Commercial paper	172 401	30 135	–	–	202 536
	246 570	189 585	820 708	10 345	1 267 208
Variable income securities:					
Shares in companies:					
Portuguese	–	1 472	–	2 801	4 273
Foreign	–	–	–	2 290	2 290
Investment fund units	1 450	–	–	7 196	8 646
	1 450	1 472	–	12 287	15 209
	248 020	191 057	820 708	22 632	1 282 417

CEMG recognizes impairment on available-for-sale financial assets when there is a significant or prolonged decrease in its fair value or when there is an impact on expected future cash flows of the assets. This valuation involves judgment, in which CEMG takes into consideration among other factors, the volatility of the prices of securities.

Thus, as a consequence of the low liquidity and significant volatility in financial markets, the following factors were taken into consideration in determining the existence of impairment:

– Equity instruments: (i) decreases more than 30% against the purchase price; or (ii) the market value below the purchase price for a period exceeding 12 months;

– Debt instruments: when there is objective evidence of events with impact on recoverable value of future cash flows of these assets.

As referred in note 1.6, the available-for-sale securities portfolio is presented net of fair value reserve and impairment losses in the amount of Euro 87 706 000 and Euro 19 172 000 (2009: Euro 28 600 000 and Euro 23 658 000), respectively.

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

	2010			2009		
	Quoted Euro '000	Unquoted Euro '000	Total Euro '000	Quoted Euro '000	Unquoted Euro '000	Total Euro '000
Fixed income securities:						
Issued by public entities:						
Portuguese	1 047 164	–	1 047 164	–	–	–
Foreign	110 398	–	110 398	8 060	–	8 060
Issued by other entities:						
Portuguese	423 667	27 316	450 983	284 645	27 760	312 405
Foreign	562 081	4 390	566 471	744 207	–	744 207
Commercial paper	–	241 637	241 637	–	202 536	202 536
Variable income securities:						
Shares in companies:						
Portuguese	861	2 884	3 745	700	3 573	4 273
Foreign	2 972	158	3 130	2 132	158	2 290
Investment fund units	7 040	–	7 040	8 646	–	8 646
	2 154 183	276 385	2 430 568	1 048 390	234 027	1 282 417

24. Hedging derivatives

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Assets:		
Interest rate swap	2 810	5 109
Liabilities:		
Interest rate swap	1 408	598

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:

	2010 Euro '000	2009 Euro '000
Deposits from other credit institutions	864	477
Debt securities issued	242	2 926
Deposits from customers	271	(318)
	1 377	3 085

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2010 is as follows:

	2010							
	Notional with remaining term				Fair value			
	Due withing 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Due withing 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	20 000	80 000	115 000	215 000	147	1 394	(139)	1 402

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2009 is as follows:

	2009							
	Notional with remaining term				Fair value			
	Due withing 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Due withing 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	–	44 000	155 000	199 000	1 168	–	3 343	4 511

As at 31 December 2010, the fair value hedge relationships present the following features:

2010							
Derivative	Hedged item	Hedged risk	Notional Euro '000	Fair value of derivative (2) Euro '000	Changes in the fair value of the derivative in the year Euro '000	Hedged item fair value (1) Euro '000	Changes in the fair value of the hedged item in the year (1) Euro '000
Interest rate swaps	Deposits from customers	Interest rate	44 000	396	(302)	371	(271)
Interest rate swaps	Deposits	Interest rate	80 000	2 091	(1 995)	1 097	(1 106)
Interest rate swaps	EMTN	Interest rate	95 000	(1 085)	(812)	(298)	(212)
Currency interest rate swaps	Debt issued	Interest rate	–	–	–	–	–
			215 000	1 402	(3 109)	(1 170)	(1 589)

(1) Attributable to the hedged risk.

(2) Includes accrued interest.

As at 31 December 2009, the fair value hedge relationships present the following features:

			2009				
Derivative	**Hedged item**	**Hedged risk**	**Notional Euro '000**	**Fair value of derivative (2) Euro '000**	**Changes in the fair value of the derivative in the year Euro '000**	**Hedged item fair value (1) Euro '000**	**Changes in the fair value of the hedged item in the year (1) Euro '000**
Interest rate swaps	Deposits from customers	Interest rate	44 000	4 086	492	642	146
Interest rate swaps	Deposits	Interest rate	120 000	–	–	2 203	(221)
Interest rate swaps	EMTN	Interest rate	35 000	698	541	(86)	(86)
Currency interest rate swaps	Debt issued	Interest rate	–	(273)	(3 015)	–	(3 011)
			199 000	4 511	(1 982)	2 759	(3 172)

(1) Attributable to the hedged risk.

(2) Includes accrued interest.

25. Held-to-maturity investments

This balance is analysed as follows:

	2010 Euro '000	**2009 Euro '000**
Fixed income securities:		
Bonds issued by Portuguese public entities	44 111	18 573
Bonds issued by foreign public entities	14 033	14 950
	58 144	33 523

CEMG assessed, with reference to 31 December 2010, 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 2010 are analysed as follows:

Issue	**Issue date**	**Maturity date**	**Interest rate**	**Euro '000**
OT – Setembro 98/23-09-2013	May, 1998	Sep, 2013	Fixed rate of 5.450%	96
OT – Junho 02/15-06-2012	Feb, 2002	Jun, 2012	Fixed rate of 5.000%	32 076
OT – Junho 01/15-06-2011	Mar, 2001	Jun, 2011	Fixed rate of 5.150%	1 037
OT – Outubro 05/15-10-2015	July 2005	Oct, 2015	Fixed rate of 3.350%	5 977
OT – Abril 05/15-04-2011	Nov, 2005	Apr, 2011	Fixed rate of 3.200%	4 925
Buoni Poliennali Del Tes. 06/2011	Mar, 2006	Mar, 2011	Fixed rate of 3.500%	3 026
Netherlands Government 05/2015	Jun, 2005	Jul, 2015	Fixed rate of 3.250%	4 986
Republic of Austria 04/15-07-2015	May, 2004	Jul, 2015	Fixed rate of 3.500%	2 012
Belgium Kingdom 05/28-09-2015	Mar, 2005	Sep, 2015	Fixed rate of 3.750%	1 977
Buoni Poliennali Del Tes. 05/2015	May, 2005	Aug, 2015	Fixed rate of 3.750%	1 981
OT – Cabo Verde – Março 10/2013	Mar, 2010	Mar, 2013	Fixed rate of 5.740%	51
				58 144

The held-to-maturity investments are stated in accordance with the established in note 1.6.

During 2010 and 2009, CEMG did not transfer to or from this assets category.

As at 31 December 2010 and 2009, the analysis of held-to-maturity investments by the period of maturity is as follows:

	2010				
	Due within 3 months Euro '000	**3 months to 1 year Euro '000**	**1 year to 5 years Euro '000**	**Over 5 years Euro '000**	**Total Euro '000**
Bonds issued by Portuguese public issuers	–	5 962	38 149	–	44 111
Bonds issued by foreign public issuers	3 026	–	11 007	–	14 033
	3 026	5 962	49 156	–	58 144
Quoted	3 026	5 962	49 156	–	58 144

	2009				
	Due within 3 months Euro '000	**3 months to 1 year Euro '000**	**1 year to 5 years Euro '000**	**Over 5 years Euro '000**	**Total Euro '000**
Bonds issued by Portuguese public issuers	–	6 394	6 112	6 067	18 573
Bonds issued by foreign public issuers	1 009	–	2 976	10 965	14 950
	1 009	6 394	9 088	17 032	33 523
Quoted	1 009	6 394	9 088	17 032	33 523

26. Investments in associated companies and others

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Investments in associated companies and others		
Lusitania, Companhia de Seguros, S.A.	19 786	22 466
Lusitania Vida, Companhia de Seguros, S.A.	13 321	15 791
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 953	2 518
	37 060	40 775
Unquoted	37 060	40 775

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

	Assets Euro '000	Liability Euro '000	Equity Euro '000	Income Euro '000	Profit/(Loss) for the year Euro '000	Acquisition cost Euro '000
31 December 2010						
Lusitania, Companhia de Seguros, S.A	573 023	495 884	77 139	218 277	897	23 566
Lusitania Vida, Companhia de Seguros, S.A.	513 640	479 780	33 860	51 492	4 506	9 530
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	50 361	30 598	19 763	8 106	(246)	3 200
31 December 2009						
Lusitania, Companhia de Seguros, S.A	563 369	481 283	82 085	124 770	4 292	23 566
Lusitania Vida, Companhia de Seguros, S.A.	496 693	456 556	40 137	51 323	3 279	9 530
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	51 756	29 417	22 339	8 570	(271)	3 200

	Percentage held		Book value		Share of profit of associates	
	2010	2009	2010	2009	2010	2009
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI)	100%	100%	7 001	7 001	469	784
Lusitania, Companhia de Seguros, S.A.	25.65%	26.25%	19 786	22 466	230	1 267
Lusitania Vida, Companhia de Seguros, S.A.	39.34%	39.34%	13 321	15 791	1 773	1 290
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	20%	20%	3 953	2 518	(49)	(54)

The movement in this balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Balance on 1 January	40 775	16 813
Acquisitions	–	12 750
Alienations	–	(29)
Transfers	–	(49)
Share of profit of associates	1 954	2 503
Fair value reserve from associates	(4 738)	9 876
Dividends received	(931)	(1 089)
Balance on 31 December	37 060	40 775

27. Non-current assets held for sale

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Investments arising from recovered loans	201 710	157 935
Impairment for non-current assets held for sale	(39 336)	(29 336)
	162 374	128 599

The assets included in this balance are accounted for in accordance with the note 1.10.

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).

These assets are available for sale in a period less than 2 year and CEMG as a strategy for its sale.

This balance includes buildings and other assets for which CEMG has already established contracts for the sale in the amount of Euro 13 996 000 (2009: Euro 9 464 000).

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

	2010 Euro '000	2009 Euro '000
Impairment for non-current assets held for sale		
Balance on 1 January	29 336	23 868
Impairment for the year	13 845	10 088
Write-back for the year	(3 831)	(183)
Loans charged-off	(14)	(4 437)
Balance on 31 December	39 336	29 336

The movement in non-current assets held for sale balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Non-current assets held for sale		
Balance on 1 January	157 935	116 180
Acquisitions	66 715	59 303
Sales	(24 740)	(21 484)
Other movements	1 800	3 936
Balance on 31 December	201 710	157 935

28. Property and equipment

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Cost:		
Land and buildings:		
For own use	62 353	65 808
Leasehold improvements in rented buildings	24 225	32 208
Work in progress	33	43
Equipment:		
Furniture	11 070	10 507
Office equipment	1 869	1 971
Computer equipment	58 367	51 773
Interior installations	15 837	28 416
Motor vehicles	436	676
Security equipment	4 972	3 978
Works of art	1 050	986
Assets in operational lease – rending	4 965	4 084
Other tangible assets	31	31
Work in progress	3 342	550
	188 550	201 031
Accumulated depreciation:		
Charge for the year	(13 074)	(12 169)
Accumulated charge for the previous years	(86 189)	(97 587)
	(99 263)	(109 756)
	89 287	91 275

The Property and equipment movements, during the year of 2010, are analysed as follows:

	Balance on 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Land and buildings:					
For own use	65 808	–	(3 455)	–	62 353
Leasehold improvements in rented buildings	32 208	332	(8 373)	58	24 225
Work in progress	43	10	–	(20)	33
Equipment:					
Furniture	10 507	988	(425)	–	11 070
Office equipment	1 971	10	(113)	1	1 869
Computer equipment	51 773	6 839	(244)	(1)	58 367
Interior installations	28 416	337	(13 010)	94	15 837
Motor vehicles	676	58	(298)	–	436
Security equipment	3 978	1 009	(15)	–	4 972
Works of art	986	64	–	–	1 050
Assets in operational lease	4 084	1 632	(751)	–	4 965
Other tangible assets	31	–	–	–	31
Work in progress	550	2 947	–	(155)	3 342
	201 031	14 226	(26 684)	(23)	188 550
Accumulated depreciation:					
Land and buildings:					
For own use	15 837	1 042	(824)	–	16 055
Leasehold improvements in rented buildings	22 047	2 310	(8 373)	–	15 984
Equipment:					
Furniture	7 807	573	(366)	–	8 014
Office equipment	1 825	57	(112)	1	1 771
Computer equipment	37 874	6 307	(244)	–	43 937
Interior installations	20 125	1 585	(13 012)	–	8 698
Motor vehicles	670	9	(303)	–	376
Security equipment	2 823	434	(13)	–	3 244
Assets in operational lease	748	757	(321)	–	1 184
	109 756	13 074	(23 568)	1	99 263

The Property and equipment movements, during the year of 2009, are analysed as follows:

	Balance on 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Land and buildings:					
For own use	63 515	2 293	–	–	65 808
Leasehold improvements in rented buildings	30 730	680	–	798	32 208
Work in progress	120	31	–	(108)	43
Equipment:					
Furniture	10 331	433	(257)	–	10 507
Office equipment	2 125	35	(189)	–	1 971
Computer equipment	43 406	8 404	(37)	–	51 773
Interior installations	26 696	330	–	1 390	28 416
Motor vehicles	676	–	–	–	676
Security equipment	3 202	786	(20)	10	3 978
Works of art	478	508	–	–	986
Assets in operational lease	2 226	1 887	(29)	–	4 084
Other tangible assets	31	–	–	–	31
Work in progress	495	2 301	–	(2 246)	550
	184 031	17 688	(532)	(156)	201 031
Accumulated depreciation:					
Land and buildings:					
For own use	14 830	1 007	–	–	15 837
Leasehold improvements in rented buildings	19 785	2 262	–	–	22 047
Equipment:					
Furniture	7 436	614	(243)	–	7 807
Office equipment	1 923	92	(190)	–	1 825
Computer equipment	32 171	5 737	(34)	–	37 874
Interior installations	18 384	1 741	–	–	20 125
Motor vehicles	661	9	–	–	670
Security equipment	2 615	229	(21)	–	2 823
Assets in operational lease	276	478	(6)	–	748
	98 081	12 169	(494)	–	109 756

29. Intangible assets

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Cost:		
Software	31 798	52 375
Assets advances	6 106	4 657
	37 904	57 032
Accumulated amortisation:		
Charge for the year	(7 776)	(8 338)
Accumulated charge for the previous years	(11 874)	(32 543)
	(19 650)	(40 881)
	18 254	16 151

The Intangible assets movements, during the year of 2010, are analysed as follows:

	Balance on 1 January Euro '000	Acquisition/ Charges Euro '000	Disposals Euro '000	Adjustments/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Software	52 375	8 430	(29 007)	-	31 798
Assets advanced	4 657	1 449	–	–	6 106
	57 032	9 879	(29 007)	–	37 904
Accumulated amortisation:					
Software	40 881	7 776	(29 007)	–	19 650

The Intangible assets movements, during the year of 2009, are analysed as follows:

	Balance on 1 January Euro '000	Acquisition/ Charges Euro '000	Disposals Euro '000	Adjustments/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Software	44 988	7 790	–	(403)	52 375
Assets advanced	2 331	1 872	–	454	4 657
	47 319	9 662	–	51	57 032
Accumulated amortisation:					
Software	32 543	8 338	–	–	40 881

30. Other assets

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Recoverable subsidies from the Portuguese Government	11 949	13 739
Other debtors	29 071	27 265
Other accrued income	4 873	6 456
Prepayments and deferred costs	1 740	1 635
Sundry debtors	64 644	65 701
	112 277	114 796
Impairment from recoverable subsidies	(3 473)	(3 473)
	108 804	111 323

The balance Recoverable subsidies from the Portuguese Government, in the amount of Euro 11 949 000 (2009: Euro 13 739 000), corresponds to mortgage credit interest subsidies, in accordance with the regulations applicable to mortgage loans benefits. The referred amounts do not bear interest and are claimed monthly.

As at 31 December 2010 and 31 December 2009, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

	2010 Euro '000	2009 Euro '000
Recoverable subsidies from the Portuguese Government unliquidated	7 120	7 311
Subsidies unclaimed	1 716	3 412
Overdue subsidies unclaimed	3 113	3 016
	11 949	13 739

As at 31 December 2010 and 31 December 2009, the balance Recoverable subsidies from the Portuguese Government include an amount of Euro 3 473 000 not recognised by the treasury authorities. This amount is totally provided for in the balance Impairment from recoverable subsidies.

As at 31 December 2010, the balance Sundry debtors includes the amount of Euro 32 816 000 refer to transactions with securities recorded on trade date and pending settlement, in accordance with note 1.6.

As at 31 December 2010 and 2009, the balances related with the obligations related with pensions, included in balance Other sundry liabilities are analysed as follows:

	2010 Euro '000	2009 Euro '000
Projected benefit obligations	(597 140)	(569 822)
Value of the Fund	545 097	504 883
	(52 043)	(64 939)
Actuarial losses		
Corridor	59 714	56 982
Amount in excess of the corridor	38 636	29 334
	98 350	86 316
	46 307	21 377

The amounts of the corridor and of the actuarial losses were determined in accordance with the note 1.14.

31. Deposits from central banks

As at 31 December 2010, this balance in amount of Euro 1 540 266 000 is related to deposits obtained in the European System of Central Banks and is covered by securities from the available-for-sale portfolio pledged as collaterals portfolio of financial assets available-for-sale.

As at 31 December 2009, this balance includes the amount of Euro 502 353 000, referring to bonds sold with a repurchase agreement (repos) for a price that is equal to the selling price plus an interest rate inherent to the operation period, which is not derecognised in the balance sheet.

As at 31 December 2010 and 2009, the analysis of deposits from Central Banks by the period to maturity is as follows:

	2010 Euro '000	2009 Euro '000
Up to 3 months	460 026	–
3 to 6 months	1 080 240	–
More than 6 months	–	502 353
	1 540 266	502 353

32. Deposits from other credit institutions

This balance is analysed as follows:

	2010			2009		
	Non interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000	Non interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000
Deposits from credit institutions in Portugal	247 969	4 163	252 132	7 995	53 745	61 740
Deposits from credit institutions abroad	639 773	9 837	649 610	4 023	572 007	576 030
	887 742	14 000	901 742	12 018	625 752	637 770

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

	2010 Euro '000	2009 Euro '000
Due within 3 months	165 328	298 005
3 months to 6 months	153 594	50 883
6 months to 1 year	255 553	55 960
1 year to 5 years	59 025	16
Over 5 years	274 830	235 531
	908 330	640 395
Adjustments arising from hedging operations	(6 588)	(2 625)
	901 742	637 770

33. Deposits from customers

This balance is analysed as follows:

	2010			2009		
	Non interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000	Non interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000
Deposits repayable on demand	16 157	2 001 904	2 018 061	85 173	1 901 420	1 986 593
Time deposits (*)	–	7 583 150	7 583 150	–	6 679 111	6 679 111
Saving accounts (*)	–	391 530	391 530	–	511 255	511 255
Other items	496	–	496	896	–	896
Adjustments arising from hedging operations	14 326	–	14 326	3 003	–	3 003
	30 979	9 976 584	10 007 563	89 072	9 091 786	9 180 858

Observations: (*) Deposits for which the embedded derivative was separate from the host contract, in accordance with note 21 and note 1.4.

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 2009, this balance includes the amount of Euro 1 772 500 000 (2009: Euro 894 097 000) related to deposits recognised on the balance sheet at fair value through profit or loss.

The balance Deposits from customers, analysed by the period of maturity, is as follows:

	2010 Euro '000	2009 Euro '000
Deposits repayable on demand	2 018 061	1 986 593
Time deposits and saving accounts:		
Due within 3 months	1 299 637	1 277 080
3 months to 6 months	2 702 705	2 740 073
6 months to 1 year	1 182 228	1 336 994
1 year to 5 years	–	–
Over 5 years	2 790 110	1 836 219
	9 992 741	9 176 959
Adjustments arising from hedging operations	14 326	3 003
	10 007 067	9 179 962
Other items:		
Due within 3 months	496	896
	10 007 563	9 180 858

34. Debt securities issued

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Euro Medium Term Notes	2 437 249	3 142 351
Bonds	566 304	611 517
Covered Bonds	832 690	1 161 047
	3 836 243	4 914 915

The fair value of the debts securities issued is presented in note 43.

This balance includes the amount of Euro 1 510 171 000 (2009: Euro 1 666 921 000) related to debt securities issued recognised at the balance sheet at fair value through profit or loss.

As at 31 December 2010 and 2009, the analysis of debt securities issued outstanding by period to maturity is as follows:

	2010 Euro '000	2009 Euro '000
Due within 6 months	858 289	111 756
6 months to 1 year	631 766	726 782
1 year to 5 years	1 930 906	3 254 825
Over 5 years	441 057	816 788
	3 862 018	4 910 151
Adjustments arising from hedging operations	(25 775)	4 764
	3 836 243	4 914 915

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 main characteristics of these issues are as follows:

Description	Nominal value Euro '000	Book value Euro '000	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody's/Fitch)
Covered bonds	1 000 000	1 000 000	Jul, 2009	Jul, 2012	Annual	3.25%	Aa1 / AAA

During the year ended 31 December 2010, CEMG failed to issue covered bonds under the Programme for the Issuance of Covered Bonds.

As at 31 December 2010, the mortgage loans that collateralise these covered bonds amounted to Euro 1 000 000 000 (2009: Euro 1 298 998 000) in accordance with note 20.

The change occurred in debt securities issued during the year ended 31 December 2010 is analyzed as follows:

	Balance on 1 January Euro '000	Issues Euro '000	Repayments Euro '000	Net repurchase Euro '000	Other movements (a) Euro '000	Balance on 31 December Euro '000
Euro Medium Term Notes (EMTN)	3 142 351	–	(578 950)	(46 050)	(80 102)	2 437 249
Bonds	611 517	241 799	(281 509)	–	(5 503)	566 304
Covered bonds	1 161 047	–	–	(177 350)	(151 007)	832 690
	4 914 915	241 799	(860 459)	(223 400)	(236 612)	3 836 243

(a) Other movements include accrued interest, fair value hedge, fair value adjustments and foreign translation exchanges adjustments.

The change occurred in debt securities issued during the year ended 31 December 2009 is analyzed as follows:

	Balance on 1 January Euro '000	Issues Euro '000	Repayments Euro '000	Net repurchase Euro '000	Other movements (a) Euro '000	Balance on 31 December Euro '000
Euro Medium Term Notes (EMTN)	4 096 489	–	(777 876)	(155 064)	(21 198)	3 142 351
Bonds	964 998	126 361	(470 679)	–	(9 163)	611 517
Covered bonds	–	1 150 000	–	–	11 047	1 161 047
	5 061 487	1 276 361	(1 248 555)	(155 064)	(19 314)	4 914 915

(a) Other movements include accrued interest, fair value hedge, fair value adjustments and foreign translation exchanges adjustments.

In accordance with the note 1.8, debt issued repurchased by CEMG is derecognized from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognized in the income statement.

As at 31 December 2010, the balance Debt securities issued is comprise of the following issues:

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
Pelican Mortgage No. 1	Dec, 2002	Dec, 2037	W.A.I. – 1.33%	100 373
Pelican Mortgage No. 2	Sep, 2003	Sep, 2037	W.A.I. – 1.53%	157 193
Obr. CEMG / 04	Sep, 2004	Sep, 2014	Euribor 3 months + 0.25%	15 000
Obr. CEMG / 05	Feb, 2005	Feb, 2015	Annual rate of 3.628%	121 000
Obr. CEMG / 05	May, 2005	May, 2012	Euribor 3 months + 0.25%	462 369
Obr. CEMG / 06	Jan, 2006	Jan, 2011	Euribor 3 months + 0.20%	462 100
Obr. caixa MG Valor Garantido 2006	Jan, 2006	Jan, 2011	Semiannual fixed rate of 4%	10 000
Obr. caixa MG Aforro/06 5 anos 1.ª Emissão	Aug, 2006	Aug, 2011	Semiannual fixed rate of 5% (10th. semester fixed rate of 6%)	7 000
Obr. caixa MG Aforro/06 5 anos 2.ª Emissão	Aug, 2006	Aug, 2011	Semiannual fixed rate of 3.625% (10th. semester fixed rate of 7%)	4 000
Obr. CEMG / 06	Sep, 2006	Sep, 2011	Euribor 3 months + 0.25%	472 350
Obr. caixa MG Aforro/06 5 anos 3.ª Emissão	Sep, 2006	Sep, 2011	Semiannual fixed rate of 4% (10th. semester fixed rate of 7%)	3 500
Obr. caixa MG Aforro/06 5 anos 4.ª Emissão	Nov, 2006	Nov, 2011	Semiannual fixed rate of 3.5% (10th. semester fixed rate of 7%)	3 750
Obr. caixa MG Aforro/06 5 anos 5.ª Emissão	Dec, 2006	Dec, 2011	Semiannual fixed rate of 3.625% (10th. semester fixed rate of 7%)	1 000
Obr. caixa MG Ass./06 5 anos 1.ª Emissão	Dec, 2006	Dec, 2011	Semiannual fixed rate of 3.75% (10th. semester fixed rate of 7.25%)	1 000
Obr. CEMG / 07	Jan, 2007	Jan, 2017	Fixed rate of 4.2%	93 500
Obr. caixa – Aforro Montepio Ass./07 5 anos 1.ª Série	Feb, 2007	Feb, 2012	Semiannual fixed rate of 3.875% (10th. semester fixed rate of 7.25%)	4 000
Obr. caixa – Aforro Montepio /07 5 anos 1.ª Série	Feb, 2007	Feb, 2012	Semiannual fixed rate of 3.5% (9th. semester fixed rate of 3.625% and in the 10th. semester fixed rate of 7%)	1 000
Obr. caixa – Aforro Montepio /07 5 anos 2.ª Série	Feb, 2007	Feb, 2012	Semiannual fixed rate of 3.5% (9th. semester fixed rate of 3.625% and in the 10th. semester fixed rate of 7%)	2 000
Obr. CEMG / 07	Feb, 2007	Feb, 2017	Fixed rate of 4.2%	88 000
Obr. caixa – Aforro Montepio Ass./07 5 anos 2.ª Série	Feb, 2007	Feb, 2012	Semiannual fixed rate of 3.75% (9th. semesterfixed rate of 3.875% and in the 10th. semester fixed rate of 7.25%)	3 000
Obr. caixa – AM Eur 6M 5Y – 2012	Apr, 2007	Apr, 2012	Fixed rate of 4.455%	6 000
Obr. CEMG / 07	May, 2007	May, 2013	Euribor 3 months + 0.25%	479 000
Montepio Standard Poor's BRIC 40	Oct, 2007	Oct, 2012	Semiannual fixed rate of 0.9% (1.º to 9th. semester fixed rate of 0.9%). In maturity, variable remuneration indexed to *Standard & Poor's* BRIC40	2 245

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
Obr. caixa – Montepio Cabaz Commodities Agrícolas	Jan, 2008	Jan, 2011	Variable rate payable at maturity that corresponds to 95% of the performance of a mix composed of 5 agricultural *Commoditie*, with a minimum of 1% and a maximum of 50%	5 000
Obr. caixa – Aforro Montepio 2008 – 3 anos – 1.ª série	Jan, 2008	Jan, 2011	Quarterly fixed rate of 5%	10 000
Obr.caixa – Montepio Euro Aforro 2008 – 3 anos – 1.ª série	Jan, 2008	Jan, 2011	Semiannual fixed rate: Euribor 6 months – 0.4% (5th. semester Euribor 6 months – 0.3% and in the 6th. semester Euribor 6 months)	17 100
Obr. Caixa – Montepio Select 5 anos	Jan, 2008	Jan, 2011	Fixed rate of 2.5% in the first 4 years and at maturity a variable remuneration between 2.5% and 60% of the annual average performance of a mix composed of the Dow Jones Eurostoxx Select Dividend 30 Index and the IBOXX Euro Eurozone Performance Sovereigns 5 a 7 years Index	1 000
Obr. Caixa – Montepio Taxa Fixa 5Y – Janeiro 2008	Jan, 2008	Jan, 2011	Annual fixed rate of 2.5%	2 500
Obr. Caixa – Montepio Euro Aforro 2008 – 3 Anos – 2.ª série	Mar. 2008	Mar. 2011	Semiannual fixed rate of: Euribor 6 months – 0.3% (5th. semester Euribor 6 months – 0.2% and in the 6th. semester Euribor 6 months)	13 500
Obr. Caixa – Montepio Euro Aforro 2008 – 3 Anos – 3.ª série	Apr, 2008	Apr, 2011	Semiannual fixed rate of: Euribor 6 months – 0.3% (5th. semester Euribor 6 months – 0.2% and in the 6th. semester Euribor 6 months)	15 000
Obr. Caixa – Montepio Euro Aforro 2008 – 3 Anos – 4.ª série	May, 2008	May, 2011	Semiannual fixed rate of: Euribor 6 months – 0.3% (5º semester Euribor 6 months – 0.2% and in the 6th. semester Euribor 6 months + 0.1%)	12 100
Obr. Caixa- Montepio Inflação 2008 – 2016 – 1.ª Série	Jun. 2008	Jun. 2016	Annual variable rate of 3.2% plus the annual european inflation rate	5 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2008/2013	Sep, 2008	Sep, 2013	Annual fixed rate of 2% (4th. and 5th. semester Euribor 3 months + 1%)	31 500
Obr. Caixa – Capitais de Reforma Prazo Certo – Out. 2008/2013	Nov, 2008	Nov, 2013	Semiannual fixed rate of Euribor 3m + 1%	34 500
Obr. Caixa – Capitais de Reforma Prazo Certo – Fev. 2009/2014	Feb, 2009	Feb, 2014	Annual fixed rate of 1% (3rd. to 5th. year Euribor 3 months + 0.84%)	14 100
Obr. Caixa – Capitais de Reforma Prazo Certo – Mar. 2009/2014	Mar. 2009	Mar. 2014	Annual fixed rate of 3.5% (2nd. to 5th. year Euribor 3 months + 0.80%)	18 000
Obr. Caixa – MG Taxa Fixa 3 anos – 25/05/2012 – Set. 2009/2014	May, 2009	May, 2012	Annual fixed rate of 3% (3rd. and 4th. year with a fixed rate of 3%)	650
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2017	Sep, 2009	Sep, 2014	Annual fixed rate of 3% (3rd. and 4th. year 3%. 5th. year 6%)	10 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2017	Sep, 2009	Sep, 2017	Annual fixed rate of 3.75% (3rd. to 7th. year 3.75%. 8th. year 6.75%)	5 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2007/2012 – 2.ª série	Sep, 2009	Sep, 2012	Variable rate indexed to the Average Euribor 3 months + 1%	28 500
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2008/2013 – 2.ª série	Sep, 2009	Sep, 2013	Variable rate indexed to the Average Euribor 3 months + 1%	1 750
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2014 – 8.ª série	Nov, 2009	Nov, 2014	Fixed rate of 3.25% until 4th. year (5th. year fixed rate of 5.75%)	5 000
Obr. Caixa – Taxa variável CEMG 2009-2012	Nov, 2009	Nov, 2012	Quarterly variable rate indexed to the average Euribor 3 months + 1%	23 500
Obr. Caixa – Taxa variável CEMG 2009-2013	Nov, 2009	Nov, 2013	Quarterly variable rate indexed to the average Euribor 3 months + 1%	1 700

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
Obr. Caixa – Montepio Títulos Europa 2009-2013	Dec, 2009	Dec, 2013	Variable rate indexed to *Dow Jones EuroStoxx* 50	2 711
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2014 – 9.ª série	Dec, 2009	Dec, 2014	Fixed rate of 3.20% until 4th. year (5th. year fixed rate of 5.5%)	7 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2014 – 10.ª série	Dec, 2009	Dec, 2014	Fixed rate of 3% (3º year fixed rate of 3.5%. 4th. year fixed rate of 4.5% and 5th. year fixed rate of 5.5%)	5 000
Obr. Caixa – Montepio Taxa Fixa 2010/2013 1.ª Série	Jan, 2010	Jan, 2013	Annual fixed rate of 2.5%	1 000
Obr. Caixa Montepio Taxa Fixa 2010/2014	Jan, 2010	Jan, 2014	Quarterly fixed rate of 3%(3rd. and 4th. semesters fixed rate of 3.125%, 5th. and 6th. semesters fixed rate of 3.50% and 7th. and 8th. semesters fixed rate of 3.5%)	9 806
Obr. Caixa Montepio cabaz Ouro e Petróleo	Mar. 2010	Mar. 2014	Variable rate payable in maturity in accordance with the average performance of Future agreement of WTI Crude and the reference value for the Gold fixed by the *London Bullion Market Association*	3 705
Obr. Caixa Montepio Prazo Certo 2010/2015 1.ª Série	Mar. 2010	Mar. 2015	Annual fixed rate of 2.75% (2nd. year fixed rate of 2.75%, 3rd. year 3%, 4th. year 3.25% and 5th. year 5%)	25 000
Obr. Caixa Montepio Taxa Variável Março 2010/2014	Mar. 2010	Mar. 2014	Annual variable rate: Euribor 3 months + 2%	1 700
Obr. Caixa Montepio Taxa Fixa 2010/2014 2ª Série	Mar. 2010	Mar. 2014	Annual fixed rate of 3% (2nd. year fixed rate of 3.2%, 3rd. year fixed rate of 3.3% and 4th. year fixed rate of 3.5%)	20 000
Obr. Caixa Montepio Taxa Fixa Abril 2010/2015	Apr, 2010	Apr, 2014	Semiannual fixed rate of 2.60% (2.70% in the 3rd. and 4th. semesters, 2.80% in the 5th. and 6th. semesters, 3% in the 7th. and 8th. semesters and 3.5% in the 9th. and 10th. semesters)	500
Obr. Caixa Montepio Prazo Certo 2010/2015 2.ª Série	Apr, 2010	Apr, 2015	Annual fixed rate of 2.5% (In the 3rd. year fixed rate of 2.75%, 4th. year fixed rate of 3% and in the 5th. year fixed rate of 4.5%)	23 000
Obr. Caixa Montepio Taxa Fixa Crescente Maio 2010/2014	May, 2010	May, 2014	Annual fixed rate of 2.5% (In the 2nd. year fixed rate of 2.7%, 3rd. year 3% and 4th. year 3.5%)	8 000
Obr. Caixa Montepio Prazo Certo 2010/2018 1.ª Série	May, 2010	May, 2018	Annual fixed rate of 2.75% (In the 3rd. 4th. and 5th. years fixed rate of 3%, 6th. year fixed rate of 3.25%, 7th. year fixed rate of 3.5% and 8th. year fixed rate of 5%)	10 000
Obr. Caixa Montepio Taxa Fixa Crescente 2010/2013 1.ª Série	May, 2010	May, 2013	Annual fixed rate of 2.5% (In the 2nd. year fixed rate of 3% and in the 3rd. year fixed rate of 3.5%)	10 553
Obr. Caixa Montepio Top 2010/2014 1.ª Série	May, 2010	Jun. 2014	Annual fixed rate of 2.5% (In the 2nd. year 2.75%, 3rd. year 3% and 4th. year 3.25%)	520
Obr. Caixa Montepio Cabaz Energia 2010/2014	May, 2010	Jun. 2014	Variable rate payable in maturity in accordance with the average performance of a mix composed of 10 stocks of the Oil & Gas sector. with a guaranteed minimum of 4%	2 201
Obr. Caixa Montepio Prazo Certo 2010/2015 3.ª Série	Jun. 2010	Jun. 2015	Annual fixed rate of 2% (2nd. year fixed rate of 2.25%, 3rd. year fixed rate of 2.5%, 4th. year fixed rate of 2.75% and 5th. year fixed rate of 4.5%)	6 000
Obr. Caixa Montepio Taxa Fixa 2010/2012 1.ª Série	Jun. 2010	Jun. 2012	Quarterly fixed rate of 2%	3 118

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
Obr. Caixa Montepio Prazo Certo 2010/2018, 2.ª Série	Jul. 2010	Jul. 2018	Annual fixed rate of 2.25% (3rd. and 4th. year fixed rate of 2.5%, 5th. year fixed rate of 2.75%, 6th. year fixed rate of 3%. 7th. year fixed rate of 3.5% and 8th. year fixed rate of 5%)	5 000
Obr. Caixa Montepio Prazo Certo 2010/2015 4.ª Série	Jul. 2010	Jul. 2015	Annual fixed rate of 2.25% (3rd. and 4th. year fixed rate of 2.5% and 5th. year fixed rate of 3.5%)	10 000
Obr. Caixa Montepio Taxa Fixa Julho 2010/2014	Jul. 2010	Jul. 2014	Semiannual fixed rate of 3.5%	22 747
Obr. Caixa Montepio Prazo Certo 2010/2015 5.ª Série	Aug, 2010	Aug, 2015	Annual fixed rate of 2.5% (3rd. and 4th. year fixed rate of 2.75% and 5th. year fixed rate of 3.75%)	10 000
Obr. Caixa Montepio Taxa Fixa Agosto 2010/2014	Aug, 2010	Aug, 2014	Semiannual fixed rate of 3.5%	15 914
Obr. Caixa Montepio Taxa Fixa Setembro 2010/2020	Sep, 2010	Sep, 2020	Annual fixed rate of 4%	200
Obr. Caixa Montepio Taxa Fixa Setembro 2010/2014	Sep, 2010	Sep, 2014	Semiannual fixed rate of 3.5%	9 966
Obr. Caixa Montepio Euro Dolar Setembro 2010/2012	Oct, 2010	Oct, 2012	Fixed rate of 11.5% if the currency rate for EURUSD is equal or less to 1.21 at maturity date, otherwise applies a fixed rate of 0.5%	1 493
Obr. Caixa Montepio Prazo Certo 2010/2015 6.ª Série	Nov, 2010	Nov, 2015	Fixed rate of 2.75% (2nd. and 3rd. year fixed rate of 3%, 4th. year fixed rate of 3.25% and 5th. year fixed rate of 4%)	10 000
Obr. Caixa Montepio Taxa Fixa Novembro 2010/2012	Nov, 2010	Nov, 2012	Semiannual fixed rate of 3.25%	5 818
Obr. Caixa Montepio Prazo Certo 2010/2015 7.ª Série	Dec, 2010	Dec, 2015	Annual fixed rate of 3% (2nd. year fixed rate of 3,2%, 3rd. year fixed rate of 3,4%, 4th. year fixed rate of 3,6% and 5th. year fixed rate of 5%)	15 000
Obr. Caixa MG Telecomunicações Dezembro 2010-2014	Dec, 2010	Dec, 2014	Fixed rate payable on maturity in accordance with the average performance of the Stoxx 600 Telecommunications Indez with a minimum of 2% and a maximum of 40%	558
Obr. Caixa Montepio Prazo Certo 2010/2015 8.ª Série	Dec, 2010	Dec, 2015	Annual fixed rate of 3% (2nd. year fixed rate of 3.2%, 3rd. year fixed rate of 3.4%, 4th. year fixed rate of 3.6% and 5th. year fixed rate of 5%)	10 000
Covered bonds	Jul. 2009	Jul. 2012	Fixed rate of 3.25%	822 650
				3 833 940
Adjustments arising from hedging operation				(25 775)
Accruals, deferred costs and income				28 078
				3 836 243

As at 31 December 2010, for the bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.5% and 5.75%.

35. Provisions

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Provisions for general banking risks	1 189	1 396
Provisions for liabilities and charges	122	94
	1 311	1 490

The movements of the provisions for general banking risks are analysed as follows:

	2010 Euro '000	2009 Euro '000
Balance on 1 January	1 396	1 084
Charge for the year	463	416
Write-back for the year	(670)	(104)
Balance on 31 December	1 189	1 396

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

	2010 Euro '000	2009 Euro '000
Balance on 1 January	94	584
Write-back for the year	123	(158)
Charged-off	(95)	(332)
Balance on 31 December	122	94

36. Other subordinated debt

As at 31 December 2010, this balance in the amount of Euro 380 986 000 (2009: Euro 381 043 000) refers to Bonds with fixed maturity date, and with a residual reimbursement over 5 years.

As at 31 December 2010 the mainly characteristics of the Other subordinated debt, are analysed as follows:

Issue	Issue date	Maturity date	Issue amount Euro '000	Interest rate	Book value Euro '000
Bonds with fixed maturity date:					
CEMG/06	Apr, 2006	Apr, 2016	50 000	Euribor 3 months+ 0.45%	50 089
CEMG/08	Feb, 2008	Feb, 2018	150 000	Euribor 6 months + 0.13%	151 325
CEMG/08	Jun, 2008	Jun, 2018	28 000	Euribor 12 months + 0.10%	28 247
CEMG/08	Jul, 2008	Jul, 2018	150 000	Euribor 6 months + 0.13%	151 325
					380 986

As at 31 December 2001, the effective interest rate range of the subordinated debt bears postponed interest every three and six months is set between 0.44% and 2.27%.

37. Other liabilities

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Creditors:		
Suppliers	7 356	7 038
Other creditors	32 300	32 541
Public sector	7 944	7 330
Financial liabilities associated with transferred assets	387 183	428 147
Holiday pay and subsidies	25 825	24 127
Other administrative costs payable	375	982
Deferred income	546	585
Securities transactions pending settlement	–	38 610
Other sundry liabilities	68 873	58 442
	530 402	597 802

The balance Financial liabilities associated to transferred assets relates to securitisation transactions celebrated between CEMG and other financial institutions, that weren't derecognized in accordance with IAS 39 – Financial instruments: Recognition and Measurement. The securitisation transactions details are analysed in note 46.

38. Share capital

On 29 September, 2010, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 40 000 000, by cash transfer.

After the referred operation, the share capital of CEMG, amounts to Euro 800 000 000, totally subscribed by Montepio Geral – Associação Mutualista, and is fully paid.

39. 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 40.

40. Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Other comprehensive Income:		
Fair value reserves		
Available-for-sale financial assets	(85 706)	(28 600)
Reserves and retained earnings:		
General reserve	170 956	163 321
Special reserve	64 444	62 555
Other reserves	10 083	14 115
Retained earnings	(15 706)	(29 653)
	229 777	210 338

The Fair value reserves correspond to the accumulated fair value changes of the available-for-sale financial assets, in accordance with note 1.6.

The movements of this balance during 2010 are analysed as follows:

	Balance on 1 January Euro '000	Reavaluation Euro '000	Sales Euro '000	Impairment recognized in the year Euro '000	Balance on 31 December Euro '000
Fixed income securities:					
Bonds issued by Portuguese entities	–	(28 302)	–	–	(28 302)
Bonds issued by Foreign entities	106	(4 199)	(10)	–	(4 103)
Bonds issued by other entities:					
Portuguese	1 471	(13 121)	(760)	(445)	(12 855)
Foreign	(31 441)	(11 953)	1 355	1 510	(40 529)
	(29 864)	(57 575)	585	1 065	(85 789)
Variable income securities:					
Shares in companies					
Portuguese	89	71	(42)	41	159
Foreign	523	(239)	(129)	(201)	(46)
Investment fund units	652	(2 564)	(898)	2 780	(30)
	1 264	(2 732)	(1 069)	2 620	83
	(28 600)	(60 307)	(484)	3 685	(85 706)

The movements of this balance during 2009 are analysed as follows:

	Balance on 1 January Euro '000	Reavaluation Euro '000	Sales Euro '000	Impairment recognsed in the year Euro '000	Balance on 31 December Euro '000
Fixed income securities:					
Bonds issued by Portuguese entities	–	–	–	–	–
Bonds issued by Foreign entities	(38)	141	3	–	106
Bonds issued by other entities:					
Portuguese	(2 187)	5 109	–	(1 451)	1 471
Foreign	(45 581)	9 506	2 063	2 571	(31 441)
	(47 806)	14 756	2 066	1 120	(29 864)
Variable income securities:					
Shares in companies:					
Portuguese	(23)	341	1	(230)	89
Foreign	–	427	32	64	523
Investment fund units	(235)	503	10	374	652
	(258)	1 271	43	208	1 264
	(48 064)	16 027	2 109	1 328	(28 600)

The fair value reserve can be analysed as follows:

	2010 Euro '000	2009 Euro '000
Amortised cost of available-for-sale financial assets	2 535 446	1 334 675
Accumulated impairment recognised	(19 172)	(23 658)
Amortised cost of available-for-sale financial assets, net impairment	2 516 274	1 311 017
Fair value of available-for-sale financial assets	2 430 568	1 282 417
Net unrealised gains / (losses) recognised in the fair value reserve	(85 706)	(28 600)

41. Obligations and future commitments

Obligations and future commitments are analysed as follows:

	2010 Euro '000	2009 Euro '000
Guarantees granted	424 361	426 156
Guarantees received	29 158 640	29 733 532
Commitments to third parties	1 299 227	1 211 311
Commitments from third parties	38 510	172 768
Securitised loans	292 135	333 270
Securities and other items held for safekeeping on behalf of customers	5 152 178	5 371 322

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

	2010 Euro '000	2009 Euro '000
Guarantees granted:		
Guarantees	420 181	423 107
Open documentary credits	4 180	3 049
	424 361	426 156

	2010 Euro '000	2009 Euro '000
Commitments to third parties:		
Irrevocable commitments		
Term deposits contracts	–	1 472
Irrevocable credit lines	252 535	302 264
Securities subscription	185 150	–
Annual contribution to the Guarantee Deposits Fund	20 013	19 829
Potential obligation with the Investors' Indemnity System	1 699	3 209
Revocable commitments		
Revocable credit lines	839 470	884 537
	1 298 867	1 211 311

Guarantees and standby letters of credit arebanking operations that do not imply any out-flow by CEMG.

The documentary credits are irrevocable commitments from CEMG on behalf of its clients, to pay/order to pay a determined amount to the supplier of a given commodity or service, within a stipulated period, against the presentation of documents referring to the expedition of the commodity or rendering of the service. The condition of irrevocability consists on the fact of not being viable its cancellation or alteration without the agreement of all the involved parties.

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 formalisation.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any one another commercial operation, namely the solvency of the underlying client and business, being that CEMG requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having being used, the indicated amounts do not represent necessarily future cash-flow needs.

As at 31 December 2010 and 31 December 2009, the balance Annual contribution to the obligations of Guarantee Deposits Fund is related with the irrevocable commitment assumed by CEMG and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

The balance Potential obligation with the Investors' Indemnity System, as at 31 December 2010 and 31 December 2009, is related with the irrevocable commitment assumed by CEMG and required by law, to deliver to that System the necessary amounts for CEMG's obligation with the investors' indemnities to be paid.

42. Distribution of profit

On 31 March, 2010, following the General Assembly deliberation, CEMG distributed to Montepio Geral – Associação Mutualista in the amount of Euro 20 300 000 (2009: Euro 11 271 000).

43. Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as it happens regarding many products sold to clients, fair value is estimated through internal models based on cash-flow discounting techniques.

Cash flows for the different instruments sold are calculated according with its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the pricing policy in CEMG.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model that, necessarily have some degree of judgement and reflect exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, like the future business evolution.

Under these conditions, the values presented cannot be understood as an estimate of the economic value of CEMG.

CEMG determines the fair value of its financial assets and liabilities in accordance with the following hierarchy:

1. Quoted market prices – this category includes financial assets with available quoted market prices in official markets and with dealer prices, quotations provided by entities that usually provide transaction prices for these assets/liabilities traded in active markets.
2. Valuation models based on observable market information – consists on the use of internal valuation techniques, namely discounted cash flow models and option pricing models that imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instrument. Notwithstanding, CEMG uses observable market data such as interest rate curves, credit spreads, volatility and market indexes. Includes also instruments with dealer price quotations but which are not traded in active markets.
3. Valuation models based on non-observable market information – consists on the use of internal valuation models or quotations provided by third parties but which imply the use of non-observable market information.

The main methods and assumptions used in estimating the fair value for the assets and liabilities of CEMG are presented as follows:

– **Cash and deposits at central banks, Loans and advances to credit institutions repayable on demand and Deposits from other credit institutions**

  Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

– **Other loans and advances to credit institutions, Amounts owed to other credit institutions from Interbank Money Market transactions and Assets with repurchase agreements**

  The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates.

  The discount rate used reflects the current conditions applied by CEMG in identical instruments for each of the different maturities. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market, at the end of the year).

– **Financial assets held for trading (except derivatives), Financial liabilities held for trading (except derivatives) and Available-for-sale financial assets**

  These financial instruments are accounted at fair value. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

  Interest rates are determined based on information disseminated by the suppliers of content financial – Reuters and Bloomberg – more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are used in the projection of the 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.

In case of shares not listed, they are recognized at historical cost when there is no available market value and it is not possible to determine reliably its fair value.

– **Financial assets held to maturity**

These financial instruments are accounted at amortized cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

– **Hedging and trading derivatives**

All derivatives are recorded at fair value.

In case of those who are quoted in organised markets it is used its market price. As for derivatives traded «Over--the-counter», it is applied methods based on numerical cash-flow discounting techniques and models for assessment of options considering variables of the market, particularly the interest rates on the instruments in question, and where necessary, their volatilities.

Interest rates are determined based on information disseminated by the suppliers of content financial – Reuters and Bloomberg – more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods.

The interest rate curves are used in the projection of the non-deterministic cash flows such as indexes.

– **Loans and advances to customers with defined maturity date**

The fair value of these instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments 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.

For 31 December 2010, the average discount rate was 5.73% (2009: 2.61%), 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.

For 31 December 2010, the average discount rate was of 3.90% (2009: 0.65%).

– **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 noninstitutional 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 costumers of CEMG, it was added one more differential (trade spread), which represents the margin between the financing cost in the institutional market and the cost obtained by distributing the respective instrument in the commercial network owned.

As at 31 December 2010, the following table presents the values of the interest rates used in the clearance of the curves interest rate of major currencies, including Euro, United States Dollar and Sterling Pound used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies		
	Euro	United States Dollar	Sterling Pound
1 day	0.400%	0.300%	0.550%
7 days	0.350%	0.300%	0.550%
1 month	0.810%	0.300%	0.680%
2 months	0.910%	0.310%	0.720%
3 months	1.010%	0.430%	0.820%
6 months	1.230%	0.530%	1.260%
9 months	1.370%	0.720%	1.415%
1 year	1.510%	0.880%	1.520%
2 years	1.561%	0.797%	1.505%
3 years	1.945%	1.282%	1.945%
5 years	2.481%	2.179%	2.630%
7 years	2.893%	2.838%	3.103%
10 years	3.305%	3.386%	3.535%
15 years	3.638%	3.844%	3.535%
20 years	3.697%	4.020%	3.535%
30 years	3.496%	4.130%	3.535%

As at 31 December 2010, the following table presents the values of the interest rates used in the clearance of the curves interest rate of major currencies, including Euro, United States Dollar, Sterling Pound, Czech Koruna and Hong-Kong Dollar used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Czech Koruna	Hong-Kong Dollar
1 day	0.300%	0.170%	0.565%	0.950%	0.360%
7 days	0.300%	0.390%	0.565%	0.950%	0.360%
1 month	0.465%	0.420%	0.580%	1.175%	0.125%
2 months	0.500%	0.440%	0.625%	1.295%	0.075%
3 months	0.630%	0.480%	0.705%	1.405%	0.120%
6 months	0.930%	0.630%	0.920%	1.655%	0.110%
9 months	1.090%	0.740%	1.210%	1.835%	0.240%
1 year	1.210%	1.110%	1.575%	1.955%	0.595%
2 years	1.861%	1.431%	1.993%	2.270%	1.220%
3 years	2.260%	2.082%	2.650%	2.640%	1.840%
5 years	2.805%	2.995%	3.388%	3.010%	2.720%
7 years	3.213%	3.532%	3.768%	3.240%	3.200%
10 years	3.598%	3.982%	4.088%	3.540%	3.570%
15 years	3.963%	4.375%	4.088%	3.820%	3.570%
20 years	4.070%	4.471%	4.088%	3.900%	3.570%
30 years	3.952%	4.541%	4.088%	3.900%	3.570%

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	**2010**	**2009**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.3362	1.4406	13.55	14.40	14.65	14.70	14.75
EUR/GBP	0.8608	0.8881	9.50	10.35	10.95	11.20	11.50
EUR/CHF	1.2504	1.4836	12.30	12.20	12.20	12.20	12.15
EUR/JPY	108.85	133.16	12.80	14.50	15.75	16.30	16.80

Concerning the exchange rates, CEMG uses in the valuation models the spot rate observed in the market at the time of the valuation.

The next table shows the decomposition of main adjustments to the financial assets and liabilities of CEMG, which are recognised at book value and fair value:

	2010								
	Trading Euro '000	**Designated at fair value trough profit or loss Euro '000**	**Held-to--maturity Euro '000**	**Loans and advances Euro '000**	**Available--for-sale Euro '000**	**Others at amortised cost Euro '000**	**Others Euro '000**	**Carrying value Euro '000**	**Fair value Euro '000**
Financial assets:									
Cash and deposits at central bank	–	–	–	240 024	–	–	–	240 024	240 024
Loans and advances to credit institutions repayable on demand	–	–	–	74 353	–	–	–	74 353	74 353
Loans and advances to credit institutions	–	–	–	338 662	–	–	–	338 662	338 662
Loans and advances to customers	–	–	–	14 554 133	–	–	–	14 554 133	13 528 145
Financial assets held for trading	130 865	–	–	–	–	–	–	130 865	130 865
Other financial assets at at fair value trough profit or loss	–	3 952	–	–	–	–	–	3 952	3 952
Available-for-sale financial assets	–	–	–	–	2 430 568	–	–	2 430 568	2 430 568
Hedging derivatives	2 810	–	–	–	–	–	–	2 810	2 810
Held-to-maturity investments	–	–	58 144	–	–	–	–	58 144	57 590
Investments in associated companies and others	–	–	–	–	–	–	37 060	37 060	37 060
	133 675	3 952	58 144	15 207 172	2 430 568	–	37 060	17 870 571	16 844 029
Financial liabilities:									
Deposits from central banks	–	–	–	–	–	1 540 266	–	1 540 266	1540 266
Deposits from other credit institutions	–	–	–	–	–	901 742	–	901 742	901 823
Deposits from customers	–	–	–	–	–	10 007 563	–	10 007 563	9 970 687
Debt securities issued	–	–	–	–	–	3 836 243	–	3 836 243	4 735 077
Financial liabilities held for trading	53 891	–	–	–	–	–	–	53 891	53 891
Hedging derivatives	1 408	–	–	–	–	–	–	1 408	1 408
Other Subordinated debt	–	–	–	–	–	380 986	–	380 986	369 748
	55 299	–	–	–	–	16 666 800	–	16 722 099	17 572 900

	Trading Euro '000	Designated at fair value trough profit or loss Euro '000	Held-to--maturity Euro '000	Loans and advances Euro '000	Available--for-sale Euro '000	Others at amortised cost Euro '000	Others Euro '000	Carrying value Euro '000	Fair value Euro '000
	2009								
Financial assets:									
Cash and deposits at central bank	–	–	–	305 018	–	–	–	305 018	305 018
Loans and advances to credit institutions repayable on demand	–	–	–	69 870	–	–	–	69 870	69 870
Loans and advances to credit institutions	–	–	–	370 938	–	–	–	370 938	370 938
Loans and advances to customers	–	–	–	14 682 382	–	–	–	14 682 382	13 559 183
Financial assets held for trading	103 195	–	–	–	–	–	–	103 195	103 195
Other financial assets at at fair value trough profit or loss	–	4 192	–	–	–	–	–	4 192	4 192
Available-for-sale financial assets	–	–	–	–	1 282 417	–	–	1 282 417	1 282 417
Hedging derivatives	5 109	–	–	–	–	–	–	5 109	5 109
Held-to-maturity investments	–	–	33 523	–	–	–	–	33 523	34 681
Investments in associated companies and others	–	–	–	–	–	–	40 775	40 775	40 775
	108 304	4 192	33 523	15 428 208	1 282 417	–	40 775	16 897 419	15 775 378
Financial liabilities:									
Deposits from central banks	–	–	–	–	–	502 353	–	502 353	502 353
Deposits from other credit institutions	–	–	–	–	–	637 770	–	637 770	637 907
Deposits from customers	–	–	–	–	–	9 180 858	–	9 180 858	9 216 700
Debt securities issued	–	–	–	–	–	4 914 915	–	4 914 915	5 780 200
Financial liabilities held for trading	41 724	–	–	–	–	–	–	41 724	41 724
Hedging derivatives	598	–	–	–	–	–	–	598	598
Other Subordinated debt	–	–	–	–	–	381 043	–	381 043	359 999
	42 322	–	–	–	–	15 616 939	–	15 659 261	16 539 481

44. Employees benefits

CEMG assumed the responsibility to pay to their employees, pensions on retirement or disabilities. These responsibilities also comply with the terms of the «Acordo Colectivo de Trabalho do Sector Bancário» (ACT). To cover its responsibilities, CEMG makes annual contributions to the pension fund, managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

As at 31 December 2010 and 2009, the number of participants covered by this pension plan is analysed as follows:

	2010	2009
Number of participants		
Pensioners	742	738
Employees	2 885	2 844
	3 627	3 582

In accordance with note 1.14, the pension obligation and the respective funding as at 31 December 2010 and 2009 based on an actuarial valuation made using the projected unit credit method are analysed as follows:

	2010				2009			
	Pension plans Euro '000	**Death subsidy Euro '000**	**Health-care benefits Euro '000**	**Total Euro '000**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Health-care benefits Euro '000**	**Total Euro '000**
Assets/(liabilities) recognised in the balance sheet								
Defined benefit obligation								
Pensioners	(239 208)	(695)	(15 549)	(255 452)	(232 236)	(653)	(15 095)	(247 984)
Employees	(319 394)	(7 120)	(15 174)	(341 688)	(300 758)	(6 874)	(14 206)	(321 838)
	(558 602)	(7 815)	(30 723)	(597 140)	(532 994)	(7 527)	(29 301)	(569 822)
Value of the Fund	513 907	6 328	24 862	545 097	474 287	6 208	24 388	504 883
Unfunded liabilities	(44 695)	(1 487)	(5 861)	(52 043)	(58 707)	(1 319)	(4 913)	(64 939)
Liabilities exempt from financing	105 756	(7 701)	295	98 350	93 339	(7 356)	333	86 316
Assets/(liabilities) recognised in the balance sheet	61 061	(9 188)	(5 566)	46 307	34 632	(8 675)	(4 580)	21 377

As at 31 December 2010, there are no buildings in use or securities issued by CEMG recorded in the Pension Fund Financial Statements.

In accordance with note 1.14, CEMG liability with pensions is calculated semi-annually. The net assets with pensions and health-care plan are included in the balance other assets (see note 30).

As at each balance date, CEMG reviews the value of the Fund, related to its liabilities towards the pensions, according to the referred note and as established in IAS 19 – Employees benefits.

The change in the present value of obligations during 2010 and 2009 is analysed as follows:

	2010				2009			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Balance on 1 January	532 994	7 527	29 301	569 822	481 168	6 705	26 339	514 212
Service cost	15 241	440	714	16 395	14 983	422	705	16 110
Interest cost	29 314	414	1 612	31 340	27 667	386	1 514	29 567
Actuarial gains and losses								
– Not arising from changes in actuarial assumptions	(2 772)	(566)	(905)	(4 243)	(1 412)	(299)	(486)	(2 197)
– Arising from changes in actuarial assumptions	–	–	–	–	22 452	313	1 229	23 994
Payments	(18 348)	–	–	(18 348)	(16 664)	–	–	(16 664)
Early retirements	2 174	–	–	2 174	4 800	–	–	4 800
Balance on 31 December	558 603	7 815	30 722	597 140	532 994	7 527	29 301	569 822

The evolution of the amounts related to non-financial projected benefit obligations during 2010 and 2009, are analysed as follows:

	2010				2009			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Balance on 1 January	58 707	1 319	4 913	64 939	73 048	1 018	3 998	78 064
Service cost	15 241	440	714	16 395	14 983	422	705	16 110
Interest cost	29 314	414	1 612	31 340	27 667	386	1 514	29 567
Expected return on plan assets	(26 087)	(341)	(1 341)	(27 769)	(23 467)	(327)	(1 284)	(25 078)
Early retirements	2 174	–	–	2 174	4 800	–	–	4 800
Actuarial gains and losses								
– Not arising from changes in actuarial assumptions	14 097	(345)	(38)	13 714	(15 348)	(493)	(1 249)	(17 090)
– Arising from changes in actuarial assumptions	–	–	–	–	22 452	313	1 229	23 994
Contributions to the Fund	(48 750)	–	–	(48 750)	(45 553)	–	–	(45 553)
Costs supported by the Fund	–	–	–	–	125	–	–	125
Balance on 31 December	44 696	1 487	5 860	52 043	58 707	1 319	4 913	64 939

The assets of the pensions Fund are analysed as follows:

	2010 Euro '000	2009 Euro '000
Shares	44 703	40 774
Other variable income securities	102 088	78 910
Bonds	339 418	296 343
Others	58 888	88 856
	545 097	504 883

The securities issued by companies of CEMG accounted on the portfolio of the Fund are analysed as follows:

	2010 Euro '000	2009 Euro '000
Fixed income securities	9 461	4 606
Variable income securities	5 120	4 281
	14 581	8 887

The change in the fair value of assets of the Fund during 2010 and is analysed as follows:

	2010				2009			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Balance on 1 January	474 287	6 208	24 388	504 883	408 120	5 687	22 341	436 148
Expected return on plan assets	26 087	341	1 341	27 769	23 467	327	1 284	25 078
Actuarial gains / (losses)	(16 869)	(221)	(867)	(17 957)	13 936	194	763	14 893
Contributions to the Fund of CEMG	47 097	–	–	47 097	43 924	–	–	43 924
Contributions to the Fund of the employers	1 653	–	–	1 653	1 629	–	–	1 629
Payments	(18 348)	–	–	(18 348)	(16 664)	–	–	(16 664)
Others	–	–	–	–	(125)	–	–	(125)
Balance on 31 December	513 907	6 328	24 862	545 097	474 287	6 208	24 388	504 883

The contributions to the Fund include the additional contribution in the amount of Euro 23 500 000 made by CEMG during January, 2011 with value date of 2010. The pension fund contributions in 2010 were fully paid in cash.

In accordance with IAS 19, deferred actuarial losses, including the corridor, as at 31 December 2010 and 2009 are analysed as follows:

	2010				2009			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Unrecognised net actuarial losses at the beginning of the year	93 339	(7 356)	333	86 316	87 512	(7 176)	353	80 689
Actuarial gains and losses:								
– Actuarial	(2 772)	(566)	(905)	(4 243)	21 040	14	743	21 797
– Financial	16 869	221	867	17 957	(13 936)	(194)	(763)	(14 893)
Actuarial losses depreciation in excess of the corridor	(1 680)	–	–	(1 680)	(1 277)	–	–	(1 277)
Balance on 31 December	105 756	(7 701)	295	98 350	93 339	(7 356)	333	86 316
Of which:								
Within the corridor	64 211	(4 676)	179	59 714	61 618	(4 856)	220	56 982
Outside the corridor	41 545	(3 025)	116	38 636	31 721	(2 500)	113	29 334

As at 31 December 2010, considering the value of the actuarial gains and losses registered in the calculation of the benefit obligations and in the value of the Fund, the value of the corridor calculated in accordance with paragraph 92 of IAS 19, amounted to Euro 59 714 000 (2009: Euro 561 982 000).

As at 31 December 2010, the net actuarial gains and losses in excess of the value of the corridor amounted to Euro 38 636 000 (2009: Euro 29 334 000) and will be recorded in results over a 24 year period considering the balance at the beginning of the year, as referred in note 1.14.

In 2010, CEMG accounted as pension costs the amount of Euro 23 820 000 (2009: Euro 26 676 000).

The analysis of the cost of the year is as follows:

	2010				2009			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Service cost	15 241	440	714	16 395	14 983	422	705	16 110
Interest cost	29 314	414	1 612	31 340	27 667	386	1 514	29 567
Expected return on plan assets	(26 087)	(341)	(1 341)	(27 769)	(23 467)	(327)	(1 284)	(25 078)
Actuarial gains and losses depreciation	1 680	–	–	1 680	1 277	–	–	1 277
Early retirements	2 174	–	–	2 174	4 800	–	–	4 800
Cost of the year	22 322	513	985	23 820	25 260	481	935	26 676

Considering the market indicators, particularly the estimations of the inflation and the long-term interest rate for Euro Zone as well as the demographic characteristics of the participants, CEMG maintained the actuarial assumptions used for the calculation of the liabilities for the pension obligations with reference to 31 December 2010. The actuarial assumptions, as at 31 December 2010 and 2009, are presented as follows:

	Assumptions
Salaries increase rate	3.00%
Pensions increase rate	2.00%
Projected rate of return of Fund assets	5.50%
Discount rate	5.50%
Mortality table	TV 88/90
Disability table	EVK 80

The assumptions used in the calculation of the pension liabilities are in accordance with the requirements of IAS 19.

No disability retirements are considered in the calculation of the total liabilities.

Net actuarial gains related to the difference between the actuarial assumptions used for the estimation of the pension liabilities and the actual liabilities for the year ended 31 December 2010 amounted to Euro 13 714 000 (2009: Euro 6 904 000) and are analysed as follows:

	Actuarial (gains) / losses	
	2010 Euro '000	2009 Euro '000
Discount rate	–	23 293
Salaries increase rate	(1 629)	(1 334)
Pensions increase rate	(2 614)	(162)
Return of fund assets	17 957	(14 893)
	13 714	6 904

Health benefit costs have a significant impact in pension costs. Considering this impact we produced a sensitivity analysis to a positive one percent variation in health benefit costs (from 6.5% to 7.5% in 2010) and a negative variation (from 6.5% to 5.5% in 2009) of one percent in health benefit costs, whose impact is analyzed as follows:

	Positive variation of 1% (6.5% to 7.5%)		Negative variation of 1% (6.5% to 5.5%)	
	2010 Euro '000	2009 Euro '000	2010 Euro '000	2009 Euro '000
Pension cost impact	(2 392)	(2 322)	2 392	2 322
Liability impact	(2 335)	(2 186)	2 335	2 186

The liabilities with health benefits are fully covered by the Pension Fund and correspond, in 2010, to Euro 30 723 000 (2009: Euro 29 301 000).

The estimated value of contributions to the pension plan in 2011 is Euro 34 090 000 (2009: Euro 28 000 000).

The changes in the assets/(liabilities) recognised in the balance sheet is analysed as follows:

	2010				2009			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Balance on 1 January	27 654	(1 697)	(4 580)	21 377	14 464	(8 194)	(3 645)	2 625
Net benefit cost	(22 322)	(513)	(985)	(23 820)	(25 260)	(481)	(935)	(26 676)
Contributions of the year and pensions paid	48 750	–	–	48 750	45 553	–	–	45 553
Other	–	–	–	–	(125)	–	–	(125)
Balance on 31 December	54 082	(2 210)	(5 565)	46 307	34 632	(8 675)	(4 580)	21 377

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

	2010			2009			2008			2007			2006		
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euros '00	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euros '00	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euros '00
Defined benefit obligation	(558 602)	(7 815)	(30 723)	(532 994)	(7 527)	(29 301)	(481 168)	(6 705)	(26 339)	(509 771)	(8 336)	(30 158)	(475 205)	–	(31 190)
Fair value of plan assets	513 907	6 328	24 862	474 287	6 208	24 388	408 120	5 687	22 341	411 805	6 734	24 362	351 341	–	23 060
(Un)/over funded liabilities	(44 695)	(1 487)	85 861)	(58 707)	(1 319)	(4 913)	(73 048)	(1 018)	(3 998)	(97 966)	(1 602)	(5 796)	(123 864)	–	(8 130)
Experience adjustments arising on plan liabilities (gains)/losses	(2 772)	(566)	(905)	(1 412)	(299)	(486)	2 419	(2 003)	(1 638)	11 490	1 359	(3 266)	3 781	–	248
Experience adjustments arising on plan assets (gains)/ losses	16 869	221	867	(13 936)	(194)	(763)	47 769	1 401	3 300	2 372	(6 734)	(207)	(3 929)	–	(258)

45. Related parties transactions

As at 31 December 2010, CEMG's liabilities with subsidiaries, represented or not by securities, included in the balances Deposits from customers and Other subordinated debt, are analysed as follows:

Company	Deposits from customers Euro '000	Other subordinated debt Euro '000	Total Euro '000
Lusitania Companhia de Seguros, S.A.	3 902	13 350	17 252
Lusitania Vida Companhia de Seguros, S.A.	18 979	3 250	22 229
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	455	–	455
SIBS – Sociedade Interbancária de Serviços, S.A.	3 006	–	3 006
MG Gestão de Activos Financeiros – S.G.F.I.M., S.A.	58 654	–	58 654
Futuro – Sociedade Gestora de Fundo de Pensões, S.A.	80 707	–	80 707
	165 703	16 600	182 303

As at 31 December 2009, CEMG's liabilities with subsidiaries, represented or not by securities, included in the balances Deposits from customers and Other subordinated debt, are analysed as follows:

Company	Deposits from customers Euro '000	Other subordinated debt Euro '000	Total Euro '000
Lusitania Companhia de Seguros, S.A.	7 188	13 700	20 888
Lusitania Vida Companhia de Seguros, S.A.	12 540	3 250	15 790
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	271	–	271
SIBS – Sociedade Interbancária de Serviços, S.A.	2 003	–	2 003
MG Gestão de Activos Financeiros – S.G.F.I.M., S.A.	63 419	–	63 419
Futuro – Sociedade Gestora de Fundo de Pensões, S.A.	152 427	–	152 427
	237 848	16 950	254 568

As at 31 December 2010, CEMG's income with subsidiaries, included in the balances Interest and similar income and Fee and commission income, are analysed as follows:

Company	Interest and similiar income Euro '000	Fee and comission income Euro '000	Total Euro '000
Lusitania Companhia de Seguros, S.A.	47	6 890	6 937
Lusitania Vida Companhia de Seguros, S.A.	4	3 213	3 217
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	–	–	–
SIBS – Sociedade Interbancária de Serviços, S.A.	–	28 158	28 158
MG Gestão de Activos Financeiros – S.G.F.I.M., S.A.	–	3 017	3 017
Futuro – Sociedade Gestora de Fundo de Pensões, S.A.	1	12	13
	52	41 290	41 342

As at 31 December 2009, CEMG's income with subsidiaries, included in the balances Interest and similar income and Fee and commission income, are analysed as follows:

Company	Interest and similiar income Euro '000	Fee and comission income Euro '000	Total Euro '000
Lusitania Companhia de Seguros, S.A.	12	4 130	4 142
Lusitania Vida Companhia de Seguros, S.A.	–	8 642	8 642
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	1	–	1
SIBS – Sociedade Interbancária de Serviços, S.A.	–	26 610	26 610
MG Gestão de Activos Financeiros – S.G.F.I.M., S.A.	–	3 173	3 173
Futuro – Sociedade Gestora de Fundo de Pensões, S.A.	7	3 009	3 016
	20	45 564	45 584

The costs with salaries and other benefits attributed to CEMG key management personnel, as well as its transactions, are presented in note 10.

According to the principle of fair value, every transaction concerning related parties is at market prices.

During 2010 and 2009, there were no transactions with the pension's fund of CEMG.

46. Securitisation transactions

As at 31 December 2010, there are five securitisation operations between CEMG and other financial institutions presented in the following paragraphs.

As at 19 December, 2002, Caixa Económica Montepio Geral has settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages no. 1 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 35 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 650 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.016% of the referred nominal value.

As at 29 September, 2003, Caixa Económica Montepio Geral has settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages no. 2 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 33 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 700 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0286% of the referred nominal value.

As at 30 March, 2007, Caixa Económica Montepio Geral has settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 3. The referred agreement consists in a mortgage credit transfer for a period of 47 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 750 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0165% of the referred nominal value.

As at 20 May, 2008, Caixa Económica Montepio Geral has settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 4. The referred agreement consists in a mortgage credit transfer for a period of 48 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1 000 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.083% of the referred nominal value.

As at 25 March 2009, Caixa Económica Montepio Geral has settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 5. The referred agreement consists in a mortgage credit transfer for a period of 52 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1 000 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0564% of the referred nominal value.

As at 22 June 2010, Caixa Económica Montepio Geral has settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage SME. The referred agreement consists in a mortgage credit transfer for a period of 26 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of 1 167 000 000. The transfer price by which the loand were transferred was their nominal value. The settlement costs have represented 0.15% of the Asset Backed Notes.

Caixa Económica Montepio Geral is the operation servicer, acting as collector of the credits sold. The received values are transferred to Pelican Mortgages no.1 PLC and to Pelican Mortgages no. 2 PLC.

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 derecognised. 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 derecognised 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 derecognise, 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 2010, the securitisation operations are presented as follows:

Issue	Settlement date	Currency	Asset transferred	Amount Euros'000
Pelican Mortgages No. 1	December 2002	Euro	Mortgage credit	650 000
Pelican Mortgages No. 2	September 2003	Euro	Mortgage credit	700 000
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	750 000
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1 000 000
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1 000 000
Pelican SME	June 2010	Euro	Small companies	1 167 000
				5 267 000

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

	2010 Euro '000	2009 Euro '000
Pelican Mortgages No.1	103 883	120 550
Pelican Mortgages No. 2	188 252	212 720
	292 135	333 270

As at 31 December 2010, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bond Issued	Issue amount Euro	Current amount Euro	CEMG's Retention (Nominal Value) Euros	Maturity Year	Rating (Initial) Fitch	Rating (Initial) Moody's	Rating (Initial) S&P	Rating (Current) Fitch	Rating (Current) Moody's	Rating (Current) S&P
Pelican Mortgages No. 1	Class A	611 000 000	59 038 057	–	2037	AAA	Aaa	n.d.	AAA	Aaa	n.d.
	Class B	16 250 000	16 250 000	–	2037	AAA	A2	n.d.	AAA	A2	n.d.
	Class C	22 750 000	22 750 000	–	2037	BBB+	Baa2	n.d.	BBB+	Baa2	n.d.
	Class D	3 250 000	3 250 000	3 250 000	2037	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Pelican Mortgages No. 2	Class A	659 750 000	146 009 080	–	2036	AAA	Aaa	AAA	AAA	Aaa	AAA
	Class B	17 500 000	17 500 000	–	2036	AAA	A1	AA–	AAA	A1	AA–
	Class C	22 750 000	22 750 000	–	2036	A–	Baa2	BBB	A–	Baa2	A–
	Class D	5 600 000	5 600 000	5 600 000	2036	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Pelican Mortgages No. 3	Class A	701 315 365	375 426 745	–	2054	AAA	Aaa	AAA	AAA	Aaa	AAA
	Class B	14 250 000	9 692 987	–	2054	AA–	Aa2	AA–	AA–	Aa2	AA-
	Class C	12 000 000	8 162 515	–	2054	A	A3	A	A–	A3	A
	Class D	6 375 000	4 336 336	–	2054	BBB	Baa3	BBB	BBB	Baa3	BBB
	Class E	7 361 334	–	–	2054	BBB–	n.d.	BBB–	BBB–	n.d.	BBB–
	Class F	4 125 000	4 125 000	4 125 000	2054	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Pelican Mortgages No. 4	Class A	832 000 000	700 671 652	700 671 652	2056	AAA	Aaa	n.d.	AAA	n.d.	n.d.
	Class B	55 500 000	55 500 000	55 500 000	2056	AA	Aa	n.d.	AA	n.d.	n.d.
	Class C	60 000 000	60 000 000	60 000 000	2056	A–	A–	n.d.	A–	n.d.	n.d.
	Class D	25 000 000	25 000 000	25 000 000	2056	BBB	Bbb	n.d.	BBB	n.d.	n.d.
	Class E	27 500 000	27 500 000	27 500 000	2056	BB	Bb	n.d.	BB	n.d.	n.d.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Pelican Mortgages No. 5	Class A	750 000 000	659 334 339	659 334 339	2061	AAA	n.d.	n.d.	AAA	n.d.	n.d.
	Class B	195 000 000	195 000 000	195 000 000	2061	BBB–	n.d.	n.d.	BBB–	n.d.	n.d.
	Class C	27 500 000	27 500 000	27 500 000	2061	B	n.d.	n.d.	B	n.d.	n.d.
	Class D	27 500 000	27 500 000	27 500 000	2061	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
	Class E	4 500 000	3 961 974	3 961 974	2061	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Pelican SME	Class A	577 500 000	577 500 000	577 500 000	2036	AAA	n.d.	AAA	AAA	n.d.	AAA
	Class B	472 500 000	472 500 000	472 500 000	2036	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
	Vert. Notes	117 000 000	117 000 000	117 000 000	2036	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
	Class C	7 294 000	7 294 000	7 294 000	2036	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
	Resid. Notes	31 500 000	31 500 000	31 500 000	2036	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.

47. Segmental Reporting

During 2010, CEMG adopted IFRS 8 – Operating Segments, for the disclosure of the financial information by operating segments, using new criteria in the preparation of this information.

CEMG's consolidated activity is essentially developed in the financial sector, aiming for companies, institutions and private clients. Has its core decision centre in Portugal, which gives its privileged target market.

Products and services include the entire offer implicit to financial activity, such as deposit capitation, credit concession and financial services to companies and private and also the custody, and also the managing investment funds and life insurances through its associates of the insurance sector. Additionally, CEMG executes short and long-term investments in the capital or monetary market as a way of taking advantage of the price variations or restabilising its available financial resources.

CEMG has a network of 329 branches in Portugal and one in Cabo Verde. Additionally, CEMG has 6 representation offices.

When evaluating the performance by business area, CEMG considers the following Operating Segments: (1) Retail Bank, which includes the sub segments of Private, Individual Managers, Micro business and Social Charity Private Institutions; (2) Corporate and Institutional, which includes big sized companies, medium and small companies, Financial Institutions and The Public Sector and (3) Other Segments, which includes all the entities that are not included in the other segments, namely the operations and management referring to Securities' own Portfolio and Applications in Credit Institutions. Each segment comprises CEMG's structures that are directly or indirectly dedicated, as well as autonomous units of CEMG which activity is connected to one of the above segments.

Despite the fact that CEMG has its activity in Portugal, geographically it has some international role, developed by Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, SA (IFI), which by geographical criteria, results can be distinguished in Portugal (Domestic) from Cabo Verde (International Area).

Segments description

In a consolidated basis, each of the segments includes income and costs related to the following activities, products, clients and structures of CEMG:

Retail Bank

This segment corresponds to all activity developed by CEMG in Portugal with private customers and small business, fundamentally originated by the branches network, agent network and electronic channels. The financial information of the segment relates to, among other products and services, mortgage loans, consumer credit, financing the clients' activity, deposits repayable on demand and term deposits, retirement plans and other insurance products to private customers, commissions over account management and electronic payments, the investment funds cross-selling and brokerage and custodian services.

Corporate and Institutional

This segment includes the activity with small, medium and big companies, through offices network and commercial structure dedicated to this segment. It also includes the institutional clients business, mostly from the financial sector and public administration. Among the products, it is emphasized cash and investments loans, commercial discount, leasing, factoring, renting, foreign operations, documentaries loans, checks, deposits, received or paid services, credit and debit cards, as well as custodian services.

Other segments

This segment includes all the activity developed supporting the main activities that are the core business of the two segments mentioned above, highlighting the CEMG's global financial management activity, the investments in instruments of capital markets (stocks and bonds), be them integrated in the negotiation portfolio, of fair value through profit and loss, available for sale or held to maturity. In this segment it is also included the impacts of the strategic decisions, the investments in minority strategic participations, the activity related to interest and exchange rate risk management, management of short and long positions of financial investments which favourites the changes in market prices, and the public or private preparation and availability of the issue of stocks, bonds and other debt instruments.

Allocation criteria of the activity and results to the operating segments

The consolidated financial information presented for each segment was prepared in accordance with the criteria followed for the preparation of internal information analyzed by the decision makers of CEMG, as required by IFRS 8 – Operating Segments.

The accounting policies applied in the preparation of the financial information related with the operating segments are consistent with the ones used in the preparation of these consolidated financial statements, which are described in note 1. The following principles were also adopted:

Measurement of profit or loss from operating segments

CEMG uses net income before taxes as the measure of profit or loss for evaluating the performance of each operating segment.

Autonomous Operating Segments

As mentioned above, each operating unit (branches MG Cabo Verde and associated entities) is evaluated separately, as these units are considered investment centers. Additionally, considering the characteristics of the business developed by these units, they are fully included in one of the operating segments, assets, liabilities, equity, income and expenses.

CEMG structures dedicated to the segment

CEMG activity comprises most of its operating segments and therefore its activity is disaggregated.

For the purpose of allocating the financial information, the following principles are used:

(i) The origin of the operation, i.e., the operation is allocated to the same segment as the commercial structure that originated it, even though, in a subsequent phase, CEMG makes a strategic decision in order to securitize some of these originated assets;

(ii) The allocation of a commercial margin to mass-products, established in a high level when the products are launched;

(iii) The allocation of a margin directly negotiated by the commercial structures with the clients for non-mass-products;

(iv) The allocation of direct costs from commercial and central structures dedicated to the segment;

(v) The allocation of indirect cost (central support and IT services) determined in accordance with specific drivers and with the Cost Based Approach (CBA) model; and

(vi) The allocation of credit risk determined in accordance with the Regulation no. 3/95 of the Bank of Portugal and with the impairment model.

The transactions between the independent and autonomous units of CEMG are made at market prices; the price of the services between the structures of each unit, namely the price established for funding between units, is determined by the margins process referred above (which vary in accordance with the strategic relevance of the product and the balance between funding and lending); the remaining internal transactions are allocated to the segments in accordance with CBA without any margin from the supplier.

The interest rate risk, exchange risk, liquidity risk and others, except for credit risk, are included in the segment Others Segments.

Interest and similar income/expense

Since CEMG activities are exclusively related to the financial sector, the major income results from the difference between interest received on assets and interest paid from liabilities. This situation and the fact that the segments evaluation is based on negotiated margins or determined previously to each product, leads to the results on the intermediation activity being presented, as permitted by IFRS 8 paragraph 23, as the net value of interest under the designation of Financial Income.

Consolidated Investments under the Equity Method

Investments in associated companies consolidated under the equity method are included in Operations between Segments.

Non-current assets

Non-current assets, according to IFRS 8, include Other Tangible Assets and Intangible Assets. CEMG includes these assets on the segment in which these subsidiaries develop their business.

Post Employment Benefits

The factors that influence the amount of responsibilities and the amount of the funds' assets correspond, mainly, to external elements; it is CEMG policy not to include these factors on the performance evaluation of the operating segments, which activities relate to customers.

Domestic and International Areas

In the disclosure of financial information by geographical areas, the operating unit that integrate the International Area is 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.

The report by operating segments as at 31 December 2010, is as follows:

Income statement indicators	**Retail Euro '000**	**Corporate and Institutional Euro '000**	**Operations between Segments Euro '000**	**Total Euro '000**
Interest and similar income	627 432	104 296	29 460	761 188
Interest expense and similar charges	418 716	43 848	27 676	490 240
Net interest income	208 716	60 448	1 784	270 948
Dividends from equity instruments	–	–	538	538
Fees and commissions income	66 746	14 354	8 075	89 175
Fees and commissions expense	(10 297)	(2 426)	(2 482)	(15 205)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	–	–	45 857	45 857
Net gains/(losses) arising from available-for-sale financial assets	–	–	12 692	12 692
Net gains arising from foreign exchange differences	–	–	2 344	2 344
Net gains from sale of other financial assets	2 943	275	(6 581)	(3 363)
Other operating income	7 998	2 311	6 641	16 950
Total operational income	276 106	74 962	68 868	419 936
Staff costs	95 748	22 201	25 508	143 457
General and administrative expenses	55 671	13 259	14 565	83 495
Depreciation and amortisation	13 961	3 319	3 570	20 850
Total operating costs	165 380	38 779	43 643	247 802
Total of Provisions and Impairment	85 337	27 553	9 791	122 681
Operating profit	25 389	8 630	15 434	49 453
Share of profit of associates under the equity method	–	–	1 954	1 954
Profit for the year	25 389	8 630	17 388	51 407
Net Assets	9 013 324	3 062 231	6 173 735	18 249 290
Liabilities	8 521 658	2 895 190	5 836 965	17 253 812
Investments in Associates	–	–	37 060	37 060

The report by operating segments as at 31 December 2009, is as follows:

Income statement indicators	Retail Euro '000	Corporate and Institutional Euro '000	Operations between Segments Euro '000	Total Euro '000
Interest and similar income	743 804	94 792	32 805	871 401
Interest expense and similar charges	483 049	45 932	21 612	550 593
Net interest income	260 755	48 860	11 193	320 808
Dividends from equity instruments	–	–	703	703
Fees and commissions income	70 196	12 871	5 652	88 719
Fees and commissions expense	(10 257)	(1 789)	(1 559)	(13 605)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	–	–	28 319	28 319
Net gains/(losses) arising from available-for-sale financial assets	–	–	1 657	1 657
Net gains arising from foreign exchange differences	–	–	2 070	2 070
Net gains from sale of other financial assets	594	–	(205)	389
Other operating income	5 864	340	10 453	16 657
Total operational income	327 152	60 282	58 283	445 717
Staff costs	108 581	19 367	19 404	147 352
General and administrative expenses	58 205	11 067	9 932	79 204
Depreciation and amortisation	15 112	2 695	2 700	20 507
Total operating costs	181 898	33 129	32 036	247 063
Total of Provisions and Impairment	124 882	20 010	11 789	156 681
Operating profit	20 372	7 143	14 458	41 973
Share of profit of associates under the equity method	–	–	2 503	2 503
Profit for the year	20 372	7 143	16 961	44 476
Net Assets	7 899 264	2 769 569	6 575 934	17 244 767
Liabilities	7 447 511	2 611 180	6 199 862	16 258 553
Investments in Associates	–	–	40 775	40 775

CEMG develops bank activities as well as financial services in Portugal and in Cabo Verde.

Geographical Segments

CEMG operates with special emphasis in markets such as Portugal 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 Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI).

As at 31 December 2010, the net contribution of the main geographical segments is as follows:

Income statement indicators	Domestic Euro '000	International Euro '000	Adjustment Euro '000	Consolidated Euro '000
Interest and similar income	761 185	8 459	(8 456)	761 188
Interest expense and similar charges	490 764	7 932	(8 456)	490 240
Net interest income	270 421	527	–	270 948
Dividends from equity instruments	1 244	–	(706)	538
Fees and commissions income	89 175	–	–	89 175
Fees and commissions expense	(15 205)	–	–	(15 205)
Net gains/(losses) arising from assets and aliabilities at fair value through profit and loss	45 857	–	–	45 857
Net gains/(losses) arising from available-for-sale financial assets	12 692	–	–	12 692
Net gains arising from foreign exchange differences	2 320	24	–	2 344
Net gains from sale of other financial assets	(3 363)	–	–	(3 363)
Other operating income	16 975	(25)	–	16 950
Total operational income	420 116	526	(706)	419 936
Staff costs	143 457	–	–	143 457
General and administrative expenses	83 442	53	–	83 495
Depreciation and amortisation	20 846	4	–	16 950
Total operating costs	247 745	57	–	247 802
Loans impairment	110 599	–	–	110 599
Other assets impairment	12 166	–	–	12 166
Other provisions	(84)	–	–	(84)
Operating profit	49 690	469	(706)	49 453
Share of profit of associates under the equity method	1 954	–	–	1 954
Profit for the year	51 644	469	(706)	51 407

Balance sheet indicators	Domestic Euro '000	International Euro '000	Adjustments Euro '000	Consolidated Euro '000
Cash and deposits at central banks	240 024	–	–	240 024
Loans and advances to credit institutions repayable on demand	74 344	249	(240)	74 353
Other loans and advances to credit institutions	338 662	362 564	(362 564)	338 662
Loans and advances to customers	14 554 133	–	–	14 554 133
Financial assets held for trading	130 865	–	–	130 865
Other financial assets at fair value through profit or loss	3 952	–	–	3 952
Financial assets available-for-sale	2 430 568	–	–	2 430 568
Hedging derivatives	2 810	–	–	2 810
Held-to-maturity investments	58 093	51	–	58 144
Investments in associated companies and others	44 061	–	(7 001)	37 060
Non- current assets held for sale	162 374	–	–	162 374
Property and equipment	89 188	99	–	89 287
Intangible assets	18 254	–	–	18 254
Other assets	108 804	–	–	108 804
Total Assets	18 256 132	362 963	(369 805)	18 249 290
Deposits from central banks	1 540 266	–	–	1 540 266
Deposits from other credit institutions	899 742	2 000	–	901 742
Deposits from customers	10 017 143	353 224	(362 804)	10 007 563
Debt securities issued	3 836 243	–	–	3 836 243
Financial liabilities held for trading	53 891	–	–	53 891
Hedging derivatives	1 408	–	–	1 408
Provisions	1 311	–	–	1 311
Other subordinated debt	380 986	–	–	380 986
Other liabilities	530 402	–	–	530 402
Total Liabilities	17 261 392	355 224	(362 804)	17 253 812
Share capital	800 000	7 001	(7 001)	800 000
Fair value reserves	(85 706)	–	–	(85 706)
Other reserves and retained earnings	228 802	269	706	229 777
Profit for the period	51 644	469	(706)	51 407
Total Equity	994 740	7 739	(7 001)	995 478
Total Liabilities and Equity	18 256 132	362 963	(369 805)	18 249 290

As at 31 December 2009, the net contribution of the main geographical segments is as follows:

Income statement indicators	**Domestic Euro '000**	**International Euro '000**	**Adjustments Euro '000**	**Consolidated Euro '000**
Interest and similar income	871 401	10 242	(10 242)	871 401
Interest expense and similar charges	551 445	9 390	(10 242)	550 593
Net interest income	319 956	852	–	320 808
Dividends from equity instruments	1 260	–	(557)	703
Fees and commissions income	88 719	–	–	88 719
Fees and commissions expense	(13 605)	–	–	(13 605)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	28 317	2	–	28 319
Net gains/(losses) arising from available-for-sale financial assets	1 657	–	–	1 657
Net gains arising from foreign exchange differences	2 052	18	–	2 070
Net gains from sale of other financial assets	389	–	–	389
Other operating income	16 683	(26)	–	16 657
Total operational income	445 328	846	(557)	445 717
Staff costs	147 352	–	–	147 352
General and administrative expenses	79 147	57	–	79 204
Depreciation and amortisation	20 502	5	–	20 507
Total operating costs	247 001	62	–	247 063
Loans impairment	144 490	–	–	144 490
Other assets impairment	12 037	–	–	12 037
Other provisions	154	–	–	154
Operating profit	42 959	784	(557)	41 973
Share of profit of associates under the equity method	2 503	–	–	2 503
Profit for the year	44 249	784	(557)	44 476

Balance Sheet Indicators	Domestic Euro '000	International Euro '000	Adjustments Euro '000	Consolidated Euro '000
Cash and deposits at central banks	305 018	–	–	305 018
Loans and advances to credit institutions repayable on demand	69 868	2	–	69 870
Other loans and advances to credit institutions	370 884	307 698	(307 644)	370 938
Loans and advances to customers	14 682 382	–	–	14 682 382
Financial assets held for trading	103 195	–	–	103 195
Other financial assets at fair value through profit or loss	4 192	–	–	4 192
Financial assets available-for-sale	1 282 417	–	–	1 282 417
Hedging derivatives	5 109	–	–	5 109
Held-to-maturity investments	33 523	–	–	33 523
Investments in associated companies and others	47 776	–	(7 001)	40 775
Non-current assets held for sale	128 599	–	–	128 599
Property and equipment	91 173	102	–	91 275
Intangible assets	16 151	–	–	16 151
Other assets	111 323	–	–	111 323
Total Assets	17 251 610	307 802	(314 645)	17 244 767
Deposits from central banks	502 353	–	–	502 353
Deposits from other credit institutions	637 756	14	–	637 770
Deposits from customers	9 188 690	299 812	(307 644)	9 180 858
Debt securities issued	4 914 915	–	–	4 914 915
Financial liabilities held for trading	41 724	–	–	41 724
Hedging derivatives	598	–	–	598
Provisions	1 490	–	–	1 490
Other subordinated debt	381 043	–	–	381 043
Other liabilities	597 801	–	–	597 802
Total Liabilities	16 266 372	299 826	(307 644)	16 258 553
Share capital	760 000	7 001	(7 001)	760 000
Fair value reserves	(28 600)	–	–	(28 600)
Other reserves and retained earnings	209 590	191	557	210 338
Profit for the period	44 249	784	(557)	44 476
Total Equity	985 239	7 976	(7 001)	986 214
Total Liabilities and Equity	17 251 610	307 082	(323 505)	17 244 767

48. Risk management

Group Montepio Geral («CEMG») is subject to several risks during the course of its business.

The 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.

Risk analysis and management is conducted in an integrated manner and from the standpoint of CEMG by the Risk Analysis and Management Division ('DAGR') that has been made up of four departments:

– Credit Risk Department: responsible for the development and integration in the decision processes of the internal models of credit risk analysis, as well as the prudential report about Own Funds and internal reports about risk credit;

– Market Risk Department: ensures the analysis and prudential report as well as internal report of market risks, interest and exchange and liquidity rate, as well as its integration in the decision processes of the Dealing Room;

– Operational Risk Department: responsible for the operational risk management;

– Companies Credit Analysis Department: integrates credit analysts, responsible for the appreciation of the operations and internal grades attribution of credit risk in the enterprises segment.

DAGR also ensures the communications with Bank of Portugal regarding the prudential reports related to capital requirements, liquidity risk and interest rate risk.

Regarding risk and control management, developments were made in several activities, such as:

– Implementation of new models of scoring for small entities business;

– Enforcement of the reporting activity regarding credit portfolio's risk evolution and monitoring the use of the internal rating and coring systems;

– Accompanying in the process of implementation of the new systems of credit workflow and management of its limits;

– Price methodology regarding credit adjusted to credit portfolio's risk to companies, assuring application of this methodology to its main segments;

– Integration of the risk control regarding counterparties.

At the regulatory level and Basel II, were developed the reports established in Pillar II – Capital Adequacy and Pillar III – Market Discipline. According to Pillar II, reports of the Process of Self Evaluation of Internal Capital («ICAAP»), Stress and Concentration Risk tests were delivered to the Bank of Portugal, in accordance with Instruction no. 2/2010, of the Bank of Portugal. The results not only show that capital is solid against risk with major magnitude but also that there is a great evolution potential against the principle macroeconomics factors. Regarding to the Concentration Risk verifies a positive evolution in the main concentration types – Sectorial, Individual and Geographical. In what concerns Pillar III, it was published the Market Discipline Report, presenting the type and levels of risk, which are implicit in CEMG's activity, as well as the processes, structure and organization of the risk management.

Also under Basel II, CEMG has obtained the permission of the Bank of Portugal for the adoption of the Standarized Approach (TSA) for calculation of minimum own fund's requirements for operational risk coverage, starting at 30 June 2010.

CEMG has been following Basel Committee's recommendations and all its recent developments regarding liquidity risk and own funds' evaluation. DAGR analyses those impacts. The documents published by the Basel Committee in late 2009, are now published in their final versions and are expected to be transposed into European directives shortly.

Main types of risk

Credit – Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfil their obligations.

Market – Market risk reflects the potential loss inherent in a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the various financial instruments that make up the portfolio, considering both the correlations that exist between them and the respective volatility.

Liquidity – Liquidity risk reflects CEMG's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

Operational – Operational risk is the potential loss resulting from failures or inadequacies in internal procedures, persons or systems, and also the potential losses resulting from external events.

Internal organisation

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.

The Internal Auditing Management, as support to the Board of Directors, has the main duties to assessing reports on the internal control system to be sent annually to the Bank of Portugal, to check compliance with the applicable legislation on the part of the various departments, and to identify major risk areas and submitting its conclusions to the Board of Directors.

Depending on the nature and severity of the risk, plans, programs or actions shall be drawn up, supported by information systems, and procedures shall be devised that provide a high degree or reliably as to the risk management measures defined whenever necessary.

The Dealing Room shall cooperate with the Risk Analysis and Management in order to measure and control operations and portfolio risks, as well as suitably monitor CEMG's overall risk positions.

In terms of compliance risk, the Head of Compliance in the dependence of the Board of Directors, shall control, identify and assess the various situations that contribute to this risk, namely in terms of transactions/activities, business, products and departments.

In this context, the Internal Auditing Management shall also assess the internal control system, identifying the areas of major importance/risk, to ensure efficient governance.

Risk evaluation

Credit Risk – Retail

Credit risk models play a significant role in credit decision process. Indeed, the decision process concerning the credit portfolio depends on a group of policies based on scoring models developed to individual and business clients and the rating for the corporate sector.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behaviour. In order to support commercial strategies reactive scoring models are also used, namely in the main individual credit portfolios, such as mortgage and individual loans, distinguishing between customers and non-customers (or new customers). In the case of credit card the correspondent reactive scoring model is being reviewed. Addittionally, in the individual credit portfolios, commercial performance and credit risk analysis are supported by behaviour scorings.

To corporate credit are used internal rating models to medium and large companies, distinguishing construction from the other activity sectors, while for customers «Empresários em nome individual» and micro business is applied the scoring model business.

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

	2010 Euro '000	2009 Euro '000
Loans and advances to credit institutions repayable on demand	74 353	69 870
Other loans and advances to credit institutions	338 662	370 938
Loans and advances to customers	14 554 133	14 682 382
Financial assets held for trading	130 865	101 815
Other financial assets at fair value through profit or loss	3 952	4 192
Available-for-sale financial assets	2 416 653	1 267 208
Hedging derivatives	2 810	5 109
Held-to-maturity investments	58 144	33 523
Investments in associated companies and others	37 265	40 075
Other assets	108 804	111 323
Guarantees granted	424 361	426 156
Irrevocable commitments	96 000	41 458
Credit default swaps (notionals)	41 458	94 500
	18 498 537	17 456 313

The analysis of the risk exposure by sector of activity, as at 31 December 2010, can be analysed as follows:

	2010							
Sector of activity	**Loans and advances to costumers**		**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**	
	Euro '000	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**
Agriculture	34 237	(1 443)	–	–	187	(56)	–	2 844
Mining	10 258	(108)	–	–	525	–	–	–
Food, beverage and tobacco	64 697	(5 887)	148	–	474	–	–	2 486
Textiles	32 339	(8 494)	–	–	–	–	–	1 277
Shoes	9 013	(1 116)	–	–	–	–	–	61
Wood and cork	24 123	(4 537)	–	–	–	–	–	801
Printing and publishing	18 925	(2 359)	–	–	–	–	–	1 356
Petroleum refining	178	(129)	127	–	34 011	–	–	–
Chemicals and rubber	36 914	(2 836)	54	–	1 137	–	–	1 277
Non-metallic minerals	16 547	(1 444)	–	–	–	–	–	2 751
Basis metallurgic industries and metallic products	47 997	(2 619)	–	–	–	–	–	4 722
Production of machinery	12 592	(1 877)	–	–	271	–	–	1 976
Production of transport material	9 875	(432)	–	–	–	–	–	134
Other transforming material	27 896	(4 008)	34	–	67 648	–	–	891
Electricity, gas and water	71 140	(881)	1 029	2 929	64 385	(899)	–	961
Construction	1 847 666	(154 295)	181	–	10 981	(998)	–	238 734
Wholesale and retail	611 751	(64 671)	116	–	10 554	–	–	40 275
Tourism	222 901	(12 662)	–	–	7 486	(90)	–	12 151
Transports	127 289	(3 053)	127	–	33 045	–	–	9 971
Communications and information activities	34 071	(2 561)	390	–	58 497	–	–	604
Financial activities	243 982	(3 177)	128 479	1 023	642 891	(15 656)	–	29 981
Real estate's activities	674 449	(37 051)	–	–	15 478	–	–	31 398
Services provided to companies	388 172	(16 408)	–	–	–	–	–	11 294
Public services	195 851	(4 168)	–	–	1 164 590	–	58 144	2 588
Other activities of collective services	60 423	(4 295)	–	–	–	–	–	5 788
Mortgage loans	9 205 612	(177 655)	–	–	283 350	(1 283)	–	19 210
Others	1 047 046	(3 643)	180	–	54 230	(190)	–	830
TOTAL	15 075 944	(521 811)	130 865	3 952	2 449 740	(19 172)	58 144	424 361

The analysis of the risk exposure by sector of activity, as at 31 December 2009, can be analysed as follows:

	2009							
Sector of activity	Loans and advances to costumers		Financial assets held for trading	Other financial assets at fair value trough profit or loss	Available-for-sale financial assets		Held-to--maturity investments	Guarantees granted
	Gross amount Euro '000	Impairment Euro '000	Gross amount Euro '000	Gross amount Euro '000	Gross amount Euro '000	Impairment Euro '000	Gross amount Euro '000	Euro '000
Agriculture	31 191	(914)	–	–	154	(47)	–	395
Mining	8 003	(333)	–	–	541	–	–	1 147
Food, beverage and tobacco	74 913	(4 098)	–	–	41	–	–	1 915
Textiles	35 051	(7 520)	–	–	–	–	–	1 345
Shoes	8 316	(759)	–	–	–	–	–	–
Wood and cork	29 909	(2 711)	–	–	–	–	–	932
Printing and publishing	22 394	(2 061)	–	–	–	–	–	951
Petroleum refining	177	(48)	229	–	34 928	–	–	–
Chemicals and rubber	31 723	(813)	–	–	1 025	–	–	1 164
Non-metallic minerals	23 189	(1 205)	–	–	–	–	–	2 136
Basis metallurgic industries and metallic products	81 352	(39)	–	–	–	–	–	3 943
Production of machinery	17 471	(1 895)	–	–	270	–	–	1 798
Production of transport material	12 672	(253)	–	–	5 387	–	–	134
Other transforming material	29 956	(2 988)	685	–	81 182	(698)	–	805
Electricity, gas and water	73 634	(126)	406	3 206	37 098	(252)	–	890
Construction	2 684 448	(165 548)	–	–	41 533	(998)	–	212 348
Wholesale and retail	662 998	(49 627)	49	–	13 428	–	–	36 394
Tourism	236 908	(14 834)	–	–	8 961	(90)	–	11 924
Transports	103 126	(1 405)	–	–	2 966	–	–	11 775
Communications and information activities	28 123	(2 115)	359	–	19 044	–	–	335
Financial activities	155 795	(545)	101 467	986	906 640	(19 742)	–	38 623
Real estate's activities	819 163	(28 075)	–	–	12 142	–	–	29 463
Services provided to companies	334 303	(10 243)	–	–	–	–	–	9 158
Public services	203 243	(2 679)	–	–	10 168	–	33 523	4 020
Other activities of collective services	65 795	(2 356)	–	–	670	–	–	4 285
Mortgage loans	9 106 948	(188 329)	–	–	86 460	(1 641)	–	9 056
Others	295 494	(2 394)	–	–	43 437	(190)	–	41 220
TOTAL	15 176 295	(493 913)	103 195	4 192	1 306 075	(23 658)	33 523	426 156

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

During 2010, CEMG entered into a number of credit default swaps relating to investment grade issuers, where the notional value of the purchase and protective sales positions at the year-end were Euro 32 700 000 and Euro 57 000 000, respectively.

Overall Risks and Financial Assets

Efficient balance sheet management also involves the Assets and Liabilities Committee («ALCO»), which examines interest rate, liquidity and exchange rate risks, namely as regards compliance with the limits set for the static and dynamic gaps calculated.

Normally the static interest rate and liquidity gaps are positive and moderate in size, with exception of those months when payments are made relating to bond issue debt service. As for exchange rate risk, the resources obtained in different currencies are hedged as assets in the respective monetary market and for periods not exceeding those of the resources, which mean any exchange rate gaps result mainly from possible unadjustments between the hedge and resource deadlines.

Concerning risk information and analysis, regular reports are provided on the credit and market risks on the company's financial assets and those of the other members of CEMG. For the company's own portfolio, the various risk limits are defined using the Value-at-Risk («VaR») method. There are different exposure limits such as global «VaR» limits, by issuer, by asset type/class and rating. There are also limits of Stop Loss. Investment portfolio is mainly concentrated in bonds which as at the end of 2010 represented 92.6% of the total's portfolio, being 60% from sovereign debt.

Own portfolios are concentrated in variable rate debt securities, which gives them a low VaR (Var calculation is based on analytical methodology development by risk metrics, concerning a ten-day period and with a 99% confidence interval). Credit risk exposure is also very restricted, due to the bonds portfolio held are usually of investment grade levels.

CEMG continuously calculates its own portfolios «VaR», given a 10-day horizon and a 99% confidence interval, given the greater volatility witnessed in the major financial markets. At the same time, the portfolio's average life remained short.

Regarding the nature of the retail activity, the institution normally presents interest rate positive gaps, which by the end of 2010, would reach, in static terms, about Euro 461 488 000 (2009: Euro 400 068 000) (considering the total of the refixing terms of the interest rate).

The following table presents the mainly indicators of these measures, as at 31 December 2010 and 2009:

	2010				2009			
	December Euro '000	**Annual Average Euro '000**	**Maximum Euro '000**	**Minimum Euro '000**	**December Euro '000**	**Annual Average Euro '000**	**Maximum Euro '000**	**Minimum Euro '000**
Interest rate GAP	461 488	388 650	461 488	315 813	400 068	662 050	924 031	400 068

Following the recommendations of Basel II (Pillar II) and Instruction no. 19/2005, of the Bank of Portugal, CEMG calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlements («BIS») which requires the classification of non-trading balances and off-balance positions by repricing intervals.

	Due within 3 months Euro '000	**3 to 6 months Euro '000**	**6 months to 1 year Euro '000**	**1 to 5 years Euro '000**	**Over 5 years Euro '000**
31 December 2010					
Assets	10 459 200	3 879 121	413 379	1 344 393	646 080
Off balance sheet	5 789 405	172 577	122 450	3 009 066	0
Total	16 248 605	4 051 698	535 829	4 353 459	646 080
Liabilities	7 697 012	1 484 207	1 333 139	5 608 135	158 200
Off balance sheet	8 284 868	734 669	2 200	71 754	0
Total	15 981 880	2 218 876	1 335 339	5 679 889	158 200
31 December 2009					
Assets	13 368 081	4 169 695	115 793	183 241	50 222
Off balance sheet	3 855 697	265 965	489 500	48 500	–
Total	17 223 778	4 435 660	605 293	231 741	50 222
Liabilities	11 231 280	2 668 503	1 668 584	1 918 256	341
Off balance sheet	4 165 097	451 782	2 400	31 882	8 500
Total	15 396 377	3 120 285	1 670 984	1 950 138	8 841

Sensibility analysis

As at December, 2010, 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 13 000 000 (2009: Euro 20 770 000).

The following table presents the average interests, in relation to the CEMG major assets and liabilities categories for the years ended 31 December 2010 and 2009, as well as the average balances and the income and expense for the year:

	2010			2009		
Products	**Average balance for the year Euro '000**	**Average interest rate (%)**	**Income/ Expense Euro '000**	**Average balance for the year Euro '000**	**Average interest rate média (%)**	**Income/ Expense Euro '000**
Assets						
Loans to costumers	15 018 012	3.01	451 424	15 159 383	3.71	562 858
Deposits	159 355	0.93	1 488	157 614	1.23	1 934
Securities portfolio	2 152 396	4.26	91 798	1 158 637	5.34	61 860
Inter-bank loans and advances	188 586	6.11	11 520	281 442	0.62	1 750
Swaps	–	–	196 074	–	–	239 586
Total Assets	17 518 349	4.29	752 304	16 757 076	5.18	867 988
Liabilities						
Deposits from customers	9 342 301	1.62	151 654	8 558 425	2.16	184 689
Interbank deposits	1 299 076	1.03	13 440	782 350	1.63	12 747
Securities deposits	576 612	11.31	65 189	711 568	2.22	15 793
Deposits from other credit institutions	225 000	0.96	2 157	225 000	1.81	4 074
Debt securities	5 022 414	1.79	89 768	5 424 995	2.30	124 589
Other subordinated liabilities	378 000	2.00	7 548	378 000	3.10	11 721
Other liabilities	480	0.79	4	682	3.18	22
Swaps	–	–	151 596	–	–	193 545
Total Liabilities	16 843 883	2.86	481 356	16 081 020	3.40	547 180

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2010 is analysed as follows:

	2010							
	Euro Euro '000	United States Dollars Euro '000	Sterling Pounds Euro '000	Canadian Dollars Euro '000	Suisse Frank Euro '000	Japanese Yen Euro '000	Other foreign currencies Euro '000	Total amount Euro '000
Assets by currency								
Cash and deposits at central banks	235 090	3 263	367	297	651	81	275	240 024
Loans and advances to credit institutions repayable on demand	65 351	5 943	808	1 057	893	4	297	74 353
Loans and advances to credit institutions	338 559	103	–	–	–	–	–	338 662
Loans and advances to customers	14 551 759	2 374	–	–	–	–	–	14 554 133
Financial assets held for trading	130 755	110	–	–	–	–	–	130 865
Other financial assets at fair value trough profit or loss	3 885	29	–	38	–	–	–	3 952
Available-for-sale financial assets	2 427 984	2 248	–	–	336	–	–	2 430 568
Hedging derivatives	2 810	–	–	–	–	–	–	2 810
Held-to-maturity investments	58 144	–	–	–	–	–	–	58 144
Investments in associated companies and others	37 060	–	–	–	–	–	–	37 060
Non-current assets held for sale	162 374	–	–	–	–	–	–	162 374
Property and equipment	89 287	–	–	–	–	–	–	89 287
Intangible assets	18 254	–	–	–	–	–	–	18 254
Other assets	43 731	43 472	2 905	18 669	27	–	–	108 804
Total Assets	18 165 043	57 542	4 080	20 061	1 907	85	572	18 249 290
Liabilities by currency								
Deposits from central banks	1 540 266	–	–	–	–	–	–	1 540 266
Deposits from other credit institutions	899 844	2 015	7	74	(252)	–	54	901 742
Deposits from customers	9 931 912	51 916	3 422	19 987	129	15	182	10 007 563
Debt securities issued	3 833 988	2 245	–	–	–	–	–	3 836 233
Financial liabilities held for trading	53 739	152	–	–	–	–	–	53 891
Hedging derivatives	1 408	–	–	–	–	–	–	1 408
Provisions	1 311	–	–	–	–	–	–	1 311
Other subordinated debt	380 986	–	–	–	–	–	–	380 986
Other liabilities	526 041	1 274	651	–	2 030	70	336	530 402
Total Liabilities	17 169 495	57 602	4 080	20 061	1 907	85	572	17 253 802
Net asset / liability by currency	995 548	(60)	–	–	–	–	–	995 488
Equity	995 419	60	–	–	–	–	–	995 479
Net exposure	129	(120)	–	–	–	–	–	9

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2009 is analysed as follows:

	2009							
	Euro Euro '000	**United States Dollars Euro '000**	**Sterling Pounds Euro '000**	**Canadian Dollars Euro '000**	**Hong--Kong Dollar Euro '000**	**Suisse Frank Euro '000**	**Other foreign currencies Euro '000**	**Total amount Euro '000**
Assets by currency								
Cash and deposits at central banks	298 830	4 141	443	116	131	1 019	338	305 018
Loans and advances to credit institutions repayable on demand	63 353	3 475	877	437	3	1 668	57	69 870
Loans and advances to credit institutions	370 627	97	–	–	214	–	–	370 938
Loans and advances to customers	14 679 957	2 082	–	–	–	343	–	14 682 382
Financial assets held for trading	103 070	125	–	–	–	–	–	103 195
Other financial assets at fair value trough profit or loss	4 189	3	–	–	–	–	–	4 192
Available-for-sale financial assets	1 280 778	1 598	–	–	–	41	–	1 282 417
Hedging derivatives	5 109	–	–	–	–	–	–	5 109
Held-to-maturity investments	33 523	–	–	–	–	–	–	33 523
Investments in associated companies and others	40 775	–	–	–	–	–	–	40 775
Non-current assets held for sale	128 599	–	–	–	–	–	–	128 599
Property and equipment	91 275	–	–	–	–	–	–	91 275
Intangible assets	16 151	–	–	–	–	–	–	16 151
Other assets	52 428	36 980	3 570	18 310	–	35	–	111 323
Total Assets	17 168 664	48 501	4 890	18 863	348	3 106	395	17 244 767
Liabilities by currency								
Deposits from central banks	502 353	–	–	–	–	–	–	502 353
Deposits from other credit institutions	636 337	1 247	4	41	–	140	1	637 770
Deposits from customers	9 112 744	44 541	4 389	18 822	1	361	–	9 180 858
Debt securities issued	4 912 833	2 082	–	–	–	–	–	4 914 915
Financial liabilities held for trading	41 702	22	–	–	–	–	–	41 724
Hedging derivatives	598	–	–	–	–	–	–	598
Provisions	1 490	–	–	–	–	–	–	1 490
Other subordinated debt	381 043	–	–	–	–	–	–	381 043
Other liabilities	593 353	609	497	–	347	2 600	394	597 802
Total Liabilities	16 182 455	48 501	4 890	18 863	348	3 101	395	16 258 553
Net asset / liability by currency	986 209	–	–	–	–	5	–	986 214
Equity	986 207	2	–	–	–	5	–	986 214
Net exposure	(2)	(2)	–	–	–	–	–	–

Liquidity risk

The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. The overall exposure to liquidity risk is assessed through reports that identify negative mismatches allowing their hedging on a permanent and dynamic basis.

In addition, CEMG calculates the liquidity ratios in accordance with the Bank of Portugal rules.

Operational risk

CEMG has obtained the approval of the Bank of Portugal to apply, since 30 June 2010, an approach based in The Standardized Approach – TSA, for calculating the fund's requirements to mitigate the 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 DAGR and exclusively dedicated to this assignment, delegates designated by each department.

Capital Management and Solvency Ratio

In prudential matters, CEMG is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the rules to be attended by the institutions under its supervision. These rules determine a minimum solvency ratio in relation to the requirements of the assumed risks that institutions have to fulfil.

The capital elements of CEMG are divided into: Core Own Funds, Complementary Own Funds and Deductions, as follows:

– Core Own Funds («COF»): 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. Since 2007, 50% of the book value of equity investments in banking and insurance entities, exceeding 10% of the respective share capital is also deducted. In 2009, applying the IRB method for credit risk the amount of expected losses was adjust to 50% for positions in risk, deducted of the sum of value corrections and existents provisions;

– Complementary Own Funds (CMOF): 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 50%, in 2009, of the amount of expected losses was adjust to 50% for positions in risk, deducted of the sum of value corrections and existents provisions, with IRB method applied;

– It is deducted to the total Own Funds the assets acquired in exchange for loans at more than 4 or 5 years. This value is calculated in accordance with a progressiveness method that leads that in 10 to 13 years, 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 CMOF cannot exceed the COF. In addition, some components of the CMOF (Lower Tier II) cannot exceed 50% of the COF.

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).

The impact on regulatory capital of adopting NIC's/NCA's regarding to the Pensions Fund is being recognised on a straight line basis (in accordance with Regulation no. 2/2005, no. 4/2005 and no. 12/2005 and no. 7/2008 from the Bank of Portugal).

Therefore, as at the end of 2010, the negative net impact in Own Funds are, calculated in consolidated basis, was Euro 49 937 000, that results from a negative impact of Euro 27 094 000 registered in retained earnings and other deviation in the amount of Euro 38 635 000, compensated by a positive variation of Euro 15 792 000 that refers to unrecognized impacts of Own Funds (according to no. 4, of 13.º-A, from the Regulation no. 12/2001, of the Bank of Portugal).

The compensating value in Own Funds will decrease until it extinguish in 2014. At the end of the period, the differences reached in the Pension Fund will have been fully absorbed by the statutory reserves.

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 – of at least the regulatory minimum of 8%. Additionally, the Bank of Portugal released a recommendation in order to, by September 30, 2009, the financial groups submitted to its supervision, as well as the respective mother-companies, strengthen their Tier 1 ratios to a figure not below 8%.

The capital adequacy of CEMG as at 31 December 2010 and 2009 is presented as follows:

	2010 Euro '000	2009 Euro '000
Core own funds		
Paid-up capital	800 000	760 000
Results, general and special reserves and retained earnings	219 694	220 400
Other regulatory adjustments	(113 704)	(68 199)
NIC/NCA adjustments	15 792	22 207
	921 782	934 408
Complementary own funds		
Upper Tier 2	27 506	18 154
Lower Tier 2	378 000	378 000
Deductions	(10 179)	(12 753)
	395 327	383 401
Deductions to total own funds	(4 562)	(9 079)
Total own funds	1 312 547	1 308 729
Own funds requirements		
Credit risk	767 097	737 373
Market risk	1 721	2 986
Operational risk	55 500	62 346
	824 318	802 705
Prudential ratios		
Ratio core Tier 1	8,95%	9,08%
Solvency ratio	12,74%	12,81%

49. Accounting standards recently issued

The new standards and interpretations that have been issued, but that are not yet effective and CEMG has not yet applied, can be analysed as follows:

- ***IAS 39 (amendment) – Financial Instruments: Recognition and measurement – Eligible hedged items***

  The International Accounting Standards Board (IASB) issued an amendment to IAS 39 – Financial Instruments: recognition and measurement – Eligible hedged items, which is mandatory for periods beginning on or after 1 July 2009.

  This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations

  The adoption of this amendment by CEMG had no impact.

- ***IFRS 1 (amendment) – First time adoption of the International Financial Reporting Standards and IAS 27 – Consolidated and Separate Financial Statements***

  The amendments of IFRS 1 First time adoption of IFR' and IAS 27, Consolidated and separate financial statements are effective for periods beginning on or after 1 July 2009.

  These amendments allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements.

  CEMG does not expect any impact from the adoption of these amendments.

- ***IFRS 3 (revised) – Business combinations and IAS 27 (amendment) – Consolidated and separate financial statements***

  The International Accounting Standards Board (IASB) issued in January 2008, IFRS 3 (revised) Business Combination and an amendment to IAS 27 – Consolidated and separate financial statements.

  The main changes the revised IFRS 3 and amended IAS 27 will make to existing requirements or practice relate to (i) partial acquisitions, whereby non-controlling interests (previously named minority interest) can be measured either at fair value (implying full goodwill recognition against non-controlling interests) or at their proportionate interest in the fair value of the net identifiable assets acquired (which is the original IFRS 3 requirement); (ii) step acquisitions whereby, upon acquisition of a subsidiary and in determining the resulting goodwill, any investment in the business held before the acquisition is measured at fair value against the income statement; (iii) acquisition-related costs, which must generally, be recognised as expenses (rather than included in goodwill); (iv) contingent consideration which must be recognised and measured at fair value at the acquisition date, subsequent changes in fair value being recognised in the income statement (rather than by adjusting goodwill); and (v) changes in a parent's ownership interest in a subsidiary that do not result in the loss of control which are required to be accounted for as equity transactions.

  Additionally, IAS 27 was amended to require that an entity attributes a share of the accumulated loss of a subsidiary to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance, and to specify that, upon losing control of a subsidiary, an entity measures any non-controlling interests retained in the former subsidiary at its fair value, determined at the date the control is lost.

  The adoption of these amendments is mandatory since 1 January 2010 and had no significant impact on CEMG's consolidated financial statements.

- ***IFRS 5 (amendment) – Non-current assets held for sale and discontinued operations***

  This amendment clarifies the disclosures required by the norm regarding non-current assets (or groups held for disposal) clarified for sale or discontinued operations.

  The adoption of this amendment had no significant impact in the CEMG consolidated financial statements.

- ***IFRIC 12 – Service Concession Arrangements***

  The International Financial Reporting Interpretations Committee (IFRIC) issued in July 2007 the IFRIC 12 – Service concession arrangements, effective 1 January 2008. Earlier application is permitted. The endorsement of this interpretation by the European Union occurred only in 2009 and therefore it is only applicable to CEMG from 1 January 2010.

IFRIC 12 applies to service concession arrangements in which the public sector (i) controls or regulates the services provided by the operator and (ii) controls any significant residual interest in the infrastructure.

The adoption of this interpretation by CEMG had no impact on its consolidated financial statements.

- ***IFRIC 17 -Distributions of non-cash assets to owners***

The IFRIC 17 Distributions of non-cash assets to owners is effective on for periods beginning on or after 1 July 2009.

This interpretation clarifies the accounting treatment of distributions of non-cash assets to owners. This interpretation clarifies that an entity should measure the distribution of non-cash assets at the fair value of the assets to be distributed and that the difference between the fair value of the net assets distributed and the respective carrying amount is recognised in the income statement.

The adoption of this interpretation by CEMG had no impact on its consolidated financial statements.

- ***IFRIC 18 – Transfers of assets from customers***

The IFRIC 18 Transfers of assets from customers is effective for periods beginning on or after 1 July 2009.

This interpretation clarifies the requirements of IFER for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.

The interpretation clarifies:

– The circumstances in which the definition of an asset is met;

– The recognition of the asset and the measurement of its cost on initial recognition;

– The identification of the separately identifiable services (one or more services in exchange for the transferred asset);

– The recognition of revenue; and

– The accounting for transfers of cash from customers.

The adoption of this interpretation by CEMG had no impact on its consolidated financial statements.

- ***Annual Improvement Project***

In May 2008, IASB published the Annual Improvement Project making certain amendments to existing standards. However, the effective date of the referred changes depends on each specific standard.

Changes to IFRS 5 – Non-current assets held for sale and discontinued operations, effective for years starting after 1 July 2009. This change clarifies that all the assets and liabilities of a subsidiary must be classified as non-current assets held for sale in accordance with IFRS 5 if a plan for the partial sale of the subsidiary, that will imply losing the subsidiary's control, exists.

The adoption of this amendment by CEMG had no impact on its consolidated financial statements.

Recently issued pronouncements yet to be adopted by CEMG

The new standards and interpretations that have been issued, but that are not yet effective and that CEMG has not yet applied, can be analysed as follows. CEMG will apply these standards when they are effective.

- ***IFRS 9 – Financial instruments***

The International Accounting Standards Board (IASB) has issued in November, 2009 IFRS 9 Financial instruments part 1: Classification and measurement, which is mandatory from 1 January 2013, being an earlier adoption permitted. This IFRS has not yet been adopted by the European Union.

This IFRS is included in the IASB global project to replace IAS 39 and addresses the classification and measurement of financial assets, being the main aspects:

– Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument;

– An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only «basic loan features»). All other debt instruments are to be measured at fair value through profit or loss;

– All equity instruments issued by third parties are to be measured subsequently at fair value through profit or loss. However, the entity can irrevocably elect equity instruments to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss.

CEMG is evaluating the impact of adopting this amendment.

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

On October 2010 the International Accounting Standards Board (IASB) published Disclosures – Transfers of Financial Assets (Amendments to IFRS 7). The amendment is applicable for annual periods beginning on or after 1 July 2011. Earlier application is permitted. This amendment has not yet been adopted by the European Union.

The amendments required to disclosures about transactions that involve transfer of financial assets, namely securitizations of financial assets, intend to help users of financial statements to evaluate the risks and the impacts associated to those transactions in the financial statements.

CEMG is currently evaluating the impact of the adoption of this amendment.

- ***IAS 24 (revised) – Related party disclosures***

On November 2009 the International Accounting Standards Board (IASB) published Related Party Disclosures (IAS 24 revised). The amendment is applicable for annual periods beginning on or after 1 January 2011. Earlier application is permitted. This amendment has not yet been adopted by the European Union.

The revised standard clarifies and simplifies the definition of related party and the requirement for State related entities to disclose in detail all transactions with the State and other similar entities.

CEMG is currently evaluating the impact of the adoption of this amendment.

- ***IAS 32 (amendment) – Classification of Rights Issues***

On 8 October 2009 the International Accounting Standards Board (IASB or the Board) published Classification of Rights Issues (Amendment to IAS 32). The amendment is applicable for annual periods beginning on or after 1 February 2010. Earlier application is permitted.

This amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer and requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

CEMG does not expect any impact in its consolidated financial statements from the adoption of this amendment.

- ***IFRIC 14 (amended) – Prepayments of a minimum funding requirement***

This amendment intends to remove an unintended consequence of IFRIC 14 – «IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction». The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset.

The amendment is applicable for annual periods beginning on or after 1 January 2011. Earlier application is permitted. An entity shall apply the amendments from the beginning of the earliest comparative period presented in the first financial statements in which the entity applies this Interpretation.

CEMG is currently evaluating the impact of the adoption of this interpretation.

- ***IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments***

On 26 November 2009 the International Accounting Standards Board (IASB) published IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments. The interpretation is applicable for annual periods beginning on or after 1 July 2010. Early application is permitted.

The IFRIC noted that there was diversity in practice in how entities measured an equity instruments issued in a debt for equity swap. A 'debt for equity swap' transaction normally refers to a transaction in which a debtor and a creditor renegotiate the terms of a financial liability, such that the debtor extinguishes the liability fully or partially by issuing equity instruments to the creditor.

The interpretation clarifies (i) when an entity's equity instruments issued to extinguish all or part of a financial liability corresponds to 'consideration paid' in accordance with IAS 39 paragraph 41, (ii) how should an entity initially measure the equity instruments issued to extinguish the financial liability and (iii) how should an entity account for any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued.

CEMG is currently evaluating the impact of the adoption of this interpretation.

KPMG

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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, 2010 of Caixa Económica Montepio Geral which comprise the consolidated balance sheet as at 31 December, 2010 (showing total assets of 18,249,290 thousand Euro and Shareholders' Equity of 995,478 thousand Euro, including a net profit of 51,407 thousand Euro), the consolidated statements of income, the cash flows, the changes in equity and the comprehensive income for the year then ended and the corresponding notes to the financial statements.

Responsibilities

2 The Board of Directors is responsible for:

a) the preparation of consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union which presents fairly, in all material respects, the financial position of the group of companies included in the consolidation, the consolidated results of its operations, the consolidated cash flows, the changes in equity and the comprehensive income;

b) the preparation of historical financial information in accordance with the IFRS that is complete, true, current, clear, objective and lawful as established by the Stock Exchange Code ("CVM");

c) the adoption of adequate accounting policies and criteria;

d) the maintenance of an appropriate internal control system; and

e) the communication of any relevant matter that may have influenced the activity of the companies included in the consolidation, their financial position or results.

3 Our responsibility is to verify the consolidated financial information included in the documents referred above, namely if the information is complete, true, current, clear, objective and lawful as required by the CVM in order to issue a professional and independent opinion based on our audit.

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., a Portuguese company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG & Associados - S.R.O.C., S.A.
Capital Social: 2.840.000 Euros - Pessoa Colectiva Nº PT 502 161 078 - Inscrito na O.R.O.C. Nº 189 - Inscrito na C.M.V.M. Nº 9093

Matriculada na Conservatória do registo Comercial de Lisboa sob o Nº PT 502 161 078

KPMG

Scope

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

- verification that the financial statements of the companies included in the consolidation have been properly audited and verification, on a sample basis, of the documents underlying the figures and disclosures contained therein, and an assessment of the estimates made, based on judgments and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;

- verification of the consolidation procedures and of the application of the equity method;

- evaluation of the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;

- assessing the applicability of the going concern principle;

- assessing the overall adequacy of the consolidated financial statements' presentation; and

- the assessment of whether the consolidated financial information is complete, true, current, clear, objective and lawful.

5 Our audit also included the verification that the consolidated financial information included in the Annual Report of the Board of Directors is consistent with the consolidated financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451.º, of the Portuguese Companies Code ("Código das Sociedades Comerciais").

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

Opinion

7 In our opinion, the referred consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Caixa Económica Montepio Geral**, as at 31 December, 2010, the consolidated results of its operations, the consolidated cash flows, the changes in equity and the comprehensive income for the year then ended, in accordance with IFRS as adopted by the European Union and the information contained therein is complete, true, current, clear, objective and lawful.

KPMG

Report on Other Legal Requirements

8 It is also our opinion that the consolidated financial information included in the Board of Directors report is consistent with the consolidated financial statements and that the Report on Institutional Governance includes the information required by the article 245.°-A of the Portuguese Securities Market Code ("CVM").

Lisbon, 10 March, 2011

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (n.° 189)
represented by
Sílvia Cristina de Sá Velho Corrêa da Silva Gomes (ROC n.° 1131)

11.3. CAIXA ECONÓMICA MONTEPIO GERAL – INDIVIDUAL ACCOUNTS

INDIVIDUAL BALANCE SHEET AS AT 31 DECEMBER 2010 AND 2009

(thousand euros)

	2010			2009
	GROSS ASSETS	IMPAIRMENT AND DEPRECIATION	NET ASSETS	NET ASSETS
ASSETS				
Cash and deposits at central banks	240 024		240 024	305 018
Loans and advances to credit institutions repayable on demand	58 405		58 405	51 745
Financial assets held for trading	124 589		124 589	98 239
Other financial assets at fair value through profit or loss	3 952		3 952	4 192
Financial assets available-for-sale	5 284 528	27 717	5 256 811	3 164 510
Other loans and advances to credit institutions	338 712	50	338 662	370 884
Loans and advances to customers	14 790 095	437 329	14 352 766	14 448 162
Held-to-maturity investments	58 093		58 093	33 523
Hedging derivatives	7 734		7 734	7 844
Non-current assets held for sale	201 710	39 336	162 374	128 599
Other tangible assets	188 435	99 247	89 188	91 173
Intangible assets	37 904	19 650	18 254	16 151
Investments in associated companies and others	43 297		43 297	43 297
Other aAssets	133 344	3 473	129 871	132 447
TOTAL ASSETS	**21 510 822**	**626 802**	**20 884 020**	**18 895 784**
LIABILITIES				
Deposits from central banks			1 540 266	502 353
Financial liabilities held for trading			47 538	36 388
Deposits from other credit institutions			1 262 546	945 400
Deposits from customers			9 654 340	8 881 046
Debts securities issued			3 578 677	4 583 307
Financial liabilities associated with transferred assets			3 182 375	2 301 379
Hedging derivatives			6 894	5 008
Provisions			101 499	102 800
Other subordinated debt			380 986	381 043
Other liabilities			134 880	161 826
TOTAL LIABILITIES			**19 890 001**	**17 900 550**
EQUITY				
Capital			800 000	760 000
Revaluation Reserves			-74 569	-20 196
Other Reserves and Retained Earnings			227 097	217 652
Profit for the year			41 491	37 778
TOTAL EQUITY			**994 019**	**995 234**
TOTAL LIABILITIES AND EQUITY			**20 884 020**	**18 895 784**

THE CHIEF ACCOUNTANT
Armindo Marques Matias

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

INDIVIDUAL INCOME STATEMENT AT 31 DE DECEMBER 2010 AND 2009

(thousand euros)

	2010	2009
Interest and similar income	750 941	923 858
Interest and similar expense	480 519	603 902
NET INTEREST INCOME	**270 422**	**319 956**
Dividends from equity instruments	2 175	2 471
Fee and comission income	89 175	88 719
Fee and comission expense	15 205	13 605
Net losses arising from assets and liabilities at fair value through profit or loss	45 555	29 109
Net gains/(losses) arising from available-for-sale financial assets	9 959	1 657
Net gains arising from foreign exchange differences	2 320	2 052
Net gains from sale of other financial assets	-3 363	267
Other operating income	19 351	19 990
BANKING INCOME	**420 389**	**450 616**
Staff costs	142 823	146 406
General and administrative expenses	83 442	79 147
Amortisation	20 846	20 502
Provisions net of adjustments	-1 207	224
Adjustments for customer credit and receivables from other debtors (net of recovery of undue payments and write-offs)	120 828	154 522
Impairment of other financial assets net of reversals and recoveries	2 152	2 132
Impairment of other assets net of reversals and recoveries	10 014	9 905
PROFIT FOR THE YEAR	**41 491**	**37 778**

THE CHIEF ACCOUNTANT
Armindo Marques Matias

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

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AT 31 DECEMBER 2010 AND 2009

(thousand euros)

	2010	2009
Cash flows arising from operating activities		
Interest income received	737 401	943 814
Commission income received	85 013	87 095
Interest expense paid	(465 520)	(647 779)
Commission expense paid	(5 418)	(13 409)
Payments to employees and suppliers	(249 182)	(245 025)
Recovered from charged-off loans	2 376	3 308
Other payments and receivables	41 656	93 685
	146 326	**221 689**
(Increase) / decrease in operating assets		
Loans and advances to credit institutions and customers	882 313	739 899
Other assets	(24 885)	(64 174)
	857 428	**675 725**
(Increase) / decrease in operating liabilities		
Deposits from clients	758 954	898 716
Deposits from credit institutions	(182 479)	(974 530)
Deposits from central banks	1 540 000	500 000
	2 116 475	424 186
	3 120 229	**1 321 600**
Cash flows arising from investing activities		
Dividends received	2 175	2 471
(Acquisition) / sale of trading financial assets	(16 779)	(33 355)
(Acquisition) / sale of other financial assets at fair value through profit or loss	240	(161)
(Acquisition) / sale of available for sale financial assets	(2 148 825)	(1 261 070)
(Acquisition) / sale of hedging derivatives	1 996	2 408
(Acquisition) / sale of held to maturity investments	(23 987)	6 278
(Acquisition) / sale of shares in associated companies	–	(12 671)
Deposits owned with the purpose of monetary control	61 507	(41 048)
Proceeds from sale of fixed assets	3 135	156
Acquisition of fixed assets	(24 101)	(27 348)
	(2 144 639)	**(1 364 340)**
Cash flows arising from financing activities		
Dividends paid	(20 300)	(11 271)
Proceeds from issuance of share capital	40 000	100 000
Proceeds from issuance of bonds and subordinated debt	(98 078)	1 167 712
Reimbursement of bonds and subordinated debt	(906 509)	(1 248 555)
Increase / (decrease) in other (sundry) liabilities	12 470	3 702
	(972 417)	**11 588**
Net changes in cash and equivalents	3 173	(31 152)
Cash and equivalents balance at the beginning of the year	150 873	182 025
Cash (note 16)	99 128	89 900
Loans and advances to credit institutions repayable on demand (note 17)	51 745	92 125
Cash and equivalents balance at the end of the year	**154 046**	**150 873**

See accompanying notes to the Individual Financial Statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED AT 31 DECEMBER 2010 AND 2009

(thousand euros)

	Total equity	Share capital	General and special reserves	Other reserves	Fair value reserves	Retained earnings
Balance on 1 January 2009	**857 296**	**660 000**	**216 855**	**8 404**	**(48 064)**	**20 101**
Other movements recognised directly in Equity:						
Changes in fair value (note 39)	19 464	–	–	–	19 464	–
IAS 19 adjustments	(8 033)	–	–	–	–	(8 033)
Profit for the period	37 778	–	–	–	–	37 778
Total gains and losses recognised in the period	49 209	–	–	–	19 464	29 745
Dividends paid (note 41)	(11 271)	–	–	–	–	(11 271)
Increase in share capital (note 37)	100 000	100 000	–	–	–	–
Reserves constitution						
General reserve	–	–	7 064	–	–	(7 064))
Special reserve	–	–	1 766	–	–	(1 766)
Balance on 31 December 2009	**995 234**	**760 000**	**225 685**	**8 404**	**(28 600)**	**29 745**
Other movements recognised directly in Equity:						
Changes in fair value	(54 373)	–	–	–	(54 373)	–
IAS 19 adjustments	(8 033)	–	–	–	–	8 033)
Profit for the period	41 491	–	–	–	–	41 491
Total gains and losses recognised in the period	(20 915)	–	–	–	(54 373)	33 458
Dividends paid (note 41)	(20 300)	–	–	–	–	(20 300)
Increase in share capital (note 37)	40 000	40 000	–	–	–	–
Reserves constitution						
General reserve	–	–	7 556	–	–	(7 556)
Special reserve	–	–	1 889	–	–	(1 889)
Balance on 31 December 2010	**994 019**	**800 000**	**235 130**	**8 404**	**(82 973)**	**33 458**

COMPREHENSIVE INCOME STATEMENT
FOR THE YEARS ENDED AT 31 DECEMBER 2010 AND 2009

(thousand euros)

	Note	2010	2009
Fair Value Reserve			
Available for sale financial instruments	39	(54 373)	19 464
IAS 19 adjustments		(8 033)	(8 033)
Net profit of the year		41 491	37 778
Total Comprehensive Income Statement		(20 915)	49 209

See accompanying notes to the Individual Financial Statements

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS 31 DECEMBER 2010

1. Accounting Policies

1.1. 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 accordance with Regulation (EC) no. 1606/2002 of the European Parliament and the Council, of 19 July 2002, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February and Regulation no. 1/2005 from Bank of Portugal, CEMG's financial statements are required to be prepared in accordance with Adjusted Accounting Standards («NCA's»), as established by the Bank of Portugal.

NCA's are composed by all the standards included in the International Financial Reporting Standards («IFRS») as adopted for use in the European Union, with the exception of issues regulated by the Bank of Portugal such as loans impairment and recognition in retained earnings of the adjustments related to pensions during the transition period, as defined in the no. 2 and no. 3 of the Regulation no. 1/2005 and in the no. 2 of 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.

These financial statements for the year ended 31 December 2010, were prepared in accordance with the IFRS effective and adopted for use in the European Union until 31 December 2010. The accounting policies used by CEMG in the preparation of its financial statements as at 31 December 2010 are consistent with the ones used in the preparation of the financial statements as at 31 December 2009.

The individual financial statements for the year ended 31 December 2010 were prepared in accordance with NCA's, which includes the IFRS adopted for use in the European Union until 31 December 2010. The accounting policies used by CEMG in the preparation of the financial statements for the year ended 31 December 2010, are consistent with those used for the preparation of the annual financial statements for the year ended 31 December 2009.

However, as described in note 49, in the preparation of the financial statements as at 31 December 2010, CEMG adopted the accounting standards issued by the IASB and the interpretations issued by the IFRIC effective since 1 January 2010. The accounting principles used by CEMG in the preparation of these financial statements, described in this note, were modified accordingly. The adoption of these new standards and interpretations by CEMG in 2010 had impact mainly in new disclosures for which comparative figures are presented.

The accounting standards and interpretations recently issued but not yet effective and that CEMG has not yet adopted in the preparation of its financial statements can be analysed in note 49.

These financial statements are expressed in thousands of Euro, rounded to the nearest thousand. The financial statements are prepared under the historical cost convention, as modified by the application of fair value basis 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. Recognized 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 amortized cost or historical cost. Noncurrent assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell. The liability for defined benefit obligations is recognized as the present value of the defined benefit obligation net of the value of the fund and deducted from the actuarial losses not recognized.

The preparation of the financial statements in conformity with IFRS requires CEMG to make judgments, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The issues involving a higher degree of judgment or complexity, or where assumptions and estimates are considered to be significant are presented in note 1.22.

These financial statements were approved in the Board of Directors meeting held on 3 March, 2011.

1.2. FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

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

1.3. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Classification

Derivatives for risk management purposes include (i) hedging derivatives and (ii) derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss that were not classified as being hedging derivatives.

All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses of the derivatives designated as hedging instruments depends on the nature of the risk being hedged and of the hedge model used.

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

Hedge accounting

i) Classification criteria

Hedge accounting is used for derivative financial instruments designated as hedging instrument, provided the following criteria are met:

- At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the hedged item and of the hedging instrument and the evaluation of the effectiveness of the hedge;
- The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;
- The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;
- The hedge is valuable in a continuous basis and highly effective throughout the reporting period; and
- For cash flows hedges, the cash flows are highly probable of occurring.

ii) Fair value hedge

In a fair value hedge, the book value of the hedged asset or liability, determined in accordance with the respective note, is adjusted to reflect the changes in its fair value that are attributable to the risks being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk being hedged.

If the hedge no longer meets the criteria for hedge accounting, the derivative financial instrument is transferred to the trading portfolio and the hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to the income statement over the period to maturity.

iii) Hedge effectiveness

For each hedge relationship in order 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, 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.

iv) Embedded derivatives

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

1.4. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers include 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.

Loans and advances to customers are derecognised from the balance sheet when (i) the contractual rights to receive their cash flows have expired, (ii) CEMG has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, CEMG has transferred the control over the assets.

Loans and advances to customers are initially recognised at the face value, and cannot be reclassified to the remaining financial assets categories.

Impairment

As referred in the note 1.1, CEMG has prepared its financial statements in accordance with NCA's therefore, in accordance with no. 2 and 3 of the Regulation no. 1/2005 of Bank of Portugal, CEMG adopted the requirements established for the measurement and provision of credit granted used in the previous years, described as follows:

i) Specific provision for loan losses

The specific provision for loan losses is based on the appraisal of overdue loans including the related overdue amounts to cover specific credit risks. This provision is shown as a deduction against credit granted. 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 1995, no. 7/00, of 27 October, and no. 8/03, of 8 January 2003.

ii) 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, 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 1995, Regulation no. 2/99, of 15 January 1999 and Regulation no. 8/03, of 8 February 2003 of the Bank of Portugal.

iii) Provision for country risk

The provision for country risk is in accordance with Regulation no. 3/95, of 30 June of 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.

iv) Loans charge-off

In accordance with «*Carta-Circular*» no. 15/2009 of the Bank of Portugal, loans and advances to customers are charged-off when there 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.

1.5. OTHER FINANCIAL ASSETS

i) Classification

CEMG classifies its other financial assets at initial recognition in the following categories:

Financial assets at fair value trough profit or loss

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

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

– Such financial assets are managed, measured and their performance evaluated on a fair value basis;

– Such financial assets are bring hedged on an economical basis, in order to eliminate an accounting mismatch; or

– Such financial assets contain an embedded derivative.

Note 21 include a summary of the assets and liabilities that were classified at fair value trough profit or loss at inception.

The structured products acquired by CEMG corresponding to financial instruments containing one or more embedded derivatives meet the above-mentioned conditions, and, in accordance, are classified under the fair value through profit or loss category.

CEMG has adopted the Fair Value Option for certain own bond issues, loans and time deposits performed that contain embedded derivatives or with related hedge derivatives.

The financial assets and liabilities at Fair Value Option are initially accounted at their fair value, with the expenses or income related to the transactions being recognized in profit and loss and subsequently measured at fair value through profit and loss. The accrual of interest and premium/discount (when applicable) is recognized in Net interest income according with the effective interest rate of each transaction, as well as for the derivatives associated to financial instruments classified as Fair Value Option.

Held-to-maturity investments

These investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the CEMG's management has the positive intention and ability to hold until its maturity and that are not classified as at fair value through profit or loss or as available-for-sale.

Available-for-sale financial assets

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

ii) Initial recognition, measurement and derecognising

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

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

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

iii) Subsequent measurement

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

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

Held-to-maturity investments are carried at amortised cost using the effective interest method, net of any impairment losses recognised.

Any reclassification or sale of financial assets included in this category that does not occur close to the maturity of the assets will require that CEMG 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.

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

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

iv) Reclassifications between categories

CEMG only reclassifies non-derivative financial assets with fixed or determinable payments and fixed maturities, from the available-for-sale financial assets category to the held-to-maturity investments category, if it has the intention and ability to hold those financial assets until maturity.

Reclassifications between these categories are made at the fair value of the assets reclassified on the date of the reclassification. The difference between this fair value and the respective nominal value is recognised in the income statement until maturity, based on the effective interest rate method. The fair value reserve at the date of the reclassification is also recognised in the income statement, based on the effective interest rate method.

Financial assets may be reclassified to the (i) held-to-maturity investments category if the entity has the intention and ability to hold those financial assets until maturity and to the (ii) loans and receivables category if the entity has the intention and ability to hold those financial assets for the foreseeable future and if those financial assets are not traded in an active market.

During the years of 2010 and 2009, there were no reclassifications between categories.

v) Impairment

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

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

For held-to-maturity investments the amount of the impairment loss is measured as the difference between the asset's book value and the present value of estimated future cash flows (considering the recovery period) discounted at the financial asset's original effective interest rate. The carrying amount of the impaired assets is reduced through the use of an allowance account. If a held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For held-to-maturity investments if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the income statement.

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

1.6. ASSETS SOLD WITH A REPURCHASE AGREEMENT

The securities sold with a repurchase agreement (repos) with a fixed price or a price that is the selling price plus an inherent rate adjusted with the operation periods, which are not derecognised in the balance sheet. The underlying liability is recognised in Loans and advances to credit institutions or to customers as appropriate. The difference between the selling price and the repurchase price is recognised as interest and is deferred over the useful life of the agreement, using the effective interest method.

Securities lent under lending agreements are not derecognised of the balance sheet, being classified and measured in accordance with note 1.5.

1.7. FINANCIAL LIABILITIES

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, independently from its legal form.

Non-derivatives financial liabilities include deposits from credit institutions and customers, loans, debt securities issued and other subordinated debt.

The financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

CEMG designates, at inception, certain financial liabilities as at fair value through profit or loss when:

- Such financial liabilities are bring hedged on an economical basis, in order to eliminate an accounting mismatch; or
- Such financial assets contain an embedded derivative.

The structured products issued by CEMG meet either of the above-mentioned conditions and, in accordance, are classified under the fair value trough profit or loss category.

The fair value of quoted financial liabilities is based on the current price. In the absence of a quoted price, CEMG establishes the fair value by using valuation techniques based on market information, including the own credit risk of the issuer.

If CEMG repurchases debt issued, it is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

1.8. OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.9. NON-CURRENT ASSETS HELD FOR SALE

In the scope of its activity, CEMG incurs in the risk from failure of the borrower to repay all the amounts due. In case of loans and advances with mortgage collateral, CEMG acquires the asset held as collateral in exchange for loans. In accordance with the requirements of Regime Geral das Instituições de Crédito e Sociedades Financeiras («RGICSF»), banks are prevented from acquiring property that is not essential to their daily operations (no.1 of article 112.º of the RGICSF) being able to acquire, however, property in exchange for loans. This property must be sold within 2 years, period that may be extended by written authorization from the Bank of Portugal and in conditions to be determined by this authority (article 114.º of the RGICSF).

It is CEMG's objective to immediately dispose all property acquired in exchange for loans. This property is classified as non-current assets held-for-sale and is initially recognised at the lower of its fair value less costs to sell and the carrying amount of the loans. Subsequently, this property is measured at the lower of its carrying amount and the corresponding fair value less costs to sell and is not depreciated. Any subsequent write-down of the acquired property to fair value is recorded in the income statement.

The fair value is determined based on the expected selling price estimated through periodic valuations performed by CEMG.

The valuations are performed by independent entities specialized in this type of services. The valuation reports are analysed internally with the gauging of processes adequacy, by comparing the sales values with the revaluated values.

1.10. INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associated companies, in which CEMG as a significant influence, but not control, are carried at acquisition cost. These investments are periodically subjected to impairment tests.

1.11. PROPERTY AND EQUIPMENT

CEMG's property and equipment are stated at deemed cost less accumulated depreciation and impairment losses. At the transition date to IFRS (1 January 2004), CEMG elected to consider as deemed cost, the revalue amount of property and equipment as determined in accordance with previous accounting policies, which was broadly similar to depreciated cost measured under IFRS, adjusted to reflect changes in a specific price index. The value includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to CEMG. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

	Number of years
Land and building for own use	50
Works in rented buildingss	10
Equipment	4 a 10

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

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

The impairment losses of the fixed tangible assets are recognized in profit and loss.

1.12. INTANGIBLE ASSETS

The costs incurred with the acquisition, production and development of software are capitalised, as well as the costs incurred by CEMG to acquire and bring to use the specific software. These costs are amortised on the basis of their expected useful lives, which is usually of three years.

Costs that are directly associated with the development of identifiable specific software applications by CEMG, and that will probably generate economic benefits beyond one year, are recognised as intangible assets.

All remaining costs associated with IT services are recognised as an expense when incurred.

1.13. LEASES

CEMG classifies its lease agreements as capital lease or operating leases taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases

– As lessee

Payments made by CEMG under operating leases are charged to the income statement in the period to which they relate.

– As lessor

Assets leased out are recorded in the balance sheet, according to the nature of the asset.

Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

Costs, including the depreciation, incurred in earning the lease income are recognised on a straight-line basis over the lease term as interest income. The initial direct costs incurred by the lessor, such as negotiating and securing leasing arrangements Initial direct costs incurred by lessor in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, as described in note 1.10.

CEMG performs impairment testing whenever events or circumstances show that the book value exceeds the recoverable amount and the difference between the book value and recoverable amount is charged in the income statement.

Finance leases

– As lessee

Finance lease contracts are recorded at inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the amortisation of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of liability for each period.

– As lessor

Assets leased out are recorded in the balance sheet as loans granted, for an amount equal to the net investment made in the leased assets.

Interest included in instalments charged to customers is recorded as interest income, while amortisation of principal, also included in the instalments, is deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

1.14. EMPLOYEES BENEFITS

Defined benefit plan

CEMG assumed the responsibility to pay its employees pensions on retirement or disabilities, as established in the terms of «Acordo Colectivo de Trabalho do Sector Bancário (ACT)», for employees engaged until 1 March 2009. The new admissions, since that date, are covered by the social security general scheme.

The pension plan benefits is in accordance with the «Plano ACT – Acordo Colectivo de Trabalho do Sector Bancário» and the «Plano ACTQ – Acordo Colectivo dos Quadros do Sector Bancário».

CEMG's pension obligations are financed by a fund 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 2005, in the following of the formal authorization by Bank de Portugal, CEMG applied retrospectively the Regulation no. 4/2005 and no. 12/2005 of the Bank of Portugal, trough the recognition of all cumulated actuarial gains and losses accounted the balance sheet, in accordance with the previous accounting principles by recognition, through retained earnings.

In accordance with no. 2 of Regulation no. 4/2005 of the Bank of Portugal was established a deferral period for the transition impact to IAS 19 as at 1 January, 2005.

Subsequently, with the amendments introduced with no.2 of the Regulation no. 7/2008 of the Bank of Portugal, the recognition, in retained earnings of the impact which in 31 December 2009, is still to be recognised, in accordance with the amortisation plan established with no. 2 of the Regulation no. 4/2005 of Bank of Portugal, might be achieved through the application of a regular instalments amortisation plan with the additional duration of three years in relation with the original duration.

In these terms, the Health-care Benefits was missing 42 months to 31 December 2011, that with the additional 36 months was a total of amortisation period of 78 months (6 years and 6 months). For other liabilities, the deferment period is now 54 months (4 years and 6 months). The deferment of the impact resulting from this alteration is analysed as follows:

Balances	Deferral period
Obligations with health-care benefits	10 years
Deferred actuarial costs, corridor and disability decreases	8 years
Liabilities increases	8 years

Additionally, in accordance with the Bank of Portugal Regulation no. 12/2005, in preparing financial statements in accordance with NCA'S, the increase in liabilities resulting from changes in actuarial assumptions related to mortality tables after 1 January 2005, is added to the corridor limit.

The liability with pensions is calculated semi-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 by reference to interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liabilities.

Actuarial gains and losses determined semi-annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained and (ii) changes in the actuarial assumptions are recognised as an asset or liability and are recognised in the income statement using the corridor method defined by IAS 19.

This method establishes that the actuarial gains and losses accumulated at the beginning of the semester that exceed the greater of 10% of the pension liabilities or the fair value of the plan assets, as at the beginning of the semester, are charged to the income statement over a period that cannot exceed the average of the remaining working lives of the employees participating in the plan. CEMG determined on the basis of the above criteria to amortise the actuarial gains and losses that fall outside the corridor during a 24 year period. The actuarial gains and losses accumulated at the beginning of the period that are within the corridor are not recognised in the income statement.

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) a portion of the net cumulative actuarial gains and losses determined using the corridor method, and (v) the effect of curtailment losses related with early retirements, which includes the early amortisation of the respective actuarial gains and losses.

The effect of the early retirements corresponds to the increase in pension liabilities due to retirements before the normal age of retirement, which is 65 years.

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%.

CEMG assesses at each reporting date and 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.

From 1 January 2011, the Bank employees will be integrated into the General Social Security Regime, which will ensure the protection of employees in the contingencies of maternity, paternity and adoption and old age, remaining under the responsibility of Banks to protect sickness, disability, death and survival (Decree-Law no. 1-A/2011, 3 January).

The contribution rate will be 26.6%, being 23.6% responsibility of the employer and 3% responsibility of the employees, in lieu of «Caixa de Abono de Família dos Empregados Bancários» («CAFEB») that is abolished by the same law. In consequence of this change, the pension rights of active employees shall be covered under the terms defined by the General Social Security Regime, taking into account the length of service from 1 January 2011 until the retirement age, with the banks supporting the differential needed to guarantee the pension under the «Acordo Colectivo de Trabalho».

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 contribution 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, 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.

Variable remunerations to employees and to the Board of Directors (Bonus)

In accordance with IAS 19 – Employees benefits, variable remunerations (bonus) payment to employees and to the Board of Directors, are recognised in the income statement in the period to which they relate.

1.15. INCOME TAX

According to the no. 1 a) of Article 10th, of IRC Legislation, CEMG is exempt from income tax payment (*Imposto sobre o Rendimento das Pessoas Colectivas – IRC*). This exemption was recognised by a regulation issued 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.

1.16. PROVISIONS

Provisions are recognised when (i) CEMG has a present legal or constructive obligation, (ii) it is probable that its payment will be required and (iii) a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are not probable.

The provisions are derecognized through their use for the obligations for which they were initially accounted or for the cases that the situations were not already observed.

1.17. INTEREST RECOGNITION

Interest income and expense are recognised in the income statement under interest and similar income and interest and similar expense for all non-derivative financial instruments measured at amortised cost and for the available-for-sale financial assets, using the effective interest method. Interest income arising from non-derivative financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, respectively.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is calculated at inception and it is not subsequently revised.

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

In case of financial assets or groups of similar financial assets for which an impairment loss was recognised, interest income is calculated using the interest rate used to measure the impairment loss.

Specifically regarding the note for interest on overdue loans' portfolio the following aspects are considered:

- Interest income for overdue loans with collaterals is 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 written-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 for (i) those classified as hedging instruments of interest rate risk and (ii) those used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, the interest component of the changes in their fair value is not separated out and is classified under net (losses)/gains from financial assets at fair value through profit or loss. The interest component of the changes in the fair value of hedging derivatives of interest rate risk and of derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, in order to eliminate an accounting mismatch, is recognised under interest and similar income or interest and similar expense.

1.18. FEE AND COMMISSION INCOME

Fee and commission are recognised as follows:

- Fee and commission that are earned on the execution of a significant act, as loan syndication fees, are recognised as income when the significant act has been completed;
- Fee and commission earned over the period in which the services are provided are recognised as income in the period the services are provided;
- Fee and commission that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest method.

1.19. DIVIDENDS FROM EQUITY INSTRUMENTS

Dividends from equity instruments are recognised when the right to receive payment is established.

1.20. SEGMENTAL REPORTING

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.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

According with IFRS 8 – Segment Reporting, paragraph 4, CEMG does not disclose its segment reporting, since these financial statements are reported together with CEMG's consolidated financial statements.

1.21. 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 inception date, including other loans and advances to credit institutions.

Cash and cash equivalents exclude restricted balances with central banks.

1.22. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

IFRS set forth range of accounting treatments and require the Board of Directors 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. A broader description of the accounting policies employed by CEMG is shown in notes 1.1 to 1.21 to the financial statements.

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

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

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 decline in the fair value below its cost or when it has identified an event with impact on the estimated future cash flows of the assets. This determination requires judgement based on all available relevant information, including the normal volatility of the financial instruments prices. Considering the high volatility and the reduced markets liquidity, CEMG has considered the following parameters when assessing the existence of impairment losses:

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

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

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

Alternative methodologies and the use of different assumptions and estimates could result in a higher level of impairment losses recognised 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 fair values.

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

Impairment losses on loans and advances to customers

CEMG reviews its loan portfolios to assess impairment losses on a regularly basis, as described in note 1.4.

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgments. The frequency of default, risk ratings, loss recovery rates and the estimation of both the amount and timing of future cash flows, among other things, are considered in making this evaluation.

The use of 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.

Held-to-maturity investments

CEMG follows the guidance of IAS 39 – Financial instruments: Recognition and Measurement on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity investments. This classification requires significant judgement.

In making this judgement, CEMG evaluates its intention and ability to hold such investments to maturity. If CEMG fails to keep these investments to maturity other than for 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 not 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.

Pension and other employee's 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.

INCOME STATEMENTS FOR THE YEARS ENDED AT 31 DECEMBER 2010 AND 2009

(thousand euros)

	NOTES	2010	2009
Interest and similar income	3	750 941	923 858
Interest and similar expense	3	480 519	603 902
NET INTEREST INCOME		**270 422**	**319 956**
Dividends from equity instruments	4	2 175	2 471
Fee and comission income	5	89 175	88 719
Fee and comission expense	5	(15 205)	(13 605)
Net losses arising from assets and liabilities at fair value through profit or loss	6	45 555	29 109
Net gains/(losses) arising from available-for-sale financial assets	7	9 959	1 657
Net gains arising from foreign exchange differences	8	2 320	2 052
Net gains from sale of other financial assets		(3 363)	267
Other operating income	9	16 976	16 682
TOTAL OPERATING INCOME		**418 014**	**447 308**
Staff costs	10	142 823	146 406
General and administrative expenses	11	83 442	79 147
Depreciation and amortisation	12	20 846	20 502
TOTAL OPERATING COSTS		**247 111**	**246 055**
Loans impairment	13	117 330	151 284
Other assets impairment	14	12 166	12 037
Other provisions	15	(84)	154
OPERATING PROFIT		**41 491**	**37 778**
PROFIT FOR THE YEAR		**41 491**	**37 778**

See accompanying notes to the Individual Financial Statements.

BALANCE SHEET AS AT 31 DECEMBER 2010 AND 2009

(thousand euros)

	NOTES	2010	2009
ASSETS			
Cash and deposits at central banks	16	240 024	305 018
Loans and advances to credit institutions repayable on demand	17	58 405	51 745
Other loans and advances to credit institutions	18	338 662	370 884
Loans and advances to customers	19	14 352 766	14 448 162
Financial assets held for trading	20	130 865	103 195
Other financial assets at fair value through profit or loss	21	3 952	4 192
Financial assets available-for-sale	22	5 256 811	3 164 510
Hedging derivatives	23	2 810	5 109
Held-to-maturity investments	24	58 093	33 523
Investments in associated companies and others	25	43 297	43 297
Non-current assets held for sale	26	162 374	128 599
Property and equipment	27	89 188	91 173
Intangible assets	28	18 254	16 151
Other assets	29	128 519	130 226
TOTAL ASSETS		**20 884 020**	**18 895 784**
LIABILITIES			
Deposits from central banks	30	1 540 266	502 353
Deposits from other credit institutions	31	1 262 546	945 400
Deposits from customers	32	9 654 340	8 881 046
Debt securities issued	33	3 578 677	4 583 307
Financial liabilities held for trading	20	53 814	41 345
Hedging derivatives	23	1 408	598
Provisions	34	101 499	102 800
Other subordinated debt	35	380 986	381 043
Other liabilities	36	3 316 465	2 462 658
TOTAL LIABILITIES		**19 890 001**	**17 900 550**
EQUITY			
Capital	37	800 000	760 000
Fair value reserves	39	(82 973)	(28 600)
Other reserves and retained earnings	38 and 39	235 501	226 056
Profit for the year		41 491	37 778
TOTAL EQUITY		**994 019**	**995 234**
TOTAL		**20 884 020**	**18 895 784**

See accompanying notes to the Individual Financial Statements.

2. Net interest income and net gains arising from assets and liabilities at fair value through profit or loss and available for sale financial assets

NCA's requires separate disclosure of net interest income and net gains arising from assets and liabilities at fair value thought profit or loss and available for sale financial assets, 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 AFS 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.

These balances are analysed as follows:

	2010 Euro '000	2009 Euro '000
Net interest income	270 422	319 956
Net gains arising from assests and liabilities at fair value through profit and loss and available-for-sale financial assets	55 514	30 766
	325 936	350 722

3. Net interest income

The amount of this account is comprised of:

	2010			2009		
	Assets/ liabilities at amortised cost and available-for-sale Euro '000	Assets/ liabilities at fair value through profit or loss Euro '000	Total Euro '000	Assets/ liabilities at amortised cost and available-for-sale Euro '000	Assets/ liabilities at fair value through profit or loss Euro '000	Total Euro '000
Interest and similar income:						
Interest from loans and advances	366 394	–	366 394	598 580	–	598 580
Interest from other assets	1 267	–	1 267	1 731	–	1 731
Interest from deposits	1 499	–	1 499	1 952	–	1 952
Interest from available-for-sale securities	152 796	–	152 796	60 086	–	60 086
Interest from held-to-maturity securities	2 429	–	2 429	1 420	–	1 420
Interest from hedging derivatives	3 799	–	3 799	5 713	–	5 713
Interest from financial investments held for trading	–	194 031	194 031	–	234 230	234 230
Other interest and similar income	28 726	–	28 726	20 146	–	20 146
	556 910	194 031	750 941	689 628	234 230	923 858
Interest and similar expense:						
Interest from deposits	133 485	–	133 485	175 321	–	175 321
Interest from securities issued	91 192	–	91 192	126 517	–	126 517
Interest from loans	4 736	–	4 736	7 368	–	7 368
Interest from other funding	25 441	–	25 441	29 487	–	29 487
Interest from hedging derivatives	2 311	–	2 311	3 614	–	3 614
Interest from financial investments held for trading	–	149 281	149 281	–	189 934	189 934
Other interest and similar expense	74 073	–	74 073	71 661	–	71 661
	331 238	149 281	480 519	413 968	189 934	603 902
Net interest income	225 672	44 750	270 422	275 660	44 296	319 956

4. Dividends from equity instruments

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Dividends from available-for-sale financial assets	487	703
Dividends from associated companies	1 688	1 768
	2 175	2 471

5. Net fee and commission income

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Fee and commission income:		
From banking services	64 845	60 489
From commitments to third parties	8 957	9 195
From guarantees granted	5 786	6 535
Other fee and commission income	9 587	12 500
	89 175	88 719
Fee and commission expense:		
From banking services rendered by third parties	14 358	12 661
From transactions with securities	373	484
Other fee and commission expense	474	460
	15 205	13 605
Net fee and commission income	73 970	75 114

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

The amount of this account is comprised of:

	2010			2009		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by public entities	686	1 140	(454)	49	17	32
Issued by other entities	349	1 012	(663)	1 002	66	936
Shares	235	160	75	660	17	643
	1 270	2 312	(1 042)	1 711	100	1 611
Derivative financial instruments						
Exchange rate contracts	331 042	332 833	(1 791)	112 842	109 941	2 901
Interest rate contracts	451 918	433 733	18 185	352 772	345 154	7 618
Credit default contracts (CDS)	6 036	6 569	(533)	6 541	6 014	527
Others	132 775	101 231	31 544	58 080	42 508	15 572
	921 771	874 366	47 405	530 235	503 617	26 618
	923 041	876 678	46 363	531 946	503 717	28 229
Other financial assets at fair value through profit or loss						
Bonds and other fixed income securities						
Issued by other entities	–	240	(240)	160	–	160
Financial liabilities						
Other loans and advances to credit institutions	1 247	382	865	1 237	760	477
Deposits from customers	677	356	321	520	795	(275)
Debt securities issued	242	–	242	4 946	2 020	2 926
Other subordinated debt	34 974	36 970	(1 996)	35 515	37 923	(2 408)
	37 140	37 708	(568)	42 218	41 498	720
	960 181	914 626	45 555	574 324	545 215	29 109

The result of own issuing repurchase is calculated according to the referred in the accounting policy 1.3.

In accordance with the accounting policies followed by the Group, financial instruments are initially recognised 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 recognises in the income statement the gains arising from the built-in fee (*day one profit*), generated, namely, on the trading of derivative and foreign exchange financial products, considering that the fair value of these instruments at inception and on subsequent measurements is determined only based on observable market data and reflects the Group access to the wholesale market.

7. Net gains/(losses) arising from available-for-sale financial assets

The amount of this account is comprised of:

	2010			2009		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Bonds and other fixed income securities						
Issued by public entities	5 093	3 290	1 803	1 005	2	1 003
Issued by other entities	5 904	1 479	4 425	851	413	438
Shares	2 673	15	2 658	218	49	169
Other variable income securities	2 918	1 845	1 073	413	366	47
	16 588	6 629	9 959	2 487	830	1 657

8. Net gains from foreign exchange differences

The amount of this account is comprised of:

	2010			2009		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Foreign exchange differences	11 709	9 389	2 320	26 458	24 406	2 052

This account is comprised of the results from foreign exchange differences of monetary assets and liabilities in foreign currency in accordance with the accounting policy presented in note 1.2.

9. Other operating income

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Other operating income:		
Income from services	5 374	4 578
Reimbursement of expenses	2 144	1 541
Profits arising from deposits on demand management	7 821	7 574
Gains on repurchase of own securities	6 646	7 191
Others	2 604	2 809
	24 589	23 693
Other operating expense:		
Indirect taxes	128	106
Donations and membership	462	423
Contributions to the Deposit Guarantee Fund	1 662	1 748
Other operating expenses	5 361	4 734
	7 613	7 011
Other net operating income	16 976	16 682

10. Staff costs

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Remunerations	105 143	105 633
SAMS contributions	5 833	6 349
Mandatory social security charges	8 148	7 924
Other charges with the pensions fund	20 396	23 127
Other staff costs	3 303	3 373
	142 823	146 406

The health-care benefits – SAMS include the amount of Euro 714 000 (2009: Euro 705 000) related to the health care net periodic benefit cost, which was determined based on the actuarial valuation performed (see Note 43).

The costs with salaries and other benefits attributed to CEMG key management personnel in 2010 are presented as follows:

	Board of Directors Euro '000	Other key management personnel Euro '000	Total Euro '000
Salaries and other short-term benefits	1 230	4 253	5 483
Pension costs and health-care benefits (SAMS)	6	159	165
Variable remunerations	–	234	234
	1 236	4 646	5 882

The costs with salaries and other benefits attributed to CEMG key management personnel in 2009 are presented as follows:

	Board of Directors Euro '000	Other key management personnel Euro '000	Total Euro '000
Salaries and other short-term benefits	843	3 876	4 719
Pension costs and health-care benefits (SAMS)	6	164	170
Variable remunerations	144	496	640
	993	4 536	5 529

Other key management personnel are the top directors of CEMG.

As at 31 December 2010 and 2009, loans granted by CEMG to its key management personnel, amounted to Euro 5 046 000 and Euro 4 685 000, respectively.

The average number of employees by professional category at service in CEMG during 2010 and 2009 is analysed as follows:

	2010	**2009**
Management	127	125
Managerial staff	494	512
Technical staff	654	662
Specific categories	139	144
Administrative	1 362	1 418
Staff	66	74
	2 842	2 935

11. General and administrative expenses

The amount of this account is comprised of:

	2010 Euro '000	**2009 Euro '000**
Rents	20 307	24 613
Specialised services		
Information technology services	10 506	3 748
Outsourcing	3 498	3 633
Other specialised services	12 871	13 462
Advertising	6 600	3 578
Communications	8 601	8 229
Water, electricity and fuel	4 261	3 706
Maintenance and related services	5 462	4 754
Transportation	3 327	3 501
Insurance	1 894	2 881
Travel, hotel and representation costs	1 104	1 179
Consumables	1 479	1 749
Training costs	572	718
Other supplies and services	2 960	3 396
	83 442	79 147

The balance Rents, includes the amount of Euro 15 621 000 (2009: Euro 15 764 000) related to rents paid regarding buildings used by CEMG as leaser.

The fees invoiced during the years 2010 and 2009, by Statutory Auditors according to Article 66.º-A of «*Código das Sociedades Comerciais*», are presented as follows:

	2010 Euro '000	**2009 Euro '000**
Audit services fees	86	113
Other assurance services arising from the external audit function	163	148
Tax advisory	73	94
Other services	1 111	465
	1 433	820

12. Depreciation and amortisation

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Intangible assets:		
Software	7 776	8 338
Other tangible assets:		
Land and buildings	3 349	3 266
Equipment:		
Furniture	572	613
Office equipment	57	91
Computer equipment	6 307	5 737
Interior installations	1 585	1 741
Motor vehicles	9	9
Security equipment	434	229
Operational lease – Renting	757	478
	13 070	12 164
	20 846	20 502

13. Loans and Impairment

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Overdue loans and advances to customers:		
Charge for the year	525 338	527 206
Write-back for the year	(405 616)	(372 638)
Recovery of loans and interest charged-off	(2 376)	(3 308)
	117 346	151 260
Other loans and advances to credit institutions:		
Charge for the year	104	162
Write-back for the year	(120)	(138)
	(16)	24
	117 330	151 284

14. Other assets impairment

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Impairment for investments arising from recovered loans:		
Charge for the year	13 845	10 088
Write-back for the year	(3 831)	(183)
	10 014	9 905
Impairment for securities:		
Charge for the year	3 515	2 398
Write-back for the year	(1 363)	(266)
	2 152	2 132
	12 166	12 037

15. Other provisions

The amount of this account is comprised of:

	2010 Euro '000	2009 Euro '000
Provision for liabilities and charges:		
Charge for the year	586	416
Write-back for the year	(670)	(262)
	(84)	154

16. Cash and deposits at central banks

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Cash	95 641	99 128
Bank of Portugal	144 383	205 890
	240 024	305 018

The balance Bank of Portugal includes mandatory deposits intended to satisfy legal minimum cash requirements. According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements.

As at 31 December 2010, these deposits have earned interest at an average rate of 1% (2009: 1.35%).

17. Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Credit institutions in Portugal	424	135
Credit institutions abroad	12 209	9 433
Amounts due for collection	45 772	42 177
	58 405	51 745

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

18. Other loans and advances to credit institutions

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Loans and advances to credit institutions in Portugal		
Deposits	205	245
Short term deposits	260 003	–
Other loans and advances	10 000	50 014
	270 208	50 259
Loans and advances to credit institutions abroad		
Deposits	112	105
Short term deposits	–	280 000
Other loans and advances	68 392	40 586
	68 504	320 691
	338 712	370 950
Impairment for credit risks over credit institutions	(50)	(66)
	338 662	370 884

The main loans and advances to credit institutions in Portugal, as at 31 December 2010, bear interest at an average annual interest rate of 1.37% (2009: 1%).

Loans and advances to credit institutions abroad bear interest at international market rates where CEMG operates.

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

	2010 Euro '000	2009 Euro '000
Due within 3 months	301 495	285 686
3 months to 6 months	–	50 014
6 months to 1 year	34 900	34 900
More than 5 years	2 205	245
Undetermined	112	105
	338 712	370 950

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

	2010 Euro '000	2009 Euro '000
Impairment for credit risks over credit institutions:		
Balance on 1 January	66	42
Charge for the year	104	162
Write-back for the year	(120)	(138)
Balance on 31 December	50	66

19. Loans and advances to customers

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Domestic loans:		
Corporate		
Loans	1 388 583	1 249 077
Commercial lines of credits	2 106 934	2 309 633
Finance leases	229 348	203 803
Discounted bills	87 087	121 695
Factoring	109 683	76 807
Overdrafts	9 134	5 274
Other loans	756 961	681 905
Retail		
Mortgage loans	8 651 320	8 780 393
Finance leases	45 001	36 411
Consumer and other loans	828 554	803 137
	14 212 605	14 268 135
Foreign loans:		
Corporate		
Overdrafts	–	18
	14 212 605	14 268 153
Overdue loans and interest:		
Less than 90 days	90 750	73 470
More than 90 days	486 740	508 118
	577 490	581 588
	14 790 095	14 849 741
Impairment for credit risks	(437 329)	(401 579)
	14 352 766	14 448 162

As at 31 December 2010, this balance includes includes Euro 1 000 000 000 regarding mortgage loans that collateralise the issue of covered bonds issued by CEMG (see Note 33).

As referred in the previous paragraph, CEMG performed in July 2009 the first issue of covered bonds in the amount of Euro 1 000 000 000 and maturity of three years. This issue was performed under the CEMG Covered Bonds Programme. The interest rate is 3.25%.

Since 2009, following «Carta-circular» no. 15/2009 from the 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 2010, the balance Other guarantee loans included the amount of Euro 3 182 375 000 (2009: Euros 2 301 379 000) related with credits that were securitized and in accordance with the accounting policy described in the note 1.4 were not derecognised. This amount was also recognised in liabilities balance, in Financial liabilities associated with transferred assets, as referred in Note 36.

The fair value of loans and advances to customers is presented in Note 42.

The balance Overdue loans for more than 90 days includes the amount of Euro 1 532 000 related to loans bought at court auctions. These amounts correspond to loans overdue for more than three years for which the contractual obligation with the former debtor has been extinguished due to the acquisition in court auction bankruptcy or acquisition through fore-sale but for which there are still pending legal actions.

Loans and advances to customers include mostly variable interest rate contracts.

The analysis of Loans and advances to customers, by maturity date and type of credit as at 31 December 2010, is as follows:

	Loans and advances to customers				
	Due within 1 year Euro '000	**1 year to 5 years Euro '000**	**Over 5 years Euro '000**	**Undertermined Euro '000**	**Total Euro '000**
Asset-backed loans	440 557	1 951 681	9 569 396	466 714	12 428 348
Other guarantee loans	617 575	183 750	198 000	44 373	1 043 698
Unsecured loans	539 821	123 202	252 728	60 327	976 078
Public sector loans	18 164	56	43 326	211	61 757
Foreign loans	–	–	–	–	–
Financial leases	2 850	116 347	155 152	5 865	280 214
	1 618 967	2 375 036	10 218 602	577 490	14 790 095

The analysis of Loans and advances to customers, by maturity date and type of credit as at 31 December 2009, is as follows:

	Loans and advances to customers				
	Due within 1 year Euro '000	**1 year to 5 years Euro '000**	**Over 5 years Euro '000**	**Undertermined Euro '000**	**Total Euro '000**
Asset-backed loans	455 186	2 295 521	9 595 507	452 576	12 798 790
Other guarantee loans	569 351	172 650	163 416	49 506	954 923
Unsecured loans	357 020	110 770	258 705	69 227	795 722
Public sector loans	656	239	48 900	254	50 049
Foreign loans	18	–	–	–	18
Financial leases	232	91 175	148 807	10 025	250 239
	1 382 463	2 670 355	10 215 335	581 588	14 849 741

The balance Financial leases, by the period to maturity as at 31 December 2010, is analysed as follows:

	Finance leases			
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Outstanding rents	57 430	109 276	137 829	304 535
Outstanding interest	(10 104)	(20 613)	(30 269)	(60 986)
Residual values	3 906	9 029	17 865	30 800
	51 232	97 692	125 425	274 349

The balance Financial leases, by the period to maturity as at 31 December 2009, is analysed as follows:

	Finance leases			
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Outstanding rents	49 580	116 482	93 464	259 526
Outstanding interest	(820)	(18 631)	(21 886)	(41 337)
Residual values	817	9 973	11 235	22 025
	49 577	107 824	82 813	240 214

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

	2010 Euro '000	2009 Euro '000
Asset-backed loans	466 714	452 576
Other guaranteed loans	44 373	49 506
Unsecured loans	60 327	69 227
Public sector loans	211	254
Financial lease	5 865	10 025
	577 490	581 588

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

	2010 Euro '000	2009 Euro '000
Corporate:		
Construction/Production	146 973	144 921
Investment	54 383	52 602
Other short term loans	44 031	53 208
Other loans	2 472	3 047
Retail:		
Mortgage loans	268 443	262 286
Consumer credit	7 179	5 931
Other loans	32 586	32 788
Public Sector	211	254
Other segments	21 212	26 551
	577 490	581 588

The impairment for credit risks is analysed as follows:

	2010 Euro '000	2009 Euro '000
Impairment for credit risks:		
Balance on 1 January	401 579	284 862
Charge for the year	475 786	476 820
Write-back for the year	(354 942)	(322 322)
Loans charged-off	(85 094)	(37 781)
Balance on 31 December	437 329	401 579

Additionally, as at 31 December 2010, CEMG has a provision for general banking risks in the amount of Euro 100 188 000 (2009: Euros 101 310 000), which in accordance to NCA's is presented as a liability, as referred in Note 34.

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 2010:

	Classes of overdue loans and interest					
	Due within 3 months Euro '000	3 months to 6 months Euro '000	6 months to 12 months Euro '000	1 year to 3 years Euro '000	Over 3 years Euro '000	Total Euro '000
Secured overdue loans	78 185	11 532	40 627	191 046	195 773	517 163
Impairment	592	1 584	9 062	117 110	203 010	331 358
Unsecured overdue loans	6 026	3 102	7 593	12 105	31 501	60 327
Impairment	68	776	4 898	12 105	31 501	49 348
Total overdue loans	84 211	14 634	48 220	203 151	227 274	577 490
Total impairment for overdue loans	660	2 360	13 960	129 215	234 511	380 706
Total impairment for overdue loans and for other credit risks	110	209	4 846	39 410	12 048	56 623
Total impairment for credit risks	770	2 569	18 806	168 625	246 559	437 329

The impairment for credit risks, by type of credit, is as follows:

	2010 Euro '000	2009 Euro '000
Asset-backed loans	351 129	300 776
Other guaranteed loans	29 748	38 351
Unsecured loans	56 452	62 452
	437 329	401 579

In compliance with the accounting policy described in note 1.4, loans and advances to customers are charged-off when there are no expectations, from an economic point of view, of recovering the loan amount and for collateralized loans, when the funds arising from the execution of the respective collaterals was already received. This charge-off is carried out for loans that are fully provided.

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

	2010 Euro '000	2009 Euro '000
Asset-backed loans	51 907	22 139
Other guaranteed loans	13 615	6 080
Unsecured loans	19 572	9 562
	85 094	37 781

The recovered loans and overdue interest, performed during the period of 1 January to 31 December 2010 and during 2009, related with asset-backed loans recovered, amounts to Euro 2 376 000 e Euros 3 308 000, as referred in Note 13.

The analysis of the fair value of the collaterals associated to the loan portfolio is as follows:

	2010 Euro '000	2009 Euro '000
Loans and advances to costumers with impairment:		
Individually significant:		
Securities and other financial assets	62 233	60 962
Home mortgages	4 802	7 872
Other real estate	1 157 645	1 349 797
Other guarantees	19 003	28 216
	1 243 683	1 446 847
Parametric analysis:		
Securities and other financial assets	39 486	31 173
Home mortgages	1 989 773	1 969 551
Other real estate	850 042	885 217
Other guarantees	62 321	49 592
	2 941 622	2 935 533
Loans and advances to costumers without impairment:		
Securities and other financial assets	590 373	509 751
Home mortgages	13 526 231	13 360 369
Other real estate	3 666 371	4 429 434
Other guarantees	94 675	80 483
	17 876 650	18 380 037
	22 061 955	22 762 417

20. Financial assets and liabilities held for trading

The balance financial assets and liabilities held for trading is analysed as follows:

	2010 Euro '000	2009 Euro '000
Financial assets held for trading:		
Securities		
Shares	2 805	1 380
Bonds	3 192	5 772
	5 997	7 152
Derivatives		
Derivatives financial instruments with positive fair value	124 868	96 043
	130 865	103 195
Financial liabilities held for trading:		
Derivatives		
Derivatives financial instruments with negative fair value	53 814	41 345

The trading portfolio is recorded at fair value trough profit or loss, in accordance with the accounting policy 1.5. As referred in the accounting policy, the securities held for trading are those who are acquired with the purpose of short--term transactions, independently from its maturity.

As referred in IFRS 7, financial assets held for trading and available for sale are valued in accordance with the following fair value measurement levels:

- Level 1: financial instruments measured in accordance with quoted market prices or providers.
- Level 2: financial instruments measured in accordance with internal valuation techniques based on observable market inputs.
- Level 3: financial instruments measured in accordance with valuation techniques based on inputs not based on observable data that have significant impact in the instruments valuation.

The financial assets and liabilities held for trading are valued in accordance with market prices or providers and with internal valuation techniques based on observable market inputs. Therefore, accordingly with the hierarchy of the valuation sources, as referred in IFRS 7 these instruments are classified in the levels 1 and 2.

The analysis of the securities portfolio held for trading by maturity as at 31 December 2010 is as follows:

	2010				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	Total Euro '000
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	464	464
Foreign	–	–	–	2 341	2 341
	–	–	–	2 805	2 805
Fixed income securities:					
Bonds issued by					
Other entities	–	–	3 192	–	3 192
	–	–	3 192	–	5 997
Quoted	–	–	3 192	2 805	5 997

The analysis of the securities portfolio held for trading by maturity as at 31 December 2009 is as follows:

	2009				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	Total Euro '000
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	663	663
Foreign	–	–	–	717	717
	–	–	–	1 380	1 380
Fixed income securities:					
Bonds issued by					
Other entities	–	–	5 772	–	5 772
	–	–	5 772	1 380	7 152
Quoted	–	–	5 772	1 380	7 152

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2010, is as follows:

		2010						
		Derivative			Related asset / liability			
Derivative	Related financial asset / liability	Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Book value Euro '000	Reimbursement amount at maturity date Euro '000
Interest rate swap	Securities issued	605 000	25 379	2 617	(36 223)	(48 475)	302 500	302 500
Interest rate swap	Deposits	3 609 775	17 386	13 230	12 954	10 593	2 013 304	2 013 304
Interest rate swap	Deposits from customers	490 052	12 263	(3 102)	(2 757)	(13 319)	247 113	247 113
Interest rate swap	Securitization	10 717 877	(1 757)	(2 470)	–	–	–	–
Interest rate swap	Covered bonds	11 890 474	18 023	7 891	(7 617)	(8 061)	1 000 000	1 000 000
Currency interest rate swap	Debt issued	538 428	(255)	(1 672)	–	–	–	–
Futures	–	14 298	(1)	(1)	–	–	–	–
Options	Time deposits and other deposits	70 586	753	169	–	–	–	–
Credit default swaps	–	89 710	(737)	(306)	–	–	–	–
		28 026 200	71 054	16 356	(33 643)	(59 262)	3 562 917	3 562 917

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2009, is as follows:

		2009						
		Derivative			Related asset / liability			
Derivative	Related financial asset / liability	Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Book value Euro '000	Reimbursement amount at maturity date Euro '000
Interest rate swap	Securities issued	605 000	22 762	14 109	12 252	(10 583)	302 500	302 500
Interest rate swap	Deposits	2 070 643	4 156	3 326	2 361	(1 423)	948 692	948 692
Interest rate swap	Deposits from customers	733 572	15 365	8 952	10 562	2 760	386 471	386 471
Interest rate swap	Securitization	7 188 322	713	(2 906)	–	–	–	–
Interest rate swap	Covered bonds	9 239 330	10 132	10 132	444	(444)	1 000 000	1 000 000
Currency interest rate swap	Debt issued	381 270	1 417	4 001	–	(1 128)	–	–
Futures	–	2 432	–	2	–	–	–	–
Options	Time deposits and other deposits	76 540	584	612	–	–	–	–
Credit default swaps	–	87 410	(431)	(170)	–	–	–	–
		20 384 519	54 698	38 058	25 619	(10 818)	2 637 663	2 637 663

The analysis of financial instruments held for trading, by maturity date as at 31 December 2010, is as follows:

	2010					
	Notional with remaining term				Fair value	
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Positive Euro '000	Negative Euro '000
Interest rate contracts:						
Interest rate swaps	31 000	201 184	27 080 994	27 313 178	119 941	48 647
Options	10 500	–	60 086	70 586	2 011	1 258
Exchange rate contracts:						
Interest rate swaps	529 439	–	8 989	538 428	1 975	2 230
Index contracts:						
Index futures	14 298	–	–	14 298	–	1
Credit default contracts:						
Credit default swaps	–	–	89 710	89 710	941	1 678
	585 237	201 184	27 239 779	28 026 200	124 868	53 814

The analysis of financial instruments held for trading, by maturity date as at 31 December 2009, is as follows:

	2009					
	Notional with remaining term				Fair value	
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Positive Euro '000	Negative Euro '000
Interest rate contracts:						
Interest rate swaps	187 000	356 800	19 293 067	19 836 867	90 055	36 927
Options	250	50 300	25 990	76 540	1 209	625
Exchange rate contracts:						
Interest rate swaps	381 270	–	–	381 270	4 191	2 774
Index contracts:						
Index futures	2 432	–	–	2 432	–	–
Credit default contracts:						
Credit default swaps	–	1 000	86 410	87 410	588	1 019
	570 952	408 100	19 405 467	20 384 519	96 043	41 345

The fair value of the derivatives financial instruments includes, the valuation of the embedded derivatives separated from the host contract in accordance with note 1.3 in the amount of Euro 6 276 000 (2009: Euro 4 956 000).

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

The balance Other financial assets and liabilities held for trading at fair value through profit or loss amounts in Euro 3 952 000 (2009: Euro 4 192 000), which is fully composed by fixed income bonds and other securities of other issuers.

CEMG's choice of naming these assets at fair value through profit and loss, according to IAS 39 and note 1.6, can be observed in the planed strategy of CEMG's management, considering that (i) these financial assets are managed and evaluated in a fair value basis and/or (ii) that these assets are holding embedded derivative instruments.

Other financial assets and liabilities held for trading at fair value through profit or loss are measured in accordance with internal valuation techniques considering mainly observable market inputs. In accordance with the hierarchy of the valuation sources, as referred in IFRS 7, these instruments are classified in level 1.

As at 31 December 2010 and 2009, securities portfolio included in the balance Other financial assets and liabilities held for trading at fair value through profit or loss is found quoted with a maturity greater than 1 year.

22. Available-for-sale financial assets

This balance is analysed as follows:

	2010				
		Fair value reserve			
	Cost (1) Euro '000	Positive Euro '000	Negative Euro '000	Impairment losses Euro '000	Book value Euro '000
Fixed income securities:					
Issued by public entities:					
Portuguese	1 075 466	2 155	(30 457)	–	1 047 164
Foreign	114 501	365	(4 468)	–	110 398
Issued by other entities:					
Portuguese	3 261 069	751	(13 342)	(3 588)	3 244 890
Foreign	658 715	3 805	(41 865)	(21 848)	598 807
Commercial paper	242 634	–	–	(998)	241 636
Variable income securities:					
Shares in companies:					
Portuguese	3 866	190	(31)	(279)	3 746
Foreign	4 123	78	(124)	(947)	3 130
Investment fund units	7 127	270	(300)	(57)	7 040
	5 367 501	7 614	(90 587)	(27 717)	5 256 811

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

	2009				
		Fair value reserve			
	Cost (1) Euro '000	Positive Euro '000	Negative Euro '000	Impairment losses Euro '000	Book value Euro '000
Fixed income securities:					
Issued by public entities:					
Foreign	114 501	365	(4 468)	–	110 398
Issued by other entities:					
Portuguese	2 192 058	3 321	(1 850)	(1 640)	2 191 889
Foreign	801 614	2 469	(33 910)	(23 357)	746 816
Commercial paper	203 534	–	–	(998)	202 536
Variable income securities:					
Shares in companies:					
Portuguese	4 505	99	(10)	(321)	4 273
Foreign	2 513	523	–	(746)	2 290
Investment fund units	10 831	1 097	(445)	(2 837)	8 646
	3 223 009	7 634	(36 234)	(29 899)	3 164 510

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

As referred in note 1.5, 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 39. 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 1.22.

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

	2010 Euro '000	2009 Euro '000
Impairment for securities:		
Balance on 1 January	29 899	31 228
Charge for the year	3 515	2 398
Write-back for the year	(1 363)	(266)
Charged-off	(4 334)	(3 461)
Balance on 31 December	27 717	29 899

During 2010 and as referred in note 1.5, impairment losses were recognised in the amount of Euro 2 182 000.

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2010, is as follows:

	2010				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	Total Euro '000
Fixed income securities:					
Issued by public entities:					
Portuguese	19 881	133 310	893 973	–	1 047 164
Foreign	25 250	3 007	82 141	–	110 398
Issued by other entities:					
Portuguese	2 347	16 248	3 226 295	–	3 244 890
Foreign	9 419	53 661	535 183	544	598 807
Commercial paper	211 324	30 312	–	–	241 636
	268 221	236 538	4 737 592	544	5 242 895
Variable income securities:					
Shares in companies:					
Portuguese	–	–	–	3 746	3 746
Foreign	–	–	–	3 130	3 130
Investment fund units	–	–	–	7 040	7 040
	–	–	–	13 916	13 196
	268 221	236 538	4 737 592	14 460	5 256 811

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2009, is as follows:

	2009				
	Due within 3 months Euro '000	**3 months to 1 year Euro '000**	**Over 1 year Euro '000**	**Undetermined Euro '000**	**Total Euro '000**
Fixed income securities:					
Issued by public entities:					
Foreign	–	–	8 060	–	8 060
Issued by other entities:					
Portuguese	–	14 262	2 177 627	–	2 191 889
Foreign	74 169	145 188	517 114	10 345	746 816
Commercial paper	172 401	30 135	–	–	202 536
	246 570	189 585	2 702 801	10 345	3 149 301
Variable income securities:					
Shares in companies:					
Portuguese	–	1 471	–	2 801	4 273
Foreign	–	–	–	2 290	2 290
Investment fund units	1 450	–	–	7 197	8 647
	1 450	1 471	–	12 288	15 209
	248 020	191 056	2 702 801	22 633	3 164 510

CEMG recognizes impairment on available-for-sale financial assets when there is a significant or prolonged decrease in its fair value or when there is an impact on expected future cash flows of the assets. This valuation involves judgment, in which CEMG takes into consideration among other factors, the volatility of the prices of securities.

Thus, as a consequence of the low liquidity and significant volatility in financial markets, the following factors were taken into consideration in determining the existence of impairment:

– Equity instruments: (i) decreases more than 30% against the purchase price; or (ii) the market value below the purchase price for a period exceeding 12 months;

– Debt instruments: when there is objective evidence of events with impact on recoverable value of future cash flows of these assets.

As referred in note 1.6, the available-for-sale securities portfolio is presented net of fair value reserve and impairment losses in the amount of Euro 82 973 000 and Euro 27 717 000 (2009: Euro 28 600 000 and Euro 29 899 000), respectively.

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

	2010			2009		
	Quoted Euro '000	Unquoted Euro '000	Total Euro '000	Quoted Euro '000	Unquoted Euro '000	Total Euro '000
Fixed income securities:						
Issued by public entities:						
Portuguese	1 047 164	–	1 047 164	–	–	–
Foreign	110 398	–	110 398	8 060	–	8 060
Issued by other entities:						
Portuguese	3 218 614	26 276	3 244 890	2 164 128	27 761	2 191 889
Foreign	591 807	7 000	598 807	744 206	2 610	746 816
Commercial paper	–	241 636	241 636	–	202 536	202 536
Variable income securities:						
Shares in companies:						
Portuguese	862	2 884	3 746	700	3 573	4 273
Foreign	2 972	158	3 130	2 132	158	2 290
Investment fund units	7 040	–	7 040	8 646	–	8 646
	4 978 857	277 954	5 256 811	2 927 872	236 638	3 164 510

23. Hedging derivatives

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Assets:		
Interest rate swap	2 810	5 109
Liabilities:		
Interest rate swap	1 408	598

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:

	2010 Euro '000	2009 Euro '000
Deposits from other credit institutions	864	477
Debt securities issued	242	2 926
Deposits from customers	271	(318)
	1 377	3 085

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2010 is as follows:

	2010							
	Notional with remaining term				Fair value			
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	20 000	80 000	115 000	215 000	147	1 394	(139)	1 402

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2009 is as follows:

	2009							
	Notional with remaining term				Fair value			
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	–	44 000	155 000	199 000	1 168	–	3 343	4 511

As at 31 December 2010, the fair value hedge relationships present the following features:

2010							
Derivative	Hedged item	Hedged risk	Notional Euro '000	Fair value of derivative (2)) Euro '000	Changes in the fair value of the derivative in the year Euro '000	Hedged item fair value (1) Euro '000	Changes in the fair value of the hedged item in the year (1) Euro '000
Interest rate swaps	Deposits from customers	Interest rate	40 000	396	(302)	371	(271)
Interest rate swaps	Deposits	Interest rate	80 000	2 091	(1 995)	1 097	(1 106)
Interest rate swaps	EMTN	Interest rate	95 000	(1 085)	(812)	(298)	(212)
Currency interest rate swaps	Debt issued	Interest rate	–	–	–	–	–
			215 000	1 402	(3 109)	(1 170)	(1 589)

(1) Attributable to the hedged risk.

(2) Includes accrued interest.

As at 31 December 2009, the fair value hedge relationships present the following features:

2009							
Derivative	Hedged item	Hedged risk	Notional Euro '000	Fair value of derivative (2) Euro '000	Changes in the fair value of the derivative in the year Euro '000	Hedged item fair value (1) Euro '000	Changes in the fair value of the hedged item in the year (1) Euro '000
Interest rate swaps	Deposits from customers	Interest rate	44 000	4 086	492	642	146
Interest rate swaps	Deposits	Interest rate	120 000	–	–	2 203	(221)
Interest rate swaps	EMTN	Interest rate	35 000	698	541	(86)	(86)
Currency interest rate swaps	Debt issued	Interest rate	–	(273)	(3 015)	–	(3 011)
			199 000	4 511	(1 982)	2 759	(3 172)

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

24. Held-to-maturity investments

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Fixed income securities:		
Bonds issued by Portuguese public entities	44 111	18 573
Bonds issued by foreign public entities	13 982	14 950
	58 093	33 523

CEMG assessed, with reference to 31 December 2010, 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 2010 are analysed as follows:

Issue	Issue date	Maturity date	Interest rate	Euro '000
OT – Setembro 98/23-09-2013	May, 1998	Sep, 2013	Fixed rate of 5.450%	96
OT – Junho 02/15-06-2012	Feb, 2002	Jun, 2012	Fixed rate of 5.000%	32 076
OT – Junho 01/15-06-2011	Mar, 2001	Jun, 2011	Fixed rate of 5.150%	1 037
OT – Outubro 05/15-10-2015	July 2005	Oct, 2015	Fixed rate of 3.350%	5 977
OT – Abril 05/15-04-2011	Nov, 2005	Apr, 2011	Fixed rate of 3.200%	4 925
Buoni Poliennali Del Tes. 06/2011	Mar, 2006	Mar, 2011	Fixed rate of 3.500%	3 026
Netherlands Government 05/2015	Jun, 2005	Jul, 2015	Fixed rate of 3.250%	4 986
Republic of Austria 04/15-07-2015	May, 2004	Jul, 2015	Fixed rate of 3.500%	2 012
Belgium Kingdom 05/28-09-2015	Mar, 2005	Sep, 2015	Fixed rate of 3.750%	1 977
Buoni Poliennali Del Tes. 05/2015	May, 2005	Aug, 2015	Fixed rate of 3.750%	1 981
				58 093

The held-to-maturity investments are stated in accordance with the established in note 1.5.

During 2010 and 2009, CEMG did not transfer to or from this assets category.

As at 31 December 2010 and 2009, the analysis of held-to-maturity investments by the period of maturity is as follows:

	2010				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Bonds issued by Portuguese public issuers	–	5 962	38 149	–	44 111
Bonds issued by foreign public issuers	3 026	–	10 956	–	13 982
	3 026	5 962	49 105	–	58 093
Quoted	3 026	5 962	49 105	–	58 093

	2009				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Bonds issued by Portuguese public issuers	–	6 393	6 112	6 068	18 573
Bonds issued by foreign public issuers	1 009	–	2 976	10 963	14 950
	1 009	6 393	9 088	17 031	33 523
Quoted	1 009	6 393	9 088	17 031	33 523

25. Investments in associated companies and others

This balance is analysed as follows

	2010 Euro '000	2009 Euro '000
Investments in associated companies and others		
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI)	7 001	7 001
Lusitania, Companhia de Seguros, S.A.	23 566	23 566
Lusitania Vida, Companhia de Seguros, S.A.	9 530	9 530
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 200	3 200
	43 297	43 297
Unquoted	43 297	43 297

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

	Number of shares	Percentage held by the CEMG	Unitarian par value Euros	Acquisition cost Euro '000
31 December, 2010				
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI)	77 200	100,00%	90,69	7 001
Lusitania, Companhia de Seguros, S.A	1 333 928	26,25%	5,00	23 566
Lusitania Vida, Companhia de Seguros, S.A.	314 736	39,34%	25,00	9 530
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 000	20,00%	5,00	3 200
.				43 297
31 December, 2009				
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI)	77 200	100,00%	90,69	7 001
Lusitania, Companhia de Seguros, S.A	1 312 420	26,25%	5,00	23 566
Lusitania Vida, Companhia de Seguros, S.A.	314 736	39,34%	25,00	9 530
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 000	20,00%	5,00	3 200
				43 297

26. Non-current assets held for sale

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Investments arising from recovered loans	201 710	157 935
Impairment for non-current assets held for sale	(39 336)	(29 336)
	162 374	128 599

The assets included in this balance are accounted for in accordance with the note 1.9.

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).

These assets are available for sale in a period less than 2 year and CEMG as a strategy for its sale.

This balance includes buildings and other assets for which CEMG has already established contracts for the sale in the amount of Euro 13 996 000 (2009: Euro 9 464 000).

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

	2010 Euro '000	2009 Euro '000
Impairment for non-current assets held for sale		
Balance on 1 January	29 336	23 868
Impairment for the year	13 845	10 088
Write-back for the year	(3.831)	(183)
Loans charged-off	(14)	(4 437)
Balance on 31 December	39 336	29 336

The movement in non-current assets held for sale balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Non-current assets held for sale		
Balance on 1 January	157 935	116 180
Acquisitions	66 715	59 303
Sales	(24 740)	(21 484)
Other movements	1 800	3 936
Balance on 31 December	201 710	157 935

27. Property and equipment

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Cost:		
Land and buildings:		
For own use	62 250	65 706
Leasehold improvements in rented buildings	24 225	32 208
Work in progress	33	43
Equipment:		
Furniture	11 065	10 502
Office equipment	1 869	1 971
Computer equipment	58 365	51 772
Interior installations	15 832	28 414
Motor vehicles	436	676
Security equipment	4 972	3 978
Works of art	1 050	986
Assets in operational lease	4 965	4 084
Other tangible assets	31	31
Work in progress	3 342	550
	188 435	200 921
Accumulated depreciation:		
Charge for the year	(13 070)	(12 164)
Accumulated charge for the previous years	(86 177))	(97 584)
	(99 247)	(109 748)
	89 188	91 173

The Property and equipment movements, during the year of 2010, are analysed as follows:

2010					
	Balance on 1 January Euro '000	**Acquisitions/ Charges Euro '000**	**Disposals Euro '000**	**Adjustment/ Transfers Euro '000**	**Balance on 31 December Euro '000**
Cost:					
Land and buildings:					
For own use	65 706	–	(3 456)	–	62 250
Leasehold improvements in rented buildings	32 208	332	(8 373)	58	24 225
Work in progress	43	10	–	(20)	33
Equipment:					
Furniture	10 502	988	(425)	–	11 065
Office equipment	1 971	10	(113)	1	1 869
Computer equipment	51 772	6 838	(244)	(1)	58 365
Interior Installations	28 414	334	(13 010)	94	15 832
Motor vehicles	676	58	(298)	–	436
Security equipment	3 978	1 009	(15)	–	4 972
Works of art	986	64	–	–	1 050
Assets in operational lease	4 084	1 632	(751)	–	4 965
Other tangible assets	31	–	–	–	31
Work in progress	550	2 947	–	(155)	3 342
	200 921	14 222	(26 685)	(23)	188 435
Accumulated depreciation:					
Land and buildings:					
For own use	15 831	1 039	(828)	–	16 042
Leasehold improvements in rented buildings	22 047	2 310	(8 373)	–	15 984
Equipment:					
Furniture	7 804	572	(366)	–	8 010
Office equipment	1 825	57	(112)	1	1 771
Computer equipment	37 871	6 307	(243)	–	43 935
Interior installations	20 126	1 585	(13 011)	–	8 700
Motor vehicles	673	9	(303)	–	379
Security equipment	2 823	434	(13)	–	3 244
Assets in operational lease	748	757	(323)	–	1 182
	109 748	13 070	(23 572)	1	99 247

The Property and equipment movements, during the year of 2009, are analysed as follows:

	2009				
	Balance on 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Land and buildings:					
For own use	63 413	2 293	–	–	65 706
Leasehold improvements in rented buildings	30 730	680	–	798	32 208
Work in progress	120	31	–	(108)	43
Equipment:					
Furniture	10 326	433	(257)	–	10 502
Office equipment	2 125	35	(189)	–	1 971
Computer equipment	43 405	8 404	(37)	–	51 772
Interior Installations	26 696	328	–	1 390	28 414
Motor vehicles	676	–	–	–	676
Security equipment	3 202	786	(20)	10	3 978
Works of art	478	508	–	–	986
Assets in operational lease	2 226	1 887	(29)	–	4 084
Other tangible assets	31	–	–	–	31
Work in progress	495	2 301	–	(2 246)	550
	183 923	17 686	(532)	(156)	200 921
Accumulated depreciation:					
Land and buildings:					
For own use	14 827	1 004	–	–	15 831
Leasehold improvements in rented buildings	19 785	2 262	–	–	22 047
Equipment:					
Furniture	7 433	613	(242)	–	7 804
Office equipment	1 923	91	(189)	–	1 825
Computer equipment	32 168	5 737	(34)	–	37 871
Interior installations	18 385	1 741	–	–	20 126
Motor vehicles	664	9	–	–	673
Security equipment	2 615	229	(21)	–	2 823
Assets in operational lease	276	478	(6)	–	748
	98 076	12 164	(492)	–	109 748

28. Intangible assets

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Cost:		
Software	31 798	52 375
Assets advances	6 106	4 657
	37 904	57 032
Accumulated amortisation:		
Charge for the year	(7 776)	(8 338)
Accumulated charge for the previous years	(11 874)	(32 543)
	(19 650)	(40 881)
	18 254	16 151

The Intangible assets movements, during the year of 2010, are analysed as follows:

	Balance on 1 January Euro '000	Acquisition/ Charges Euro '000	Disposals Euro '000	Adjustments/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Software	52 375	8 430	(29 007)	–	31 798
Assets advanced	4 657	1 449	–	–	6 106
	57 032	9 879	(29 007)	–	37 904
Accumulated amortisation					
Software	40 881	7 776	(29 007)	–	19 650

The Intangible assets movements, during the year of 2009, are analysed as follows:

	Balance on 1 January Euro '000	Acquisition/ Charges Euro '000	Disposals Euro '000	Adjustments/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Software	44 988	7 790	–	(403)	52 375
Assets advanced	2 331	1 872	–	454	4 657
	47 319	9 662	–	51	57 032
Accumulated amortisation					
Software	32 543	8 338	–	–	40 881

29. Other assets

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Recoverable subsidies from the Portuguese Government	11 949	13 739
Other debtors	29 071	19 756
Other accrued income	4 873	6 456
Prepayments and deferred costs	20 801	28 728
Sundry debtors	65 298	65 020
	131 992	133 699
Impairment from recoverable subsidies	(3 473)	(3 473)
	128 519	130 226

The balance Recoverable subsidies from the Portuguese Government, in the amount of Euro 11 949 000 (2009: Euro 13 739 000), corresponds to mortgage credit interest subsidies, in accordance with the regulations applicable to mortgage loans benefits. The referred amounts do not bear interest and are claimed monthly.

As at 31 December 2010 and 31 December 2009, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

	2010 Euro '000	2009 Euro '000
Recoverable subsidies from the Portuguese Government unliquidated	7 120	7 311
Subsidies unclaimed	1 716	3 412
Overdue subsidies unclaimed	3 113	3 016
	11 949	13 739

As at 31 December 2010 and 31 December 2009, the balance Recoverable subsidies from the Portuguese Government include an amount of Euro 3 473 000 not recognised by the treasury authorities. This amount is totally provided for in the balance Impairment from recoverable subsidies.

As at 31 December 2010, the balance Prepayments and deferred costs includes an amount of Euro 19 061 000 (2009: Euro 27 094 000) referring to the impacts of the application of IAS 19 requirements not yet deferred, related to actuarial gains and losses of pension fund at 1 January, 2005. This amount will be charge for ten or eight years period depending on whether it relates to obligations with health or employees benefits, respectively, as referred in the note 1.14.

As at 31 December 2010, the balance Sundry debtors includes the amount of Euro 32 816 000 refer to transactions with securities recorded on trade date and pending settlement, in accordance with note 1.5.

As at 31 December 2010 and 2009, the balances related with the obligations related with pensions (see note 43), included in balance Other sundry liabilities are analysed as follows:

	2010 Euro '000	2009 Euro '000
Projected benefit obligations	(597 140)	(569 822)
Value of the Fund	545 097	504 883
	(52 043)	(64 939)
Actuarial losses		
Corridor	77 148	80 954
Amount in excess of the corridor	24 053	7 580
	101 201	88 534
	49 158	23 595

The amounts of the corridor and of the actuarial losses were determined in accordance with the note 1.14.

30. Deposits from central banks

As at 31 December 2010, this balance in amount of Euro 1 540 266 000 is related to deposits obtained in the European System of Central Banks and is covered by securities from the available-for-sale portfolio pledged as collaterals portfolio of financial assets available-for-sale.

As at 31 December 2009, this balance includes the amount of Euro 502 353 000, referring to bonds sold with a repurchase agreement (repos) for a price that is equal to the selling price plus an interest rate inherent to the operation period, which is not derecognised in the balance sheet.

As at 31 December 2010 and 2009, the analysis of deposits from Central Banks by the period to maturity is as follows:

	2010 Euro '000	2009 Euro '000
Up to 3 months	460 026	–
3 to 6 months	1 080 240	–
More than 6 months	–	502 353
	1 540 266	502 353

31. Deposits from other credit institutions

This balance is analysed as follows:

	2010			2009		
	Non interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000	Non interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000
Deposits from credit institutions in Portugal	247 969	4 163	252 132	7 995	53 745	61 740
Deposits from credit institutions abroad	1 000 337	10 077	1 010 414	4 023	879 637	883 660
	1 248 306	14 240	1 262 546	12 018	933 382	945 400

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

	2010 Euro '000	2009 Euro '000
Due within 3 months	526 133	605 635
3 months to 6 months	155 594	50 883
6 months to 1 year	255 553	55 960
1 year to 5 years	59 025	16
Over 5 years s	272 830	235 531
	1 269 135	948 025
Adjustments arising from hedging operations	(6 589)	(2 625)
	1 262 546	945 400

32. Deposits from customers

This balance is analysed as follows:

	2010			2009		
	Non interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000	Non interest bearing Euro '000	Interest bearing Euro '000	Total Euro '000
Deposits repayable on demand	16 157	2 001 904	2 018 061	85 173	1 901 420	1 986 593
Time deposits (*)	–	7 229 927	7 229 927	–	6 379 299	6 379 299
Saving accounts (*)	–	391 530	391 530	–	511 255	511 255
Other items	496	–	496	896	–	896
Adjustments arising from hedging operations	14 326	–	14 326	3 003	–	3 003
	30 979	9 623 361	9 654 340	89 072	8 791 974	8 881 046

Observations: (*) Deposits for which the embedded derivative was separate from the host contract, in accordance with note 20 and note 1.3.

In the terms of the law «*Portaria*» no. 180/94, of 15 December, the deposit guarantee fund was established to guarantee the reimbursement of funds deposited in credit institutions. The criteria to calculate the annual contributions to the referred fund are defined annually by instruction of the Bank of Portugal.

As at 31 December 2010, this balance includes the amount of Euro 1 772 500 000 (2009: Euro 894 097 000) related to deposits recognised on the balance sheet at fair value through profit or loss.

The balance Deposits from customers, analysed by the period of maturity, is as follows:

	2010 Euro '000	2009 Euro '000
Deposits repayable on demand	2 018 061	1 986 593
Time deposits and saving accounts:		
Due within 3 months	1 271 892	1 240 950
3 months to 6 months	2 637 009	2 612 167
6 months to 1 year	1 029 173	1 253 706
1 year to 5 years	–	–
Over 5 years	2 683 383	1 783 731
	9 639 518	8 877 147
Adjustments arising from hedging operations	14 326	3 003
	9 653 844	8 880 150
Other items:		
Due within 3 months	496	896
	9 654 340	8 881 046

33. Debt securities issued

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Euro Medium Term Notes	2 179 683	2 810 743
Bonds	566 304	611 517
Covered Bonds	832 690	1 161 047
	3 578 677	4 583 307

The fair value of the debts securities issued is presented in note 42.

This balance includes the amount of Euro 1 510 171 000 (2009: Euro 1 666 921 000) related to debt securities issued recognised at the balance sheet at fair value through profit or loss.

As at 31 December 2010 and 2009, the analysis of debt securities issued outstanding by period to maturity is as follows:

	2010 Euro '000	2009 Euro '000
Due within 6 months	858 289	111 756
6 months to 1 year	631 766	726 782
1 year to 5 years	1 930 905	3 254 825
Over 5 years	183 492	485 180
	3 604 452	4 578 543
Adjustments arising from hedging operations	(25 775)	4 764
	3 578 677	4 583 307

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 main characteristics of these issues are as follows:

Description	Nominal value Euro '000	Book value Euro '000	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody's/Fitch)
Covered bonds	1 000 000	1 000 000	Jul, 2009	Jul, 2012	Annual	3.25%	Aa1 / AAA

As at 31 December 2010, the mortgage loans that collateralise these covered bonds amounted to Euro 1 000 000 000 (2009: Euro 1 298 998 000) in accordance with note 19.

The change occurred in debt securities issued during the year ended 31 December 2010 is analyzed as follows:

	Balance on 1 January Euro '000	Issues Euro '000	Repayments Euro '000	Net repurchase Euro '000	Other movements (a) Euro '000	Balance on 31 December Euro '000
Euro Medium Term Notes (EMTN)	2 810 743	–	(578 950)	(46 050)	(6 060)	2 179 683
Bonds	611 517	241 799	(281 509)	–	(5 503)	566 304
Covered bonds	1 161 047	–	–	(177 350)	(151 007)	832 690
	4 583 307	241 799	(860 459)	(223 400)	(162 570)	3 578 677

(a) Other movements include accrued interest, fair value hedge, fair value adjustments and foreign translation exchanges adjustments.

In accordance with the note 1.7, 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 2009 is analyzed as follows:

	Balance on 1 January Euro '000	Issues Euro '000	Repayments Euro '000	Net repurchase Euro '000	Other movements (a) Euro '000	Balance on 31 December Euro '000
Euro Medium Term Notes	3 705 944	–	(777 876)	(155 064)	37 739	2 810 743
Bonds	964 998	126 361	(470 679)	–	(9 163)	611 517
Covered bonds	–	1 150 000	–	–	11 047	1 161 047
	4 670 942	1 276 361	(1 248 555)	(155 064)	39 623	4 583 307

(a) Other movements include accrued interest, fair value hedge, fair value adjustments and foreign translation exchanges adjustments.

As at 31 December 2010, the balance Debt securities issued is comprise of the following issues:

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
Obr. CEMG / 04	Sep, 2004	Sep, 2014	Euribor 3 months + 0.25%	15 000
Obr. CEMG / 05	Feb, 2005	Feb, 2015	Annual rate of 3.628%	121 000
Obr. CEMG / 05	May, 2005	May, 2012	Euribor 3 months + 0.25%	462 369
Obr. CEMG / 06	Jan, 2006	Jan, 2011	Euribor 3 months + 0.20%	462 100
Obr. caixa MG Valor Garantido 2006	Jan, 2006	Jan, 2011	Semiannual fixed rate of 4%	10 000
Obr. caixa MG Aforro/06 5 anos 1.ª Emissão	Aug, 2006	Aug, 2011	Semiannual fixed rate of 5% (10th. semester fixed rate of 6%)	7 000
Obr. caixa MG Aforro/06 5 anos 2.ª Emissão	Aug, 2006	Aug, 2011	Semiannual fixed rate of 3.625% (10th. semester fixed rate of 7%)	4 000
Obr. CEMG / 06	Sep, 2006	Sep, 2011	Euribor 3 months + 0.25%	472 350
Obr. caixa MG Aforro/06 5 anos 3.ª Emissão	Sep, 2006	Sep, 2011	Semiannual fixed rate of 4% (10th. semester fixed rate of 7%)	3 500
Obr. caixa MG Aforro/06 5 anos 4.ª Emissão	Nov, 2006	Nov, 2011	Semiannual fixed rate of 3.5% (10th. semester fixed rate of 7%)	3 750
Obr. caixa MG Aforro/06 5 anos 5.ª Emissão	Dec, 2006	Dec, 2011	Semiannual fixed rate of 3.625% (10th. semester fixed rate of 7%)	1 000
Obr. caixa MG Ass./06 5 anos 1.ª Emissão	Dec, 2006	Dec, 2011	Semiannual fixed rate of 3.75% (10th. semester fixed rate of 7.25%)	1 000
Obr. CEMG / 07	Jan, 2007	Jan, 2017	Fixed rate of 4.2%	93 500
Obr. caixa – Aforro Montepio Ass./07 5 anos 1.ª Série	Feb, 2007	Feb, 2012	Semiannual fixed rate of 3.875% (10th. semester fixed rate of 7.25%)	4 000
Obr. caixa – Aforro Montepio /07 5 anos 1.ª Série	Feb, 2007	Feb, 2012	Semiannual fixed rate of 3.5% (9th. semester fixed rate of 3.625% and in the 10th. semester fixed rate of 7%)	1 000
Obr. caixa – Aforro Montepio /07 5 anos 2.ª Série	Feb, 2007	Feb, 2012	Semiannual fixed rate of 3.5% (9th. semester fixed rate of 3.625% and in the 10th. semester fixed rate of 7%)	2 000
Obr. CEMG / 07	Feb, 2007	Feb, 2017	Fixed rate of 4.2%	88 000
Obr. caixa – Aforro Montepio Ass./07 5 anos 2.ª Série	Feb, 2007	Feb, 2012	Semiannual fixed rate of 3.75% (9th. semesterfixed rate of 3.875% and in the 10th. semester fixed rate of 7.25%)	3 000
Obr. caixa – AM Eur 6M 5Y – 2012	Apr, 2007	Apr, 2012	Fixed rate of 4.455%	6 000
Obr. CEMG / 07	May, 2007	May, 2013	Euribor 3 months + 0.25%	479 000
Montepio Standard Poor's BRIC 40	Oct, 2007	Oct, 2012	Semiannual fixed rate of 0.9% (5th. to 9th. semester fixed rate of 0.9%). In maturity, variable remuneration indexed to *Standard & Poor's* BRIC40	2 245
Obr. caixa – Montepio Cabaz Commodities Agrícolas	Jan, 2008	Jan, 2011	Variable rate payable at maturity that corresponds to 95% of the performance of a mix composed of 5 agricultural *Commoditie*, with a minimum of 1% and a maximum of 50%	5 000

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
Obr. caixa – Aforro Montepio 2008 – 3 anos – 1.ª série	Jan, 2008	Jan, 2011	Quarterly fixed rate of 5%	10 000
Obr.caixa – Montepio Euro Aforro 2008 – 3 anos – 1.ª série	Jan, 2008	Jan, 2011	Semiannual fixed rate: Euribor 6 months – 0.4% (5th. semester Euribor 6 months – 0.3% and in the 6th. semester Euribor 6 months)	17 100
Obr. Caixa – Montepio Select 5 anos	Jan, 2008	Jan, 2011	Fixed rate of 2.5% in the first 4 years and at maturity a variable remuneration between 2.5% and 60% of the annual average performance of a mix composed of the Dow Jones Eurostoxx Select Dividend 30 Index and the IBOXX Euro Eurozone Performance Sovereigns 5 a 7 years Index	1 000
Obr. Caixa – Montepio Taxa Fixa 5Y – Janeiro 2008	Jan, 2008	Jan, 2011	Annual fixed rate of 2.5%	2 500
Obr. Caixa – Montepio Euro Aforro 2008 – 3 Anos – 2.ª série	Mar. 2008	Mar. 2011	Semiannual fixed rate of: Euribor 6 months – 0.3% (5th. semester Euribor 6 months – 0.2% and in the 6th. semester Euribor 6 months)	13 500
Obr. Caixa – Montepio Euro Aforro 2008 – 3 Anos – 3.ª série	Apr, 2008	Apr, 2011	Semiannual fixed rate of: Euribor 6 months – 0.3% (5th. semester Euribor 6 months – 0.2% and in the 6th. semester Euribor 6 months)	15 000
Obr. Caixa – Montepio Euro Aforro 2008 – 3 Anos – 4.ª série	May, 2008	May, 2011	Semiannual fixed rate of: Euribor 6 months – 0.3% (5º semester Euribor 6 months – 0.2% and in the 6th. semester Euribor 6 months + 0.1%)	12 100
Obr. Caixa- Montepio Inflação 2008 – 2016 – 1.ª Série	Jun. 2008	Jun. 2016	Annual variable rate of 3.2% plus the annual european inflation rate	5 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2008/2013	Sep, 2008	Sep, 2013	Annual fixed rate of 2% (4th. and 5th. semester Euribor 3 months + 1%)	31 500
Obr. Caixa – Capitais de Reforma Prazo Certo – Out. 2008/2013	Nov, 2008	Nov, 2013	Semiannual fixed rate of Euribor 3m + 1%	34 500
Obr. Caixa – Capitais de Reforma Prazo Certo – Fev. 2009/2014	Feb, 2009	Feb, 2014	Annual fixed rate of 1% (3rd. to 5th. year Euribor 3 months + 0.84%)	14 100
Obr. Caixa – Capitais de Reforma Prazo Certo – Mar. 2009/2014	Mar. 2009	Mar. 2014	Annual fixed rate of 3.5% (2nd. to 5th. year Euribor 3 months + 0.80%)	18 000
Obr. Caixa – MG Taxa Fixa 3 anos – 25/05/2012 – Set. 2009/2014	May, 2009	May, 2012	Annual fixed rate of 3% (3rd. and 4th. year with a fixed rate of 3%)	650
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2017	Sep, 2009	Sep, 2014	Annual fixed rate of 3% (3rd. and 4th. year 3%. 5th. year 6%)	10 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2017	Sep, 2009	Sep, 2017	Annual fixed rate of 3.75% (3rd. to 7th. year 3.75%. 8th. year 6.75%)	5 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2007/2012 – 2.ª série	Sep, 2009	Sep, 2012	Variable rate indexed to the Average Euribor 3 months + 1%	28 500
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2008/2013 – 2.ª série	Sep, 2009	Sep, 2013	Variable rate indexed to the Average Euribor 3 months + 1%	1 750
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2014 – 8.ª série	Nov, 2009	Nov, 2014	Fixed rate of 3.25% until 4th. year (5th. year fixed rate of 5.75%)	5 000
Obr. Caixa – Taxa variável CEMG 2009-2012	Nov, 2009	Nov, 2012	Quarterly variable rate indexed to the average Euribor 3 months + 1%	23 500
Obr. Caixa – Taxa variável CEMG 2009-2013	Nov, 2009	Nov, 2013	Quarterly variable rate indexed to the average Euribor 3 months + 1%	1 700
Obr. Caixa – Montepio Títulos Europa 2009-2013	Dec, 2009	Dec, 2013	Variable rate indexed to *Dow Jones EuroStoxx* 50	2 711
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2014 – 9.ª série	Dec, 2009	Dec, 2014	Fixed rate of 3.20% until 4th. year (5th. year fixed rate of 5.5%)	7 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2014 – 10.ª série	Dec, 2009	Dec, 2014	Fixed rate of 3% (3º year fixed rate of 3.5%. 4th. year fixed rate of 4.5% and 5th. year fixed rate of 5.5%)	5 000

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
Obr. Caixa – Montepio Taxa Fixa 2010/2013 1.ª Série	Jan, 2010	Jan, 2013	Annual fixed rate of 2.5%	1 000
Obr. Caixa Montepio Taxa Fixa 2010/2014	Jan, 2010	Jan, 2014	Quarterly fixed rate of 3%(3rd. and 4th. semesters fixed rate of 3.125%, 5th. and 6th. semesters fixed rate of 3.50% and 7th. and 8th. semesters fixed rate of 3.5%)	9 806
Obr. Caixa Montepio cabaz Ouro e Petróleo	Mar. 2010	Mar. 2014	Variable rate payable in maturity in accordance with the average performance of Future agreement of WTI Crude and the reference value for the Gold fixed by the *London Bullion Market Association*	3 705
Obr. Caixa Montepio Prazo Certo 2010/2015 1.ª Série	Mar. 2010	Mar. 2015	Annual fixed rate of 2.75% (2nd. year fixed rate of 2.75%, 3rd. year 3%, 4th. year 3.25% and 5th. year 5%)	25 000
Obr. Caixa Montepio Taxa Variável Março 2010/2014	Mar. 2010	Mar. 2014	Annual variable rate: Euribor 3 months + 2%	1 700
Obr. Caixa Montepio Taxa Fixa 2010/2014 2ª Série	Mar. 2010	Mar. 2014	Annual fixed rate of 3% (2nd. year fixed rate of 3.2%, 3rd. year fixed rate of 3.3% and 4th. year fixed rate of 3.5%)	20 000
Obr. Caixa Montepio Taxa Fixa Abril 2010/2015	Apr, 2010	Apr, 2014	Semiannual fixed rate of 2.60% (2.70% in the 3rd. and 4th. semesters, 2.80% in the 5th. and 6th. semesters, 3% in the 7th. and 8th. semesters and 3.5% in the 9th. and 10th. semesters)	500
Obr. Caixa Montepio Prazo Certo 2010/2015 2.ª Série	Apr, 2010	Apr, 2015	Annual fixed rate of 2.5% (In the 3rd. year fixed rate of 2.75%, 4th. year fixed rate of 3% and in the 5th. year fixed rate of 4.5%)	23 000
Obr. Caixa Montepio Taxa Fixa Crescente Maio 2010/2014	May, 2010	May, 2014	Annual fixed rate of 2.5% (In the 2nd. year fixed rate of 2.7%, 3rd. year 3% and 4th. year 3.5%)	8 000
Obr. Caixa Montepio Prazo Certo 2010/2018 1.ª Série	May, 2010	May, 2018	Annual fixed rate of 2.75% (In the 3rd. 4th. and 5th. years fixed rate of 3%, 6th. year fixed rate of 3.25%, 7th. year fixed rate of 3.5% and 8th. year fixed rate of 5%)	10 000
Obr. Caixa Montepio Taxa Fixa Crescente 2010/2013 1.ª Série	May, 2010	May, 2013	Annual fixed rate of 2.5% (In the 2nd. year fixed rate of 3% and in the 3rd. year fixed rate of 3.5%)	10 553
Obr. Caixa Montepio Top 2010/2014 1.ª Série	May, 2010	Jun. 2014	Annual fixed rate of 2.5% (In the 2nd. year 2.75%, 3rd. year 3% and 4th. year 3.25%)	520
Obr. Caixa Montepio Cabaz Energia 2010/2014	May, 2010	Jun. 2014	Variable rate payable in maturity in accordance with the average performance of a mix composed of 10 stocks of the Oil & Gas sector. with a guaranteed minimum of 4%	2 201
Obr. Caixa Montepio Prazo Certo 2010/2015 3.ª Série	Jun. 2010	Jun. 2015	Annual fixed rate of 2% (2nd. year fixed rate of 2.25%, 3rd. year fixed rate of 2.5%, 4th. year fixed rate of 2.75% and 5th. year fixed rate of 4.5%)	6 000
Obr. Caixa Montepio Taxa Fixa 2010/2012 1.ª Série	Jun. 2010	Jun. 2012	Quarterly fixed rate of 2%	3 118
Obr. Caixa Montepio Prazo Certo 2010/2018, 2.ª Série	Jul. 2010	Jul. 2018	Annual fixed rate of 2.25% (3rd. and 4th. year fixed rate of 2.5%, 5th. year fixed rate of 2.75%, 6th. year fixed rate of 3%. 7th. year fixed rate of 3.5% and 8th. year fixed rate of 5%)	5 000
Obr. Caixa Montepio Prazo Certo 2010/2015 4.ª Série	Jul. 2010	Jul. 2015	Annual fixed rate of 2.25% (3rd. and 4th. year fixed rate of 2.5% and 5th. year fixed rate of 3.5%)	10 000

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
Obr. Caixa Montepio Taxa Fixa Julho 2010/2014	Jul. 2010	Jul. 2014	Semiannual fixed rate of 3.5%	22 747
Obr. Caixa Montepio Prazo Certo 2010/2015 5.ª Série	Aug, 2010	Aug, 2015	Annual fixed rate of 2.5% (3rd. and 4th. year fixed rate of 2.75% and 5th. year fixed rate of 3.75%)	10 000
Obr. Caixa Montepio Taxa Fixa Agosto 2010/2014	Aug, 2010	Aug, 2014	Semiannual fixed rate of 3.5%	15 914
Obr. Caixa Montepio Taxa Fixa Setembro 2010/2020	Sep, 2010	Sep, 2020	Annual fixed rate of 4%	200
Obr. Caixa Montepio Taxa Fixa Setembro 2010/2014	Sep, 2010	Sep, 2014	Semiannual fixed rate of 3.5%	9 966
Obr. Caixa Montepio Euro Dolar Setembro 2010/2012	Oct, 2010	Oct, 2012	Fixed rate of 11.5% if the currency rate for EURUSD is equal or less to 1.21 at maturity date, otherwise applies a fixed rate of 0.5%	1 493
Obr. Caixa Montepio Prazo Certo 2010/2015 6.ª Série	Nov, 2010	Nov, 2015	Fixed rate of 2.75% (2nd. and 3rd. year fixed rate of 3%, 4th. year fixed rate of 3.25% and 5th. year fixed rate of 4%)	10 000
Obr. Caixa Montepio Taxa Fixa Novembro 2010/2012	Nov, 2010	Nov, 2012	Semiannual fixed rate of 3.25%	5 818
Obr. Caixa Montepio Prazo Certo 2010/2015 7.ª Série	Dec, 2010	Dec, 2015	Annual fixed rate of 3% (2nd. year fixed rate of 3,2%, 3rd. year fixed rate of 3,4%, 4th. year fixed rate of 3,6% and 5th. year fixed rate of 5%)	15 000
Obr. Caixa MG Telecomunicações Dezembro 2010-2014	Dec, 2010	Dec, 2014	Fixed rate payable on maturity in accordance with the average performance of the Stoxx 600 Telecommunications Indez with a minimum of 2% and a maximum of 40%	558
Obr. Caixa Montepio Prazo Certo 2010/2015 8.ª Série	Dec, 2010	Dec, 2015	Annual fixed rate of 3% (2nd. year fixed rate of 3.2%, 3rd. year fixed rate of 3.4%, 4th. year fixed rate of 3.6% and 5th. year fixed rate of 5%)	10 000
Covered bonds	Jul. 2009	Jul. 2012	Fixed rate of 3.25%	822 650
				3 576 374
Adjustments arising from hedging operation				(25 775)
Accruals, deferred costs and income				28 078
				3 578 677

As at 31 December 2010, for the bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.5% and 5.75%.

34. Provisions

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Provisions for general banking risks	100 188	101 310
Provisions for liabilities and charges	1 311	1 490
	101 499	102 800

The movements of the provisions for general banking risks are analysed as follows:

	2010 Euro '000	2009 Euro '000
Balance on 1 January	101 310	101 240
Charge for the year	49 552	50 386
Write-back for the year	(50 674)	(50 316)
Balance on 31 December	100 188	101 310

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

	2010 Euro '000	2009 Euro '000
Balance on 1 January	1 490	1 668
Charge for the year	586	416
Write-back for the year	(670)	(262)
Charged-off	(95)	(332)
Balance on 31 December	1 311	1 490

The provisions were accounted in accordance with the probability of occurrence of certain contingencies related with CEMG's activity, which is revised in each reporting date in order to reflect the best estimate of the amount and probability of payment.

35. Other subordinated debt

As at 31 December 2010, this balance in the amount of Euro 380 986 000 (2009: Euro 381 043 000) refers to Bonds with fixed maturity date, and with a residual reimbursement over 5 years.

As at 31 December 2010 the mainly characteristics of the Other subordinated debt, are analysed as follows:

Issue	Issue date	Maturity date	Issue amount Euro '000	Interest rate	Book value Euro '000
Bonds with fixed maturity date:					
CEMG/06	Apr, 2006	Apr, 2016	50 000	Euribor 3 months+ 0.45%	50 089
CEMG/08	Feb, 2008	Feb, 2018	150 000	Euribor 6 months + 0.13%	151 325
CEMG/08	Jun, 2008	Jun, 2018	28 000	Euribor 12 months + 0.10%	
CEMG/08	Jul, 2008	Jul, 2018	150 000	Euribor 6 months + 0.13%	151 325
					380 986

As at 31 December 2010, the effective interest rate range of the subordinated debt bears postponed interest every three and six months is set between 1.44% and 2.27%.

36. Other liabilities

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Creditors:		
Suppliers	7 356	7 038
Other creditors	24 195	25 228
Public sector	7 944	7 330
Financial liabilities associated with transferred assets	3 182 375	2 301 379
Holiday pay and subsidies	25 824	24 127
Other administrative costs payable	375	982
Deferred income	546	585
Securities transactions pending settlement	–	38 610
Other sundry liabilities	67 850	57 379
	3 316 465	2 462 658

The balance Financial liabilities associated to transferred assets relates to securitisation transactions celebrated between CEMG and other financial institutions, that weren't derecognized in accordance with IAS 39 – Financial instruments: Recognition and Measurement. The securitisation transactions details are analysed in note 45.

37. Share capital

On 29 September, 2010, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 40 000 000, by cash transfer.

After the referred operation, the share capital of CEMG, amounts to Euro 800 000 000 (2009: Euro 760 000 000), totally subscribed by Montepio Geral – Associação Mutualista, and is fully paid.

38. 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 39.

39. Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

	2010 Euro '000	2009 Euro '000
Other comprehensive Income:		
Fair value reserves		
Available-for-sale financial assets	(82 973)	(28 600)
Reserves and retained earnings:		
General reserve	170 686	163 130
Special reserve	64 444	62 555
Other reserves	8 404	8 404
Retained earnings	(8 033)	(8 033)
	235 501	226 056

The Fair value reserves correspond to the accumulated fair value changes of the available-for-sale financial assets, in accordance with note 1.5.

The movements of this balance during 2010 are analysed as follows:

	Balance on 1 January Euro '000	Revaluation Euro '000	Sales Euro '000	Impairment recognised in the year Euro '000	Balance on 31 December Euro '000
Fixed income securities:					
Bonds issued by Portuguese entities	–	(28 302)	–	–	(28 302)
Bonds issued by Foreign entities	106	(4 199)	(10)	–	(4 103))
Bond issued by other entities:					
Portuguese	1 471	(11 354)	(760)	(1 948)	(12 591)
Foreign	(31 441)	(9 483)	1 355	1 509	(38 060)
	(29 864)	(53 338)	585	(439)	(83 056)
Variable income securities:					
Shares in companies:					
Portuguese	89	71	(42)	41	159
Foreign	523	(239)	(129)	(201)	(46)
Investment fund units	652	(2 564)	(898)	2 780	(30)
	1 264	(2 732)	(1 069)	2 620	83
	(28 600)	(56 070)	(484)	2 181	(82 973)

The movements of this balance during 2009 are analysed as follows:

	Balance on 1 January Euro '000	Revaluation Euro '000	Sales Euro '000	Impairment recognised in the year Euro '000	Balance on 31 December Euro '000
Fixed income securities:					
Bonds issued by Portuguese entities	–	–	–	–	–
Bonds issued by Foreign entities	(38)	141	3	–	106
Bond issued by other entities:					
Portuguese	(2 187)	5 109	–	(1 451)	1 471
Foreign	(45 581)	9 506	2 063	2 571	(31 441)
	(47 806)	14 756	2 066	1 120	(29 864)
Variable income securities:					
Shares in companies:					
Portuguese	(23)	341	1	(230)	89
Foreign	–	427	32	64	523
Investment fund units	(235)	503	10	374	652
	(258)	1 271	43	208	1 264
	(48 064)	16 027	2 109	1 328	(28 600)

As at 31 December, 2010 and 2009, the balance Retained earnings in the amount of Euro 8 033 000 related with the IAS 19 transition adjustments amortisation, as referred in the note 1.14.

The fair value reserve can be analysed as follows:

	2010 Euro '000	2009 Euro '000
Amortised cost of available-for-sale financial assets	5 367 501	3 223 009
Accumulated impairment recognised	(27 717)	(29 899)
Amortised cost of available-for-sale financial assets, net impairment	5 339 784	3 193 110
Fair value of available-for-sale financial assets	5 256 811	3 164 510
Net unrealised gains / (losses) recognised in the fair value reserve	(82 973)	(28 600)

40. Obligations and future commitments

Obligations and future commitments are analysed as follows:

	2010 Euro '000	2009 Euro '000
Guarantees granted	424 361	426 156
Guarantees received	29 158 640	29 733 532
Commitments to third parties	1 299 227	1 211 311
Commitments from third parties	38 510	172 768
Securitised loans	292 135	333 270
Securities and other items held for safekeeping on behalf of customers	5 152 178	5 371 322

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

	2010 Euro '000	2009 Euro '000
Guarantees granted:		
Guarantees	420 181	423 107
Open documentary credits	4 180	3 049
	424 361	426 156

	2010 Euro '000	2009 Euro '000
Commitments to third parties:		
Irrevocable commitments		
Term deposits contracts	–	1 472
Irrevocable credit lines	252 535	302 264
Securities subscription	185 150	–
Annual contribution to the Guarantee Deposits Fund	20 013	19 829
Potential obligation with the Investors' Indemnity System	1 699	3 209
Revocable commitments		
Revocable credit lines	839 470	884 537
	1 298 867	1 211 311

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 formalisation.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any one another commercial operation, namely the solvency of the underlying client and business, being that CEMG requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having being used, the indicated amounts do not represent necessarily future cash-flow needs.

As at 31 December 2010 and 31 December 2009, the balance Annual contribution to the obligations of Guarantee Deposits Fund is related with the irrevocable commitment assumed by CEMG and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

The balance Potential obligation with the Investors' Indemnity System, as at 31 December 2010 and 2009, is related with the irrevocable commitment assumed by CEMG and required by law, to deliver to that System the necessary amounts for CEMG's obligation with the investors' indemnities to be paid.

The financial instruments recorded as Obligations and future commitments are subject to the same control and approval procedures required for the credit portfolio, namely to the evaluation of the adequacy of provisions as referred in note 1.4, the maximum credit exposition is represented by the nominal value that could been lost related to the liabilities associated and other commitments of CEMG in the matter of the overdue by counterparties, without being in consideration potential recoveries of credit or collaterals.

41. Distribution of profit

On 13 March, 2010, following the General Assembly deliberation, CEMG distributed to Montepio Geral – Associação Mutualista in the amount of Euro 20 300 000 (2009: Euro 11 271 000).

42. Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as it happens regarding many products sold to clients, fair value is estimated through internal models based on cash-flow discounting techniques.

Cash flows for the different instruments sold are calculated according with its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the pricing policy in CEMG.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model that, necessarily have some degree of judgement and reflect exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, like the future business evolution.

Under these conditions, the values presented cannot be understood as an estimate of the economic value of CEMG.

CEMG determines the fair value of its financial assets and liabilities in accordance with the following hierarchy:

1 Quoted market prices – this category includes financial assets with available quoted market prices in official markets and with dealer prices, quotations provided by entities that usually provide transaction prices for these assets/liabilities traded in active markets.

2 Valuation models based on observable market information – consists on the use of internal valuation techniques, namely discounted cash flow models and option pricing models that imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instrument. Notwithstanding, CEMG uses observable market data such as interest rate curves, credit spreads, volatility and market indexes. Includes also instruments with dealer price quotations but which are not traded in active markets.

3 Valuation models based on non-observable market information – consists on the use of internal valuation models or quotations provided by third parties but which imply the use of non-observable market information.

The main methods and assumptions used in estimating the fair value for the assets and liabilities of CEMG are presented as follows:

– **Cash and deposits at central banks, Loans and advances to credit institutions repayable on demand and Deposits from other credit institutions**

  Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

– **Other loans and advances to credit institutions, Amounts owed to other credit institutions from Interbank Money Market transactions and Assets with repurchase agreements**

  The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates.

The discount rate used reflects the current conditions applied by CEMG in identical instruments for each of the different maturities. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market, at the end of the year).

– **Financial assets held for trading (except derivatives), Financial liabilities held for trading (except derivatives) and Available-for-sale financial assets**

These financial instruments are accounted at fair value. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

Interest rates are determined based on information disseminated by the suppliers of content financial – Reuters and Bloomberg – more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are used in the projection of the 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.

In case of shares not listed, they are recognized at historical cost when there is no available market value and it is not possible to determine reliably its fair value.

– **Financial assets held to maturity**

These financial instruments are accounted at amortized cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

– **Hedging and trading derivatives**

All derivatives are recorded at fair value.

In case of those who are quoted in organised markets it is used its market price. As for derivatives traded «Over--the-counter», it is applied methods based on numerical cash-flow discounting techniques and models for assessment of options considering variables of the market, particularly the interest rates on the instruments in question, and where necessary, their volatilities.

Interest rates are determined based on information disseminated by the suppliers of content financial – Reuters and Bloomberg – more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods.

The interest rate curves are used in the projection of the non-deterministic cash flows such as indexes.

– **Loans and advances to customers with defined maturity date**

The fair value of these instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments 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.

For 31 December 2010, the average discount rate was 5.73% (2009: 2.61%), 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.

For 31 December 2010, the average discount rate was of 3.90% (2009: 0.65%).

– **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 costumers of CEMG, it was added one more differential (trade spread), which represents the margin between the financing cost in the institutional market and the cost obtained by distributing the respective instrument in the commercial network owned.

As at 31 December 2010, the following table presents the values of the interest rates used in the clearance of the curves interest rate of major currencies, including Euro, United States Dollar and Sterling Pound used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies		
	Euro	**United States Dollar**	**Sterling Pound**
1 day	0.400%	0.300%	0.550%
7 days	0.350%	0.300%	0.550%
1 month	0.810%	0.300%	0.680%
2 months	0.910%	0.310%	0.720%
3 months	1.010%	0.430%	0.820%
6 months	1.230%	0.530%	1.260%
9 months	1.370%	0.720%	1.415%
1 year	1.510%	0.880%	1.520%
2 years	1.561%	0.797%	1.505%
3 years	1.945%	1.282%	1.945%
5 years	2.481%	2.179%	2.630%
7 years	2.893%	2.838%	3.103%
10 years	3.305%	3.386%	3.535%
15 years	3.638%	3.844%	3.535%
20 years	3.697%	4.020%	3.535%
30 years	3.496%	4.130%	3.535%

As at 31 December 2010, the following table presents the values of the interest rates used in the clearance of the curves interest rate of major currencies, including Euro, United States Dollar, Sterling Pound, Czech Koruna and Hong-Kong Dollar used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies				
	Euro	**United States Dollar**	**Sterling Pound**	**Czech Koruna**	**Hong-Kong Dollar**
1 day	0.300%	0.170%	0.565%	0.950%	0.360%
7 days	0.300%	0.390%	0.565%	0.950%	0.360%
1 month	0.465%	0.420%	0.580%	1.175%	0.125%
2 months	0.500%	0.440%	0.625%	1.295%	0.075%
3 months	0.630%	0.480%	0.705%	1.405%	0.120%
6 months	0.930%	0.630%	0.920%	1.655%	0.110%
9 months	1.090%	0.740%	1.210%	1.835%	0.240%
1 year	1.210%	1.110%	1.575%	1.955%	0.595%
2 years	1.861%	1.431%	1.993%	2.270%	1.220%
3 years	2.260%	2.082%	2.650%	2.640%	1.840%
5 years	2.805%	2.995%	3.388%	3.010%	2.720%
7 years	3.213%	3.532%	3.768%	3.240%	3.200%
10 years	3.598%	3.982%	4.088%	3.540%	3.570%
15 years	3.963%	4.375%	4.088%	3.820%	3.570%
20 years	4.070%	4.471%	4.088%	3.900%	3.570%
30 years	3.952%	4.541%	4.088%	3.900%	3.570%

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	**2010**	**2009**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.3362	1.4406	13.55	14.40	14.65	14.70	14.75
EUR/GBP	0.8608	0.8881	9.50	10.35	10.95	11.20	11.50
EUR/CHF	1.2504	1.4836	12.30	12.20	12.20	12.20	12.15
EUR/JPY	108.85	133.16	12.80	14.50	15.75	16.30	16.80

Concerning the exchange rates, CEMG uses in the valuation models the spot rate observed in the market at the time of the valuation.

The next table shows the decomposition of main adjustments to the financial assets and liabilities of CEMG, which are recognised at book value and fair value:

	2010								
	Trading Euro '000	Designated at fair value trough profit or loss Euro '000	Held to maturity Euro '000	Loans and advances Euro '000	Available--for-sale Euro '000	Others at amortised cost Euro '000	Others Euro '000	Carrying value Euro '000	Fair value Euro '000
Financial assets:									
Cash and deposits at central bank	–	–	–	240 024	–	–	–	240 024	240 024
Loans and advances to credit institutions repayable on demand	–	–	–	58 405	–	–	–	58 405	58 405
Loans and advances to credit institutions	–	–	–	338 662	–	–	–	338 662	338 662
Loans and advances to customers	–	–	–	14 352 766	–	–	–	14 352 766	13 340 521
Financial assets held for trading	130 865	–	–	–	–	–	–	130 865	130 865
Other financial assets at fair value trough profit or loss	–	3 952	–	–	–	–	–	3 952	3 952
Available-for-sale financial assets	–	–	–	–	5 256 811	–	–	5 256 811	5 256 811
Hedging derivatives	2 810	–	–	–	–	–	–	2 810	2 810
Held-to-maturity investments	–	–	58 093	–	–	–	–	58 093	57 539
Investments in associated companies and others	–	–	–	–	–	–	43 297	43 297	43 297
	133 675	3 952	58 093	14 989 857	5 256 811	–	43 297	20 485 685	19 473 226
Financial liabilities:									
Deposits from central banks	–	–	–	–	–	1 540 266	–	1 540 266	1 540 266
Deposits from other credit institutions	–	–	–	–	–	1 262 546	–	1 262 546	1 262 627
Deposits from customers	–	–	–	–	–	9 654 340	–	9 654 340	9 618 614
Debt securities issued	–	–	–	–	–	3 578 677	–	3 578 677	3 554 679
Financial liabilities held for trading	53 814	–	–	–	–	–	–	53 814	53 814
Hedging derivatives	1 408	–	–	–	–	–	–	1 408	1 408
Other Subordinated debt	–	–	–	–	–	380 986	–	380 986	369 748
	55 222	–	–	–	–	16 416 815	–	16 472 037	16 401 156

	Trading Euro '000	Designated at fair value trough profit or loss Euro '000	Held to maturity Euro '000	Loans and advances Euro '000	Available--for-sale Euro '000	Others at amortised cost Euro '000	Others Euro '000	Carrying value Euro '000	Fair value Euro '000
	2009								
Financial assets:									
Cash and deposits at central bank	–	–	–	305 018	–	–	–	305 018	305 018
Loans and advances to credit institutions repayable on demand	–	–	–	51 745	–	–	–	51 745	51 745
Loans and advances to credit institutions	–	–	–	370 884	–	–	–	370 884	370 884
Loans and advances to customers	–	–	–	14 448 162	–	–	–	14 448 162	13 371 811
Financial assets held for trading	103 195	–	–	–	–	–	–	103 195	103 195
Other financial assets at fair value trough profit or loss	–	4 192	–	–	–	–	–	4 192	4 192
Available-for-sale financial assets	–	–	–	–	3 164 510	–	–	3 164 510	3 164 510
Hedging derivatives	5 109	–	–	–	–	–	–	5 109	5 109
Held-to-maturity investments	–	–	33 523	–	–	–	–	33 523	34 681
Investments in associated companies and others	–	–	–	–	–	–	43 297	43 297	43 297
	108 304	4 192	33 523	15 175 809	3 164 510	–	43 297	18 529 635	17 454 442
Financial liabilities:									
Deposits from central banks	–	–	–	–	–	502 353	–	502 353	502 353
Deposits from other credit institutions	–	–	–	–	–	945 400	–	945 400	945 537
Deposits from customers	–	–	–	–	–	8 881 046	–	8 881 046	8 916 889
Debt securities issued	–	–	–	–	–	4 583 307	–	4 583 307	4 565 025
Financial liabilities held for trading	41 345	–	–	–	–	–	–	41 345	41 345
Hedging derivatives	598	–	–	–	–	–	–	598	598
Other Subordinated debt	–	–	–	–	–	381 043		381 043	359 999
	41 943	–	–	–	–	15 293 149	–	15 335 092	15 331 746

43. Employees benefits

CEMG assumed the responsibility to pay to their employees, pensions on retirement or disabilities. These responsibilities also comply with the terms of the «Acordo Colectivo de Trabalho do Sector Bancário» (ACT). To cover its responsibilities, CEMG makes annual contributions to the pension fund, managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

In the scope of the agreement between the Government, the Banking sector and the Unions, starting 1 January 2011, the Bank employees will be integrated into the General Social Security Regime, which will ensure the protection of employees in the contingencies of maternity, paternity and adoption and old age, remaining under the responsibility of Banks to protect sickness, disability, death and survival (Decree-Law no. 1-A/2011, 3 January).

The agreement states that no bank employee integrated within the Social Security Scheme will see the value of the respective pension decreased compared to the current provisions of the collective agreements. The retirement pensions of the bank employees to be integrated within the Social Security Scheme continue to be calculated as provided in the ACT and other conventions, but the bank employee are entitled to receive a pension under the general scheme, which amount takes into consideration the years of contributions to this scheme. Banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and the pension that the employee is entitled to receive from the Social Security Scheme. On this basis, the bank's risk exposure to actuarial and financial benefits associated with pension's liabilities still maintains.

Nevertheless, 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. Since there was no reduction in benefits on a beneficiary's perspective, the liabilities for past services remained unchanged.

Taking into account that the basis for calculating the benefits in the ACT and RGSS plans are based on different formulas, there is the possibility of obtaining a gain, when the amount of liabilities to be covered by the pension funds at the retirement age is lower than the responsibilities value as at 31 December 2010, which should be deferred on a linear basis over the average working life until the normal retirement age is reached.

Thus, CEMG has not recorded in its financial statements any impact in terms of the actuarial calculations as at 31 December 2010, arising from the integration of its workers in the Social Security Scheme.

As at 31 December 2010 and 2009, the number of participants covered by this pension plan is analysed as follows:

	2010	2009
Number of participants		
Pensioners	742	738
Employees	2 885	2 844
	3 627	3 582

n accordance with note 1.14, the pension obligation and the respective funding as at 31 December 2010 and 2009 based on an actuarial valuation made using the projected unit credit method are analysed as follows:

	2010				2009			
	Pension plans Euro '000	**Death subsidy Euro '000**	**Health-care benefits Euro '000**	**Total Euro '000**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Health-care benefits Euro '000**	**Total Euro '000**
Assets/(liabilities) recognised in the balance sheet								
Defined benefit obligation								
Pensioners	(239 208)	(695)	(15 549)	(255 452)	(232 236)	(653)	(15 095)	(247 984)
Employees	(319 394)	(7 120)	(15 174)	(341 688)	(300 758)	(6 874)	(14 206)	(321 838)
	(558 602)	(7 815)	(30 723)	(597 140)	(532 994)	(7 527)	(29 301)	(569 822)
Value of the Fund	513 907	6 328	24 862	545 097	474 287	6 208	24 388	504 883
Unfunded liabilities	(44 695)	(1 487)	(5 861)	(52 043)	(58 707)	(1 319)	(4 913)	(64 939)
Liabilities exempt from financing	108 607	(7 701)	295	101 201	95 557	(7 356)	333	88 534
Assets/(liabilities) recognised in the balance sheet	63 912	(9 188)	(5 566)	49 158	36 850	(8 675)	(4 580)	23 595

As at 31 December 2010, there are no buildings in use or securities issued by CEMG recorded in the Pension Fund Financial Statements.

In accordance with note 1.14, CEMG liability with pensions is calculated semi-annually. The net assets with pensions and health-care plan are included in the balance other assets (see note 29).

As at each balance date, CEMG reviews the value of the Fund, related to its liabilities towards the pensions, according to the referred note and as established in IAS 19 – Employees benefits.

The change in the present value of obligations during 2010 and 2009 is analysed as follows:

	2010				2009			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Balance on 1 January	532 994	7 527	29 301	569 822	481 168	6 705	26 339	514 212
Service cost	15 241	440	714	16 395	14 983	422	705	16 110
Interest cost	29 314	414	1 612	31 340	27 667	386	1 514	29 567
Actuarial gains and losses								
– Not arising from changes in actuarial assumptions	(2 772)	(566)	(905)	(4 243)	(1 412)	(299)	(486)	(2 197)
– Arising from changes in actuarial assumptions	–	–	–	–	22 452	313	1 229	23 994
Payments	(18 348)	–	–	(18 348)	(16 664)	–	–	(16 664)
Early retirements	2 174	–	–	2 174	4 800	–	–	4 800
Balance on 31 December	558 603	7 815	30 722	597 140	532 994	7 527	29 301	569 822

The evolution of the amounts related to non-financial projected benefit obligations during 2010 and 2009, are analysed as follows:

	2010				2009			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Balance on 1 January	58 707	1 319	4 913	64 939	73 048	1 018	3 998	78 064
Service cost	15 241	440	714	16 395	14 983	422	705	16 110
Interest cost	29 314	414	1 612	31 340	27 667	386	1 514	29 567
Expected return on plan assets	(26 087)	(341)	(1 341)	(27 769)	(23 467)	(327)	(1 284)	(25 078)
Early retirements	2 174	–	–	2 174	4 800	–	–	4 800
Actuarial gains and losses								
– Not arising from changes in actuarial assumptions	14 097	(345)	(38)	13 714	(15 348)	(493)	(1 249)	(17 090)
– Arising from changes in actuarial assumptions	–	–	–	–	22 452	313	1 229	23 994
Contributions to the Fund	(48 750)	–	–	(48 750)	(45 553)	–	–	(45 553)
Costs supported by the Fund	–	–	–	–	125	–	–	125
Balance on 31 December	44 696	1 487	5 860	52 043	58 707	1 319	4 913	64 939

The assets of the pensions Fund are analysed as follows:

	2010 Euro '000	2009 Euro '000
Shares	44 703	40 774
Other variable income securities	102 088	78 910
Bonds	339 418	296 343
Others	58 888	88 856
	545 097	504 883

The securities issued by companies of CEMG accounted on the portfolio of the Fund are analysed as follows:

	2010 Euro '000	2009 Euro '000
Fixed income securities	9 461	4 606
Variable income securities	5 120	4 281
	14 581	8 887

The change in the fair value of assets of the Fund during 2010 and is analysed as follows:

	2010				2009			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Balance on 1 January	474 287	6 208	24 388	504 883	408 120	5 687	22 341	436 148
Expected return on plan assets	26 087	341	1 341	27 769	23 467	327	1 284	25 078
Actuarial gains / (losses)	(16 869)	(221)	(867)	(17 957)	13 936	194	763	14 893
Contributions to the Fund of CEMG	47 097	–	–	47 097	43 924	–	–	43 924
Contributions to the Fund of the employers	1 653	–	–	1 653	1 629	–	–	1 629
Payments	(18 348)	–	–	(18 348)	(16 664)	–	–	(16 664)
Others	–	–	–	–	(125)	–	–	(125)
Balance on 31 December	513 907	6 328	24 862	545 097	474 287	6 208	24 388	504 883

The contributions to the Fund include the additional contribution in the amount of Euro 23,500,000 made by CEMG during January, 2011 with value date of 2010. The pension fund contributions in 2010 were fully paid in cash.

In accordance with IAS 19, deferred actuarial losses, including the corridor, as at 31 December 2010 and 2009 are analysed as follows:

	2010				2009			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Unrecognised net actuarial losses at the beginning of the year	95 557	(7 356)	333	88 534	88 783	(7 176)	353	81 960
Actuarial gains and losses:								
– Actuarial	(2 772)	(566)	(905)	(4 243)	21 040	14	743	21 797
– Financial	16 869	221	867	17 957	(13 936)	(194)	(763)	(14 893)
Actuarial losses depreciation in excess of the corridor	(1 047)	–	–	(1 047)	(330)	–	–	(330)
Balance on 31 December	108 607	(7 701)	295	101 201	95 557	(7 356)	333	88 534
Of which:								
Within the corridor	82 794	(5 871)	225	77 148	87 377	(6 727)	304	80 954
Outside the corridor	25 813	(1 830)	70	24 053	8 180	(629)	29	7 580

As at 31 December 2010, considering the value of the actuarial gains and losses registered in the calculation of the benefit obligations and in the value of the Fund, the value of the corridor calculated in accordance with paragraph 92 of IAS 19, amounted to Euro 77 148 000 (2009: Euro 80 954 000).

As at 31 December 2010, the net actuarial gains and losses in excess of the value of the corridor amounted to Euro 24 053 000 (2009: Euro 7 580 000) and will be recorded in results over a 24 year period considering the balance at the beginning of the year, as referred in note 1.14.

In 2010, CEMG accounted as pension costs the amount of Euro 23 188 000 (2009: Euro 25 729 000). The analysis of the cost of the year is as follows:

	2009				20089			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Service cost	15 241	440	714	16 395	14 983	422	705	16 110
Interest cost	29 314	414	1 612	31 340	27 667	386	1 514	29 567
Expected return on plan assets	(26 087)	(341)	(1 341)	(27 769)	(23 467)	(327)	(1 284)	(25 078)
Actuarial gains and losses depreciation	1 047	–	–	1 047	330	–	–	330
Early retirements	2 174	–	–	2 174	4 800	–	–	4 800
Cost of the year	21 689	513	985	23 187	24 313	481	935	25 729

Considering the market indicators, particularly the estimations of the inflation and the long-term interest rate for Euro Zone as well as the demographic characteristics of the participants, CEMG maintained the actuarial assumptions used for the calculation of the liabilities for the pension obligations with reference to 31 December 2010. The actuarial assumptions, as at 31 December 2010 and 2009, are presented as follows:

	Assumptions
Salaries increase rate	3.00%
Pensions increase rate	2.00%
Projected rate of return of Fund assets	5.50%
Discount rate	5.50%
Mortality table	TV 88/90
Disability table	EVK 80

The assumptions used in the calculation of the pension liabilities are in accordance with the requirements of IAS 19.

No disability retirements are considered in the calculation of the total liabilities.

Net actuarial gains related to the difference between the actuarial assumptions used for the estimation of the pension liabilities and the actual liabilities for the year ended 31 December 2010 amounted to Euro 13 714 000 (2009: Euro 6 904 000) and are analysed as follows:

	Actuarial (gains) / losses	
	2010 Euro '000	2009 Euro '000
Discount rate	–	23 293
Salaries increase rate	(1 629)	(1 334)
Pensions increase rate	(2 614)	(162)
Return of fund assets	17 957	(14 893)
	13 714	6 904

Health benefit costs have a significant impact in pension costs. Considering this impact we produced a sensitivity analysis to a positive one percent variation in health benefit costs (from 6.5% to 7.5% in 2010) and a negative variation (from 6.5% to 5.5% in 2009) of one percent in health benefit costs, whose impact is analyzed as follows:

	Positive variation of 1% (6.5% to 7.5%)		Negative variation of 1% (6.5% to 5.5%)	
	2010 Euro '000	2009 Euro '000	2010 Euro '000	2009 Euro '000
Pension cost impact	(2 392)	(2 322)	2 392	2 322
Liability impact	(2 335)	(2 186)	2 335	2 186

The liabilities with health benefits are fully covered by the Pension Fund and correspond, in 2010, to Euro 30 723 000 (2009: Euro 29 301 000).

The estimated value of contributions to the pension plan in 2011 is Euro 34 090 000 (2009: Euro 28 000 000).

The changes in the assets/(liabilities) recognised in the balance sheet is analysed as follows:

	2010				2009			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Balance on 1 January	29 872	(1 697)	(4 580)	23 595	15 735	(8 194)	(3 645)	3 896
Net benefit cost	(21 689)	(513)	(985)	(23 187)	(24 313)	(481)	(935)	(25 729)
Contributions of the year and pensions paid	48 750	–	–	48 750	45 553	–	–	45 553
Other	–	–	–	–	(125)	–	–	(125)
Balance on 31 December	56 933	(2 210)	(5 565)	49 158	36 850	(8 675)	(4 580)	23 595

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

	2010			2009			2008			2007			2006		
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000
Defined benefit obligation	(558 602)	(7 815)	(30 723)	(532 994)	(7 527)	(29 301)	(481 168)	(6 705)	(26 339)	(509 771)	(8 336)	(30 158)	(475 205)	–	(31 190)
Fair value of plan assets 513 907	6 328	24 862	474 287	6 208	24 388	408 120	5 687	22 341	411 805	6 734	24 362	351 341	–	23 060	
(Un)/over funded liabilities	(44 695)	(1 487)	(5 861)	(58 707)	(1 319)	(4 913)	(73 048)	(1 018)	(3 998)	(97 966)	(1 602)	(5 796)	(123 864)	–	(8 130)
Experience adjustments arising on plan liabilities (gains)/ losses	(2 772)	(566)	(905)	(1 412)	(299)	(486)	2 419	(2 003)	(1 638)	11 490	1 359	(3 266)	3 781	–	248
Experience adjustments arising on plan assets (gains)/ losses	16 869	221	867	(13 936)	(194)	(763)	47 769	1 401	3 300	2 372	(6 734)	(207)	(3 929)	–	(258)

44. Related parties transactions

As at 31 December 2010, CEMG's liabilities with subsidiaries, represented or not by securities, included in the balances Deposits from customers and Other subordinated debt, are analysed as follows:

Company	Deposits from customers Euro '000	Other subordinated debt Euro '000	Total Euro '000
Lusitania Companhia de Seguros, S.A	3 902	13 350	17 252
Lusitania Vida Companhia de Seguros, S.A	18 979	3 250	22 229
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	455	–	455
SIBS – Sociedade Interbancária de Serviços, S.A.	3 006	–	3 006
MG Gestão de Activos Financeiros – S.G.F.I.M., S.A.	58 654	–	58 654
Futuro – Sociedade Gestora de Fundo de Pensões, S.A.	80 707	–	80 707
	165 703	16 600	182 303

As at 31 December 2009, CEMG's liabilities with subsidiaries, represented or not by securities, included in the balances Deposits from customers and Other subordinated debt, are analysed as follows:

Company	Deposits from customers Euro '000	Other ssubordinated debt Euro '000	Total Euro '000
Lusitania Companhia de Seguros, S.A	7 188	13 700	20 888
Lusitania Vida Companhia de Seguros, S.A	12 540	3 250	15 790
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	271	–	271
SIBS – Sociedade Interbancária de Serviços, S.A.	2 003	–	2 003
MG Gestão de Activos Financeiros – S.G.F.I.M., S.A.	63 419	–	63 419
Futuro – Sociedade Gestora de Fundo de Pensões, S.A.	152 427	–	152 427
	237 848	16 950	254 798

As at 31 December 2010, CEMG's income with subsidiaries, included in the balances Interest and similar income and Fee and commission income, are analysed as follows:

Company	Interest and similar income Euro '000	Fee and commission income Euro '000	Total Euro '000
Lusitania Companhia de Seguros, S.A	47	6 890	6 937
Lusitania Vida Companhia de Seguros, S.A	4	3 213	3 217
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	–	–	–
SIBS – Sociedade Interbancária de Serviços, S.A.	–	28 158	28 158
MG Gestão de Activos Financeiros – S.G.F.I.M., S.A.	–	3 017	3 017
Futuro – Sociedade Gestora de Fundo de Pensões, S.A.	1	12	13
	52	41 290	41 342

As at 31 December 2009, CEMG's income with subsidiaries, included in the balances Interest and similar income and Fee and commission income, are analysed as follows:

Company	Interest and similar income Euro '000	Fee and commission income Euro '000	Total Euro '000
Lusitania Companhia de Seguros, S.A	12	4 130	4 142
Lusitania Vida Companhia de Seguros, S.A	–	8 642	8 642
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	1	–	1
SIBS – Sociedade Interbancária de Serviços, S.A.	–	26 610	26 610
MG Gestão de Activos Financeiros – S.G.F.I.M., S.A.	–	3 173	3 173
Futuro – Sociedade Gestora de Fundo de Pensões, S.A.	7	3 009	3 016
	20	45 564	45 584

The costs with salaries and other benefits attributed to CEMG key management personnel, as well as its transactions, are presented in note 10.

According to the principle of fair value, every transaction concerning related parties is at market prices.

During 2010 and 2009, there were no transactions with the pension's fund of CEMG.

45. Securitisation transactions

As at 31 December 2010, there are five securitisation operations between CEMG and other financial institutions presented in the following paragraphs.

As at 19 December, 2002, Caixa Económica Montepio Geral has settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages no. 1 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 35 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 650 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.016% of the referred nominal value.

As at 29 September, 2003, Caixa Económica Montepio Geral has settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages no. 2 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 33 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 700 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0286% of the referred nominal value.

As at 30 March, 2007, Caixa Económica Montepio Geral has settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 3. The referred agreement consists in a mortgage credit transfer for a period of 47 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 750 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0165% of the referred nominal value.

As at 20 May, 2008, Caixa Económica Montepio Geral has settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 4. The referred agreement consists in a mortgage credit transfer for a period of 48 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1 000 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.083% of the referred nominal value.

As at 25 March 2009, Caixa Económica Montepio Geral has settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 5. The referred agreement consists in a mortgage credit transfer for a period of 52 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1 000 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0564% of the referred nominal value.

As at 22 June 2010, Caixa Económica Montepio Geral has settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage SME. The referred agreement consists in a mortgage credit transfer for a period of 26 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of 1 167 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.15% of the Asset Backed Notes.

Caixa Económica Montepio Geral is the operation servicer, acting as collector of the credits sold. The received values are transferred to Pelican Mortgages no.1 PLC and to Pelican Mortgages no. 2 PLC.

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 derecognised. 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 derecognised 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 derecognise, 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 2010, the securitisation operations are presented as follows:

Issue	Settlement date	Currency	Asset transferred	Amount Euro' 000
Pelican Mortgages no.1	December 2002	Euro	Mortgage credit	650 000
Pelican Mortgages no.2	September 2003	Euro	Mortgage credit	700 000
Pelican Mortgages no.3	March 2007	Euro	Mortgage credit	750 000
Pelican Mortgages no.4	May 2008	Euro	Mortgage credit	1 000 000
Pelican Mortgages no.5	March 2009	Euro	Mortgage credit	1 000 000
Pelican SME	June 2010	Euro	Small companies	1 167 000
				5 267 000

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

	2010 Euro '000	2009 Euro '000
Pelican Mortgages No.1	103 883	120 550
Pelican Mortgages No. 2	188 252	212 720
	292 135	333 270

As at 31 December 2010, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bond Issued	Ilssue amount Euro	Current amount Euro	Interesse CEMG's Retention (Nominal Value) Euros	Maturity Year	Rating (Initial) Fitch	Rating (Initial) Moody's	Rating (Initial) S&P	Rating (Current) Fitch	Rating (Current) Moody's	Rating (Current) S&P
Pelican Mortgages No. 1	Class A	611 000 000	59 038 057	–	2037	AAA	Aaa	n.d.	AAA	Aaa	n.d.
	Class B	16 250 000	16 250 000	–	2037	AAA	A2	n.d.	AAA	A2	n.d.
	Class C	22 750 000	22 750 000	–	2037	BBB+	Baa2	n.d.	BBB+	Baa2	n.d.
	Class D	3 250 000	3 250 000	3 250 000	2037	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Pelican Mortgages No. 2	Class A	659 750 000	146 009 080	–	2036	AAA	Aaa	AAA	AAA	Aaa	AAA
	Class B	17 500 000	17 500 000	–	2036	AAA	A1	AA–	AAA	A1	AA–
	Class C	22 750 000	22 750 000	–	2036	A–	Baa2	BBB	A–	Baa2	A–
	Class D	5 600 000	5 600 000	5 600 000	2036	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Pelican Mortgages No. 3	Class A	701 315 365	375 426 745	–	2054	AAA	Aaa	AAA	AAA	Aaa	AAA
	Class B	14 250 000	9 692 987	–	2054	AA–	Aa2	AA–	AA–	Aa2	AA-
	Class C	12 000 000	8 162 515	–	2054	A	A3	A	A–	A3	A
	Class D	6 375 000	4 336 336	–	2054	BBB	Baa3	BBB	BBB	Baa3	BBB
	Class E	7 361 334	–	–	2054	BBB–	n.d.	BBB–	BBB–	n.d.	BBB–
	Class F	4 125 000	4 125 000	4 125 000	2054	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Pelican Mortgages No. 4	Class A	832 000 000	700 671 652	700 671 652	2056	AAA	Aaa	n.d.	AAA	n.d.	n.d.
	Class B	55 500 000	55 500 000	55 500 000	2056	AA	Aa	n.d.	AA	n.d.	n.d.
	Class C	60 000 000	60 000 000	60 000 000	2056	A–	A–	n.d.	A–	n.d.	n.d.
	Class D	25 000 000	25 000 000	25 000 000	2056	BBB	Bbb	n.d.	BBB	n.d.	n.d.
	Class E	27 500 000	27 500 000	27 500 000	2056	BB	Bb	n.d.	BB	n.d.	n.d.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Pelican Mortgages No. 5	Class A	750 000 000	659 334 339	659 334 339	2061	AAA	n.d.	n.d.	AAA	n.d.	n.d.
	Class B	195 000 000	195 000 000	195 000 000	2061	BBB–	n.d.	n.d.	BBB–	n.d.	n.d.
	Class C	27 500 000	27 500 000	27 500 000	2061	B	n.d.	n.d.	B	n.d.	n.d.
	Class D	27 500 000	27 500 000	27 500 000	2061	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
	Class E	4 500 000	3 961 974	3 961 974	2061	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Pelican SME	Class A	577 500 000	577 500 000	577 500 000	2036	AAA	n.d.	AAA	AAA	n.d.	AAA
	Class B	472 500 000	472 500 000	472 500 000	2036	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
	Vert. Notes	117 000 000	117 000 000	117 000 000	2036	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
	Class C	7 294 000	7 294 000	7 294 000	2036	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
	Resid. Notes	31 500 000	31 500 000	31 500 000	2036	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.

46. Amounts owed by CEMG to subsidiary companies

As at 31 December 2010 the Amounts owed by CEMG to subsidiary companies, represented or not by securities, included in the balance Amounts owed to credit institutions, are analysed as follows:

	Amounts owed to credit institutions Euro '000
Banco MG – Cabo Verde, Sociedade Unipessoal, S.A (IFI)	362 564

47. Related party transactions

The significant transactions and balances with CEMG's companies are detailed in the corresponding notes.

48. Risk management

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

The 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.

Direcção de Análise e Gestão de Riscos («DAGR») also ensures the communications with Bank of Portugal regarding the prudential reports related to capital requirements, liquidity risk and interest rate risk.

Regarding risk and control management, developments were made in several activities, such as:

- Implementation of new models of scoring for small entities business;
- Enforcement of the reporting activity regarding credit portfolio's risk evolution and monitoring the use of the internal rating and coring systems;
- Accompanying in the process of implementation of the new systems of credit workflow and management of its limits;
- Price methodology regarding credit adjusted to credit portfolio's risk to companies, assuring application of this methodology to its main segments;
- Integration of the risk control regarding counterparties.

At the regulatory level and Basel II, were developed the reports established in Pillar II – Capital Adequacy and Pillar III – Market Discipline. According to Pillar II, reports of the Process of Self Evaluation of Internal Capital («ICAAP»), Stress and Concentration Risk tests were delivered to the Bank of Portugal, in accordance with Instruction no. 2/2010, of the Bank of Portugal. The results not only show that capital is solid against risk with major magnitude but also that there is a great evolution potential against the principle macroeconomics factors. Regarding to the Concentration Risk verifies a positive evolution in the main concentration types – Sectorial, Individual and Geographical. In what concerns Pillar III, it was published the Market Discipline Report, presenting the type and levels of risk, which are implicit in CEMG's activity, as well as the processes, structure and organization of the risk management.

Also under Basel II, CEMG has obtained the permission of the Bank of Portugal for the adoption of the Standardised Approach (TSA) for calculation of minimum own fund's requirements for operational risk coverage, starting at 30 June 2010.

CEMG has been following Basel Committee's recommendations and all its recent developments regarding liquidity risk and own funds' evaluation. DAGR analyses those impacts.

Main types of risk

Credit – Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfil their obligations.

Market – Market risk reflects the potential loss inherent in a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the various financial instruments that make up the portfolio, considering both the correlations that exist between them and the respective volatility.

Liquidity – Liquidity risk reflects CEMG's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

Operational – Operational risk is the potential loss resulting from failures or inadequacies in internal procedures, persons or systems, and also the potential losses resulting from external events.

Internal organisation

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.

The Internal Auditing Management, as support to the Board of Directors, has the main duties to assessing reports on the internal control system to be sent annually to the Bank of Portugal, to check compliance with the applicable legislation on the part of the various departments, and to identify major risk areas and submitting its conclusions to the Board of Directors.

Depending on the nature and severity of the risk, plans, programs or actions shall be drawn up, supported by information systems, and procedures shall be devised that provide a high degree or reliably as to the risk management measures defined whenever necessary.

The Dealing Room shall cooperate with the Risk Analysis and Management in order to measure and control operations and portfolio risks, as well as suitably monitor CEMG's overall risk positions.

In terms of compliance risk, the Head of Compliance in the dependence of the Board of Directors, shall control, identify and assess the various situations that contribute to this risk, namely in terms of transactions/activities, business, products and departments.

In this context, the Internal Auditing Management shall also assess the internal control system, identifying the areas of major importance/risk, to ensure efficient governance.

Risk evaluation

Credit Risk – Retail

Credit risk models play a significant role in credit decision process. Indeed, the decision process concerning the credit portfolio depends on a group of policies based on scoring models developed to individual and business clients and the rating for the corporate sector.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behaviour. In order to support commercial strategies reactive scoring models are also used, namely in the main individual credit portfolios, such as mortgage and individual loans, distinguishing between customers and non-customers (or new customers). In the case of credit card the correspondent reactive scoring model is being reviewed. Additionally, in the individual credit portfolios, commercial performance and credit risk analysis are supported by behaviour scorings.

To corporate credit are used internal rating models to medium and large companies, distinguishing construction from the other activity sectors, while for customers "Empresários em nome individual" and micro business is applied the scoring model business.

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

	2010 Euro '000	2009 Euro '000
Deposits with other credit institutions	58 405	51 745
Deposits with banks	338 662	370 884
Loans and advances to customers	14 352 766	14 448 162
Financial assets held for trading	128 060	101 815
Financial assets at fair value through profit or loss	3 952	4 192
Available-for-sale financial assets	5 242 895	3 149 301
Hedging derivatives	2 810	5 109
Held-to-maturity investments	58 093	33 523
Investments in associated companies and others	43 297	43 297
Other assets	107 718	101 498
Guarantees granted	424 361	426 156
Irrevocable commitments	252 535	302 264
Credit default swaps (notionals)	96 000	41 458
	21 109 554	19 079 404

The analysis of the risk exposure by sector of activity, as at 31 December 2010, can be analysed as follows:

2010

Sector of activity	Loans and advances to costumers		Financial assets held for trading	Other financial assets at fair value trough profit or loss	Available-for-sale financial assets		Held-to--maturity investments	Guarantees granted
	Gross amount Euro '000	Impairment (a) Euro '000	Gross amount Euro '000	Gross amount Euro '000	Gross amount Euro '000	Impairment Euro '000	Gross amount Euro '000	Euro '000
Agriculture	29 185	1 418	–	–	187	(57)	–	2 844
Mining	9 892	106	–	–	526	–	–	–
Food, beverage and tobacco	63 638	5 882	148	–	474	–	–	2 486
Textiles	31 485	8 490	–	–	–	–	–	1 277
Shoes	8 796	1 114	–	–	–	–	–	61
Wood and cork	23 813	4 536	–	–	–	–	–	801
Printing and publishing	18 784	2 359	–	–	–	–	–	1 356
Petroleum refining	178	129	127	–	34 012	–	–	–
Chemicals and rubber	36 602	2 834	54	–	1 137	–	–	1 277
Non-metallic minerals	16 474	1 444	–	–	–	–	–	2 751
Basis metallurgic industries and metallic products	46 576	2 612	–	–	–	–	–	4 722
Production of machinery	12 247	1 876	–	–	–	–	–	1 976
Production of transport material	9 825	432	–	–	271	–	–	134
Other transforming material	26 364	4 000	34	–	67 648	–	–	891
Electricity, gas and water	70 886	880	1 029	2 929	64 385	(899)	–	961
Construction	1 833 527	154 225	181	–	10 981	(998)	–	238 734
Wholesale and retail	585 413	64 442	116	–	10 554	–	–	40 275
Tourism	210 959	12 601	–	–	7 486	(90)	–	12 151
Transports	125 185	3 042	127	–	33 044	–	–	9 971
Communications and information activities	30 874	2 545	390	–	58 497	–	–	604
Financial activities	243 157	3 172	128 479	1 023	642 892	(15 655)	–	29 981
Real estate's activities	672 484	37 042	–	–	15 478	–	–	31 398
Services provided to companies	337 038	16 152	–	–	–	–	–	11 294
Public services	182 963	4 104	–	–	1 164 590	–	58 093	2 588
Other activities of collective services	56 886	4 277	–	–	–	–	–	5 788
Mortgage loans	8 919 763	194 210	–	–	3 118 136	(9 828)	–	19 210
Others	1 187 101	3 593	180	–	54 230	(190)	–	830
TOTAL	14 790 095	537 517	130 865	3 952	5 284 528	(27 717)	58 093	424 361

(a) includes the provision for impairment in the amount of Euro 437 329 000 (see Note 19) and the provision for general credit risks in the amount of Euros 100 188 000 (see Note 34).

The analysis of the risk exposure by sector of activity, as at 31 December 2009, can be analysed as follows:

2009

Sector of activity	Loans and advances to costumers		Financial assets held for trading	Other financial assets at fair value trough profit or loss	Available-for-sale financial assets		Held-to--maturity investments	Guarantees granted
	Gross amount Euro '000	Impairment (a) Euro '000	Gross amount Euro '000	Gross amount Euro '000	Gross amount Euro '000	Impairment Euro '000	Gross amount Euro '000	Euro '000
Agriculture	28 399	(1 148)	–	–	154	(47)	–	395
Mining	7 817	(401)	–	–	541	–	–	1 147
Food, beverage and tobacco	73 471	(4 805)	–	–	41	–	–	1 915
Textiles	34 030	(7 750)	–	–	–	–	–	1 345
Shoes	8 153	(823)	–	–	–	–	–	–
Wood and cork	29 452	(2 957)	–	–	–	–	–	932
Printing and publishing	22 213	(2 242)	–	–	–	–	–	951
Petroleum refining	177	(48)	229	–	34 928	–	–	–
Chemicals and rubber	31 314	(1 113)	–	–	1 025	–	–	1 164
Non-metallic minerals	22 955	(1 404)	–	–	–	–	–	2 136
Basis metallurgic industries and metallic products	79 888	(3 279)	–	–	–	–	–	3 943
Production of machinery	16 983	(2 051)	–	–	270	–	–	1 798
Production of transport material	12 499	(373)	–	–	5 387	–	–	134
Other transforming material	28 928	(3 208)	685	–	81 182	(698)	–	805
Electricity, gas and water	72 477	(968)	406	3 206	37 098	(252)	–	890
Construction	2 652 811	(190 541)	–	–	41 533	(998)	–	212 348
Wholesale and retail	642 336	(55 196)	49	–	13 428	–	–	36 394
Tourism	228 966	(16 768)	–	–	8 961	(90)	–	11 924
Transports	100 739	(2 431)	–	–	2 966	–	–	11 775
Communications and information activities	25 191	(2 347)	359	–	19 044	–	–	335
Financial activities	153 705	(2 373)	101 467	986	906 640	(19 743)	–	38 623
Real estate's activities	810 370	(35 796)	–	–	12 142	–	–	29 463
Services provided to companies	297 801	(12 415)	–	–	–	–	–	9 158
Public services	195 146	(3 981)	–	–	10 168	–	33 523	4 020
Other activities of collective services	62 795	(2 932)	–	–	670	–	–	4 285
Mortgage loans	9 042 679	(142 791)	–	–	1 974 793	(7 881)	–	9 056
Others	168 446	(2 748)	–	–	43 438	(190)	–	41 220
TOTAL	14 849 741	(502 889)	103 195	4 192	3 194 409	(29 899)	33 523	426 156

(a) includes the provision for impairment in the amount of Euro 401 579 000 (see Note 19) and the provision for general credit risks in the amount of Euros 101 310 000 (see Note 34).

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

During 2010, CEMG entered into a number of credit default swaps relating to investment grade issuers, where the notional value of the purchase and protective sales positions at the year-end were Euro 32 700 000 and Euro 57 000 000, respectively.

Overall Risks and Financial Assets

Efficient balance sheet management also involves the Assets and Liabilities Committee («ALCO»), which examines interest rate, liquidity and exchange rate risks, namely as regards compliance with the limits set for the static and dynamic gaps calculated.

Normally the static interest rate and liquidity gaps are positive and moderate in size, with exception of those months when payments are made relating to bond issue debt service. As for exchange rate risk, the resources obtained in different currencies are hedged as assets in the respective monetary market and for periods not exceeding those of the resources, which mean any exchange rate gaps result mainly from possible unadjustments between the hedge and resource deadlines.

Concerning risk information and analysis, regular reports are provided on the credit and market risks on the company's financial assets and those of the other members of CEMG. For the company's own portfolio, the various risk limits are defined using the Value-at-Risk («VaR») method. There are different exposure limits such as global «VaR» limits, by issuer, by asset type/class and rating. There are also limits of Stop Loss. Investment portfolio is mainly concentrated in bonds which as at the end of 2010 represented 92.6% of the total's portfolio, being 60% from sovereign debt.

Own portfolios are concentrated in variable rate debt securities, which gives them a low VaR (Var calculation is based on analytical methodology development by risk metrics, concerning a ten-day period and with a 99% confidence interval). Credit risk exposure is also very restricted, due to the bonds portfolio held are usually of investment grade levels.

CEMG continuously calculates its own portfolios «VaR», given a 10-day horizon and a 99% confidence interval, given the greater volatility witnessed in the major financial markets. At the same time, the portfolio's average life remained short.

Regarding the nature of the retail activity, the institution normally presents interest rate positive gaps, which by the end of 2010, would reach, in static terms, about Euro 448 894 000 (2009: Euro 389 892 000) (considering the total of the refixing terms of the interest rate).

The following table presents the mainly indicators of these measures, as at 31 December 2010 and 2009:

	2010				2009			
	December Euro '000	Annual Average Euro '000	Maximum Euro '000	Minimum Euro '000	December Euro '000	Annual Average Euro '000	Maximum Euro '000	Minimum Euro '000
Interest rate GAP	448 894	377 076	448 894	305 259	389 892	650 646	911 400	389 892

Following the recommendations of Basel II (Pillar II) and Instruction no. 19/2005, of the Bank of Portugal, CEMG calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlements («BIS») which requires the classification of non-trading balances and off-balance positions by repricing intervals.

	Due within 3 months Euro '000	3 to 6 months Euro '000	6 months to 1 year Euro '000	1 to 5 years Euro '000	Over 5 years Euro '000
31 December 2010					
Assets	10 459 200	3 879 121	413 379	1 344 393	646 080
Off balance sheet	5 789 405	172 577	122 450	3 009 066	–
Total	16 248 605	4 051 698	535 829	4 353 459	646 080
Liabilities	7 899 866	1 370 302	1 263 605	5 601 314	158 200
Off balance sheet	8 284 868	734 669	2 200	71 754	–
Total	16 184 734	2 104 971	1 265 805	5 673 068	158 200
GAP (Assets – Liabilities)	63 871	1 946 727	(729 976)	(1 319 609)	487 880
31 December 2009					
Assets	13 368 081	4 169 695	115 793	183 241	50 222
Off balance sheet	3 855 697	265 965	489 500	48 500	–
Total	17 223 778	4 435 660	605 293	231 741	50 222
Liabilities	11 369 217	2 585 393	1 623 933	1 918 256	341
FOff balance sheet	4 165 097	451 782	2 400	31 882	8 500
Total	15 534 314	3 037 175	1 626 333	1 950 138	8 841
GAP (Assets – Liabilities)	1 689 464	1 398 485	(1 021 040)	(1 718 397)	41 381

Sensibility analysis

As at December, 2010, 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 12 806 000 (2009: Euro 20 669 000).

The following table presents the average interests, in relation to the CEMG major assets and liabilities categories for the years ended 31 December 2010 and 2009, as well as the average balances and the income and expense for the year:

	2010			2009		
PRODUCTS	**Average balance for the year Euro '000**	**Average interest rate (%)**	**Income/ Expense Euro '000**	**Average balance for the year Euro '000**	**Average interest rate (%)**	**Income/ Expense Euro '000**
Assets						
Loans to costumers	14 714 941	3.07	451 424	14 803 140	4.16	615 312
Deposits	159 355	0.93	1 488	149 705	1.29	1 934
Securities portfolio	4 502 962	2.04	91 795	2 859 754	2.16	61 860
Inter-bank loans and advances	188 578	0.68	1 278	263 558	0.66	1 749
Swaps	–	–	196 071	–	–	239 589
Total Assets	19 565 836		742 056	18 076 157		920 444
Liabilities						
Deposits from customers	9 352 816	1.52	141 937	8 539 978	2.17	185 540
Securities deposits	8 132 786	2.02	164 662	7 802 141	2.67	208 632
Interbank deposits	1 299 157	1.03	13 440	785 274	1.62	12 747
Other liabilities	480	0.77	4	687	3.15	22
Swaps	–	–	151 591	–	–	193 547
Total Liabilities	18 785 239		471 634	17 128 080		600 488

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2010 is analysed as follows:

	2009							
	Euros Euro '000	United States Dollars Euro '000	Sterling Pounds Euro '000	Canadian Dollars Euro '000	Suisse Frank Euro '000	Japanese Yen Euro '000	Other foreign currencies Euro '000	Total amount Euro '000
Assets by currency								
Cash and deposits at central banks	235 090	3 263	367	297	651	81	275	240 024
Loans and advances to credit institutions repayable on demand	49 403	5 943	808	1 057	893	4	297	58 405
Loans and advances to credit institutions	338 559	103	–	–	–	–	–	338 662
Loans and advances to customers	14 350 055	2 375	–	–	336	–	–	14 352 766
Financial assets held for trading	130 755	110	–	–	–	–	–	130 865
Other financial assets at fair value trough profit or loss	3 885	29	–	38	–	–	–	3 952
Available-for-sale financial assets	5 254 304	2 248	–	–	259	–	–	5 256 811
Hedging derivatives	2 810	–	–	–	–	–	–	2 810
Held-to-maturity investments	58 093	–	–	–	–	–	–	58 093
Investments in associated companies and others	43 297	–	–	–	–	–	–	43 297
Non-current assets held for sale	162 374	–	–	–	–	–	–	162 374
Property and equipment	89 188	–	–	–	–	–	–	89 188
Intangible assets	18 254	–	–	–	–	–	–	18 254
Other assets	63 287	43 473	2 905	18 850	4	–	–	128 519
Total Assets	20 799 354	57 544	4 080	20 242	2 143	85	572	20 884 020
Liabilities by currency								
Deposits from other credit institutions	1 540 266	–	–	–	–	–	–	1 540 266
Deposits from customers	1 222 484	18 691	2 398	18 586	333	–	54	1 262 546
Debt securities issued	9 615 736	35 523	1 089	1 656	139	15	182	9 654 340
Financial liabilities held for trading	3 576 432	2 245	–	–	–	–	–	3 578 677
Other financial liabilities at fair value trough profit or loss	53 662	152	–	–	–	–	–	53 814
Hedging derivatives	1 408	–	–	–	–	–	–	1 408
Provisions	101 499	–	–	–	–	–	–	101 499
Other subordinated debt	380 986	–	–	–	–	–	–	380 986
Other liabilities	3 312 797	993	593	–	1 676	70	336	3 316 465
Total Liabilities	19 805 270	57 604	4 080	20 242	2 148	85	572	19 890 001
Net asset / liability by currency	994 084	(60)	–	–	(5)	–	–	994 019
Equity	993 954	60	–	–	5	–	–	–
Net exposure	130	(120)	–	–	(10)	–	–	–

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2009 is analysed as follows:

	2009							
	Euros Euro '000	United States Dollars Euro '000	Sterling Pounds Euro '000	Canadian Dollars Euro '000	Suisse Frank Euro '000	Japanese Yen Euro '000	Other foreign currencies Euro '000	Total amount Euro '000
Assets by currency								
Cash and deposits at central banks	298 830	4 141	443	116	1 019	131	338	305 018
Loans and advances to credit institutions repayable on demand	45 228	3 475	877	437	1 668	3	57	51 745
Loans and advances to credit institutions	370 787	97	–	–	–	–	–	370 884
Loans and advances to customers	14 445 524	2 082	–	–	343	213	–	14 448 162
Financial assets held for trading	103 070	125	–	–	–	–	–	103 195
Other financial assets at fair value trough profit or loss	4 189	3	–	–	–	–	–	4 192
Available-for-sale financial assets	3 162 871	1 598	–	–	41	–	–	3 164 510
Hedging derivatives	5 109	–	–	–	–	–	–	5 109
Held-to-maturity investments	33 523	–	–	–	–	–	–	33 523
Investments in associated companies and others	43 297	–	–	–	–	–	–	43 297
Non-current assets held for sale	128 599	–	–	–	–	–	–	128 599
Property and equipment	91 173	–	–	–	–	–	–	91 173
Intangible assets	16 151	–	–	–	–	–	–	16 151
Other assets	71 259	36 981	3 570	18 381	35	–	–	130 226
Total Assets	18 819 610	48 502	4 890	18 934	3 106	347	395	18 895 784
Liabilities by currency								
Deposits from other credit institutions	502 353	–	–	–	–	–	–	502 353
Deposits from customers	910 445	14 265	2 912	17 392	386	–	–	945 400
Debt securities issued	8 846 153	31 703	1 529	1 542	117	1	1	8 881 046
Financial liabilities held for trading	4 581 225	2 082	–	–	–	–	–	4 583 307
Other financial liabilities at fair value trough profit or loss	41 323	22	–	–	–	–	–	41 345
Hedging derivatives	598	–	–	–	–	–	–	598
Provisions	102 800	–	–	–	–	–	–	102 800
Other subordinated debt	381 043	–	–	–	–	–	–	381 043
Other liabilities	2 458 441	430	449	–	2 598	346	394	2 462 658
Total Liabilities	17 824 381	48 502	4 890	18 934	3 101	347	395	17 900 550
Net asset / liability by currency	995 229	–	–	–	5	–	–	995 234
Equity	995 237	2	–	–	(5)	–	–	–
Net exposure	(8)	(2)	–	–	10	–	–	–

Liquidity risk

The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. The overall exposure to liquidity risk is assessed through reports that identify negative mismatches allowing their hedging on a permanent and dynamic basis.

In addition, CEMG calculates the liquidity ratios in accordance with the Bank of Portugal rules.

Operational risk

CEMG has obtained the approval of the Bank of Portugal to apply, since 30 June 2010, an approach based in The Standardized Approach – TSA, for calculating the fund's requirements to mitigate the 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 DAGR and exclusively dedicated to this assignment, delegates designated by each department.

Capital Management and Solvency Ratio

In prudential matters, CEMG is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the rules to be attended by the institutions under its supervision. These rules determine a minimum solvency ratio in relation to the requirements of the assumed risks that institutions have to fulfil.

The capital elements of CEMG are divided into: Core Own Funds, Complementary Own Funds and Deductions, as follows:

– Core Own Funds («COF»): 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. Since 2007, 50% of the book value of equity investments in banking and insurance entities, exceeding 10% of the respective share capital is also deducted. In 2009, applying the IRB method for credit risk the amount of expected losses was adjust to 50% for positions in risk, deducted of the sum of value corrections and existents provisions;

– Complementary Own Funds (CMOF): 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 50%, in 2009, of the amount of expected losses was adjust to 50% for positions in risk, deducted of the sum of value corrections and existents provisions, with IRB method applied;

– It is deducted to the total Own Funds the assets acquired in exchange for loans at more than 4 or 5 years. This value is calculated in accordance with a progressiveness method that leads that in 10 to 13 years, 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 CMOF cannot exceed the COF. In addition, some components of the CMOF (Lower Tier II) cannot exceed 50% of the COF.

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).

Simultaneously, through Regulation 7/2008, the Bank of Portugal extended, for three additional years, the amortization plan of the transition adjustments to the presently applicable reporting standards that were not fully recognized in the own funds of June 30, 2008, concerning post-retirement health benefits and liabilities of the pension fund. On the other hand, the Bank of Portugal published the Regulation 11/2008, which allowed, for regulatory purposes, the enlargement of the pension fund corridor up to the amount of the actuarial losses of 2008, excluding the expected return of the fund's assets in 2008, to be amortized steadily through the next four years.

The impact on regulatory capital of adopting NIC's/NCA's regarding to the Pensions Fund is being recognised on a straight line basis (in accordance with Regulation no. 2/2005, no. 4/2005 and no. 12/2005 and no. 7/2008 from the Bank of Portugal).

Therefore, as at the end of 2010, the negative net impact in Own Funds are, calculated in consolidated basis, was Euro 32 288 000, that results from a negative impact of Euro 8 033 000 registered in retained earnings and other deviation in the amount of Euro 19 061 000 registered in accrued costs and other deviations of Euro 24 053 000, compensated by a positive variation of Euro 18 859 000 that refers to unrecognized impacts of Own Funds (according to no. 4, of 13.º-A, from the Regulation no. 12/2001, of the Bank of Portugal).

The amount of Euro 19 061 000, from which Euro 5 991 000 refers to health-care benefits and Euro 13 071 000 to other benefits in pensions, will be progressively taken into retained earnings till 2014. In a same way, Own Funds compensation will decrease till their extinguish in 2014. At the end, differences will be absorbed by the statuaries reserves.

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 – of at least the regulatory minimum of 8%. Additionally, the Bank of Portugal released a recommendation in order to, by September 30, 2009, the financial groups submitted to its supervision, as well as the respective mother-companies, strengthen their Tier 1 ratios to a figure not below 8%.

The capital adequacy of CEMG as at 31 December 2010 and 2009 is presented as follows:

	2010 **Euro '000**	**2009** **Euro '000**
Core own funds		
Paid-up capital	800 000	760 000
Results, general and special reserves and retained earnings	227 097	253 130
Other regulatory adjustments	(100 105)	(88 562)
NIC/NCA adjustments	15 792	22 207
	942 784	946 775
Complementary own funds		
Upper Tier 2	27 506	18 154
Lower Tier 2	378 000	378 000
Deductions	(14 674)	(13 674)
	390 832	382 480
Deductions to total own funds	(4 562)	(9 079)
Total own funds	1 329 054	1 320 176
Own funds requirements		
Credit risk	760 346	728 989
Market risk	1 721	2 986
Operational risk	55 446	62 243
	817 513	794 218
Prudential ratios		
Ratio core Tier 1	9,23%	9,36%
Solvency ratio	13,01%	13,12%

49. Accounting standards recently issued

The new standards and interpretations that have been issued, but that are not yet effective and CEMG has not yet applied, can be analysed as follows:

- ***IAS 39 (amendment) – Financial Instruments: Recognition and measurement – Eligible hedged items***

  The International Accounting Standards Board (IASB) issued an amendment to IAS 39 – Financial Instruments: recognition and measurement – Eligible hedged items, which is mandatory for periods beginning on or after 1 July 2009.

  This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

  The adoption of this amendment by CEMG had no impact.

- ***IFRS 1 (amendment) –First time adoption of the International Financial Reporting Standards and IAS 27 – Consolidated and Separate Financial Statements***

  The amendments of IFRS 1 First time adoption of IFR' and IAS 27, Consolidated and separate financial statements are effective for periods beginning on or after 1 July 2009.

  These amendments allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements.

  CEMG does not expect any impact from the adoption of these amendments.

- ***IFRS 3 (revised) – Business combinations and IAS 27 (amendment) – Consolidated and separate financial statements***

  The International Accounting Standards Board (IASB) issued in January 2008, IFRS 3 (revised) Business Combination and an amendment to IAS 27 – Consolidated and separate financial statements.

  The main changes the revised IFRS 3 and amended IAS 27 will make to existing requirements or practice relate to (i) partial acquisitions, whereby non-controlling interests (previously named minority interest) can be measured either at fair value (implying full goodwill recognition against non-controlling interests) or at their proportionate interest in the fair value of the net identifiable assets acquired (which is the original IFRS 3 requirement); (ii) step acquisitions whereby, upon acquisition of a subsidiary and in determining the resulting goodwill, any investment in the business held before the acquisition is measured at fair value against the income statement; (iii) acquisition-related costs, which must generally, be recognised as expenses (rather than included in goodwill); (iv) contingent consideration which must be recognised and measured at fair value at the acquisition date, subsequent changes in fair value being recognised in the income statement (rather than by adjusting goodwill); and (v) changes in a parent's ownership interest in a subsidiary that do not result in the loss of control which are required to be accounted for as equity transactions.

  Additionally, IAS 27 was amended to require that an entity attributes a share of the accumulated loss of a subsidiary to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance, and to specify that, upon losing control of a subsidiary, an entity measures any non-controlling interests retained in the former subsidiary at its fair value, determined at the date the control is lost.

  The adoption of these amendments is mandatory since 1 January 2010 and had no significant impact on CEMG's consolidated financial statements.

- ***IFRS 5 (amendment) – Non-current assets held for sale and discontinued operations***

  This amendment clarifies the disclosures required by the norm regarding non-current assets (or groups held for disposal) clarified for sale or discontinued operations.

  The adoption of this amendment had no significant impact in the CEMG consolidated financial statements.

- ***IFRIC 12 – Service Concession Arrangements***

  The International Financial Reporting Interpretations Committee (IFRIC) issued in July 2007 the IFRIC 12 – Service concession arrangements, effective 1 January 2008. Earlier application is permitted. The endorsement of this interpretation by the European Union occurred only in 2009 and therefore it is only applicable to CEMG from 1 January 2010.

  IFRIC 12 applies to service concession arrangements in which the public sector (i) controls or regulates the services provided by the operator and (ii) controls any significant residual interest in the infrastructure.

  The adoption of this interpretation by CEMG had no impact on its consolidated financial statements.

- ***IFRIC 17 – Distributions of non-cash assets to owners***

  The IFRIC 17 Distributions of non-cash assets to owners is effective on for periods beginning on or after 1 July 2009.

  This interpretation clarifies the accounting treatment of distributions of non-cash assets to owners. This interpretation clarifies that an entity should measure the distribution of non-cash assets at the fair value of the assets to be distributed and that the difference between the fair value of the net assets distributed and the respective carrying amount is recognised in the income statement.

  The adoption of this interpretation by CEMG had no impact on its consolidated financial statements.

- ***IFRIC 18 – Transfers of assets from customers***

  The IFRIC 18 Transfers of assets from customers is effective for periods beginning on or after 1 July 2009.

  This interpretation clarifies the requirements of IFER for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.

  The interpretation clarifies:

  – The circumstances in which the definition of an asset is met;

  – The recognition of the asset and the measurement of its cost on initial recognition;

  – The identification of the separately identifiable services (one or more services in exchange for the transferred asset);

  – The recognition of revenue; and

  – The accounting for transfers of cash from customers.

  The adoption of this interpretation by CEMG had no impact on its consolidated financial statements.

- ***Annual Improvement Project***

  In May 2008, IASB published the Annual Improvement Project making certain amendments to existing standards. However, the effective date of the referred changes depends on each specific standard.

  Changes to IFRS 5 – Non-current assets held for sale and discontinued operations, effective for years starting after 1 July 2009. This change clarifies that all the assets and liabilities of a subsidiary must be classified as non-current assets held for sale in accordance with IFRS 5 if a plan for the partial sale of the subsidiary, that will imply losing the subsidiary's control, exists.

  The adoption of this amendment by CEMG had no impact on its consolidated financial statements.

Recently issued pronouncements yet to be adopted by CEMG

The new standards and interpretations that have been issued, but that are not yet effective and that CEMG has not yet applied, can be analysed as follows. CEMG will apply these standards when they are effective.

- ***IFRS 9 – Financial instruments***

  The International Accounting Standards Board (IASB) has issued in November, 2009 IFRS 9 – Financial instruments part 1: Classification and measurement, which is mandatory from 1 January 2013, being an earlier adoption permitted. This IFRS has not yet been adopted by the European Union.

  This IFRS is included in the IASB global project to replace IAS 39 and addresses the classification and measurement of financial assets, being the main aspects:

  – Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument;

  – An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss;

- All equity instruments issued by third parties are to be measured subsequently at fair value through profit or loss. However, the entity can irrevocably elect equity instruments to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss.

CEMG is evaluating the impact of adopting this amendment.

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

On October 2010 the International Accounting Standards Board (IASB) published Disclosures—Transfers of Financial Assets (Amendments to IFRS 7). The amendment is applicable for annual periods beginning on or after 1 July 2011. Earlier application is permitted. This amendment has not yet been adopted by the European Union.

The amendments required to disclosures about transactions that involve transfer of financial assets, namely securitizations of financial assets, intend to help users of financial statements to evaluate the risks and the impacts associated to those transactions in the financial statements.

CEMG is currently evaluating the impact of the adoption of this amendment.

- ***IAS 24 (revised) – Related party disclosures***

On November 2009 the International Accounting Standards Board (IASB) published Related Party Disclosures (IAS 24 revised). The amendment is applicable for annual periods beginning on or after 1 January 2011. Earlier application is permitted. This amendment has not yet been adopted by the European Union.

The revised standard clarifies and simplifies the definition of related party and the requirement for State related entities to disclose in detail all transactions with the State and other similar entities.

CEMG is currently evaluating the impact of the adoption of this amendment.

- ***IIAS 32 (amendment) – Classification of Rights Issues***

On 8 October 2009 the International Accounting Standards Board (IASB or the Board) published Classification of Rights Issues (Amendment to IAS 32). The amendment is applicable for annual periods beginning on or after 1 February 2010. Earlier application is permitted.

This amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer and requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

CEMG does not expect any impact in its consolidated financial statements from the adoption of this amendment.

- ***IFRIC 14 (amended) – Prepayments of a minimum funding requirement***

This amendment intends to remove an unintended consequence of IFRIC 14 – «IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction». The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset.

The amendment is applicable for annual periods beginning on or after 1 January 2011. Earlier application is permitted. An entity shall apply the amendments from the beginning of the earliest comparative period presented in the first financial statements in which the entity applies this Interpretation.

CEMG is currently evaluating the impact of the adoption of this interpretation.

- ***IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments***

On 26 November 2009 the International Accounting Standards Board (IASB) published IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments. The interpretation is applicable for annual periods beginning on or after 1 July 2010. Early application is permitted.

The IFRIC noted that there was diversity in practice in how entities measured an equity instruments issued in a debt for equity swap. A 'debt for equity swap' transaction normally refers to a transaction in which a debtor and a creditor renegotiate the terms of a financial liability, such that the debtor extinguishes the liability fully or partially by issuing equity instruments to the creditor.

The interpretation clarifies (i) when an entity's equity instruments issued to extinguish all or part of a financial liability corresponds to 'consideration paid' in accordance with IAS 39 paragraph 41, (ii) how should an entity initially measure the equity instruments issued to extinguish the financial liability and (iii) how should an entity account for any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued.

CEMG is currently evaluating the impact of the adoption of this interpretation.

KPMG

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AUDITORS' REPORT

(ISSUED BY THE STATUTORY AUDITOR)

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

Introduction

1. In accordance with the applicable legislation, we present our Auditors' Report, on the financial information included in the Annual Report of the Board of Directors and in the accompanying financial statements as at and for the year ended 31 December, 2010 of Caixa Económica Montepio Geral which comprise the balance sheet as at 31 December, 2010 (showing total assets of 20,884,020 thousand Euro and Shareholders' Equity of 994,019 thousand Euro, including a net profit of 41,491 thousand Euro), the statements of income, the cash flows, the changes in equity and the comprehensive income for the year then ended and the corresponding notes to the financial statements.

Responsibilities

2. The Board of Directors is responsible for:

a) the preparation of the financial information in accordance with the Adjusted Accounting Standards ("Normas de Contabilidade Ajustadas") issued by the Bank of Portugal, which are based on the application of International Financial Reporting Standards ("IFRS") as adopted by the European Union, with exception of the issues defined in no. 2 and no. 3 of Regulation no. 1/2005 and no. 2 of Regulation no. 4/2005 of the Bank of Portugal ("NCA's"), that present fairly the financial position of **Caixa Económica Montepio Geral**, the results of its operations, cash flows, changes in equity and its comprehensive income;

b) maintaining historical financial information prepared in accordance with NCA's which is complete, true, current, clear, objective and lawful as required by the Stock Exchange Code ("CVM");

c) the adoption of adequate accounting policies and criteria;

d) the maintaining of an appropriate system internal control; and

e) the communication of any relevant matter that may have influenced the activity, financial position or results of the CEMG.

3. Our responsibility is to verify the consolidated financial information included in the documents referred above, namely if the information is complete, true, current, clear, objective and lawful as required by the CVM in order to issue a professional and independent opinion based on our audit.

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., a Portuguese company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

KPMG & Associados - S.R.O.C., S.A.
Capital Social: 2.840.000 Euros - Pessoa Colectiva Nº PT 502 161 078 - Inscrito na O.R.O.C. Nº 189 - Inscrito na C.M.V.M. Nº 9093

Matriculada na Conservatória do registo Comercial de Lisboa sob o nº 715, fls. 178 do Livro C - 2/3

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, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;

   - evaluating the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;

   - assessing the applicability of the going concern basis of accounting;

   - assessment of the appropriateness of the overall presentation of the financial statements; and

   - assessment of whether the financial information is complete, true, timely, clear, objective and lawful.

5. Our audit also included the verification that the consolidated financial information included in the Annual Report of the Board of Directors is consistent with the consolidated financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451.º, of the Portuguese Companies Code ("Código das Sociedades Comerciais").

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

Opinion

7. In our opinion, the referred financial statements present fairly, in all material respects, the financial position of **Caixa Económica Montepio Geral**, as at 31 December, 2010, the results of its operations, the cash flows, the changes in equity and the comprehensive income for the year then ended, in accordance with NCA's defined by the Bank of Portugal and the information contained therein is complete, true, current, clear, objective and lawful.

Report on Other Legal Requirements

8. It is also our opinion that the consolidated financial information included in the Board of Directors report is consistent with the consolidated financial statements and that the Report on Institutional Governance includes the information required by the article 245.º-A of the Portuguese Securities Market Code ("CVM").

Lisbon, 10 March, 2011

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
represented by
Sílvia Cristina de Sá Velho Corrêa da Silva Gomes (ROC n.º 1131)

12. Internal Audit Board's Reports, Opinions And Compliance Statement

INTERNAL AUDIT BOARD'S REPORT AND OPINION ON INDIVIDUAL ACCOUNTS

Members,

In compliance with the competences set out in Article 36(1)(d) of the Articles of Association of Montepio Geral – Associação Mutualista, hereinafter referred to as Montepio Geral, and Article 25(f) of the Articles of Association of Caixa Económica Montepio Geral, hereinafter referred to as Caixa Económica, in our capacity as the Internal Audit Board of both institutions, we hereby submit for your appreciation a report on their business activity and our opinion of the report and individual financial statements for 2010 of Montepio Geral and Caixa Económica, drafted by the Board of Directors.

REPORT

1. In 2010, the Internal Audit Board monitored the management of Montepio Geral and Caixa Económica by reading the minutes of the meetings of the Board of Directors and holding regular meetings with it and some of its members, analysing the accounting documents and reports and quantitative information provided every month by the departments, attending meetings of the General Board and working meetings with some of the directors closest to the duties of the Internal Audit Board.
2. During its work, the Internal Audit Board was always able to count on the collaboration of the institution's Board of Directors and departments in providing any information necessary for its duties.
3. During the year, the Internal Audit Board drafted the documents required of it by the Articles of Association and Banco de Portugal, including opinions on the adequacy and efficacy of the individual and consolidated internal control system, which were prepared with the support of the firm of certified auditors and which, apart from the deficiencies identified and improvements recommended, express our opinion that the internal control procedures as a whole effectively and adequately reflect in all materially relevant aspects the requirements set out in Banco de Portugal Notice 5/2008.
4. In 2010, the financial statements of Montepio Geral were prepared on the basis of recognition and measurement set out in the International Financial Reporting Standards (IFRS), as adopted in the European Union up to 31 December 2010. The accounting policies used by Associação Mutualista in preparing the financial statements as at 31 December 2010 are consistent with those used in the annual financial statements with reference to 31 December 2009 and respect the disclosure requirements set out in the accounting plan for mutual associations.
5. The financial statements of Caixa Económica continued to be prepared, presented and disclosed in accordance with the Adjusted Accounting Standards, meaning that the IFRS, as adopted by the European Union, were applied to the individual financial statements, with the exception of some matters regulated by Banco de Portugal, such as impairment of loans to customers and accounting of recognition in retained earnings of adjustments of liabilities for retirement and surviving spouse pensions.
6. Regarding the institution's Annual Report and Governance Report, which includes the information required by Article 245-A of the Securities Code, the Internal Audit Board found that, in all essential aspects, the content of the former tallies with the financial statements and abides by the law and Articles of Association.
7. In its appreciation of the financial statements for the year, the Internal Audit Board took special account of the Certification of Accounts (Montepio Geral) and the Legal Certification of Accounts and Audit Report (Caixa Económica) drafted by the firm of certified auditors, which, under contract, during the year and at the end of 2010, monitored and audited the accounting and accounts that the Board of Directors (BoD) drafted as required by law and the Articles of Association. The documents produced by the BoD were presented without reservations and we

agreed with their contents. However, the Certification of Accounts of Montepio Geral contains a highlight, with which we also agree, referring to the change in accounting policies mentioned in point 4 above and fully explained in notes 3.1 and 3.15 to the financial statements.

8. After the close of the year, we appreciated the accounting documents, including the Annual Report, the balance sheet as at 31 December 2010, the profit and loss account, cash flow statement, changes in equity and total income in the year ended on that date and their notes.
9. The Internal Audit Board draws your attention to the importance of the sections on social responsibility and corporate governance in the 2010 Annual Report and Accounts.
10. As a result of the work performed, the Internal Audit Board considers that the Annual Report, the institutions' financial statements and notes comply with the law and Articles of Association and are appropriate for an understanding of their financial situation, profits, cash flows, changes in equity and total income for the year ended on 31 December 2010.
11. We would like to express our gratitude for the reference to our work made in the Annual Report and we also second the Board of Directors in its acknowledgement of the different bodies mentioned, the members of the other corporate bodies and the employees mentioned in the report.
12. In 2010, there was a slight improvement in the country's economic situation and greater progress at international level. However, at the end of the year, the Portuguese economy showed new signs of slowing down, with product and investment falling and unemployment soaring, reflecting the effects of measures taken to contain the deficit and foreign debt. Interest rates on access to the capital markets by the state are high, which affects the funding of the economy in general and the banking system in particular. In spite of these limitations, Montepio Geral and Caixa Económica (the latter with growth in deposits above that of the system) have pursued their development, return and solidity goals and followed their strategic guidelines.
13. The Internal Audit Board therefore backs the policies that Montepio Geral and Caixa Económica have followed, in the certainty that the Board of Directors, with the collaboration of their employees, will take the right paths and measures to minimise the difficulties and continue the growth rate that the institution has been achieving.

In view of the above, we are of the opinion that

OPINION

The General Meeting should approve:

a) The annual reports and financial statements of Montepio Geral and Caixa Económica as at 31 December 2010;

b) The proposals for appropriation of profits in said annual reports;

c) The other proposals set out in the Montepio Geral Annual Report;

d) A vote of approval of the Board of Directors for its efficient performance of its duties and of the employees for their commitment to their work.

Lisbon, 10 March 2011

THE INTERNAL AUDIT BOARD

Manuel Jacinto Nunes – Chairman

Gabriel José dos Santos Fernandes – Member

José Moreira Venâncio – Member

INTERNAL AUDIT BOARD'S REPORT AND OPINION ON THE CONSOLIDATED ACCOUNTS

Members,

In compliance with the competences set out in Article 25(f) of the Articles of Association of Caixa Económica Montepio Geral, hereinafter referred to as Caixa Económica, we hereby submit for your appreciation a report and opinion on the consolidated report and financial statements for 2010 of Caixa Económica and the companies included in the consolidation, as drafted by the Board of Directors.

REPORT

1. We analysed the Board of Directors' consolidated report and financial statements, which included the consolidated balance sheet as at 31 December 2010, the consolidated profit and loss account, the consolidated cash flow statements, changes in equity and total income for 2010 and the notes to the consolidated financial statements.
2. Where the Consolidated Annual Report was concerned, the Internal Audit Board found that, in all essential aspects, its content tallied with the consolidated financial statements and complied with the law and Articles of Association.
3. The Internal Audit Board based its appreciation of the consolidated financial statements for the year on the Legal Certification and Audit Report on the Consolidated Accounts, without reservations, drafted by the firm of certified auditors, and agrees with its contents.
4. As a result of the work performed, the Internal Audit Board considers that the consolidated financial statements (consolidated balance sheet as at 31 December 2010, consolidated profit and loss account, consolidated cash flow statements, changes in equity and total income for 2010 and their notes) are appropriate for an understanding of the assets of Caixa Económica and the subsidiaries included in the consolidation on 31 December 2010 and for the way in which the consolidated profits were calculated in 2010.

In view of the above, we are of the opinion that

OPINION

The General Meeting should approve the Consolidated Annual Report and consolidated financial statements of the year ended on 31 December 2010.

Lisbon, 10 March 2011

THE INTERNAL AUDIT BOARD

Manuel Jacinto Nunes – Chairman

Gabriel José dos Santos Fernandes – Member

José Moreira Venâncio – Member

STATEMENT OF COMPLIANCE OF FINANCIAL INFORMATION

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

Pursuant to its competences as laid down in the Articles of Association, the Audit Committee is responsible for monitoring the institution's business activity and expressing a professional opinion on the basis of its examination of the annual report and financial statements.

In this statement, we confirm all the information that was provided to us to the best of our knowledge and certainty:

- Individual and consolidated financial information as at 31 December 2010, which gives a true, appropriate picture of the assets and liabilities, financial situation and profits of the institution and the companies included in the consolidation perimeter;
- The annual report, which faithfully describes the business, performance and position of the institution and the companies included in the consolidation perimeter, as required by law.

Lisbon, 10 March 2011

THE INTERNAL AUDIT BOARD

Manuel Jacinto Nunes – Chairman

Gabriel José dos Santos Fernandes – Member

José Moreira Venâncio – Member

13. Institutional Governance Report

CHAPTER 0

STATEMENT OF COMPLIANCE

In accordance with CMVM Regulation 1/2010 and the Corporate Governance Code, which brings together all the CMVM recommendations on governance, Montepio, i.e. Caixa Económica Montepio Geral has performed responsible governance aimed at the creation of value in the pursuit of a strategy of permanent improvement in quality of service. Its ultimate purpose is to place at the disposal of Montepio Geral the profits of its financial years, after the deductions required by the Articles of Association, so that it can invest them to meet its needs. This entails respect for the satisfaction of the interest of customers and employees.

In this context, it has been reconciling its reality and legal nature with the models provided for by law, on the basis of transparency, fairness and accountability.

In addition to the requirements of laws, regulations and the Articles of Association, all Montepio's activities are governed by compliance with the decisions of corporate bodies, internal standards, rules of conduct and deontological standards.

Internal regulations are circulated to all employees on the intranet. It contains documents classified in accordance with their purpose and contents and professional and deontological standards and rules. There is an internal standard to ensure that current prudential rules and deadlines for reporting to external bodies are obeyed.

The www.montepio.pt website offers the information required by law and applicable regulations, including:

a) General information on Montepio, including its Articles of Association;

b) Information on the corporate bodies;

c) Information on the economy and financial markets;

d) Financial information, including periodical information: annual reports and accounts (of which this report is an integral part), monthly reports and quarterly information, ratings and other mandatory information;

e) Information on ordinary and extraordinary general meetings, including the invitation and full agenda.

Our strategic guidelines continue to focus on developing our governance structure and system in light of regulatory requirements, our strategic vision in articulation with Associação Mutualista and other companies in the Montepio Group and the current reform in our Articles of Association.

Our governance model comprises the General Meeting, Board of Directors and Internal Audit Board and there is also a predominantly consultative body called the General Board.

CHAPTER I

I.1. THE GENERAL MEETING

The General Meeting is the collegial corporate body that brings together all full members of Montepio Geral – Associação Mutualista (MGAM), who are of age and were admitted more than two years ago. Each one has one vote.

Competences of the General Meeting

As set out in the Articles of Association, the General Meeting:

- Elects or removes members of the corporate bodies;

- Decides on the annual report from the Board of Directors (BoD), annual accounts and opinion of the Audit Committee and also appreciates the report by the General Board;
- Decides on the plan of action and budget submitted by the BoD and Audit Committee's opinion;
- Decides on the appropriation of profits;
- Authorises the constitution of own funds not expressly provided for in the Articles of Association and increase in any funds, when this does not fall within the powers of the Board of Directors;
- Decides on amendments to the Articles of Association;
- Every three years, elects a committee with powers to fix the remuneration of members of the corporate bodies.

It is governed by regulations that complement the Articles of Association.

How the General Meeting operates

As required by the Articles of Association, the General Meeting must be convened at least fifteen days in advance. It cannot conduct business on the first call without at least half of the members present. On the second call the meeting may be held one hour after the first call and may conduct business regardless of the number of people present.

Nonetheless, decisions on the reform or amendment of the Articles of Association, mergers, splits, conversion or incorporation of or in Caixa Económica require the presence of at least two-thirds of all its members on the first call and a number of members on the second call, though this meeting must be held fifteen to twenty days after the first. Pursuant to Article 42 of the Articles of Association of Caixa Económica, the procedure for amending the Articles of Association must abide by the rules set out in this article.

In order to ensure that the members know how the meeting is going to proceed and can prepare to participate in the proceedings, the invitations are not only published in the daily press but are also posted on the company website, and, in the case of rendering of the annual accounts, are also published on the CMVM extranet.

In 2010, there were two ordinary sessions of the General Meeting at its head office.

Officers of the General Meeting

The officers of the General Meeting are the Chairman and two secretaries. If the Chairman is unable to attend he is substituted by the first secretary and if the first secretary is unable to attend by the second secretary. As with the other members of the corporate bodies, the officers of the General Meeting are elected every three years and may be re-elected for more than three successive terms of office.

In particular, the Chairman of the General Meeting is responsible for convening and presiding over the General Meeting and the secretaries draft the minutes of the meetings and issue the necessary certificates.

The Chairman of the General Meeting has human and logistic resources for his duties provided by the General Secretary of the institution and its departments.

In 2010, the remuneration of the Chairman of the General Meeting was made up of attendance slips with a unit value of 813.75 euros.

I.2. VOTING RIGHTS

Pursuant to the Articles of Association, all full members are entitled to participate and vote in the General Meeting, i.e. all legally competent individuals who are of age, were admitted more than two years ago comply with the provisions of the law, regulations and Articles of Association. Each member has one vote.

These requirements also apply to postal votes.

All members are entitled to vote on an equal footing and may vote at the meeting or by postal vote, in the latter case if the corporate bodies are being elected and in accordance with the Articles of Association.

In addition to the invitation published in the newspapers as required by law, the members of the General Meeting are informed of the meeting in announcements on the institution's website, where the main documents to be appreciated and voted on are also published. They are also sent a non-binding written communication to their home addresses.

Furthermore, all the documents pertaining to the agenda are placed at the disposal of the General Meeting's members at head office at least fifteen days before the date of the meeting.

The invitation indicates the full name of the institution, the date, time and place of the General Meeting and information on the places where members can obtain clarifications and postal votes are received.

As required by law and the Articles of Association, when the corporate bodies are elected, a member employee is elected to the Audit Committee. These votes are cast on the intranet. After the votes are counted in an election, the results are published on the intranet and website.

There is not yet a system for electronic votes to elect the other corporate bodies.

CHAPTER II

MANAGEMENT AND SUPERVISORY BODIES

II.1. BOARD OF DIRECTORS

The Board of Directors is responsible for the management of Montepio Geral – Associação Mutualista and Caixa Económica Montepio Geral. It is elected at a General Meeting, along with the other members of the corporate bodies.

Membership

The Board of Directors consists of executive members, a Chairman and four directors.

Competences

Its powers include:

- Drafting the annual report and accounts, proposing the appropriation of profits and drawing up the plan of action and budget for the following year;
- Deciding on an increase in the institution's share capital and the issue of investment fund units, within the limits allowed by the Articles of Association;
- Deciding on the opening and closing of branches and any other form of representation;
- Deciding on the acquisition, divestment or burdening of fixed assets.

Operation

The Board of Directors operates collegially and may make decisions provided that the majority of its members are present. It meets at least twice a week. Decisions are made by majority of votes of members present and the Chairman has the deciding vote. The Board of Directors may appoint proxies to represent the institutions in any acts or contracts and will define their powers.

Positions

The directors are responsible for the following departments in accordance with the institution's structure:

António Tomás Correia

Secretariat-General, Planning and Studies Department, Board Support Office, Group Financial Strategy Office, Public Relations Office, Social Responsibility Office and insurance subsidiaries.

José de Almeida Serra

Risk Analysis and Management Department, Audit and Inspection Department, Financial and International Department, Compliance Office, Association Office, Mutual Product Office, financial, pension fund and other subsidiaries.

Rui Manuel Silva Gomes do Amaral

Greater Porto Commercial Department, Northern Region Commercial Department, Southern Region Commercial Department, Organisational Development Department, Department de Operations, Information Systems Department and Shared Services Department.

Eduardo José da Silva Farinha

Central Region Commercial Department, Greater Lisbon Commercial Department, Lisbon and Autonomous Regions Commercial Department, Accounting Department, Real Estate and Premises Department, Legal and Credit Recovery Department, Human Resource Department and financial and insurance subsidiaries.

Álvaro Cordeiro Dâmaso

Corporate Commercial Department, Marketing Department and Customer Ombudsman Office.

Each position has replacement members. Whenever there is a reorganisation, positions are redistributed.

Qualifications of the members of the Board of Directors

António Tomás Correia – Chairman

Academic qualifications:	Law degree from Universidade Clássica de Lisboa
Professional experience:	1995 to 2003 director of CGD 2004 to 30 April 2008 director of Montepio Since 1 May 2008 Chairman do Montepio Board of Directors

José de Almeida Serra

Academic qualifications:	Degree in Economics from ISCEF and post-graduate diploma from Massachusetts Institute of Technology
Professional experience:	Director of IPE Director of Banco Pinto & Sotto Mayor 1999 to 2003 Director SOGRUPO (Grupo CGD) Since 2004 director of Montepio

Rui Manuel Silva Gomes do Amaral

Academic qualifications:	Degree in Finance from Instituto Superior de Economia
Professional experience:	2000 to 2006 director of Banif-Banco Internacional do Funchal, SA and a number of companies in the financial group Since January 2007 director of Montepio

Eduardo José da Silva Farinha

Academic qualifications:	Degree in Finance from ISCEF
Professional experience:	1996 to 2006 Chairman of the Board of Directors Of Credivalor – Soc. Parabancária de Valorização de Créditos, SA. Since January 2007 director of Montepio

Álvaro Cordeiro Dâmaso

Academic qualifications:	Law degree in from Faculdade de Direito de Lisboa
Professional experience:	Chairman of the Lisbon Stock Exchange (BVL) – 3 years Chairman of ICP - ANACOM – 3 years Chairman of ANACOM Advisory Board – 5 years 2006/2007 Manager of Melo Abreu, Lda. 2007/2009 Chairman of Agência de Promoção do Investimento dos Açores Since January 2010 director of Montepio

Positions held by Board of Directors at subsidiaries

Chairman: António Tomás Correia

Chairman of the Board of Directors of	Lusitania, Companhia de Seguros, SA
Chairman of the Board of Directors of	Lusitania Vida, Companhia de Seguros, SA
Chairman of the Board of Directors of	Finibanco – Holding, SGPS, SA
Chairman of the Board of Directors of	Finibanco, SA

José de Almeida Serra

Chairman of the Board of Directors of	Residências Montepio, Serviços de Saúde, SA
Chairman of the Board of Directors of	Montepio Gestão de Activos – SGFI, SA
Chairman of the Board of Directors of	Futuro – Soc. Gestora de Fundos de Pensões, SA
Chairman of the Board of Directors of	Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, SA (IFI)

Member of the Board of Directors of Finibanco – Holding, SGPS, SA
Member of the Board of Directors of Finibanco, SA
Member of the Remuneration Committee of SAGIES – Segurança, Higiene e Saúde no Trabalho, SA

Rui Manuel Silva Gomes do Amaral

Member of the Board of Directors of SAGIES – Segurança, Higiene e Saúde no Trabalho, SA
Member of the Board of Directors of SIBS – Soc. Interbancária de Serviços, SA
Member of the Remuneration Committee of Clínica CUF Belém, SA
Member of the Board of Directors of Finibanco – Holding, SGPS, SA
Member of the Board of Directors of Finibanco, SA

Eduardo José da Silva Farinha

Chairman of the General Meeting of Montepio Gestão de Activos – SGFI, SA
Chairman of the General Meeting of MG Investimentos Imobiliários, SA
Chairman of the Management Board of Leacock Seguros, Lda.
Chairman of Remuneration Committee of Bolsimo – Gestão de Activos, SA
Member of the Board of Directors of Clínica CUF Belém, SA.
Member of the Board of Directors of Germont – Empreendimentos Imobiliários, SA
Member of the Board of Directors of Finibanco – Holding, SGPS, SA
Member of the Board of Directors of Finibanco, SA

Álvaro Cordeiro Dâmaso

Chairman of the Board of Directors of Finicrédito – Instituição Financeira de Crédito, SA
Chairman of the Board of Directors of Finimóveis – Sociedade de Serviços Auxiliares, SA
Chairman of the Board of Directors of Lestinvest, SGPS,SA
Member of the Board of Directors of Finibanco – Holding, SGPS, SA
Member of the Board of Directors of Finibanco, SA

II.2. INTERNAL AUDIT BOARD

Membership

The Internal Audit Board is the supervisory body and consists of a Chairman and two members, one of whom should be a certified auditor and another appointed by the employees pursuant to Article 28 of the Articles of Association.

Competences

The main competences of the Internal Audit Board are:

a) To supervise the management of the institution;

b) To ensure compliance with the law and Articles of Association;

c) To check the regularity of the books, accounting records and their supporting documents;

d) To draft an annual report on its work and give an opinion on the report, accounts, proposals, budget and plan of action submitted by the Board of Directors.

Operation

It meets at least once a month and may only make decisions if the majority of its members are present. The Chairman has the deciding vote. The Internal Audit Board met 13 times in 2010.

II.3. GENERAL BOARD

The General Board comprises the officers of the General Meeting, the members of the Board of Directors and Audit Committee and members elected from the General Meeting. It is responsible for strategic guidance and, on the proposal of the Board of Directors, approval of the general guidelines of multi-annual plans of action and their updates.

The General Board met six times in 2010: March, June, July, October, November and December.

With the exception of the Board of Directors, the members of the General Board receive remuneration in attendance slips for the meetings in which they participate.

II.4. REMUNERATION POLICY

The Remuneration Committee was elected at the General Meeting of 24 March 2010 for 2010-2012 and decides on the remuneration of the members of the corporate bodies. The following Montepio members are on the committee:

Chairman: Luis Eduardo Silva Barbosa
Member: António Francisco Espinho Romão
Member: José Joaquim Fragoso

It met once in 2010.

None of the committee members is a member of the Board of Directors or a spouse or relative to the third degree, inclusive.

Every year, it analyses remuneration policies and practices and drafts a report explaining the criteria used in their decisions. The report is submitted to the General Meeting.

Our remuneration policy has been considered correct and appropriate to the institution's strategic goals. In view of the entry into force of Law 28/2009 of 19 June and the regulations and recommendations issued by the CMVM and Banco de Portugal, it is now compulsory to publish a statement on the remuneration policy for members of the management and supervisory bodies. It is attached to this report.

II.5. REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS AND INTERNAL AUDIT BOARD

The remuneration received by the members of the Board of Directors in 2010 was as follows:

(euros)

	2009	2010	Change	
	Value	Value	Value	%
António Tomás Correia – Chairman	524 408.09	447 662.80	-76 745.29	-14.6
José de Almeida Serra	462 885.15	395 537.81	-67 347.34	-14.5
Rui Manuel Silva Gomes do Amaral	468 177.15	400 467.41	-67 709.74	-14.5
Eduardo José da Silva Farinha	462 885.15	395 537.81	-67 347.34	-14.5
Álvaro Cordeiro Dâmaso	–	386 457.42	–	–
TOTAL	**1 918 355.54**	**2 025 663.25**	**–**	**–**

There were no increases or variable additions in this remuneration in 2010.

The Chairman of the Internal Audit Board received a gross monthly remuneration of 5,500 euros and each of the members received 5,000 euros, in addition to attendance slips.

II.6. ORGANISATION CHART AND FUNCTIONAL AREAS

The Board of Directors is in charge of the organisational model and the distribution of positions and responsibilities among the different corporate units. It defines the institution's organisational structure and divides up functions among them.

The units also have front-line bodies, divisions, offices and departments that answer directly to the Board of Directors.

Adjustments and improvements are made to the corporate structure whenever necessary in order to make it more flexible and better combine efforts for greater efficiency and profitability.

II.7. INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

Every year, the Board of Directors approves and reviews the goals and strategic guidelines for the following three years and permanently monitors the institution's overall performance, the risks of its business and the implementation of its projects.

There is a chapter in this Annual Report with a detailed description of the principles, methods and tools used to manage risks. However, we will briefly describe the methods used and bodies responsible for internal auditing, compliance and risk management.

Internal control system

The Audit and Inspection Division evaluates our internal control system, analyses and assesses procedures as required by law, standards and criteria and checks compliance with current standards.

In collaboration and articulation with the external auditors, the internal audit unit coordinated the preparation of the annual individual and consolidated internal control reports submitted to Banco de Portugal and drafted the annual report on supervision and control of financial intermediation to be sent to the CMVM.

The job of Internal Audits is therefore an integral part of the system for continuous monitoring of internal control of the MGAM and CEMG. It performs an independent check of the adequacy of and compliance with policies and assists top management.

Risk control system

The Risk Analysis and Management Division is responsible for analysing and managing risks for the group. This includes identifying, assessing, monitoring and controlling credit, interest rate, liquidity, exchange, market and operating risks.

As part of its risk management, the Risk Analysis and Management Division is responsible for reporting to the supervisory authorities in the areas of own fund requirements, major risks, the liquidity risk, interest rate risk, country risk, counterparty risk, stress testing, self- assessment of adequacy of own funds and market discipline.

In the overall management of risks, the Compliance Office ensures the necessary articulation with the Risk Analysis and Management Division. It reports events that may result in exposure and interacts with the Customer Ombudsman Office regarding complaints and with Internal Audits on matters of internal control.

The Compliance Office is in charge of controlling compliance, guaranteeing the implementation of the policies approved by the Board of Directors for this type of risk and preventing money laundering.

Compliance is a permanent, effective, independent activity designed to ensure that the institution's managing bodies, structure and employees comply with external and internal rules.

In 2010, the office continued to circulate relevant information and participate in the transposition of external legislation and review mandatory reporting to outside authorities.

CHAPTER III
INFORMATION AND AUDITS

III.1. INFORMATION

CEMG was set up to provide Montepio Geral – Associação Mutualista (MGAM) with the profits of its business after the deductions laid down in the Articles of Association, so that MGAM can use them to achieve its purpose, as set out in Article 4 of its Articles of Association. Pursuant to Article 7 of CEMG's Articles of Association, its institutional capital is permanent and not demandable and does not pay interest or dividends.

This institutional capital consists of amounts submitted by MGAM for the purpose, which are added to the assets of CEMG, and the incorporation of reserves from CEMG itself.

As at 31 December 2010, CEMG's institutional capital was 800 million euros and was fully paid up.

As mentioned at the start of this report, all accounting documents are available in the financial area of our website. Relevant institutional information is available in the corporate area.

As we do not resort to the market to constitute our capital, we have no investor relations office.

III.2. AUDITS

KPMG & Associados – SROC, SA is the external auditor responsible for auditing Associação Mutualista and Caixa Económica Montepio Geral.

In 2010, the fees charged by KPMG & Associados – SROC, SA for services rendered to Montepio Geral – Associação Mutualista were 21,588 euros and for services to Caixa Económica Montepio Geral were 757 815.19 euros. These amounts include audit services.

ANNEX

STATEMENT ON REMUNERATION POLICY FOR MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

Montepio's remuneration policy for members of its management and supervisory bodies were very similar to the previous year and so the statement submitted for the appreciation of the General Meeting is very similar to that submitted in 2010, with the correction of a material error regarding the remuneration of the members of the Internal Audit Board.

1 – The basic, generic rules on remuneration policy are set by the General Meeting and applied to concrete situations by a Remuneration Committee that is elected pursuant to Article 16(b) of the Articles of Association. No external consultants are used for these matters.

2 – The performance of the management and supervisory bodies is appreciated by the General Meeting.

3 – The remuneration of the members of the Board of Directors comprises:

a) A fixed monthly remuneration, paid twice in January (leave subsidy) and November (Christmas subsidy), which is higher for the Chairman and equivalent for the other members;

b) An annual fixed subsidy paid in April of no more than 11% of their annual fixed remuneration;

c) Travel expenses paid on the same terms as for anyone on the payroll;

d) Possibly a special gratuity on the same conditions and criteria as senior managers;

e) This variable remuneration must not be more than 20% of their annual fixed remuneration;

f) The remunerations referred to in a) and c) may be reviewed annually on the same terms as for the remaining personnel;

g) At the end of their term of office the members of the Board of Directors are entitled to receive their monthly remuneration up to the last day in the position plus what they are owed pursuant to their employment agreements;

h) In the event of dismissal without due cause, they are entitled to receive the monthly remuneration payable to the end of their term of office;

i) No remuneration is paid for positions held at subsidiaries by them or CEMG.

4 – The remuneration of the members of the Audit Committee consists of a gross monthly salary paid 14 times, in addition to attendance slips. That of the Chairman is higher than that of the other members. This remuneration is subject to sub-paragraph f) of the preceding paragraph.

14. Annex

14.1. COMPLIANCE WITH THE RECOMMENDATIONS OF THE FINANCIAL STABILITY FORUM (FSF) AND COMMITTEE OF EUROPEAN BANKING SUPERVISORS (CEBS) WITH REGARD TO THE TRANSPARENCY OF INFORMATION AND VALUATION OF ASSETS (BANCO DE PORTUGAL CIRCULAR 58/2009/DSB)

Banco de Portugal Circular 58/2009/DSB establishes the need for institutions to continue to comply properly with FSF and CEBS recommendations on the transparency of information and valuation of assets based on the principle of proportionality.

Some of the recommendations are addressed in this annual report and accounts and notes to the financial statements and so reference will be made to these documents when this is the case.

I. BUSINESS MODEL

1. Description of business model

Points 4.3 and 7.1 of this annual report and accounts (ARA) describe business activities.

2. Description of strategies and objectives

Point 4.3 of the ARA sets out the Montepio Group's mission, vision, values and strategic priorities in 2010 and over the medium term and each group company's role in achieving them, especially Caixa Económica. It also includes an exhaustive description of the strategic guidelines for 2011-2013 for Associação Mutualista and Caixa Económica for fulfilling its strategic vision.

3., 4. and 5. Importance of activities and contribution to business

Points 7.1 and 7.3 of the ARA describe activities and their contribution to the business. The notes to the financial statements on reporting by segments also describe the contribution of each activity.

II. RISKS AND RISK MANAGEMENT

6. and 7. Description and nature of risks and management practices

Point 4.6 and 7.2 of the ARA and the notes to the financial statements describe and quantify the different risks incurred and monitoring, recovery and control practices to minimise them.

III. IMPACT OF FINANCIAL TURMOIL ON RESULTS

8., 9., 10. and 11. Qualitative and quantitative description of profits with emphasis on losses and impact of write-downs and breakdown of write-downs

Points 7.2 and 7.3 of the ARA address the issue of impairment related to the financial markets. Point 7.2 and the analysis of profits and provisions and impairment indicate the impairment of our securities portfolio. The notes to the financial statements also refer to the impact of impairment.

12. and 13. Breakdown of write-downs between realised and unrealised amounts and impact on company's share prices

Not applicable.

14. Disclosure of risk of maximum loss associated with ongoing financial turmoil

Point 7.2 of the ARA (interest rate risk and stress tests) refers to these issues in general.

15. Disclosure of impact of spreads associated with institution's own liabilities on results

The notes to the financial statements give sufficient information considering the intended scope.

IV. LEVELS AND TYPES OF EXPOSURE DURING THE TURMOIL PERIOD

16. Nominal amounts (or amortised cost) and fair value of outstanding exposures

The notes to the financial statements break down the amounts into notional, balance sheet and fair value.

17. Information on credit protection (e.g. credit default swaps) and net exposures

The notes to the financial statements provide information on credit protection for assets and liabilities at fair value through profit or loss.

18. Detailed disclosure of exposures

We consider that the information in point 7.2 and 7.3 of the ARA and notes to the financial statements answers this question.

19. Movement schedules in exposures between relevant reporting periods and the underlying reasons (sales, disposals, write-downs, etc)

The information in the notes to the financial statements answers this question.

20. Discussion of exposures that have not been consolidated (or that have been recognised in the course of the crisis) and the related reasons

The section on securitisation of assets in Point 7.3 of the ARA and the notes to the financial statements describes in detail the different securitisation operations and their vehicles, i.e. special purpose vehicles (SPVs).

21. Exposure to monoline insurers and quality of insured assets

Not applicable .

V. ACCOUNTING POLICIES AND VALUATION ISSUES

22., 23., 24. and 25. Classification of transactions and structured products for accounting purposes, consolidation of special purpose vehicles (SPVs), detailed disclosure of fair values of financial instruments and disclosure of the modelling techniques used to value financial instruments

The notes to the financial statements include detailed information on these issues.

VI. OTHER DISCLOSURE ASPECTS

26. Description of disclosure policies and of the principles that are used for disclosures and financial reporting

One of the goals of Montepio's internal control system is to ensure compliance with prudential standards, the reliability of information and reporting deadlines to different authorities.

It has been the practice at Montepio to concentrate the responsibility for reporting information to the authorities in the units specialised in the matters in question, taking account of their functions and activities. Whenever possible, advanced technological support tools are used to minimise errors and omissions and ensure highly reliable, timely information.

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