Caixa Económica Montepio Geral

REPORT AND ACCOUNTS

FIRST HALF 2010

CONTENTS

I – REPORT

1. Summary of Results

Summary of Montepio's banking business in the first half of 2010:

- **Consolidated Net Profit rose to 30.6 million euros, a year-on-year change of +4.7%;**

- **Consolidated Net Assets recorded a year-on-year change of +2.3%;**

- **Deposits grew by 3.4% overall, while retail deposits (Private Customer and Small Business deposits) were up by +9.5%.** Disintermediation Resources (investment funds and capitalisation products) increased by 4.0%;

- Total **Customer Credit recorded a year-on-year change of -1.0%, but in keeping with the strategic goals that call for diversification into the Small and Medium-size Enterprises (SME). SME Credit**, in particular Investment Credit, recorded a **growth of 21.1%**. At the same time Credit granted to the Small Business segment increased by 8.5%. Special mention must be made of the growth in specialist credit **leasing (+32.9%), renting (+80.2%) and factoring (+58.4%)**;

- The Customer Resources / Customer Credit ratio improved by 3.5 p.p., to 146.5%;

- The Broad Liquidity ratio (cash and deposits + available eligible assets / Financial Liabilities) went from 3.93% in June 2009 to 8.19% in the first half of this year, an improvement of 4.26 p.p.;

- There are now 327 branches in Portugal, a year-on-year rise of two, while the number of employees remained unchanged at 2942, the same number as at the year-end;

- **The Solvency Ratio stood at 12.6%** up 0.4 p.p. as regards June 2009. The Tier 1 Ratio was 8.9% (8.7% in June 2009), thus exceeding the minimum ratio recommended by the Bank of Portugal (8%).

Summary of Montepio's mutual business in the first half of 2010:

- Associação Mutualista now has over 453,000 Members (a year-on-year change of +3.6%);

- Mutual scheme funds under management totalled 2,362.3 million euros and were up 7.3%, in year-on-year terms. Retirement Savings recorded year-on-year growth of 19.5%.

2. Main Indicators

(thousand euros)

INDICATORS	Dec 09	Jun 09	Jun 10	YoY
1. SIZE				
Net Assets	17.244.767	17.266.354	17.668.715	2,33%
Equity (Capital, Reserves and Profits)	986.214	936.995	977.274	4,30%
Employees - Staff in Portugal (Units)	2.942	2.933	2.942	9
Branches and Representative Offices (Units)	332	331	333	2
Branches (units)	326	325	327	2
Representative Offices (Units)	6	6	6	0
2. PROFITABILITY				
Net Profit	44.476	29.227	30.596	4,68%
Banking Revenue	449.025	238.482	214.796	-9,93%
Banking Revenue/Average Net Assets	2,63%	2,80%	2,46%	-0,34p.p,
Net Profit/Average Net Assets (ROA)	0,26%	0,34%	0,35%	0,01p.p,
Net Profit/Average Net Equity (ROE)	4,72%	6,60%	6,27%	-0,33p.p,
3. CREDIT RISK				
Ratio of Credit Due over 90 days	3,36%	3,13%	3,43%	0,30p.p,
Ratio of Credit in default	3,97%	3,94%	4,04%	0,10p.p,
Ratio of Credit in default net of provisions	1,64%	1,89%	1,68%	-0,21p.p,
4. PRUDENTIAL RATIOS				
Solvency Ratio	13,04%	12,20%	12,60%	0,40p.p,
Adequacy of Base Equity Ratio (Tier I)	9,31%	8,70%	8,89%	0,19p.p,
Net Fixed Assets Ratio (Fixed Assets/Equity)	11,92%	10,96%	12,06%	1,10p.p,
Total Credit Provisions/Credit and Interest Due + 3 months	97,20%	97,41%	96,61%	-0,80p.p,
Pension Fund Value/Total Past Liabilities	88,60%	84,62%	87,04%	2,42p.p,
Pension Fund Value/Minimum Liabilities	100,15%	98,40%	96,77%	-1,63p.p,
5. EFFICIENCY				
Running Costs/Average Net Assets	1,45%	1,34%	1,30%	-0,04p.p,
Running Costs + Depreciation/Banking Income (cost-to-income)	55,02%	51,08%	57,40%	6,32p.p,
Total Staff in Portugal/Branches (units)	9,02	9,02	9,00	-0,02
Staff Costs/Banking Revenue	32,82%	31,44%	34,54%	3,10p.p,

3. Business Framework

Macroeconomic Framework

The macroeconomic framework in the first half of 2010 was marked by signs of global economic recovery that began in the second half of 2009, and revived international trade. Although economic growth in the first quarter of 2010 took place at different rates, even amongst the developed economies (such as the strong growth recorded in the USA and Japan, in contrast to the slender growth in Europe), overall growth was higher than expected. Nonetheless, the renewed turbulence in the financial markets, stemming from the sovereign debt crisis in various Eurozone countries, brought some uncertainty as to the economic recovery worldwide. However, while the contagious effects for the real economy are so far unclear, there was a visible slowdown in the growth rate in most economies in the second half of the second quarter of 2010. These effects may not yet been felt in the Gross National Product (GDP) figures for that quarter, due to the favourable base trends.

In the **USA**, during the annual review undertaken at the end of July, the American accounts were revised, with GDP revised downwards in all quarters and annual growth rates for 2007-2009 were lowered by an average of 0.3 p.p.. The contraction seen in 2009 went from -2.4% to -2.6%. Therefore the recession was deeper than previously estimated, especially because private consumption has grown more slowly, leading to a rise in the savings rate and showing the American consumers' reverse leverage. In the 1st quarter of 2010 GDP recorded an annualised quarterly growth of 3.7%, before slowing to 2.4% in the 2nd quarter of 2010. Private consumption fell by 1.2% in 2009, the largest drop since 1942. Its recovery continues to be constrained by the poor labour market, where despite the unemployment rate at the end of the first half of the year standing 0.5 p.p. below that recorded in December 2009, the 800,000 jobs created over the six months point to a slow job creation rate and around 7.5 million new jobs are needed to return to the employment rate of December 2007. The credit market was again restrained as the banking system continued to employ tight credit granting criteria, a situation that led to a downward trend in consumer credit, falling to the lowest level since March 2007. In terms of prices, year-on-year inflation, which was 2.7% in December, changed direction and fell to 1.0% in June. That reflected the slower rise in energy prices. In addition, there was also a slowdown in core inflation (i.e., excluding food and energy) which went from 1.8% to 0.9% over the same period, the lowest for over 40 years. This demonstrated there is no inflationary pressure except from commodity prices, despite the significant downturn seen in the meantime. In fact, in the case of Brent future contracts, the year-on-year growth in prices went from 75% in December 2009 to 9% in June 2010, while the increase in the Reuters/Jefferies CRB composite index (consisting of 19 raw materials) fell from 25% to just 1% over the same period.

Following the sharp contraction in GDP recorded in 2009 (-4.1%), the **Eurozone** experienced its best half-year since the first half of 2007. Nonetheless, economic activity did not achieve pre-crisis levels, and remained 3.6% below the level recorded at the onset of the technical recession (2nd half of 2008). Thus, in the 1st quarter of 2010 GDP recorded a quarterly growth of just 0.2%, due in part to the abnormally harsh winter that affected most of the region. This became clear in the 2nd quarter of 2010, when the economy recorded a considerably higher growth of 1.0% (+1.7%, in year-on-year terms), making it the first quarter in which the Eurozone GDP quarterly growth exceeded the USA's since the economy came out of the technical recession in the 3rd quarter of 2009 (+4.0% *v* +2.4%, in annualised terms). The unemployment rate worsened from 9.8% in December 2009 to 10.0% in June - the highest level since August 1998 - as a result of the sharp drop in business felt in 2009 and the typical lag between changes in GDP and changes in the labour market. In terms of prices, the year-on-year inflation rate rose from 0.9% in December to 1.4%, while the core component went in the opposite direction from 1.1% down to 0.9%, and as in the USA, there was no inflationary pressure except from commodity prices, in particular in the context of an economic recovery that is likely to continue to be moderate and irregular and in a climate of great uncertainty as to the impact of the austerity measures taken by some Member-States following the recent sovereign debt crisis.

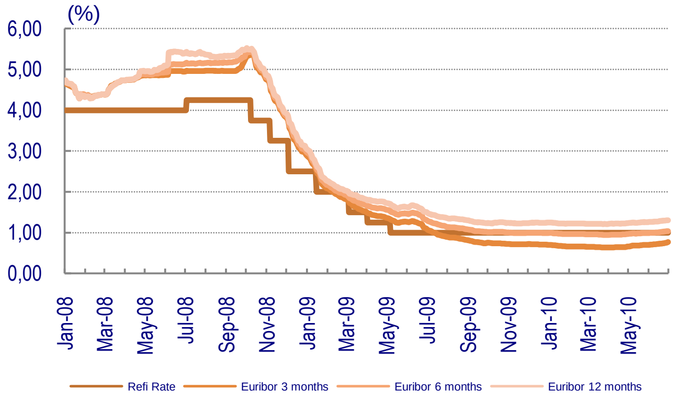
In **Portugal**, GDP shrank by 2.7% in 2009, although during the first half of 2010 it performed more favourably than the Eurozone average. In fact in the 1st quarter of 2010 GDP recorded successive growth of 1.1% and the year-on-year change stood at 1.8%. The Portuguese economy saw the second highest quarterly growth among Eurozone Member States. The National Institute of Statistics' (INE) quick estimate for the 2nd quarter of 2010 suggests a quarterly expansion of 0.2% (+1.4% in year-on-year terms), well below that of the previous quarter, but nonetheless a welcome boost, given the second half of the year is expected to be more complicated. Our central scenario indicates the economy will record relatively weak growth in the last two quarters of the year, particularly in the 3rd quarter of 2010 which will feel the impact of the tax rises announced by the Government. In regard to the labour market, employment indicators continued to weaken. According to Eurostat seasonally adjusted forecasts, unemployment rose from 10.2% in December 2009 to 10.8% at the end of June. As regards prices, following the negative figure (-0.1%) recorded for year-on-year inflation (measured by the CPI) in December 2009, this year began with positive values and at the end of the 1st half of 2010 the figure was 1.2%, although core inflation was just 0.2%, suggesting, as in the Eurozone, an absence of any inflationary pressure except from commodity prices.

In its most recent economic forecasts, published in the Summer Economic Bulletin, the Bank of Portugal (BoP) expects limited growth and a strong slowdown in business over the period concerned (2010-2011). Following the growth seen in the first half of the year, the Bank has raised its GDP growth forecast for the year (from +0.4% to +0.9%), but lowered the figure for next year (from +0.8% to +0.2%). According to the BoP, growth forecasts are conditioned by the nature (both in terms of magnitude and speed) of the inevitable adjustment process that the Portuguese economy will undergo over the next few years. In light of an increased sovereign debt risk differentiation worldwide, the need to correct current national macroeconomic imbalances has became urgent. Over the next few years changes in the Portuguese economy will be largely determined by a combination of the required budgetary consolidation and private sector reverse leverage. According to the BoP, the revised higher estimate for GDP growth in 2010 stems essentially from the data relating to the 1st half of 2010 which showed higher than expected growth, as well as the (upward) revision of Portuguese companies' prospects for overseas demand, with a knock-on effect for projected exports. On the other hand the lowered estimate for GDP growth in 2011 can be extended to the components of demand generally, with the single exception of exports. In its analysis by sectors the BoP expects Portuguese economic growth in 2010 and 2011 to be mainly based around manufacturing industry and export-related services within the scope of a progressive recovery in the world economy. Business in the building sector and services more related to domestic consumption will be constrained by the drop in domestic demand. Despite the lowering of interbank monetary market interest rate forecasts, the new BoP estimates include continued poor labour market conditions and a downward revising of disposable income, as well as stricter credit terms for private savings. After the rise in the rate of savings seen in 2009, the significant increase in consumer goods, especially durable goods, recorded in the first half of the year, implies a reduction in the rate of savings over the same period, and the trend is likely to continue in the second half, especially as a result of the drop in private disposable income following the tax changes. Besides, the saving indices compiled by the INE from its monthly consumer survey also point to a fall in families' current saving capacity in June, as compared to the end of 2009, and the prospects for consumer saving for the next 12 months also suggest the situation will worsen despite the slight increase seen in this indicator in July. In fact, both the OECD and the European Commission predict a fall in personal savings, both this year and in 2011. As regards credit granting, the latest banking survey on the credit market undertaken in July, showed that credit criteria were stricter in the 2nd quarter of 2010, and even stricter criteria are likely to be adopted in the current quarter, especially in the corporate sector. In fact, from December 2009 to May 2010, there was a fall in year-on-year growth in loans granted to the non-financial private sector (from +2.1% to +1.8%), resulting from the marked slowdown in loans to non-financial companies (from +1.9% to +0.2%). On the other hand loans to private individuals were up (from +2.3% to +3.0%), reflecting positive behaviour in both housing and consumer credit, although in historic terms the growth was very low. Forecasts for the 3rd quarter of 2010 are not very favourable because in addition to the aforementioned tightening of credit granting criteria, demand is also expected to remain low, and may even fall in the private segment judging by the results of the latest Portuguese banking survey.

Money Market

The main Interbank Money Market (IMM) rates, on both sides of the Atlantic, recorded a series of movements over the six months. Initially the stabilisation process that began in March 2009 continued, in line with Monetary Policy prospects, as the Federal Reserve (Fed) held the Fed Funds rate at the minimum rate (from 0.00% to 0.25%) and the ECB kept the Eurozone key interest rate (Refi Rate) at 1.0%, the lowest ever level. However, from March onwards, there was an upward move in rates, mainly because the credit risk in the market increased, following the sovereign debt crisis in peripheral Eurozone countries, where many banks are highly exposed to that debt. Therefore, some European banks had difficulty in raising finance on the IMM, which meant they resorted more often to the ECB and since those difficulties were greater in regard to finance in dollars, the Libor rate rose more than the Euribor rate. From the middle of May, following the setting up of the Finance Stabilisation Mechanism (FSM), to the amount of 750,000 million euros, and the announcing by the ECB of various measures to stabilise the dysfunctional markets, the Libor rates stabilised. In turn the Euribor rates continued to rise, reflecting the maturing of longer-term liquidity operations undertaken earlier by the ECB, which led to a drop in excess liquidity within the system and impacted on overnight rates (EONIA) and on expectations (i.e., on swaps). Thus, looking at the six months as a whole, IMM rates rose on both sides of the Atlantic, reflecting the increase in credit risk, although the change was much lower in the Eurozone. In fact, in the USA, where there was a sharp drop in interbank risk to pre-subprime crisis levels, risk rose again, to levels similar to those of the Eurozone and those seen a year earlier in the USA due to the instability caused by the sovereign debt crisis. Thus, the 3-month and 6-month Euribor rates rose by 7 and 5 basis points (b.p.) respectively, with the latter standing at 1.04% at the end of June. The Libor dollar rates saw sharper increases with the 3-month rate up 28 b.p. to 0.53%. Nonetheless, in both cases, rates remain historically low.

Trend in Euribor Interest Rates - Eurozone

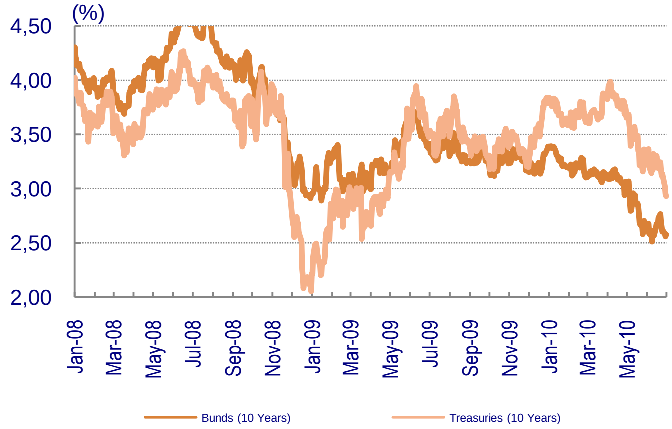


Fonte: *Thomson Reuters.*

Bond Market

During the period under review the **Public Debt Market** was also marked by the sovereign debt crisis that led to sharp declines in reference bond yields, whereas German debt spreads for peripheral Eurozone countries rose significantly, especially in Greece. In point of fact, this trend was taken up only gradually in the 1st quarter of 2010. However, market pressure on peripheral debt grew in the second quarter, despite European leaders commitment to take measures "to safeguard financial stability in the region" if required. The climb in peripheral bond yields was triggered by Greece's need to resort to external support, and later by *S&P*'s decision to lower the Greek, Portuguese and Spanish debt ratings. Accordingly, it was feared that the European institutions would be unable to overcome potential problems. The climb was contained in early May when the European authorities took peremptory action for creating the aforementioned FSM and the ECB intervened in "dysfunctional" markets by purchasing Public Debt. While these measures did in fact act to correct a large portion of the enormous leap in spreads, the latter continued to rise and ended the period around the peak recorded before the European authorities acted. In fact, Public Debt of peripheral countries continued to be impaired by the persisting uncertainty in the market, as well as by austerity measures that each Member State was forced to take and which the markets feared could put the economic growth of those countries at risk in the coming years. At the same time, reference debt – German *Bunds* and US *Treasuries* – was seen by investors as a better asset haven, which meant the yields fell considerably over the period. These falls reflected a lowering of expectations as to the timing of key interest rate rises on both sides of the Atlantic. Thus, the yield on 2-year *Bunds* fell 73 b.p. in the 1st half of 2010 to 0.60%, while 10-year *Bunds* fell 81 b.p. to 2.58%, reaching all-time lows. In the USA, the yield on 2-year *Treasuries* dropped 53 b.p. to 0.60%, while that on 10-year *Treasuries* was down 91 b.p. to 2.93%. In the case of the debt of peripheral countries, the spreads on Portuguese debt in regard to 10-year Bunds rose by 244 b.p. to 312 b.p., those of Spanish debt went up 139 b.p. to 198 b.p., while Greek debt increased 546 b.p. to 785 b.p. (however, in the cases of Portugal and Greece, the figures were below the peaks reached during the half-year, which were the highest since they adhered to the euro).

Trend in return on Public Debt instruments (10 years Bunds and Treasuries)



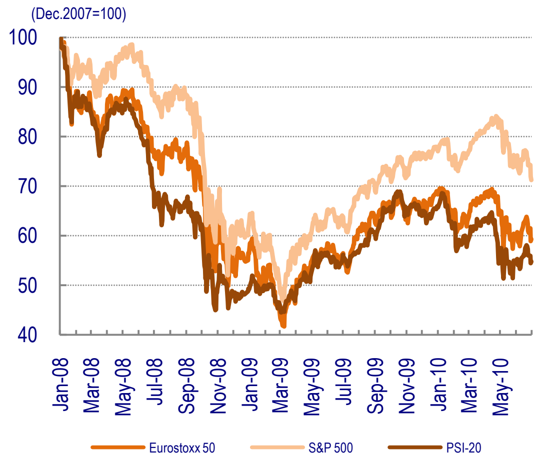
Fonte: *Thomson Reuters.*

Like the Money Market, the **Private Debt Market** was impacted by investors' fears as to the solvency of the peripheral Eurozone countries, and culminated in a significant widening of credit spreads in regard to Public Debt which moved still further away from its historic average. As in the case of the Public Debt of peripheral countries, while the peak was reached before the relief brought by the creation of the FSM, the spreads again rose. Thus, taking as a benchmark the Itraxx (5-year) index, the Eurozone reference index for Credit Default Swaps (CDS), it went from 74 b.p. at the end of 2009 to 129 b.p. at the end of the 1st half of 2010, reaching its highest level since May 2009. This broadening of the spreads is prejudicial to economic recovery, since it brings about an increase in the direct cost of corporate financing.

Share Market

During the first half of the year, the share markets oscillated essentially for two basic interrelated reasons – the sovereign debt crisis and the change in the world economy – which led to devaluation as compared to December 2009. First of all, the markets suffered, on the one hand, from the US Government's decision to take measures to restrict proprietary trading by banks and, on the other hand, from the markets – and financial rating agencies – recognition of the public finance position of the peripheral Eurozone countries. Then during a second stage, despite the sovereign debt crisis continuing to cast a shadow over the stock markets, they returned to their December 2009 values. A contributing factor to this recovery was the positive macroeconomic data – especially from the USA (in particular the labour market) – and the moves made by the European leaders to aid Greece, firstly by committing themselves to take measures "to safeguard financial stability in the region" and, secondly by reaching an agreement to aid Greece together with the IMF. Nonetheless, from the end of April, a strong downward trend began, as investors became very wary of the progress of the sovereign debt crisis and felt the measures taken by the European authorities were insufficient. This feeling was strengthened, firstly by Greek's need to resort to outside help and later by the S&P rating downgrades. In response the European authorities set up the FSM and the ECB decided to purchase Public Debt from those countries. Although the European authorities' intervention staunched the decline in stock market indices, they continued to lose ground up to the end of June. That was due to the fact that in return for creating the FSM the countries agreed to adopt austerity measures and the markets began to fear that they would put a brake on the world economy's recovery. Moreover US economic figures began to show signs of a slowdown, reflecting the less favourable financial conditions and the rise in the Dollar, whose value grew significantly with the European crisis. Thus, in the USA, the Dow Jones index fell 6.27%, the S&P 500 7.57% and the NASDAQ 7.05% in the 1st half of 2010. In Europe the sovereign debt crisis was, naturally, more damaging with the Eurostoxx 50 dropping 13.21%, and more so in the case of the peripheral countries, where the FTSE MIB fell 16.93%, the Ibex 22.42% and the PSI-20 16.52%. The DAX index even rose 0.14%, as Germany became a haven, while outside of the Eurozone the FTSE-100 index recorded a fall of 9.16%.

Trend in main Share Market Index

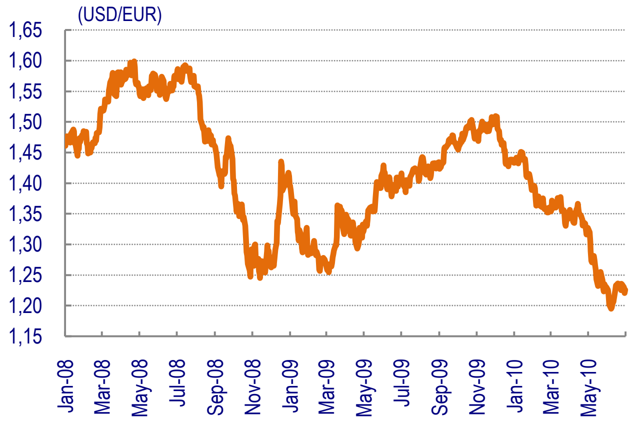


Source: *Thomson Reuters.*

Exchange Market

Having appreciated against the dollar throughout most of 2009, the euro continued on the downward trend that began in December of last year over the 1st half of 2010 (except in the final month). The single currency suffered not from the differences in Monetary Policy but essentially from two other factors: on the one hand, the macroeconomic data for the world's largest economy were positive throughout most of the first half of the year,

Trend in EUR/USD exchange rate



Source: *Thomson Reuters.*

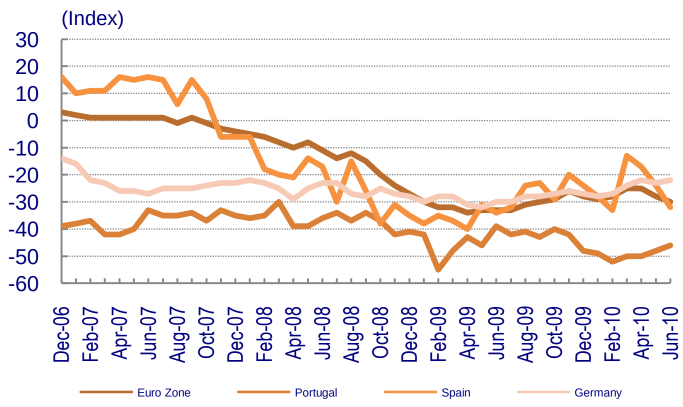
signalling a faster recovery than that experienced by the Eurozone, and on the other hand, the sovereign debt crisis in the Eurozone did not only lead to the devaluation of the single currency but it also, in the opinion of the markets, brought into doubt its long-term viability, something which naturally had a heavy bear on the euro. Near the end of the half-year the euro managed to recover some ground as the US macroeconomic data began to sketch out a possible slowdown which led investors to lower expectations in regard to the timing of the first interest rate rises to be announced by the Fed. In any case, over the 1st half of 2010 the euro fell 14.47% against the dollar, ending the period at 1.226 dollars. The sovereign debt crisis meant that the single currency also lost value against the pound (-7.70%) and in particular the yen (-18.67%)

Real Estate Market

Following the pattern seen in 2009, the first half of the year recorded further signs of stabilisation in the real estate market, in particularly the housing segment and in the economies that had been hardest hit by the subprime crisis in the middle of 2007. In the USA (the epicentre of the said crisis) uncertainty as to the markets' ability to resist without State support increased. In other cases (e.g. in the UK, another of the worst affected countries), the improvement seen in property prices in recent months was not backed up by strong underlying macroeconomic factors and therefore, there was a certain readjustment in the second half of the year.

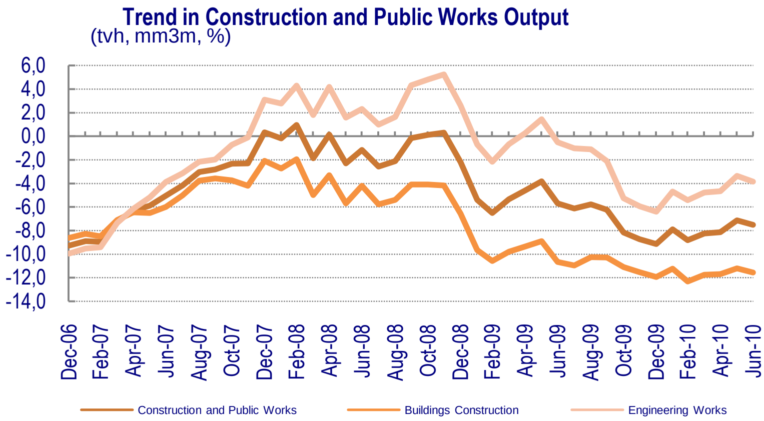
Within the **Eurozone** the construction industry continued to feel greater pressure and was the only main sector to see its Gross Added Value (GAV) shrink in the 1st quarter of 2010 by 2.3% (-6.2% in year-on-year terms). This was the 8th consecutive quarter to record a contraction and at the same time it was the quarter that saw the greatest decline. It was marked by the severe winter felt in most countries that meant work on new jobs was delayed or work-in-progress suspended. In the 2nd quarter of 2010, monthly figures on construction output continued to show a decline in business, albeit slight. As a result of the sharp rise in output in March – stemming from the improved weather – business increased in the 2nd quarter of 2010 as compared to the 1st quarter, suggesting quarterly growth in construction output (although the figures for June are yet to be published). However, the difficulties that the sector (the housing segment in particular) continues to feel are clear from the change in the confidence indicators, as calculated by the European Commission (EC). Despite taking into account the minor improvements seen in some Eurozone countries in the first half of the year (e.g. in Germany and Portugal), these indicators continued to show, on average, a worsening situation in Eurozone countries, which proved to be even more unfavourable in the 2nd quarter of 2010 (Spain, Italy and Greece were the countries that suffered most).

Construction Confidence Indicator - Euro Zone



Fonte: European Commission

In **Portugal**, the aforementioned increase in confidence in the first half of the year had some corresponding effect on business with the latest figures for GAV in the construction sector showing a quarterly growth of 2.1%, which is the first expansion since the 4th quarter of 2007 (-5.0% in the 4th quarter of 2009). Nonetheless, in year-on-year terms the change was clearly negative (-5.0%). The latest construction and public works output figures, covering the 2nd quarter of 2010, also show some improvement, especially in the engineering segment, although business remained very low and negative in year-on-year terms, particularly as regards the construction of buildings – these includes the housing segment that was hardly hit by the current economic and financial crisis. However, given the current budgetary consolidation and austerity measures announced by the Portuguese Government, the sector can be expected to lose the impetus, especially the engineering segment, since a number of public works have been cancelled or postponed. The July figures for construction confidence published by the EC quite probably reflect this scenario, as they show a slight deterioration in the situation and the prospects for trade over the next three months, published by the INE on a quarterly basis , worsened in the third quarter of 2010 after the improvement seen in the 2nd quarter.



4. Main Developments in Montepio Group's Business

Caixa Económica Montepio Geral (known by the brand name Montepio) is a credit institution, equivalent to a bank under the current regulations, but different to other banks due to its legal status and goals. Founded by Montepio Geral Associação Mutualista in 1844, Caixa Económica was set up as an attached institution, a status that it has retained until today. It is the oldest credit association currently operating in Portugal.

Caixa Económica's goal is to contribute to mutual purposes by placing its profits, net of compulsory deductions, at the disposal of the Associação Mutualista, which bestows upon it a special and unique status within the financial system. The Associação Mutualista seeks to provide social protection in the social security and health fields, as well as promote culture and quality of life among its members. It complies with the principles of solidarity and is the largest institution of its kind in Portugal and one of the most important in Europe.

In addition to Caixa Económica, a number of institutions make up the Montepio Group, of which five are deemed strategic and are incorporated in the business lines that make up the services offered to Members and Customers. These institutions are, in the insurance sector, two insurance companies — Lusitania Companhia de Seguros and Lusitania Vida, an asset management company — Montepio Gestão de Activos, a Pension Fund Manager — Futuro-SGFP, SA, and a supplier of healthcare and well-being services — Residências Montepio – Serviços de Saúde, SA.

As with Caixa Económica, the strategic aim of these companies is also to create value and meet the Group's mutual purposes, ensuring their business complements the overall range of products and services and meet the financial and healthcare needs of over 453 000 Members and 1.2 million Customers.

Caixa Económica plays a central role in the Montepio Group due not only to the size of its balance sheet but also the size of its distribution network and its commercial, technological, operational and management capabilities, which make it the Associação Mutualista's main asset and the key to the Group's development.

Mutualist Activities and Banking

In the first half of the year Montepio pursued its Strategic Plan for 2009-2011, duly revised and updated in the final quarter of 2009, the major amendments and guidelines having been announced at the Group's annual meeting in January.

The Associação Mutualista retains its strategy of growth, greater ability to meet its Members needs and an active role in promoting of the advance of mutual values and the Social Economy in Portugal. The number of Members recorded a year-on-year change of +3.6% to total 453 203. The number of mutual products acquired rose by 4.9%, while the number of products per Member was up by 2.1%, reflecting the greater loyalty towards and attractiveness of mutual schemes.

Savings deposited by Members (Association Revenue) grew significantly by 9.4%, which shows the products and services provided by the Associação Mutualista meet society's needs at this particularly difficult time.

Associação Mutualista's Net Assets grew by 8.1% to 2 705 million euros. Equity, consisting of Capital, Technical Surpluses, Reserves and Net Profit, rose to 407 million euros (an increase of 10.3%).

Associação Mutualista's Net Profit was up 7.2%, in the first half of 2010, totalling 38.3 million euros.

The main focus of Associação Mutualista's management policy has been to retain appropriate levels of soundness, as shown by the stability of its liabilities cover ratio (the sum of capital, reserves and mathematical provisions divided by the sum of risk provisions and charges), which remained at the December 2009 level of 1.161.

In the case of Caixa Económica, the main Strategic Guidelines for the half-year focused on:

- the Recovery of Interest Due and Tight Credit Risk Management;
- the reinforcing of its role as a small and medium-size savings institution;
- the diversifying of its credit portfolio to include the SME and Small Business segments;
- the emphasizing of the distinctive Mutual approach and the reinforcing of its position in the Social Economy.

Bearing in mind these guidelines, performance in the first half of the year was aimed at minimising the impact of the adverse business climate, seeking to ensure appropriate levels of soundness, liquidity and profitability, and enhancing the sustainability of value creation for its Members.

Fundação Montepio and Social Responsibility

The Montepio Group has increased its activities in the field of Social Responsibility, through the Fundação Montepio, the means by which the Group conducts its social support projects and initiatives and promotes the growth of the social economy, in line with the established strategic guidelines.

The Fundação Montepio's activities are aimed at the most vulnerable sectors of society and set out to achieve social inclusion and cohesion, and are of particular importance within an especially harsh socioeconomic framework.

In the European Year for Combating Poverty and Social Exclusion, Montepio joined the European Anti-Poverty Network/ /Portugal – REAPN and signed an agreement to provide microcredit to fight against social exclusion and stimulate enterprise in the Braga and Porto regions. In addition it drew up a Financial Education Program which holds that education and training play a key role in preventing social exclusion.

For the third consecutive year the Solidarity Fleet Project donated vehicles (16) to social institutions, employing tax deposit funds. In June this project was awarded the Socialgest "Social Work 2010" prize in the category "Corporate Social Responsibility", and was named the most important national social welfare project.

In order to promote the social economy and the third sector and to strengthen its role in society, Montepio also sponsored seminars and conferences, in partnership with other bodies and the press.

The first half of the year was also marked by the undertaking of a number of volunteer projects, under the Corporate Volunteer Program that Montepio has run since 2006.

Insurance

In the first half of the year non-life insurance business reflected the incorporation into Lusitania's business of the portfolios of the two companies taken over at the end of 2009 - Real Insurance and Mutuamar. According to Portuguese Insurers Association figures, the Montepio Group's presence in the market increased from a share of 3.2%, in June 2009 to 5.8% in June 2010. Lusitania now runs a distribution network with over 4700 partners, made of brokers and agents. The incorporation of the insurance companies led to important efficiency gains, with costs by nature falling as a percentage of premiums issued from 20.9%, in June 2009 to 16.9% in June 2010. However over these six months the positive effects were insufficient to offset the negative impact of the adjustments made to Lusitania's accounts to ensure the quality and sustainability of its investment and business portfolios. The results also reflect the increase in the number of claims linked to the natural disasters that hit the country during this period. Bearing in mind the work undertaken in the first half of the year, profits are expected to improve up to the end of the current year.

In the assurance field, the Montepio Group is represented by Lusitania Vida, a company that provides welfare and savings products which complement both the Mutual Products and Lusitania's insurance policies, through the sale of mixed products that generate significant revenue. In the first half of 2010, there was a notable year-on-year growth in profits (+42.8%), which totalled 2.7 million euros at the end of the period.

Consolidation Scope and Impact

This report relates to the individual and consolidated accounts of Caixa Económica which, pursuant to the law and as explained in the Notes to the Accounts, covers the fully owned subsidiary, Banco Montepio Geral Cabo Verde - Instituição Financeira Internacional, SA, and the associated companies where it has a significant influence. That is the case with Lusitania, Companhia de Seguros, S.A., Lusitania Vida, Companhia de Seguros, SA., and HTA - Hotéis, Turismo e Animação dos Açores, SA.

The consolidation also includes the Credit Securitisation Instruments Pelican Mortgages nº 1 and nº 2 (Special Purpose Entities/Vehicles — SPE/SPV).

5. Distribution Channels and Human Resources

Distribution Channels

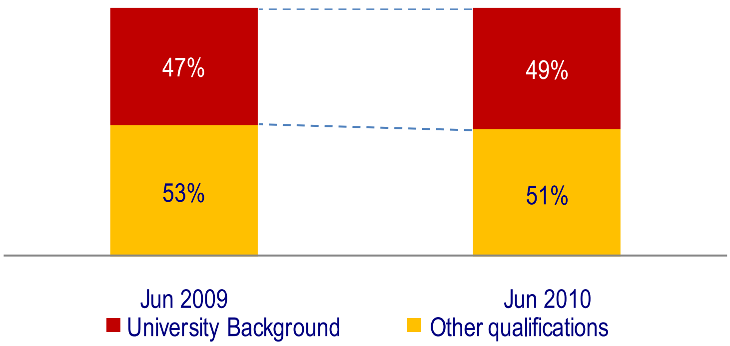
At the end of June 2010, Montepio's physical distribution network consisted of 327 branches serving the entire country, 6 representative offices overseas in countries with large Portuguese communities and an International Financial Institution in Cape Verde. In addition Montepio works with 113 partners under the Montepio-Lusitania *Assurfinance* project.

The remote channels have played a fundamental role in improving distribution efficiency and providing customer services. Some 72% of operations shifted to the complementary channels, measured in terms of total operations handled. Montepio consolidated its business in the self-service and electronic payment fields, as the number of its machines among the national ATM network remained at 6%, and are backed up by its own *Chave24* network. Montepio's website (www.montepio.pt) continues to see a rise in the number of hits, recording monthly averages of 2 million visitors and 27 million pages visited. The *Montepio24 Particulares* service for private customers that includes the *Net24, Phone24, Netmóvel24* and *SMS24* services, had a significant growth when 20 000 customers signed up for the service in the first half of 2010, bringing total membership to 546 000. On its turn, the *Montepio24 Empresas* service for corporate customers already has over 47 000 members. Over the same period the number of POS terminals in service rose by 5.4% as compared to December 2009, and played a major role in attracting and retaining Customers in the Small Businesses segment.

Human Resources

At the end of the first half of the year Caixa Económica had 2 942 employees, a year-on-year increase of 9. Around 75% of its staff works on the commercial network. Human Resources policy is based not only on resource optimisation and a rigorous recruitment and selection process, but also on improving its workforce's qualifications and skills. At the end of June the number of staff holding degrees had again increased.

Staff Qualifications



However, as well as increasing the level of its employees' education, Montepio also invested in their vocational skills, by devising training programs aimed at the institution's strategic needs in terms of knowledge and know-how. With this in mind over 42 000 hours of training were provided to 2 200 employees who took up 4 829 places on the courses. Various e-learning and b-learning techniques that combine online and in person training were used to produce a more effective and efficient learning process.

Some of the more important courses were run in the fields of:

- **Credit**: “Specialist Credit”; “Credit Risk and Economic and Financial Analysis”; “Credit Profitability”; “Credit Instruments Law”; “Banking Contracts and Credit”; “Small Businesses Scoring” and “Economic and Financial Diagnosis of Companies”;
- **Customer Relationship Management**: “Financial Advice to Private and Corporate Customers”; “Quality Customer Relations”;
- **Mutual Movement**: “Foundations of Mutual Movement”.

6. Business by sectors

In the period under review, Customer Resources on the Balance Sheet rose by 130.9 million euros, which accounts for a year-on-year growth of 1.3%. Of particular note was the year-on-year change of +3.4%, (310.5 million euros) in deposits, that continued to lead the growth in resources and confirmed Montepio’s position as a savings institution.

In terms of credit business, note should be made of the 21.1% increase in credit granted to other companies, which contrasts strongly with the year-on-year decline of 20.5 % in construction credit. This change reflects the diversification policy pursued.

thousand euros

	Dec 09	Jun 09	Jun 10	Change	
	Value	Value	Value	Value	%
Total Customer Credit	**15.143.916**	**15.165.862**	**15.012.227**	**-153.635**	**-1,0**
Total Customer Resources	**10.103.894**	**10.137.990**	**10.268.888**	**130.898**	**1,3**

6.1. Private and Small Business Banking

In the first half of 2010, Montepio continued its strategy of attracting savings, in particular retail savings. The range of savings products on offer included mainly low risk financial investments, in the form of time deposits, usually medium-term deposits (three years). In order to diversify four and five-year deposits were made available, namely: “*Montepio Crescimento Garantido 2010*” and “*Montepio Super Poupança 2010*”. Shorter term products intended to increase cross-selling were launched, such as the time deposits “*Montepio Poupança Solução Consigo*” and “*Montepio Poupança Solução Valor*”, linked to Global Solutions and “*Montepio Poupança Vitalidade*”. Opportunities to acquire new resources increased with the launch of two more differentiated return products: “*Montepio Depósito Especial Um Ano*” and “*Montepio Depósito Especial 15 Meses*”.

Given that interest rates have remained at historic lows, the above products were complemented by a range of products that take advantage of market opportunities. Eight bond issues were conducted, six at a fixed rate and two at a variable rate. The variable rate issues were sold as a structured product with income indexed to the underlying financial assets.

The commercial networks' strategic guidelines plus the efficient management control exercised by the Commercial Departments led to encouraging results and saw total private customer deposits rise by 603.2 million euros, equal to year-on-year growth of 10.0%.

Personal loans recorded a year-on-year growth of 13.2%, ending the period at 436.3 million euros.

Also worthy of note is the increase in Small Businesses credit which was up 8.5% on June 2009. This outcome was partly the result of the improved relationships obtained by the increase in Business Managers.

(thousand euros)

	Dec 09	Jun 09	Jun 10	Change	
	Value	Value	Value	Value	%
Private Customer and Small Business Deposits	**7.354.980**	**6.987.009**	**7.650.937**	**663.928**	**9,5**
Pritav e customers	6.387.056	6.030.839	6.634.019	603.180	10,0
Traders and Liberal Professionals	50.915	50.261	50.099	-162	-0,3
Not-for-profit organisations	917.009	905.909	966.819	60.910	6,7
Corporate Deposits	**1.535.898**	**1.253.137**	**1.318.942**	**65.805**	**5,3**
Deposits from Other Segments	**285.063**	**778.584**	**359.363**	**-419.221**	**-53,8**
Instruments placed with Customers	**927.953**	**1.119.260**	**939.646**	**-179.614**	**-16,0**
TOTAL	**10.103.894**	**10.137.990**	**10.268.888**	**130.898**	**1,3**

During the first half of 2010 a number of promotional campaigns were run, including:

- Personal loans, Leasing and Renting, including credit campaigns for non-financial products, in particular car finance in partnership with a car make;
- "*Montepio Solução Consigo*", aimed at attracting Customers and strengthening Montepio's position as their main bank, is a financial package that brings together a series of day-to-day management products essential to Private Customers, plus additional benefits.

(thousand euros)

	Dec 09	Jun 09	Jun 10	Change	
	Value	Value	Value	Value	%
Private Customer and Small Business					
Total Credit granted	**10.255.559**	**10.287.052**	**10.260.070**	**-26.982**	**-0,3**
Private Customers	**9.987.967**	**10.031.145**	**9.982.472**	**-48.673**	**-0,5**
of which:					
Housing	8.642.963	8.709.467	8.623.587	-85.880	-1,0
Individual	414.539	385.404	436.308	50.904	13,2
Small Businesses	**267.592**	**255.907**	**277.598**	**21.691**	**8,5**
For memory:					
Guarantees	**18.820**	**19.214**	**18.743**	**-471**	**-2,5**

6.2. Corporate Banking

In keeping with the strategy defined for acquiring and retaining Customers, Montepio launched its Integrated Solutions for Companies which offer a combination of day-to-day management products and services for a single monthly fee. Solutions were devised for the various segments (Businesses, SME, Trade and Catering).

So as to continue its support for companies, Montepio undertook a number of activities including the signing of agreements with public bodies to provide credit lines supporting company finance, in particular small and medium-size enterprises (SMEs). Particular mention should be made of the SME Credit Line Invest IV and VI, the Agricultural and Stock-farming SME Credit Line, the Azores Companies Credit Line II and the Madeira Business Recovery Support Line.

Having pursued its Strategic Guidelines for the corporate sector, Montepio saw Investment Credit in the Other Companies segment rise by 295.5 million euros (a year-on-year change of 21.1%).

(thousand euros)

	Dec 09	Jun 09	Jun 10	Change	
	Value	Value	Value	Value	%
Companies					
Total Credit granted	**4.833.187**	**4.819.125**	**4.704.766**	**-114.359**	**-2,4**
of which:					
Construction	1.909.569	2.101.493	1.670.149	-431.344	-20,5
Investment	1.591.459	1.402.254	1.697.780	295.526	21,1
Credit and Interest Due Ratio	5,3%	5,0%	5,6%	0,6 p.p.	
For memory:					
Guarantees	360.185	386.891	340.032	-46.859	-12,1

Specialist credit continued to record high growth rates. The total increase was 101.5 million euros (+38.7%), mainly as a result of the 40.3 million euros (+34.8%) rise in real estate leasing. Factoring was up 32.6 million euros, +58,40%, in year-on-year terms.

(thousand euros)

	Dec 09	Jun 09	Jun 10	Change	
	Value	Value	Value	Value	%
Leasing	**247.958**	**203.882**	**270.964**	**67.082**	**32,9**
Auto	35.193	30.146	39.992	9.846	32,7
Equipment	72.852	57.936	74.829	16.893	29,2
Real Property	139.913	115.800	156.143	40.343	34,8
Ok Invoice - Factoring	**73.857**	**55.815**	**88.416**	**32.601**	**58,4**
Renting	**3.339**	**2.268**	**4.088**	**1.820**	**80,2**
TOTAL	**325.154**	**261.965**	**363.468**	**101.503**	**38,7**

6.3. Disintermediation Resources

Disintermediation Resources recorded a growth of 4.0% which was driven in the main by the performance of medium and long-- term products: mutual capitalisation products (8.2%) and capitalisation insurance (10.1%).

(thousand euros)

	Dec 09		Jun 09		Jun 10		Change	
	Value	%	Value	%	Value		Value	%
Stock Investment Funds	**479.087**	**16,3**	**364.398**	**13,2**	**332.404**	**11,5**	**-31.994**	**-8,8**
Treasury Funds	318.701	10,8	227.436	8,2	186.136	6,5	-41.300	-18,2
Bond Funds	6.707	0,2	5.003	0,2	6.236	0,2	1.233	24,6
Share Funds	78.396	2,7	62.839	2,3	69.025	2,4	6.186	9,8
Funds of Funds	75.283	2,6	69.120	2,5	71.007	2,4	1.887	2,7
Real Estate Funds	**271.607**	**9,2**	**301.671**	**10,9**	**269.541**	**9,4**	**-32.130**	**-10,7**
Open-end Pension Funds	**209.972**	**7,1**	**189.475**	**6,9**	**204.284**	**7,1**	**14.809**	**7,8**
Capitalisation Insurance	**225.367**	**7,7**	**213.466**	**7,7**	**234.977**	**8,2**	**21.511**	**10,1**
Capitalisation Mutual Schemes	**1.757.467**	**59,7**	**1.697.043**	**61,3**	**1.836.248**	**63,8**	**139.205**	**8,2**
TOTAL	**2.943.500**	**100,0**	**2.766.053**	**100,0**	**2.877.454**	**100,0**	**111.401**	**4,0**

Stock Investment Funds

At the end of June, assets under management totalled 332.4 million euros, a drop of 8.8% in year-on-year terms. This outcome was due to the change in the market and the demand for more conservative savings products.

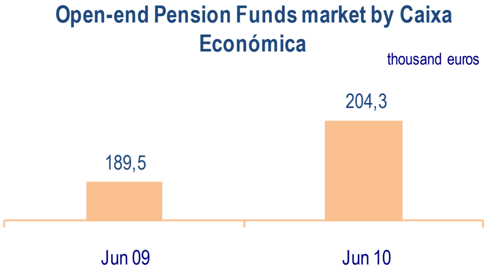
The Montepio Group's fund manager, Montepio Gestão de Activos, SGFI SA., was awarded the Diário Económico / Morning Star prize for the **Best National Investment Fund in the European shares category.**

Pension Funds

Open-end pension funds sold by Montepio are managed by the Group's pension fund manager, Futuro that sets out to complement the products marketed by the Associação Mutualista (which is specially geared towards low risk investments). Futuro's open-end pension funds consist of funds aimed at companies, while Retirement Savings Plan funds (RSP) and Shares Savings Plan (SPS) are aimed at private individuals.

The assets managed by the Pension Funds sold at Montepio branches totalled 204.3 million euros, which account for a year-on-year increase of 7.8%.

At the end of the first half of 2010, total pension fund assets managed by Futuro stood at 1 105.6 million euros, up 10.3%, while market share went from 5.0% to 5.4%.



6.4. Insurance

The life assurance products marketed by Lusitania Vida complement the risk products sold by the Associação Mutualista, thus broadening the Group's product range in this business area. At the end of the first half of 2010, premiums collected by the Montepio distribution network totalled 25.5 million euros, corresponding to a year-on-year growth of 6.8%.

As for the non-life insurance sold by Lusitania, Montepio's Customers also have a wide range of products at their disposal, in particular comprehensive house insurance, building, motor, health and volunteer insurance. A new product was launched in the first half of the year to increase the options: "*Montepio Sorriso Garantido*" - a dental insurance, with no capital limit nor age limits -that offers the services of 1300 dental clinics in Portugal and Spain. As in previous years, the promotional campaign relating to the first annuity for contents cover under comprehensive insurance *Montepio Edifício* was extended. This field has experienced a positive performance, as shown by the growth in premiums which reached 10.2 million euros at the end of June and accounted for a year-on-year growth of 6.0%.

(thousand euros)

	Dec 09		Jun 09		Jun 10		Change	
	Value	%	Value	%	Value	%	Value	%
Life	49.015	71,1	23.910	71,2	25.541	71,4	1.631	6,8
Non-life	19.896	28,9	9.662	28,8	10.237	28,6	575	6,0
TOTAL	**68.911**	**100,0**	**33.572**	**100,0**	**35.778**	**100,0**	**2.206**	**6,6**

6.5. Mutual Products

At the end of June, Associação Mutualista had over 453 000 Members (a change of 3.6% as compared to the previous year) who subscribe to and benefit from medium and long-term mutual savings schemes and social welfare products. Funds under management totalled 2 362.3 million euros, a year-on-year change of 7.3%. This change reflects the high rate of growth recorded in mutual products generally.

Among the capitalisation schemes, Retirement Capital and "*Montepio Capital Certo*" issues, continued to dominate demand for mutual schemes and accounted for 77.7% of the total. Also worthy of note is the performance of retirement savings products that grew by 19.5%, in year-on-year terms, reflecting the commercial network's success in making working age Customers aware of the need to save for retirement sooner rather than later.

(thousand euros)

	Dec 09		Jun 09		Jun 10		Change	
	Value	%	Value	%	Value	%	Value	%
Mutual Capitalisation Schemes	**1.757.467**	**77,3**	**1.697.043**	**77,1**	**1.836.248**	**77,7**	**139.205**	**8,2**
Retirement Capital and "Montepio Capital Certo"	1.680.697	73,9	1.629.396	74,0	1.756.694	74,3	127.298	7,8
Collective Schemes	8.543	0,4	8.421	0,4	8.778	0,4	357	4,2
Retirement Savings	68.227	3,0	59.226	2,7	70.776	3,0	11.550	19,5
Mutual Welfare Schemes	**516.186**	**22,7**	**504.042**	**22,9**	**526.058**	**22,3**	**22.016**	**4,4**
TOTAL	**2.273.653**	**100,0**	**2.201.085**	**100,0**	**2.362.306**	**100,0**	**161.221**	**7,3**

7. Soundness and Risk Management

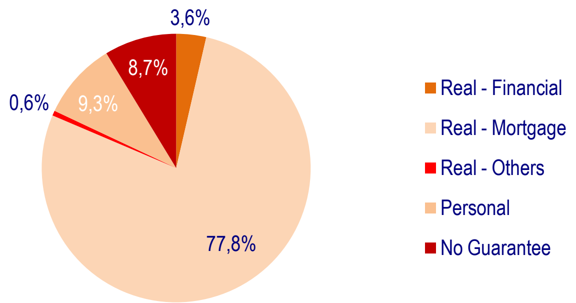
More stringent credit granting criteria were introduced for the main business lines, while corporate credit was subject to preventative monitoring, in order to create two distinct procedures based on the materiality level of the credit granted. Where this level is high the granting and control departments are provided with information on those Customers that are on the watch list, which is also submitted for weekly review to the Credit Council and to the Risk and Internal Control Committee that meets monthly.

In the first half of 2010, Montepio was one of the institutions that took part in the quantitative impact study (QIS) conducted by the Committee of European Banking Supervisors (CEBS) to assess the impact of the adjustments proposed under the Basel II Agreement to strengthen capital and liquidity regulations (dating from December 2009).

Credit Risk

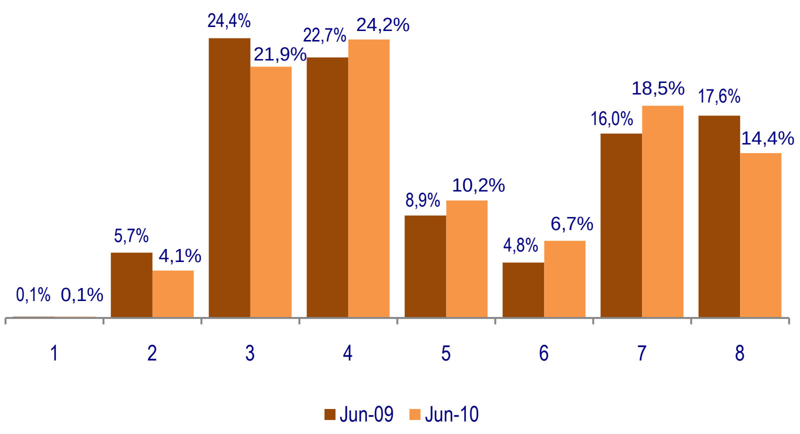
Despite the unfavourable macroeconomic setting, the magnitude of its effect on the deterioration in the quality of the credit portfolio has been mitigated by the conservative credit granting policies, and increased use of measuring tools and risk monitoring. The effects of the recession were also dampened by the fact that the degree of collateralisation was high, as 82% of the total amount of credit granted was backed by a real guarantee, in particular mortgages.

Breakdown of Credit Portfolio by type of Guarantee



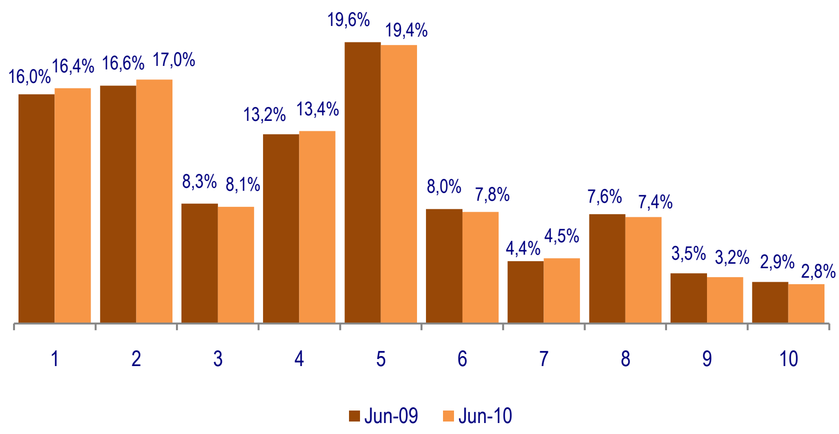
No significant changes were recorded in the corporate credit segment, except for a slight increase in exposure in risk classes 4 to 7.

Breakdown of Credit to Companies by Risk Class

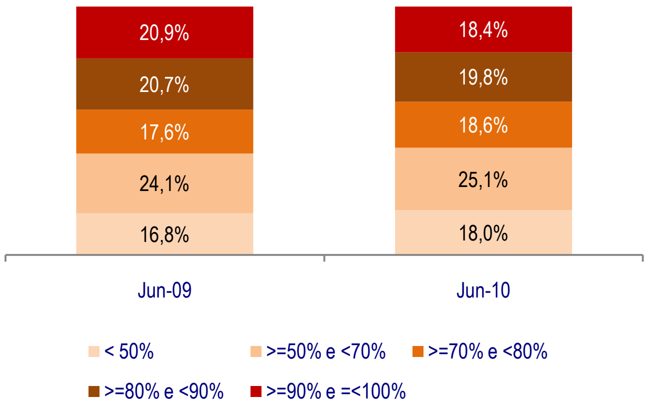


In regard to personal loans, operations were carefully analysed to ensure the quality of the credit portfolio was maintained. In year-on-year termos, housing loans showed a slight improvement, in the cover concentration in the lower risk classes, as measured by the in-house scoring model. Also of note in this segment was the improvement in the distribution by Loan to Value (LTV) ratio.

Breakdown of Housing loans by Risk Class

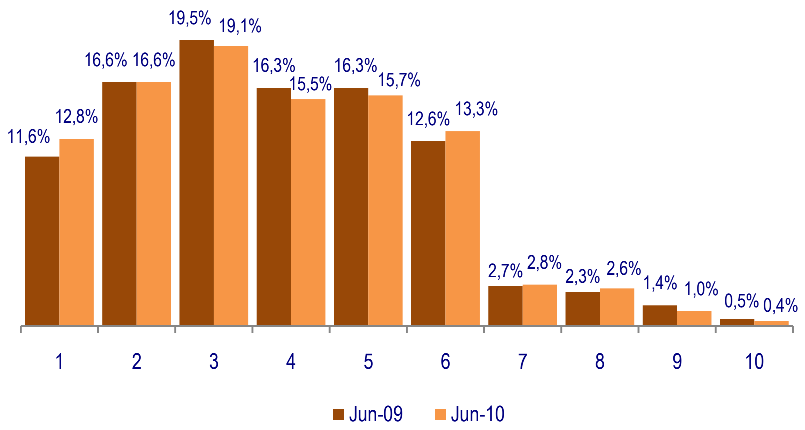


Breakdown of Housing loans by LTV level



As with housing loans, personal loans saw an improvement in the cover concentration in the lower risk classes, as measured by the in-house scoring model.

Breakdown of Personal loans by Risk Class



In the first half of the year, the Portuguese banks recorded an increase in the non-performance rate, although less than in the same period last year, that had a negative impact on the quality of the credit portfolio. Therefore the amount of credit and interest due for the entire banking sector increased, in year-on-year terms, by around 24% (according to the figures for May 2010 in the Monetary and Financial Statistics published by the Bank of Portugal). Montepio's credit and interest due recorded lower growth at 7.3%, and totalled 600.9 million euros in June 2010. Credit and interest due over 3 months, which makes up 85.6% of the total, stood at 514.4 million euros, equal to 3.4% of gross credit.

Main Credit and Interest Due Indicators – Individual Business

(thousand euros)

Indicators	Dec 09	Jun 09	Jun 10	Change	
				Value	%
Customer Credit (Gross)	**15.143.916**	**15.165.862**	**15.012.227**	**-153.635**	**-1,0**
Credit and Interest Due	**581.587**	**559.925**	**600.874**	**40.949**	**7,3**
Credit due over 3 months	508.118	475.133	514.413	39.280	8,3
Credit due over 12 months	439.201	377.474	439.112	61.638	16,3
Total Credit Provisions	**493.913**	**462.829**	**496.964**	**34.135**	**7,4**
Ratios of Credit Due as % of Total Credit					
Credit and Interest Due over 3 months Ratio	3,4	3,1	3,4	0,3p.p.	
Credit and Interest Due over 12 months Ratio	2,9	2,5	2,9	0,4p.p.	
Non-compliance Credit Ratio (a)	4,0	3,9	4,0	0,1p.p.	
Non-compliance Credit Net of Provisions Ratio (a)	1,6	1,9	1,7	-0,2p.p.	
Credit Due covered by Imparities (%)					
Credit Due over 3 months	97,2	97,4	96,6	-0,8p.p.	
Credit Due over 12 months	112,5	122,6	113,2	-9,4p.p.	

(a) According to BoP instruction no.16/2004

Impairment due to credit risks was 497 million euros, which represents a year-on-year rise of 34.1 million euros (+7.4%). At the end of June the cover ratio for credit and interest due over 3 months stood at 96.6%, while credit and interest due over 12 months is covered by provisions to the tune of 113.2%.

Financial Assets Risk

Montepio's investment portfolio recorded a growth of 466.2 million euros in the first half of 2010, and totalled 1 668.7 million euros at the end of June. This change was due in the main to the increased exposure to commercial paper and fixed rate treasury bonds.. Bonds continued to dominate the portfolio and at the end of June they stood at 1 311 million euros, as compared to 992.1 million at the end of 2009. Fixed rate bonds took on the largest relative weight, representing 53.3% of the total compared to 19.4% in December 2009. This increase in the relative weight of fixed rate bonds was due to the fact that new acquisitions were mainly fixed rate instruments (in particular sovereign debt bonds, predominantly Portuguese).

Breakdown of Investments by Asset Type

(thousnad euros)

Type of Asset	Dec 09		Jun 10		Change	
	Value	%	Value	%	Value	%
Bonds	992.125	82,5	1.310.980	78,6	318.855	32,1
- Variable rate	799.813	66,5	611.603	36,7	-188.210	-23,5
- Fixed rate	192.312	16,0	699.377	41,9	507.065	263,7
Comercial paper	202.548	16,9	347.233	20,8	144.685	71,4
Shares	7.809	0,6	10.452	0,6	2.643	33,8
Total	**1.202.482**	**100,0**	**1.668.665**	**100,0**	**466.183**	**38,8**

A breakdown of the portfolio by time to maturity shows that the relative weight of securities with less than three years to run fell from 91.3% to 78.2%, mainly due to the investment in Portuguese sovereign debt. Thus the average time to maturity increased from 1.3 years to 1.8 years between December 2009 and June 2010.

Breakdown of Bonds by Time to Maturity

(thousand euros)

Term	Dec 09		Jun 10		Change	
	Value	%	Value	%	Value	%
< 6 months	721.340	72,7	520.720	39,7	-200.620	-27,8
6 months - 1 year	48.759	4,9	51.500	3,9	2.741	5,6
1 year - 3 years	136.336	13,8	452.977	34,6	316.641	232,3
3 years - 5 years	67.499	6,8	262.538	20,0	195.039	289,0
5 years - 10 years	16.228	1,6	21.352	1,6	5.124	31,6
> 10 years	1.963	0,2	1.893	0,2	-70	-3,6
Total	**992.125**	**100,0**	**1.310.980**	**100,0**	**318.855**	**32,1**

The portfolio's credit risk remained low since Montepio continues to invest in investment grade bonds which account for 92.9% of the total (compared to 96.4% at the end of 2009).

Breakdown of Bonds by Rating

(thousand euros)

Rating	Dec 09 Value	Dec 09 %	Jun 10 Value	Jun 10 %	Change Value	Change %
AAA	63.141	6,4	121.317	9,3	58.176	92,1
AA+	186.095	18,8	82.312	6,3	-103.783	-55,8
AA	95.377	9,6	464.590	35,4	369.213	387,1
AA-	98.289	9,9	61.108	4,7	-37.181	-37,8
A+	148.222	14,9	189.964	14,5	41.742	28,2
A	121.917	12,3	94.867	7,2	-27.050	-22,2
A-	143.838	14,5	96.931	7,4	-46.907	-32,6
BBB+	45.765	4,6	42.362	3,2	-3.403	-7,4
BBB	37.097	3,7	46.772	3,6	9.675	26,1
BBB-	16.703	1,7	17.159	1,3	456	2,7
BB+	0	0,0	46.698	3,6	46.698	-
BB	1.791	0,2	1.865	0,1	74	4,1
BB-	0	0,0	5.983	0,5	5.983	-
CCC	0	0,0	4.109	0,3	4.109	-
D	1.322	0,1	0	0,0	-1.322	-
NR	32.568	3,3	34.943	2,6	2.375	7,3
Total	**992.125**	**100,0**	**1.310.980**	**100,0**	**318.855**	**32,1**

Liquidity Risk

Montepio's policy has been to maintain suitable liquidity levels and match its balance sheet financing structure to the maturity of its assets. On the other hand it has diversified its sources of finance and retained a series of high liquidity assets that allows it, for example, to resort to the European Central Bank (ECB) as an additional source of liquidity.

Over the first half of 2010, the following liquidity management policy measures were of particular importance:

- A credit securitisation operation to the sum of 1 200 million euros conducted in June and aimed at small, medium and micro-businesses ("*Pelican SME Loans no.1*"), , which will contribute to an increase in the pool of ECB eligible assets (around 380 million euros deemed eligible for the 1st tranche). This operation was in fact the first corporate credit securitisation conducted by Montepio and, by incorporating the granting of current account credit, it was an innovative operation, as it was the first time such credit had been the object of securitisation in Portugal;
- The signature with the European Investment Bank (EIB) of a credit line worth 100 million euros, to be employed over the coming months;
- Increased use of the ECB pool, from 500 million euros in December 2009 to 900 million euros in June 2010, with a view to optimising cash flow management.

Over the six months the pool of assets eligible for ECB refinancing was increased and totalled 2 078 million euros at the end of June, which represented a year-on-year change of +54.7%.

Pool of assets eligible for ECB refinancing

(thousand euros)

Items	Dec 09		Jun 09		Jun 10		Change	
	Value	%	Value	%	Value	%	Value	%
1 - Pool of Eligible Assets	1.626.265	100,0	1.342.983	100,0	2.077.953	100,0	734.970	54,7
2 - Pool Use	500.000	30,7	800.000	59,6	900.000	43,3	100.000	12,5
3 - Pool of Available Assets (1 - 2)	**1.126.265**	**69,3**	**542.983**	**40,4**	**1.177.953**	**56,7**	**634.970**	**116,9**

The pool of available assets totalled 1 178 million euros at the end of the first half of 2010, which constituted an increase of 635 million euros (+116.9%), as compared to the same period last year.

The Interbank Money Market (IMM), a traditional source of funding for day-to-day cash flow management, was fairly quiet, mainly due to the increase in Portuguese sovereign debt risk. Thus, despite the heavy constraints on the workings of the IMM, with most transactions taking place in very short periods, Montepio retained its surplus position, financing other credit institutions (OCI) to the sum of 30 million euros at the end of June 2010.

Over the first six months the value of Montepio debt redemption on the capital market was 50 million euros.

Given the state of the financial markets, and their relatively low funding needs, Montepio did not conduct any loan issues to acquire funds on the wholesale market, through its European Medium Term Notes (EMTN) programs, or through Mortgage Bonds. The Treasury Bond issues continued and a total of 50 million euros was placed with Montepio's retail Customers, in the form of 7 new series, alongside the 8 series placed with institutional Customers and totalling around 75 million euros.

The positive change in the level of Customer deposits, together with the halting of the growth in credit, had a positive impact on the deposits and Customer Resources transformation ratio (including securities placed with Customers).

Deposits into Credit Transformation Ratio (%)

	Dec 09	Jun 09	Jun 10	Change
	Value	Value	Value	Value
Customer credit (gross) /Client Deposits	**165,4**	**168,6**	**161,3**	**-7,3 p.p.**
Customer credit (gross) / Client Resources	**150,2**	**150,0**	**146,5**	**-3,5 p.p.**

The increase in net assets, so as to favour liquidity and risk levels, along with selective growth in finance sources (financial liabilities), meant both narrow liquidity and broad liquidity (including available eligible assets) recorded favourable year-on-year changes.

Liquidity Indicators (%)

	Dec 09	Jun 09	Jun 10	Change
	Value	Value	Value	Value
Narrow liquidity [1]	**1,90**	**0,55**	**1,04**	**0,49 p.p.**
Broad liquidity [2]	**8,90**	**3,93**	**8,19**	**4,26 p.p.**

(1) - Cash and liquid assets/Financial liabilities

(2) - Cash, liquid assets and Eligible Assets Available/Financial liabilities

As per the regular reports submitted to the Bank of Portugal (BoP), Montepio has positive cumulative gaps over the next twelve months, which show it has a satisfactory short-term liquidity position. At the end of June 2010, the up to 12 months accumulated liquidity dynamic gap (eligible pool adjusted) was 1 730 million euros.

Dynamic Gaps in Liquidity Position as at 30th June 2010

(thousand euros)

Position at reference date + Forecast value	Time Intervals				
	On sight and up to 1 week	Over 1 week and up to 1 month	Over 1 month and up to 3 months	Over 3 month and up to 6 months	Over 6 month and up to 12 months
Cumulative mismatches	1.431	1.617	1.926	2.009	1.731

Interest Rate Risk

The identifying, measuring and controlling of interest rate risk of Montepio's banking portfolio is governed by the principles recommended by the Bank for International Settlements (BIS), along with regular monitoring of exposure by the Assets & Liabilities Committee. According to the methodology laid down in Bank of Portugal (BoP) Instruction no. 19/2005, the impact on the Net Position of a parallel shift of + 200 basis points (b.p.) on the income curve is -3%. Thus the sensitivity of Montepio's banking portfolio to interest rate risk is within the guideline limit of 20% established by the BIS in "Principles for the Management and Supervision of Interest Rate Risk".

In June the 12-month cumulative reprising gap was estimated at 1 235 million euros, which would have an impact on Financial Profit of + 12 million euros if there were an instantaneous change in interest rates of + 100 b.p.

Operating Risk

Operating risk consists of the risk of losses resulting from defects or flaws in in-house procedures, Human Resources, systems or external factors, including legal risk. Operating risk management is the responsibility of all employees when performing their duties, although there is a central unit that is responsible for the performance of the operating risk cycle. This is based on the identification, assessment, monitoring, mitigating and measuring of risks. In addition each of the Group's units has employees that ensure the operating risk management cycle is performed properly.

In terms of the Business Continuity Plan, a project is underway that sets out to ensure the continuity of operations if a serious incident arises that causes business to be interrupted, and this has already been taken up internally.

Solvency

Montepio's capital strategy has allowed it to improve its solvency levels and meet the recommendations of the supervisory bodies, in particular the Bank of Portugal.

Equity and Solvency Ratio

(thousand euros)

Items	Dec 09	Jun 09	Jun 10	Change	
	Value	Value	Value	Value	%
1. Total Equity	**1.308.730**	**1.287.445**	**1.301.830**	**14.385**	**1,1**
(+) Share Capital	*760.000*	*760.000*	*760.000*	*0*	*0,0*
(+) Reserves and Profit	*251.027*	*223.354*	*248.953*	*25.599*	*11,5*
(-) Compulsory Deductions	*76.619*	*65.519*	*90.477*	*24.958*	*38,1*
1.1 (=) Base Equity	**934.408**	**917.835**	**918.476**	***641***	**0,1**
(+) Complementary Equity	383.400	378.266	389.540	*11.274*	3,0
(-) Other deductions	9.078	8.656	6.186	*-2.470*	-28,5
2. Minimum Equity Requirements	**802.705**	**844.247**	**826.314**	**-17.933**	**-2,1**
3. Assets and equivalent items weighted for risk (2 x 12.5)	**10.033.813**	**10.553.085**	**10.328.928**	**-224.157**	**-2,1**
4. Ratios					
Solvency (1/3)	13,04%	12,20%	12,60%	0,40 p.p.	
Tier 1 (1.1/3)	9,31%	8,70%	8,89%	0,19 p.p.	
Core Capital (1.1/3)	9,31%	8,70%	8,89%	0,19 p.p.	

Caixa Económica retained suitable capital levels thanks to a policy aimed at maintaining soundness.

At the end of June 2010 and according to the consolidated accounts, the Solvency Ratio was 12.6%, up 0.4 p.p. on June 2009. The Tier 1 Ratio (which in Montepio's case is equal to its core capital) stood at 8.89% (8.7% in June 2009), thus comfortably exceeding the minimum level recommended by the Bank of Portugal (8%).

Stress Tests

Montepio has conducted stress tests in line with the requirements of Bank of Portugal Instruction no. 32/2009. These tests are important tools to assess and manage risk, since they play a key role in capital and liquidity planning, so as to ensure the institution is able to withstand shocks.

The exercises undertaken by Montepio examined various extreme scenarios in regard to credit risk, interest rate changes, liquidity and operating risk conditions, and they showed that the institution has suitable capital levels. Therefore, taking into account the long-term relationship between the probabilities of non-performance in the various business segments, GDP and short-term interest rates, it was concluded that the various adverse scenarios examined would lead to the Solvency Ratio remaining close to 12%, as this ratio was expected to fall by 0.2 to 1.3 percentage points. In other words, the Solvency Ratio would remain well above the required minimum. The Tier 1 ratio would also remain at suitable levels, above 8%, since the same scenarios would lead to a reduction in this ratio of a similar magnitude to the Solvency Ratio. These conclusions were confirmed by the forecast changes in capital ratios up to the end of 2010, taking into consideration the various business scenarios and Montepio's susceptibility to shocks.

In addition, at the financial risk and balance sheet levels, the impact of the tests undertaken was also moderate, both in terms of profits and liquidity gaps.

The stress tests also covered the Pension Fund, examining the negative effect of a worsening in credit spreads on the value of the instruments, as well as the effect on capital of a reduction in the actuarial discount rate.

8. Financial Analysis

8.1. General Balance Sheet Analysis

The changes in the main indicators show that overall management was guided by the need to ensure a suitable balance between liquidity, profitability and solvency and to uphold business expansion levels in the commercial and financial fields, in line with the continued adverse situation in the financial markets, including the sovereign debt market, thus protecting the balance sheet from negative impacts and ensuring a high degree of resilience. The following indicators are worthy of special mention:

- Net Assets, which totalled 17 668.7 million euros, grew 402.3 million euros, +2.3% compared to the same period last year;
- Securities and Investments in Credit Institution grew by 26.3%;
- The Pool of assets eligible for ECB Refinancing totalled 2 078 million euros, an increase of 735 million euros (+54.7%) compared to the same period last year.

(thousand euros)

Indicators	Dec 09	Jun 09	Jun 10	Change	
	Value	Value	Value	Value	%
Net Asset	17.244.767	17.266.354	17.668.715	402.361	2,3
Customer Credit (Gross)	15.176.295	15.204.539	15.043.674	-160.865	-1,1
Securities and investments in credit institutions	1.813.035	1.901.208	2.400.318	499.110	26,3
Deposits	9.175.941	9.018.730	9.329.242	310.512	3,4
Debts Represented by Securities and Equivalent Assets	5.859.653	5.642.729	5.790.302	147.573	2,6
Resources from Central Banks	500.000	800.000	900.000	100.000	12,5
Pool of Assets Eligible for ECB Refinancing	1.626.265	1.342.983	2.077.953	734.970	54,7
Equity	986.214	936.995	977.274	40.279	4,3
Profit	44.476	29.227	30.596	1.369	4,7
Credit/Deposits ratio (Transformation rate)	165,39%	168,59%	161,25%	-7,34 p.p.	

The resources and investments policy sought, on the one hand, to attract medium-term resources so as to increase resource stability and, on the other hand, to invest in assets with a suitable profitability, risk and liquidity profile. The policy also set out to support SMEs, which are the main source of diversification and the core goal of the commercial drive, along with debt recovery and monitoring.

The increase in Net Assets was due in the main to the Securities portfolio which had an increase of 1 073.7 million euros (+87.7%) and its share of total assets went from 7.1% in June 2009 to 13.0% at the end of the first half of 2010.

Change in Assets

(thousand euros)

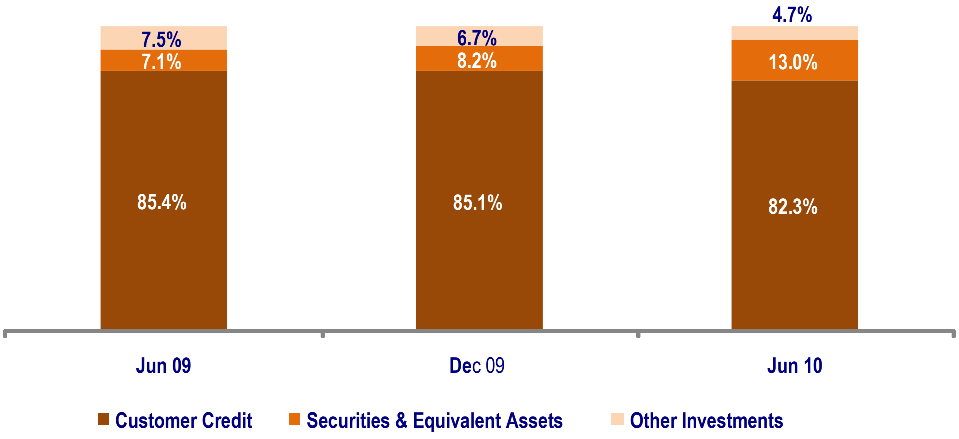
Items	Dec 09		Jun 09		Jun 10		Change	
	Value	%	Value	%	Value	%	Value	%
Financial Investments	**16.854.423**	**97,7**	**16.840.287**	**97,6**	**17.211.669**	**97,4**	**371.382**	**2,2**
Cash and Liquid Assets	374.888	2,2	212.553	1,2	279.994	1,6	67.441	31,7
Investments in Credit Institutions	370.938	2,2	650.232	3,8	77.211	0,4	-573.021	-88,1
Securities and Equivalent Assets (a)	1.418.371	8,2	1.224.577	7,1	2.298.288	13,0	1.073.711	87,7
Customer Credit (net)	14.682.382	85,1	14.741.710	85,4	14.546.710	82,3	-195.000	-1,3
Hedging Derivatives	7.844	0,0	11.215	0,1	9.466	0,1	-1.749	-15,6
Other Assets	**390.344**	**2,3**	**426.067**	**2,4**	**457.046**	**2,6**	**30.979**	**7,3**
Investment in Subsidiaries	40.775	0,2	20.032	0,1	40.498	0,2	20.466	102,2
Fixed Assets for Trading	157.658	0,9	115.390	0,6	166.662	1,0	51.272	44,4
Other Investments	191.911	1,2	290.645	1,7	249.886	1,4	-40.759	-14,0
TOTAL NET ASSETS	**17.244.767**	**100,0**	**17.266.354**	**100,0**	**17.668.715**	**100,0**	**402.361**	**2,3**

(a) Includes interest due

The constraints on the proper working of the IMM, where most transactions are very short-termed and have very low rates of return, was the cause of the sharp decline in Investments in Credit Institutions (573 million euros (-88.1%)). Despite this drop Montepio retained its surplus position in the market, financing other credit institutions to the sum of 30 million euros.

The increased support to Companies, in particular SMEs and Micro businesses, as well as Charities, in terms of granting credit, was not sufficient to offset fully the less favourable trends seen in other segments, so Customer Credit, net of provisions, fell by 195 million euros (-1.3%) and its relative weight in total assets went from 85.4% in June 2009 to 82.3% in June 2010.

Change in Asset Structure



The guidelines laid down for securities portfolio management sought to favour the profitability/risk/liquidity trinomial in regard to securities eligible for liquidity mechanisms, and to take advantage of opportunities in the sovereign debt market, as well as ensure a better breakdown of Assets held for Trading and Financial Assets Available for Sale.

(thousand euros)

Items	Dec 09		Jun 09		Jun 10		Change	
	Value	%	Value	%	Value	%	Value	%
1. Securities Portfolio								
Financial assets held for trading	98.239	6,8	66.212	5,3	233.963	10,1	167.751	253,4
Other financial assets at fair value	4.192	0,3	3.939	0,3	4.071	0,2	132	3,4
Financial assets available for sale	1.306.076	90,6	1.140.824	91,2	2.027.126	87,2	886.302	77,7
Investments held to maturity	33.523	2,3	39.940	3,2	57.899	2,5	17.959	45,0
TOTAL 1	**1.442.030**	**100,0**	**1.250.915**	**100,0**	**2.323.059**	**100,0**	**1.072.144**	**85,7**
% of Assets	**8,4**		**7,2**		**13,1**		**5,9 p.p.**	
2. Impairment	23.659		26.338		24.771		-1.567	-5,9
TOTAL (1-2)	**1.418.371**		**1.224.577**		**2.298.288**		**1.073.711**	**87,7**

Financial Assets Available for Sale was the most active portfolio and recorded an increase of 886.3 million euros (+77.7%), while accounting for 82.7% of the total change in Securities. A decisive factor in this change was the purchase of Portuguese Public Debt securities with various times to maturity, namely Treasury Bonds (medium and long-term) and Treasury Bills (short-term). Thus Treasury Bonds went from 20 million euros in June 2009 to 400.5 million euros in June 2010.

The value of Shares held was small and fell by 6.0%, as compared to the same period last year.

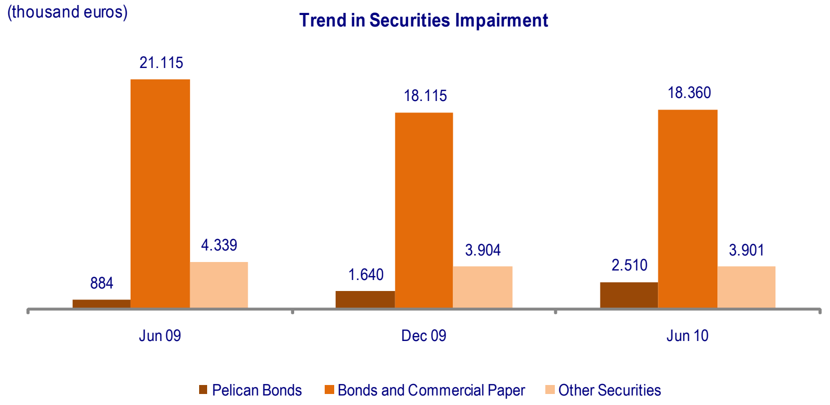
Securities Available for Sale and Instruments held to Maturity

(thousand euros)

Items (a)	Book Value			Impairment			Change	
	Dec 09	Jun 09	Jun 10	Dez 09	Jun 09	Jun 10	Book Value	Impairment
	Value	Value	Value	Value	Value	Value	%	%
Securities Available for Sale	**1.298.786**	**1.136.602**	**2.012.390**	**23.659**	**26.338**	**24.771**	**77,1**	**-5,9**
Treasury Bonds	0	20.205	400.513				1882,2	
Pelican and SME Bonds	60.225	55.725	181.490	1.640	884	2.510	225,7	183,9
Companies and other entities bonds and commercial paper	1.219.449	1.041.390	1.411.513	18.115	21.115	18.360	35,5	-13,0
Investment fund units	11.484	10.827	10.921	2.837	3.230	2.787	0,9	-13,7
Stocks and shares	5.223	6.057	5.695	1.019	1.061	1.066	-6,0	0,5
Financial holdings	2.405	2.398	2.258	48	48	48	-5,8	0,0
Securities held to Maturity	**32.913**	**39.128**	**57.310**				**46,5**	
Treasury Bonds	32.913	39.128	57.310				46,5	
TOTAL	**1.331.699**	**1.175.730**	**2.069.700**	**23.659**	**26.338**	**24.771**	**76,0**	**-5,9**

(a) Interest not included.

The highest levels of impairment are associated with Companies and Other Entities Bonds and Commercial Paper, Investment Fund Units and Pelican Bonds.



In regard to funding, Montepio favoured offer of longer maturity deposits (3 to 5 years).

Change in Liabilities and Equity

(thousand euros)

Item	Dec 09		Jun 09		Jun 10		Change	
	Value	%	Value	%	Value	%	Value	%
1 - Customer Resources	**10.103.894**	**58,6**	**10.137.990**	**58,7**	**10.268.888**	**58,1**	**130.898**	**1,3**
Customer & Credit Institution Deposits	9.175.941	53,2	9.018.730	52,2	9.329.242	52,8	310.512	3,4
Securities placed with Customers (Cash Bonds)	927.953	5,4	1.119.260	6,5	939.646	5,3	-179.614	-16,0
2 - Complementary Resources	**6.153.168**	**35,7**	**6.189.655**	**35,9**	**6.421.133**	**36,3**	**231.478**	**3,7**
Central Bank Resources (1)	502.353	2,9	800.122	4,7	905.383	5,1	105.261	**13,2**
Other Credit Institution Resources	192.392	1,1	181.710	1,1	194.666	1,1	12.956	**7,1**
Subord., Unsubord., and Syndicated Loans and Debt Certs.	4.931.700	28,6	4.523.468	26,2	4.850.656	27,5	327.188	7,2
Financial Liabilities associated with Transferred Assets	428.147	2,5	514.359	3,0	414.093	2,3	-100.266	-19,5
Other liabilities	98.576	0,6	169.996	0,9	56.335	0,3	-113.661	-66,9
3 - Equity & Provisions	**987.705**	**5,7**	**938.709**	**5,4**	**978.694**	**5,6**	**39.985**	**4,3**
TOTAL LIABILITIES AND EQUITY	**17.244.767**	**100,0**	**17.266.354**	**100,0**	**17.668.715**	**100,0**	**402.361**	**2,3**

(1) Including interest due

Accordingly, Total Deposits grew by 3.4% as compared to the same period last year and accounted for 52.8% of Total Liabilities and Equity at the end of June, as compared to 52.2% in June 2009. On the other hand, Treasury Bonds placed with Customers, despite a slight improvement, as compared to December 2009, fell by 16.0% in year-on-year terms. The combination of these effects led to an increase in Customer Resources on the Balance Sheet of 1.3%.

Over the first six months of the year, management of Complementary Resources was based on two factors that determined the financial tools to be used:

- the reduction in external funding sources, caused by the increase in sovereign debt risk;
- the priority given to protecting Financial Profit.

Since the traditional sources of complementary funding (external finance and IMM) remained weak, the solution was ECB refinancing. In addition, Montepio undertook its first securitisation operation aimed at SMEs and Micro businesses, to the sum of 1.2 mil million euros and obtained a line of credit from the EIB to the sum of 100 million euros.

Capital and Provisions stood at 978.7 million euros, an increase of 40 million euros (+4.3%).

8.2. Income Statement Analysis

Net Profit in the first half of the year was 30.6 million euros, representing growth of 1,4 million euros (+4.7%) compared to the same period last year. This outcome was mainly brought about by the favourable performance of market finance operations, the reduction in credit provisions and the tight control over operating costs.

Income Statement

(thousand euros)

Results	Dec 09		Jun 09		Jun 10		Change	
	Value	%	Value	%	Value	%	Value	%
Net Interest Income	320.808	71,5	182.615	76,6	129.140	60,1	-53.475	-29,3
Net Commission on Services to Customers	75.115	16,7	35.325	14,8	34.858	16,3	-467	-1,3
Commercial Banking Revenue	**395.923**	**88,2**	**217.940**	**91,4**	**163.998**	**76,4**	**-53.942**	**-24,8**
Markets Profit (a)	39.115	8,7	12.741	5,3	45.420	21,1	32.679	256,5
Return on Financial Holdings	811	0,2	688	0,3	429	0,2	-259	-37,6
Profit on Sale of Assets for Debt Recovery	417	0,1	163	0,1	-1.551	-0,7	-1.714	-1051,5
Other Profits	12.759	2,8	6.950	2,9	6.500	3,0	-450	-6,5
Banking Revenue	**449.025**	**100,0**	**238.482**	**100,0**	**214.796**	**100,0**	**-23.686**	**-9,9**
Staff Costs	147.352	32,8	74.979	31,4	74.184	34,5	-795	-1,1
Administrative Overheads	79.204	17,6	37.405	15,7	39.279	18,3	1.874	5,0
Depreciation	20.507	4,6	9.426	4,0	9.837	4,6	411	4,4
Operating Costs	**247.063**	**55,0**	**121.810**	**51,1**	**123.300**	**57,4**	**1.490**	**1,2**
Gross Profit	**201.962**	**45,0**	**116.672**	**48,9**	**91.496**	**42,6**	**-25.176**	**-21,6**
Net Provisions and Impairment	**159.989**	**35,6**	**88.393**	**37,1**	**60.770**	**28,3**	**-27.623**	**-31,3**
Credit	147.774		86.042		53.709		-32.333	-37,6
Securities	2.132		1.374		1.169		-205	-14,9
Others	10.083		977		5.892		4.915	503,1
Profits from Associate Companies and Joint Ventures (net worth)	**2.503**		**948**		**-130**		**-1.078**	-113,7
= Net Profit	**44.476**	**9,9**	**29.227**	**12,3**	**30.596**	**14,2**	**1.369**	**4,7**

(a) Includes return from shares and other variable return securities, except financial holdings.

(thousand euros)

Positive Impact Changes		Negative Impact Changes	
Account	Value	Account	Value
Credit Provisions	32.333	Net Interest Income	53.475
Markets Profit	32.679	Assets for Trading Provisions	4.915
Staff Costs	795	Administrative Overheads	1.874
Securities Provisions	205	Profit on Sale of Assets for Trading	1.714
		Net Commission on Services to Customers	467
		Other Profits	450
		Depreciation	411
		Profit from Associate Companies and Joint Ventures	1.078
		Return on Financial Holdings	259
Total	**66.012**	**Total**	**64.643**
Total Change in Profit =		**66.012 -64.643 = 1.369**	

Consolidated Net Profit for the first six months was higher than Net Profit on an individual accounts basis to the tune of 4.6 million euros, due, on the one hand, to the negative impact of the associated companies and, on the other, to the increase in credit impairment.

DIFFERENCE BETWEEN PROFIT IN INDIVIDUAL AND CONSOLIDATED ACCOUNTS

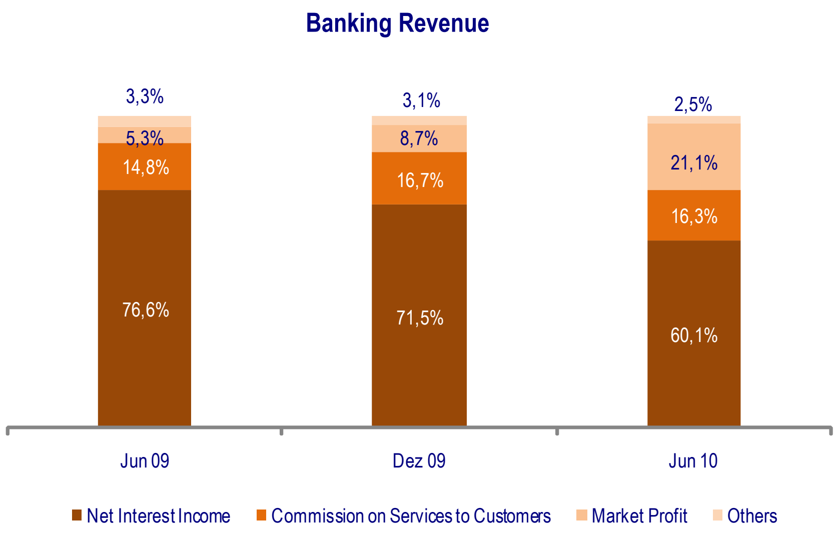
(thousand euros)

Items	NET PROFIT	EQUITY
1 - CEMG - Individual Accounts 30.Jun.10	**26.021**	**977.565**
2 - Impact of Consolidation of Financial Holdings	**-1.463**	**4.774**
2.1 - Full Consolidation	**-402**	**573**
MG Cabo Verde	-402	573
2.2 - Net Worth	**-1.061**	**4.201**
Lusitania - Seguros	-1.371	-2.861
Lusitania - Vida	395	5.939
HTA Hotéis Turismo A Açores	-85	1.123
3 - Other Consolidation Adjustments	**6.038**	**-5.065**
Credit Portfolio Impairment	5.517	**20.733**
Pension Fund	-453	**-25.748**
Swaps related to securitisation operations	974	**-50**
4 - CEMG - Consolidated Accounts 30.Jun.10 (1+2+3)	**30.596**	**977.274**

Banking Revenue

Banking Revenue totalled 214.8 million euros, a drop of 23.7 million euros (-9.9%), reflecting the negative change in Net Interest Income, which was not fully offset by the positive performance in Market Profit. This was largely the result of changes in credit interest rates that are heavily dependent on market key interest rates, which remained at historically low levels. As a matter of fact, the significant fall in interest rates from the fourth quarter of 2008 onwards did not have an immediate impact on Net Interest Income in the early months of 2009, which means the basis for comparison penalises their performance in the period under review.

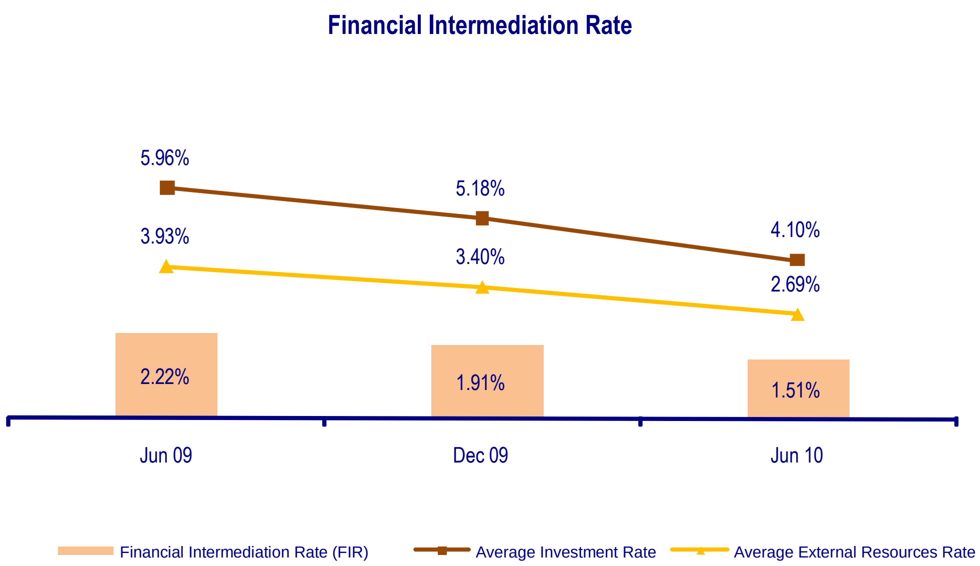
Thus, Banking Revenue became less dependent on Net Interest Income (60.1% compared to 76.6% in June 2009) and saw increased contributions come from Market Profit (21.1% compared to 5.3% in June 2009) and Commission on Services to Customers (16.3% as against 14.8% in June 2009).



Financial Intermediation Rate

The Financial Intermediation Rate (FIR) stood at 1.51%, a fall of 0.71 p.p. in relation to June 2009 (2.22%), thus reflecting the change in market interest rates.

The reduction in the FIR reflects a greater decrease in the average investment rate (-1.86 p.p.), than the average external resources rate (-1.24 p.p.). The price effect made the greatest contribution to Net Interest Income performance, which was not offset by the turnover effect.



Profit on Services to Customers

Profit on Services to Customers was strongly influenced by the slowdown in the major commission generating business areas, in particular, credit, guarantees, insurance and asset management. Therefore, Profit on Services to Customers stood at 41.4 million euros, representing a year-on-year drop of 0.9 million euros (-2.2%).

The best performance was achieved by the Cards business which grew by 19.7%, followed by Account Management, up by 10.6%.

Change in Profit on Services to Customers (1)

(thousand euros)

Items	Dec 09	Jun 09	Jun 10	Change	
	Value	Value	Value	Value	%
Account Management Fee	10.993	5.594	6.188	594	10,6
Cards	13.057	6.050	7.244	1.194	19,7
Credit Fee	18.126	9.369	8.138	-1.231	-13,1
Guarantees	5.964	3.211	2.605	-606	-18,9
Insurance	13.168	4.687	4.287	-400	-8,5
Asset Management	7.436	3.416	3.513	97	2,8
Payment Means Management	16.452	7.856	8.083	227	2,9
Other services	2.678	2.092	1.300	-792	-37,9
TOTAL	**87.874**	**42.275**	**41.358**	**-917**	**-2,2**

(1) Includes Net Commission on Services to Customers and Other Profits

Market Profit

Market Profit totalled 45.4 million euros as compared to just 12.7 million euros the same time last year, that is to say a growth of 32.7 million euros (+256.5%).

(thousand euros)

Items	Dec 09	Jun 09	Jun 10	Change	
	Value	Value	Value	Value	%
Profit on Assets and Liabilities at Fair Value based on Profits	**28.319**	**4.542**	**31.968**	**27.426**	**-603,8**
Financial assets and liabilities held for trading	27.438	3.885	33.085	29.200	751,6
Financial assets and liabilities at fair value based on profits	160	0	-28	-28	
Hedging Derivatives	-2.408	2.145	-1.503	-3.648	-170,1
Other Financial Operations	3.129	-1.488	414	1.902	127,8
Profit on Sale of Financial Assets Available for Sale	**1.657**	**440**	**8.980**	**8.540**	**1.940,9**
Profit on Currency Revaluations	**2.069**	**1.051**	**1.175**	**124**	**11,8**
Profit on Sale of Bonds	**-135**	**-63**	**-400**	**-337**	**-534,9**
Other Profits	**7.191**	**6.743**	**3.659**	**-3.084**	**-45,7**
Income from Shares	**14**	**28**	**38**	**10**	**35,7**
TOTAL	**39.115**	**12.741**	**45.420**	**32.679**	**256,5**

The main factor in the increase in Market Profit was the change in Financial Liabilities held for Trading, which grew by 29.2 million euros (+751.6%).

8.3. Operating Costs and Efficiency

Operating Costs, which include Staff Costs, Administrative Overheads and Depreciation, totalled 123.3 million euros, recording a slight rise (+1.2).

(thousand euros)

Items	Dec 09		Jun 09		Jun 10		Change	
	Value	%	Value	%	Value	%	Value	%
Staff Costs	147.352	59,6	74.979	61,6	74.184	60,2	-795	-1,1
Administrative Overheads	79.204	32,1	37.405	30,7	39.279	31,8	1.874	5,0
Running Costs	226.556	91,7	112.384	92,3	113.463	92,0	1.079	1,0
Depreciation	20.507	8,3	9.426	7,7	9.837	8,0	411	4,4
Operating Costs	**247.063**	**100,0**	**121.810**	**100,0**	**123.300**	**100,0**	**1.490**	**1,2**

Staff Costs

Staff Costs were down 0.8 million euros (-1.1%), reflecting the lesser sums paid in regard to Long Service and Other Bonuses. Following the appointment of the Governing Bodies in December 2009, the Board of Directors was made up of five members rather than the four during the previous year when one seat was vacant. This fact explains most of the change in Governing Bodies Remuneration.

(thousand euros)

Items	Dec 09		Jun 09		Jun 10		Change	
	Value	%	Value	%	Value	%	Value	%
Staff Costs								
Governing Bodies Remuneration	989	0,7	454	0,6	660	0,9	206	45,4
Employees Remuneration	104.645	71,0	53.790	71,8	52.838	71,2	-952	-1,8
Mandatory Social Welfare Payments	38.346	26,0	18.841	25,1	19.121	25,8	280	1,5
Other Staff Costs	3.372	2,3	1.894	2,5	1.565	2,1	-329	-17,4
TOTAL	**147.352**	**100,0**	**74.979**	**100,0**	**74.184**	**100,0**	**-795**	**-1,1**

Administrative Overheads

The rise in Administrative Overheads, up 5.0% on the same period last year, was brought about by the increases in Advertising (+190.5%), IT (+11.0%), Communications (+11.9%) and Transport and Fuel (+7.4%).

(thousand euros)

Items	Dec 09		Jun 09		Jun 10		Change	
	Value	%	Value	%	Value	%	Value	%
Administrative Overheads								
Premises	22.571	28,5	10.938	29,2	11.075	28,2	137	1,3
Advertising	3.677	4,6	843	2,3	2.449	6,2	1.606	190,5
Comunications	9.929	12,5	4.605	12,3	5.153	13,1	548	11,9
IT	10.523	13,3	6.308	16,9	6.999	17,8	691	11,0
Travel	1.384	1,7	695	1,9	609	1,6	-86	-12,4
Consumables	2.029	2,6	1.020	2,7	967	2,5	-53	-5,2
Consultancy	6.366	8,0	2.342	6,3	1.618	4,1	-724	-30,9
Outsourcing	2.819	3,6	1.815	4,9	1.493	3,8	-322	-17,7
Training	718	0,9	446	1,2	339	0,9	-107	-24,0
Payment Means Management	7.640	9,7	3.518	9,4	3.561	9,1	43	1,2
Transport and Fuel	6.392	8,1	3.146	8,4	3.379	8,6	233	7,4
Other Supplies and Services	5.156	6,5	1.729	4,5	1.637	4,1	-92	-5,3
TOTAL	**79.204**	**100,0**	**37.405**	**100,0**	**39.279**	**100,0**	**1.874**	**5,0**

Productivity and Efficiency

The larger growth in overall business had a direct impact on the increase in Assets (+2.3%) and the containment of Operating Costs (+1.2%), which brought about the productivity gains seen in the first half of the year. The Running Costs/Average Net Assets ratio was down 0.04 p.p. while Net Assets per Employee were up 4.3%.

Indicators	Dec 09	Jun 09	Jun 10	Change	
Running Costs/ Average Net Assets (%)	1,45	1,34	1,30	-0,04 p.p.	
Average Net Assets/ Average No. of Employees (m.€)	5.908	5.862	6.115	253	4,3%
Banking revenue/ Average No. of Employees (m.€)	156	167	150	-17	-10,2%
Average Full-time Staff/ Branch (Quantity)	9,02	9,02	9,00	-0,03	-0,3%

The very restricted growth in Operating Costs (+1.2%) provided for very moderate changes in efficiency levels, which is a positive achievement in the light of the impact of the economic climate on Banking Revenue (-9.9%), which had a negative effect on Financial Profit.

(thousand euros)

Items	Dec 09		Jun 09		Jun 10		Change	
	Value	%	Value	%	Value	%	Value	%
Staff Costs	147.352	59,6	74.979	61,6	74.184	60,2	-795	-1,1
Administrative Overheads	79.204	32,1	37.405	30,7	39.279	31,8	1.874	5,0
Running Costs	**226.556**	**91,7**	**112.384**	**92,3**	**113.463**	**92,0**	**1.079**	**1,0**
Depreciation	20.507	8,3	9.426	7,7	9.837	8,0	411	4,4
Operating Costs	**247.063**	**100,0**	**121.810**	**100,0**	**123.300**	**100,0**	**1.490**	**1,2**
Banking revenue	**449.025**		**238.482**		**214.796**		**-23.686**	**-9,9**
RATIOS								
Staff Costs / Banking Revenue	32,8%		31,4%		34,5%		3,1 p.p.	
General and Administrative Expenses/Banking Revenue	17,6%		15,7%		18,3%		2,6 p.p.	
Depreciation / Banking revenue	4,6%		4,0%		4,6%		0,6 p.p.	
Cost-to-Income (Operating Costs / Banking Revenue)	**55,0%**		**51,1%**		**57,4%**		**6,3 p.p.**	
Efficiency ratio (Running Costs / Banking Revenue)	50,5%		47,1%		52,8%		5,7 p.p.	

The widest reaching efficiency ratio, Cost-to-Income (the Operating Costs/Banking Revenue ratio) stood at 57.4%.

8.4. Provisions and Impairments

Over the first half of the year, debt recovery operations were intensified and covered the institution as a whole. Customers participated in the search for more viable solutions to their problems. At the same time more frequent internal meetings and more effective planning and control meant it was possible to reduce Provisions and Impairment considerably by 27.6 million euros, a year-on-year change of -31.3%.

Breakdown of Provisions and Impairments

(thousand euros)

Provisions and Impairments	Dec 09		Jun 09		Jun-10		Change	
	Value	%	Value	%	Value	%	Value	%
Net Credit Provisions & Impairments	**147.774**	**92,4**	**86.042**	**97,3**	**53.709**	**88,4**	**-32.333**	**-37,6**
Setting up	527.206		220.756		265.702		44.946	20,4
Recovery	379.432		134.714		211.993		77.279	57,4
Net Securities Impairments	**2.132**	**1,3**	**1.374**	**1,6**	**1.169**	**1,9**	**-205**	**-14,9**
Setting up	2.398		1.443		1.371		-72	-5,0
Recovery	266		69		202		133	192,8
Net Provisions & Impairments of Other Assets	**10.083**	**6,3**	**977**	**1,1**	**5.892**	**9,7**	**4.915**	**503,1**
Setting up	10.665		1.009		8.169		7.160	709,6
Recovery	582		32		2.277		2.245	7.015,6
Total Net Provisions and Impairment	**159.989**	**100,0**	**88.393**	**100,0**	**60.770**	**100,0**	**-27.623**	**-31,3**
Setting up	540.269		223.208		275.242		52.034	23,3
Recovery	380.280		134.815		214.472		79.657	59,1

8.5. Rate of Return

The main return indicators were similar to those in previous periods, reflecting the constraints linked to the change in Net Interest Income. Accordingly, Return on Assets (ROA) was 0.35% (as compared to 0.34% at the same time last year), while Return on

Equity (ROE) stood at 6.27% (as compared to 6.60% at the same time last year) and the cost to income ratio was 2.46% (2.80% in June 2009).

Rate of Return

	Dec 09	Jun 09	Jun 10	Change	
	Value	Value	Value	Value	%
Profitability Ratios					
Return on Assets (ROA)	0,26%	0,34%	0,35%	0,01 p.p.	
Return on Equity (ROE)	4,72%	6,60%	6,27%	-0,33 p.p.	
Banking Revenue/Average Net Assents	2,63%	2,80%	2,46%	-0,34 p.p.	
Total Cash-Flow	**224.971**	**127.046**	**101.203**	**-25.843**	**-20,3%**
Depreciation	9,1%	7,4%	9,7%	2,3 p.p.	
Net Provisions & Impairments	71,1%	69,6%	60,1%	-9,5 p.p.	
Net Profit	19,8%	23,0%	30,2%	7,2 p.p.	

Total cash flow was 101.2 million euros. The contribution from Net Profit was up from 23.0% in June 2009 to 30.2% in June 2010.

8.6. Pension Fund

When calculating Montepio's Pension Fund liabilities, the following assumptions were used:

- Discount rate of 5.5%;
- Salary growth rate of 3.0%;
- Pension growth rate of 2.0%;
- TV 88/90 mortality table for men and women.

The degree of cover for minimum liabilities was 96.8%, a lower figure than those recorded in December 2009 (100.2%) and in June 2009 (98.4%), due to the fact that Minimum Liabilities to be Covered increased over the six months (+18.5 million euros) by a larger amount than the increase in Fund Assets (0.8 million euros) over the same period.

Changes in Montepio Pension Fund

(thousand euros)

		Dec 09	Jun 09	Jun 10	First Half Change (1)	
		Value	Value	Value	Value	%
1	**Total liabilities**					
	Current staff	321.838	303.747	332.211	10.373	3,2
	Retired staff	247.984	232.099	248.769	785	0,3
	Total 1	***569.822***	***535.846***	***580.980***	**11.158**	**2,0**
2	**Liabilities not claimed or deferred**					
	Financing exemption	14.650	13.441	15.380	730	5,0
	Application of IAS	27.094	31.110	19.061	-8.033	-29,6
	Mortality Table effect	23.971	30.509	23.972	1	0,0
	Total 2	**65.715**	**75.060**	**58.413**	**-7.302**	**-11,1**
3	**Minimum liabilities to be covered(1-2)**	**504.107**	**460.786**	**522.567**	**18.460**	**3,7**
4	**Value of fund**	**504.883**	**453.416**	**505.664**	**781**	**0,2**
5	**Degree of cover:**					
	Minimum liabilities (4/3)	100,2%	98,4%	96,8%		-3,4p.p.
	Total liabiliteis (4/1)	88,6%	84,6%	87,0%		-1,6p.p.
6	**Changes to fund:**					
6.1	Contributions received (+)	45.553	12.076	12.309		
6.2	Effective return of assets (+)	39.971	13.412	-2.545		
6.3	Costs (-)	125	93			
6.4	Pensions pay (-)	16.664	8.217	8.983		
6.5	**Total 6 (6.1+6.2-6.3-6.4)**	**68.735**	**17.178**	**781**		

(1) Calculated as at 31-12-2009

The increase in Minimum Liabilities to be covered mainly related to the rise in current staff costs that impacted the Fund's normal costs. The lesser increase in Fund Assets results from the negative return on the assets to the sum of 2.5 million euros, as compared to the positive return of 13.4 million euros in the first half of 2009.

9. Ratings

On 22 April 2010, following a change to the analysis methodology, Moody's Investors Service decided to lower the rating on Portuguese bank hybrid capital securities. That move had repercussions for the ratings of non-fixed term subordinate bonds, issued by Montepio under the Euro Medium Term Notes (EMTN) program, which went from Baa3 to Ba3.

Later, on 21 May 2010, as a consequence of the possible lowering of Portugal's rating, all Portuguese banks, including Montepio, were rated as "under review for possible lowering" by Moody's.

On 2 June 2010, Moody's decided to confirm Montepio's Bank Financial Strength Rating as a "D", with a "stable" outlook.

Finally, on 14 July 2010, as a consequence of the lowering of Portugal's rating from Aa2 to A1, the said agency lowered the ratings of Portuguese banks, and in the case of Montepio the impact was identical to that of the State, falling two levels, respectively:

- Medium and long-term senior debt: Baa3 from Baa1;
- Short-term senior debt: P-3 from P-2;
- Fixed term subordinate debt: Ba1 from Baa2. The rating outlook went from "stable" to "rating under review".

The Fitch Ratings retained the previous ratings, namely short-term “F2” and long-term “A-“.

Thus Montepio’s current ratings are as follows:

	Short-term	Long-term	Outlook
	F2	A-	Stable
	P-3	Baa3	Stable

10. Prospects for the Second Half of the Year

Prospects for the second half of the year are determined by the sovereign debt crisis, the continued lack of confidence and stress in the financial markets and the impact of additional budgetary control measures that could lead to a rise in unemployment and a shrinking economy. The increased sovereign debt risk brought about a strong aversion to investing in Southern Europe, which was recently reinforced by Moody’s decision to downgrade Portugal’s rating, and consequently that of Portuguese debt issuers, especially the banks. The upheaval in the sovereign debt market overshadowed the prospects of an economic recovery, despite the publishing of more positive national economic indicators in the first half of the year and the more favourable IMF forecasts for the world economy.

Although the expected recovery in the world economy should bring about an increase in foreign demand the high levels of indebtedness and the public deficit call for budget adjustments and reverse leverage on the part of the private sector, that provide for a more balanced long-term financial situation where the difference between savings and investment is reduced. However, those adjustments shall result in weak growth in the Portuguese economy in the second half of the year and in 2011, with a view to more sustained future growth. The weak business climate, plus the price and terms restrictions on financial markets’ funding are likely to lead to a continued slowdown in demand for credit and lower levels of banking business growth in Portugal. Following the sovereign debt crisis the European countries agreed, among other measures, to conduct and publish the results of a special batch of stress tests on a representative group of 91 institutions in the European Union, so as to restore investors and financial markets confidence. On 23rd July the central banks published the stress test results, which showed that European banks, and in particular Portuguese banks, are sufficiently sound to withstand adverse scenarios. It should be said here that Portuguese banks, including Montepio, have undertaken regular stress tests, as part of their prudential control since 2008. Although Montepio was not covered by the European exercise, it has conducted similar exercises which showed it has the soundness required to withstand adverse conditions. Mention should also be made of the General Meeting’s decision to approve a transfer of 40 million euros to increase Caixa Económica’s share capital in 2010, which, up to now, has not been deemed necessary given its high solvency level.

Despite the aforesaid risk factors and uncertainty, the Board of Directors believes that the Montepio Group, in particular Caixa Económica, meets the conditions required to overcome the difficulties it may face. The Group has the appropriate capital ratios for this difficult period and suitable liquidity levels, given the maturity of its liabilities and market conditions.

The current heavy constraints on external funding were taken into account in Montepio's strategic liquidity planning scenarios, so senior debt depreciation which will be 557 million euros in the second half of the year, is already covered by the respective funding. The strategy of diversified financing based on retail Customer Resources, mainly deposits, has proved effective. Deposits continue to be the most sound and safest form of finance, for both Montepio and the Portuguese economy as they encourage saving.

Bearing in mind the risks and the comfortable solvency and liquidity position, Montepio's Board of Directors decided it was the right time to speed up the Montepio Group's growth and diversification strategy and to adopt a strategy that increases the possibility of taking the opportunities the current situation offers.

Montepio Geral - Associação Mutualista, with the due approval of the General Council, launched a bid to purchase Sociedade Finibanco Holding, SGPS, SA., in order to reinforce the expansion of the mutual movement and the social economy, strengthen the Group's commercial capability and operations, consolidate skills in various financial services and improve the efficiency of the services provided. The success of the bid and preparation for the merge will be the main goals for the Group's management in the second half of the year.

Montepio's management will continue to focus on strategic development, particularly in areas deemed critical in the current economic crisis: continual and active monitoring of credit risk, development of personalised and effective debt recovery measures, monitoring of rate and Financial Profit changes and continued strict control over costs. In these circumstances, while the risks and uncertainty remain high, the conditions exist to overcome the difficulties and pursue a path of growth and development, in order to ensure sustained added value for Members and the mutual movement, thus contributing to strengthen the national financial sector and improve the country's economic and social conditions.

11. Governing Bodies

On 11th January 2010, the members of Montepio's governing bodies took up office for the three-year period 2010-2012:

GENERAL MEETING BOARD

Chairman	VITOR JOSÉ MELÍCIAS LOPES - *University Professor*
1st Secretary	ANTÓNIO PEDRO DE SÁ ALVES SAMEIRO - *Lawyer*
2nd Secretary	ANTÓNIO DIAS SEQUEIRA - *Economist*

BOARD OF DIRECTORS

Chairman	ANTÓNIO TOMÁS CORREIA - *Lawyer*
Member	JOSÉ DE ALMEIDA SERRA - *Economist*
Member	RUI MANUEL SILVA GOMES DO AMARAL - *Economist*
Member	EDUARDO JOSÉ DA SILVA FARINHA - *Economist*
Member	ÁLVARO CORDEIRO DÂMASO – *Lawyer*

INTERNAL AUDIT BOARD

Chairman	MANUEL JACINTO NUNES - *University Professor*
Member (Statutory Auditor)	GABRIEL JOSÉ DOS SANTOS FERNANDES - *Economist*
Member	JOSÉ MOREIRA VENÂNCIO - *Graduate in Bank Accounting and Law*

GENERAL BOARD – Permanent Members

MARIA MANUELA DA SILVA - *Economist*

MANUEL DA COSTA BRAZ - *Retired Army Officer*

ANTÓNIO AUGUSTO ALMEIDA - *Economist*

VIRGÍLIO MANUEL BOAVISTA LIMA - *Economist*

ARMANDO AUGUSTO PINTO DA SILVA - *Lawyer*

EUGÉNIO ÓSCAR GARCIA ROSA - *Economist*

ALBERTO JOSÉ DOS SANTOS RAMALHEIRA - *Economist*

JOSÉ CARLOS CORREIA MOTA ANDRADE - *Civil Engineer*

ANTÓNIO FERNANDO MENEZES RODRIGUES - *Economist*

MANUEL DUARTE CARDOSO MARTINS - *Retired Montepio Director*

JOSÉ JOAQUIM ROSA - *Graduate in Bank Management*

NORBERTO DA CUNHA J. F. FÉLIX PILAR - *Economist*

II COMPLIANCE STATEMENT

This statement is made pursuant to article 246 (1) (c) of the Stock Exchange Code (SEC).

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

We state that to the best of our knowledge we believe that:

- All the individual and consolidated financial information contained in the accounting documents for the first half of 2010 was prepared in accordance with the applicable accounting standards, and provides a true and fair view of the Institution's assets, liabilities, financial situation and profit;
- The Report accurately describes the changes in the Institution's business, performance and position and contains a description of the main risks and prospects, in compliance with legal requirements.

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

III - FINANCIAL STATEMENTS, NOTES TO THE ACCOUNTS AND AUDIT REPORTS

Balance Sheets and Income Statements

CONSOLIDATED BALANCE SHEET OF CAIXA ECONÓMICA AS AT 30 JUNE 2010 AND 31 DECEMBER 2009

(thousand euros)

	2010			2009
	Gross Asset	Impairment and Depreciation	Net Asset	Net Asset
ASSETS				
Cash and deposits at central banks	171 614		171 614	305 018
Loans and advances to credit institutions payable on demand	108 380		108 380	69 870
Financial assets held for trading	233 963		233 963	98 239
Other financial assets at fair value based on profit or loss	4 071		4 071	4 192
Available-for-sale financial assets	2 027 126	24 771	2 002 355	1 282 417
Other loans and advances to credit institutions	77 259	48	77 211	370 938
Loans and advances to customers	15 043 674	496 964	14 546 710	14 682 382
Held-to-maturity financial assets	57 899		57 899	33 523
Hedging derivatives	9 466		9 466	7 844
Non-current assets held for sale	166 820	35 207	131 613	128 599
Other tangible assets	208 341	115 556	92 785	91 275
Intangible assets	61 074	44 419	16 655	16 151
Investments in associated companies and others	40 498		40 498	40 775
Other assets	178 969	3 474	175 495	113 544
TOTAL ASSETS	**18 389 154**	**720 439**	**17 668 715**	**17 244 767**
LIABILITIES				
Central banks resources			905 383	502 353
Financial liabilities held for trading			36 384	36 767
Resources from other credit institutions			590 885	637 770
Resources from customers and other loans			9 369 721	9 180 858
Debt securities issued			4 782 784	4 914 915
Financial liabilities associated with transferred assets			414 093	428 147
Hedging derivatives			8 133	5 008
Provisions			1 420	1 490
Other subordinated liabilities			380 357	381 043
Other liabilities			202 281	170 202
TOTAL LIABILITIES			**16 691 441**	**16 258 553**
EQUITY				
Equity			760 000	760 000
Revaluation reserves			- 33 016	- 14 486
Other reserves and retained earnings			219 694	196 224
Profit for the period			30 596	44 476
TOTAL EQUITY			**977 274**	**986 214**
TOTAL LIABILITIES AND EQUITY			**17 668 715**	**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 30 JUNE 2010 AND 2009

(thousand euros)

	2010	2009
Interest and similar income	357 240	492 659
Interest and similar expenses	228 100	310 044
NET INTEREST INCOME	**129 140**	**182 615**
Dividends from equity instruments	467	716
Fees and commissions income	42 126	41 525
Fees and commissions expense	7 268	6 199
Profit on assets and liabities at fair value based on profit or loss	31 968	4 542
Profit on available-for-sale financial assets	8 980	440
Proft on currency revaluations	1 175	1 051
Profit on sale of other assets	- 1 986	315
Other operating profits	10 194	13 477
ACTIVITY REVENUE	**214 796**	**238 482**
Staff costs	74 184	74 979
Administrative overheads	39 279	37 405
Depreciation	9 837	9 426
Provisions net of adjustments	25	46
Impairment on credit net of reversals and recoveries	53 691	86 060
Impairment on other financial assets net of reversals and recoveries	1 169	1 374
Impairment on other assets net of reversals and recoveries	5 885	913
Profit on associated companies and joint ventures (net worth)	- 130	948
CONSOLIDATED PROFIT FOR THE PERIOD	**30 596**	**29 227**

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 BALANCE SHEET AS AT 30 JUNE 2010 AND 31 DECEMBER 2009

(thousand euros)

	2010			2009
	Gross Asset	Impairment and Depreciation	Net Asset	Net Asset
ASSETS				
Cash and deposits at central banks	171 614		171 614	305 018
Loans and advances to credit institutions payable on demand	93 122		93 122	51 745
Financial assets held for trading	233 942		233 942	98 239
Other financial assets at fair value based on profit or loss	4 071		4 071	4 192
Available-for-sale financial assets	4 954 267	31 011	4 923 256	3 164 510
Other loans and advances to credit institutions	77 259	48	77 211	370 884
Loans and advances to customers	14 740 667	411 560	14 329 107	14 448 162
Held-to-maturity financial assets	57 848		57 848	33 523
Hedging derivatives	9 466		9 466	7 844
Non-current assets held for sale	166 820	35 207	131 613	128 599
Other tangible assets	208 228	115 542	92 686	91 173
Intangible assets	61 074	44 419	16 655	16 151
Investments in associated companies and others	43 297		43 297	43 297
Other assets	200 788	3 473	197 315	132 447
TOTAL ASSETS	**21 022 463**	**641 260**	**20 381 203**	**18 895 784**
LIABILITIES				
Central banks resources			905 383	502 353
Financial liabilities held for trading			36 314	36 388
Resources from other credit institutions			960 182	945 400
Resources from customers and other loans			9 007 812	8 881 046
Debt securities issued			4 483 347	4 583 307
Financial liabilities associated with transferred assets			3 328 824	2 301 379
Hedging derivatives			8 133	5 008
Provisions			101 318	102 800
Other subordinated liabilities			380 357	381 043
Other liabilities			191 968	161 826
TOTAL LIABILITIES			**19 403 638**	**17 900 550**
EQUITY				
Equity			760 000	760 000
Revaluation reserves			- 39 570	- 20 196
Other reserves and retained earnings			231 114	217 652
Profit for the period			26 021	37 778
TOTAL EQUITY			**977 565**	**995 234**
TOTAL LIABILITIES AND EQUITY			**20 381 203**	**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 AS AT 30 JUNE 2010 AND 2009

(thousand euros)

	2010	2009
Interest and similar income	346 994	525 247
Interest and similar expenses	218 149	343 174
NET INTEREST INCOME	**128 845**	**182 073**
Dividends from equity instruments	2 104	2 484
Fees and commissions income	42 126	41 525
Fees and commissions expense	7 268	6 199
Profit on assets and liabities at fair value based on profit or loss	31 638	4 826
Profit on available-for-sale financial assets	8 334	440
Profit on currency revaluations	1 137	1 034
Profit on sale of the assets	- 1 986	315
Other operating profits	10 194	13 477
BANKING REVENUE	**215 124**	**239 975**
Staff costs	73 731	74 343
Administrative overheads	39 251	37 364
Depreciation	9 835	9 424
Provisions net of adjustments	- 1 388	- 370
Corrections to value associated with customer credit and other debtors (net of adjustments)	60 620	86 476
Impairment on other financial assets net of reversals and recoveries	1 169	1 374
Impairment on other assets net of reversals and recoveries	5 885	913
PROFIT FOR THE PERIOD	**26 021**	**30 451**

THE CHIEF ACCOUNTANT

Armindo Marques Matias

O CONSELHO DE ADMINISTRAÇÃO

António Tomás Correia - Chairman

José de Almeida Serra

Rui Manuel Silva Gomes do Amaral

Eduardo José da Silva Farinha

Álvaro Cordeiro Dâmaso

Caixa Económica Montepio Geral

Interim Consolidated Financial Statements

30 June, 2010 and 2009

This Report is a translation to English of the Portuguese version.
In case of doubt, or misinterpretation the Portuguese version will prevail.

August 2010
This report contains 113 pages

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LIMITED REVIEW REPORT
ON INTERIM CONSOLIDATED FINANCIAL INFORMATION
ISSUED BY THE CMVM REGISTERED AUDITOR

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

INTRODUCTION

1. In accordance with the Stock Exchange Code ("Código dos Valores Mobiliários" or "CVM"), we present our Limited Review Report, on the interim consolidated financial information for the six months period ended 30 June, 2010 of **Caixa Económica Montepio Geral**, which comprise the consolidated Balance sheet as at 30 June 2010 (showing total assets of 17,668,715 thousand Euros and total equity of 977,274 thousand Euros, including a consolidated net profit of 30,596 thousand Euros) the consolidated statements of income, of cash flows, of changes in equity and of comprehensive income for the six months period then ended and the corresponding notes to the accounts.

2. The amounts included in the interim financial statements and in the additional financial information were derived from the accounting records.

RESPONSIBILITIES

3. The Board of Directors is responsible for:

a) the preparation of the consolidated financial information that present fairly the financial position of all the groups of companies included in the consolidation, the consolidated results of its operations, consolidated cash flows, changes in equity and its comprehensive income;

b) the historical financial information prepared in accordance with the IAS 34 – Interim Financial Reporting, to be complete, true, current, clear, objective and lawful as required by the Stock Exchange Code ("Código dos Valores Mobiliários");

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 of the group of companies included in the consolidation, financial position or results of the CEMG.

4. Our responsibility is to verify the financial information included in the above referred documents, namely as to whether it is complete, true, current, clear, objective and lawful as required by the "Código dos Valores Mobiliários" in order to issue a professional and independent opinion based on our work.

SCOPE

5. The work that we have performed was conducted with the objective of obtaining a moderate level of assurance that the consolidated financial information mentioned above is free of material misstatements. Our work was performed based on the Technical Standards and Review/Audit Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), and planned in accordance with that objective and included the following procedures:

a) mainly, inquiries and analytical procedures performed to review:

- the reability of the assertions included in the consolidated financial information;
- the adequacy of the accounting policies adopted, considering the circumstances and the consistency of their application;
- the application of the going concern principle;
- the presentation of the consolidated financial information;
- if the consolidated financial information is complete, true, current, clear, objective and lawful; and

b) substantive tests on material non current transactions.

6. Our review also included the verification that the consolidated financial information included in the interim Report of the Board of Directors is consistent with the remaining documents mentioned above.

7. We believe that our work provides a reasonable basis to issue our report on the interim individual financial information.

OPINION

8. Based on our review, which was performed with the objective of obtaining moderate assurance, nothing has come to our attention that causes us to believe that the interim consolidated individual financial information of **Caixa Económica Montepio Geral** as at 30 June 2010, the consolidated results of its operations, consolidated cash flows, changes in equity and its comprehensive income in the six months period ended at 30 June 2010, is not free of material misstatements that affects its compliance with IAS 34 - Interim Financial Reporting and that is not complete, true, current, clear, objective and lawful.

Lisbon, 16 August 2010

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (no. 189)
represented by
Sílvia Cristina de Sá Velho Corrêa da Silva Gomes
(Statutory Auditor no. 1131)

FINANCIAL STATEMENTS

- NOTES TO THE FINANCIAL STATEMENTS
(Pages 4 to 113)

Caixa Económica Montepio Geral

Consolidated Income Statement
for the six months period ended at 30 June 2010 and 2009

(Amounts expressed in thousands of Euro)

	Notes	June 2010	June 2009
Interest and similar income	3	357,240	492,659
Interest and similar expense	3	228,100	310,044
Net interest income		129,140	182,615
Dividends from equity instruments	4	467	716
Fee and comission income	5	42,126	41,525
Fee and comission expense	5	(7,268)	(6,199)
Net gains/(losses) arising from assets and liabilities at fair value through profit or loss	6	31,968	4,542
Net gains/(losses) arising from available-for-sale financial assets	7	8,980	440
Net gains arising from foreign exchange differences	8	1,175	1,051
Net gains from sale of other financial assets		(1,986)	315
Other operating income	9	9,014	11,737
Total operating income		213,616	236,742
Staff costs	10	74,184	74,979
General and administrative expenses	11	39,279	37,405
Depreciation and amortisation	12	9,837	9,426
Total operating costs		123,300	121,810
Loans impairment	13	52,511	84,320
Other assets impairment	14	7,054	2,287
Other provisions	15	25	46
Operating profit		30,726	28,279
Share of profit of associates under the equity method	16	(130)	948
Profit for the period		30,596	29,227

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

Caixa Económica Montepio Geral

Consolidated Balance Sheet as at 30 June 2010 and 31 December 2009

(Amounts expressed in thousands of Euro)

	Notes	June 2010	December 2009
Assets			
Cash and deposits at central banks	17	171,614	305,018
Loans and advances to credit institutions repayable on demand	18	108,380	69,870
Other loans and advances to credit institutions	19	77,211	370,938
Loans and advances to customers	20	14,546,710	14,682,382
Financial assets held for trading	21	240,980	103,195
Other financial assets at fair value through profit or loss	22	4,071	4,192
Financial assets available-for-sale	23	2,002,355	1,282,417
Hedging derivatives	24	3,751	5,109
Held-to-maturity investments	25	57,899	33,523
Investments in associated companies and others	26	40,498	40,775
Non-current assets held for sale	26	131,613	128,599
Property and equipment	28	92,785	91,275
Intangible assets	29	16,655	16,151
Other assets	30	174,193	111,323
Total Assets		17,668,715	17,244,767
Liabilities			
Deposits from central banks	31	905,383	502,353
Deposits from other credit institutions	32	590,885	637,770
Deposits from customers	33	9,369,721	9,180,858
Debt securities issued	34	4,782,784	4,914,915
Financial liabilities held for trading	21	43,391	41,724
Hedging derivatives	24	1,601	598
Provisions	35	1,420	1,490
Other subordinated debt	36	380,357	381,043
Other liabilities	37	615,899	597,802
Total Liabilities		16,691,441	16,258,553
Equity			
Share capital	38	760,000	760,000
Fair value reserves	40	(48,620)	(28,600)
Other reserves and retained earnings	39 e 40	235,298	210,338
Profit for the period		30,596	44,476
Total Equity		977,274	986,214
		17,668,715	17,244,767

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

Caixa Económica Montepio Geral

Consolidated Statement of Cash Flows
for the six months period ended at 30 June 2010 and 2009

(Amounts expressed in thousands of Euro)

	June 2010	June 2009
Cash flows arising from operating activities		
Interest income received	343,733	528,409
Commission income received	42,001	41,455
Interest expense paid	(213,375)	(307,629)
Commission expense paid	(6,655)	(5,571)
Payments to employees and suppliers	(111,752)	(108,310)
Recovered from charged-off loans	1,180	1,741
Other payments and receivables	80,483	152,032
	135,615	302,127
(Increase) / decrease in operating assets		
Loans and advances to credit institutions and customers	356,223	(294,966)
Other assets	(72,699)	(143,440)
	283,524	(438,406)
(Increase) / decrease in operating liabilities		
Deposits from central banks	184,374	695,089
Deposits from clients	(544,913)	(963,392)
Deposits from credit institutions	900,000	800,000
	539,461	531,697
	958,600	395,418
Cash flows arising from investing activities		
Dividends received	467	716
(Acquisition) / sale of trading financial assets	(122,420)	(21,504)
(Acquisition) / sale of other financial assets at fair value through profit or loss	121	92
(Acquisition) / sale of available for sale financial assets	(741,126)	(205,438)
(Acquisition) / sale of hedging derivatives	1,514	(2,145)
(Acquisition) / sale of held to maturity investments	(24,397)	63
(Acquisition) / sale of shares in associated companies	931	29
Deposits owned with the purpose of monetary control	119,388	147,411
Proceeds from sale of fixed assets	607	479
Acquisition of fixed assets	(11,954)	(11,966)
	(776,869)	(92,263)
Cash flows arising from financing activities		
Dividends paid	(20,300)	(11,272)
Proceeds from issuance of share capital	-	100,000
Proceeds from issuance of bonds and subordinated debt	(27,534)	(141,253)
Reimbursement of bonds and subordinated debt	(111,071)	(248,060)
Increase / (decrease) in other (sundry) liabilities	1,668	(11,850)
	(157,237)	(312,435)
Net changes in cash and equivalents	24,494	(9,280)
Cash and equivalents balance at the beginning of the period	168,998	182,025
Cash (note 16)	99,128	89,900
Loans and advances to credit institutions repayable on demand (note 17)	69,870	92,125
Cash and equivalents balance at the end of the period	193,492	172,745

Caixa Económica Montepio Geral

Consolidated Statement of Changes in Equity
for the six months period ended at 30 June 2010 and 2009

(Amounts expressed in thousands of Euro)

	Total equity	Share capital	General and special reserves	Other reserves	Fair value reserves	Retained earnings
Balance on 1 January 2009	823,669	660,000	216,985	1,995	(48,064)	(7,247)
Other movements recognised directly in Equity:						
Changes in fair value (note 40)	(8,140)	-	-	-	(8,140)	-
Increase in share capital	100,000	100,000	-	-	-	-
Dividends paid (note 42)	(11,271)	-	-	-	-	(11,271)
Equity method	3,510	-	-	7,749	-	(4,239)
Profit for the period	29,227	-	-	-	-	29,227
Total gains and losses recognised in the period	936,995	760,000	216,985	9,744	(56,204)	6,470
Reserves constitution						
General reserve	-	-	7,125	-	-	(7,125)
Special reserve	-	-	1,766	-	-	(1,766)
Balance on 30 June 2009	936,995	760,000	225,815	9,744	(56,204)	(2,360)
Changes in fair value (note 40)	31,975	-	-	4,371	27,604	-
IAS 19 adjustments	1,995	-	-	-	-	1,995
Profit for the period	15,249	-	-	-	-	15,249
Balance on 31 December 2009	986,214	760,000	225,815	14,115	(28,600)	14,884
Other movements recognised directly in Equity:						
Changes in fair value (note 40)	(20,020)	-	-	-	(20,020)	-
Increase in share capital	-	-	-	-	-	-
Dividends paid (note 42)	(20,300)	-	-	-	-	(20,300)
Equity method	784	-	-	1,489	-	(705)
Profit for the period	30,596	-	-	-	-	30,596
Total gains and losses recognised in the period	977,274	760,000	225,815	15,604	(48,620)	24,475
Reserves constitution						
General reserve	-	-	7,635	-	-	(7,635)
Special reserve	-	-	1,889	-	-	(1,889)
Balance on 30 June 2010	977,274	760,000	235,339	15,604	(48,620)	14,951

Caixa Económica Montepio Geral

Consolidated Statement of the Comprehensive Income
for the six months period ended at 30 June 2010 and 2009

(Amounts expressed in thousands of Euro)

	Note	June 2010	June 2009
Fair value reserves			
Available-for-sale financial instruments	39	(48,620)	(56,204)
Profit for the period		30,596	29,227
Total comprehensive income for the period		(18,024)	(26,977)

Notes to the Interim Consolidated Financial Statements
30 June 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 19 July 2002, from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February 2005 and Regulation no. 1/2005 from the Bank of Portugal, CEMG is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted 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 interim consolidated financial statements for the six months period ended 30 June 2010 were prepared in accordance with the IFRS effective and adopted by the EU until 30 June 2010. These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) – IAS 34 Interim Financial Reporting and do not include all the information required in the preparation of a complete set of consolidated financial statements which will be prepared for the year ending 31 December 2010.

The accounting policies applied by the CEMG in the preparation of its interim consolidated financial statements as at and for the six month period ended 30 June 2010 are consistent with the ones used in the preparation of the annual consolidated financial statements as at and for the year ended 31 December 2009.

During the six month period ended 30 June 2010, the CEMG adopted:

- IFRS 3 (revised) – Business Combination and IAS 27 (amendment) – Consolidate and Separate Financial Statements. As a result, the CEMG adapted the accounting policy related with the basis for consolidation. The adoption of the changes had no significant impact on the interim consolidated financial statements;
- IFRS 5 (amendment) – Non-current assets held for sale and discontinued operations. The adoption of this amendment had no significant impact on the interim consolidated financial statements;

- IAS 39 (amendment) – Financial Instruments: Recognition and Measurement – Eligible hedged items. The adoption of this amendment had no significant impact on the interim consolidated financial statements;
- IFRIC 12 – Service Concession Arrangement, IFRIC 17 - Distribution of non-cash assets to owners and IFRIC 18 – Transfer of assets from customers. The adoption of these interpretations had no significant impact on the interim consolidated financial statements.

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

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

These interim consolidated financial statements were approved in the Board of Directors meeting held on 12 August, 2010.

1.2 Basis of consolidation

These interim 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 interim consolidated financial statements.

Investments in subsidiaries

Investments in subsidiaries where the CEMG holds control are fully consolidated from the date the CEMG assumes control over its financial and operational activities until the control ceases to exist. Control is presumed to exist when the CEMG owns more than half of the voting rights. Additionally, control exists when the CEMG has the power, directly or indirectly, to manage 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 the CEMG and charged to the income statement as it occurs. Profits subsequently reported by the subsidiary are recognised as profits of the CEMG until the prior losses attributable to minority interest previously recognised by the CEMG have been recovered.

As from 1 January, 2010, the due proportion of accumulated losses are attributed to minority interests, implying that the 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 parcial disposal resulting in loss of control over a subsidiary, any participation retained is revalued at market value on the sale date and the gain or loss resulting from this revaluation is booked against the income statement.

Associates

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

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

- representation on the Board of Directors or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between CEMG and the investee;
- interchange of management team;
- provision of essential technical information.

The consolidated financial statements include the part that is attributable to the CEMG of the total reserves and results of associated companies accounted on an equity basis. When the CEMG’s share of losses exceeds its interest in an associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the CEMG has incurred in a legal or constructive obligation to assume those losses on behalf of an associate.

Purchases of minority interests and dilution

Until 31 December 2009, in an acquisition of minority interests, the difference between the fair value of the minority interests acquired and the consideration paid, was accounted against goodwill. The acquisitions of minority interests through written put options related with investments in subsidiaries held by minority interests, were recorded as a financial liability for the present value of the best estimate of the amount payable, against minority interests. The difference between the minority interests acquired and the fair value of the liability, was recorded as goodwill. The fair value of the liability was determined based on the contractual price which may be fixed or variable. In case of a variable price, the changes in the liability are recognised as an adjustment to the cost of the business combination against goodwill and the effect of the financial discount of the liability (unwinding) was recognised as a financial expense in the consolidated income statement. This accounting treatment is maintained for all options contracted until 31 December 2009.

Until 31 December, 2009, when an interest in a subsidiary was disposed of, without a loss in control, the difference between the sale price and the book value of the net assets held by the CEMG, plus the carrying value of goodwill in that subsidiary, was recognised in the income statement of the period as a gain or loss resulting from the disposal. The dilution effect occurs when the percentage of interest in a subsidiary decreases without any sale of interest in that subsidiary, for example, if the CEMG does not participate proportionally in the share capital increase of that subsidiary. Until 31 December, 2009, the CEMG recognised the gains or losses resulting from a dilution of a subsidiary following a sale or capital increase in the income statement.

The acquisitions of minority interests through written put options related with investments in subsidiaries held by minority interests, are recorded as a financial liability for the present value of the best estimate of the amount payable, against minority interests. The fair value of the liability is determined based on the contractual price which may be fixed or variable. In case of a variable price, the changes in the liability are recognised against the income statement as well as the effect of the financial discount of the liability (unwinding). As from 1 January 2010 onwards, in an acquisition (dilution) of minority interests not resulting in a loss of control, the difference between the fair value of the minority interests acquired and the consideration paid, is accounted against reserves.

Special Purpose Entities ("SPE's")

The CEMG fully consolidates SPE's, specifically created to accomplish a narrow and well defined objective, when the substance of the relationship with those entities indicates that the 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 have been identified that would meet the criteria established on SIC 12 as described below.

The evaluation of the existence of control is determined based on the criteria established by SIC 12 – 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 the 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 to equity instruments classified as available-for-sale, which are accounted for in equity, within the fair value 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 accounting policy, 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 a hedge relationship to be classified as such according to IAS 39 – Financial Instruments: Recognition and Measurement, effectiveness has to be demonstrated. As such, the CEMG performs prospective tests at the beginning date of the initial hedge, if applicable and retrospective tests in order to demonstrate at each reporting period the effectiveness of the hedging relationships, showing that the changes in the fair value of the hedging instrument are hedged by the changes in the hedged item for the risk being covered. Any ineffectiveness is recognised 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 includes loans and advances originated by CEMG, which are not intended to be sold in the short term and are recognised when cash is advanced to borrowers.

Loans and advances to customers are derecognised from the balance sheet when (i) the contractual rights to receive their cash flows have expired, (ii) the 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, the CEMG has transferred the control over the assets.

Loans and advances to customers are initially recorder at fair value plus transaction costs and are subsequently measured at amortised cost, using the effective interest rate method, less impairment losses.

Impairment

The CEMG's policy consists in a regular assessment of the existence of objective evidence of impairment within its loan portfolio. Impairment losses identified are recognised in the income statement, and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: (i) there is objective evidence of impairment as a result of one or more events that occurred after its initial recognition and (ii) that event (or events) 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 – Financial Instruments: Recognition and Measurement, there are two basic methods of calculating impairment losses: (i) individually assessed loans; and (ii) collective assessment.

i) Individually assessed loans

Impairment losses on individually assessed loans are determined by an evaluation of the exposures on a case-by-case basis. For each loan considered individually significant, the 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 client 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.

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 for which no objective evidence of impairment is identified (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 impact 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 which have been individually assessed and for which no evidence of impairment has been identified, are grouped together based on similar credit risk characteristics for calculating a collective impairment loss. This loss covers loans that are impaired at the balance sheet date but which will not be individually identified as such until 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 or that are owned as part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking and (ii) financial assets that are designated at fair value through profit or loss at inception.

Trading derivatives with a positive fair value are included in the Financial assets held for trading and the trading derivatives with negative fair value are included in the Financial liabilities held for trading.

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 recognised in profit and loss and subsequently measured at fair value through profit and loss. The accrual of interest and premium/discount (when applicable) is recognised in Net interest income according with the effective interest rate of each transaction, as well as for the derivatives associated to financial instruments classified as Fair Value Option.

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, at inception, as at fair value through profit or loss or as available-for-sale.

Available-for-sale financial assets

Available-for-sale financial assets 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 rate method and dividends are recognised in the income statement.

Held-to-maturity investments are carried at amortised cost using the effective interest rate 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 the CEMG to reclassify the entire portfolio as Financial assets available for sale and the CEMG will not be allowed to classify any assets under this category for the following two years.

The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities the 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.

In October 2008, the IASB issued an amendment to IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. This amendment to IAS 39, permits, in rare circumstances, to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category, to the held-to-maturity investments, available-for-sale financial assets and loans and receivables categories. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category.

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 six months period ended 30 June 2010 and the year 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 equity securities, a significant or prolonged decline in the fair value of the security below its cost, and (ii) for debt 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 carrying amount 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, 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 rate method.

Securities lent under lending agreements are not derecognised of the balance sheet, being classified and measured in accordance with the accounting policy described in 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 the 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 the 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

Assets arising out of recovered loans include buildings, loans seize and securities arising from the settlement of loan contracts. These assets are reported under Non-current assets held for sale and are measured initially by the lower of its fair value net of expenses and the loan's carrying amount on the date that the recovery occurs or the judicial decision is formalized.

Fair value is based on the market value, being determined based on the expectable selling price estimated through periodic valuations performed by the CEMG.

The subsequent accounting of these assets is determined based on the lower of the carrying amount and its corresponding fair value net of expenses. No depreciation is provided in respect of those assets. In case of unrealised losses, these should be recognised as impairment losses against results.

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 buildings 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 Employee 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)”.

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 – Employees benefits.

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, the 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.

The 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%.

The 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 income and expense

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 accounting policy 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 derivatives for risk management purposes, the interest component of the changes in their fair value is not separated out and is classified under net gains/(losses) from financial assets and financial liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

1.18 Fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions 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;

- Fees and commissions earned over the period in which the services are provided are recognised as income in the period the services are provided;

- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate 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.

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, the 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

The 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.

Securitisations and Special Purpose Entities (SPE)

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.

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.

The credit securitization transactions Pelican Mortgages no. 3, 4, 5 and Pelican SME, not led to derecognition in the CEMG financial statements.

Moreover, the CEMG derecognised assets associated with the following credit securitization transactions: Pelican Mortgages no. 1 and 2.

Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

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

IFRS 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 available-for-sale activities. This required disclosure, however, does not take into account that net gains arising from assets and liabilities at fair value through profit or loss, available-for-sale financial assets and interest and similar income activities are generated by a range of different business activities.

These balances are analysed as follows:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Net interest income	129,140	314,857
Net gains arising from assets and liabilities at fair value through profit and loss and available-for-sale financial assets	40,948	4,982
	170,088	187,597

3 Net interest income

This balance is analysed as follows:

	Jun 2010			Jun 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	216,330	-	216,330	333,081	-	333,081
Interest from other assets	10,929	-	10,929	1,182	-	1,182
Interest from deposits with banks	777	-	777	1,188	-	1,188
Interest from available-for-sale financial assets	32,717	-	32,717	34,025	-	34,025
Interest from held-to-maturity financial assets	1,214	-	1,214	754	-	754
Interest from hedging derivatives	1,893	-	1,893	2,837	-	2,837
Interest from available for trading financial assets	-	89,440	89,440	-	115,695	115,695
Other interest and similar income	3,940	-	3,940	3,897	-	3,897
	267,800	89,440	357,240	376,964	115,695	492,659
Interest and similar expense:						
Interest from deposits	67,349	-	67,349	112,125	-	112,125
Interest from securities issued	46,724	-	46,724	72,375	-	72,375
Interest from loans	2,351	-	2,351	4,720	-	4,720
Interest from other funding	23,749	-	23,749	14,548	-	14.548
Interest from hedging derivatives	973	-	973	2,197	-	2,197
Interest from available for trading financial assets	-	64,768	64,768	-	93,613	93,613
Other interest and similar expense	22,186	-	22,186	10,466	-	10,466
	163,332	64,768	228,100	216,431	93,613	310,044
Net interest income	104,468	24,672	129,140	334,050	22,082	182,615

4 Dividends from equity instruments

This caption in the amount of Euro 467,000 (30 June, 2009: Euro 716,000) is related to dividends from available-for-sale financial assets.

5 Net fee and commission income

The amount of this account is comprised of:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Fee and commission income:		
From banking services	30,557	29,147
From transactions with third parties	4,502	3,472
From commitments to third parties	2,963	4,479
Other fee and commission income	4,104	4,427
	42,126	41,525
Fee and commission expense:		
From banking services rendered by third parties	6,869	5,752
From transactions with securities	177	218
Other fee and commission expense	222	229
	7,268	6,199
Net fee and commission income	34,858	35,326

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

The amount of this account is comprised of:

	Jun 2010			Jun 2009		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
	Euro '000	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by public entities	328	1,256	(928)	25	-	25
Issued by other entities	177	256	(79)	567	1	566
Shares	54	257	(203)	565	23	542
	559	1,769	(1,210)	1,157	24	1,133
Derivative financial instruments						
Exchange rate contracts	147,360	148,532	(1,172)	64,927	63,649	1,278
Interest rate contracts	230,577	195,691	34,886	166,738	155,278	14,460
Credit default contracts	2,886	3,717	(831)	4,684	4,207	477
Others	46,514	45,101	1,413	14,061	27,522	(13,461)
	427,337	393,041	34,296	250,410	247,656	2,754
	427,896	394,801	33,086	251,567	247,680	3,887
Other financial assets at fair value through profit or loss						
Bonds and other fixed income securities						
Issued by other entities	-	28	(28)	-	-	-
Financial liabilities						
Other loans and advances to credit institutions	536	262	274	433	646	(213)
Deposits from customers	298	263	35	165	686	(521)
Debt securities issued	104	-	104	933	1,688	(755)
Other subordinated debt	15,600	17,103	(1,503)	22,842	20,698	2,144
	16,538	17,628	(1,090)	24,373	23,718	655
	444,434	412,466	31,968	275,940	271,398	4,542

The result of own issuing repurchase is calculated according to the referred in the accounting policy 1.8.

7 Net gains arising from available-for-sale financial assets

The amount of this account is comprised of:

	Jun 2010			Jun 2009		
	Gains	Losses	Total	Gains	Losses	Total
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Bonds and other fixed income securities						
Issued by public entities	1,872	492	1,380	55	1	54
Issued by other entities	5,531	670	4,861	462	47	415
Shares	2,660	-	2,660	10	26	(16)
Other variable income securities	85	6	79	2	15	(13)
	10,148	1,168	8,980	529	89	440

8 Net gains from foreign exchange differences

The amount of this account is comprised of:

	Jun 2010			Jun 2009		
	Gains	Losses	Total	Gains	Losses	Total
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Foreign exchange differences	8,329	7,154	1,175	20,894	19,843	1,051

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 1.3.

9 Other operating income

The amount of this account is comprised of:

	Jun 2010 Euro '000	Jun 2009 Euro '000
Other operating income:		
Income from services	2,517	1,931
Reimbursement of expenses	966	751
Profits arising from deposits on demand management	4,031	3,934
Repurchase debt	3,650	6,742
Other operating income	1,135	1,639
	12,299	14,997
Other operating expense:		
Indirect taxes	58	76
Donations and quotizations	171	151
Contributions to the Deposit Guarantee Fund	845	874
Other operating expenses	2,211	2,159
	3,285	3,260
Other net operating income	9,014	11,737

10 Staff costs

The amount of this account is comprised of:

	Jun 2010 Euro '000	Jun 2009 Euro '000
Remunerations	53,498	54,243
Health-care benefits – SAMS	3,143	3,159
Mandatory social security charges	4,148	3,887
Other charges with the pensions fund	11,831	11,794
Other staff costs	1,564	1,896
	74,184	74,979

The health-care benefits – SAMS include the amount of Euro 357,000 (30 June, 2009: Euro 353,000) related to the health-care net periodic benefit cost, which was determined based on the actuarial valuation performed (see note 44).

The balance Pension costs includes, includes the amount of Euro 10,837,000 (30 June, 2009: Euro 13,094,000) related to early retirements during the first semester of 2010.

The costs with salaries and other benefits attributed to CEMG key management personnel, during the first semester of 2010, are presented as follows:

	Boards of Directors Euro '000	Other key Management personnel Euro '000	Total Euro '000
Salaries and other short-term benefits	669	2,258	2,927
Pension costs and health-care benefits (SAMS)	3	80	83
Variable remunerations	-	75	75
	672	2,413	3,085

The costs with salaries and other benefits attributed to CEMG key management personnel, during the first semester of 2009, are presented as follows:

	Boards of Directors Euro '000	Other key management Euro '000	Total Euro '000
Salaries and other short-term benefits	455	2,474	2,929
Pension costs and health-care benefits (SAMS)	-	542	542
Variable remunerations	3	87	90
	458	3,103	3,561

It is our understanding that the Other key management personnel are the top Directors of CEMG.

As at 30 June 2010 and 2009, loans granted by CEMG to its key management personnel, amounted to Euro 4,517,000 and Euro 5,801,000, respectively.

The average number of employees by professional category at service in CEMG during the first semester of 2010 and the year of 2009 is analysed as follows:

	Jun 2010	Dec 2009
Management	125	125
Managerial staff	499	512
Technical staff	645	662
Specific categories	144	144
Administrative	1,383	1,418
Staff	69	74
	2,865	2,935

11 General and administrative expenses

The amount of this account is comprised of:

	Jun 2010 Euro '000	Jun 2009 Euro '000
Rents	10,045	12,078
Specialised services		
Information technology services	5,059	1,954
Outsourcing	1,527	1,951
Other specialised services	5,443	6,639
Advertising	2,405	838
Communications	4,367	3,748
Water, electricity and fuel	2,090	1,778
Maintenance and related services	2,526	2,002
Transportation	1,733	1,723
Insurance	1,280	1,575
Travel, hotel and representation costs	539	597
Consumables	691	709
Training costs	339	447
Other supplies and services	1,235	1,366
	39,279	37,405

The balance Rents includes the amount of Euro 7,809,000 (30 June, 2009: Euro 7,894,000) related to rents paid regarding buildings used by CEMG as leaser.

12 Depreciation and amortisation

The amount of this account is comprised of:

	Jun 2010 Euro '000	Jun 2009 Euro '000
Intangible assets:		
Software	3,539	3,899
Other tangible assets:		
Land and buildings	1,674	1,633
Equipment		
Furniture	284	309
Office equipment	29	49
Computer equipment	3,166	2,588
Interior installations	600	648
Motor vehicles	2	6
Security equipment	178	96
Operational lease – Renting	365	198
	6,298	5,527
	9,837	9,426

13 Loans impairment

The amount of this account is comprised of:

	Jun 2010 Euro '000	Jun 2009 Euro '000
Overdue loans and advances to customers:		
Charge for the period	265,702	220,757
Write-back for the period	(211,993)	(134,715)
Recovery of loans and interest charged-off	(1,180)	(1,741)
	52,529	84,301
Other loans and advances to credit institutions		
Charge for the period	54	49
Write-back for the period	(72)	(30)
	(18)	19
	52,511	84,320

14 Other assets impairment

The amount of this account is comprised of:

	Jun 2010 Euro '000	Jun 2009 Euro '000
Impairment for investments arising from recovered loans:		
Charge for the period	7,880	915
Write-back for the period	(1,995)	(2)
	5,885	913
Impairment for securities:		
Charge for the period	1,371	1,443
Write-back for the period	(202)	(69)
	1,169	1,374
	7,054	2,287

15 Other provisions

The amount of this account is comprised of:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Provision for liabilities and charges:		
Charge for the period	235	46
Write-back for the period	(210)	-
	25	46

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:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Lusitania, Companhia de Seguros, S.A.	(1,109)	199
Lusitania Vida, Companhia de Seguros, S.A.	1,064	745
Norfin - Soc. Gestora de Fundos Invest. Imob., S.A.	-	113
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	(85)	(109)
	(130)	948

17 Cash and deposits at central banks

This balance is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Cash	85,112	99,128
Bank of Portugal	86,502	205,890
	171,614	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 30 June 2010, these deposits have earned interest at an average rate of 1% (31 December, 2009: 1.35%).

18 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Credit institutions in Portugal	16,188	18,260
Credit institutions abroad	9,146	9,433
Amounts due for collection	83,046	42,177
	108,380	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:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Loans and advances to credit institutions in Portugal		
Deposits	205	245
Short term deposits	15,000	-
Other loans and advances	-	50,014
	15,205	50,259
Loans and advances to credit institutions abroad		
Deposits	120	159
Short term deposits	-	280,000
Other loans and advances	61,934	40,586
	62,054	320,745
	77,259	371,004
Impairment for credit risks over credit institutions	(48)	(66)
	77,211	370,938

The main loans and advances to credit institutions in Portugal, as at 30 June 2010, bear interest at an average annual interest rate of 1.25% (31 December, 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:

	Jun 2009 Euro '000	Dec 2009 Euro '000
Due within 3 months	35,027	285,686
3 months to 6 months	-	50,014
6 months to 1 year	7,007	34,900
1 year to 5 years	34,900	-
Over 5 years	205	299
Undetermined	120	105
	77,259	371,004

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

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Impairment for credit risks over credit institutions:		
Balance on 1 January	66	42
Charge for the period	54	49
Write-back for the period	(72)	(30)
Balance on 30 June	48	61

20 Loans and advances to customers

This balance is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Domestic loans:		
Corporate		
Loans	1,301,860	1,249,077
Commercial lines of credits	2,077,478	2,309,633
Finance leases	222,159	203,803
Discounted bills	99,645	121,695
Factoring	89,181	76,807
Overdrafts	7,727	5,274
Other loans	713,203	681,904
Retail		
Mortgage loans	9,068,602	9,106,948
Finance leases	40,314	36,411
Consumer and other loans	822,629	803,137
	14,442,798	14,594,707
Foreign loans:		
Corporate		
Overdrafts	2	18
	14,594,707	14,966,477
Overdue loans and interest:		
Less than 90 days	86,460	73,470
More than 90 days	514,414	508,118
	600,874	581,588
	15,043,674	15,176,295
Impairment for credit risks	(496,964)	(493,913)
	14,546,710	14,682,382

As at 30 June 2010, the balance Loans and advances to customers (net of impairment losses) includes the amount of Euro 290,599,000 (31 December, 2009: Euro 318,961,000) related to securitised loans following the consolidation of securitisation vehicles (see note 46), according to the accounting policy 1.2. The liabilities related to these securitisations are booked under debt securities issued (see note 34).

As at 30 June 2010, this balance includes Euro 1,346,139,000 (31 December, 2009: Euro 1,298,998,000) regarding mortgage loans that collateralise the issue of covered bonds issued by CEMG (see note 34).

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%.

In December 2009, CEMG performed the second issue of covered bonds, in the amount of Euro 150,000,000 and maturity of seven years, as referred in note 34.

The balance Overdue loans for more than 90 days includes the amount of Euro 1,532,000 (31 December, 2009: 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 foresale but for which there are still pending legal actions.

Loans and advances to customers include mostly variable interest rate contracts.

The analysis of Loans and advances to customers, by maturity date and type of credit as at 30 June 2010, is as follows:

	Loans and advances to customers				
	Due within 1 year Euro '000	**1 year to 5 years Euro '000**	**Over 5 years Euro '000**	**Undetermined Euro '000**	**Total Euro '000**
Asset – backed loans	421,047	2,088,613	9,927,005	477,218	12,913,883
Other guarantee loans	585,977	171,375	173,618	50,081	981,051
Unsecured loans	391,483	112,691	254,670	66,066	824,910
Public sector loans	7,328	142	46,376	210	54,056
Foreign loans	2	-	-	-	2
Finance leases leases	957	100,723	160,793	7,299	269,772
	1,406,794	2,473,544	10,562,462	600,874	15,043,674

As at 30 June 2010, the balance Other guarantee loans included the amount of Euro 414,092,000 (31 December, 2009: Euro 428,147,000) approximately, related with credits that were securitized and in accordance with the accounting policy 1.5 were not derecognized. This amount was also recognized in liabilities balance, in Financial liabilities associated with transferred assets, as referred in note 37.

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	Undetermined 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 loans	656	239	48,900	254	50,049
Foreign loans	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 30 June 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	54,234	122,366	110,588	287,188
Outstanding interest	(8,246)	(20,344)	(22,437)	(51,027)
Residual values	1,732	11,297	13,283	26,312
	47,720	113,319	101,434	262,473

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

Regarding the Operational Leasing, CEMG does not present significant contracts as leaser. In accordance with note 11, the balance Rents, includes the amount of Euro 7,809,000 (31 December, 2009: Euro 15,764,000), corresponding to rents paid regarding buildings used by CEMG as leaser.

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

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Asset-backed loans	477,218	452,576
Other guaranteed loans	50,081	49,506
Unsecured loans	66,066	69,227
Public sector loans	210	254
Finance leases	7,299	10,025
	600,874	581,588

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

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Corporate:		
Construction / Production	145,293	144,921
Investment	58,773	52,602
Other short term loans	55,551	53,208
Other loans	1,975	3,047
Retail:		
Mortgage loans	274,003	262,286
Consumer credit	7,205	5,931
Other loans	34,340	32,788
Public sector	210	254
Other segments	23,524	26,551
	600,874	581,588

The movements of the impairment for credit risk are analysed as follows:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Impairment for credit risk:		
Balance on 1 January	493,913	383,921
Impairment for the period	265,702	220,757
Write-back for the period	(211,993)	(134,715)
Loans charged-off	(50,658)	(7,134)
Balance on 30 June	496,964	462,829

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:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Asset-backed loans	391,908	407,430
Other guaranteed loans	38,553	24,415
Unsecured loans	66,503	62,068
	496,964	493,913

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

	Jun 2010 Euro '000	Jun 2009 Euro '000
Asset-backed loans	39,110	3,667
Other guaranteed loans	4,757	1,383
Unsecured loans	6,791	2,084
	50,658	7,134

The loans charge-off performed during the first sememster of 2010 are related with write-offs.

The analysis of recovered loans and overdue interest, performed during the period of 1 January to 30 June 2009, and during the year of 2009, amounts to Euro 1,180,000 and Euro 3,308,000, respectively, related with asset-backed loans recovered, as referred in note 13.

As at 30 June 2010 and 31 December 2009, the impairment detail is as follows:

	Jun 2010						
	Impairment in an individual basis		Impairment in an 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	926,776	160,067	4,375,893	149,694	5,302,669	309,761	4,723,526
Loans to costumers - Housing	-	-	9,068,602	121,663	9,068,602	121,663	9,201,751
Loans to costumers - Others	2,228	2,228	670,175	63,312	672,403	65,539	606,863
	929,004	162,295	14,114,670	334,669	15,043,674	496,964	14,532,141

	Dec 2009						
	Impairment in an individual basis		Impairment in an 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 costumers - Housing	1,023	43	9,106,948	127,418	9,107,971	127,461	8,980,510
Loans to costumers - Others	7,585	7,493	674,772	19,304	682,357	26,797	655,560
	1,094,139	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:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Loans with impairment:		
Individually significant:		
Securities and other financial assets	46,460	60,962
Residential real estate (Housing Loans)	3,753	7,872
Other real estate (Civil Construction)	1,255,825	1,349,797
Other guarantees	13,493	28,216
	1,319,531	1,446,847
Parametric analysis:		
Securities and other financial assets	36,420	31,173
Residential real estate (Housing Loans)	2,048,066	2,044,393
Other real estate (Civil Construction)	956,277	885,526
Other guarantees	67,679	50,269
	3,108,442	3,011,361
Loans without impairment:		
Securities and other financial assets	542,753	509,751
Residential real estate (Housing Loans)	14,364,332	14,209,225
Other real estate (Civil Construction)	3,889,127	4,430,478
Other guarantees	95,451	80,483
	18,891,663	19,229,937
	23,319,636	23,688,145

21 Financial assets and liabilities held for trading

The balance financial assets and liabilities held for trading is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Financial assets held for trading:		
Securities		
Shares	2,240	1,380
Bonds	83,404	5,772
	85,644	7,152
Derivatives		
Derivatives financial instruments with positive fair value	155,336	96,043
	240,980	103,195
Financial liabilities held for trading:		
Derivatives		
Derivatives financial instruments with negative fair value	43,391	41,724

The trading portfolio is recorded at fair value trough profit or loss, in accordance with the accounting policy 1.6. 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.

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The analysis of the securities portfolio held for trading by maturity as at 30 June 2010 is as follows:

	Jun 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	-	-	-	628	628
Foreign	-	-	-	1,612	1,612
	-	-	-	2,240	2,240
Fixed income securities:					
Bonds issued by					
Public entities	5,008	39,502	22,311	-	66,821
Other entities	-	1,491	15,092	-	16,583
	5,008	40,993	37,403	-	83,404
	5,008	40,993	37,403	2,240	85,644
Quoted	5,008	40,993	37,403	2,240	85,644

The analysis of the securities portfolio held for trading by maturity as at 31 December 2009 is as follows:

	Dec 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	1,200	7,152

The book value of the assets and liabilities at fair value through profit or loss as at 30 June 2010, is as follows:

		Jun 2010						
		Derivative			Related asset / liability			
Derivative	Related financial asset / liability	Notional Euro '000	Fair value Euro '000	Changes in the fair value in the period Euro '000	Fair value Euro '000	Changes in the fair value in the period Euro '000	Book value Euro '000	Reimbursement amount at maturity date Euro '000
Interest rate swap	Securities issued	605,000	22,013	(749)	(1,645)	(13,897)	302,500	302,500
Interest rate swap	Deposits	3,396,348	34,342	30,186	25,975	23,614	1,730,068	1,730,068
Interest rate swap	Deposits due to customers	688,750	16,024	659	7,294	(3,268)	326,521	326,521
Interest rate swap	Titularization	11,148,184	(2,216)	(2,879)	-	-	-	-
Interest rate swap	Covered bonds	9,239,360	41,685	31,553	(13,383)	(13,829)	1,000,000	1,000,000
Currency interest rate swap	Debt issued	461,417	592	(825)	169	169	4,753	4,573
Interest rate futures	-	11,575	5	5	-	-	-	-
Options	Time deposits and other deposits	71,385	463	(121)	-	-	-	-
Credit default swaps	-	91,374	(963)	(532)	-	-	-	-
		25,713,393	111,945	57,297	18,410	(7,211)	3,363,842	3,363,662

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2009, is as follows:

		Dec 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	14,110	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 due to customers	733,572	15,365	8,952	10,562	2,760	386,471	386,471
Interest rate swap	Titularization	7,188,322	334	(3,699)	-	-	-	-
Interest rate swap	Mortgages loans	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)	-	-
Interest rate 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 30 June 2010, is as follows:

	Jun 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	154,800	78,710	24,844,132	25,077,642	144,298	32,450
Options	17,235	22,500	31,650	71,385	8,209	7,746
Exchange rate contracts:						
Interest rate swaps	452,310	-	9,107	461,417	1,711	1,119
Index contracts:						
Index futures	11,575	-	-	11,575	5	-
Credit default contracts:						
Credit default swaps	-	-	91,374	91,374	1,113	2,076
	635,920	101,210	24,976,263	25,713,393	155,336	43,391

The analysis of financial instruments held for trading, by maturity date as at 31 December 2009, is as follows:

	Dec 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 the accounting policy 1.4 in the amount of Euro 7,018,000 (31 December, 2009: Euro 4,956,000).

22 Other Financial assets and liabilities at fair value through profit or loss

This balance in the amount of Euro 4,071,000 (31 December 2009: 4,192,000) refers to bonds and other fixed income securities issued by other entities.

In light of IAS 39 and in accordance with the accounting policy 1.6, CEMG designated these financial assets as at fair value through profit or loss, in accordance with the documented risk management, considering that these financial assets (i) are managed and evaluated on a fair value basis and/or (ii) have embedded derivatives.

The financial assets at fair value trough profit or loss are valued in accordance with market prices or providers. Therefore, accordingly with the hierarchy of the valuation sources, as referred in IFRS 7 these instruments are classified in the level 1.

As at 30 June 2010 and 31 December 2009, the securities portfolio included in the financial assets at fair value through profit and loss is quoted and with a maturity greater than 1 year.

23 Available-for-sale financial assets

This balance is analysed as follows:

	Jun 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	410,910	4,168	(7,496)	-	407,582
Foreign	90,194	96	(3,935)	-	86,355
Issued by other entities:					
Portuguese	492,082	398	(6,581)	(2,509)	483,390
Foreign	722,978	1,416	(36,900)	(17,363)	670,131
Commercial paper	340,920	-	-	(998)	339,922
Variable income securities:					
Shares in companies:					
Portuguese	4,679	92	(58)	(326)	4,387
Foreign	3,348	12	(118	(787)	2,455
Investment fund units	10,634	685	(399)	(2,787)	8,133
	2,075,745	6,867	(55,487)	(24,770)	2,002,355

[1] Acquisition cost relating to shares and amortised cost relating to debt securities.

	Dec 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 the accounting policy 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 accounting policy 1.22.

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

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Impairment for securities:		
Balance on 1 January	23,658	24,987
Charge for the period	1,371	1,443
Charged-off	(202)	(69)
Write-back for the period	(57)	(22)
Balance on 30 June	24,770	26,339

During the first semester of 2010 and as referred in accounting policy 1.6, were written-off impairment losses in the amount of Euro 1,112,000 (30 June, 2009: Euro 1,352,000).

The analysis of the available-for-sale financial assets by maturity date, as at 30 June 2010, is as follows:

	Jun 2010				
	Due within 3 months Euro '000	**3 months and 1 year Euro '000**	**Over 1 year Euro '000**	**Undetermined Euro '000**	**Total Euro '000**
Fixed income securities:					
Issued by public entities:					
Portuguese	-	5,106	402,476	-	407,582
Foreign	-	19,357	66,998	-	86,355
Issued by other entities:					
Portuguese	112,805	4,886	365,699	-	483,390
Foreign	19,699	10,556	629,342	10,534	670,131
Commercial paper	310,617	29,305	-	-	339,922
	443,121	69,210	1,464,515	10,534	1,987,380
Variable income securities:					
Shares in companies:					
Portuguese	-	1,471	-	2,916	4,387
Foreign	-	-	-	2,455	2,455
Investment fund units	-	-	-	8,133	8,133
	-	1,471	-	13,504	14,975
	443,121	70,681	1,464,515	24,038	2,002,355

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2009, is as follows:

	Dec 2009				
	Due within 3 months Euro '000	**3 months and 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	145,189	514,505	10,345	744,207
Commercial paper	172,401	30,135	-	-	202,536
	246,570	189,586	820,708	10,345	1,267,208
Variable income securities:					
Shares in companies:					
Portuguese	-	1,471	-	2,801	4,273
Foreign	-	-	-	2,290	2,290
Investment fund units	1,450	-	-	7,196	8,646
	1,450	1,471	-	12,287	15,209
	248,020	191,057	820,708	26,632	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 the accounting policy 1.6, the available-for-sale securities portfolio is presented net of fair value reserve and impairment losses in the amount of Euro 48,620,000 and Euro 24,770,000 (31 December, 2009: Euro 28,600,000 and Euro 23,658,000), respectively.

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

	Jun 2010			Dec 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	407,582	-	407,582	-	-	-
Foreign	86,354	-	86,354	8,060	-	8,060
Issued by other entities:						
Portuguese	456,355	27,034	483,389	284,645	27,760	312,405
Foreign	670,133	-	670,133	744,207	-	744,207
Commercial paper	-	339,922	339,922	-	202,536	202,536
Variable income securities:						
Shares in companies:						
Portuguese	863	3,523	4,386	700	3,573	4,273
Foreign	2,297	158	2,455	2,132	158	2,290
Investment fund units	8,134	-	8,134	8,646	-	8,646
	1,631,718	370,637	2,002,355	1,048,390	234,027	1,282,417

24 Hedging derivatives

This balance is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Assets:		
Interest rate swap	3,751	5,109
Liabilities:		
Interest rate swap	1,601	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, which includes hedged items, is analysed as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Deposits from other credit institutions	274	477
Debt securities issued	(364)	2,926
Deposits from customers	490	(318)
	400	3,085

The analysis of the hedging derivatives portfolio by maturity date, as at 30 June 2010 is as follows:

	Jun 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	-	60,000	185,000	245,000	-	1,071	1,079	2,150
	-	60,000	185,000	245,000	-	1,071	1,079	2,150

The analysis of the hedging derivatives portfolio by maturity as at, 31 December 2009 is as follows:

	Dec 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
	-	44,000	155,000	199,000	1,168	-	3,343	4,511

As at 30 June 2010, the fair value hedge relationships present the following features:

			Jun 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 period Euro '000**	**Hedged item fair value [1] Euro '000**	**Changes in the fair value of the hedged item in the year [1] Euro '000**
Interest rate swap	Deposits from customers	Interest rate	80,000	1,034	(3,052)	620	(22)
Interest rate swap	Deposits	Interest rate	80,000	2,462	2,462	1,825	(378)
Interest rate swap	EMTN	Interest rate	85,000	(1,346)	(2,044)	81	167
Currency interest rate swap	Debt issued	Interest rate	-	-	273	-	-
			245,000	2,150	(2,361)	2,526	(233)

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

As at 31 December 2009, the fair value hedge relationships present the following features:

			Dec 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 swap	Deposits from customers	Interest rate	44,000	4,086	492	642	146
Interest rate swap	Deposits	Interest rate	120,000	-	-	2,203	(221)
Interest rate swap	EMTN	Interest rate	35,000	698	541	(86)	(86)
Currency interest rate swap	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:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Fixed income securities:		
Bonds issued by Portuguese public entities	43,713	24,977
Bonds issued by foreign public entities	14,186	14,935
	57,899	39,912

CEMG assessed, with reference to 30 June 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 30 June 2010 are analysed as follows:

Issue	**Issue date**	**Maturity date**	**Interest rate**	**Book Value Euro '000**
OT - Setembro 98/2013	May 1998	September 2013	Fixed rate of 5.450%	98
OT - Junho 02/2012	February 2002	June 2012	Fixed rate of 5.000%	31,493
OT - Junho 01/2011	March 2001	June 2011	Fixed rate of 5.150%	1,018
OT - Outubro 05/2015	July 2005	October 2015	Fixed rate of 3.350%	6,223
OT - Abril 05/2011	November 2005	April 2011	Fixed rate of 3.200%	4,830
OT – Março 2010/2013	March 2010	March 2013	Fixed rate of 5.740%	51
Buoni Poliennali Del Tes.06/2011	March 2006	March 2011	Fixed rate of 3.500%	3,017
Netherlands Government 05/15	June 2005	July 2015	Fixed rate of 3,250%	5,063
Republic of Austria 04/15	July 2004	July 2015	Fixed rate of 3.500%	2,044
Belgium Kingdom 05/15	March 2005	September 2015	Fixed rate of 3.750%	2,048
Buoni Poliennali Del Tes.05/2015	May 2005	August 2015	Fixed rate of 3.750%	2,014
				57,899

The held-to-maturity investments are stated in accordance with the established in the accounting policy 1.6.

During the first semester of 2010 and the year of 2009, CEMG did not transfer to or from this assets category.

As at 30 June 2010 and 31 December 2009, the analysis of held-to-maturity investments by the period of maturity is as follows:

	Jun 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**
Quoted:					
Bonds issued by Portuguese public issuers:	-	5,848	37,865	-	43,713
Bonds issued by foreign public issuers:	-	3,017	11,169	-	14,186
	-	8,865	49,034	-	57,899

	Dec 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**
Quoted:					
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

26 Investments in associated companies and others

This balance is analysed as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Investments in associated companies and others - Unquoted:		
Lusitania, Companhia de Seguros, S.A.	20,705	22,466
Lusitania Vida, Companhia de Seguros, S.A.	15,470	15,791
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	4,323	2,518
	40,498	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) Euro '000	Acquisition cost Euro '000
30 June 2010						
Lusitania, Companhia de Seguros, S.A.	577,149	498,267	78,881	107,172	(4,224)	23,566
Lusitania Vida, Companhia de Seguros, S.A.	514,724	475,402	39,321	21,717	2,705	9,530
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	50,661	429,045	21,617	3,450	(426)	3,200
31 December 2009						
Lusitania, Companhia de Seguros, S.A.	571,107	488,953	82,154	124,770	4,292	23,566
Lusitania Vida, Companhia de Seguros, S.A.	496,693	456,556	40,137	44,650	3,279	9,530
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	52,677	40,087	12,590	8,570	(271)	3,200

	Percentage held		Book value		Share of profit of associates	
	Jun 2010	**Dec 2009**	**Jun 2010**	**Dec 2009**	**Jun 2010**	**Dec 2009**
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI)	100%	100%	7,001	7,001	306	784
Lusitania, Companhia de Seguros, S.A.	26.25%	26.25%	20,705	22,466	(1,109)	1,267
Lusitania Vida, Companhia de Seguros, S.A.	39.34%	39.34%	15,470	15,791	1,064	1,290
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	20%	20%	4,323	2,518	(85)	(54)

The movement in this balance is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Balance on 1 January	40,775	16,813
Acquisitions	-	12,750
Alienations	-	(29)
Transfers	-	(49)
Share of profit of associates	(130)	2,503
Fair value reserve from associates	784	9,720
Dividends received	(931)	(1,089)
Balance on 30 June	40,498	40,775

27 Non- current assets held for sale

This balance is analysed as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Investments arising from recovered loans	166,820	157,935
Impairment	(35,207)	(29,336)
	131,613	128,599

The assets included in this balance are accounted for in accordance with the accounting policy 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 1 year and CEMG as a strategy for its sale.

This balance includes buildings and other assets for which the Group has already established contracts for the sale in the amount of Euro 8,524,000 (31 December, 2009: Euro 9,464,000).

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

	Jun 2010 Euro '000	Jun 2009 Euro '000
Impairment for non current assets held for sale		
Balance on 1 January	29,336	23,868
Impairment for the period	7,880	915
Write-back for the period	(1,995)	(2)
Loans charged-off	(14)	-
Balance on 30 June	35,207	24,781

28 Property and equipment

This balance is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Cost:		
Land and buildings:		
For own use	65,808	65,808
Leasehold improvements in rented buildings	32,358	32,208
Work in progress	53	43
Equipment:		
Furniture	10,683	10,507
Office equipment	1,919	1,971
Computer equipment	55,832	51,773
Interior installations	28,636	28,416
Motor vehicles	448	676
Security equipment	4,227	3,978
Assets in operational lease	5,180	4,084
Works of art	986	986
Other tangible assets	30	31
Work in progress	2,125	550
	208,335	201,031
Accumulated depreciation:		
Charge for the period	(6,298)	(12,169)
Accumulated charge for the previous years	(109,252)	(97,587)
	(115,550)	(109,756)
	92,785	91,275

The Property and equipment movements, during the first semester of 2010, are analysed as follows:

	June 2010				
	Balance on 1 January Euro '000	**Acquisitions/ Charges Euro '000**	**Disposals Euro '000**	**Adjustment/ Transfers Euro '000**	**Balance on 30 June Euro '000**
Cost:					
Land and buildings:					
For own use	63,508	-	-	-	65,808
Leasehold improvements in rented buildings	32,208	150	-	-	32,358
Work in progress	43	10	-	-	53
Equipment:					
Furniture	10,507	340	(164)	-	10,683
Office equipment	1,971	5	(57)	-	1,919
Computer equipment	51,773	4,092	(33)	-	55,832
Interior installations	28,416	220	-	-	28,636
Motor vehicles	676	36	(264)	-	448
Security equipment	3,978	303	(4)	-	4,277
Assets in operational lease	4,084	1,181	(85)	-	5,180
Works of art	986	-	-	-	986
Other tangible assets	31	-	(1)	-	39
Work in progress	550	1,575	-	-	2,125
	201,031	7,912	(608)	-	208,335
Accumulated depreciation:					
Land and buildings:					
For own use	15,837	524	-	-	16,361
Leasehold improvements in rented buildings	22,047	1,150	-	-	23,197
Equipment:			(115)	-	
Furniture	7,807	284	(58)	-	7,976
Office equipment	1,825	29	(35)	-	1,796
Computer equipment	37,874	3,166	-	-	41,005
Interior installations	20,125	600	-	-	20,725
Motor vehicles	670	2	(264)	-	408
Security equipment	2,823	178	(4)	-	2,997
Assets in operational lease	748	365	(28)	-	1,085
	109,756	6,298	(504)	-	115,550

The Property and equipment movements, during the year of 2009, are analysed as follows:

	Dec 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	63,515	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
Assets in operational lease	2,226	508	-	-	986
Works of art	478	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:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Cost:		
Software	55,874	52,375
Assets advances	5,200	4,656
	61,074	57,031
Accumulated amortisation:		
Charge for the period	(3,539)	(8,338)
Accumulated charge for the previous years	(40,880)	(32,543)
	(44,419)	(40,880)
	16,655	16,151

The Intangible assets movements, during the first semester 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 30 June Euro '000
Cost:					
Software	52,375	3,499	-	-	55,874
Assets advances	4,656	544	-	-	5,200
	57,031	4,043	-	-	61,074
Accumulated amortisation:					
Software	40,880	3,539	-	-	44,419

The Intangible assets 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:					
Set up costs and key money	-	-	-	-	-
Software	44,988	7,790	-	(403)	52,375
Assets advances	2,331	1,872	-	453	4,656
	47,319	9,662	-	50	57,031
Accumulated amortisation:					
Software	32,542	8,338	-	-	40,880

30 Other assets

This balance is analysed as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Recoverable subsidies from the Portuguese Government	11,919	13,739
Other debtors	18,478	27,265
Other accrued income	3,641	6,456
Prepayments and deferred costs	2,872	1,635
Sundry debtors	140,756	65,701
	177,666	114,796
Impairment from recoverable subsidies	(3,473)	(3,473)
	174,193	111,323

The balance Recoverable subsidies from the Portuguese Government, in the amount of Euro 11,919,000 (31 December, 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 30 June 2010 and 31 December 2009, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Recoverable subsidies from the Portuguese Government unliquidated	6,798	7,311
Subsidies unclaimed	2,130	3,412
Overdue subsidies unclaimed	2,991	3,016
	11,919	13,739

As at 30 June 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 30 June 2010, the balance Sundry debtors includes the amount of Euro 105,409,000 (31 December, 2009: Euro 32,816,000) refer to transactions with securities recorded on trade date and pending settlement, in accordance with the accounting policy 1.6.

As at 30 June 2010 and 30 December 2009, the balances related with the obligations related with pensions, included in Other sundry liabilities are analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Projected benefit obligations	(580,980)	(569,822)
Value of the Fund	505,664	504,883
	(75,316)	(64,939)
Actuarial losses		
Corridor	58,098	56,982
Amount in excess of the corridor	37,743	29,334
	95,841	86,316
	20,595	21,377

The amounts of the corridor and of the actuarial losses were determined in accordance with the accounting policy 1.14.

31 Deposits from central banks

As at 30 June 2010, this balance includes the amount of Euro 905,383,000 (31 December, 2009: 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 are not derecognised in the balance sheet.

As at 30 June 2010 and 31 December 2009, the analysis of deposits from Central Banks by the period to maturity is as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Up to 3 months	100,000	-
3 to 6 months	300,517	-
More than 6 months	504,866	502,353
	905,383	502,353

32 Deposits from other credit institutions

This balance is analysed as follows:

	Jun 2010			Dec 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	3,580	28,732	32,312	7,995	53,745	61,740
Deposits from credit institutions abroad	9,401	549,172	558,573	4,023	572,007	576,030
	12,981	577,904	590,885	12,018	625,752	637,770

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

	Jun 2010 Euro '000	Dec 2009 Euro '000
Due within 3 months	214,821	298,005
3 months to 6 months	29,576	50,883
6 months to 1 year	116,468	55,960
1 year to 5 years	-	16
Over 5 years	232,079	235,531
	592,944	640,395
Adjustments arising from hedging operations	(2,059)	(2,625)
	590,885	637,770

33 Deposits from customers

This balance is analysed as follows:

	Jun 2010			Dec 2009		
	Non interest bearing	**Interest bearing**	**Total**	**Non interest bearing**	**Interest bearing**	**Total**
	Euro '000	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**
Deposits repayable on demand	27,645	2,019,799	2,047,444	85,173	1,901,420	1,986,593
Time deposits (*)	-	6,837,622	6,837,622	-	6,679,111	6,679,111
Saving accounts (*)	-	455,896	455,896	-	511,255	511,255
Other items	2,163	-	2,163	896	-	896
Adjustments arising from hedging operations	26,596	-	26,596	3,003	-	3,003
	56,404	9,313,317	9,369,721	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 accounting policy in Note 1.4.

In accordance with Regulation no. 180/94, of 15 December, the Deposit Guarantee Fund was established to guarantee the reimbursement of funds deposited in Credit Institutions. The calculations of the annual contributions for this Fund are based on the criteria laid out in Regulation no. 11/94, of the Bank of Portugal.

As at 30 June 2010, this balance includes the amount of Euro 1,425,328,000 (31 December 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:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Deposits repayable on demand	2,047,444	1,986,593
Time deposits and saving accounts:		
Due within 3 months	1,165,575	1,277,080
3 months to 6 months	2,515,141	2,740,073
6 months to 1 year	1,172,918	1,336,994
1 year to 5 years	-	-
Over 5 years	2,439,884	1,836,219
	9,340,962	9,176,959
Adjustments arising from hedging operations	26,596	3,003
	9,367,558	9,179,962
Other items:		
Due within 3 months	2,163	896
	9,369,721	9,180,858

34 Debt securities issued

This balance is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Euro Medium Term Notes	3,042,340	3,142,351
Bonds	624,378	611,517
Covered bonds	1,116,066	1,161,047
	4,782,784	4,914,915

The fair value of the debts securities issued is presented in note 43.

During the first semester of 2010, CEMG issued Euro 141,464,000 (31 December, 2009: Euro 1,276,361,000) of securities, and was reimbursed Euro 111,071,000 (31 December, 2009: Euro 1,248,555,000).

As at 30 June 2010 and 31 December, 2009, the analysis of debt securities issued outstanding by period to maturity is as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Due within 6 months	722,968	111,756
6 months to 1 year	558,512	726,782
1 year to 5 years	2,854,834	3,254,825
Over 5 years	654,284	816,788
	4,790,597	4,910,151
Adjustments arising from hedging operations	(7,813)	4,764
	4,782,784	4,914,915

During 2009, CEMG issued covered bonds in the amount of Euro 1,150,000,000, under the Covered Bonds Programme.

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 5/2006, 6/2006, 7/2006 and 8/2006 of the Bank of Portugal and Instruction 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	July 2009	July 2012	Annualy	3.25%	Aa1 / AAA
Covered Bonds	150,000	150,000	December 2009	December 2016	Quarterly	Eur 3m + 0.75%	Aa1 / AAA

As at 30 June 2010, the mortgage loans that collateralise these covered bonds amounted to Euro 1,346,139,000 (31 December, 2009: Euro 1,298,998,000) in accordance with note 20.

The changes occurred in debt securities issued during the first semester of 2010 are 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 30 June Euro '000
Euro Medium Term Notes	3,142,351	-	(190,031)	89,607	413	3,042,340
Bonds	611,517	141,464	(130,284)	-	1,681	624,378
Covered bonds	1,161,047	-	(73,250)	-	28,269	1,116,066
	4,914,915	141,464	(393,565)	89,607	30,363	4,782,784

(a) Other movements include accrued interest, fair value hedge, fair value adjustments and foreign translation exchanges adjustments.

The changes occurred in debt securities issued during the year of 2009 are 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	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 accounting policy 1.8, debt issued repurchased by CEMG is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognized in the income statement.

During the first semester of 2010, the balance Debt securities issued is comprise of the following issues:

Issue	Issue Date	Maturity Date	Interest rate	2010 Euro '000
Obrig. Cx-Montepio Tx. Fixa Crescente 2010/13 1S	Jan. 10	Jan. 13	Interests are paid quarterly with Fixed Annual Rate of 2.5% (2nd year: rate 3%, 3rd year: rate 3.5%)	1,000,000
Obrig. Cx-Montepio Tx Fixa 2010/14 1S	Jan. 10	Jan. 14	Interests are paid semi-annually with Fixed Annual Rate of 3% (2nd year: rate 3.125%, 3rd year: rate 3.25%, 4th year: 3.5%)	9,806,000
Obrigs. Caixa-Montepio Cabaz Ouro e Petroleo	Mar. 10	Mar. 14	At maturity, the investor receives the maximum between 4% and the average of the annual performance of Gold and Oil, with a maximum of 28%.	3,705,000
Obrigs. Caixa-Montepio Capital Certo-2010-2015-1.S	Mar. 10	May. 15	Fixed Annual Rate of 2.9% (2nd year: rate 2.9%, 3rd year: rate 3.1%, 4th year: 3.25%, 5th year: rate 5.25%)	25,000,000
Obrigs. Caixa-Montepio Tx Variável Março- 2010/2014	Mar. 10	Mar. 14	Quarterly Rate Eur3M + 2% (2nd till 16th Quarter: rate Eur3M + 2%)	1,700,000
Obrig. Cx-Montepio Tx Fixa 2010/14 2S	Mar. 10	Mar. 14	Fixed Annual Rate of 3% (2nd year: rate 3.2%, 3rd year: rate 3.3%, 4th year: 3.5%).	20,000,000
Obrigs. Caixa-MG Taxa Fixa Crescente Abril-2010-2015	Apr. 10	Apr. 15	Fixed Annual Rate of 2.6% (2nd year: rate 2.7%, 3rd year: rate 2.8%, 4th year: 3%, 5th year: rate 3.5%).	500,000
Obrigs. Caixa-mg capital certo-2010-2015-2S	Apr. 10	Apr. 15	Fixed Annual Rate of 2.85% (2nd year: rate 2.85%, 3rd year: rate 3.25%, 4th year: 3.5%, 5th year: rate 5%).	23,000,000
Obrigs. Caixa-MG Taxa Fixa Crescente Maio-2010-2014	May 10	May 14	Fixed Annual Rate of 2.5% (2nd year: rate 2.7%, 3rd year: rate 3%, 4th year: 3.5%).	8,000,000
Obrigs. Caixa-MG Capital Certo-2010-2018-1S	May 10	May 18	Fixed Annual Rate of 3.25% (2nd year: rate 3.25%, 3rd year: rate 3.5%, 4th year: 3.65%, 5th year: rate 3.75%, 6th year: rate 4%, 7th year: rate 4.25%, 8th year: rate 6.5%).	10,000,000
Obrigs. Caixa-MG Taxa Fixa-2010-2013-1S	May 10	May 13	Fixed Annual Rate of 2.5% (2nd year: rate 2.5%, 3rd year: rate 2.5%)	10,553,000
Obrigs. Caixa-MG Top-2010-2014-1S	May 10	May 14	Fixed Annual Rate of 2.5% (2nd year: rate 2.75%, 3rd year: rate 3%, 4th year: 3.25%).	520,000
Obrigs. Caixa-Cabaz Energia-2010-2014	May 10	May 14	At maturity, the investor receives the maximum between 4% and the performance of the corresponding asset (Cabaz de acções do sector energetic) related to the initial level.	2,200,500
Obrigs. Caixa-MG Capital Certo-2010-2015-3S	Jun. 10	Jun. 15	Fixed Annual Rate of 2.26% (2nd year: rate 2.51%, 3rd year: rate 2.76%, 4th year: 3.21%, 5th year: rate 4.76%).	6,000,000
Obrigs. Caixa-MG Taxa Fixa -2010-2012-1S	Jun. 10	Jun. 12	Fixed Annual Rate of 2% (2nd year: rate 2%)	3,118,000
				141,464,500

As at 30 June 2010, for the bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.85% and 5%.
The redemption ocurred during the first semester of 2010, are analysed as follows:

Issue	Issue Date	Redemption Date	Interest rate	2010 Euro '000
Obrigs. Cx-Afor MG Assoc/07-3 Anos-1S	Feb. 2007	Feb. 2010	Variable quarterly rate of 3.375%	9,500,000
Obrigs. Cx-Afor Montepio/07-3 Anos-1S	Feb. 2007	Feb. 2010	Variable quarterly rate of 3.125%	5,500,000
Obrigs. Cx-Af Montepio 2007-3 anos-2s	Feb. 2007	Feb. 2010	Variable quarterly rate of 3.125%	7,000,000
Obrgs. Cx-Afor MG Ass/07-3 Anos-2S	Feb. 2007	Feb. 2010	Variable quarterly rate of 3.125%	11,000,000
Obrigs. Cx-Afor Montepio 2007-3 Anos-3S	Mar. 2007	Mar. 2010	Variable quarterly rate of 3.25%	6,500,000
Obrigs. Cx-Afor MG Assoc/07-3 Anos-3S	Mar. 2007	Mar. 2010	Variable quarterly rate of 3.5%	9,000,000
Obgs. Cx-Afor MG Assoc/07-3 Anos-4S	Mar. 2007	Mar. 2010	Variable quarterly rate of 3.5%	6,000,000
Obrigs. Cx-Afor Montepio/07-3 Anos-4S	Mar. 2007	Mar. 2010	Variable quarterly rate of 3.25%	5,000,000
Obrigs. Cx-Afor MG Assoc/07-3 Anos-5S	Apr. 2007	Apr. 2010	Variable quarterly rate of 3.5%	12,000,000
Obrigs Caixa-Afor MG 2007-3 Anos-5S	Apr. 2007	Apr. 2010	Variable quarterly rate of 3.25%	8,000,000
Obrig. Cx-Afor Montepio 2007-3 Anos-6S	May 2007	May 2010	Variable quarterly rate of 3.375%	5,971,000
Obrgs Cx-Af Montepio Assoc/07-3 Anos-6S	May 2007	May 2010	Variable quarterly rate of 3.5%	8,500,000
Obrigs. Cx-Af Montepio/07-3 Anos-7S	Jun. 2007	Jun. 2010	Variable quarterly rate of 3.5%	5,000,000
Obrigs. Cx-Af Montepio As/07-3 Anos-7S	Jun. 2007	Jun. 2010	Variable quarterly rate of 3.625%	8,000,000
Obrgs. Cx-MG Energ Renov-3 Anos-Jun 07/10	Jun. 2007	Jun. 2010	Fixed annual rate of 2%	4,100,000
				111,071,000

35 Provisions

This balance is analysed as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Provisions for general banking risks	1,298	1,396
Provisions for liabilities and charges	122	94
	1,420	1,490

The movements of the provisions for general banking risks are analysed as follows:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Balance on 1 January	1,396	1,084
Charge for the period	112	46
Write-back for the period	(210)	-
Balance on 30 June	1,298	1,130

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

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Balance on 1 January	94	584
Write-back for the period	123	-
Charged-off	(95)	-
Balance on 30 June	122	584

36 Other subordinated debt

As at 30 June 2010, this balance in the amount of Euro 380,357,000 (31 December, 2009: Euro 381,043,000) refers to Bonds with fixed maturity date, and with a residual reimbursement over 5 years.

As at 30 June 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%	50,044
CEMG/08	Feb. 2008	Feb. 2018	150,000	Euribor 6 months + 0.13%	150,996
CEMG/08	Jun. 2008	Jun. 2018	28,000	Euribor 12 months + 0.10%	28,030
CEMG/08	Jul. 2008	Jul. 2018	150,000	Euribor 6 months + 0.13%	151,287
					380,257

The portfolio’s fair value of Other subordinated debt is presented in note 43.

As at 30 June 2010, the effective interest rate range of the subordinated debt bears postponed interest every three and six months is set between 1.09% and 2.27%.

37 Other liabilities

This balance is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Creditors:		
Suppliers	5,719	7,038
Other creditors	12,717	32,541
Public sector	6,285	7,330
Financial liabilities associated with transferred assets	414,092	428,147
Holiday pay and subsidies	27,329	24,127
Other administrative costs payable	407	982
Deferred income	546	585
Securities transactions pending settlement	98,846	38,610
Other sundry liabilities	49,958	58,442
	597,802	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

The share capital of CEMG, amounts to Euro 760,000,000, 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.

Changes are analysed in note 40.

40 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Other comprehensive Income:		
Fair value reserves		
Available-for-sale financial assets	(48,620)	(28,600)
Reserves and retained earnings:		
General reserve	170,956	163,321
Special reserve	64,444	62,555
Other reserves	15,604	14,115
Retained earnings	(15,706)	(29,653)
	235,298	210,338

The Fair value reserves correspond to the accumulated fair value changes of the available-for-sale financial assets, in accordance with the accounting policy 1.6.

The movements of this balance during the first semester of 2010 are analysed as follows:

	Balance on 1 January Euro '000	**Revaluation Euro '000**	**Acquisitions Euro '000**	**Sales Euro '000**	**Impairment recognised in the year Euro '000**	**Balance on 30 June Euro '000**
Fixed income securities:						
Bonds issued by Public entities						
Portuguese	-	-	(3.328)	-	-	(3.328)
Foreign	106	(27)	(3.916)	(2)	-	(3.839)
Bond issued by other entities:						
Portuguese	1,471	(3,474)	(3.247)	(63)	(870)	(6,183)
Foreign	(31,441)	(21)	(2.970)	(807)	(245)	(35.484)
	(29,864)	(3,522)	(13,461)	(872)	(1.115)	(48.834)
Variable income securities:						
Shares in companies:						
Portuguese	89	(10)	(9)	(31)	(5)	34
Foreign	523	(40)	(47)	(500)	(42)	(106)
Investment fund units	652	(407)	134	(143)	50	286
	1,264	(457)	78	(674)	3	214
	(28,600)	(3,979)	(13,383)	(1,546)	(1,112)	(48,620)

The movements of this balance during 2009 are analysed as follows:

	Balance on 1 January Euro '000	Revaluation Euro '000	Acquisitions 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	(38)	21	120	3	-	106
Bond issued by other entities:						
Portuguese	(2,187)	2,095	3,014	-	(1,451)	1,471
Foreign	(45,581)	8,204	1,302	2,063	2,571	(31,441)
	(47,806)	10,320	4,436	2,066	1,120	(29,864)
Variable income securities:						
Shares in companies:						
Portuguese	(23)	248	93	1	(230)	89
Foreign	-	281	146	32	64	523
Investment fund units	(235)	460	43	10	374	652
	(258)	989	282	43	208	1,264
	(48,064)	11,309	4,718	2,109	1,328	(28,600)

41 Obligations and future commitments

Obligations and future commitments are analysed as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Guarantees granted	428,213	426,156
Guarantees received	29,379,625	29,733,532
Commitments to third parties	1,191,305	1,211,311
Commitments from third parties	40,660	172,768
Securitised loans	309,405	333,270
Securities and other items held for safekeeping on behalf of customers	5,136,579	5,371,322

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

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Guarantees granted:		
Guarantees	423,085	423,107
Open documentary credits	5,128	3,049
	428,213	426,156

Guarantees are banking operations that do not imply any out-flow to CEMG.

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Commitments to third parties:		
Irrevocable commitments		
Term deposits contracts	1,472	1,472
Irrevocable credit lines	288,404	302,264
Annual contribution to the Guarantee Deposits Fund	20,013	19,829
Potential obligation with the Investors' Indemnity System	3,209	3,209
Revocable commitments		
Revocable credit lines	878,207	884,537
	1,191,305	1,211,311

Guarantees granted are financial operations that are not consisted by mobilization on funds by CEMG.

The documentary credits are irrevocable commitments from the Group 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 his cancellation or alteration without the agreement of all the involved parties.

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.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the client and its business, like any other commercial operation. When necessary, CEMG requires that these operations be collateralised. As it is expected that the majority of these operations will mature without any use of funds, these amounts do not represent necessarily future cash out-flows.

As at 30 June 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 30 June 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.

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 accounting policy 1.4, the maximum credit exposition is represented by the nominal value que 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.

42 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 (31 December, 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 the 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 the 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 the 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 Inter-bank 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 30 June 2010, the average discount rate was 2.32% (31 December 2009: 2.61%), assuming the projection of the variable rates, according to the evolution of forward rates that are implicit to the interest rates. The credit risk spread is considered when calculating interest rates.

- *Loans and advances to customers without defined maturity date*

Considering the short maturity of these financial instruments, the conditions of the existing portfolio are similar to current conditions used by the 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 30 June 2010, the average discount rate was of 0.72% (31 December, 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 in the balance sheet of the CEMG. For the fixed interest rate instruments for which CEMG applies a hedge-accounting policy, 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 (spread credit) 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 (spread trade), 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 30 June 2010, the following table presents the values of the interest rates used in the clearance of the curves interest rate of major currencies, including EUR, USD, GBP, CZK and HKD used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies				
	Euro	**United States Dollar**	**Pound Sterling**	**Czech Koruna**	**Hong-Kong Dollar**
1 day	0.34%	0.26%	0.58%	0.68%	0.23%
7 days	0.49%	0.26%	0.58%	0.68%	0.23%
1 month	0.51%	0.44%	0.57%	0.84%	0.49%
2 months	0.63%	0.74%	0.69%	0.90%	0.46%
3 months	0.75%	0.90%	0.72%	1.04%	0.55%
6 months	0.99%	1.10%	1.13%	1.24%	0.48%
9 months	1.23%	1.02%	1.30%	1.26%	0.80%
1 year	1.22%	1.28%	1.80%	1.39%	0.90%
2 years	1.36%	0.97%	1.42%	1.64%	0.86%
3 years	1.57%	1.34%	1.80%	1.90%	1.20%
5 years	2.08%	2.06%	2.45%	2.22%	1.90%
7 years	2.50%	2.57%	2.94%	2.45%	2.33%
10 years	2.90%	3.02%	3.40%	2.76%	2.65%
15 years	3.27%	3.43%	3.40%	3.10%	2.65%
20 years	3.37%	3.60%	3.40%	3.18%	2.65%
30 years	3.23%	3.72%	3.40%	3.18%	2.65%

- *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	**Jun 2010**	**Dec 2009**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.2271	1.4406	13.60	14.40	14.70	14.875	14.75
EUR/GBP	0.8175	0.8881	11.95	12.80	13.05	13.35	13.31
EUR/CHF	1.3283	1.4836	11.55	11.90	12.05	12.05	12.10
EUR/JPY	108.79	133.16	11.95	12.85	13.50	13.95	14.32

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 the CEMG that are recognised at book value and fair value:

	Jun 2010								
	Trading	**Designated at fair value trough profit or loss**	**Held-to-maturity**	**Loans and advances**	**Available -for-sale**	**Others at amortised cost**	**Others**	**Carrying value**	**Fair value**
	Euro '000	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**
Financial assets:									
Cash and deposits at central bank	-	-	-	171,614	-	-	-	171.614	171,614
Loans and advances to credit institutions repayable on demand	-	-	-	108,380	-	-	-	108,380	108,380
Loans and advances to credit institutions	-	-	-	77,211	-	-	-	77,211	77,211
Loans and advances to customers	-	-	-	14,546,710	-	-	-	14,546,710	14,684,545
Financial assets held for trading	240,980	-	-	-	-	-	-	240,980	240,980
Other financial assets at fair value trough profit or loss	-	4,071	-	-	-	-	-	4,071	4,071
Available-for-sale financial assets	-	-	-	-	2,002,355	-	-	2,002,355	2,002,355
Hedging derivatives	3,751	-	-	-	-	-	-	3,751	3,751
Held-to-maturity investments	-	-	57,899	-	-	-	-	57,899	58,080
Investments in associated companies and others	-	-	-	-	-	-	40,498	40,498	40,498
	244,731	4,071	57.899	14,903,915	2,002,355	-	40,498	17,253,469	17,013,111
Financial liabilities:									
Deposits from central banks	-	-	-	-	-	905,383	-	905,383	905,383
Deposits from other credit institutions	-	-	-	-	-	590,885	-	590,885	591,111
Deposits from customers	-	-	-	-	-	9,369,721	-	9,369,721	9,583,350
Debt securities issued	-	-	-	-	-	4,782,784	-	4,782,784	4,782,784
Financial liabilities held for trading	43,391	-	-	-	-	-	-	43,391	43,391
Hedging derivatives	1,601	-	-	-	-	-	-	1,601	1,601
Other subordinated debt	-	-	-	-	-	380,357	-	380,357	380,357
	44,992	-	-	-	-	16,029,130	-	16,074,122	16,287,977

	Dec 2009								
	Trading	**Designated at fair value trough profit or loss**	**Held-to-maturity**	**Loans and advances**	**Available -for-sale**	**Others at amortised cost**	**Others**	**Carrying value**	**Fair value**
	Euro '000	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**
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 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 other credit institutions	-	-	-	-	-	502,353	-	502,353	502,353
Deposits from customers	-	-	-	-	-	637,770	-	637,770	637,907
Debt securities issued	-	-	-	-	-	9,180,858	-	9,180,858	9,216,700
Financial liabilities held for trading	-	-	-	-	-	4,914,915	-	4,914,915	5,780,200
Other financial liabilities at fair value trough profit or loss	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 Employee 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..

During the first semester of 2010, CEMG accounted as pension costs the amount of Euro 10,837,000 (30 June 2009: Euro 13,094,000).

The analysis of the cost of the period is as follows:

	Jun 2010				Jun 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	7,621	220	357	8,198	7,491	211	353	8,055
Interest cost	14,657	207	806	15,670	13,834	193	757	14,784
Expected return on plan assets	(13,043)	(171)	(670)	(13,884)	(11,734)	(163)	(642)	(12,539)
Actuarial gains and losses depreciation	853	-	-	853	673	-	-	673
Early retirements	-	-	-	-	2,121	-	-	2,121
Net benefit cost	10,088	256	493	10,837	12,385	241	468	13,094

45 Related parties transactions

As at 30 June 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.	11,821	13,700	25,521
Lusitania Vida Companhia de Seguros, S.A.	15,927	3,250	19,177
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	109	-	109
SIBS - Sociedade Interbancária de Serviços, S.A.	1	-	1
MG Gestão de Activos Financeiros - - S.G.F.I.M., S.A.	41,711	-	41,711
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	1,185	-	1,185
	70,754	16,950	87,704

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
Norfin - Sociedade Gestora de FIM, S.A.	7,768	-	7,768
	245,616	16,950	262,566

As at 30 June 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.	17	1,755	1,772
Lusitania Vida Companhia de Seguros, S.A.	2	2,519	2,521
SIBS - Sociedade Interbancária de Serviços, S.A.	-	13,400	13,400
MG Gestão de Activos Financeiros - - S.G.F.I.M., S.A.	-	1,741	1,741
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	7	1,570	1,570
	20	20,985	21,004

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

46 Asset securitisation

As at 30 June 2010, there are six 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, 2008, Caixa Económica Montepio Geral settles 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 settles 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 settles 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 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 settles a mortgage backed security with Sagres – Sociedade de Titularização de Créditos, S.A., *Pelican* SME. The referred agreement consists in a mortgage credit transfer for a period of 26 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,167,000,000.The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.15% of the referred nominal value.

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.

According to 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 30 June 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 entities	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:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Pelican Mortgages No. 1	111,602	120,550
Pelican Mortgages No. 2	197,803	212,720
	309,405	333,270

As at 30 June 2009 and 31 December 2009, the main impacts in the consolidation of these entities in the balance of CEMG can be analysed as follows

	Jun 2010 Euro '000	Dec 2009 Euro '000
Loan to costumers (net from impairment)	290,599	318,961
Responsabilidades representadas por títulos	299,437	331,608
Equity	(48)	(379)
Net profit/(loss)	696	(791)

As at 30 June 2010, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds issued	Issue amount Euro	Current amount Euro	CEMG's Retention (Nominal Value) Euro	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	66,109,116	-	2037	AAA	Aaa	n.a.	AAA	Aaa	n.a.
	Class B	16,250,000	16,250,000	-	2037	AAA	A2	n.a.	AAA	A2	n.a.
	Class C	22,750,000	22,750,000	-	2037	BBB+	Baa2	n.a.	BBB+	Baa2	n.a.
	Class D	3,250,000	3,250,000	3,250,000	2037	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 2	Class A	659,750,000	155,956,834	-	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.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 3	Class A	701,315,365	391,929,256	-	2054	AAA	Aaa	AAA	AAA	Aaa	AAA
	Class B	14,250,000	10,119,058	-	2054	AA-	Aa2	AA-	AA-	Aa2	AA-
	Class C	12,000,000	8,521,312	-	2054	A	A3	A	A-	A3	A
	Class D	6,375,000	4,526,947	-	2054	BBB	Baa3	BBB	BBB	Baa3	BBB
	Class E	7,361,334	-	-	2054	BBB-	n.a.	BBB-	BBB-	n.a.	BBB-
	Class F	4,125,000	4,125,000	4,125,000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 4	Class A	832,000,000	722,580,240	743,481,648	2056	AAA	Aaa	n.a.	AAA	n.a.	n.a.
	Class B	55,500,000	55,500,000	55,500,000	2056	AA	Aa	n.a.	AA	n.a.	n.a.
	Class C	60,000,000	60,000,000	60,000,000	2056	A-	A-	n.a.	A-	n.a.	n.a.
	Class D	25,000,000	25,000,000	25,000,000	2056	BBB	Bbb	n.a.	BBB	n.a.	n.a.
	Class E	27,500,000	27,500,000	27,500,000	2056	BB	Bb	n.a.	BB	n.a.	n.a.
	Class F	28,600,000	28,600,000	28,600,000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 5	Class A	750,000,000	711,060,368	711,060,368	2061	AAA	n.a.	n.a.	AAA	n.a.	n.a.
	Class B	195,000,000	195,000,000	195,000,000	2061	BBB-	n.a.	n.a.	BBB-	n.a.	n.a.
	Class C	27,500,000	27,500,000	27,500,000	2061	B	n.a.	n.a.	B	n.a.	n.a.
	Class D	27,500,000	27,500,000	27,500,000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4,500,000	4,500,000	4,500,000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23,000,000	23,000,000	23,000,000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican SME	Class A	577,500,000	577,500,000	577,500,000	2036	AAA	n.a.	AAA**	AAA	n.a.	AAA**
	Class B	472,500,000	472,500,000	472,500,000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Vert. Notes	117,000,000	117,000,000	117,000,000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	7,294,000	7,294,000	7,294,000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Resid. Notes	31,500,000	31,500,000	31,500,000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

47 Segmental Reporting

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 326 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, as well as insurances and non financial 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 accounting policy 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; (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 30 June 2010, is as follows:

Income statement indicatores	**Retail Euro '000**	**Corporate and Institutional Euro '000**	**Operations between Segments Euro '000**	**Total Euro '000**
Interest and similar income	270,007	54,832	32,401	357,240
Interest and similar expense	158,623	25,000	228,100	228,100
Net interest income	111,384	29,832	(12,076)	129,140
Dividends from equity instruments	-	-	467	467
Fee and commission income	34,509	6,923	694	42,126
Fee and commission expense	(5,741)	(1,300)	(227)	(7,268)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	-	-	31,968	31,968
Net gains/(losses) arising from available-for-sale financial assets	-	-	8,980	8,980
Net gains arising from foreign exchange differences	-	-	1,175	1,175
Net gains from sale of other financial assets	2,630	76	(4,692)	(1,986)
Other operating income	3,744	1,217	4,053	9,014
Total operational income	146,526	36,748	30,342	213,616
Staff costs	58,859	12,580	2,745	74,184
General and administrative expenses	31,018	6,848	1,413	39,279
Depreciation and amortisation	7,779	1,716	342	9,837
Total operating costs	97,656	21,144	4,500	123,300
Total of Provisions and Impairment	42,178	10,358	7,054	59,590
Operating Profit	6,692	5,246	18,788	30,726
Share of profit of associates under the equity method	-	-	(130)	(130)
Profit of the period	6,692	5,246	18,658	30,596
Net Assets	3,864,526	3,029,484	10,774,705	17,668,715
Liabilities	3,650,775	2,861,920	10,178,176	16,691,441
Investments in associated companies	-	-	40,498	40,498

The report by operating segments as at 31 December 2009, is as follows:

Income statement indicatores	**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 and similar expense	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
Fee and commission income	70,196	12,871	5,652	88,719
Fee and commission 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 of the period	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 associated companies	-	-	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 ate 30 June 2010, the net contribution of the main geographical segments is as follows:

Income statement indicators	**Portugal Euro '000**	**Cabo Verde Euro '000**	**Adjustments Euro '000**	**Consolidated Euro '000**
Interest and similar income	359,707	3,890	(6,357)	357,240
Interest and similar expense	230,863	3,594	(6,357)	228,100
Net interest income	128,844	296	-	129,140
Dividends from equity instruments	1,173	-	(706)	467
Fee and commission income	42,126	-	-	42,126
Fee and commission expense	(7,268)	-	-	(7,268)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	31,968	-	-	31,968
Net gains/(losses) arising from available-for-sale financial assets	8,980	-	-	8,980
Net gains arising from foreign exchange differences	1,137	38	-	1,175
Net gains from sale of other financial assets	(1,986)	-	-	(1,986)
Other operating income	9,015	(1)	-	9,014
Total operational income	213,989	333	(706)	213,616
Staff costs	74,184	-	-	74,184
General and administrative expenses	39,252	27	-	39,279
Depreciation and amortisation	9,835	2	-	9,837
Total operating costs	123,271	29	-	123,300
Loans impairment	52,511	-	-	52,511
Other assets impairment	7,054	-	-	7,054
Other provisions	25	-	-	25
Operating Profit	31,128	304	(706)	30,726
Share of profit of associates under the equity method	(130)	-	-	(130)
Profit of the period	30,998	304	(706)	30,596

Balance sheet indicators	Portugal Euro '000	Cabo Verde Euro '000	Adjustments Euro '000	Consolidated Euro '000
Cash and deposits at central banks	171,614	-	-	171,614
Loans and advances to credit institutions repayable on demand	108,346	306	(272)	108,380
Other loans and advances to credit institutions	77,211	369,027	(369,027)	77,211
Loans and advances to customers	14,546,710	-	-	14,546,710
Financial assets held for trading	240,980	-	-	240,980
Other financial assets at fair value through profit or loss	4,071	-	-	4,071
Financial assets available-for-sale	2,002,355	-	-	2,002,355
Hedging derivatives	3,751	-	-	3,751
Held-to-maturity investments	57,848	51	-	57,899
Investments in associated companies and others	47,499	-	(7,001)	40,498
Non-current assets held for sale	131,613	-	-	131,613
Property and equipment	92,685	100	-	92,785
Intangible assets	16,655	-	-	16,655
Other assets	174,193	-	-	174,193
Total Assets	17,675,531	369,484	(376,300)	17,668,715
Deposits from central banks	905,383	-	-	905,383
Deposits from other credit institutions	590,885	-	-	590,885
Deposits from customers	9,377,111	361,909	(369,299)	9,369,721
Debt securities issued	4,782,784	-	-	4,782,784
Financial liabilities held for trading	43,391	-	-	43,391
Hedging derivatives	1,601	-	-	1,601
Provisions	1,420	-	-	1,420
Other subordinated debt	380,357	-	-	380,357
Other liabilities	615,899	-	-	615,899
Total Liabilities	16,698,831	361,909	(369,299)	16,691,441
Share capital	760,000	7,001	(7,001)	760,000
Fair value reserves	(48,620)	-	-	(48,620)
Other reserves and retained earnings	234,322	270	706	235,298
Profit for the period	30,998	304	(706)	30,596
Total Equity	976,700	7,575	(7,001)	977,274
Total Liabilities and Equity	17,675,531	369,484	(376,300)	17,668,715

As at 31 December 2009, the net contribution of the main geographical segments is as follows:

Income statement indicators	Portugal Euro '000	Cabo Verde Euro '000	Adjustments Euro '000	Consolidated Euro '000
Interest and similar income	871,401	10,242	(10,242)	871,401
Interest and similar expense	551,445	9,390	(10,242)	550,593
Net interest income	319,956	852	-	320,808
Dividends from equity instruments	1,260	-	(557)	703
Fee and commission income	88,719	-	-	88,719
Fee and commission 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	445,428	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	41,746	784	(557)	41,973
Share of profit of associates under the equity method	2,503	-	-	2,503
Profit of the year	44,249	784	(557)	44,476

Balance Sheet Indicators	Portugal Euro '000	Cabo Verde 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	597,802	-	-	597,802
Total Liabilities	16,266,371	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 year	44,249	784	(557)	44,476
Total Equity	985,239	7,976	(7,001)	986,214
Total Liabilities and Equity	17,251,610	307,802	(314,645)	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 the Group 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 scoring systems;

- Accompanying in the process of implementation of the new systems of credit workflow and management of its limits;

- Beginning of the development of new behavioural scoring model.

CEMG has been following Basel Committee’s recommendations and all its recent developments regarding liquidity risk and own funds’ evaluation.

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 the Group's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

Operational – Operational risk is the potential loss resulting from failures or inadequacies in internal procedures, persons or systems, or 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 the Group.

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 decisions. Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants’ behaviour.

There are reactive scoring models for the main individual credit portfolio, recognising the need to distinguish between customers and non-customers (or new customers). Commercial performance and credit risk analysis are supported by behaviour scorings.

The credit risk analysis process to companies lays in a model of internal rating and business scoring, both cases distinguishing construction sector from the other activity sector.

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

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Deposits with Other credit institutions	108,380	69,870
Deposits with banks	77,211	370,938
Loans and advances to customers	14,546,710	14,682,382
Financial assets held for trading	238,740	101,815
Financial assets at fair value through profit or loss	4,071	4,192
Available-for-sale financial assets	1,987,381	1,267,208
Hedging derivatives	3,751	5,109
Held-to-maturity investments	57,899	33,523
Investments in associated companies and others	40,498	40,075
Other assets	171,320	109,688
Guarantees granted	428,213	426,156
Irrevocable commitments	288,404	302,264
Credit default swaps (notionals)	33,075	41,458
	17,985,653	17,454,678

The analysis of the risk exposure by sector of activity, as at 30 June 2010, can be analysed as follows:

Sector of activity	Jun 2010							
	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 [(a)]	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	32,094	(1,189)	-	-	145	(57)	-	314
Mining	53,936	(3,320)	-	-	518	-	-	1,122
Food, beverage and tobacco	30,689	(8,522)	-	-	106	-	-	462
Textiles	20,673	(4,184)	-	-	-	-	-	1,287
Shoes	23,635	(3,744)	-	-	-	-	-	3
Wood and cork	6,867	(745)	-	-	-	-	-	919
Printing and publishing	12,327	(1,633)	-	-	-	-	-	988
Petroleum refining	13,663	(362)	425	-	33,651	-	-	-
Chemicals and rubber	34,925	(2,028)	-	-	1,051	-	-	1,248
Non-metallic minerals	3,593	(76)	-	-	-	-	-	2,255
Basis metallurgic industries and metallic products	38,799	(2,413)	-	-	-	-	-	4,254
Production of machinery	21,010	(2,424)	-	-	268	-	-	1,976
Production of transport material	18,051	(2,768)	-	-	-	-	-	134
Other transforming material	63,970	(1,675)	1,581	-	74,443	-	-	417
Electricity, gas and water	1,590,406	(110,968)	2,925	3,052	80,270	(991)	-	1,169
Construction	435,252	(56,225)	175	-	26,093	(998)	-	209,689
Wholesale and retail	502,618	(51,332)	988	-	28,900	-	-	37,150
Tourism	120,065	(7,161)	-	-	8,823	(90)	-	11,737
Transports	140,725	(12,343)	-	-	2,749	-	-	9,062
Communications and information activities	150,801	(3,287)	2,277	-	78,094	-	-	497
Financial activities	701,745	(37,745)	165,692	1,019	874,781	(19,935)	-	34,188
Real estates activities	56,546	(892)	-	-	13,244	-	-	26,593
Services provided to companies	307,103	(12,265)	-	-	-	-	-	9,431
Public services	143,661	(4,817)	66,819	-	495,932	-	57,899	4,223
Other activities of collective services	40,285	(3,857)	-	-	689	-	-	4,185
Mortgage loans	10,431,956	(158,584)	-	-	204,727	(2,509)	-	64,334
Others	48,279	(2,405)	98	-	102,641	(190)	-	576
TOTAL	15,043,674	(496,964)	240,980	4,071	2,027,125	(24,770)	57,899	428,213

The analysis of the risk exposure by sector of activity, as at 31 December 2009, can be analysed as follows:

Sector of activity	2009							
	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 [(a)]	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	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 estates 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.

Overall Risks and Financial Assets

Efficient balance sheet management also involves the Assets and Liabilities Committee (“ALCO”), which examines interest rate, liquidity and exchange rate risks, namely as regards compliance with the limits set for the static and dynamic gaps calculated.

Normally the static interest rate and liquidity gaps are positive and moderate in size, with exception of those months when payments are made relating to bond issue debt service. As for exchange rate risk, the resources obtained in different currencies are hedged as assets in the respective monetary market and for periods not exceeding those of the resources, which mean any exchange rate gaps result mainly from possible unadjustments between the hedge and resource deadlines.

Concerning risk information and analysis, regular reports are provided on the credit and market risks on the company’s financial assets and those of the other members of the Group. For the company’s own portfolio, the various risk limits are defined using the Value-at-Risk (“VaR”) method. There are different exposure limits such as global ‘VaR’ limits, by issuer, by asset type/class and rating. There are also limits of Stop Loss. Investment portfolio is mainly concentrated in bonds. New issuing of debt securities in the portfolio were mainly of fixed rate, namely debt securities bonds, mainly of Portuguese Republic.

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 June of 2010, would reach, in static terms, about Euro 315,813,000 (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 30 June 2010 and 31 December 20009:

	June 2010				**Dec 2009**			
	June	**Annual Average**	**Maximum**	**Minimum**	**December**	**Annual Average**	**Maximum**	**Minimum**
	Euro '000	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**
Interest rate GAP	315,813	357,941	400,068	315,813	400,068	662,050	924,031	400,068

Following the recommendations of Basel II (Pillar 2) 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
30 June 2010					
Assets	13,967,486	3,943,710	192,121	753,502	403,923
Off balance sheet	80,000	73,000	559,100	1,159,660	48,219
Total	14,047,486	4,016,710	751,221	1,913,162	452,142
Liabilities	11,145,562	3,002,268	1,563,214	3,188,668	45,216
Off balance sheet	1,555,668	298,311	14,500	21,000	30,500
Total	12,701,230	3,300,579	1,577,714	3,209,668	75,716
GAP (Assets – Liabilities)	1,346,256	716,131	(826,493)	(1,296,506)	376,424
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	1,668,585	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	1,670,985	1,950,138	8,841
GAP (Assets – Liabilities)	1,827,401	1,315,375	(1,065,692)	(1,718,397)	41,381

Sensibility analysis

As at June, 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 12,359,000 (31 December, 2009: Euro 20,771,000).

The following table presents the average interests, in relation to the CEMG major assets and liabilities categories for the periods ended 30 June 2010 and 31 December 2009, as well as the average balances and the income and expense for the period:

	Jun 2010			Dec 2009		
Products	**Average balance for the period Euro '000**	**Average interest rate (%)**	**Income / Expense Euro '000**	**Average balance for the period Euro '000**	**Average interest rate (%)**	**Income / Expense Euro '000**
Assets						
Loans to customers	15,077,696	2.85	212,720	15,159,383	3.71	562,858
Deposits	153,423	1.02	775	157,614	1.23	1,934
Securities portfolio	1,748,550	3.99	34,588	1,158,637	5.34	61,860
Inter-bank loans and advances	214,293	10.29	10,931	281,442	0.62	1,750
Swaps	-		90,675	-	-	239,586
Total Assets	17,193,962		349,689	16,757,076	5.18	867,988
Liabilities						
Deposits from customers	9,240,789	2.69	77,590	8,558,425	1.75	184,689
Interbank deposits	847,370	1.00	4,220	782,350	1.63	12,747
Securities deposits	620,413	7.20	22,148	711,568	2.22	15,793
Deposits from other credit institutions	225,000	0.88	985	225,000	1.81	4,074
Debt securities	5,217,544	2.54	46,193	5,424,995	3.10	124,589
Other subordinated liabilities	378,000	1.96	3,670	378,000	3.10	11,721
Other liabilities	524	0.92	2	682	3.18	22
Swaps	-	-	65,741	-	-	193,544
Total liabilities	16,529,639		220,549	16,081,020	4.98	547,179

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 30 June 2010 is analysed as follows:

	Jun 2010							
	Euro	**US Dollars**	**Sterling Pounds**	**Canadian Dollars**	**Suisse Frank**	**Japanese Iene**	**Other foreign currencies**	**Total amount**
	Euro '000	**Euro '000**	**Euro'000**	**Euro '000**	**Euro'000**	**Euro'000**	**Euro '000**	**Euro '000**
Assets by currency								
Cash and deposits at central banks	162,314	7,881	280	405	347	75	312	171,614
Loans and advances to credit institutions repayable on demand	103,003	3,492	164	1,317	267	38	99	108,380
Loans and advances to credit institutions	77,099	112	-	-	-	-	-	77,211
Loans and advances to customers	14,543,386	2,974	-	-	350	-	-	14,546,710
Financial assets held for trading	240,823	145	-	12	-	-	-	240,980
Other financial assets at fair value trough profit or loss	4,071	-	-	-	-	-	-	4,071
Available-for-sale financial assets	1,998,921	3,178	-	-	256	-	-	2,002,355
Hedging derivatives	3,751	-	-	-	-	-	-	3,751
Held-to-maturity investments	57,899	-	-	-	-	-	-	57,899
Investments in associated companies and others	40,498	-	-	-	-	-	-	40,498
Non- current assets held for sale	131,613	-	-	-	-	-	-	131,613
Property and equipment	92,786	-	-	-	-	-	-	92,786
Intangible assets	16,655	-	-	-	-	-	-	16,655
Other assets	26,355	129,549	3,548	14,740	-	-	-	174,192
	17,499,174	147,331	3,992	16,474	1,220	113	411	17,668,715
Liabilities by currency								
Deposits from other credit institutions	905,383	-	-	-	-	-	-	905,383
Deposits from customers	575,268	15,512	8	55	23	-	19	590,885
Debt securities issued	9,296,311	50,825	3,502	18,694	388	1	-	9,369,721
Financial liabilities held for trading	4,780,339	2,445	-	-	-	-	-	4,782,784
Other financial liabilities at fair value trough profit or loss	43,184	207	-	-	-	-	-	43,391
Hedging derivatives	1,601	-	-	-	-	-	-	1,601
Provisions	1,420	-	-	-	-	-	-	1,420
Other subordinated debt	380,357	-	-	-	-	-	-	380,357
Other liabilities	537,961	78,411	482	(2,275)	816	112	392	615,899
Total Liabilities	16,521,824	147,400	3,992	16,474	1,227	113	411	16,691,441
Net asset / liability by currency	977,350	(69)	-	-	(7)	-	-	977,274
Equity	977,267	2	-	-	-	5	-	977,274
Net exposure	83	(71)	-	-	(7)	(5)	-	-

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2009 is analysed as follows:

	Dec 2009							
	Euro	**US Dollars**	**Sterling Pounds**	**Canadian Dollars**	**Hong-Kong Dollar**	**Czech Koruna**	**Other foreign currencies**	**Total amount**
	Euro '000	**Euro '000**	**Euro'000**	**Euro '000**	**Euro'000**	**Euro'000**	**Euro '000**	**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
	17,168,664	48,501	4,890	18,863	348	3,106	395	17,244,767
Liabilities by currency								
Deposits from other credit institutions	502,353	-	-	-	-	-	-	502,353
Deposits from customers	636,337	1,247	4	41	-	140	1	637,770
Debt securities issued	9,112,744	44,541	4,389	18,822	1	361	-	9,180,858
Financial liabilities held for trading	4,912,833	2,082	-	-	-	-	-	4,914,915
Other financial liabilities at fair value trough profit or loss	41,702	22	-	-	-	-	-	41,724
Hedging derivatives	598	-	-	-	-	-	-	598
Provisions	1,491	-	-	-	-	-	-	1,491
Other subordinated debt	381,043	-	-	-	-	-	-	381,043
Other liabilities	593,354	609	497	-	347	2,600	394	597,801
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 is under the Bank of Portugal's supervision in order to apply an approach based in The Standardized Approach – TSA, for calculating the fund's requirements to mitigate the operational risk. Nowadays, CEMG uses the Basic Indicator method.

In 2009, a project of implementation of a Integrated Continuing Business Plan were created, which allows to ensure the continuity of the operations in a case of a rupture in the activity.

A system of operational risk management is implemented and its basis are identification, evaluation, accompanying, measure, mitigation, and report this kind of risk. This system is supported by an organizational structure, integrated in DAGR, exclusively focused to this task as well as users in 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 of 8% (to be accomplished from September 2008 in accordance with circular letter no. 83/2008), as well as a minimum amount of 4% for its main component, the Tier1, in relation to the requirements of the assumed risks that institutions have to fulfil. These referential minimums can be changed in future agreements.

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).

In addition, the consolidated Own Funds have a negative impact in the amount of Euro 30,500,000, referring to the differences resulting from the alteration of the mortality table used to calculate post-employment benefits.

The capital adequacy of CEMG as at 30 June 2010 and 31 December 2009 is presented as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Core own funds		
Paid-up capital	760,000	760,000
Results, general and special reserves and retained earnings	219,694	240,700
Other regulatory adjustments	(80,218)	(68,199)
NIC/NCA adjustments	19,000	22,207
	918,476	954,708
Complementary own funds		
Upper Tier 2	23,252	18,154
Lower Tier 2	378,000	378,000
Deductions	(11,712)	(12,753)
	389,540	383,401
Deductions to total own funds	(6,186)	(9,079)
Total own funds	1,301,830	1,329,030
Own funds requirements		
Credit risk (Regulation no. 5/2007)	760,601	737,373
Market risk (Regulation no. 8/2007)	3,387	2,985
Operational risk (Regulation no. 9/2007)	62,326	61,185
	826,314	801,543
Prudential ratios		
Ratio core Tier 1	8.89%	9.31%
Solvency ratio	12.60%	13.04%

Caixa Económica Montepio Geral

Interim Individual Financial Statements

30 June, 2010 and 2009

(With Statutory audit opinion and Auditors' report thereon)

This Report is a translation to English of the Portuguese version. In case of doubt, or misinterpretation the Portuguese version will prevail.

August 2010
This report contains 100 pages

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LIMITED REVIEW REPORT
ON INTERIM INDIVIDUAL FINANCIAL INFORMATION
ISSUED BY THE CMVM REGISTERED AUDITOR

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

INTRODUCTION

1. In accordance with the Stock Exchange Code (“Código dos Valores Mobiliários” or “CVM”), we present our Limited Review Report, on the interim individual financial information for the six months period ended 30 June, 2010 of **Caixa Económica Montepio Geral**, which comprise the Balance sheet as at 30 June 2010 (showing total assets of 20,381,203 thousand Euros and total equity of 977,565 thousand Euros, including a net profit of 26,021 thousand Euros) the statements of income, of cash flows, of changes in equity and of comprehensive income for the six months period then ended and the corresponding notes to the accounts.

2. The amounts included in the interim financial statements and in the additional financial information were derived from the accounting records.

RESPONSIBILITIES

3. The Board of Directors is responsible for:

a) the preparation of the financial information that present fairly the financial position of **Caixa Económica Montepio Geral**, the results of its operations, its cash flows, changes in equity and its comprehensive income;

b) the historical financial information prepared in accordance with the Adjusted Accounting Standards (“Normas de Contabilidade Ajustadas”) issued by the Bank of Portugal, which are based on the application of IAS 34 – Interim Financial Reporting, 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”), which is complete, true, current, clear, objective and lawful as required by the Stock Exchange Code (“Código dos Valores Mobiliários”);

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.

4. Our responsibility is to verify the financial information included in the above referred documents, namely as to whether it is complete, true, current, clear, objective and lawful as required by the “Código dos Valores Mobiliários” in order to issue a professional and independent opinion based on our work.

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 - SROC, 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

SCOPE

5. The work that we have performed was conducted with the objective of obtaining a moderate level of assurance that the financial information mentioned above is free of material misstatements. Our work was performed based on the Technical Standards and Review/Audit Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), and planned in accordance with that objective and included the following procedures:

a) mainly, inquiries and analytical procedures performed to review:

- the reability of the assertions included in the financial information;
- the adequacy of the accounting policies adopted, considering the circumstances and the consistency of their application;
- the application of the going concern principle;
- the presentation of the financial information;
- if the financial information is complete, true, current, clear, objective and lawful; and

b) substantive tests on material non current transactions.

6. Our review also included the verification that the financial information included in the interim Report of the Board of Directors is consistent with the remaining documents mentioned above.

7. We believe that our work provides a reasonable basis to issue our report on the interim individual financial information.

OPINION

8. Based on our review, which was performed with the objective of obtaining moderate assurance, nothing has come to our attention that causes us to believe that the interim individual financial information of **Caixa Económica Montepio Geral** as at 30 June 2010, the result of its operations, of cash flows, of changes in equity and of comprehensive income for the six months period ended 30 June 2010, is not free of material misstatements that affects its compliance with Adjusted Accounting Standards and that is not complete, true, current, clear, objective and lawful.

Lisbon, 16 August 2010

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (no. 189)
represented by
Sílvia Cristina de Sá Velho Corrêa da Silva Gomes
(Statutory Auditor no. 1131)

FINANCIAL STATEMENTS

- NOTES TO THE FINANCIAL STATEMENTS
(Pages 4 to 100)

Caixa Económica Montepio Geral

Income Statement
for the six months period ended at 30 June 2010 and 2009

(Amounts expressed in thousands of Euro)

	Notes	June 2010	June 2009
Interest and similar income	3	346,994	525,247
Interest and similar expense	3	218,149	343,174
Net interest income		128,845	182,073
Dividends from equity instruments	4	2,104	2,484
Fee and comission income	5	42,126	41,525
Fee and comission expense	5	(7,268)	(6,199)
Net gains/(losses) arising from assets and liabilities at fair value through profit or loss	6	31,638	4,826
Net gains/(losses) arising from available-for-sale financial assets	7	8,334	440
Net gains arising from foreign exchange differences	8	1,137	1,034
Net gains from sale of other financial assets		(1,986)	315
Other operating income	9	9,016	11,737
Total operating income		213,946	238,235
Staff costs	10	73,731	74,343
General and administrative expenses	11	39,251	37,364
Depreciation and amortisation	12	9,835	9,424
Total operating costs		122,817	121,131
Loans impairment	13	58,029	84,320
Other assets impairment	14	7,054	2,287
Other provisions	15	25	46
Operating profit		26,021	30,451
Profit for the period		26,021	30,451

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

Caixa Económica Montepio Geral

Balance Sheet as at 30 June 2010 and 31 December 2009

(Amounts expressed in thousands of Euro)

	Notes	June 2010	December 2009
Assets			
Cash and deposits at central banks	16	171,614	305,018
Loans and advances to credit institutions repayable on demand	17	93,122	51,745
Other loans and advances to credit institutions	18	77,211	370,884
Loans and advances to customers	19	14,329,107	14,448,162
Financial assets held for trading	20	240,960	103,195
Other financial assets at fair value through profit or loss	21	4,071	4,192
Financial assets available-for-sale	22	4,923,256	3,164,510
Hedging derivatives	23	3,751	5,109
Held-to-maturity investments	24	57,848	33,523
Investments in associated companies and others	25	43,297	43,297
Non-current assets held for sale	26	131,613	128,599
Property and equipment	27	92,686	91,173
Intangible assets	28	16,655	16,151
Other assets	29	196,012	130,226
Total Assets		20,381,203	18,895,784
Liabilities			
Deposits from central banks	30	905,383	502,353
Deposits from other credit institutions	31	960,182	945,400
Deposits from customers	32	9,007,812	8,881,046
Debt securities issued	33	4,483,347	4,583,307
Financial liabilities held for trading	20	43,321	41,345
Hedging derivatives	23	1,601	598
Provisions	34	101,318	102,800
Other subordinated debt	35	380,357	381,043
Other liabilities	36	3,520,317	2,462,658
Total Liabilities		19,403,638	17,900,550
Equity			
Share capital	37	760,000	760,000
Fair value reserves	39	(47,974)	(28,600)
Other reserves and retained earnings	37 and 38	239,518	226,056
Profit for the period		26,021	37,778
Total Equity		977,565	995,234
		20,381,203	18,895,784

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Caixa Económica Montepio Geral

Statement of Cash Flows
for the six months period ended at 30 June 2010 and 2009

(Amounts expressed in thousands of Euro)

	June 2010	June 2009
Cash flows arising from operating activities		
Interest income received	333,610	558,630
Commission income received	37,448	40,690
Interest expense paid	(204,609)	(390,636)
Commission expense paid	166	(5,062)
Payments to employees and suppliers	(111,725)	(108,270)
Recovered from charged-off loans	1,180	1,741
Other payments and receivables	77,532	153,124
	133,602	250,217
(Increase) / decrease in operating assets		
Loans and advances to credit institutions and customers	1,371,845	558,831
Other assets	(79,170)	(71,598)
	1,292,675	487,233
(Increase) / decrease in operating liabilities		
Deposits from central banks	123,345	736,505
Deposits from clients	(483,246)	(655,263)
Deposits from credit institutions	900,000	450,000
	540,099	531,242
	1,966,376	1,268,692
Cash flows arising from investing activities		
Dividends received	2,104	2,484
(Acquisition) / sale of trading financial assets	(122,400)	(21,260)
(Acquisition) / sale of other financial assets at fair value through profit or loss	121	92
(Acquisition) / sale of available for sale financial assets	(1,779,288)	(1,164,162)
(Acquisition) / sale of hedging derivatives	1,514	(2,145)
(Acquisition) / sale of held to maturity investments	(24,347)	63
(Acquisition) / sale of shares in associated companies	-	29
Deposits owned with the purpose of monetary control	119,388	147,411
Proceeds from sale of fixed assets	605	486
Acquisition of fixed assets	(11,955)	(11,955)
	(1,814,258)	(1,048,957)
Cash flows arising from financing activities		
Dividends paid	(20,300)	(11,272)
Proceeds from issuance of share capital	-	100,000
Proceeds from issuance of bonds and subordinated debt	4,637	(53,311)
Reimbursement of bonds and subordinated debt	(111,071)	(248,060)
Increase / (decrease) in other (sundry) liabilities	1,977	(11,917)
	(124,757)	(224,560)
Net changes in cash and equivalents	27,361	(4,825)
Cash and equivalents balance at the beginning of the period	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 period	178,234	177,200

See accompanying notes to the interim individual financial statements

Caixa Económica Montepio Geral

Statement of Changes in Equity
for the six months period ended at 30 June 2010 and 2009

(Amounts expressed in thousands of Euro)

	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)	(8,140)	-	-	-	(8,140)	-
Dividends paid (note 41)	(11,271)	-	-	-	-	(11,271)
Increase in share capital	100,000	100,000	-	-	-	-
IAS 19 adjustments	(4,016)	-	-	-	-	(4,016)
Profit for the period	30,451	-	-	-	-	30,451
Total gains and losses recognised in the period	964,320	760,000	216,855	8,404	(56,204)	35,265
Reserves constitution						
General reserve	-	-	7,064	-	-	(7,064)
Special reserve	-	-	1,766	-	-	(1,766)
Balance on 30 June 2009	964,320	760,000	225,685	8,404	(56,204)	26,435
Changes in fair value (note 39)	27,604	-	-	-	27,604	-
Profit for the period	7,327	-	-	-	-	7,327
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 (note 39)	(19,374)	-	-	-	(19,374)	-
Dividends paid (note 41)	(20,300)	-	-	-	-	(20,300)
IAS 19 adjustments	(4,016)	-	-	-	-	(4,016)
Profit for the period	26,021	-	-	-	-	26,021
Total gains and losses recognised in the period	977,565	760,000	225,685	8,404	(47,974)	31,450
Reserves constitution						
General reserve	-	-	7,556	-	-	(7,556)
Special reserve	-	-	1,889	-	-	(1,889)
Balance on 30 June 2010	977,565	760,000	235,130	8,404	(47,974)	22,005

Caixa Económica Montepio Geral

Statement of the Comprehensive Income
for the six months period ended at 30 June 2010 and 2009

(Amounts expressed in thousands of Euro)

	Note	June 2010	June 2009
Fair value reserves			
Available-for-sale financial instruments	39	(19,374)	(8,140)
Profit for the period		26,021	30,451
Total comprehensive income for the period		6,647	22,311

See accompanying notes to the interim individual financial statements

Caixa Económica Montepio Geral

Notes to the Interim Individual Financial Statements
30 June 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 19 July 2002, from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February 2005 and Regulation no. 1/2005 from the Bank of Portugal, CEMG is required to prepare its individual financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

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 interim individual financial statements for the six months period ended 30 June 2010 were prepared in accordance with the IFRS effective and adopted by the EU until 30 June 2010. These interim individual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) – IAS 34 Interim Financial Reporting and do not include all the information required in the preparation of a complete set of individual financial statements which will be prepared for the year ending 31 December 2010.

The accounting policies applied by the CEMG in the preparation of its interim individual financial statements as at and for the six month period ended 30 June 2010 are consistent with the ones used in the preparation of the annual individual financial statements as at and for the year ended 31 December 2009.

During the six month period ended 30 June 2010, the CEMG adopted:

- IFRS 3 (revised) – Business Combination and IAS 27 (amendment) – Consolidate and Separate Financial Statements. As a result, the CEMG adapted the accounting policy related with the basis for consolidation. The adoption of the changes had no significant impact on the interim individual financial statements;
- IFRS 5 (amendment) – Non-current assets held for sale and discontinued operations. The adoption of this amendment had no significant impact on the interim individual financial statements;
- IAS 39 (amendment) – Financial Instruments: Recognition and Measurement – Eligible hedged items. The adoption of this amendment had no significant impact on the interim individual financial statements;
- IFRIC 12 – Service Concession Arrangement, IFRIC 17 - Distribution of non-cash assets to owners and IFRIC 18 – Transfer of assets from customers. The adoption of these interpretations had no significant impact on the interim individual financial statements.

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

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

These interim individual financial statements were approved in the Board of Directors meeting held on 29 July, 2010.

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 to equity instruments classified as available-for-sale, which are accounted for in equity, within the fair value 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 accounting policy, 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 a hedge relationship to be classified as such according to IAS 39 – Financial Instruments: Recognition and Measurement, effectiveness has to be demonstrated. As such, the CEMG performs prospective tests at the beginning date of the initial hedge, if applicable and retrospective tests in order to demonstrate at each reporting period the effectiveness of the hedging relationships, showing that the changes in the fair value of the hedging instrument are hedged by the changes in the hedged item for the risk being covered. Any ineffectiveness is recognised 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 nominal value, and cannot be reclassified to the remaining financial assets categories.

Impairment

Impairment

As referred in the accounting policy described in 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 are no expectations, from an economic perspective, of recovering the loan amount. For collateralized loans, the charged-off occurs when the funds arising from the execution of the respective collaterals was already received. This charge-off is carried out only for loans that are 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 or that are owned as part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking and (ii) financial assets that are designated at fair value through profit or loss at inception.

Trading derivatives with a positive fair value are included in the Financial assets held for trading and the trading derivatives with negative fair value are included in the Financial liabilities held for trading.

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 recognised in profit and loss and subsequently measured at fair value through profit and loss. The accrual of interest and premium/discount (when applicable) is recognised in Net interest income according with the effective interest rate of each transaction, as well as for the derivatives associated to financial instruments classified as Fair Value Option.

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, at inception, as at fair value through profit or loss or as available-for-sale.

Available-for-sale financial assets

Available-for-sale financial assets 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 rate method and dividends are recognised in the income statement.

Held-to-maturity investments are carried at amortised cost using the effective interest rate 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 the CEMG to reclassify the entire portfolio as Financial assets available for sale and the CEMG will not be allowed to classify any assets under this category for the following two years.

The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities the 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.

In October 2008, the IASB issued an amendment to IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. This amendment to IAS 39, permits, in rare circumstances, to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category, to the held-to-maturity investments, available-for-sale financial assets and loans and receivables categories. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category.

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 six months period ended 30 June 2010 and the year 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 equity securities, a significant or prolonged decline in the fair value of the security below its cost, and (ii) for debt 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 carrying amount 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, 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 rate method.

Securities lent under lending agreements are not derecognised of the balance sheet, being classified and measured in accordance with the accounting policy described in 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 the 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 the 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

Assets arising out of recovered loans include buildings, loans seize and securities arising from the settlement of loan contracts. These assets are reported under Non-current assets held for sale and are measured initially by the lower of its fair value net of expenses and the loan's carrying amount on the date that the recovery occurs or the judicial decision is formalized.

Fair value is based on the market value, being determined based on the expectable selling price estimated through periodic valuations performed by the CEMG.

The subsequent accounting of these assets is determined based on the lower of the carrying amount and its corresponding fair value net of expenses. No depreciation is provided in respect of those assets. In case of unrealised losses, these should be recognised as impairment losses against results.

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 buildings 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 Employee 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)".

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 principals 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, using the projected unit credit method. 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. CEMG's net obligation is determined after the deduction of the fair value trough profit or loss of the Fund assets.

Actuarial gains and losses determined semi-annually and resulting from (i) the differences between financial and actuarial assumptions used and actual 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, in accordance with the terms defined in IAS 19 – Employees Benefits.

This method establishes that the actuarial gains and losses accumulated at the beginning of the year that exceed the greater of 10% of the pension liabilities or the fair value of the plan assets, as at the beginning of the year, 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 has determined based on 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 year 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, the recoverability of any recognised asset in relation to the defined benefit pension plan, based on the expectation of reductions in future contributions for 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 income and expense

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 accounting policy 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 derivatives for risk management purposes, the interest component of the changes in their fair value is not separated out and is classified under net gains/(losses) from financial assets and financial liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

1.18 Fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions 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;

- Fees and commissions earned over the period in which the services are provided are recognised as income in the period the services are provided;

- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate 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 individual 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 individual 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, the 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

The 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.

Securitisations and Special Purpose Entities (SPE)

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.

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.

The credit securitization transactions Pelican Mortgages no. 3, 4, 5 and Pelican SME, not led to derecognition in the CEMG financial statements.

Moreover, the CEMG derecognised assets associated with the following credit securitization transactions: Pelican Mortgages no. 1 and 2.

Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

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 available-for-sale activities. This required disclosure, however, does not take into account that net gains arising from assets and liabilities at fair value through profit or loss, available-for-sale financial assets and interest and similar income activities are generated by a range of different business activities.

These balances are analysed as follows:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Net interest income	128,845	182,073
Net gains arising from assets and liabilities at fair value through profit and loss and available-for-sale financial assets	39,972	5,266
	168,817	187,339

3 Net interest income

The amount of this account is comprised of:

	Jun 2010			Jun 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	205,793	-	205,793	359,908	-	359,908
Interest from other assets	687	-	687	1,182	-	1,182
Interest from deposits	776	-	776	1,188	-	1,188
Interest from available-for-sale securities	32,717	-	32,717	34,025	-	34,025
Interest from held-to-maturity securities	1,213	-	1,213	754	-	754
Interest from hedging derivatives	1,893	-	1,893	2,837	-	2,837
Interest from financial investments held for trading	-	89,437	89,437	-	115,698	115,698
Other interest and similar income	14,478	-	14,478	9,655	-	9,655
	257,557	89,437	346,994	409,549	115,698	525,247
Interest and similar expense:						
Interest from deposits	63,755	-	63,755	106,369	-	106,369
Interest from securities issued	46,724	-	46,724	72,376	-	72,376
Interest from loans	2,351	-	2,351	4,720	-	4,720
Interest from other funding	9,882	-	9,882	19,311	-	19,311
Interest from hedging derivatives	973	-	973	2,197	-	2,197
Interest from financial investments held for trading	-	64,764	64,764	-	93,618	93,618
Other interest and similar expense	29,700	-	29,700	44,583	-	44,583
	153,385	64,764	218,149	249,556	93,618	343,174
Net interest income	104,172	24,673	128,845	159,993	22,080	182,073

4 Dividends from equity instruments

The amount of this account is comprised of:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Dividends from available-for-sale financial assets	467	716
Dividends from associated companies	1,637	1,768
	2,104	2,484

5 Net fee and commission income

The amount of this account is comprised of:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Fee and commission income:		
From banking services	30,557	29,147
From commitments to third parties	2,963	3,472
From guarantees granted	4,502	4,479
Other fee and commission income	4,104	4,427
	42,126	41,525
Fee and commission expense:		
From banking services rendered by third parties	6,869	5,752
From transactions with securities	177	218
Other fee and commission expense	222	229
	7,268	6,199
Net fee and commission income	34,858	35,326

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

The amount of this account is comprised of:

	Jun 2010			Jun 2009		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
	Euro '000	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by public entities	328	1,256	(928)	25	-	25
Issued by other entities	177	256	(79)	567	1	566
Shares	54	257	(203)	565	23	542
	559	1,769	(1,210)	1,157	24	1,133
Derivative financial instruments						
Exchange rate contracts	147,360	148,532	(1,172)	64,927	63,649	1,278
Interest rate contracts	230,238	195,682	34,556	166,738	151,994	14,744
Credit default contracts	2,886	3,717	(831)	4,684	4,207	477
Others	46,514	45,101	1,413	14,061	27,522	(13,461)
	426,998	393,032	33,966	250,410	247,372	3,038
	427,557	394,801	32,756	251,567	247,396	4,171
Other financial assets at fair value through profit or loss						
Bonds and other fixed income securities						
Issued by other entities	-	28	(28)	-	-	-
Financial liabilities						
Other loans and advances to credit institutions	536	262	274	433	646	(213)
Deposits from customers	298	263	35	165	686	(521)
Debt securities issued	104	-	104	933	1,688	(755)
Other subordinated debt	15,600	17,103	(1,503)	22,842	20,698	2,144
	16,538	17,628	(1,090)	24,373	23,718	655
	444,095	412,457	31,638	275,940	271,114	4,826

The result of own issuing repurchase is calculated according to the referred in the accounting policy 1.7.

7 Net gains arising from available-for-sale financial assets

The amount of this account is comprised of:

	Jun 2010			Jun 2009		
	Gains	Losses	Total	Gains	Losses	Total
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Bonds and other fixed income securities						
Issued by public entities	1,872	492	1,380	55	1	54
Issued by other entities	3,755	670	3,085	462	47	415
Shares	2,660	-	2,660	10	26	(16)
Other variable income securities	1,215	6	1,209	2	15	(13)
	9,502	1,168	8,334	529	89	440

8 Net gains from foreign exchange differences

The amount of this account is comprised of:

	Jun 2010			Jun 2009		
	Gains	Losses	Total	Gains	Losses	Total
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Foreign exchange differences	5,759	4,622	1,137	18,625	17,591	1,034

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 1.2.

9 Other operating income

The amount of this account is comprised of:

	Jun 2010 Euro '000	Jun 2009 Euro '000
Other operating income:		
Income from services	2,517	1,931
Reimbursement of expenses	966	751
Profits arising from deposits on demand management	4,031	3,934
Repurchase debt	3,650	6,742
Other operating income	1,135	1,639
	12,299	14,997
Other operating expense:		
Indirect taxes	58	76
Donations and quotizations	171	151
Contributions to the Deposit Guarantee Fund	845	874
Other operating expense	2,209	2,159
	3,283	3,260
Other net operating income	9,016	11,737

10 Staff costs

The amount of this account is comprised of:

	Jun 2010 Euro '000	Jun 2009 Euro '000
Remunerations	53,498	54,244
Health-care benefits - SAMS	3,143	3,159
Mandatory social security charges	4,148	3,887
Other charges with the pensions fund	11,377	11,159
Other staff costs	1,565	1,894
	73,731	74,343

The health-care benefits – SAMS include the amount of Euro 357,000 (30 June 2009: Euro 353,000) related to the health care net periodic benefit cost, which was determined based on the actuarial valuation performed (see note 43).

The balance Mandatory social security charges includes the amount of Euro 10,383,000 (30 June 2009: Euro 12,458,000) related to the pension cost for the six months period ended at 30 June 2010.

The costs with salaries and other benefits attributed to CEMG key management personnel, during the first semester of 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	669	2,258	2,927
Pension costs and health-care benefits (SAMS)	3	80	83
Variable remunerations	-	75	75
	672	2,413	3,085

The costs with salaries and other benefits attributed to CEMG key management personnel, during the first semester of 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	455	2,474	2,929
Pension costs and health-care benefits (SAMS)	-	542	542
Variable remunerations	3	87	90
	458	3,103	3,561

It is our understanding that the Other key management personnel are the top Directors of CEMG.

As at 30 June 2010 and 2009, loans granted by CEMG to its key management personnel, amounted to Euro 4,517,000 and Euro 5,801,000, respectively.

The average number of employees by professional category at service in CEMG during first semester of 2010 and the year of 2009 is analysed as follows:

	Jun 2010	**Dec 2009**
Management	125	125
Managerial staff	499	512
Technical staff	645	662
Specific categories	144	144
Administrative	1,383	1,418
Staff	69	74
	2,865	2,935

11 General and administrative expenses

The amount of this account is comprised of:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Rents	10,045	12,077
Specialised services		
Information technology services	5,059	1,953
Outsourcing	1,514	1,939
Other specialised services	5,434	6,627
Advertising	2,405	837
Communications	4,367	3,746
Water, electricity and fuel	2,090	1,776
Maintenance and related services	2,526	2,003
Transportation	1,733	1,724
Insurance	1,280	1,576
Travel, hotel and representation costs	534	593
Consumables	691	703
Training costs	339	446
Other supplies and services	1,234	1,364
	39,251	37,364

The balance Rents, includes the amount of Euro 7,809,000 (30 June 2009: 7,894,000), related to rents paid regarding buildings used by CEMG as leaser.

12 Depreciation and amortisation

The amount of this account is comprised of:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Intangible assets:		
Software	3,539	3,899
Other tangible assets:		
Land and buildings	1,672	1,633
Equipment:		
Furniture	284	311
Office equipment	29	50
Computer equipment	3,166	2,587
Interior installations	600	646
Motor vehicles	2	4
Security equipment	178	97
Operational lease - Renting	365	197
	6,296	5,525
	9,835	9,424

13 Loans impairment

The amount of this account is comprised of:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Overdue loans and advances to customers:		
Charge for the period	527,206	423,215
Write-back for the period	(372,638)	(327,310)
Recovery of loans and interest charged-off	(3,308)	(4,324)
	151,260	91,581
Other loans and advances to credit institutions		
Charge for the period	162	503
Write-back for the period	(138)	(506)
	24	(3)
	151,284	91,578

14 Other assets impairment

The amount of this account is comprised of:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Impairment for investments arising from recovered loans:		
Charge for the period	7,880	915
Write-back for the period	(1,995)	(2)
	5,885	913
Impairment for securities:		
Charge for the period	1,371	1,443
Write-back for the period	(202)	(69)
	1,169	1,374
	7,054	2,287

15 Other provisions

The amount of this account is comprised of:

	Jun 2010 Euro '000	Jun 2009 Euro '000
Provision for liabilities and charges:		
Charge for the period	235	46
Write-back for the period	(210)	-
	25	46

16 Cash and deposits at central banks

This balance is analysed as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Cash	85,112	99,128
Bank of Portugal	86,502	205,890
	171,614	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 30 June 2010, these deposits have earned interest at an average rate of 1% (31 December 2009: 1.35%).

17 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Credit institutions in Portugal	930	135
Credit institutions abroad	9,146	9,433
Amounts due for collection	83,046	42,177
	93,122	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:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Loans and advances to credit institutions in Portugal		
Deposits	205	245
Short term deposits	15,000	-
Other loans and advances	-	50,014
	15,205	50,259
Loans and advances to credit institutions abroad		
Deposits	120	105
Short term deposits	-	280,000
Other loans and advances	61,934	40,586
	62,054	320,691
	77,259	370,950
Impairment for credit risks over credit institutions	(48)	(66)
	77,211	370,884

The main loans and advances to credit institutions in Portugal, as at 30 June 2010, bear interest at an average annual interest rate of 1.25% (31 December 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:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Due within 3 months	35,027	285,686
3 months to 6 months	-	50,014
6 months to 1 year	7,007	-
1 year to 5 years	34,900	34,900
Over 5 years	205	245
Undetermined	120	105
	77,259	370,950

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

	Jun 2010 Euro '000	Jun 2009 Euro '000
Impairment for credit risks over credit institutions:		
Balance on 1 January	66	42
Charge for the period	54	49
Write-back for the period	(72)	(30)
Balance on 30 June	48	61

19 Loans and advances to customers

This balance is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Domestic loans:		
Corporate		
Loans	1,301,860	1,249,077
Commercial lines of credits	2,077,478	2,309,633
Finance leases	222,159	203,803
Discounted bills	99,645	121,695
Factoring	89,181	76,807
Overdrafts	7,727	5,274
Other loans	713,203	681,905
Retail		
Mortgage loans	8,765,592	8,780,393
Finance leases	40,314	36,411
Consumer and other loans	822,629	803,137
	14,139,788	14,268,135
Foreign loans:		
Corporate		
Overdrafts	2	18
	14,139,790	14,268,153
Overdue loans and interest:		
Less than 90 days	86,460	73,470
More than 90 days	514,417	508,118
	600,877	581,588
	14,740,667	14,849,741
Impairment for credit risks	(411,560)	(401,579)
	14,329,107	14,448,162

As at 30 June 2010, this balance includes Euro 1,346,139,000 (31 December 2009: Euro 1,298,998,000) 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%.

In December 2009, CEMG performed the second issue of covered bonds, in the amount of Euro 150,000,000 and maturity of seven years, as referred in note 33.

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.

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 (31 December 2009: 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 foresale but for which there are still pending legal actions.

Loans and advances to customers include mostly variable interest rate contracts.

The analysis of Loans and advances to customers, by maturity date and type of credit as at 30 June 2010, is as follows:

	Loans and advances to customers				
	Due within 1 year Euro '000	**1 year to 5 years Euro '000**	**Over 5 years Euro '000**	**Undetermined Euro '000**	**Total Euro '000**
Asset-backed loans	421,047	2,088,613	9,625,977	477,221	12,612,858
Other guarantee loans	585,977	171,375	173,618	50,081	981,051
Unsecured loans	389,965	112,691	254,206	66,066	822,928
Public sector loans	7,328	142	46,376	210	54,056
Foreign loans	2	-	-	-	2
Finance leases	957	100,723	160,793	7,299	269,772
	1,405,276	2,473,544	10,260,970	600,877	14,740,667

As at 30 June 2010, the balance Other guarantee loans included the amount of Euro 3,328,824,000 (31 December 2009: Euro 2,301,379,000) approximately, related with credits that were securitized and in accordance with the accounting policy 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 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**	**Undetermined 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
Finance 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 Finance leases, by the period to maturity as at 30 June 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	54,234	122,366	110,588	287,188
Outstanding interest	(8,246)	(20,344)	(22,437)	(51,027)
Residual values	1,732	11,297	13,283	26,312
	47,720	113,319	101,434	262,473

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

Regarding the Operational Leasing, CEMG does not present significant contracts as leaser. In accordance with note 11, the balance Rents, includes as at 30 June 2010, the amount of Euro 7,809,000 (30 June 2009: Euro 7,894,000), corresponding to rents paid regarding buildings used by CEMG as leaser.

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

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Asset-backed loans	477,221	452,576
Other guaranteed loans	50,081	49,506
Unsecured loans	66,066	69,227
Public sector loans	210	254
Finance leases	7,299	10,025
	600,877	581,588

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

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Corporate:		
Construction/Production	139,983	144,921
Investment	58,773	52,602
Other short term loans	55,551	53,208
Other loans	1,975	3,047
Retail:		
Mortgage loans	279,316	262,286
Consumer credit	7,205	5,931
Other loans	34,340	32,788
Public Sector	210	254
Other segments	23,524	26,551
	600,877	581,588

The movements of the impairment for credit risk are analysed as follows:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Impairment for credit risks:		
Balance on 1 January	401,579	284,862
Charge for the year	241,994	198,510
Write-back for the year	(181,355)	(112,052)
Loans charged-off	(50,658)	(7,134)
Balance on 30 June	411,560	364,186

Additionally, as at 30 Junho 2010, CEMG has a provision for general banking risks in the amount of Euro 99,898,000 (31 December 2009: Euro 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 30 June 2010:

	Classes of overdue loans and interest					
	Due within 3 months Euro '000	**3 months to to 6 months Euro '000**	**6 months to to 12 months Euro '000**	**1 year to 3 years Euro '000**	**Over 3 Years Euro '000**	**Total Euro '000**
Secured overdue loans	73,723	22,886	37,772	237,081	163,214	534,676
Impairment	586	2,439	9,235	142,797	154,014	309,071
Unsecured overdue loans	7,979	6,132	13,271	11,601	27,218	66,201
Impairment	89	1,533	7,529	11,601	27,218	47,970
Total overdue loans	81,702	29,018	51,043	248,682	190,432	600,877
Total impairment for overdue loans	675	3,972	16,764	154,398	181,232	357,041
Total impairment for overdue loans and for other credit risks	137	1,048	2,935	38,496	11,903	54,519
Total impairment for credit risks	812	5,020	19,699	192,894	193,135	411,560

The impairment for credit risks, by type of credit, is as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Asset-backed loans	329,490	300,776
Other guaranteed loans	28,237	38,351
Unsecured loans	53,833	62,452
	411,560	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:

	Jun 2010 Euro '000	Jun 2009 Euro '000
Asset-backed loans	39,110	3,667
Other guaranteed loans	4,757	1,383
Unsecured loans	6,791	2,084
	50,658	7,134

The analysis of recovered loans and overdue interest, performed during the period of 1 January to 30 June 2010 and during the year of 2009, amounts to Euro 1,180,000 and Euro 3,308,000, related with asset-backed loans recovered, as referred in note 13.

The analysis of the fair value of the collaterals associated to the loan portfolio is as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Loans with impairment:		
Individually significant:		
Securities and other financial assets	46,460	60,962
Residential real estate (Housing Loans)	3,753	7,872
Other real estate (Civil Construction)	1,255,825	1,349,797
Other guarantees	13,493	28,216
	1,319,351	1,446,847
Parametric analysis:		
Securities and other financial assets	36,420	31,173
Residential real estate (Housing Loans)	1,975,804	1,969,551
Other real estate (Civil Construction)	956,009	885,217
Other guarantees	67,010	49,592
	3,035,243	2,935,533
Loans without impairment:		
Securities and other financial assets	542,753	509,751
Residential real estate (Housing Loans)	13,546,712	13,360,369
Other real estate (Civil Construction)	3,888,052	4,429,434
Other guarantees	95,451	80,483
	18,072,968	18,380,037
	22,427,562	22,762,417

20 Financial assets and liabilities held for trading

The balance financial assets and liabilities held for trading is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Financial assets held for trading:		
Securities		
Shares	2,240	1,380
Bonds	83,404	5,772
	85,644	7,152
Derivatives		
Derivatives financial instruments with positive fair value	155,316	96,043
	240,960	103,195
Financial liabilities held for trading:		
Derivatives		
Derivatives financial instruments with negative fair value	43,321	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 30 June 2010 is as follows:

	Jun 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	-	-	-	628	628
Foreign	-	-	-	1,612	1,612
	-	-	-	2,240	2,240
Fixed income securities:					
Bonds issued by					
Public entities	5,008	39,502	22,311	-	66,821
Other entities	-	1,491	15,092	-	16,583
	5,008	40,993	37,403	-	83,404
	5,008	40,993	37,403	2,240	85,644
Quoted	5,008	40,993	37,403	2,240	85,644

The analysis of the securities portfolio held for trading by maturity as at 31 December 2009 is as follows:

	Dec 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 30 June 2010, is as follows:

		Jun 2010						
		Derivative			**Related asset / liability**			
Derivative	**Related financial asset / liability**	**Notional Euro '000**	**Fair value Euro '000**	**Changes in the fair value in the period Euro '000**	**Fair value Euro '000**	**Changes in the fair value in the period Euro '000**	**Book value Euro '000**	**Reimbursement amount at maturity date Euro '000**
Interest rate swap	Securities issued	605,000	22,013	(749)	(1,645)	(13,897)	302,500	302,500
Interest rate swap	Deposits	3,396,348	34,342	30,186	25,975	23,614	1,730,068	1,730,068
Interest rate swap	Deposits due to customers	688,750	16,024	659	7,294	(3,268)	326,521	326,521
Interest rate swap	Titularization	11,148,184	(2,166)	(2,879)	-	-	-	-
Interest rate swap	Covered bonds	9,239,360	41,685	31,553	(13,383)	(13,829)	1,000,000	1,000,000
Currency interest rate swap	Debt issued	461,417	592	(825)	169	169	4,753	4,573
Interest rate futures	-	11,575	5	5	-	-	-	-
Options	Time deposits and other deposits	71,385	463	(121)	-	-	-	-
Credit default swaps	-	91,374	(963)	(532)	-	-	-	-
		25,713,393	111,995	57,297	18,410	(7,211)	3,363,842	3,363,662

The book value of the assets and liabilities at fair value through profit or loss, as at 31 December 2009, is as follows:

		Dec 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 due to customers	733,572	15,365	8,952	10,562	2,760	386,471	386,471
Interest rate swap	Titularization	7,188,322	713	(2,906)	-	-	-	-
Interest rate swap	Mortgages loans	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)	-	-
Interest rate 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 as at 30 June 2010, is as follows:

	Jun 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	154,800	78,710	24,844,132	25,077,642	144,278	32,380
Options	17,235	22,500	31,650	71,385	8,209	7,746
Exchange rate contracts:						
Interest rate swaps	452,310	-	9,107	461,417	1,711	1,119
Index contracts:						
Index futures	11,575	-	-	11,575	5	-
Credit default contracts:						
Credit default swaps	-	-	91,374	91,374	1,113	2,076
	635,920	101,210	24,976,263	25,713,393	155,316	43,321

The analysis of financial instruments held for trading, by maturity as at 31 December 2009, is as follows:

	Dec 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 the accounting policy 1.3 in the amount of Euro 7,018,000 (31 December 2009: Euro 4,956,000).

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

This balance in the amount of Euro 4,071,000 (31 December 2009: 4,192,000) refers to bonds and other fixed income securities issued by other entities.

In light of IAS 39 and in accordance with the accounting policy 1.5, CEMG designated these financial assets as at fair value through profit or loss, in accordance with the documented risk management, considering that these financial assets (i) are managed and evaluated on a fair value basis and/or (ii) have embedded derivatives.

The financial assets at fair value trough profit or loss are valued in accordance with market prices or providers. Therefore, accordingly with the hierarchy of the valuation sources, as referred in IFRS 7 these instruments are classified in the level 1.

As at 30 June 2010 and 31 December 2009, the securities portfolio included in the financial assets at fair value through profit and loss is quoted and with a maturity greater than 1 year.

22 Available-for-sale financial assets

This balance is analysed as follows:

	Jun 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	410,910	4,168	(7,496)	-	407,582
Foreign	90,194	96	(3,935)	-	86,354
Issued by other entities:					
Portuguese	3,405,396	676	(6,581)	(2,510)	3,396,981
Foreign	736,160	1,653	(36,769)	(23,603)	677,442
Commercial paper	340,920	-	-	(998)	339,922
Variable income securities:					
Shares in companies:					
Portuguese	4,679	92	(58)	(326)	4,387
Foreign	3,348	12	(118)	(787)	2,455
Investment fund units	10,634	685	(399)	(2,787)	8,133
	5,002,241	7,383	(55,357)	(31,011)	4,923,256

[1] Acquisition cost relating to shares and amortised cost relating to debt securities.

	Dec 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:					
Portuguese					
Foreign	7,954	125	(19)	-	8,060
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 the accounting policy 1.5, the portfolio of assets available-for-sale is presented at market value with fair value changes accounted for against fair value reserves, as referred in note 39. CEMG regularly evaluates the existence of impairment in the available-for-sale financial assets portfolio, following the judgement criteria has referred in the accounting policy 1.22.

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

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Impairment for securities:		
Balance on 1 January	29,899	31,228
Charge for the period	1,371	1,443
Write-back for the period	(202)	(69)
Charged-off	(57)	(22)
Balance on 30 June	31,011	32,580

During the first semester of 2010 and as referred in accounting policy 1.5, were written-off impairment losses in the amount of Euro 1,112,000 (30 June 2009: Euro 1,352,000).

The analysis of the available-for-sale financial assets by maturity, as at 30 June 2010, is as follows:

	Jun 2010				
	Due within 3 months Euro '000	**3 months and 1 year Euro '000**	**Over 1 year Euro '000**	**Undetermined Euro '000**	**Total Euro '000**
Fixed income securities:					
Issued by public entities:					
Portuguese	-	5,106	402,476	-	407,582
Foreign	-	19,357	66,997	-	86,354
Issued by other entities:					
Portuguese	1,208,539	4,886	2,183,556	-	3,396,981
Foreign	19,699	10,556	636,653	10,534	677,442
Commercial paper	310,617	29,305	-	-	339,922
	1,538,855	69,210	3,289,682	10,534	4,908,281
Variable income securities:					
Shares in companies:					
Portuguese	-	1,471	-	2,916	4,387
Foreign	-	-	-	2,455	2,455
Investment fund units	-	-	-	8,133	8,133
	-	1,471	-	13,504	14,975
	332,650	70,681	4,495,887	24,038	4,923,256

The analysis of the available-for-sale financial assets by maturity, as at 31 December 2009, is as follows:

	Dec 2009				
	Due within 3 months Euro '000	**3 months and 1 year Euro '000**	**Over 1 year Euro '000**	**Undetermined Euro '000**	**Total Euro '000**
Fixed income securities:					
Issued by public entities:					
Portuguese	-	-	-	-	-
Foreign	-	-	8,060	-	8,060
Issued by other entities:					
Portuguese	-	14,262	2,177,627	-	2,191,889
Foreign	74,169	145,189	517,113	10,345	746,816
Commercial paper	172,401	30,135	-	-	202,536
	246,570	189,586	2,702,800	10,345	3,149,301
Variable income securities:					
Shares in companies:					
Portuguese	-	1,471	-	2,802	4,273
Foreign	-	-	-	2,290	2,290
Investment fund units	1,450	-	-	7,196	8,646
	1,450	1,471	-	12,288	15,209
	248,020	191,057	2,702,800	22,633	3,164,510

CEMG recognises 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 judgement, 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 in 2009, 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 the accounting policy 1.5, the available-for-sale securities portfolio is presented net of fair value reserve and impairment losses in the amount of Euro 47,974,000 and Euro 31,011,000 (31 December 2009: Euro 28,600,000 and Euro 29,889,000) respectively.

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

	Jun 2010			Dec 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	407,582	-	407,582	-	-	-
Foreign	86,354	-	86,354	8,060	-	8,060
Issued by other entities:						
Portuguese	3,369,947	27,034	3,396,981	2,164,128	27,761	2,191,889
Foreign	674,832	2,610	677,442	744,206	2,610	746,816
Commercial paper	-	339,922	339,922	-	202,536	202,536
Variable income securities:						
Shares in companies:						
Portuguese	864	3,523	4,387	699	3,574	4,273
Foreign	2,297	158	2,455	2,132	158	2,290
Investment fund units	8,133	-	8,133	8,646	-	8,646
	4,550,009	373,247	4,923,256	2,927,871	236,639	3,164,510

23 Hedging derivatives

This balance is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Assets:		
Interest rate swap	3,751	5,109
Liabilities:		
Interest rate swap	598	1,008

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, which includes hedged items, is analysed as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Deposits from other credit institutions	274	477
Debt securities issued	(364)	2,926
Deposits from customers	490	(318)
	400	3,085

The analysis of the hedging derivatives portfolio by maturity, as at 30 June 2010, is as follows:

	Jun 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	-	60,000	185,000	245,000	-	1,071	1,079	2,150
	-	60,000	185,000	245,000	-	1,071	1,079	2,150

The analysis of the hedging derivatives portfolio by maturity, as at 31 December 2009, is as follows:

	Dec 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
	-	44,000	155,000	199,000	1,168	-	3,343	4,511

As at 30 June 2010, the fair value hedge relationships present the following features:

Jun 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 period Euro '000**	**Hedged item fair value [(1)] Euro '000**	**Changes in the fair value of the hedged item in the year [(1)] Euro '000**
Interest rate swap	Deposits from customers	Interest rate	80,000	1,034	(3,052)	620	(22)
Interest rate swap	Deposits	Interest rate	80,000	2,462	2,462	1,825	(378)
Interest rate swap	EMTN	Interest rate	85,000	(1,346)	(2,044)	81	167
Currency interest rate swap	Debt issued	Interest rate	-	-	273	-	-
			245,000	2,150	(2,361)	2,526	(233)

(1) Attributable to the hedged risk.

(2) Includes accrued interest.

As at 31 December 2009, the fair value hedge relationships present the following features:

Dec 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 swap	Deposits from customers	Interest rate	44,000	4,086	492	642	146
Interest rate swap	Deposits	Interest rate	120,000	-	-	2,203	(221)
Interest rate swap	EMTN	Interest rate	35,000	698	541	(86)	(86)
Currency interest rate swap	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:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Fixed income securities:		
Bonds issued by Portuguese public entities	43,662	18,573
Bonds issued by foreign public entities	14,186	14,950
	57,848	33,523

CEMG assessed, with reference to 30 June 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 30 June 2010 are analysed as follows:

Issue	Issue date	Maturity date	Interest rate	Book Value Euro '000
OT - Setembro 98/2013	May 1998	September 2013	Fixed rate of 5.450%	98
OT - Junho 02/2012	February 2002	June 2012	Fixed rate of 5.000%	31,493
OT - Junho 01/2011	March 2001	June 2011	Fixed rate of 5.150%	1,018
OT - Outubro 05/2015	July 2005	October 2015	Fixed rate of 3.350%	6,223
OT - Abril 05/2011	November 2005	April 2011	Fixed rate of 3.200%	4,830
Buoni Poliennali Del Tes.06/2011	March 2006	March 2011	Fixed rate of 3.500%	3,017
Netherlands Government 05/15	June 2005	July 2015	Fixed rate of 3,250%	5,063
Republic of Austria 04/15	July 2004	July 2015	Fixed rate of 3.500%	2,044
Belgium Kingdom 05/15	March 2005	September 2015	Fixed rate of 3.750%	2,048
Buoni Poliennali Del Tes.05/2015	May 2005	August 2015	Fixed rate of 3.750%	2,014
				57,848

The held-to-maturity investments are stated in accordance with the established in the accounting policy 1.5.

During the first semester of 2010 and the year of 2009, CEMG did not transfer to or from this assets category.

As at 30 June 2010 and 31 December 2009, the analysis of held-to-maturity investments by the period of maturity is as follows:

	Jun 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**
Quoted:					
Bonds issued by Portuguese public issuers:	-	5,848	37,814	-	43,662
Bonds issued by foreign public issuers:	-	3,017	11,169	-	14,186
	-	8,865	48,983	-	57,848

	Dec 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**
Quoted:					
Bonds issued by Portuguese public issuers:	-	6,394	6,112	6,068	18,574
Bonds issued by foreign public issuers:	1,009	-	2,976	10,964	14,949
	1,009	6,394	9,088	17,032	33,523

25 Investments in associated companies and others

This balance is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Investments in associated companies and others – Unquoted:		
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

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

	Number of shares	Percentage held by the CEMG	Unitarian par value Euro	Acquisition cost Euro '000
30 June 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.	1,312,420	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
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:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Investments arising from recovered loans	166,820	157,935
Impairment	(35,207)	(29,336)
	131,613	128,599

The assets included in this balance are accounted for in accordance with the accounting policy 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 delivery 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 1 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 8,524,000 (31 December 2009: Euro 9,464,000).

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

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Impairment for non current assets held for sale		
Balance on 1 January	29,336	23,867
Impairment for the period	7,880	915
Write-back for the period	(1,995)	(2)
Loans charged-off	(14)	-
Balance on 30 June	35,207	24,780

27 Property and equipment

This balance is analysed as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Cost:		
Land and buildings:		
For own use	65,706	65,706
Leasehold improvements in rented buildings	32,358	32,208
Work in progress	53	43
Equipment:		
Furniture	10,678	10,502
Office equipment	1,919	1,971
Computer equipment	55,831	51,772
Interior installations	28,634	28,414
Motor vehicles	448	676
Security equipment	4,277	3,978
Assets in operational lease	5,182	4,084
Works of art	986	986
Other tangible assets	31	31
Work in progress	2,125	550
	208,228	200,921
Accumulated depreciation:		
Charge for the period	(6,296)	(12,164)
Accumulated charge for the previous years	(109,246)	(97,584)
	(115,542)	(109,748)
	92,686	91,173

The Property and equipment movements, during the first semester of 2010, are analysed as follows:

	Jun 2010				
	Balance on 1 January Euro '000	**Acquisitions/ Charges Euro '000**	**Disposals Euro '000**	**Adjustment/ Transfers Euro '000**	**Balance on 30 June Euro '000**
Cost:					
Land and buildings:					
For own use	65,706	-	-	-	65,706
Leasehold improvements in rented buildings	32,208	150		-	32,358
Work in progress	43	10		-	53
Equipment:					
Furniture	10,502	340	(164)	-	10,678
Office equipment	1,971	5	(57)	-	1,919
Computer equipment	51,772	4,092	(33)	-	55,831
Interior installations	28,414	220	-	-	28,634
Motor vehicles	676	36	(264)	-	448
Security equipment	3,978	303	(4)	-	4,277
Assets in operational lease	4,084	1,181	(83)	-	5,182
Works of art	986	-	-	-	986
Other tangible assets	31	-	-	-	31
Work in progress	550	1,575	-	-	2,125
	200,921	7,912	(605)	-	208,228
Accumulated depreciation:					
Land and buildings:					
For own use	15,831	522	-	-	16,353
Leasehold improvements in rented buildings	22,047	1,150	-	-	23,197
Equipment:					
Furniture	7,804	284	(116)	-	7,972
Office equipment	1,825	29	(55)	-	1,799
Computer equipment	37,871	3,166	(34)	-	41,003
Interior installations	20,126	600	-	-	20,726
Motor vehicles	673	2	(265)	-	410
Security equipment	2,823	178	(4)	-	2,997
Assets in operational lease	748	365	(28)	-	1,085
	109,748	6,296	(502)	-	115,542

The Property and equipment movements, during the year of 2009, are analysed as follows:

	Dec 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
Assets in operational lease	2,226	1,887	(29)	-	4,084
Works of art	478	508	-	-	986
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:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Cost:		
Software	55,874	52,375
Assets advances	5,200	4,656
	61,074	57,031
Accumulated amortisation:		
Charge for the period	(3,539)	(8,338)
Accumulated charge for the previous years	(40,880)	(32,542)
	(44,419)	(40,880)
	16,655	16,151

The Intangible assets movements, during the first semester 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 30 June Euro '000
Cost:					
Software	52,375	3,499	-	-	55,874
Assets advances	4,656	544	-	-	5,200
	57,031	4,043	-	-	61,074
Accumulated amortisation:					
Software	40,880	3,539	-	-	44,419

The Intangible assets 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:					
Set up costs and key money	-	-	-	-	-
Software	44,988	7,790	-	(403)	52,375
Assets advances	2,331	1,872	-	453	4,656
	47,319	9,662	-	50	57,031
Accumulated amortisation:					
Software	32,542	8,338	-	-	40,880

29 Other assets

This balance is analysed as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Recoverable subsidies from the Portuguese Government	11,919	13,739
Other debtors	18,478	19,756
Other accrued income	3,641	6,456
Prepayments and deferred costs	25,949	28,728
Sundry debtors	139,498	65,020
	199,485	133,699
Impairment from recoverable subsidies	(3,473)	(3,473)
	196,012	130,226

The balance Recoverable subsidies from the Portuguese Government, in the amount of Euro 11,919,000 (31 December 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 30 June 2010 and 31 December 2009, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Recoverable subsidies from the Portuguese Government unliquidated	6,798	7,311
Subsidies unclaimed	2,130	3,412
Overdue subsidies unclaimed	2,991	3,016
	11,919	13,739

As at 30 June 2010 and 31 December 2009, the balance Recoverable subsidies from the Portuguese Government unliquidated includes 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 30 June 2010, the balance Prepayments and deferred costs includes an amount of Euro 23,078,000 (31 December 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 accounting policy 1.14.

As at 30 June 2010, the balance Sundry debtors includes the amount of Euro 105,409,000 (31 December 2009: Euro 32,816,000) refer to transactions with securities recorded on trade date and pending settlement, in accordance with the accounting policy 1.5.

As at 30 June 2010 and 31 December 2009, the balances related with the obligations related with pensions, included in Other sundry liabilities are analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Projected benefit obligations	(580,980)	(569,822)
Value of the Fund	505,664	504,883
	(75,316)	(64,939)
Actuarial losses		
Corridor	82,070	80,954
Amount in excess of the corridor	16,442	7,580
	98,512	88,534
	23,196	23,595

The amounts of the corridor and of the actuarial losses were determined in accordance with the accounting policy 1.14.

30 Deposits from central banks

As at 30 June 2010, this balance includes the amount of Euro 905,383,000 (31 December 2009: 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 are not derecognised in the balance sheet.

As at 30 June 2010 and 31 December 2009, the analysis of deposits from Central Banks by the period to maturity is as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Up to 3 months	100,000	-
3 to 6 months	300,517	-
More than 6 months	504,866	502,353
	905,383	502,353

31 Deposits from other credit institutions

This balance is analysed as follows:

	Jun 2010			Dec 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	3,580	28,733	32,313	7,995	53,745	61,740
Deposits from credit institutions abroad	9,401	918,468	927,869	4,023	879,637	883,660
	12,981	947,201	960,182	12,018	933,382	945,400

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

	Jun 2010 Euro '000	Dec 2009 Euro '000
Due within 3 months	584,118	605,635
3 months to 6 months	29,576	50,883
6 months to 1 year	116,468	55,960
1 year to 5 years	-	16
Over 5 years	232,079	235,531
	962,241	948,025
Adjustments arising from hedging operations	(2,059)	(2,625)
	960,182	945,400

32 Deposits from customers

This balance is analysed as follows:

	Jun 2010			Dec 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	27,645	2,019,799	2,047,444	85,173	1,901,420	1,986,593
Time deposits (*)	-	6,475,713	6,475,713	-	6,379,299	6,379,299
Saving accounts (*)	-	455,896	455,896	-	511,255	511,255
Other items	2,163	-	2,163	896	-	896
Adjustments arising from hedging operations	26,596	-	26,596	3,003	-	3,003
	56,404	8,951,408	9,007,812	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 accounting policy 1.3.

In accordance with Regulation no. 180/94, of 15 December, the Deposit Guarantee Fund was established to guarantee the reimbursement of funds deposited in Credit Institutions. The calculations of the annual contributions for this Fund are based on the criteria laid out in Regulation no. 11/94, of the Bank of Portugal.

As at 30 June 2010, this balance includes the amount of Euro 1,425,328,000 (31 December 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:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Deposits repayable on demand	2,047,444	1,986,593
Time deposits and saving accounts:		
Due within 3 months	1,076,082	1,240,950
3 months to 6 months	2,403,786	2,612,167
6 months to 1 year	1,103,319	1,253,706
1 year to 5 years	-	-
Over 5 years	2,348,422	1,783,731
	8,979,053	8,877,147
Adjustments arising from hedging operations	26,596	3,003
	9,005,649	8,880,150
Other items:		
Due within 3 months	2,163	896
	9,007,812	8,881,046

33 Debt securities issued

This balance is analysed as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Euro Medium Term Notes	2,742,903	2,810,743
Bonds	624,378	611,517
Covered bonds	1,116,066	1,161,047
	4,483,347	4,583,307

The fair value of the debt securities issued is presented in note 42.

This balance includes the amount of Euro 1,611,120,000 (31 December 2009: Euro 1,666,921,000) related to debt securities issued recognised at the balance sheet at fair value through profit or loss.

During the first semester of 2010, CEMG issued Euro 141,464,500 (31 December 2009: Euro 1,276,361,000) of securities, and was reimbursed Euro 111,071,000 (31 December 2009: Euro 1,248,555,000).

As at 30 June 2010 and 31 December 2009, the analysis of debt securities issued outstanding by period to maturity is as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Due within 6 months	722,968	111,756
6 months to 1 year	558,512	726,782
1 year to 5 years	2,854,833	3,254,825
Over 5 years	354,847	485,180
	4,491,160	4,578,543
Adjustments arising from hedging operations	(7,813)	4,764
	4,483,347	4,583,307

During 2009, CEMG issued covered bonds in the amount of Euro 1,150,000,000, under the Covered Bonds Programme.

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 5/2006, 6/2006, 7/2006 and 8/2006 of the Bank of Portugal and Instruction 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	July 2009	July 2012	Annualy	3.25%	Aa1 / AAA
Covered Bonds	150,000	150,000	December 2009	December 2016	Quarterly	Eur 3m + 0.75%	Aa1 / AAA

As at 30 June 2010, the mortgage loans that collateralise these covered bonds amounted to Euro 1,346,139,000 (31 December 2009: Euro 1,298,998,000) in accordance with note 19.

The changes occurred in debt securities issued during the first semester of 2010 are analysed 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 30 June Euro '000
Euro Medium Term Notes	2,810,743	-	(190,031)	89,607	32,584	2,742,903
Bonds	611,517	141,454	(130,274)	-	1,681	624,378
Covered bonds	1,161,047	-	(73,250)	-	28,269	1,116,066
	4,583,307	141,454	(393,555)	89,455	62,534	4,483,347

[(a)] Other movements include accrued interest, fair value hedge, fair value adjustments and foreign translation exchanges adjustments.

The changes occurred in debt securities issued during the year of 2009 are analysed 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.

In accordance with the accounting policy 1.7, debt issued repurchased by CEMG 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.

During the first semester of 2010, the balance Debt securities issued is comprise of the following issues:

Issue	Issue Date	Maturity Date	Interest rate	2010 Euro '000
Obrig. Cx-Montepio Tx. Fixa Crescente 2010/13 1S	Jan. 2010	Jan. 2013	Interests are paid quarterly with Fixed Annual Rate of 2.5% (2nd year: rate 3%, 3rd year: rate 3.5%)	1,000,000
Obrig. Cx-Montepio Tx Fixa 2010/14 1S	Jan. 2010	Jan. 2014	Interests are paid semi-annually with Fixed Annual Rate of 3% (2nd year: rate 3.125%, 3rd year: rate 3.25%, 4th year: 3.5%)	9,806,000
Obrigs. Caixa-Montepio Cabaz Ouro e Petroleo	Mar. 2010	Mar. 2014	At maturity, the investor receives the maximum between 4% and the average of the annual performance of Gold and Oil, with a maximum of 28%.	3,705,000
Obrigs. Caixa-Montepio Capital Certo-2010-2015-1.S	Mar. 2010	May. 2015	Fixed Annual Rate of 2.9% (2nd year: rate 2.9%, 3rd year: rate 3.1%, 4th year: 3.25%, 5th year: rate 5.25%)	25,000,000
Obrigs. Caixa-Montepio Tx Variável Março- 2010/2014	Mar. 2010	Mar. 2014	Quarterly Rate Eur3M + 2% (2nd till 16th Quarter: rate Eur3M + 2%)	1,700,000
Obrig. Cx-Montepio Tx Fixa 2010/14 2S	Mar. 2010	Mar. 2014	Fixed Annual Rate of 3% (2nd year: rate 3.2%, 3rd year: rate 3.3%, 4th year: 3.5%).	20,000,000
Obrigs. Caixa-MG Taxa Fixa Crescente Abril-2010-2015	Apr. 2010	Apr. 2015	Fixed Annual Rate of 2.6% (2nd year: rate 2.7%, 3rd year: rate 2.8%, 4th year: 3%, 5th year: rate 3.5%).	500,000
Obrigs. Caixa-mg capital certo-2010-2015-2S	Apr. 2010	Apr. 2015	Fixed Annual Rate of 2.85% (2nd year: rate 2.85%, 3rd year: rate 3.25%, 4th year: 3.5%, 5th year: rate 5%).	23,000,000
Obrigs. Caixa-MG Taxa Fixa Crescente Maio-2010-2014	May 2010	May 2014	Fixed Annual Rate of 2.5% (2nd year: rate 2.7%, 3rd year: rate 3%, 4th year: 3.5%).	8,000,000
Obrigs. Caixa-MG Capital Certo-2010-2018-1S	May 2010	May 2018	Fixed Annual Rate of 3.25% (2nd year: rate 3.25%, 3rd year: rate 3.5%, 4th year: 3.65%, 5th year: rate 3.75%, 6th year: rate 4%, 7th year: rate 4.25%, 8th year: rate 6.5%).	10,000,000
Obrigs. Caixa-MG Taxa Fixa-2010-2013-1S	May 2010	May 2013	Fixed Annual Rate of 2.5% (2nd year: rate 2.5%, 3rd year: rate 2.5%)	10,553,000
Obrigs. Caixa-MG Top-2010-2014-1S	May 2010	May 2014	Fixed Annual Rate of 2.5% (2nd year: rate 2.75%, 3rd year: rate 3%, 4th year: 3.25%).	520,000
Obrigs. Caixa-Cabaz Energia-2010-2014	May 2010	May 2014	At maturity, the investor receives the maximum between 4% and the performance of the corresponding asset (Cabaz de acções do sector energetic) related to the initial level.	2,200,500
Obrigs. Caixa-MG Capital Certo-2010-2015-3S	Jun. 2010	Jun. 2015	Fixed Annual Rate of 2.26% (2nd year: rate 2.51%, 3rd year: rate 2.76%, 4th year: 3.21%, 5th year: rate 4.76%).	6,000,000
Obrigs. Caixa-MG Taxa Fixa -2010-2012-1S	Jun. 2010	Jun. 2012	Fixed Annual Rate of 2% (2nd year: rate 2%)	3,118,000
				141,464,500

As at 30 June 2010, for the bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.85% and 5%.
The redemption ocurred during the first semester of 2010, are analysed as follows:

Issue	Issue Date	Redemption Date	Interest rate	2010 Euro '000
Obrigs. Cx-Afor MG Assoc/07-3 Anos-1S	Feb. 2007	Feb. 2010	Variable quarterly rate of 3.375%	9,500,000
Obrigs. Cx-Afor Montepio/07-3 Anos-1S	Feb. 2007	Feb. 2010	Variable quarterly rate of 3.125%	5,500,000
Obrigs. Cx-Af Montepio 2007-3 anos-2s	Feb. 2007	Feb. 2010	Variable quarterly rate of 3.125%	7,000,000
Obrgs. Cx-Afor MG Ass/07-3 Anos-2S	Feb. 2007	Feb. 2010	Variable quarterly rate of 3.125%	11,000,000
Obrigs. Cx-Afor Montepio 2007-3 Anos-3S	Mar. 2007	Mar. 2010	Variable quarterly rate of 3.25%	6,500,000
Obrigs. Cx-Afor MG Assoc/07-3 Anos-3S	Mar. 2007	Mar. 2010	Variable quarterly rate of 3.5%	9,000,000
Obgs. Cx-Afor MG Assoc/07-3 Anos-4S	Mar. 2007	Mar. 2010	Variable quarterly rate of 3.5%	6,000,000
Obrigs. Cx-Afor Montepio/07-3 Anos-4S	Mar. 2007	Mar. 2010	Variable quarterly rate of 3.25%	5,000,000
Obrigs. Cx-Afor MG Assoc/07-3 Anos-5S	Apr. 2007	Apr. 2010	Variable quarterly rate of 3.5%	12,000,000
Obrigs Caixa-Afor MG 2007-3 Anos-5S	Apr. 2007	Apr. 2010	Variable quarterly rate of 3.25%	8,000,000
Obrig. Cx-Afor Montepio 2007-3 Anos-6S	May 2007	May 2010	Variable quarterly rate of 3.375%	5,971,000
Obrgs Cx-Af Montepio Assoc/07-3 Anos-6S	May 2007	May 2010	Variable quarterly rate of 3.5%	8,500,000
Obrigs. Cx-Af Montepio/07-3 Anos-7S	Jun. 2007	Jun. 2010	Variable quarterly rate of 3.5%	5,000,000
Obrigs. Cx-Af Montepio As/07-3 Anos-7S	Jun. 2007	Jun. 2010	Variable quarterly rate of 3.625%	8,000,000
Obrgs. Cx-MG Energ Renov-3 Anos-Jun 07/10	Jun. 2007	Jun. 2010	Fixed annual rate of 2%	4,100,000
				111,071,000

34 Provisions

This balance is analysed as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Provisions for general banking risks	99,898	101,310
Provisions for liabilities and charges	1,420	1,490
	101,318	102,800

The movements of the provisions for general banking risks are analysed as follows:

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Balance on 1 January	101,310	101,240
Charge for the period	23,708	22,247
Write-back for the period	(25,120)	(22,663)
Balance on 30 June	99,898	100,824

The provisions for general banking risks were charged in accordance with Regulations no. 3/95, of 30 June of 1995, no. 2/99, of 15 January 1999 and no. 8/03, of 30 January 2003 of the Bank of Portugal, as referred in the accounting policy 1.4.

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

	Jun 2010 Euro '000	**Jun 2009 Euro '000**
Balance on 1 January	1,490	1,668
Charge for the period	235	46
Write-back for the period	(210)	-
Charged-off	(95)	-
Balance on 30 June	1,420	1,714

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 30 June 2010, this balance in the amount of Euro 380,357,000 (31 December 2009: Euro 381,043,000) refers to Bonds with fixed maturity date, and with a residual reimbursement over 5 years.

As at 30 June 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%	50,044
CEMG/08	Feb. 2008	Feb. 2018	150,000	Euribor 6 months + 0.13%	150,996
CEMG/08	Jun. 2008	Jun. 2018	28,000	Euribor 12 months + 0.10%	28,030
CEMG/08	Jul. 2008	Jul. 2018	150,000	Euribor 6 months + 0.13%	151,287
					380,357

The portfolio's fair value of Other subordinated debt is presented in note 42.

As at 30 June 2010, the effective interest rate range of the subordinated debt bears postponed interest every three and six months is set between 1.09% and 2.27%.

36 Other liabilities

This balance is analysed as follows:

	Jun 2010 Euro '000	Dec 2009 Euro '000
Creditors:		
Suppliers	5,719	7,038
Other creditors	4,470	25,228
Public sector	6,285	7,330
Financial liabilities associated with transferred assets	3,328,824	2,301,379
Holiday pay and subsidies	27,329	24,127
Other administrative costs payable	407	982
Deferred income	546	585
Securities transactions pending settlement	98,846	38,610
Other sundry liabilities	47,891	57,379
	3,520,317	2,462,658

The balance Financial liabilities associated with transferred assets relates to securitisation transactions celebrated between CEMG and other financial institutions, that weren't derecognised, in accordance with IAS 39 – Financial Instruments: Recognition and Measurement. The securitisation transactions details are analysed in note 45.

37 Share capital

The share capital of CEMG, amounts to 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.

Changes are analysed in note 39.

39 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Other comprehensive Income:		
Fair value reserves		
Available-for-sale financial assets	(47,974)	(28,600)
Reserves and retained earnings:		
General reserve	170,687	163,130
Special reserve	64,443	62,555
Other reserves	8,404	8,404
Retained earnings	(4,016)	(8,033)
	239,518	226,056

The Fair value reserves correspond to the accumulated fair value changes of the available-for-sale financial assets, in accordance with the accounting policy 1.5.

The movements of this balance during the first semester of 2010 are analysed as follows:

	Balance on 1 January Euro '000	Revaluation Euro '000	Acquisitions Euro '000	Sales Euro '000	Impairment recognised in the year Euro '000	Balance on 30 June Euro '000
Fixed income securities:						
Bonds issued by Public entities						
Portuguese	-	-	(3,328)	-	-	(3,328)
Foreign	106	(27)	(3,916)	(2)	-	(3,839)
Bond issued by other entities:						
Portuguese	1,471	(3,196)	(3,247)	(63)	(870)	(5,905)
Foreign	(31,441)	(21)	(2,602)	(807)	(245)	(35,116)
	(29,864)	(3,244)	(13,093)	(872)	(1,115)	(48,188)
Variable income securities:						
Shares in companies:						
Portuguese	89	(10)	(9)	(31)	(5)	34
Foreign	523	(40)	(47)	(500)	(42)	(106)
Investment fund units	652	(407)	134	(143)	50	286
	1,264	(457)	78	(674)	3	214
	(28,600)	(3,701)	(13,015)	(1,546)	(1,112)	(47,974)

The movements of this balance during 2009 are analysed as follows:

	Balance on 1 January Euro '000	Revaluation Euro '000	Acquisitions 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	(38)	21	120	3	-	106
Bond issued by other entities:						
Portuguese	(2,187)	2,095	3,014	-	(1,451)	1,471
Foreign	(45,581)	8,204	1,302	2,063	2,571	(31,441)
	(47,806)	10,320	4,436	2,066	1,120	(29,864)
Variable income securities:						
Shares in companies:						
Portuguese	(23)	248	93	1	(230)	89
Foreign	-	281	146	32	64	523
Investment fund units	(235)	460	43	10	374	652
	(258)	989	282	43	208	1,264
	(48,064)	11,309	4,718	2,109	1,328	(28,600)

As at 30 June 2010, the balance Retained earnings in the amount of Euro 4,016,000 (31 December 2009: Euro 8,033,000) related with the IAS 19 transition adjustments amortisation, as referred in the accounting policy 1.14.

40 Obligations and future commitments

Obligations and future commitments are analysed as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Guarantees granted	428,213	426,156
Guarantees received	29,379,625	29,733,532
Commitments to third parties	1,191,305	1,211,311
Commitments from third parties	40,660	172,768
Securitised loans	309,405	333,270
Securities and other items held for safekeeping on behalf of customers	5,136,579	5,371,322

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

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Guarantees granted:		
Guarantees	423,085	423,107
Open documentary credits	5,128	3,049
	428,213	426,156

Guarantees are banking operations that do not imply any out-flow to CEMG.

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Commitments to third parties:		
Irrevocable commitments		
Term deposits contracts	1,472	1,472
Irrevocable credit lines	288,404	302,264
Annual contribution to the Guarantee Deposits Fund	20,013	19,829
Potential obligation with the Investors' Indemnity System	3,209	3,209
Revocable commitments		
Revocable credit lines	878,207	884,537
	1,191,305	1,211,311

Guarantees granted are financial operations that are not consisted by mobilization on funds by CEMG.

The documentary credits are irrevocable commitments from the Group 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 his cancellation or alteration without the agreement of all the involved parties.

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.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the client and its business, like any other commercial operation. When necessary, CEMG requires that these operations are collateralised. As it is expected that the majority of these operations will mature without any use of funds, these amounts do not represent necessarily future cash out-flows.

As at 30 June 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 30 June 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.

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 accounting policy 1.4, the maximum credit exposition is represented by the nominal value que 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, 2009, following the General Assembly deliberation, CEMG distributed to Montepio Geral – Associação Mutualista in the amount of Euro 20,300,000 (31 December 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 the 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 the 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 which 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 the 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 Inter-bank 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 include 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 30 June 2010, the average discount rate was 2.32% (31 December 2009: 2.61%), assuming the projection of the variable rates, according to the evolution of forward rates that are implicit to the interest rates. The credit risk spread is considered when calculating interest rates.

- *Loans and advances to customers without defined maturity date*

Considering the short maturity of these financial instruments, the conditions of the existing portfolio are similar to current conditions used by the 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 interes 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 prodution of the last three months of the year.

For 30 June 2010, the average discount rate was of 0.72% (31 December 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 in the balance sheet of the CEMG. For the fixed interest rate instruments for which CEMG applies a hedge-accounting policy, 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 (spread credit) 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 (spread trade), 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 30 June 2010, the following table presents the values of the interest rates used in the clearance of the curves interest rate of major currencies, including EUR, USD, GBP. CZK and HKD used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies				
	Euro	**United States Dollar**	**Pound Sterling**	**Czech Koruna**	**Hong-Kong Dollar**
1 day	0.34%	0.26%	0.58%	0.68%	0.23%
7 days	0.49%	0.26%	0.58%	0.68%	0.23%
1 month	0.51%	0.44%	0.57%	0.84%	0.49%
2 months	0.63%	0.74%	0.69%	0.90%	0.46%
3 months	0.75%	0.90%	0.72%	1.04%	0.55%
6 months	0.99%	1.10%	1.13%	1.24%	0.48%
9 months	1.23%	1.02%	1.30%	1.26%	0.80%
1 year	1.22%	1.28%	1.80%	1.39%	0.90%
2 years	1.36%	0.97%	1.42%	1.64%	0.86%
3 years	1.57%	1.34%	1.80%	1.90%	1.20%
5 years	2.08%	2.06%	2.45%	2.22%	1.90%
7 years	2.50%	2.57%	2.94%	2.45%	2.33%
10 years	2.90%	3.02%	3.40%	2.76%	2.65%
15 years	3.27%	3.43%	3.40%	3.10%	2.65%
20 years	3.37%	3.60%	3.40%	3.18%	2.65%
30 years	3.23%	3.72%	3.40%	3.18%	2.65%

- *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	**Jun 2010**	**Dec 2009**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.2271	1.4406	13.60	14.40	14.70	14.875	14.75
EUR/GBP	0.8175	0.8881	11.95	12.80	13.05	13.35	13.31
EUR/CHF	1.3283	1.4836	11.55	11.90	12.05	12.05	12.10
EUR/JPY	108.79	133.16	11.95	12.85	13.50	13.95	14.32

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 main adjustments to the financial assets and liabilities of the CEMG that are recognised at book value and at fair value:

	Jun 2010								
	Trading	**Designated at fair value trough profit or loss**	**Held-to-maturity**	**Loans and advances**	**Available-for-sale**	**Others at amortised cost**	**Others**	**Carrying value**	**Fair value**
	Euro '000	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**
Financial assets:									
Cash and deposits at central bank	-	-	-	171,614	-	-	-	171,614	171,614
Loans and advances to credit institutions repayable on demand	-	-	-	93,122	-	-	-	93,122	93,122
Loans and advances to credit institutions	-	-	-	77,211	-	-	-	77,211	77,211
Loans and advances to customers	-	-	-	14,329,107	-	-	-	14,329,107	14,274,363
Financial assets held for trading	240,960	-	-	-	-	-	-	240,960	240,960
Other financial assets at fair value trough profit or loss	-	4,071	-	-	-	-	-	4,071	4,071
Available-for-sale financial assets	-	-	-	-	4,923,256	-	-	4,923,256	4,923,256
Hedging derivatives	3,751	-	-	-	-	-	-	3,751	3,751
Held-to-maturity investments	-	-	57,848	-	-	-	-	57,848	58,029
Investments in associated companies and others	-	-	-	-	-	-	43,297	43,297	43,297
	244,711	4,071	57,848	14,671,054	4,923,256	-	43,297	19,944,237	19,703,969
Financial liabilities:									
Deposits from central banks	-	-	-	-	-	905,383	-	905,383	905,383
Deposits from other credit institutions	-	-	-	-	-	960,182	-	960,182	960,408
Deposits from customers	-	-	-	-	-	9,007,812	-	9,007,812	9,221,441
Debt securities issued	-	-	-	-	-	4,483,347	-	4,483,347	4,483,347
Financial liabilities held for trading	43,321	-	-	-	-	-	-	43,321	43,321
Hedging derivatives	1,601	-	-	-	-	-	-	1,601	1,601
Other subordinated debt	-	-	-	-	-	380,357	-	380,357	380,357
	44,922	-	-	-	-	15,737,081	-	15,782,003	15,995,858

	Dec 2009								
	Trading	Designated at fair value trough profit or loss	Held-to-maturity	Loans and advances	Available-for-sale	Others at amortised cost	Others	Carrying value	Fair value
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
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 Employee 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..

During the first semester of 2010, CEMG accounted as pension costs the amount of Euro 10,383,000 (30 June 2009: Euro 12,458,000). The analysis of the cost of the year is as follows:

The analysis of the cost of the period is as follows:

	Jun 2010				Jun 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	7,621	220	357	8,198	7,491	211	353	8,055
Interest cost	14,657	207	806	15,670	13,834	193	757	14,784
Expected return on plan assets	(13,043)	(171)	(670)	(13,884)	(11,734)	(163)	(642)	(12,539)
Actuarial gains and losses depreciation	399	-	-	399	37	-	-	37
Early retirements	-	-	-	-	2,121	-	-	2,121
Net benefit cost	9,634	256	493	10,383	11,749	241	468	12,458

44 Related parties transactions

As at 30 June 2010, CEMG's liabilities with subsidiaries, represented or not by securities, included in the balances Deposits from customers and Other subordinated debt that are analysed as follows:

Company	Deposits from customers Euro '000	Other subordinated debt Euro '000	Total Euro '000
Lusitania Companhia de Seguros, S.A.	11,821	13,700	25,521
Lusitania Vida Companhia de Seguros, S.A.	15,927	3,250	19,177
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	109	-	109
SIBS - Sociedade Interbancária de Serviços, S.A.	1	-	1
MG Gestão de Activos Financeiros - - S.G.F.I.M., S.A.	41,711	-	41,711
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	1,185	-	1,185
	70,754	16,950	87,704

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 that are analysed as follows:

Company	**Deposits from customers Euro '000**	**Other subordinated debt Euro '000**	**Total Euro '000**
Lusitania Companhia de Seguros, S.A.	13,256	5,490	18,746
Lusitania Vida Companhia de Seguros, S.A.	11,995	11,250	23,245
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	162	-	162
SIBS - Sociedade Interbancária de Serviços, S.A.	105	-	105
MG Gestão de Activos Financeiros - - S.G.F.I.M., S.A.	17,200	-	17,200
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	13,849	-	13,849
	62,762	16,740	79,502

As at 30 June 2010, CEMG's income with subsidiaries, included in the balances Interest and similar income and Fee and commission income is 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.	17	1.755	1.772
Lusitania Vida Companhia de Seguros, S.A.	2	2.519	2.521
SIBS - Sociedade Interbancária de Serviços, S.A.	-	13.400	13.400
MG Gestão de Activos Financeiros - - S.G.F.I.M., S.A.	-	1.741	1.741
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	1.570	1.570
	19	20.985	21.004

As at 31 December 2009, CEMG's income with subsidiaries, included in the balances Interest and similar income and Fee and commission income is 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 are at market prices.

During the first semester of 2010 and the year of 2009, there were no transactions with the pension's fund of CEMG.

45 Asset securitisation

As at 30 June 2010, there are six 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 Settles 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 Settles 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 Settles 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 settles a mortgage backed security with Sagres – Sociedade de Titularização de Créditos, S.A., *Pelican* SME. The referred agreement consists in a mortgage credit transfer for a period of 26 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,167,000,000.The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.15% of the referred nominal value.

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.

According to IFRS 1, the criteria of derecognizing following individual financial statements of CEMG, did not suffer any change for all the operations until 1 January 2004. All the operations that were realized after this date will have to be analyzed according to IAS 39, which, if transferred a substantial part of the risks and benefits associated to the assets or if transferred the control of the referred assets, have to be derecognized.

As at 30 June 2010, the securitisation operations are presented as follows:

Issue	**Settlement date Euro '000**	**Currency Euro '000**	**Asset transferred Euro '000**	**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 entities	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:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Pelican Mortgages No. 1	111,602	120,550
Pelican Mortgages No. 2	197,803	212,720
	309,405	333,270

As at 30 June 2010, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	**Bonds issued**	**Issue amount Euro**	**Current amount Euro**	**CEMG's Retention (Nominal Value) Euro**	**Maturity Year**	**Rating (Initial)**			**Rating (Current)**		
						Fitch	Moody's	S&P	Fitch	Moody's	S&P
Pelican Mortgages No. 1	Class A	611,000,000	66,109,116	-	2037	AAA	Aaa	n.a.	AAA	Aaa	n.a.
	Class B	16,250,000	16,250,000	-	2037	AAA	A2	n.a.	AAA	A2	n.a.
	Class C	22,750,000	22,750,000	-	2037	BBB+	Baa2	n.a.	BBB+	Baa2	n.a.
	Class D	3,250,000	3,250,000	3,250,000	2037	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 2	Class A	659,750,000	155,956,834	-	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.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 3	Class A	701,315,365	391,929,256	-	2054	AAA	Aaa	AAA	AAA	Aaa	AAA
	Class B	14,250,000	10,119,058	-	2054	AA-	Aa2	AA-	AA-	Aa2	AA-
	Class C	12,000,000	8,521,312	-	2054	A	A3	A	A-	A3	A
	Class D	6,375,000	4,526,947	-	2054	BBB	Baa3	BBB	BBB	Baa3	BBB
	Class E	7,361,334	-	-	2054	BBB-	n.a.	BBB-	BBB-	n.a.	BBB-
	Class F	4,125,000	4,125,000	4,125,000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 4	Class A	832,000,000	722,580,240	743,481,648	2056	AAA	Aaa	n.a.	AAA	n.a.	n.a.
	Class B	55,500,000	55,500,000	55,500,000	2056	AA	Aa	n.a.	AA	n.a.	n.a.
	Class C	60,000,000	60,000,000	60,000,000	2056	A-	A-	n.a.	A-	n.a.	n.a.
	Class D	25,000,000	25,000,000	25,000,000	2056	BBB	Bbb	n.a.	BBB	n.a.	n.a.
	Class E	27,500,000	27,500,000	27,500,000	2056	BB	Bb	n.a.	BB	n.a.	n.a.
	Class F	28,600,000	28,600,000	28,600,000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No. 5	Class A	750,000,000	711,060,368	711,060,368	2061	AAA	n.a.	n.a.	AAA	n.a.	n.a.
	Class B	195,000,000	195,000,000	195,000,000	2061	BBB-	n.a.	n.a.	BBB-	n.a.	n.a.
	Class C	27,500,000	27,500,000	27,500,000	2061	B	n.a.	n.a.	B	n.a.	n.a.
	Class D	27,500,000	27,500,000	27,500,000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4,500,000	4,500,000	4,500,000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23,000,000	23,000,000	23,000,000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican SME	Class A	577,500,000	577,500,000	577,500,000	2036	AAA	n.a.	AAA**	AAA	n.a.	AAA**
	Class B	472,500,000	472,500,000	472,500,000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Vert. Notes	117,000,000	117,000,000	117,000,000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	7,294,000	7,294,000	7,294,000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Resid. Notes	31,500,000	31,500,000	31,500,000	2036	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

46 Amounts owed by CEMG to subsidiary companies

As at 30 June 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)	369,027

47 CEMG's companies transactions

The significant transactions and balances with CEMG's companies are detailed in the corresponding notes.

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 the Group 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 scoring systems;

- Accompanying in the process of implementation of the new systems of credit workflow and management of its limits;

- Beginning of the development of new behavioural scoring model.

CEMG has been following Basel Committee's recommendations and all its recent developments regarding liquidity risk and own funds' evaluation.

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 the Group's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

Operational – Operational risk is the potential loss resulting from failures or inadequacies in internal procedures, persons or systems, or 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 the Group.

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 decisions. Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behaviour.

There are reactive scoring models for the main individual credit portfolio, recognising the need to distinguish between customers and non-customers (or new customers). Commercial performance and credit risk analysis are supported by behaviour scorings.

The credit risk analysis process to companies lays in a model of internal rating and business scoring, both cases distinguishing construction sector from the other activity sector.

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

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Deposits with Other credit institutions	93,122	51,745
Deposits with banks	77,211	370,884
Loans and advances to customers	14,329,107	14,448,162
Financial assets held for trading	238,720	101,815
Financial assets at fair value through profit or loss	4,071	4,192
Available-for-sale financial assets	4,908,281	3,149,301
Hedging derivatives	3,751	5,109
Held-to-maturity investments	57,848	33,523
Investments in associated companies and others	43,297	43,297
Other assets	170,064	101,498
Guarantees granted	428,213	426,156
Irrevocable commitments	288,404	302,264
Credit default swaps (notionals)	33,075	41,458
	20,675,164	19,079,404

The analysis of the risk exposure by sector of activity, as at 30 June 2010, can be analysed as follows:

Sector of activity	Jun 2010							
	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 [(a)]	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	28,851	(1,173)	-	-	145	(57)	-	314
Mining	53,154	(3,316)	-	-	518	-	-	1,122
Food, beverage and tobacco	30,290	(8,520)	-	-	106	-	-	462
Textiles	19,956	(4,180)	-	-	-	-	-	1,287
Shoes	23,349	(3,743)	-	-	-	-	-	3
Wood and cork	6,867	(745)	-	-	-	-	-	919
Printing and publishing	12,285	(1,633)	-	-	-	-	-	988
Petroleum refining	13,663	(362)	425	-	33,651	-	-	-
Chemicals and rubber	34,850	(2,028)	-	-	1,051	-	-	1,248
Non-metallic minerals	3,540	(76)	-	-	-	-	-	2,255
Basis metallurgic industries and metallic products	37,910	(2,409)	-	-	-	-	-	4,254
Production of machinery	20,594	(2,422)	-	-	268	-	-	1,976
Production of transport material	17,605	(2,766)	-	-	-	-	-	134
Other transforming material	63,322	(1,672)	1,581	-	74,443	-	-	417
Electricity, gas and water	1,587,631	(110,954)	2,925	3,052	80,270	(991)	-	1,169
Construction	427,547	(56,186)	175	-	26,093	(998)	-	209,689
Wholesale and retail	488,099	(51,164)	988	-	28,900	-	-	37,150
Tourism	112,234	(7,122)	-	-	8,823	(90)	-	11,737
Transports	139,837	(12,339)	-	-	2,749	-	-	9,062
Communications and information activities	148,166	(3,275)	2,277	-	78,094	-	-	497
Financial activities	700,542	(37,739)	165,672	1,019	874,781	(19,935)	-	34,188
Real estates activities	48,622	(852)	-	-	13,244	-	-	26,593
Services provided to companies	277,219	(12,115)	-	-	-	-	-	9,431
Public services	132,603	(4,761)	66,819	-	495,932	-	57,848	4,223
Other activities of collective services	39,181	(3,851)	-	-	689	-	-	4,185
Mortgage loans	8,899,520	(173,683)	-	-	3,131,869	(8,750)	-	64,334
Others	1,373,230	(2,372)	98	-	102,641	(190)	-	576
TOTAL	14,740,667	(511,458)	240,960	4,071	4,954,267	(31,011)	57,848	428,213

[(a)] includes the provision for impairment in the amount of Euro 411,560,000 (see Note 19) and the provision for general credit risks in the amount of Euros 99,898,000 (see Note 34).

The analysis of the risk exposure by sector of activity, as at 31 December 2009, can be analysed as follows:

Sector of activity	Dec 2009							
	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 [a]	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	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 estates 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.

Overall Risks and Financial Assets

Efficient balance sheet management also involves the Assets and Liabilities Committee (“ALCO”), which examines interest rate, liquidity and exchange rate risks, namely as regards compliance with the limits set for the static and dynamic gaps calculated.

Normally the static interest rate and liquidity gaps are positive and moderate in size, with exception of those months when payments are made relating to bond issue debt service. As for exchange rate risk, the resources obtained in different currencies are hedged as assets in the respective monetary market and for periods not exceeding those of the resources, which mean any exchange rate gaps result mainly from possible unadjustments between the hedge and resource deadlines.

Concerning risk information and analysis, regular reports are provided on the credit and market risks on the company’s financial assets and those of the other members of the Group. For the company’s own portfolio, the various risk limits are defined using the Value-at-Risk (“VaR”) method. There are different exposure limits such as global ‘VaR’ limits, by issuer, by asset type/class and rating. There are also limits of Stop Loss. Investment portfolio is mainly concentrated in bonds. New issuing of debt securities in the portfolio were mainly of fixed rate, namely debt securities bonds, mainly of Portuguese Republic.

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 June of 2010, would reach, in static terms, about Euro 315,813,000 (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 30 June 2010 and 31 December 20009:

	Jun 2010				**Dec 2009**			
	June	**Annual Average**	**Maximum**	**Minimum**	**December**	**Annual Average**	**Maximum**	**Minimum**
	Euro '000	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**
Interest rate GAP	305,259	347,575	389,892	305,259	389,892	650,646	911,400	389,892

Following the recommendations of Basel II (Pillar 2) 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
30 June 2010					
Assets	13,967,486	3,943,710	192,121	753,502	403,923
Off balance sheet	80,000	73,000	559,100	1,159,660	48,219
Total	14,047,486	4,016,710	751,221	1,913,162	452,142
Liabilities	11,145,562	3,002,268	1,563,214	3,188,668	45,216
Off balance sheet	1,555,668	298,311	14,500	21,000	30,500
Total	12,701,230	3,300,579	1,577,714	3,209,668	75,716
GAP (Assets – Liabilities)	1,346,256	716,131	(826,493)	(1,296,506)	376,424
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	1,668,585	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	1,670,985	1,950,138	8,841
GAP (Assets – Liabilities)	1,827,401	1,315,375	(1,065,692)	(1,718,397)	41,381

Sensibility analysis

As at June, 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 12,035,000 (31 December 2009: Euro 20,669,000).

The following table presents the average interests, in relation to the CEMG major assets and liabilities categories for the periods ended 30 June 2010 and 31 December 2009, as well as the average balances and the income and expense for the period:

	Jun 2010			**Dec 2009**		
Products	**Average balance for the period Euro '000**	**Average interest rate (%)**	**Income / Expense Euro '000**	**Average balance for the period Euro '000**	**Average interest rate (%)**	**Income / Expense Euro '000**
Assets						
Loans to customers	14,763,579	2,91	212,719	14,803,140	4.16	615,312
Deposits	153,423	1,02	775	149,705	1.29	1,934
Securities portfolio	3,785,289	1,84	34,588	2,859,754	2.16	61,860
Inter-bank loans and advances	214,277	0,65	689	263,558	0.66	1,749
Other Applications	-	-	-	-	-	-
Swaps	-	-	90,672	-	-	239,589
Total Assets	18,916,568		339,443	18,076,157		920,444
Liabilities						
Deposits from customers	9,250,909	1,05	67,642	8,539,978	2.71	185,540
Securities deposits	5,500,190	2,01	50,849	7,802,141	5.12	208,632
Deposits from other credit institutions	847,438	1,00	4,220	785,274	4.23	12,747
Debt securities	2,420,077	1,85	22,148	-	-	-
Other liabilities	524	0,92	2	687	3.15	22
Swaps	-	-	65,737	-	-	193,548
Total liabilities	18,019,138		210,598	17,128,080		600,489

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 30 June 2010 is analysed as follows:

	Jun 2010							
	Euro	**US Dollars**	**Sterling Pounds**	**Canadian Dollars**	**Suisse Frank**	**Japanese Iene**	**Other foreign currencies**	**Total amount**
	Euro '000	**Euro '000**	**Euro'000**	**Euro '000**	**Euro'000**	**Euro'000**	**Euro '000**	**Euro '000**
Assets by currency								
Cash and deposits at central banks	162 314	7,881	280	405	347	75	312	171,614
Loans and advances to credit institutions repayable on demand	87 745	3,492	164	1,317	267	38	99	93,122
Loans and advances to credit institutions	77 099	112	-	-	-	-	-	77,211
Loans and advances to customers	14 352 056	2,974	-	-	350	-	-	14,355,380
Financial assets held for trading	240 805	143	-	12	-	-	-	240,960
Other financial assets at fair value trough profit or loss	4 071	-	-	-	-	-	-	4,071
Available-for-sale financial assets	4 919 822	3,178	-	-	256	-	-	4,923,256
Hedging derivatives	3 751	-	-	-	-	-	-	3,751
Held-to-maturity investments	57 848	-	-	-	-	-	-	57,848
Investments in associated companies and others	43 297	-	-	-	-	-	-	43,297
Non- current assets held for sale	137 104	-	-	-	-	-	-	137,104
Property and equipment	92 686	-	-	-	-	-	-	92,686
Intangible assets	16 654	-	-	-	-	-	-	16,654
Other assets	130 520	49,972	3,548	14,740	(1,981)	(478)	(67)	196,254
	20,325,772	67,752	3,992	16,474	(761)	(365)	344	20,413,208
Liabilities by currency								
Deposits from other credit institutions	905 383	-	-	-	-	-	-	905,383
Deposits from customers	1 011 672	(31,513)	(2,520)	(17,211)	(227)	-	(19)	960,182
Debt securities issued	9 045 735	(35,050)	(1,036)	(1,649)	(187)	(1)	-	9,007,812
Financial liabilities held for trading	4 485 792	(2,445)	-	-	-	-	-	4,483,347
Other financial liabilities at fair value trough profit or loss	43 528	(207)	-	-	-	-	-	43,321
Hedging derivatives	1 601	-	-	-	-	-	-	1,601
Provisions	101 318	-	-	-	-	-	-	101,318
Other subordinated debt	380 357	-	-	-	-	-	-	380,357
Other liabilities	3,515 760	1,396	(436)	2,387	1,167	367	(324)	3,520,317
Total Liabilities	19,491,146	(67,819)	(3,992)	(16,473)	753	366	(343)	19,403,638
Net asset / liability by currency	834,626	135,571	7,984	32,947	(1,514)	(731)	687	1,009,570
Equity	977,488	70	-	-	7	-	-	977,565
Net exposure	(142,862)	135,501	7,984	32,947	(1,521)	(731)	687	32,005

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2009 is analysed as follows:

	Dec 2009							
	Euro	**US Dollars**	**Sterling Pounds**	**Canadian Dollars**	**Hong-Kong Dollar**	**Czech Koruna**	**Other foreign currencies**	**Total amount**
	Euro '000	**Euro '000**	**Euro'000**	**Euro '000**	**Euro'000**	**Euro'000**	**Euro '000**	**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
	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 is under the Bank of Portugal's supervision in order to apply an approach based in The Standardized Approach – TSA, for calculating the fund's requirements to mitigate the operational risk. Nowadays, CEMG uses the Basic Indicator method.

In 2009, a project of implementation of a Integrated Continuing Business Plan were created, which allows to ensure the continuity of the operations in a case of a rupture in the activity.

A system of operational risk management is implemented and its basis are identification, evaluation, accompanying, measure, mitigation, and report this kind of risk. This system is supported by an organizational structure, integrated in DAGR, exclusively focused to this task as well as users in 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 of Own Funds 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).

In addition, the consolidated Own Funds have a negative impact in the amount of Euro 30,500,000, referring to the differences resulting from the alteration of the mortality table used to calculate post-employment benefits.

The capital adequacy of CEMG as at 30 June 2010 and 31 December 2009 is presented as follows:

	Jun 2010 Euro '000	**Dec 2009 Euro '000**
Core own funds		
Paid-up capital	760,000	760,000
Results, general and special reserves and retained earnings	231,114	254,430
Other regulatory adjustments	(70,423)	(64,954)
NIC/NCA adjustments	19,000	22,207
	939,691	972,684
Complementary own funds		
Upper Tier 2	23,252	18,154
Lower Tier 2	378,000	378,000
Deductions	(13,674)	(13,674)
	387,578	382,480
Deductions to total own funds	(6,186)	(9,079)
Total own funds	1,321,083	1,346,085
Own funds requirements		
Credit risk (Regulation no. 5/2007)	753,356	728,989
Market risk (Regulation no. 8/2007)	3,387	2,986
Operational risk (Regulation no. 9/2007)	62,243	62,243
	818,986	794,218
Prudential ratios		
Ratio core Tier 1	9.18%	9.59%
Solvency ratio	12.90%	13.35%